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Financial Accounting Standards Board
Technical Director
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LETTER OF COMMENT NO. 177

File Reference 1025-300
Proposed Statement of Financial Accounting Standards
Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans

Johnson & Johnson is pleased to comment on the Proposed Statement of Financial Accounting Standards "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans". The accounting for this topic is an important and complex matter and is subject to considerable debate. Johnson & Johnson supports the Board's efforts to improve financial reporting and generally supports the proposals included in this Exposure Draft.

We understand the Board plans to address this topic in two phases, the first one including the recognition in the statement of financial position the funded status of a defined benefit postretirement plan, as well as the recognition as a part of other comprehensive income, the actuarial gains and losses and prior service costs and credits. Further, the early measurement date option would be eliminated. We understand that the Board, as part of phase two, will reconsider all aspects of the accounting standards for pensions and other postretirement benefits.

Our comments relate to phase one of the project only.

We believe that most of the information that is required to comply with the requirements of the ED is already available and, therefore, we do not believe the implementation of the phase one proposals would lead to increased costs for preparers of financial statements. All necessary information is currently included in the notes to financial statements. We also do not believe that the retrospective application would add additional costs, but suggest that the retrospective application would be mandated for all periods for which full financial statements are presented, with the option of restating all periods for which summary or select financial data are presented [in our case: 10 years].

Conceptually, we do not believe that inclusion in the statement of financial position of items already disclosed in the notes to financial statements adds more visibility or emphasis, but we would not object to the inclusion of the funded status of plans in the statement of financial position, as benefit obligations represent liabilities. Whether the benefit obligation would be the PBO or ABO for pension plans or the APBO or only its vested portion for other postretirement benefit plans is in our opinion a debate that needs to be resolved. But we understand that the Board did not specifically request comments on this important question as part of phase one of the project.

While we agree in principle that the measurement date of plan assets and benefit obligations should be the date of the statement of financial position, we believe there should be some practical flexibility in this matter. For example: Johnson & Johnson follows the 4-4-5 week system for financial reporting, meaning that the date of our statement of financial position can differ up to 3 days from the "regular" calendar period-end date. Plan assets and benefit obligations are typically measured following the regular calendar. It would be very onerous to shift these measurements to coincide with our reporting calendar. Further, from a practical perspective, period-end measurements such as actuarial valuations would be prepared at an earlier date and then rolled forward. We believe such flexibility is warranted and practical.

We understand the Board plans to issue the final statement sometime in September 2006. The proposed effective date [fiscal years ending after December 15, 2006] is very close after the issuance of the final statement. Also, since it is not known at this point whether the final statement will differ from the ED, we believe the effective date should be fiscal years ending after December 15, 2007.

Thank you very much for taking our comments into consideration.

Sincerely,

Stephen J Cosgrove
Stephen J Cosgrove
Vice President, Corporate Controller