



**BDO Seidman, LLP**  
Accountants and Consultants

233 N. Michigan Ave.  
Chicago, IL 60601  
Telephone: (312) 616-4661  
Fax: (312) 856-9019

October 27, 2003

Director of Technical Application and Implementation Activities  
File Reference No. 1025-200  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Letter of Comment No:** 69  
**File Reference:** 1025-200  
**Date Received:** 10/27/03

Dear Mr. Smith:

BDO Seidman, LLP is pleased to offer comments on the Exposure Draft (ED), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Before responding to the specific issues in the Notice to Respondents, we would like to make three overall observations.

- The Board generally adopts disclosures in each discrete project and Statement. Disclosures about pensions and other postretirement benefits already are at a relatively high level, consuming a significant amount of space in the notes to financial statements and exceeding the level of disclosure about other transactions, for example, inventories or property, plant, and equipment, that are of equal or greater importance for many companies. For those who understand the model in FASB Statement No. 87, *Employers' Accounting for Pensions*, the existing disclosures make the accounting quite transparent. As a result, we are suggesting a number of changes to the ED that we believe will achieve a better balance of cost to preparers and benefit to users.
- As noted in the preceding paragraph, the existing accounting is quite transparent for users who understand the Statement 87 model. Stories in the business press reveal that some users and reporters have not taken the time to develop an understanding of the Statement 87 model. No disclosures—neither existing disclosures, nor the disclosures proposed in the ED, nor other possible disclosures discussed in the ED—will be of benefit to users who don't understand the Statement 87 model.
- The Board proposes to request information about the relation between (1) the contractual maturities of debt securities held as plan assets and (2) estimated future benefit payments. Cash is fungible, and funded plans obtain cash to make benefits payments from multiple sources: employer contributions, proceeds from sales of plan assets, returns on investments, and contractual principal collections from debt securities. In addition, plan

assets are measured at fair value (even though recognition of gains and losses may be delayed), and it makes no difference to an employer's accounting whether the gains and losses are realized or unrealized. Accordingly, we do not see the benefit of disclosures about the ability of funded plans to hold debt securities to maturity.

#### Issue 1: Disclosures About Plan Assets

We believe the additional disclosures about plan assets are of limited use and will be costly for companies with multiple plans. Our sense is that the FASB has proposed these disclosures in response to criticism about the way some plan sponsors develop their expected long-term rate of return on plan assets. Some sponsors have based their expected long-term rate of return on plan assets in part on recent experience. The result of that approach was gradual increases in the expected rate during the 1980s and 1990s, when actual returns were high, and gradual decreases since 2000, when actual returns were negative. Some critics believe that sponsors should not consider recent actual returns in their expected rate. Those critics believe that sponsors should not have increased the expected rate when actual returns were high and have been too slow to reduce the expected rate in response to negative returns in the past three years. The FASB should address that concern forthrightly by giving guidance on what the expected rate is supposed to represent, and how much (if at all) recent experience should be factored in. The disclosures proposed in the ED seem like a roundabout way to address what is really an accounting issue and will add significant volume to the notes to financial statements.

We also believe that the approach embodied in the proposed disclosures of building up an expected long-term rate of return on plan assets based on individual expected long-term rates of return for each class of plan asset is not necessarily the method that plan sponsors use. For example, an independent investment advisor using modern portfolio theory might present the sponsor with the expected return and variability (risk) of various asset allocations that represent the "efficient frontier," that is, the asset allocations that represent the optimal trade-offs between risk and return. We understand that the expected return and variability of each efficient asset allocation reflects the correlation (or lack of correlation) of the different asset classes; therefore, the expected return and variability of the portfolio is not the mathematical weighted average of the expected returns and variability of the individual asset classes.

#### Issue 2: Accumulated benefit obligation for defined benefit pension plans

We disagree with restoring this disclosure, which was required by Statement 87 and eliminated by FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The Board reached the right conclusion in Statement 132. The projected benefit obligation drives the accounting under Statement 87; the accumulated benefit obligation is not used to compute pension cost and is used only to

compute the additional minimum liability. The Board decided in Statement 87 that the projected benefit obligation was the more appropriate measure of the obligation for purposes of measuring the funded status and computing pension cost. Implicitly, the Board decided in Statement 87 that it would be less meaningful to monitor the funded status of the plan using the accumulated benefit obligation. Therefore, the reason stated in paragraph A24—to enable users to monitor the funded status using a measure that the Board has previously decided is less meaningful—is not a good reason to restore this disclosure.

We considered whether disclosing the accumulated benefit obligation might help users assess the likelihood or the amount of an additional minimum liability at the next fiscal year end. However, because the accumulated benefit obligation would be disclosed in the aggregate under the ED, we don't think it would provide users with sufficient information for that purpose. We also considered whether the accumulated benefit obligation might be useful because it is closer to the actuarial obligation used for funding qualified plans in the United States. Again, however, because the information is disclosed in the aggregate and because funding outside the United States may be based on other measures, we don't think the disclosure would be useful.

#### Issue 3: Cash Flow Information

Financial statements should provide information to help investors, creditors, and others assess the amounts, timing, and uncertainty of prospective net cash flows of the reporting enterprise. Disclosure of the contributions the sponsor expects to make to its funded benefit plans in the next fiscal year, showing separately the required and discretionary contributions and the amount of expected noncash contributions provides that information. Similarly, information about expected benefit payments that the sponsor will make directly for unfunded benefit plans provides that information. By contrast, information about expected benefit payments that will be made from the plan assets of funded plans does not provide that information. In fact, combining the benefit payments to be made directly by the sponsor with benefit payments to be made by funded plans, as proposed in the ED, obscures the information that would be useful. Therefore, we recommend that the FASB require only:

- the proposed information about employers' contributions to funded plans, and
- the expected benefit payments that the sponsor will make directly for unfunded benefit plans.

#### Issue 4: Assumptions

We generally support the requirement to more clearly identify which assumptions are used to develop the end-of-year projected benefit obligation and which assumptions are used to compute annual net benefits cost. However, we have the following observations about Appendix C, which illustrates the presentation of the assumptions:

- Public companies in the United States present audited income statements for three years. Accordingly, assumptions used to compute annual net benefits cost should be presented for three years. Illustration 1 in Appendix C discloses the assumptions for only two years.
- The format of disclosures illustrated in Appendix C introduces some redundancy. The discount rate and the rate of compensation increase at December 31, 20X2 (6.75% and 4.25%, respectively, in Illustration 1) are used to compute both the projected benefit obligation at December 31, 20X2 and annual net benefits cost for 20X3. The proposed format discloses those assumptions twice. We think it would be more concise to present all of the assumptions in a single table and use narrative description to explain which assumptions are used for which purposes and periods.

#### Issue 5: Nonpublic Enterprises

To the extent that we agree with the new proposed disclosures in annual financial statements, we agree that both public and nonpublic enterprises should provide the disclosures. In the case of the new proposed disclosures about plan assets and the expected rate of return on plan assets, which we think are of limited use (see Issue 1), we feel particularly strongly that they are unnecessary for nonpublic enterprises. We believe that present or prospective investors in private enterprises, to the extent they are interested in detailed information about plan assets, generally would have access to information tailored to their needs and would receive no benefit from the additional disclosures proposed in the ED.

#### Issue 6: Sensitivity Information

We agree with the Board's conclusion on sensitivity information. The assumptions about discount rate and compensation increase are intended to be consistent with one another. A hypothetical change in just one assumption is potentially misleading. With respect to the expected long-term rate of return on plan assets, a user who is familiar with the Statement 87 model can easily compute the effect of a change on net annual benefits cost; disclosure by the preparer is unnecessary.

We agree with retaining the sensitivity disclosure for the assumed health care cost trend rate, because that assumption is not directly related to the other assumptions, it is by far the most subjective and judgmental of the assumptions, and the effects of a change are difficult for a user to estimate.

#### Issue 7: Measurement Dates

We do not feel strongly about this issue. Our leaning is that the measurement date should be disclosed if it differs from the balance sheet date, so that a reader would be aware that the discount rate and compensation increase assumptions are not intended to represent

conditions at the balance sheet date. However, we agree with the Board that a measurement date different from the balance sheet date is of greatest interest to a reader when a significant economic event occurs between the two dates, and the proposed disclosure would capture that situation.

#### Issue 8: Reconciliation of Beginning and Ending Balances

We also do not feel strongly about this issue. The existing reconciliation format in Statement 132 is appealing to us as accountants, because the format assures that all changes are captured. However, we agree that the disclosures required by the ED capture the most important changes.

#### Issue 9: Disclosures Considered but Not Proposed

We do not believe that any of the disclosures considered should be required. In particular, we believe it would be inappropriate to require disclosure of the specific line items in the income statement in which net benefits cost is recorded. Preparers do not disclose the line item classification of any other compensation cost, including cash compensation or equity-based compensation. We do not see a benefit from requiring disclosure of the classification of this particular component of compensation cost. Further, disclosing the amount of previously capitalized net benefits cost that flows through as cost of sales or depreciation in a year would be at best only an approximation, involving assumptions about inventory turnover and average depreciation lives.

#### Issue 10: Disclosures in Interim Financial Reports

We agree that net benefits cost should be included in interim financial reports, because the disclosures in the annual financial statements allow users to make only crude estimates of the following year's net benefits cost and components. We can understand why users would like to know the components of net benefits cost on a timely basis, rather than waiting until the end of the year. However, we suggest an approach different from the Board's proposal. Unless an economic event occurs during the year triggering a remeasurement, the net benefits cost and the components should be the same in each of the four quarters. We believe it is unnecessary to repeat the components in the second and third quarters if there is no change from the amounts disclosed in the first quarter. After the first quarter, disclosure should be focused on changes. Therefore, we would propose the following approach to disclosure in interim financial reports.

In the first quarter, disclosure of:

- Net periodic pension and postretirement benefits cost, showing separately the components
- The expected rate of return on plan assets used in computing the first quarter cost, because that assumption would not have been disclosed in the most recent annual financial statements

- The change, if any, in the assumed discount rate, compensation increase rate, and health care cost trend rate from the assumptions disclosed in the most recent annual financial statements, and the reasons for the changes
- The employer's contribution paid, or expected to be paid, in the current fiscal year, if significantly different from the amount disclosed in the most recent annual financial statements

In subsequent quarters, disclosure of changes in net periodic cost, assumptions, or employer's contributions, together with the reasons for the changes.

#### Issue 11: Effective Date and Transition

We believe the proposed effective date is too early. Providing the additional information at December 31, 2003 effectively requires calendar year companies to request data from their actuaries and investment advisers based on an ED. If they wait for the FASB to issue a final Statement, they may not be able to gather all of the information on a timely basis for their normal annual report publication schedule, particularly for plans outside of the United States. We believe that it generally is inappropriate for the Board to allow so little time for implementation that companies are effectively compelled to work from an ED. It is particularly inappropriate for an issue for which no crisis exists. We recommend that the effective date be changed to annual and interim periods ending after March 15, 2004.

We would be pleased to discuss our comments with the Board or the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP