



Committee on Benefits Finance and Committee on Corporate Reporting

May 6, 2008

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

File Reference: Proposed FSP FAS 132(R)-a

Dear Mr. Golden:

The Committee on Benefits Finance ("CBF") and the Committee on Corporate Reporting ("CCR") of Financial Executives International ("FEI") appreciate the opportunity to comment on proposed FASB Staff Position No. 132(R)-a, *Employers' Disclosures about Pensions and Other Postretirement Benefits* ("the FSP"). FEI is a leading international organization of senior financial executives.

CBF is a technical committee of FEI, which reviews and responds to existing or proposed legislation and regulations affecting employee benefits. CCR is a technical committee of FEI which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CBF and CCR and not necessarily the views of FEI or its individual members.

We support the FASB's objective to improve the disclosure surrounding the types of assets held in postretirement benefit plans and to implement the fair value measurement requirements of FASB Statement No.157, Fair Value Measurements ("FAS 157"). However, we are not aware of a demand from either the investment community or other financial statement users for the expanded disclosures required by the FSP. Our members' investor relations departments, which interact regularly with the investment community (buy and sell side analysts), rarely, if ever, received requests for additional disclosure of postretirement benefit plan assets other than as required under FASB Statement No. 132(R), Employers' Disclosures About Pensions and Other Postretirement Benefits ("FAS 132(R)"), as amended.

However, if the Board decides ultimately to issue the FSP, we urge the Board to reconsider three components:

- 1. Asset Categories Disclosures and Level 3 Fair Value Reconciliation We believe the number of asset categories required to be disclosed under the FSP is excessive, and that the Level 3 fair value reconciliation requirement adds little value to investors and financial statement users while being the most difficult requirement of the FSP to implement. We also believe that the proposed segmentation of the target allocation is not feasible to implement and is inconsistent with how many plans approach asset allocation strategy. These items are discussed further in our responses to questions 1 and 4 below.
- 2. Concentration of Risk We believe the proposed definition of concentrations of risk disclosure requirement is not operational. This is discussed in more detail in our response to question 3 below.
- 3. Implementation date Based upon feedback from trustees and plan sponsors, it is clear that an implementation date of December 2008 would not be feasible as there is insufficient time for systems enhancements to be made by trustees to ensure accurate reporting by year end. In order to allow time for systems updates to reflect the reporting requirements, we strongly recommend an implementation date of fiscal years ending after December 15, 2009 for the reporting of US employees' plans that comply with IRS and ERISA rules. For all other plans that do not comply with IRS and ERISA rules, typically, non-domestic plans that are part of our Controlled Group, we strongly recommend an implementation date of fiscal years ending no earlier than after December 15, 2010.

Following are our responses to the six questions posed on the "Request for Comment":

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

FASB Statement No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits—an amendment of FASB Statements No. 87, 88, and 106, ("FAS 132(R)") paragraph 5d, currently includes the following disclosure requirement:

For each major category of plan assets, which shall include, but is not limited to, equity securities, debt securities, real estate, and all other assets, the percentage of the fair value of total plan assets held as of the measurement date used for each statement of financial position presented.

In addition, paragraph 5d goes on to require the following additional disclosure, if applicable:

Disclosure of additional asset categories and additional information about specific assets within a category is encouraged if that information is expected to

be useful in understanding the risks associated with each asset category and the overall expected long-term rate of return on assets.

In our view, FAS 132(R) as currently published provides a reasonable and prudent level of disclosure on plan assets, and, as importantly, we believe is operational and easily understood by financial statement users. As well, we hold that this level permits the plan sponsor's trustee to gather the data without substantive changes to financial systems.

Specifically, paragraph A4 of the FSP states that there have been "concerns expressed by users and the Board's own research". Based on our discussions with various FEI member companies, including Fortune 100 companies which are closely followed by major investors and analysts, we question the number and significance of these concerns. Our members' investor relations departments, which interact regularly with the investment community (buy and sell side analysts), have rarely, if ever, received requests for additional disclosure of postretirement benefit plan assets other than as required under FAS 132(R). We respectfully request the Board to conduct further research to validate its assessment that there is a real need for the specific disclosures proposed in the FSP.

However, if the Board concludes that further disclosure is necessary, we urge the Board to examine the language in paragraph 6 of the proposed FSP which states:

The following major categories, if significant, should be disclosed, with additional categories included as appropriate: cash, etc.

The FSP introduces a co-existence of "major" and "significant" that we find difficult to follow in certain categories. We do not interpret major to be the same as significant. Significant can be interpreted to mean anything greater than 5% of either plan assets, total pension assets, or total corporate assets and could result in more than just "major" categories. Paragraph 6 lists ten separate categories, with subcategories for derivative contracts, and the guidance suggests that other categories may be added as appropriate.

In addition, the details required by this FSP may result in more detail being disclosed about pension plan assets than is required by FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities ("FAS 115") and FAS 157, for other assets on the balance sheet. For nonfinancial institutions, FAS 115 and FAS 157 require fair value disclosures by major security type, without a detailed list. We question why more detail is necessary for pension plan assets than assets held directly by the reporting entity. Our belief is that providing ten or more categories of plan asset detail will not provide additional benefits to financial statement users.

We do not understand the rationale underlying the selection of the specific categories proposed in the FSP and question whether it is feasible to define a

comprehensive set that will be appropriate for all entities. We therefore believe that the categories of assets should be defined in a manner that is consistent with how they are reported internally.

As currently drafted, the amendment to paragraphs 5(d)(2) and 8(c)(2) of FAS 132 (R) of the FSP requires target allocations by major category be disclosed. These major categories would be the same categories disclosed for the plan assets as of the end of the reporting period. The target allocation percentage requirement will create additional burdens because companies do not identify or manage target allocations to the level of precision that the FASB is suggesting (e.g., five categories of debt securities). Companies will typically have one allocation for debt securities in total. We believe the current standard provides the appropriate level of detail for a description of the investment policies, strategies and target allocation percentages. Consideration could be given to expanding the disclosure to include the following categories for these two paragraphs: U.S. equity securities, non-U.S. equity securities, debt securities, real estate, private equities and hedge funds. We believe that the Board must reconsider this proposed disclosure, as it is not operational.

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

We believe that the list of asset categories sufficiently represents the types of assets in most plans, however due to the complexity of financial products, we believe it will be difficult to classify certain assets using the prescribed format in the FSP. Rather, as discussed above, management of the trusts should present the segmentation of its assets in a manner consistent with how they manage them.

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?

We do not agree with this proposed disclosure for several reasons.

• We note that the provisions of the Employee Retirement Income Security Act ("ERISA") generally require that plan trustees diversify plan investments, which provides protection against risk concentration. While we don't believe that regulatory requirements are a substitute for sound accounting disclosure, we believe that the ERISA requirements already provide a measure of protection for investors that appears to be the underlying concern that the Board is seeking to address with the proposed expanded disclosure. In addition, we note that under Federal Regulations, the assets of the retirement trust are reported in significant detail on Schedule H of Form 5500. Form 5500 is available in the public domain with no cost incurred by the user of this information.

• We are aware of no other requirement in U.S. Generally Accepted Accounting Principles that requires the disclosure of concentration of risk for financial instruments held by an entity. We note that paragraph 15d of FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments ("FAS 107") states:

An entity is encouraged, but not required, to disclose quantitative information about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks.

By requiring the risk disclosure under the proposed FSP, it seems to us that the level of disclosure for assets held in a retirement plan will exceed the level required if the entity held the financial instruments outright, outside of a retirement plan. If our understanding is correct, we fail to understand if there is a theoretically sound basis for this distinction.

• We believe that the language in paragraph 7, which states "Concentrations of risk arise because an employer is exposed to risk of loss greater than it would have had if it mitigated its risk through diversification" is not helpful.

We observe that both FAS 107 and SOP 94-6 address the concept of concentrations of risk and are well understood in practice, and it would be logical to extend those concepts to retirement plan assets as a way to provide more operational guidance rather than developing a new definition in the context of this FSP.

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

We agree that disclosing the fair value of major categories of plan assets is appropriate to achieve consistency with FAS 157. Providing information about the fair values, as well as levels within the fair value hierarchy that the assets fall, will provide users with useful information about the types of assets held by the plans as well as the reliability of the fair value measurements.

However, we disagree with the proposed requirement to disclose a reconciliation of the beginning and ending balances of the fair value of assets, which fall into Level 3 of the fair value hierarchy. We believe this could require excessive cost and effort for a questionable benefit to financial statement users. We are unsure if trust vendors will have the ability to reset the basis of the Level 3 assets at each measurement date and thus be able to determine the income earned on a specific asset solely for the period since the previous measurement date without extraordinary effort. Additionally, the Level 3 reconciliation is unlikely to illuminate relative earnings quality because the FAS 87 and 106 accounting models provide for delay and defined recognition of differences between the

expected long-term rate of return and the actual rate of return on post-retirement benefit plan assets. In addition, we believe the reader and user of the financial statements is more interested in the plan assets at the measurement date and the ability of the plan sponsor to meet the ultimate plan obligations, than with how the plan managed its Level 3 investments from the beginning of the period. We strongly believe that the Level 3 reconciliation requirements must be eliminated from the FSP.

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

Note: The response below is for questions 5 and 6.

We submit that the proposed additional disclosure at this significantly increased level of detail will require additional assistance from plan sponsors' pension and trust vendors. In discussions with trust vendors regarding this FSP, trust asset reconciliation software will need to be updated and tested thoroughly before the vendors are willing to attest to the accuracy of the disclosure. They are understandably unwilling at this time to estimate how long this process will take and how much incremental cost will be passed on to plan sponsors.

We also believe that the difficulties discussed above will likely be magnified for U.S. companies with benefit plans in foreign countries. The local subsidiary that sponsors a foreign plan generally does not control relationships with trust vendors due to local country legal environments, which cause foreign plan trustees to operate independently from the plan sponsor.

In particular, foreign pension plan managers do not prepare US GAAP financial statements and are not familiar with the disclosure requirements of FAS 157. It will require a substantial effort to educate plan managers so they have a uniform understanding of the requirements in FAS 157. We believe that the level of effort companies would have to put in place to collect and reconcile the FAS 157 disclosure data for their foreign plans is substantial.

As result, we believe the effective date should be deferred to no earlier than fiscal years ending after December 15, 2009 with respect to U.S. based retirement plans which comply with IRS and ERISA rules, and to fiscal years ending after December 15, 2010 with respect to all other retirement plans.

In general, regarding incremental cost for plan administration, such expenses for compliance with the proposed FSP diverts corporate capital from securing the benefits for retirement plan participants. As we stated above, we are unconvinced

at this time that increased disclosure of trust assets at the level suggested is a prudent use of those resources.

We appreciate the opportunity to express our views on this proposed staff position. We are available to discuss our comments at your convenience. Elliott Friedman, Chairman of FEI's Committee on Benefits Finance, can be reached at 301-214-3906 and Arnie Hanish, Chairman of FEI's Committee on Corporate Reporting, be reached at 317-276-2024.

Sincerely,

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