



May 31, 2006

LETTER OF COMMENT NO. 68

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

Re: 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 132R (File Reference No. 1025-300)*

Dear: Technical Director

Prudential Financial, Inc. ("Prudential") is pleased to have this opportunity to comment on the FASB's Exposure Draft of 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 132R (the "Exposure Draft")*.

Prudential agrees that the proposed Statement, which represents the initial phase of the FASB's reconsideration of the guidance contained in FASB Statement No. 87- *"Employers' Accounting For Pensions"* and FASB Statement No. 106- *"Employers' Accounting for Postretirement Benefits Other Than Pensions"* would improve existing reporting for defined benefit and other postretirement plans by making information more useful for users of financial statements

We also believe, however, that there are certain aspects of the Exposure Draft that merit further deliberation, and we submit our comments for inclusion in the FASB's analysis that will form the basis of their redeliberation of this Exposure Draft.

In particular, we seek the FASB's redeliberations of the following provisions of the Exposure Draft:

- (1) We agree with the guideline cited in Paragraph 4.a. of the Exposure Draft that recognition in the statement of financial position of the overfunded or underfunded status of a defined benefit postretirement plan, measured as the difference between the fair value of plan assets and the benefit obligation, is a more appropriate measure than the current model. However, we believe that the benefit obligation for a defined benefit pension plan should be the accumulated benefit obligation ("ABO"). In our opinion, for defined benefit pension plans,

the ABO represents a more appropriate measure of a company's liability for employee benefits as of the measurement date because the ABO excludes the impact of future salary and service benefits, which we do not believe represent a current obligation of the company. Similarly, from the postretirement perspective, a similar argument can be made for life insurance benefits provided outside of a pension plan. Accordingly, the accumulated postretirement benefit obligation ("APBO") should exclude the effect of future salary increases. It should be noted that the future salary growth component of the APBO is likely to be small.

- (2) The provision cited in Paragraph 5 of the Exposure Draft, that states that an employer that is a business entity that sponsors a defined benefit pension plan or other postretirement benefit plan shall measure plan assets and benefit obligations as of the date of the employer's statement of financial position, unless the plan is sponsored by a subsidiary that is consolidated using a different fiscal period than the parent, pursuant to ARB No. 51, *Consolidated Financial Statements*. In that case, the employer shall measure that subsidiary's postretirement benefit plan assets and benefit obligations as of the same date used to consolidate the subsidiary's statement of financial position.

We do not agree with the Board's assertion, that the use of an early measurement date as of a date not more than three months prior to the date of the employer's statement of financial position, adds significant complexity and reduces understandability of the plans accounting and thereby warrants a change in the current measurement concept. The notes to the financial statement will typically include a reconciling item for funding that occurred in the last quarter. While the inclusion of this information in the notes to the financial statements adds some complexity, we do not feel it is significant in light of the benefits of an early measurement date. In particular, in light of the accelerated disclosure requirements many companies operate under, the early measurement date affords preparers of the financial statements additional time to compile and review actuarial and investment information that is included in the financial statements and footnotes.

- (3) The provision cited in Paragraph 4(c) of the Exposure Draft, requires an adjustment to the opening balance of retained earnings, net of tax, for any transition asset or transition obligation remaining from the initial application of Statement 87 or 106. Per the provisions outlined in the Exposure Draft, those amounts would not be subsequently amortized as a component of net periodic benefit cost. Therefore, as we understand it, this would result in an earnings restatement for periods in which net periodic pension costs includes the amortization of any transition asset or obligation.

This treatment of the transition obligation, in our opinion, is counter to the notion that Phase 1 of the postretirement benefit obligations project was intended to focus on the balance sheet presentation of a company's postretirement benefit plan.

Additionally, the existing transition asset or obligation may be viewed as a combination of prior service cost and actuarial gain/loss from periods prior to the adoption of FASB Statement No. 87 and FAS 106. Under the Exposure Draft individual prior service costs and actuarial gain/loss balances would be included as a component of other comprehensive income and recognized over time as a portion of net periodic pension costs under FASB Statement No. 87, while the transition amount would be included in retained earnings and would not be recognized over time as a portion of net periodic pension costs. Paragraphs B31 through B34 of the Exposure Draft give the FASB's rationale, whereby their approach is analogized to a cumulative effect resulting from a change in accounting principle. We believe

that the FASB should consider permitting the unrecognized transition asset or obligation be included as a separate component of other comprehensive income with subsequent amortization recorded as a component of net periodic pension costs in future years, consistent with the treatment afforded for individual prior service costs and unrecognized actuarial gain and losses.

In addition to the above, included below are comments on certain specific issues raised by the FASB in the Exposure Draft :

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

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.)?

Generally we agree that implementation cost associated with the application of this guidance subsequent to the initial adoption will be minimal. However, we feel that certain implementation issues in limited situations will make the task of restating financial statements burdensome from a cost and effort standpoint. For example, if a company has recorded a gain or loss resulting from a settlement or curtailment and a portion of gain or loss is associated with an unrecognized transition obligation, then restatement would require a company to recalculate the gain or loss on settlement or curtailment. This computation would typically require the use third party consultants at a cost to the company. Additionally, consistent with our comment (2) above, if the FASB ratifies its proposal to charge the unamortized transition asset or obligation to beginning retained earnings without subsequent amortization into net periodic pension cost, the resulting requirement to restate prior year earnings would be burdensome to companies.

Effective Dates and Transition

Recognition of the Overfunded or Underfunded Status

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.)

We believe the Board should provide an impracticability exemption related to the assessment of the realizability of deferred tax assets. The accounting for income taxes for an international company with many different pension and postretirement plans in multiple jurisdictions is complex. The development of what an estimate of future taxable income would have been as of a previous date, which is necessary to assess the realizability of a deferred tax asset at that point in time, without consideration of known developments will be difficult.

Prudential appreciates this opportunity to comment on the Exposure Draft. We would be pleased to discuss any questions that the FASB may have concerning our comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Carbone', with a long horizontal line extending to the right.

Richard J. Carbone
Chief Financial Officer