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LETTER OF COMMENT NO. 179

Ms. Suzanne Bielstein
Director – Major Projects and Technical Activities
File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

Lyondell Chemical Company appreciates this opportunity to submit our comments on the Exposure Draft, Employers' Accounting for Defined Pension and Other Postretirement Plans.

In general, we believe that the proposed standard will represent improvement in financial reporting for postretirement plans. However, we believe that significantly greater improvement could be achieved in the near term without reopening fundamental measurement questions. We believe that substantially all of the recognition deficiencies relating to typical plans could be remedied in this short-term project by requiring immediate recognition in income of currently deferred items, that display issues (categorization of financing, investing and compensation components) could be addressed in another relatively short-term project, and that more complicated measurement issues, requiring a longer-term project, may only need to be addressed for non-traditional forms of plans that have become more common in recent years, and if necessary to achieve complete international convergence.

We were surprised that the issues on which the Board seeks comment in this exposure draft do not include the question of whether to continue deferred recognition in future income of economic gains and losses relating to current or past periods, or whether to eliminate such deferred recognition in income. As noted above, we believe significant improvement in financial accounting could be achieved by eliminating deferred recognition in this project. Although the Board may have decided that full elimination of the deferred recognition provisions is not immediately practicable and, therefore, would be expected to significantly delay issuance of the proposed standard, constituent views on this question may have been useful.

On a less significant matter, there may be diversity of understanding of the phrase "in accordance with existing standards" as it is used in paragraph 4b of the exposure draft regarding classification of assets and liabilities as current or non-current. We believe a more explicit requirement would be more useful, such as a requirement that classification be based on probable minimum legal funding requirements in the next year for funded plans, and on estimated required benefit payments in the next year for unfunded plans.

Our comments on each specific issue for which the Board requested comment are included in the attached appendix.

We hope that our views will prove helpful to the Board in its deliberations on these issues. We welcome any questions regarding our views on this proposed Statement. Please contact me at 713-309-3887 with any questions.

Sincerely,

Charles L. Hall

Vice President and Controller

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## Appendix

### Issue 1:

The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not? (See paragraphs B20-B34 for the basis for the Board's conclusions.)

### Response:

We agree that the information necessary to adopt this proposed standard is already available and, therefore, the cost of implementing the proposed standard would not be significant.

#### Issue 2:

Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to their assets and liabilities that are recognized as of the date of the statement of financial position? (See paragraphs B36-B40 for the basis for the Board's conclusions.)

### Response:

We do not object to the elimination of the alternative measurement date provisions contained in Statements 87 and 106 and are unaware of any specific implementation issues that would prevent compliance with this provision. We are aware that certain pension plan assets may be invested in illiquid investments which may require professional judgment and estimates to determine fair value; however, we do not believe an exception to the balance sheet date should be permitted.

### Issue 3(a):

The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of? (See paragraphs B61-B64 for the basis for the Board's conclusions.)

## Response:

We do not believe retrospective application of the proposed standard would be impracticable.

### Issue 3(b)

Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements (See paragraph B65 for the basis for the Board's conclusions.)

## Response:

We do not believe there are issues of this sort for Lyondell.

## Issue 4:

This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

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? (See paragraphs B66-B69 for the basis for the Board's conclusions.)

### Response:

We believe the information necessary to adopt the proposed standard is available to financial statement preparers and should not require a significant amount of cost or time for adoption.

# Issue 5:

This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, Reporting Comprehensive Income, Paragraphs 7-13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided? (See paragraphs B53-B58 for the basis for the Board's conclusions.)

### Response:

If the Board does not eliminate deferred recognition in income in the proposed standard, then the proposed guidance appears appropriate.