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Steven L. Fradkin
Executive Vice President & Chief Financial Officer

May 31, 2006

Via email

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

Re: File Reference 1025-300

Exposure Draft, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Dear Sir/Madam:

We are pleased to have this opportunity to comment on 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) (the proposed Statement).

About Northern Trust

Northern Trust Corporation (Northern Trust) is a NASDAQ-listed financial holding company headquartered in Chicago, Illinois, with consolidated assets of approximately \$50 billion as of March 31, 2006. Northern Trust conducts business in the United States (U.S.) and internationally through its banking subsidiaries, trust companies and various other domestic and foreign nonbank subsidiaries. Northern Trust sponsors funded qualified and unfunded nonqualified defined benefit pension plans for its employees in the U.S. as well as overseas and maintains an unfunded postretirement health care plan. In addition, as part of its core business to clients, Northern Trust provides custody, administration and related investment services to more than 30 percent of the 200 largest pension funds in the U.S. and approximately 25 percent of the top 200 pension plans in the U.K. In our capacity as a custodian, we currently hold approximately US\$3.1 trillion on behalf of pension plan sponsors and other institutional investment clients.

Overview

The proposed Statement represents the first phase of a two-phase FASB project to reconsider the accounting for pensions and other postretirement benefits. The stated objective of the proposed Statement is "to address the concern that existing standards on employers' accounting for defined benefit postretirement plans fail to produce representationally faithful and understandable financial statements".

Northern Trust supports the objective of transparency in financial reporting and we applaud the continued efforts of the FASB to improve the clarity and usefulness of financial statements. However, we have significant concerns regarding certain fundamental provisions of the proposed Statement that we believe require additional consideration and consultation with affected parties in order to address them properly. We do not believe that accelerating a portion of the FASB's comprehensive project on defined benefit plan accounting, in advance of fully addressing these areas of concern, is in the best interests of issuers or users of financial statements. Therefore, our primary recommendation is that the FASB reconsider the issuance of the proposed Statement and instead address its proposals in conjunction with the planned Phase II of its comprehensive project on defined benefit plan accounting. The remainder of this "Overview" sets forth the basis for this recommendation.

Under the proposed Statement, the impact of short-lived fluctuations in discount rates and benefit plan asset valuations at the measurement date would be reflected as an increase or decrease of capital and held static for the entire subsequent year. However, the underlying pension obligation is long-lived and we believe should be subject to less volatility on an annual basis.

The current accounting model recognizes the imprecision of measuring this long-term obligation and provides for the recognition of unanticipated changes over the expected term of the employee service to be rendered. This has allowed the costs of providing benefits (including actuarial gains and losses) to be evenly distributed over the periods in which the employer realizes the economic benefits of service, while requiring the full disclosure of unrecognized amounts within the notes to the financial statements. We believe this is a very reasonable approach given the numerous assumptions required and resulting imprecision in estimating this long-term obligation.

We are also very concerned about the potential volatility that the proposed Statement's accounting requirements will have on the balance sheets of pension fund sponsors. As a depository institution, Northern Trust is subject to stringent capital requirements as mandated by the banking regulators. The proposed Statement, as currently drafted, will require financial institutions to maintain a higher level of capital to ensure that capital does not fall below regulatory requirements simply because of short-term interest rate or market volatility at the year-end measurement date. Additionally, we do not believe that the FASB has sufficiently explored the impact that increased balance sheet volatility, or the need for employers to raise capital as a result, will have on capital markets, investors, or lenders. This is especially concerning as the FASB has provided insufficient time to implement such a significant change. Under the proposed Statement, most financial institutions will have only three months from the planned issuance date of September 2006 to the recognition effective date of December 31, 2006 to devise and execute strategies that may require raising more capital or reducing assets. The latter strategy could require changes in lending practices, potentially impacting commercial institutions' ability to obtain financing.

We do not believe the increased capital volatility and the significant changes to the composition of an employer's balance sheet that will likely result from the proposed Statement will add value to the users of financial statements or increase their understanding of pension obligations. The proposed Statement represents a major change in the current accounting standards for defined benefit plans without sufficient practical transitions and may prove untenable for many employers, further accelerating the current movement away from defined benefit plans as a source of retirement income and financial security for employees.

As previously noted, we believe additional consideration and dialogue with interested parties is required to address the above concerns and uncertainties appropriately. Therefore, our primary recommendation is that the FASB reconsider the issuance of the proposed Statement and address perceived shortcomings in current guidance within a single standard as part of its planned comprehensive project on pension and other postretirement benefit plan accounting. However, if the FASB should decide to move forward with Phase I of its long-term project through the issuance of the proposed Statement, we offer the following comments regarding specific provisions of the proposed Statement.

Use of the Projected Benefit Obligation

The proposed Statement requires the use of the projected benefit obligation (PBO) to measure the funded status of defined benefit pension plans and the accumulated postretirement benefit obligation (APBO) to measure the funded status of defined benefit postretirement plans.

The following points detail our objections to the proposed use of the PBO and the reasons we believe the accumulated benefit obligation (ABO) to be a more appropriate measure of a pension liability.

- The PBO is inconsistent with the FASB's Concept Statement 6 definition of a liability due to its inclusion of assumptions regarding future compensation levels.
- As future salary increases are not guaranteed by an employer, an obligation beyond that included within the ABO does not exist.
- The ABO is based on compensation and service as of the measurement date and, therefore, has the characteristics of a liability as defined in Concept 6.
- The ABO is also the amount that can effectively be settled under FASB Statement No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.
- The excess of the PBO over the ABO cannot be settled and is an inappropriate measure of a liability as of the financial statement date.

We also believe use of the full APBO for other postretirement plans as set forth in the proposed Statement is inconsistent with the FASB's Concept Statement 6 definition of a liability as it overstates an employer's obligation to its employees. Postretirement health and life insurance plans are typically rescindable, in whole or in part, by the employer. We believe it would be more appropriate to limit the recognized obligation to the vested portion of the APBO for covered retirees and those active employees who are eligible to retire and receive postretirement benefits as of the measurement date.

The Employer's Measurement Date

We encourage the FASB to reconsider the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position. The existing measurement date provisions of FAS 87 recognize the considerable time required by many employers to accumulate the information necessary to prepare reliable estimates.

Northern Trust sponsors multiple plans in place both within the U.S. and overseas and currently uses a measurement date of three months prior to our balance sheet date. The following are significant considerations that we believe support the acceptability of a measurement date in advance of the date of the employer's statement of financial position.

- Pension calculations are complex and require significant time and effort from employer
 personnel, consulting actuaries, and asset valuation experts to appropriately analyze the
 data, review calculations, and conclude on the propriety of assumptions. Subsequent to
 these efforts, external auditors will need to review the process and reach their own
 conclusions.
 - The proposed Statement will require the majority of these efforts to occur within the short timeframe between the employer's year end and the closing of its books. This will significantly increase the risk of inaccurate or unreliable information being reported. Recent accelerated SEC reporting timelines also increase the importance of providing for a measurement date earlier than the balance sheet date.
- Given the long term nature of pension obligations and the short term volatility of
 underlying assumptions, a reporting date measurement of plan assets and liabilities will
 provide only a false sense of precision without significant benefit to users of the financial
 statements as compared to an earlier measurement date, within 90 days prior to the
 reporting date.
- Actuarial and valuation firms' ability to absorb the increased workload remains untested.
- An earlier measurement date provides management the ability to accurately plan and budget for the upcoming year. Net periodic pension cost and postretirement benefit costs often represent significant components of an employer's results.

Effective Date of Proposed Statement

Should the FASB decide to move forward with Phase I of its long-term project through the issuance of the proposed Statement, we believe the proposed effective dates should be delayed. The proposed Statement would require the recognition of the over- or underfunded statuses of defined benefit postretirement plans and the new disclosure requirements to be effective for fiscal years ending after December 15, 2006 for all entities. For publicly held entities, the change in the employer's measurement date for plan assets and benefit obligations would be effective for fiscal years beginning after December 15, 2006.

For many companies, adoption of the proposed Statement will result in a potentially material reduction of capital due to the requirement to immediately charge all existing unrecognized actuarial losses and prior service costs against accumulated other comprehensive income. For depository institutions that need to meet regulatory capital requirements and other institutions with debt covenants that impose similar constraints, capital strategies may need to be implemented upon adoption of the proposed Statement to rectify the resulting capital reduction. Replacement capital may need to be raised or asset levels reduced in order to avoid

noncompliance with capital requirements. Dividend payment programs might need to be adjusted and stock buyback plans cancelled, ultimately to the detriment of shareholders. The proposed Statement's planned issuance date of September 2006 and recognition effective date of fiscal years ending after December 15, 2006 provide insufficient time to address such significant impacts.

The proposed Statement would also require substantial changes to processes currently in place for valuing plan assets and developing pension assumptions. We are very concerned about the minimal amount of time provided by the proposed Statement to address the significant changes that it will bring about. We believe that a delay of one year for both the recognition and disclosure requirements and the measurement date requirements is reasonable and will allow for a sufficient timeframe in which employers can properly address these changes.

We appreciate the opportunity to comment on the proposed Statement. If you have any questions, please contact me at (312) 444-2292 or Richard Kukla, at (312) 444-7408.

Sincerely,

/s/ Steven L. Fradkin

Steven L. Fradkin
Executive Vice President and
Chief Financial Officer