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May 31, 2006



LETTER OF COMMENT NO. 181

Technical Director
File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed Statement, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (File Reference No. 1025-300)

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Statement, *Employers'*Accounting for Defined Benefit Pension and Other Postretirement Plans. We agree with the Board's decision to add a project on postretirement benefit obligations, including pensions, to its agenda and to address the project in two phases. We also agree that Phase I should focus on improving the balance sheet reporting of employers' obligations for postretirement benefits by recognizing the over-funded or under-funded status of defined benefit postretirement plans as an asset or liability in the statement of financial position while not changing how plan assets, benefit obligations, and net benefit costs included in earnings are measured. Phase II should include a comprehensive reconsideration of all aspects of the accounting for postretirement benefits and the Board should consider conducting Phase II as a joint project with the IASB.

We support recognition of the over-funded or under-funded status on the balance sheet. However, we believe that this proposed Statement goes beyond the Board's stated objectives for Phase I of the project. The Board's stated objectives for Phase I of the project are to (a) improve the reporting of employers' obligations for pensions and other postretirement benefits, (b) not change how plan assets and benefit obligations are measured, (c) not change the basic approach for measuring net benefit cost, and (d) implement Phase I improvements as quickly as possible. The proposed Statement introduces certain measurement changes to those currently prescribed or permitted by FASB Statement Nos. 87, Employers' Accounting for Pensions and 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. We believe these proposed changes are not consistent with the Board's stated objectives for Phase I of the project and, accordingly, should be addressed in Phase II. We also note that changing existing measurement guidance in Phase I may require preparers to have as many as three



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accounting changes relating to covered plans (i.e., recognition changes, measurement date changes, and Phase II changes) if affected guidance is reconsidered in Phase II. Our specific concerns are provided below.

Measurement Date

While we believe that measurement as of an employer's fiscal year-end is conceptually preferable, we also acknowledge that some of the factors that contributed to existing provisions permitting measurement as of an earlier date continue to exist. In both Statements 87 and 106, the Board acknowledged "that practical problems may make it costly in some situations to obtain information, especially that concerning obligations and related components of net periodic [benefit] cost, as of the date of the financial statements." Not only do some of these practical problems continue to exist, but the filing deadlines for many public companies have been accelerated in recent years potentially exacerbating these issues. Some public companies have changed their measurement date to an earlier date to facilitate application of the accelerated filer deadlines. We performed non-statistical samples of three-hundred public companies of various sizes and found that approximately one-third of the companies in each size category measure plan assets and benefit obligations prior to their fiscal year-end. In addition, investments in private equity funds by benefit plans have become more common in recent years and it is our understanding that timely valuation information may not always be available for these types of investments. These factors suggest that this proposed change may have broad implementation effects. Accordingly, we believe this proposed change should be addressed as part of Phase II of the project.

Unrecognized Transition Amounts

Contrary to the Board's stated objectives for Phase I, we believe that recognition as an adjustment of the opening balance of retained earnings of the remaining transition asset or obligation related to the initial adoption of Statements 87 and 106 is a change in the measurement principles of those standards and therefore is inconsistent with the objectives of Phase I of the project. While we support a comprehensive reconsideration of the accounting for all aspects of postretirement benefit costs, we believe that changing this one component of periodic cost would add unnecessary complexity to the implementation of Phase I.



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If the Board retains the requirement to retrospectively recognize the remaining portion of the transition asset or obligation, additional guidance on the accounting for plan settlements, curtailments and negative plan amendments in those previous periods should be provided. To illustrate the potential issues, we have prepared the following hypothetical fact pattern:

An employer adopts the provisions of the proposed Statement for the year-ending December 31, 2006. The employer retrospectively applies the proposed Statement to the years-ended December 31, 2005 and December 31, 2004. At January 1, 2004, the employer had an unrecognized transition asset related to a defined benefit pension plan. On December 15, 2004, the employer settled that defined benefit pension plan and recorded a settlement gain that included recognition of the entire remaining unrecognized transition asset.

Based on our understanding of the proposed Standard, the employer would be required to reduce the amount of settlement gain recognized for the year-ended December 31, 2004 for the amount of the unrecognized transition asset included in the original settlement gain calculation. That is, if the transition asset is recognized through retrospective application as an adjustment to opening retained earnings at January 1, 2004 it could not be recognized again upon settlement of the plan.

Similar adjustments would be necessary to remove the effects of unrecognized transition amounts that are included in plan curtailments and negative plan amendments that were recognized during the period to which the proposed Statement is retrospectively applied.

<u>Classification</u>

While we understand the Board has concluded that the current portion of the liability is the employer's expected funding requirement in the next twelve-months, the Board should provide its basis for this conclusion. The Board also should address the classification of an over-funded position when the employer either is required to or intends to make a contribution to the plan trust in the next twelve-months. We believe that no current liability should be presented in that situation as doing so would require a concurrent increase in the recognized asset which is inconsistent with the proposal to report the net funded status as an asset or liability. Further, from our reading of the proposed Statement, whenever the net funded status of a plan is in an asset position, that asset could not be classified as current other than in the case of an expected reversion of the plan assets.



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Other Comments

Paragraph 17 of the proposed Statement states "A single method of transition shall be applied consistently for *all* of an employer's defined benefit plans". This requirement may prevent an employer that sponsors numerous plans from applying the transition provisions retrospectively because a single plan qualifies for the impracticability exemption. We believe that an employer should be required to apply the transition method on a plan-by-plan basis.

The proposed Statement would require recognition of actuarial gains and losses, and prior service costs and credits, in accumulated other comprehensive income, net of tax, resulting in the recognition of deferred tax assets or liabilities. In accordance with FASB Statement No. 109, *Accounting for Income Taxes*, subsequent changes to valuation allowances on deferred tax assets would be recognized in earnings. That is, initially these valuation allowances would be recognized in other comprehensive income but subsequent changes would be recognized in earnings. While we acknowledge that existing guidance is clear, we note that this treatment differs from the requirements of IAS 12, *Income Taxes*, and we believe the Board should address this treatment as part of its joint short-term convergence project with the IASB.

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We would like to participate in the public roundtable meeting on this proposed Statement on June 27, 2006. If you have questions about our comments or wish to discuss any of the matters they address, please contact Mark Bielstein at (212) 909-5419, Paul Munter at (212) 909-5567 or Jeff Jones at (212) 909-5490.

Sincerely,

KPMG LLP