1025-300

LETTER OF COMMENT NO. 124

National Society of Accountants for Cooperatives

May 30, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1025-300
Exposure Draft – Proposed Statement of Financial Accounting Standards – Employers' *Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment* of FASB statements No. 87, 88, 106, and 132(R)

Dear Sir or Madam:

The National Society of Accountants for Cooperatives (NSAC) is a national service organization representing approximately 1,500 individual accountants and other financial and legal service providers employed by cooperatives or by firms providing auditing, consulting and legal services to cooperatives. Our membership represents a broad array of different types of cooperative entities including producer owned local and regional agricultural cooperatives, federated agricultural cooperatives, consumer owned electric utility and telephone cooperatives, Federal intermediary credit associations, retail and wholesale grocery and hardware cooperatives and other consumer owned cooperatives.

The NSAC appreciates the opportunity to provide our comments to the Financial Accounting Standards Board regarding the Exposure Draft of the Proposed Statement of Financial Accounting Standards *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R).*

Recognition of the Overfunded or Underfunded Status – Implementation Issues

The NSAC is in broad agreement with the FASB's goal of increasing transparency with regard to the treatment of pension obligations and funding status of postretirement plans; however, we question the timing and relevance of the proposed standard to accomplishing the broader goals of the FASB with regard to those plans. Specifically, we question whether the Pension Benefit Obligation (PBO) as presently conceived is the proper liability measure, when compared to the fair value of plan assets, for determining the funded status of defined benefit plans. Since the PBO includes an estimate of future salary increases, it does not represent an accurate measure of the amount that would be owed to satisfy the benefits earned at that point in time. In addition, the characteristics of a liability set forth in Statements of Financial Accounting Concepts No. 6, *Elements of Financial Statements* (CON6) include the provision that the entity has little or no discretion to avoid the probable future sacrifice and that the transaction or event obligating the entity has already occurred. Under the definition operative in CON6 (CON6, par 36), the PBO fails to meet the definition of a liability in that the entity can choose to "freeze" or terminate the plan thus avoiding the impact of future salary increases, and the event – the future salary increases inherent in the PBO - have not occurred. We continue to believe that the most relevant measure of a plan's current obligation is the Accumulated Benefit Obligation (ABO) as it takes into account benefits earned at the measurement date. We would suggest that the FASB delay implementation of a new standard until such time as the Board can reach agreement as to how the ABO might be modified to provide a more accurate measure of obligation upon a theoretical liquidation of a plan. To do otherwise will lead to recording an overstated liability when the PBO is compared to the current market value of a plan's assets. We understand that the FASB is attempting to reduce the cost of implementation by utilizing a group of measurements that are already required to be prepared for disclosure purposes, but the resulting mismatch of potential future obligation represented by the PBO – which is itself of doubtful utility when considering the funding needs of ongoing plans – with a current market value of plan assets does not provide an accurate estimate for balance sheet purposes.

The FASB believes that the measures inherent in the PBO are required for accurate presentation of the Net Periodic Pension Cost (NPPC) and that therefore a linkage of balance sheet liability and income statement presentation is required. The current standards, and the standard envisioned by the Exposure Draft allow the amortization of actuarial gains and losses and prior service costs. We would again ask the Board to consider whether a more accurate determination of the pension cost of a period could not be arrived at by simply measuring the change in an ABO that has been modified to take into account the most likely theoretical liquidation of a plan. This would lead to a NPPC that would include all of the changes in actuarial assumptions of a given period and the changes in plan assets in the same period. Without question the NPPC would be subject to greater volatility, but the linkage between the balance sheet and the income statement presentations would be much more transparent and representationally faithful to the economic realities of the plan. For this reason also we would urge the FASB to consider delaying the implementation of a standard until the Board has further time to consider the complexity of the issues involved in arriving at a better definition of plan obligations and the elements of NPPC.

The Employers' Measurement Date

We are sympathetic to the Board's reasoning set forth in paragraphs B36-B40 for not allowing the use of an alternate valuation date. However, in light of the practical considerations involved in obtaining the values of assets for many plans and the need for quick resolution to these issues by many cooperatives – in their efforts to allocate and distribute patronage margins without delay – we would ask the Board to reconsider whether this requirement is essential to materially accurate presentation. Current standards allow the consolidation of wholly owned subsidiaries with a closing date within three-months of the parents' fiscal year end (ARB 51, par. 4). Pension accounting can benefit from this same example.

Issues Affecting Cooperatives

Many cooperatives with defined benefit plans are already reporting large pension liabilities as a result of the economic changes of the recent past. The provisions of this proposed statement would markedly increase the pension liability reported on the balance sheet of these cooperatives as well as markedly increasing the debit balance in Accumulated Other Comprehensive Income (AOCI). Although most lenders to cooperative entities are reasonably well educated as to the somewhat tangential nature of these items to the functional operational health of an entity, the state and federal licensing and regulatory bodies (such as the Commodity Credit Corporation) that oversee and approve the existence of many types of cooperative entities are not as well versed in their meaning. The changes to net equity that can reasonably be predicted to result from this statement may well create problems for these cooperative entities in dealing with these various agencies.

From the most commonly accepted perspective, the net of tax provision of the changes to AOCI do not benefit cooperatives, for the simple reason that most cooperative entities have very little income subject to tax – as the greatest part of their net margins are allocated to their patrons. They cannot avoid the full debit impact to their equity.

An alternative method suggested by some cooperatives would allow those cooperatives to treat most, if not all, of the proposed debit to AOCI as a deferred patronage charge – in effect a receivable from the patrons for the future impact of currently recognizing the change. Cooperatives that follow a practice of allowing members to buy in and exit at the book value of the cooperative's equity are particularly distressed at the prospect of diluting book value. Creating a receivable from the patrons may be outside the scope of this proposed statement, but we would gladly undertake further discussion with the staff concerning these issues and the various alternatives that might improve the impact on cooperative equity.

Impact on Employers with Defined Benefit Plans in General

Defined benefit plans are already under fire from many quarters. Many of us continue to believe that defined benefit plans are an essential benefit that cooperatives need to offer to attract and maintain capable employees. Lacking the stock based compensation plans of many investor owned companies, cooperatives need these tools to provide a compensation package that allows them to adequately compete in the labor market. Given that this proposed standard will require a markedly higher pension obligation for most employers, it will also provide a further disincentive to cooperative boards of directors for maintaining defined benefit plans. This disincentive will occur regardless of the fact that the PBO has been disclosed since FASB 87 became effective some twenty years ago. The unfair perception that the PBO is an accurate liability measure may well overthrow other considerations. For those employers with defined benefit plans, the news has not been good for some time, and this standard may well prove to be the proverbial last straw that may well lead many employers to consider freezing or terminating their defined benefit plans.

Conclusion

Though we support the goal of the FASB in seeking to obtain a more transparent and representationally faithful presentation of the accounting for pensions and postretirement benefits, we believe that this project would be more suitably undertaken after a longer period of discussion and deliberation about what the Board wants to see presented as a *true plan obligation – we do not believe the PBO meets that definition. In addition, we* believe that this deliberation might result in a more transparent linkage between the balance sheet and income statement if further consideration were given to not amortizing future changes to the ABO – however that is defined - and might result in removing the need to present these changes in AOCI altogether. We would also ask the board to reconsider the necessity of matching the measurement date and fiscal year end date in light of practical considerations.

We continue to be grateful to the Board and to the members of the FASB staff that have patiently listened to our concerns in the past and who continue to engage in discussions about these issues and their importance to cooperatives.

Sincerely,

Gregory O. Taylor
Chairman – Accounting and Auditing Committee
National Society of Accountants for Cooperatives