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Human Resource Consulting

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November 4, 2005

The Technical Director
File Reference No. 1204-001
Financial Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject:

SFAS 141 Exposure Draft

Dear Sir or Madam:

Letter of Comment No: 160

File Reference: 1204-001

On behalf of Mercer Human Resource Consulting, we thank you for the opportunity, especially at this late date, to comment on certain aspects of the exposure draft of the proposed statement ("Proposal") that will replace SFAS 141. In general, we do not feel qualified to comment on the advisability of the proposed accounting rules. However, we have read certain parts of the Proposal that will affect our work, and would like the final statement to include some discussion of the following questions, or clarification so that they are no longer relevant:

- 1. For both SFAS 87 and SFAS 106, the Proposal would change the recognition of the initial asset or liability to exclude the effect of any curtailment or settlement anticipated as part of an acquisition. A common situation affected by this change is when a company acquires another company, intending to freeze benefits (a curtailment). The most significant effect of that type of curtailment is a reduction in liability to reflect the fact that future salary increases will no longer increase the pension benefit. (For purposes of this letter, please assume that this is the only effect.) Thus, the change in accounting would create larger goodwill on the opening balance sheet, and an income item on the first following statement of revenue and expense equal to the difference between PBO and ABO. Our questions are:
 - a. Have we characterized this correctly?
 - b. Can you provide some thought process behind this change so that we can understand how to apply the statement in similar, but less specifically defined, situations? Does the thought process include attempts to converge with the IASB standards?

¹ Another common situation on an acquisition would be a downsizing, also resulting in a curtailment.

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- c. The immediate curtailment of the benefits would typically create some employee dissatisfaction. Is there any intent on the part of FASB that this dissatisfaction would be a reason to write down that part of goodwill that equaled PBO-ABO?
- 2. Paragraph D16 of the Proposal, which amends SFAS 106, includes the language from SFAS 106 that instructs the purchaser to adjust the APBO to reflect the purchaser's assessment of relevant future events (under paragraphs 23-42). We believe this is entirely proper. However, we note that language concerning that type of adjustment is not part of the corresponding paragraph under SFAS 87 (as shown in paragraph D15 of the Proposal). Is this differentiation intentional, and if so, would you please explain why?
- 3. Paragraph D16(b) appears to indicate that if an increase in benefits is required as a result of the purchase agreement, then that increase should be recognized in determining the opening balance sheet entry. It also appears to indicate that if a decrease in benefits is required, then that decrease would NOT be reflected in the opening balance sheet entry. On the other hand, Paragraph D15 does not appear to make any such differentiation, resulting in a disparity of treatment of a benefit improvement required under the terms of the purchase agreement between SFAS 106 and SFAS 87. If we have interpreted these provisions correctly, would you please provide explanation of the reasons for the disparity?
- 4. Is it your intent that the concepts described in D15 and D16 would apply to SFAS 112 liabilities as well?

Once again, we appreciate your consideration of these questions. If you have any questions regarding this information, please contact Wendy McFee at 212 345 7160 or Jim Verlautz at 612 642 8819.

Sincerely,

Ethan E. Kra, F.S.A.

Ethe & Kin

Worldwide Partner and Chief Actuary Retirement

Copy: Wendy E. McFee, F.I.A.

James F. Verlautz, F.S.A., C.P.A.