GM General Motors

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Letter of Comment No: 56
File Reference: 1025-200
Date Received: 10/27/03

Re: File Reference #1025-200

Dear Mr. Smith,

General Motors Corporation (GM) appreciates the opportunity to comment on the Financial Accounting Standards Board's (the "Board") Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (the "Exposure Draft").

GM's worldwide projected benefit obligation (PBO) for pensions was $92 billion, while assets were $67 billion as of December 31, 2002. GM's U.S. pre-tax pension expense in 2003 will be approximately $2.6 billion. GM also has other postretirement benefit plans (OPEB), primarily in the U.S., with a PBO of $57 billion and assets of $6 billion. GM's pre-tax OPEB expense in 2003 will be approximately $4.6 billion. As such, we clearly understand the heightened visibility that pension and OPEB issues have received over recent times. In order to address questions that we have received from analysts and investors, we have added additional disclosures to our 12/31/02 10-K, and to our earnings releases. Primarily, the additional disclosures include: a) sensitivity information on the effect of movements in the discount rate or expected return on plan assets on pension expense, PBO, and equity (with a similar disclosure for OPEB), b) periodic updates of our actual return on plan assets, c) disclosures of our current period pension/OPEB expense, and d) funding requirements for the year to avoid payment of Variable Rate Premiums to the PBGC, a higher funding threshold than ERISA minimum funding requirements. This year, additional disclosures included our projected contributions to be made to the plans during the year (primarily because we raised $13.5 billion of debt to fund the pension plans). Based on our actions to date, we agree that some additional disclosure regarding these issues is helpful. However, we feel that the Board's proposals in the Exposure Draft go far and beyond the needs, understanding, and interests of the investor community. If issued as a final standard, these disclosures will take an issue that is complex, yet understandable under SFAS No. 132, and turn it into pages of disclosure overload, that is more confusing, with little or no value added to users of the financial statements.

Request for Comment on Issues 1-4

Are the proposed disclosures described in Issues 1-4 needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Issue 1 – Plan Assets:

This proposed disclosure will not be useful in understanding the investment risks or expected long-term rate of return on assets. In our view, segregating the asset categories into four broad asset classes is an overly simplistic approach that may be misleading to investors. To start with, there are no definitions of which types of investments belong in each asset class. This results in the disclosure appearing to provide comparable information between companies, but that is deceiving. Within each broad asset category, investments often possess different risk characteristics such as different investment grades, industries, and countries. For example, investments in junk bonds that are included in the debt category may not properly portray the actual risks of a company's investments, and different types of bonds will not have the same sensitivity to changes in interest rates. The proposed standard encourages disclosure of information by narrower asset categories to provide additional understanding; however, that solution is not practicable, especially for a company with pension investments as large as GM's. Furthermore, to include actual and target allocation for each class could create market calls for specific investments, and could lead to biased pricing from market participants who would know, prior to quoting, whether the fund manager is likely to be a buyer or a seller of a certain asset class. Ultimately, such biased pricing would act against the best interest of the pension plan's beneficiaries. In addition, these allocations are periodically reviewed to optimize investment returns and minimize volatility, thus a point-in-time measure of future expected allocations and returns would not be useful to investors. Finally, the expected return is not a simple weighted average of expected returns for the various asset classes due to several factors such as active management (alpha), rebalancing, compounding and correlation between different asset classes.

Instead of disclosing target allocation and expected return for each class, we would recommend using a historical disclosure approach, similar to mutual funds' requirements. Actual historical returns in total for different periods in time (such as a one, five, ten and fifteen year period) would provide the investors a better understanding of investment performance over time.

Issue 2 – Defined Benefit Pension Plan Accumulated Benefit Obligation:

We agree with the proposed disclosure of the accumulated benefit obligation. This disclosure will assist in the investor's understanding of the financial condition of the pension plans, as well as the required recognition of the additional minimum liability.

<u>Issue 3 – Cash Flow Information:</u>

The disclosure of the estimated benefit payments included in the determination of the PBO would not be useful to the users of the financial statements. Since the PBO only reflects the liability for service to date, benefit payments included in the determination of PBO (PBO benefit payments) only include service accrued to date, thus excluding future service that will accrue until the time of retirement. The PBO benefit payments are therefore lower than the actual total benefit payments that would reflect service to retirement. Investors would not be able to tie the PBO benefit payments disclosed for the next five years to the actual benefits that are eventually paid. Additionally, we believe that this information could be misleading, as it could be confused with funding requirements. Finally, our actuaries have indicated that this information has not typically been used or calculated in the past and their actuarial valuation software, which comprehends estimated total benefit payments, would require modifications in order to produce PBO benefit payments. These difficulties would be translated into higher costs to acquire the information. We believe the more relevant measure for users of the financial statements is to understand corporate cash flow requirements resulting from pension plan funding requirements over the upcoming year based on contributions required by funding regulations or laws; however, this disclosure of expected contributions should not include discretionary contributions. There are many factors that determine the amount and timing of discretionary contributions in a given year. In addition, at year-end, many companies will not have their capital planning for the upcoming year completed; and, once disclosed, the planned contributions lose an element of being "discretionary," as changes to the amount will be questioned by the investor community.

GM dealt with this specific issue during 2003. GM (excluding GMAC) issued $13.5 billion of debt in July 2003 with the stated intention of providing funding to our pension plans. GM disclosed in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 that "GM expects that substantially all of the $13.5 billion of proceeds of the GM senior notes and convertible debentures issued will be used to partially fund certain of GM's U.S. pension funds and certain other retiree benefit obligations." The wording did not include a specific amount of planned contributions, since it was discretionary. At the time of an uncertain economy and when union negotiations were beginning, management wanted to maintain flexibility with the amount of the ultimate contribution. In addition, the disclosure was included in Management's Discussion and Analysis of the Financial Statements and Results of Operations (MD&A) only, since our auditors did not feel they could opine on management's intention as would be required if the disclosure was included in a footnote to the financial statements. In GM's third quarter 2003 earnings release on October 15, 2003, GM disclosed that a total of $13.5 billion was contributed to its U.S. pension plans in September and October, bringing its year-to-date contributions to $14.4 billion.

With that said, we believe that discretionary contributions are just that, and they should not be <u>required</u> to be disclosed by management until management is committed to doing so.

Issue 4 – Assumptions:

We agree with the proposed disclosures of key assumptions used to measure benefit obligations as of the measurement date and those used to measure net benefit cost or income for the period. In practice, GM already discloses this information in our 10K.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions:
Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

We have provided the sensitivity information in our 2002 Annual Report on Form 10-K and believe the information is useful to readers of the financial statements, especially considering the size of our pension obligations and the significant impact that changes in assumptions have on our financial statements. However, we believe that sensitivity information belongs in MD&A, consistent with other sensitivity data (i.e., critical accounting estimates; or quantitative and qualitative disclosures about market risk). The Board indicated that sensitivity analysis would not be useful because economic conditions and changes therein often affect multiple assumptions, and that an analysis that only varied one assumption at a time could be misleading or misinterpreted; yet, the Board chose to keep the disclosure of the effect of a one-percentage-point increase in the assumed health care cost trend rate on the health care benefit cost and accumulated postretirement benefit obligation. In addition, other sensitivity disclosures are required for changes in foreign exchange rates, interest rates, commodity prices, and equity prices, which provide less relevant data. Therefore, we believe that the Board's proposal in the Exposure Draft provides inconsistent treatment for pensions and OPEB, as well as quantitative and qualitative disclosures about market risk, and recommend inclusion of sensitivity information in the MD&A.

Issue 7 – Measurement Date(s):
Should disclosure of the measurement date(s) be required and why?

SFAS Nos. 87 and 106 allow companies to measure plan assets and obligations at the date of the financial statements, or if used consistently, a date within three months prior to that date. We disagree with the proposed disclosure of the measurement date if changes would have had a significant effect on plan assets, obligations, or net periodic pension cost had the fiscal year-end date been used as a measurement date. This proposed disclosure would require companies to consult with actuaries and plan asset trustees, and essentially re-run the calculations to determine if any "significant" changes have occurred. This additional exercise would negate the practical benefits of having a measurement date at other than fiscal year-end, and result in increased costs to those companies that have an alternative measurement date.

Issue 8 – Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations:
Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

It seems that the Board has retained most of the components of these reconciliations, but suggests a more focused approach to the presentation of the data. We believe the reconciliations provide the most clear and concise format for such information, and users of the

financial statements are comfortable with this format. As such, many companies would continue presenting this information, even if not required. Therefore, to promote consistency between companies, we do not think this disclosure should be eliminated.

Issue 9 – Disclosure Considered but Not Proposed:
Should any of the information (as detailed in Issue 9 of the "Notice for Recipients of This Exposure Draft") be required to be disclosed and why?

We support the Board's decision not to disclose the information detailed in Issue 9 of the Exposure Draft. This complex information would be costly to collect and would create additional confusion, while not adding any value to the existing disclosures.

Issue 10 – Disclosures in Interim Financial Reports:
Are the proposed disclosures needed for users to understand the financial condition, results and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

Since the fiscal year-end statements include the components of the expense recognized for the year ending, we see little value in breaking out the components of expense on an interim basis. We believe disclosure of the total pension income/expense recorded in the period would be sufficient. We agree that disclosure of contributions expected to be paid during the year, if significantly different from previous disclosures and materially impacting pension expense, should be included.

Issue 11 – Effective Date and Transition:
Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

Given the concerns we noted above, we do not think that an effective date of year-end for calendar year companies is sufficient. Certain of the information (e.g., the cash flow information on a PBO basis) are not currently available, and will require system modifications by our actuaries. (Please refer to Issue 3). In addition, it will take additional time to calculate the data for the prior periods, and it will be difficult to collect such data for our foreign plans. Many of our requests for year-end information are sent out to our units in October, and with the accelerated filing requirements in 2004, that will leave little time to ascertain that the appropriate data is being presented in a consistent manner. As such, we propose delaying the effective date for one year to allow calendar year-end companies an adequate amount of time to ensure the disclosure requirements are appropriately applied.

In conclusion, we believe that these pension issues are a topical item today because of the effects from the weakened economy; however, as the economy shifts, these issues will become less newsworthy. We believe our proposed disclosures provide value added information to users without extraneous or potentially misleading data.

We would be happy to discuss any questions you may have on these issues.

Sincerely,

Peter R. Bible
Chief Accounting Officer