Accountants and Business Advisors

January 8, 2007



Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

Proposed FASB Staff Position 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"

We appreciate the opportunity to comment on proposed FASB Staff Position 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." We have some comments we believe would help to help improve the usefulness of the conforming amendments to the illustrations which are provided below. We have not provided comments on the related staff implementation guides at this time.

In general, we believe that the conforming amendments may have been too limited to portray the full significance of the accounting changes as a result of the recognition requirements in Statement 158. We have some general comments on the conforming amendments as well as some specific comments below.

General comments

1. The effect of income taxes on amounts previously recognized in other comprehensive income

In order to be consistent with the illustrations in Statement 158, we recommend that the illustrations include the effect of income taxes or, less desirably, for each illustration to include a disclaimer that the illustration does not consider the effect of income taxes. The original illustrations in FASB Statements 87, 88, and 106 did not include consideration of the effect of income taxes because prior service costs, transition amounts, and net gains or losses were unrecognized. Those amounts are now recognized in other comprehensive income; however, the revised illustrations do not include the effects of income taxes. We have noted instances where we believe this would be useful in our specific comments.

175 W. Jackson 20th Floor Chicago, IL 60604 T 312.856.0200 F 312.565.4719 W www.grantthornton.com

Grant Thornton LLP US member of Grant Thornton International

Technical Director Financial Accounting Standards Board January 8, 2007 Proposed FSP FAS 158-a

2. The effects of recognition of curtailment and settlement gains and losses and simultaneous adjustments to other comprehensive income

Although not explicitly stated in Statement 158, the accounting for curtailments and settlements appears to have changed significantly. For example, the curtailment described on page 47 would previously have resulted in recognition of a gain of \$170,000 on the income statement and an increase of the accrued pension benefit cost on the statement of financial position of the same amount. The previous accounting was straightforward and therefore, the illustration did not require a journal entry. Under Statement 158, the net curtailment loss consists of a gain due to the reduction in the pension liability and a loss with a simultaneous adjustment to other comprehensive income. The dual nature of the curtailment loss is not explicit in the revised illustrations. We believe that this illustrations could be made more informative by a) explicitly identifying the amounts that recycle as adjustments to accumulated other comprehensive income per the provisions of paragraphs 18-21 of Statement 130 and b) providing journal entries that include the effects, net of tax, such as the following (using the format in Statement 158 and an assumed tax rate of 40%):

Curtailment loss	\$170,000	
Liability for pension benefits	\$110,000	
Deferred tax benefit—other comprehensive income	\$112,000	
Deferred tax benefit—other comprehensive income		\$112,000
Other comprehensive income-transition obligation		\$120,000
Other comprehensive income-prior service cost		\$160,000

We have noted instances where we believe this would be useful in our specific comments.

3. Opportunity to include in the illustrations the amounts expected to be recognized in the following fiscal year as components of net periodic benefit cost

Paragraph 7d of Statement 158 requires disclosure of the amounts in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the fiscal year that follows the most recent annual statement of financial position presented, showing separately the net gain or loss, net prior service cost or credit, and net transition asset or obligation. In some of the illustrations, particularly on pages 93, 97, and 101; the presentation includes disclosure of the components of net periodic benefit cost for the current year based on the calculations of amortization of those amounts. The illustrations could also be amended to include the amounts to be disclosed under paragraph 7d of Statement 158.

4. Presentation of amounts recognized in other comprehensive income.

In Statement 130, increases in other comprehensive income are shown without parentheses and decreases in other comprehensive income are shown in parentheses. We believe this generally to be the case in practice but that convention was not followed in the illustrations. Presenting increases in comprehensive income in parentheses and decreases without parentheses makes it more difficult to follow the illustrations. If the FASB decides to retain the presentation in the proposed FSP, it would be helpful to indicate in the column headings whether an item in

Technical Director Financial Accounting Standards Board January 8, 2007 Proposed FSP FAS 158-a

parentheses increases or decreases other comprehensive expense. We have noted instances where we believe this would be useful in our specific comments.

Specific comments:

- 1. On pages 12 and 13 the table headers should read "prior service cost previously recognized in other comprehensive income." It would also be useful for the narrative to explicitly state that amortization consists of adjustment of other comprehensive income and simultaneous recognition in net periodic pension cost.
- 2. On page 19, the \$2 recognized as amortization into net periodic pension cost would also be an adjustment of other comprehensive income, net of tax. It may be useful to indicate such and provide the journal entry.
- 3. On page 38, the journal entry does not include the effect of income taxes for the adjustments to other comprehensive income.
- 4. On pages 39 and 40, the \$195,000 net gain recognized is 100% attributable to a simultaneous adjustment of other comprehensive income, net of tax, with no effect on equity or the recognized liability. It would be useful to note this in footnote c. Also, the format for this table includes a total that indicates the settlement gain only because the effect on the recognized liability is zero. When the format is used on page 47, the total is no longer equal to the settlement gain or loss. We suggest that the table should be revised similar to the table on page 54 to include the loss on settlement.
- 5. The journal entry in footnote c on page 40 does not include the effect of income taxes. The same comment applies to the \$325,000 gain on pages 41 and 42 and to the \$240,000 gain on pages 43 and 44.
- 6. On pages 47 and 48, the \$170,000 of net curtailment loss that is to be explained by the table does not appear in the table. This could be corrected by using the format for the table on page 54 which includes a line for gain or loss. There is no journal entry to describe the calculation of the loss or to explain which amounts are due to the reduction in the liability and which are simultaneous adjustments of other comprehensive income. We believe that there should be a table or journal entry such as is included in the preceding illustrations of settlements to illustrate the composite nature of the gain and the amounts recognized. For consistency with Statement 158, the amounts should include the effects of income taxes.
- 7. Footnote a on page 49 mentions that if the previously recognized amount in other comprehensive income had been a loss then no gain would be recognized in earnings. That is not technically correct. The net gain would have been zero, consisting of a) a gain of \$110 from the reduction of the pension liability and b) an offsetting loss of \$110 with a simultaneous adjustment of other comprehensive income, both of which would be recognized. We believe it would be useful to include the journal entry, including the effect of income taxes, as the effects under Statement 158 (a journal entry netting to zero gain) are significantly different than the effects under Statement 88 (no journal entry).
- 8. On page 55, the journal entry in footnote c does not include the effects of income taxes.
- 9. On page 69, the amount recognized in other comprehensive income appears to be a reduction of other comprehensive income when it is an increase. Either the column header or the brackets should be revised to indicate that this is an increase in other comprehensive income. Alternatively, the format of the table could be changed. The adjustments in the original table were designed to cross-foot to zero such that the journal

Technical Director Financial Accounting Standards Board January 8, 2007 Proposed FSP FAS 158-a

entry was easily identified. With the addition of the column for Other Comprehensive Income, the adjustments no longer cross-foot to zero and the journal entries are not easily derived. It would be more understandable to take out the column labeled "other comprehensive income" and substitute a journal entry at the bottom of the table to illustrate the accounting. The adjustments in the table would then cross-foot. The journal entry could also include the effects of income taxes. The same comments apply to the tables on pages 71, 74, 91, 94, and 98. Also, there is a footing error in column one of page 71. The amounts foot to \$127,240.

- 10. On page 77, it would be useful to show a journal entry for the loss that includes the effects of income taxes. The same comment applies to the tables on page 93, 96, and 99.
- 11. On pages 88 and 89 the header should indicate that the amounts are accumulated other comprehensive income consistent with labeling in other examples. For clarity, it may be useful to include a statement that amortization is simultaneously recognized as an adjustment to other comprehensive income and as a component of net periodic benefit cost
- 12. On page 95, the disclosures of amortized amounts could include the amounts required by paragraph 7d of Statement 158. The same comment applies to pages 97 and 101.
- 13. On page 102, the difference between the actual and expected investment returns are described as a deferred asset gain or loss. To be consistent with other illustrations, it would be better to label this as gain recognized in other comprehensive income.
- 14. On page 105, paragraph 475 and page 107, paragraph 484 there is a missing hyphen in the paragraph references.
- 15. In footnote a on page 108, it is not entirely correct to say that the settlement gain is offset against the transition obligation. There would be offsetting gains and losses in other comprehensive income that would reduce both the amount of net gain recognized in other comprehensive income and the amount of the transition asset recognized in other comprehensive income. It may be useful to show a journal entry, including the effects of income taxes. The same comment applies to the settlement gains and losses on page 114.
- 16. On page 109, it is not clear from the narrative that the entire amount of the gain recognized is an adjustment of other comprehensive income with simultaneous recognition in earnings. Because this is significantly different from the Statement 106 result, it may be useful to include a journal entry which also includes the effects of income taxes. In addition, the amounts in accumulated other comprehensive income do not foot or cross-foot. The correct figures are:

Net gain	(44,575)	34,679	(9,896)
Prior service cost	33,000		33,000
Transition asset	(56,333)	43,827	(12,506)
	(67,908)	78,506	10,598

17. On page 116, while it is clear that the curtailment consists of two components, it is not clear that the portion of prior service cost and transition obligation recognized in earnings is simultaneously recognized as an adjustment of other comprehensive income. Because this is a significant change from the previous accounting, it would be useful to show the journal entry for the curtailment loss, including the effects of income taxes. The same comment applies to the curtailment losses on pages 118, 120, and page 123.

Technical Director Financial Accounting Standards Board January 8, 2007 Proposed FSP FAS 158-a

18. On page 121, it is not entirely correct to state that recognition of the settlement loss is subject to first reducing the transition obligation. It would be more correct to state that a portion of any transition obligation previously recognized in other comprehensive income would be recognized in earnings and as a simultaneous adjustment of other comprehensive income. Similarly, the \$11,872 of net gain would be recognized in earnings and as a simultaneous adjustment of other comprehensive income. Because this is a significant change from the previous accounting, it would be useful to show the journal entry for the curtailment loss, including the effects of income taxes.

We would be pleased to discuss our comments and recommendations with Board members or the staff. Please direct your questions or comments to John Hepp at (312) 602-8050 or Lynne Triplett at (312) 602-8060.

Sincerely,

/s/ Grant Thornton LLP