



May 2, 2008

LETTER OF COMMENT NO. 14

Mr. Russell G. Golden
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116
U.S.A.

Proposed SFP FAS 132(R)-a

Dear Mr. Golden,

The World Bank appreciates the opportunity to respond to the proposed FSP that would amend FASB Statement No. 132(R), *Employers' Disclosures about Pension and Other Postretirement Benefits* (the "proposed FSP").

Objective of the Proposed FSP

We welcome and support FASB's intent in addressing users' concerns that current disclosures do not provide adequate information about the types of assets and risks embedded in sponsors' postretirement benefit plans. This is particularly relevant today as i) there are more pension plans which are very large in relation to the company's market capital; and ii) performance from pension assets vis-à-vis its liabilities could potentially lead to significant future cashflows in the near term following the introduction of the 2006 Pension Protection Act (PPA). We commend FASB for taking up this challenge.

Principles Underpinning our Response

The World Bank believes in a set of principles under which financial reporting could be enhanced. Addressing changes in the accounting profession and financial markets on an ad-hoc basis, in our view, would be counter-productive and potentially at risk of creating unintended consequences. When responding to this proposed FSP, we drew on the following specific principles:

- a) External Reporting should provide disclosures which correspond to how management views the business.
- b) Principles-based: prescriptive rules do not remain relevant at all times for all markets.

What the World Bank supports:

Because it meets the objectives described above, we agree with the proposed FSP that expanding the asset classes of *actual* holdings at the balance sheet date would generally provide users with useful information about the pension plan assets.

Additional FAS 157-type disclosures would further provide users with some insights into the reliability of the pension plan's fair values, and potentially some indicators to allow users to better differentiate the types of securities within each asset class¹.

What the World Bank opposes:

We oppose the requirements to disclose "concentrations of risks" in the portfolio as stipulated in the proposed FSP, for the following reasons:

- 1) this does not typically reflect how risks are managed in a pension portfolio;
- 2) with more widespread use of derivative-based strategies, the disclosure requirements, as they are currently written, may potentially be misleading.
- 3) for many alternative asset classes (e.g. private equity funds, hedge funds etc), risks are managed through means² other than relying on itemized security and investment holdings from each external manager at the balance sheet date.

We recommend instead that the final standard stress the need for entities to disclose their risk management strategies with regard to pension surplus/ deficit management³, including the use of derivatives, if significant (as required by existing FAS 132(R) Paragraph 5(d)(2)). A more principles-based approach would be to emphasize disclosures about how management views and manages the business.

While we support the expansion of asset classes to *actual* holdings as proposed in Paragraph 5(d)(1), we believe that extending it to the existing disclosure requirements on investment policies and strategies (Paragraph 5(d)(2)), as well as the basis in determining overall expected long-term returns (Paragraph 5(d)(3)) may not be helpful. In the pension asset management arena, some asset classes (e.g. fixed income) are typically analyzed in totality within a strategic asset allocation model, using the risk and return characteristics of the composite benchmark. Proposing to require entities to provide target asset allocations by the various detailed categories would not accurately reflect how strategic allocations are determined.

We believe the effective date should be extended by at least one year and propose that the final standard have an effective date for fiscal years ending on or after December 15, 2009.

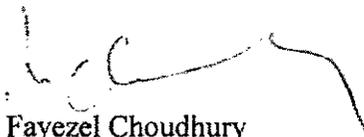
¹ We do want to stress that not all securities which fall under the Level 3 categories, represent riskier assets; narrative disclosures in this case would therefore be helpful.

² Including an emphasis on portfolio risk analysis, frequent visits to investment managers, risk factor analysis, understanding of the frequency of changing trading strategies etc

³ While pension assets are a significant part of the equation for the management of the pension surplus/ deficits, it is not complete. Stakeholders should be most concerned about the risk of potential pension deficits.

We have addressed the Board's specific questions on the proposed FSP in the Appendix attached to this letter. We appreciate the opportunity to express our views. If you have any questions regarding our comments we would be happy to discuss them with you.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fayezeel Choudhury', with a long horizontal stroke extending to the right.

Fayezeel Choudhury
Vice President and Controller
The World Bank

Appendix
World Bank Comment Letter
Proposed SFP FAS 132(R)-a

Question 1. Is the principle of disclosing categories by type of plan asset understandable?

The principle, as it is currently written, is acceptable; however we would prefer to include some language requiring an explanation of the asset categories, to the extent that the differentiation between the categories may be unclear. For example, it is becoming more difficult in some instances to differentiate between certain mutual funds, private equity funds and hedge funds. We would **not** recommend that FASB attempt to define or provide guidance on the definition of each asset class.

Question 2. Are the asset categories that must be disclosed, if significant, representative of the types of assets held in postretirement benefit plans? Should any other categories be added?

We believe the asset categories listed in the proposed FSP are fairly representative of the types of assets held in postretirement benefit plans and are useful for reporting the actual plan holdings.

However, we think that extending these asset categories to the required disclosures in FAS 132(R) Paragraph 5(d)(2) and 5(d)(3)⁴ may not be useful as the plan sponsors typically do not set target asset allocations for each detailed asset category and presenting such information would require approximation and therefore will not be representative of how the management views its investment strategy.

Determining an appropriate target / strategic asset allocation for pension plan assets is typically an involved, model-based optimization process dependent on certain assumptions. The choice of asset classes and the granularity thereof, in the model is specific to each entity. Broad asset classes (e.g. fixed income) are typically analyzed in totality, using the risk and return characteristics of the benchmark. For example, a very commonly-use fixed income benchmark is the Lehman Global Aggregate index that comprises U.S. treasuries, agency bonds, global government bonds, corporate debt securities and ABSs, among others. Plan sponsors typically do not set target asset allocations to each detailed asset category within the Lehman Global Aggregate Index⁵; to present otherwise in the financial statements would therefore not be representative of how management views its investment strategy. We do not believe this was FASB's intent, and do not believe it constitutes useful information for users.

⁴ All comments herewith on paragraphs 5(d) also apply to paragraphs 8(c).

⁵ There are numerous reasons for this: i) it is usually more cost effective to select managers that are benchmarked to the Lehman Aggregate index, than to sub-parcel out into the ABS managers, US agencies managers etc; ii) the costs of disaggregating a composite benchmark into its sub-components separately for modeling purposes would tend to outweigh the marginal benefits.

The World Bank believes Paragraphs 5(d)(2) and 5(d)(3) are entity specific and FASB should allow and indeed encourage entities to disclose internal management information with minimum modifications so that users understand and get an accurate perspective of how management views and manages its businesses.

3. Is the requirement to disclose concentrations of risk arising within or across categories of plan assets from a lack of diversification understandable, and is this information useful? Would another disclosure principle be better?

The World Bank believes that the requirement to disclose “concentrations of risks” as currently defined in the proposed FSP may not serve its intended purpose which is to provide transparency and useful information to the user community. Risk management is multi-dimensional. The proposal appears to be trying to address the challenging topic of risk management disclosures on a piece-meal basis. We believe that any ad-hoc attempt, other than taking a holistic view of risk management, would not be fruitful and potentially create unintended negative consequences.

A. The disclosure “principles” have the opposite effect of being *prescriptive* in nature during implementation

The provisions in the proposed FSP would compel all entities to have each asset holding mapped to a whole host of parameters (e.g. single entity, industry, country, commodity etc) in order to report “concentrations of risks”. In other words, the proposed FSP would impose an additional one-size-fits-all type of risk management reporting technique to all pension plans. The World Bank does not believe this is the intent, nor do we believe it to be a sensible approach.

Risk management is unique to each entity. Some entities look at sensitivity analysis to make sure the portfolio is not overly concentrated to certain risk factors; others rely on VAR analysis based on a variety of parameters deemed appropriate to each entity; others look at individual risks (liquidity risks, credit risks, market risks etc) separately; and many use a combination of the above methods and additional techniques.

B. Disclosures may be misleading

With the widespread use of derivatives-based investment strategies (e.g. portable alpha strategies⁶), aggregating fair values of asset class categories as depicted in paragraph 5(d)(1), without additional disclosures on derivatives and their impact, may create meaningless and even potentially misleading results⁷. Any attempt to address portfolio concentration risks disclosures without addressing derivatives disclosures

⁶ Market beta risks for certain asset classes can be easily increased / decreased via the use of derivatives.

⁷ There are different interpretations of “gross” as stated in Paragraph 5(d)(1). We assume it does not refer to notional exposures, but to the fair value of each derivative, without netting the positive and negative values.

(which was, as we understand, one of the original motivations behind this FSP as discussed in the August 2007 FASB meeting) may be counter-productive.

Even with the simple example provided in the proposed FSP on page 14 on Company A, one can argue that each investment vehicle has different risk-return characteristics. Even though all the highlighted investment vehicles are linked to real estate, the sensitivity of each to the movement in the price of the real estate may differ significantly and the correlation among the various investments may also be different.

C. Information may not be readily available

Implementing the proposed requirements would require many preparers and their external asset managers to embark on an extensive collation exercise of information, which we may not otherwise use for internal risk management purposes. Portfolio risks can often be managed efficiently and effectively by using a variety of techniques including sophisticated risk factor analysis, contribution analysis to overall portfolio risks, investing time in external manager visits to understand trading strategies, etc.

Implementing the disclosure will require complete knowledge of underlying individual security holdings at each reporting date from our alternative asset managers / investment funds. This will not only be difficult to achieve at this stage for certain hedge fund managers⁸, but it may also not be very representative or meaningful as asset turnover among certain hedge fund managers can be very high.

Inappropriate constraints on investment manager choice could therefore be an unintended consequence. If for example, a hedge fund manager is unwilling (due to proprietary strategies or loss of comparative advantage) or unable to provide detailed holdings reports in the format prescribed by the proposed FSP, plan sponsors will be compelled to make a decision between retaining the manager at the risk of non-compliance with the disclosure requirements or shift the allocation to another asset class that may make the portfolio sub-optimal from the risk-return viewpoint.

Recommendations:

The World Bank believes that quality disclosures on financial risks (including but not limited to concentration risks) are fundamental to effective and useful corporate reporting; and a quality disclosure standard on financial risks should not be addressed in an ad-hoc, piece meal fashion. Rather, this challenging topic has to be addressed holistically, with an emphasis on both quantitative and qualitative disclosures, written “through the eyes of management”. The approach contained in IFRS 7⁹ can serve as a good starting point to achieve this goal. Since this is likely to involve much wider discussions, we recommend that the FASB addresses this topic separately, and limit this

⁸ Various regulatory bodies, including the US Treasury, have tried to address “Best Practices” with regards to certain activities in the Hedge Fund industry. Full transparency is currently not mandatory.

⁹ International Financial Reporting Standard 7 – *Financial Instruments: Disclosure*, has provisions on both qualitative and quantitative disclosures on various risks, including Credit Risks, Liquidity Risks and Market Risks.

FSP to the expansion of asset class categories and FAS 157 fair value disclosures for those assets.

If however FASB feels that some minimum risk disclosures are necessary in the interim, we would suggest that the FSP requires disclosure of the risk management strategies with regard to pension surplus / deficit management. Ultimately, we believe that users would be best served if they are aware of the various risk management strategies employed to address pension surplus / deficit volatility. Risks embedded in the pension assets form only part of the overall equation that are important to investors / users of financial statements. Beyond this, we would not recommend having any prescriptive minimum disclosure requirements at this stage.

4. Would the disclosures about fair value measurements of plan assets provide decision-useful information?

We believe the disclosures are a useful supplement to the existing requirements of FAS 132(R).

5. Would any of the required disclosures impose excessive incremental costs? If so, please describe the nature and extent of the additional costs.

The disclosures on “concentrations of risks” as they are currently written, will impose excessive incremental costs on reporting entities. Please see the response to question 3 above. Specifically, the disclosures may have the unintended consequence of forcing some plan sponsors to terminate certain hedge fund managers who do not, or can not, provide full details in individual holdings. Such an action could also entail real economic costs to the pension plan beneficiaries, including early redemption penalties, having a less efficient portfolio, etc.

6. Is the time needed to compile the information required to support annual reporting disclosures sufficient given the proposed effective date for fiscal years ending after December 15, 2008? If not, please describe the nature and extent of the effort required and the time needed.

The World Bank urges the FASB not to move ahead with its existing proposal to explicitly disclose “concentration of risks” for the reasons mentioned above. If the FASB still intends to retain the requirements as currently drafted,, we would suggest delaying the effective date by at least one year. Extensive time and effort would be needed to a)coordinate with certain asset managers (and make alternative arrangements if necessary); and b)collate all necessary information for aggregating “concentration risks”.