LETTER OF COMMENT NO. 173

Business Roundtable

1717 Rhode Island Avenue, NW
Suite 800
Washington, DC 20036-3001

Telephone 202.872.1260
Facsimile 202.466.3509
Website businessroundtable.org

May 31, 2006

BY EMAIL : director@fasb.org

Director
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Henry A. McKinnell, Jr.
Pfizer Inc
Chairman

Kenneth I. Chenault
American Express
Company
Co-Chairman

Edward B. Rust, Jr.
State Farm Insurance
Companies
Co-Chairman

John J. Castellani
President

' arry D. Burton
(ecutive Director

Johanna I. Schneider
Executive Director
External Relations

Re: File Reference No. 1025-300; Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

Dear Director:

The following comments are submitted on behalf of Business Roundtable, an association of chief executive officers of leading U.S. companies with over $4.5 trillion in annual revenues and more than 10 million employees. Member companies comprise nearly a third of the total value of the U.S. stock market and represent nearly a third of all corporate income taxes paid to the federal government. Collectively, they returned more than $110 billion in dividends to shareholders and the economy in 2005. Counting employees and their families, Business Roundtable companies provide health coverage for approximately 34 million Americans.

Business Roundtable appreciates the opportunity to provide you with our views on the FASB Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," dated March 31, 2006 (the "Exposure Draft").

Business Roundtable supports financial reporting that will provide users with meaningful and transparent information. We commend FASB's efforts to undertake a comprehensive review of the current guidance contained in Statements No. 87, Employers' Accounting for Pensions; No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions; and No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. We are, however, deeply concerned about the proposal to implement reform on a piecemeal basis and urge FASB to reconsider its timeline for Phase I of its reform effort.

The Exposure Draft proposes moving the current disclosure of pension, retiree health and other postretirement benefit obligations to the balance sheet by the end of this year. The Exposure Draft is Phase I of a two-phase project, with Phase II involving a comprehensive re-examination of the most basic issues related to the accounting for postretirement benefits. Phase II will examine how to measure benefit obligations and how the various elements that affect the cost of postretirement benefits are best recognized and displayed in either earnings or other comprehensive income. We believe that the various elements of reporting for postretirement benefit obligations should be considered as a unified project.

In our view, the changes proposed in the Exposure Draft will not significantly promote improved accuracy or transparency and, if implemented in advance of Phase II, will have unnecessary and detrimental collateral consequences that will only serve to confuse users. Accordingly, we urge FASB to implement all elements of the comprehensive project at the same time and only after a thorough vetting of the critical issues.

THE KEY ISSUES ON FINANCIAL REPORTING OF POSTRETIREMENT BENEFIT OBLIGATIONS SHOULD NOT BE PREJUDGED

A number of the issues that FASB has announced as part of Phase II raise fundamental questions about how postretirement benefit obligations should be measured and reported. This necessarily raises a myriad of questions about whether and how the current disclosure should be modified or expanded. For example, an issue that will certainly be considered is whether pension benefits should be reported on an accumulated benefit obligation ("ABO") basis or a projected benefit obligation ("PBO") basis. Nonetheless, the Exposure Draft would require employers to report the value of pension benefits on the balance sheet on a PBO basis, effectively prejudging this issue. This is particularly troubling given that the existing note disclosure uses a hybrid of PBO and ABO reporting so that this change would be a fundamental departure with extremely little discussion. By way of another example, there are questions about whether retiree health benefits that are not vested should be reported on an accumulated postretirement benefit obligation ("APBO") basis since non-vested benefits may be eliminated at the employer's discretion. These are among the large number of core issues that need to be resolved with respect to how postretirement benefit obligations should be reflected in financial statements. These issues need to be carefully considered and interested stakeholders should have an opportunity to comment before changes to the balance sheet are made. These issues should not be prejudged and implemented in a piecemeal manner.

SERIAL CHANGES TO FINANCIAL REPORTING WILL CREATE UNNECESSARY CONFUSION

Serial changes to financial reporting are extremely disruptive to the marketplace. FASB only recently completed overhauling the disclosure of postretirement benefits. The comprehensive revisions to FASB Statement No. 132 were issued in 2003. If the Exposure Draft is finalized and effective for fiscal years ending after December 15, 2006, as proposed, and a third round of changes is implemented within the next few years, there will have been three major changes to financial reporting of postretirement benefit obligations in only a handful of years. This type of constant revision undermines confidence in financial statements and places a tremendous burden on users and preparers of financial statements.

REFORM SHOULD BE THOROUGHLY VETTED AND INTERESTED STAKEHOLDERS SHOULD HAVE A MEANINGFUL OPPORTUNITY TO COMMENT AND ADJUST TO THE NEW RULES

More generally, we are troubled by the haste in which Phase I is being proposed to be effective – for fiscal years ending after December 15, 2006. The Exposure Draft would move the current footnote disclosure to the balance sheet and, subject to certain important exceptions discussed below, would not require new calculations. However, this will be a momentous change regardless of the burden in developing the data. The balance sheet change would wipe out hundreds of billions of dollars in shareholder equity and, according to one analysis, could result in shareholders' equity in the Fortune 1000 as a group being reduced by roughly 10 percent, with a median decrease for individual companies in the neighborhood of 5 percent. Any change of this magnitude should be carefully considered and should be implemented only after a thorough review of the methodology currently utilized in the footnotes.

Two months for comment with an almost immediate effective date is simply too little time, especially in the context of an ongoing reconsideration of the existing rules that could further change the reporting requirements.

Haste in the implementation of Phase I of FASB's process is particularly inappropriate given the serious collateral impact the balance sheet change could have on a wide range of common business arrangements. It is not unusual for different business agreements to reference and build operative provisions around the balance sheet and shareholders' equity.
These provisions are often found in incentive programs that provide employee compensation, loans and lines of credit (which usually include financial covenants, indentures, and credit agreements that restrict liens on assets and indebtedness) and state regulations affecting regulated industries (e.g., banks, insurance companies, etc.). For example, leverage ratios, loan mandatory prepayment formulas, and limitations on liens, indebtedness, dividends and stock buybacks are often based on the book value of shareholders' equity.

It may be that some counter-parties will be agreeable to adjusting the agreements to account for the change, but it is likely that many others, in particular ones that would like to revisit an agreement, may use the proposed new balance sheet rules as an opportunity to clean the slate. For these reasons, it is critical that employers have the opportunity and the time to restructure and transition these agreements away from the existing structure. The current proposed timeline in the Exposure Draft is inadequate to accomplish those changes and it is also unnecessary and inappropriate to require those substantial renegotiations when the whole process may have to be repeated in a relatively short period of time as FASB moves toward completion of Phase II.

Further, there are a number of more technical changes to the existing note disclosure that are contained in the Exposure Draft and that would make a change to the balance sheet difficult to implement. The most prominent such change is to the permitted measurement date. Under the Exposure Draft, the measurement date would have to be the last day of the fiscal year. This would make it very difficult for employers to make timely the calculations and would yield very little benefit, if any, in terms of accuracy given the long-term nature of postretirement benefit promises. Moreover, there are a number of different alternatives to the existing three-month window that would avoid these issues. For example, the allowable measurement period could be shortened but still provide employers with time to make the necessary calculations. Similarly, we question the need for two measurements in the year of transition from an earlier measurement date to a later one and urge you to consider less burdensome alternatives.

ANY CONVERGENCE BETWEEN PENSION ACCOUNTING AND PENSION FUNDING WOULD DRAMATICALLY IMPROVE TRANSPARENCY

Implementing Phase I on such an extraordinarily swift timeframe is also inapt given the pending pension reform legislation. Both the Senate and the House of Representatives have passed fundamental pension reform bills. Each of those bills would make significant reforms that would move toward a more transparent and market-based approach to the measurement of pension liabilities and assets. While financial accounting and pension funding have long been separate and often incompatible systems, Business Roundtable believes that FASB may wish to consider the legislation and build as much symmetry between these two regimes as possible. The current disconnect between pension funding and pension financial reporting has long been problematic and this may be an opportunity to at least minimize the existing inconsistencies. In this regard, both pension bills would effectively measure liability on an ABO basis, yet the Exposure Draft would measure liability on a PBO basis.

Action by FASB just before Congress acts on pension reform would appear to preclude such a convergence, and since convergence to any extent would dramatically improve transparency, we urge you to take time to act appropriately. Moreover, enactment of pension reform legislation will require retirement plan sponsors to make major adjustments in their plans and practices in order to implement the many changes that legislation is likely to mandate. This will require a major allocation of plan sponsor resources and implementing the balance sheet changes proposed in Phase I would add further and unnecessary strain.

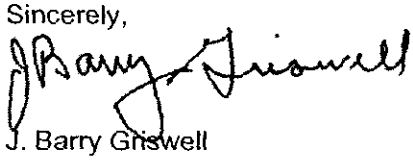
FASB SHOULD CONSIDER THE IMPACT THE PROPOSED CHANGES WOULD HAVE ON AMERICAN WORKERS AND THEIR FAMILIES

Finally, it is critical that FASB recognize and take into account the effect the proposed change in the Exposure Draft may have on the incentives to continue to maintain pension and retiree health benefits system as a whole. Millions of American workers and their families rely on the voluntary employer-provided employee benefit system and FASB should not unnecessarily harm the system through rashly considered and implemented changes. For example, the use of PBO and APBO as a measure of liabilities could spur some employers to freeze or terminate their retirement and health plans and therefore increase shareholders' equity through the elimination of anticipated future liabilities. We recognize and appreciate that accuracy and transparency in financial reporting are paramount to FASB's mission, but, in this context, we are concerned that the proposed modification of the existing standards may do irreparable and preventable harm to the retirement security of American workers. As evidenced by FASB's decision to conduct a comprehensive review of post-retirement benefit reporting, there may well be further changes made in those rules in the relatively near future. It would be tragic if FASB shortly thereafter, once again, modified the rules in a manner that made cutbacks in retirement benefits avoidable. In short, FASB should balance any perceived benefit from the proposed change against the many challenges such a change presents.

* * *

For these reasons, Business Roundtable strongly believes FASB should delay the effective date of any of the balance sheet reporting changes until the effective date of whatever changes are implemented in Phase II and that the balance sheet changes should be coordinated with the final regime that is implemented for reporting postretirement benefit obligations.

Sincerely,



J. Barry Griswell
Chairman & CEO, Principal Financial Group
Vice Chairman, Health & Retirement Task Force, Business Roundtable