

January 8, 2007

Mr. Lawrence W. Smith  
Director, TA&I - FSP  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116



LETTER OF COMMENT NO. 5

**Re: Proposed FASB Staff Position No. FAS 158-a, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides"**

Dear Mr. Smith:

Deloitte & Touche LLP is pleased to comment on proposed FASB Staff Position No. FAS 158-a, "Conforming Amendments to the Illustrations in FASB Statements No. 87, No. 88, and No. 106 and to the Related Staff Implementation Guides" (the "proposed FSP").

We support the issuance of the proposed FSP as a final FASB Staff Position. However, we believe that the following aspects of the proposed FSP would benefit from further clarification and revision. Our specific comments are set forth below.

***Illustrations That Include Assumed Discount Rates and Expected Long-Term Rates of Return on Plan Assets***

Many of the illustrations include assumed discount rates and expected long-term rates of return on plan assets that do not reflect current rates. Such discrepancies may inappropriately lead preparers to conclude that such discount rates and expected long-term rates of return are appropriate when measuring their current benefit obligations. Consider adding cautionary language indicating that such rates are included for illustrative purposes only and are not meant to represent actual rates at any given time.

***Implementation Guide Questions and Answers (Q&As) Affected by the Measurement Date Provisions***

Certain implementation guide Q&As that are affected by the measurement date provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, may be relevant and useful until such measurement date provisions have been adopted. Since the measurement date provisions of Statement 158 are not effective until fiscal years ending after December 15, 2008, we believe the Board, as opposed to simply deleting the implementation guide Q&As, should add further clarification that they still apply until after the measurement date provisions have been adopted. For example, the Q&A in paragraph C28 (page 186) of the proposed FSP, which discusses when settlement and curtailment gains and losses should be recognized in earnings when the settlement or curtailment occurs after the plan's

measurement date but before the employer's fiscal year end. The proposed FSP, as currently drafted, deletes this Q&A. We believe this Q&A is still relevant and should be retained until the effective date of the measurement date provisions of Statement 158.

*Other Comments and Edits*

In the attached Appendix A, we have identified other less significant comments and edits for your consideration.

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Deloitte & Touche LLP appreciates the opportunity to comment on the proposed FSP. If you have any questions concerning our comments, please contact Dawn Trapani at (203) 761-3697.

Yours truly,

Deloitte & Touche LLP

**APPENDIX A  
 OTHER COMMENTS AND EDITS**

**Amendments to the Illustrations in Appendix B of FASB Statement No. 87, *Employers' Accounting for Pensions***

- We noted that, in some illustrations, there are not line descriptions for certain total amounts. In Illustration 4 (page 17), for example, the totals line at the bottom of the table does not contain a line description. Consider adding a totals caption titled “Total amounts recognized in accumulated other comprehensive income” at the bottom of the page.

**Amendments to the Illustrations in Appendix B of FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits***

- Illustration 5 (page 55) — Consider rewording footnote c to state the following (added text is underlined in red and deleted text is ~~struck out in red~~):

<sup>c</sup> The loss Company G recognized in earnings was \$175, which includes the cost of the special termination benefits of \$125, the gain related to salary progression of \$100 and the recognition in earnings ~~recognition-reclassification of prior service cost~~ the transition obligation remaining in accumulated other comprehensive income of \$150. The journal entry required to reflect the accounting for this event was:

Loss on employee terminations	175
<u>Pension liability</u>	<u>100</u>
<del>Accrued/prepaid pension cost</del>	
<u>Other comprehensive income—transition obligation</u>	
Liability for termination benefits	

50  
150  
 125

If the company had paid the termination benefits from the pension plan (by amending the plan and using plan assets), the same loss would have been recognized, but \$175 would have been credited to the ~~accrued pension cost~~ pension liability, as opposed to liability for termination benefits.

**Amendments to the Illustrations in Appendix C of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions***

- Illustration 2, Case 2C (page 71) — The “Total net periodic postretirement benefit cost” of \$117,240 in the first column of the rollforward is mathematically incorrect. The total should be \$127,240.
- Illustration 2, Case 2D (page 73) — In paragraph 427 of the example, the second sentence refers to the year “2005.” To be consistent with references in the example, the year should be “20X5.”
- Illustration 2, Case 2D (page 75) —Footnotes b and c are both missing a minus sign in the calculations. Footnote b’s calculation should read [(\$777,240 × 8%) – (\$99,000 × 8%)]. Footnote c’s calculation should read (\$340,000 – \$18,000).

- Various dashes are missing in references to multiple paragraph and case numbers. The following are examples of paragraph references that should be corrected:
  - Illustration 2, Case 2E, footnote a (page 77) — paragraphs 56–61, paragraphs 455–471.
  - Illustration 5, paragraph 455 (page 89) — paragraphs 457–461, paragraphs 462–464, paragraphs 465–467.
  - Illustration 8, paragraph 484 (page 107) — cases 8A–8C, paragraphs 485–495.
- Illustration 10, paragraph 504 (page 119) — Consider retaining the first sentence of paragraph 504.

#### **Amendments to the Questions and Answers Issued for Statement 87**

- Paragraph E4 (page 125) — The term “rate-marketing” in the question should be changed to “rate-making.”
- Paragraph E7 (page 132) — We believe this Q&A continues to be relevant and therefore should not be deleted. Consider modifying the Q&A to conform with Statement 158 as follows (added text to the original Q&A is underlined in red and deleted text is ~~struck out in red~~):

Q—May an employer have net periodic pension cost that is a net credit (that is, net periodic pension income)? [16, 20]

A—Yes. Net periodic pension cost is an aggregation of various pension cost components, some of which are expenses or losses (which increase net periodic pension cost) and some of which are revenues or gains (which decrease net periodic pension cost). It is possible for the revenue or gain components to exceed the expense or loss components, resulting in net periodic pension income. For example, a pension plan may have an expected return on plan assets or amortization of ~~an unrecognized net asset~~ remaining in accumulated other comprehensive income ~~existing at the date of initial application of Statement 87~~ that exceeds the other net periodic pension cost components.

- Paragraph E11 (page 133) — We agree with the revision in the Q&A to refer to EITF Issue No. 06-5, “Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance With FASB Technical Bulletin No. 85-4, *Accounting for Purchases of Life Insurance*.” However, we also believe that the Q&A should continue to refer to Technical Bulletin 85-4, since the accounting for purchases of life insurance policies still lies within the Technical Bulletin.
- Paragraph E30 (pages 138–139) — The underlying question in this Q&A is whether the market-related value of plan assets may be used in determining whether an additional minimum liability must be recorded. Even though the notion of an additional minimum liability is no longer applicable upon the adoption of Statement 158, we believe this Q&A continues to be relevant regarding the use of the market-related value of plan assets when determining a plan’s funded status. Therefore, we suggest that this Q&A be retained and modified appropriately.
- Paragraph E33 (page 139) — The reference to paragraph 36 of Statement 87 at the end of the answer should be deleted because that paragraph does not apply to the guidance provided in the Q&A.

- Paragraph E61 (pages 156–157) — Consider including a reference to paragraph 44A of Statement 87 along with the reference to paragraph 44 of Statement 87 in the last paragraph of the answer section.
- Paragraph E63 (page 157) — In light of the Pension Protection Act of 2006, we believe this Q&A should be retained, but revised to address more generally whether changes in existing law constitute plan amendments or changes in actuarial assumptions.
- Paragraph E65 (page 159) — In the Q&A, consider clarifying that the rolling forward of data is applicable only to census data. Consider the following change (added text is underlined in red):

Q—If an actuarial valuation is made as of a pension plan’s year-end and that date precedes the employer’s measurement date for the pension plan, is it always necessary to have another actuarial valuation made as of the measurement date?  
[52, 53]

A—No. This Statement 87 requires that the projected benefit obligation reflect the actuarial present value of all benefits attributed to employee service rendered prior to the measurement date. The measurement of that obligation should be based on actuarial assumptions appropriate for the measurement date (for example, turnover, mortality, discount rates, and so forth) and census data as of that date. However, if an employer is assured that the reliability of the measurement of that obligation determined by rolling forward census data based on a valuation prior to the measurement date is sufficiently high so that the amount of the pension obligation is substantially the same as would be determined by an actuarial valuation as of that date, then another actuarial valuation is not required. This is analogous to the acceptability of having an annual physical inventory taken as of a date prior to the financial report date if it has been demonstrated that reliance can be placed on perpetual records or another system that reflects subsequent events.

#### **Amendments to the Questions and Answers Issued for Statement 88**

- Paragraph C16 (page 178) — Consider replacing the word “defined” in the first sentence of the answer section with “treated,” since Statements 87 and 88 do not define annuity contracts differently.
- We noted an inconsistency between the wording used in the Statement 88 Q&As and the wording used in the Statement 106 Q&As regarding the recognition of plan settlements and curtailments. For example, paragraph C16 (page 178) of the Statement 88 Q&As points out that certain amounts are “recognized in earnings,” whereas paragraph F26 (page 232–233) of the Statement 106 Q&As states that certain amounts are “recognized currently as a component of net periodic postretirement benefit cost.” Consider making this language consistent throughout the proposed FSP to avoid confusion.
- Paragraph C33 (pages 187–188) — Consider including a reference to paragraph 44A of Statement 87 along with the reference to paragraph 44 of Statement 87 in the last sentence of the answer section.