



LETTER OF COMMENT NO. 174

Ford Motor Company

Barbara A. Benson  
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15041 Commerce Drive South  
Dearborn, Michigan 48120

May 31, 2006

Ms. Suzanne Q. Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116

Reference No. 1025-300

Dear Ms. Bielstein:

We appreciate the opportunity to provide comments on the Financial Accounting Standards Board's Exposure Draft: *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. We believe that developing a statement that improves the existing reporting for defined benefit pension and other postretirement plans would be extremely helpful for both the users as well as preparers of financial statements.

We support the FASB's overall objective of recognizing the funded status of postretirement obligations on the balance sheet. We would like to address our concerns, however, around some of the requirements of implementing the change. Our primary concern is the retrospective application of the standard which can be complex, workload-intensive, and costly. Based on our analysis of the impact of the accounting changes on prior years' statements, we feel that the changes proposed in the exposure draft should be applied prospectively for fiscal years beginning after December 15, 2006. In addition, we feel that the different accounting treatment for valuation allowance and transition assets will add complexity and potential confusion to financial statement analyses/disclosures. Please refer to attached responses to Exposure Draft Questions for further discussion of our concerns.

The opportunity to provide comments as the Board deliberates this extremely important issue is appreciated. Our comments to each question in the Exposure Draft are attached. They are provided in support of the Board's efforts to improve financial reporting in this area. If you have questions regarding the comments please contact me at (313) 253-7409.

Sincerely,

Barbara A. Benson  
Director, Employee Benefits Finance  
Ford Motor Company

## Responses to Questions

### **Cost of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position**

*Question 1: Do you agree that implementation of this proposed Statement would not require information (other than related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?*

We believe the cost of implementation would be significant primarily due to the complexity of the retrospective application. The following are examples of items that are likely to add complexity and costs:

- The income tax reporting in prior periods would be extremely difficult to restate, especially for an employer with multiple plans. Proper income tax reporting in prior periods would require an understanding of the effect by plan and by tax jurisdiction. Furthermore, any incremental deferred tax assets must be assessed for realizability by jurisdiction.
- The proposed statement requires that unrecognized transition assets and obligations are eliminated through retained earnings in a prior period. Since unrecognized transition assets or obligations presently affect the gain or loss calculation of a curtailment or settlement, a previously reported event will be impacted by its elimination. The result may convert a gain to a loss (or vice-versa). Thus, a change to net income could be triggered both in the year reported and subsequent years (by reversal of the amortization of the transition asset/obligation). Conversely, actuarial gains and losses and prior service costs and credits are recognized in Other Comprehensive Income. To avoid prior period restatements and different accounting treatment, we recommend that any remaining transition assets or obligations are reported in Other Comprehensive Income.

In the event of prior period restatements, a significant burden would be placed on SEC registrants who presently provide at least five years of selected financial data in their annual reports. In the event that prior year information has been disclosed and any of the years have a restatement, all years would have to be shown consistently. This restatement would also have implications for footnote disclosures, segment data, income taxes, earnings per share, and management's discussion and analysis.

We feel that the reporting requirements of a retrospective application of the proposed standard would be onerous and would only serve to confuse the users of financial statements who do not understand complexity of deferred tax assets, for example. We also feel that potential varied decisions by companies regarding whether or not to restate prior periods could cause more investor confusion (especially in doing comparisons across companies which have made different restatement decisions).

It is recommended that any changes be effective on a "prospective" basis only for fiscal years beginning after December 15, 2006. Investors would have the current year end view to base future decisions.

### **The Employer's Measurement Date**

*Question 2: Are there any specific implementation issues associated with the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?*

We are assuming that the measurement date requirement applies only to fully consolidated subsidiaries. In the event a company has an interest in foreign affiliates with different measurement dates (i.e., different fiscal year end), the affiliate's year end remains their measurement date. A direct clarification of this in the final statement would be helpful.

### **Effective Dates and Transition – Recognition of the Overfunded or Underfunded Status**

*Question 3(a): Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?*

We agree with the Board's decision to provide an impracticability exemption related to the assessment of the realizability of deferred tax assets; however, we are concerned that there may be varied interpretations of "impracticability." Please refer to Question 1 regarding general concern on retrospective treatment of the proposed standard.

In addition, we believe the provision for any valuation allowance that might be required for deferred tax assets should be recorded to Other Comprehensive Income (as opposed to earnings) regardless of when the valuation allowance is established or adjusted. This would avoid earnings volatility associated with valuation allowance changes due to future changes in assumptions, etc. that drive unamortized amounts.

*Question 3(b): What types of contractual arrangements other than debt covenants do you have that would be affected by this proposed Statement and what changes to those arrangements, if any, would need to be considered? How is the economic status of postretirement plans that is presently included in note disclosures currently considered in those arrangements? How did you address the effects of the current requirement in Statement 87 to recognize a minimum pension liability for those contractual obligations?*

We are not aware of any contractual arrangements that would be materially impacted by adoption of this proposed Statement.

## **Measurement Date**

*Question 4: Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments?*

Based on the concerns outlined in Questions 1 and 3(a), we believe that a delay in implementation to fiscal years ending after December 15, 2007 would not alleviate the impediments associated with the ongoing workload and complexity that would result from the retrospective requirement of the proposed standard. If the standard is adopted on a "prospective" basis only and only for fully consolidated subsidiaries, we are better equipped to implement the standard for fiscal years beginning after December 15, 2006.

## **Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income**

*Question 5: Do you agree that the proposed Statement provides appropriate guidance for not-for-profit organizations and other entities that do not report other comprehensive income as it pertains to reporting actuarial gains and losses and the prior service costs and credits? If not, what additional guidance should be provided?*

This question is not applicable to Ford. We are not a not-for-profit organization and we do report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*.