

Letter of Comment No: 92  
File Reference: 1025-200  
Date Received: 10/21/03

The Committee for Improved Corporate Reporting  
New York Society of Security Analysts  
1601 Broadway, 11<sup>th</sup> floor  
New York, New York 10019-7406

October 30, 2003

Ms. Suzanne Bielstein  
Director of Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

The Committee for Improved Corporate Reporting (CICR) of the New York Society of Security Analysts (NYSSA) is pleased to comment on the Financial Accounting Standard Board's (FASB) Proposed Statement of Financial Accounting Standards on Employers' Disclosures about Pensions and Other Postretirement Benefits. The CICR is a standing committee of the NYSSA generally charged with communicating important issues about accounting standards and financial reporting issues to our members, typically through special programs. From time to time, the CICR has also commented on specific proposals from standards setters, like the FASB.

The opinions given in this letter are primarily those of the author. Committee members were given the opportunity to provide input during a conference call held on August 22, 2003, prior to the Committee's liaison meeting with the FASB on August 25, 2003. This letter summarizes the opinions delivered to the Board by Stephen Percoco at that liaison meeting. The letter was also distributed to Committee members for their comments and discussed at a scheduled Committee meeting on October 27, 2003.

This comment letter does not represent an official position of the NYSSA. Neither the Board of Directors of NYSSA nor NYSSA members outside of the Committee were asked to respond to the opinions expressed within it. As such, neither the Board nor NYSSA vouch for the accuracy or completeness of the views expressed herein or the degree to which they represent the collective opinions of NYSSA members.

### **Summary of Conclusions**

We generally believe that the existing disclosures about pensions and other postretirement benefits have served the user community well. Concerns about the impact of pension accounting on future company performance have been raised over the past two year precisely because the disclosures required under SFAS 87 have allowed users to identify the growing unfunded pension liabilities that followed the declines in the stock market from April 2000 until March 2003. Consequently, we believe that while there are

a few changes that can enhance disclosure with little additional cost to preparers, the existing disclosure model should be preserved. We are not in favor of making any major changes that add more bulk to financial statements and raise costs to preparers without providing a clear benefit to users. We believe that some of the proposed changes to disclosures fall into this category. Instead, we believe that the Board should address the problems with SFAS 87 that have resulted in a widening gap between the accounting for pensions and other postretirement benefits and actual plan performance.

### **Specific Comments**

Issue 1. Though there are differences of opinion within the user community about the benefits of the proposed disclosure of information for each major category of plan assets, we generally believe that these disclosures will not be sufficiently useful to justify their inclusion. The asset categories disclosed are likely to be too broad to be useful to investors. Just as the performance of equity mutual funds varies widely depending upon the style that they adopt (i.e. growth vs. value) and the sectors and individual securities that they invest in, so too will the performance of pension plans. Furthermore, the allocation of funds to each of the major categories is subject to change, which also diminishes the predictive power of the disclosures. While it may be useful for users to seek to understand plan asset allocation in cases where expected returns for a given plan are well above market averages, we believe that these disclosures can take place on conference calls and in analyst meetings. Although some may argue that there will be little cost for preparers to include this information in financial statements because they are already presumably producing this information for their own internal purposes, it is better to avoid even a small cost, if there is no clear benefit to users. More importantly, this disclosure will add further bulk to financial statements which can serve as a disincentive to users to read them thoroughly. In summary, we do not believe that the benefits of this disclosure outweighs the potential costs.

Issue 2. The Accumulated Benefit Obligation (ABO) is an important benchmark because of the significant balance sheet changes that are mandated if the market-related value of plan assets falls below it. Presumably, therefore, all companies calculate the ABO on an ongoing basis. Including it should only require the addition of a single line item to the existing disclosure footnote. Consequently, we strongly believe that ABO disclosure is important and agree with the Board's decision to include it.

Issue 3. Many users have also asked for disclosure about company projections of estimated future benefit payments. We likewise believe that some disclosure about future payments is important. However, we understand that it may be quite difficult for companies to project future payments with an acceptable degree of accuracy over the proposed five-year period. We would defer to the actuaries on this. If the experts believe that projections are reasonably accurate over a three-year period, then we would accept that for financial reporting purposes. However, we believe that this projection ought to be provided at a minimum for one fiscal year. Furthermore, if the demographics of the retiree population are such that a major change in the trend of future benefit payments is

likely beyond the forecasted period (if less than five years), companies should disclose this either in the text of the footnote or in other communications to investors.

Issue 4. We support the Board's decision to require a tabular format for disclosure of key assumptions and clarify the periods to which the assumptions apply.

Issue 5. We believe that, subject to our recommendations on specific disclosures, any new disclosures ultimately adopted by the Board should apply to nonpublic companies.

Issue 6. We agree with the Board's decision not to require additional sensitivity disclosures. However, we believe that the Board should recommend such disclosures on a voluntary basis, either in the footnotes of the financial statements or in conference calls and analyst meetings.

Issue 7. We agree with the Board's decision not to require disclosure of the measurement date when different from the fiscal year-end date. We understand that these differences are permitted under the existing standards for measurement dates up to three months prior to fiscal year-end. However, we agree that any changes in market performance or economic events that have a material impact on the reported figures should be disclosed.

Issue 8. We believe that the reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations is one of the most important features of the existing disclosure model. Disclosures of only the significant line items as proposed by the Board could give rise to occasions where important changes take place in supposedly insignificant line items that may be lost to the user community. The existing disclosure model, though certainly not perfect, has been in use now for many years and has generally worked well, so changes should only be made when there is a clear benefit to both the preparer and user communities. In our view, the addition of the plan asset allocation and quarterly disclosures would not provide a measurably better benefit to outweigh the potential cost of losing the reconciliations.

Issue 9. While many of the disclosures identified but not adopted by the Board may be useful to financial statement users, especially in specific situations, we agree with the Board's decision not to include them. As previously noted, the existing disclosure model provides generally good disclosure, so it should not undergo major changes without a clear benefit. Perhaps the Board should recommend these additional disclosures to preparers on a voluntary basis. In addition, some of these items could conceivably be covered in regular company communications with the user community. If companies held even one meeting per year with the user community specifically to discuss accounting and financial reporting issues, many of these and other desired disclosures could be provided there, thus limiting the length of published financial statements.

Issue 10. There are many analysts who believe that quarterly disclosure of the components of net periodic pension and other postretirement benefit costs and employer's contribution is important. Many want the quarterly disclosure in order to adjust financial statements to get what they believe to be a more meaningful picture of

company performance. In one sense, they want to adjust for what they believe is a poorly conceived pension accounting model by excluding the accrual for expected return on plan assets, for example, and including employer contributions. Additionally, some may want to separate pension results from other items to get a better picture of company operating performance. This suggests that the problem is with the accounting and performance presentation standards and not necessarily with the lack of quarterly disclosure. Whatever the reason, we believe that quarterly disclosure is unnecessary, if companies provide sufficient information about their key assumptions about future pension and other postretirement plan performance, so that users can estimate the full year and quarterly effects. Any significant changes in assumptions or results during the year, which would have an impact on analyst estimates, should also be disclosed as they occur. With these key assumption disclosures, companies would also be able to avoid adding further bulk to their quarterly financial statements. In the absence of disclosing these key assumptions, we would support the Board's proposal for quarterly disclosures.

Issue 11. We support the Board's proposal for an effective date of December 15, 2003 for annual disclosures and comparisons and for the first fiscal quarter of the year following the initial adoption of annual disclosure requirements.

### **Concluding Remarks**

While we do support some additional disclosures, such as the ABO and at least one year of expected employer contributions, on balance, we believe that the proposed additional disclosures are not a sufficient improvement to warrant a change to the existing disclosure standard. Indeed, the proposed elimination of the reconciliation of beginning and ending balance of plan assets and benefit obligations would, in our view, be a setback. Instead, we urge the Board to begin consideration of changes to the existing accounting standards for pension and other postretirement benefit accounting, which may very well address many of the demands by users for changes in disclosures.

We thank the Board for the opportunity to comment on this issue. If the Board or staff have any questions about our comments or want us to clarify our positions, please call Steve Percoco at 732-499-4300.

Sincerely,



Stephen P. Percoco  
Vice Chair  
The Committee for Improved Corporate Reporting