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Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 66856
Norwalk, CT 06856-5116

LETTER OF COMMENT NO. 1

Subject: Phase 2 – Accounting Reform for Postretirement Benefits

Dear Mr. Herz:

Watson Wyatt & Company is a multinational benefits and actuarial consulting firm. We provide actuarial and consulting services to sponsors of over 2,000 defined benefit pension plans or other postretirement benefit plans. As a result, we are keenly interested in Phase 2 of the project to address postretirement benefit accounting. As the firm's National Practice Leader for Policies and Practices in the U.S., I (with input from others in the firm, both from the U.S. and internationally) have prepared our thoughts regarding two key points that we want to emphasize as you begin this important project.

We understand the significant effort and challenges that the FASB will face during this project and have decided to share our thoughts about the FASB's approach to this project, which we believe will play a significant role in determining its ultimate success. Our two key points are summarized briefly as follows:

1. We strongly believe that the issues outlined in Appendix A of the FASB's November 10, 2005 meeting handout should be addressed during Phase 2 as a single, comprehensive project, and should **not** be further subdivided into multiple phases with multiple accounting standards and multiple effective dates.
2. We strongly believe that the questions regarding measurement, which include both identifying what the obligation is that we are trying to measure and deciding how we should measure it, are crucially fundamental and need to be addressed early in the project.

Because of the importance of the measurement question and its potential impact on other decisions during the project, we further believe that measurement needs to be addressed comprehensively and as a joint project with the IASB.

The rest of this letter explains the reasoning behind our beliefs.



Single, Comprehensive Project

We strongly believe that Phase 2 should be a single, comprehensive project that considers all aspects of postretirement benefit accounting. We believe this is essential in order for the FASB to increase the likelihood of meeting the following objectives:

Transparency: A single set of accounting changes improves transparency and reduces uncertainty. If these changes were to be implemented on an incremental or phased basis, then transparency would be, at best, incomplete and potentially hindered due to uncertainty surrounding the next round of changes. Financial market participants would have difficulty understanding pension finance if the accounting requirements are constantly in flux. The FASB continues to state that improving the transparency of postretirement benefit accounting is a primary objective of this project. Partial or incomplete transparency will not be an improvement to the rules, and the added uncertainty is likely to be detrimental to the financial markets during the process.

Coherent and Well-Integrated Rules: An incremental process is much more likely to result in disjointed rules that potentially require backtracking on previous decisions. Such a result could do irreparable harm to the global retirement system and create uncertainty for plan sponsors.

Minimize Plan Design Changes Before the Changes are Complete: It has been proven again and again that accounting rules drive benefit design; FAS 123 is a recent example. Nearly every major company that offered stock options to their employees has changed their stock option plan in the wake of FAS 123. Luckily, stock option plans are relatively easy to change. By comparison, many postretirement benefit plans are not so easy to change, and the ramifications of these changes could last for generations. An interim period of uncertain or phased accounting rule changes is far too risky to justify any perceived incremental accounting improvements. Instead, we believe it is far better to release one set of accounting changes that are expected to be complete and long-lasting.

Convergence: We believe postretirement benefit accounting is a key issue in achieving international convergence; a goal which we believe is important for the FASB to achieve. The FASB and the IASB may have different opinions on fundamental issues regarding postretirement benefit accounting. As a result, we believe that convergence is likely to be difficult, time consuming, and potentially result in further changes to the postretirement benefit accounting rules. In order to minimize the additional disruption that would be caused by issuing accounting rules that are later changed as the result of convergence, we believe this project requires some formal joint level of effort between the FASB and the IASB.

Produce Favorable Cost/Benefit Results: One of the FASB's explicit duties in the standard-setting process is to consider the cost/benefit relationship associated with implementing new rules. We believe that the cost/benefit relationship is dramatically improved by implementing one set of accounting rule changes for postretirement benefit plans rather than implementing multiple accounting rule changes over a relatively short period of time.



In summary, we believe the risks associated with not achieving any one of the goals stated above far outweigh any benefit that could be achieved by implementing a series of incremental changes, even if each change on its own is an incremental improvement. As a result, we strongly urge the FASB to pursue Phase 2 of Postretirement Benefit Accounting Reform as a single, comprehensive project.

Measurement is Fundamentally Critical to the Project

We strongly believe that the measurement question is crucially fundamental to the project and needs to be among the first issues debated and resolved. This is because we believe that the outcome of the measurement decision will play an important role in determining how other issues should be resolved. In particular, we are concerned that if the measurement question is postponed until the end of the project, then the end result will likely lack the principle-based foundation that the FASB has been striving for in its other projects.

It is difficult for us to envision how transparency can result from this project without first clearly understanding the obligation and how it is measured. As a result, we believe the measurement issue must be addressed early in order to have the most successful debate on all of the Phase 2 issues.

Furthermore, we are very concerned about how the various accounting standard setters are addressing the measurement question independently and in a piece-meal fashion.

- The IASB is currently studying the measurement of Cash Balance Plans (a.k.a. Intermediate Risk Plans) in Phase 1 of their Postretirement Benefit Accounting Reform Project. We believe this measurement issue
 - requires clear overall measurement principles, and
 - highlights the implications of using different measurement principles for different types of plans.
- IFRIC is currently examining the asset ceiling calculation via its exposure draft D19. This is fundamentally a measurement issue. D19 has highlighted the interaction of funding requirements with liability measurement, and we believe this has an important relationship to Intermediate Risk Plans.
- The FASB has spent time studying the measurement of Cash Balance Plans and decided to defer measurement decisions regarding these plans until this Phase 2 project which is expected to include a comprehensive review of measurement.



We are very concerned that these three projects will lead to fundamentally different decisions on measurement by each of the standard-setting bodies and will result in irreconcilable differences; thereby, making convergence very difficult without further change to measurement principles and adding further disruption. As a result, we propose that measurement be addressed in a comprehensive manner that considers all measurement issues in a joint project between the FASB and the IASB.

The measurement question is too important to the outcome of this project to be resolved in pieces by different accounting standard setters. Again, we believe the risks created by continuing down separate paths far outweigh the possible benefits.

Additional Information

We support the FASB in its mission to improve the accounting rules for postretirement benefit plans. We believe that we, as an actuarial consulting firm that helps organizations prepare and disclose accounting information relating to their postretirement benefit plans, have unique expertise and experience that can assist the FASB during this project. We are happy to offer our assistance and thoughts about the issues that will be debated during this project. We hope that you will contact us to let us know how we can best assist you.

Please contact me if you would like to discuss any of these issues further.

Sincerely,

Alan Glickstein
National Practice Leader for Policies and Processes

cc: John D. Steele, Watson Wyatt Worldwide