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September 3, 2004

Technical Director—File Reference No. 1201-100
Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, CT 06856-5116

Dear Sir:

Subject: File Reference No. 1201-100

We appreciate the opportunity to comment on the exposure draft on "Fair Value Measurements".

We reviewed the principles in the proposed Standard from our perspective as actuaries. In particular, it seems likely that the principles in this Standard will eventually be applied to all measurements of fair value for accounting purposes, including accounting for pensions and postretirement benefits other than pensions (PBOPs). Thus, we believe that it is important that the principles in this Standard can be appropriately applied to accounting for pensions and PBOPs.

Based on our review, following are comments on the selection of a risk free interest rate with intent to confirm our interpretation of the application to pensions and PBOPs. In addition, we suggest that the language in the final standard be clarified in some situations to avoid ambiguities.

Selection of Risk Free Interest Rate
Paragraphs A12-A19 discuss the interest rates that should be used to discount liabilities and, as noted, it seems likely that the Board will eventually extend these principles to measuring pension and PBOP liabilities. As such, we note that Method 2 in paragraph A12 is consistent with the basis of the calculations of benefit obligations in Statements 87 and 106. Under Method 2, we believe that it is appropriate to use a traditionally selected discount rate as the risk-adjusted interest rate. (We discuss this further in the next paragraph.) It is not necessary to develop an explicit risk-free rate and risk adjustment, as Method 1 typically would not apply.

A pension obligation generally reflects a liability that could be assumed by a third party, for example through the purchase of a group annuity contract from an insurance company. The fair value of the pension liability thus could be determined in accordance with the proposed Standard by estimating the price the plan sponsor would have to pay an insurer to assume the liability. A benefit obligation calculated using a discount rate based on current rates of return on high-quality fixed-income investments (as described in paragraph 44 of Statement 87 and paragraph 31 of Statement 106) is used for this purpose, based on the reasonable premise that these are the investments an insurance company would hold to defease the liability.

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With regard to the language in paragraphs A20-A27 that require an entity's credit standing be reflected in a measurement of liabilities, it is not clear that the credit standing of the plan sponsor is relevant to the measurement of pension or PBOP benefit obligations. If those plans or benefits were to reflect the credit standing of the plan sponsor, we would have the counter-intuitive result that the lower the credit standing (or the higher the borrowing cost) of the plan sponsor, the lower their benefit obligation would appear to be. Further complicating such a measurement is the fact that some liabilities would be undertaken by other entities (such as the Pension Benefit Guaranty Corporation) in the case of a plan sponsor's default.

Clarifying Language

Language in the final Standard clarifying that the procedures for measuring pension and PBOP benefit obligations which are already set out in Statements 87 and 106 still apply (the new Standard notwithstanding) would be helpful, as well as clarification that the credit standing of the plan sponsor should not be considered in measuring those obligations.

Sincerely,

Hewitt Associates LLC

Curtis M. Cartolano

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