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Proposed Statement of Financial Accounting Standards
Employers' Disclosures about Pensions and Other Postretirement Benefits

Dear Mr. Smith,

We appreciate the opportunity to comment on the Financial Accounting Standards Board's Exposure Draft on Employers' Disclosures about Pensions and Other Postretirement Benefits.
We welcome and support the scope of the Board's Proposed Statement on Employers' Disclosures about Pensions and other Postretirement Benefits and expect that the disclosures proposed will be relevant information for investors. It should however, be borne in mind that the very nature of current pension accounting in terms of its complexity but also weaknesses necessitate an urgent review and a comprehensive effort to amend these rules.

Due to pension accounting's increasing significance to enterprises, its exposure to volatility of equity and interest markets, its complexity in measurements based on assumptions and management estimates, full and transparent disclosure is essential in order to appropriately understand and analyse pension plan accounting and its current and future impact on a company's financial performance. We agree that the proposed standard will significantly improve quality of pension disclosures and its comparability among companies.

We also support for Board's new project to define and provide measurement guidance and accounting methods that can be used consistently with regard to "Cash Balance" pension plans. We believe promulgated accounting pronouncements neither on measuring defined benefit plans nor on measuring defined contribution plans do appropriately and reasonably reflect a cash balance plan's financial aspects and components. We particularly would like to bring the Board's attention to provide guidance on implications of guaranteed minimum returns and surpluses attributable to employees. As non-US benefit plans as offered by foreign companies differ considerably due to different tax, legal and labor law frameworks from typical US-plans, input by non-US firms will be vital to achieve a set of rules which cover as many benefit structures as possible. In this context Siemens offers its active and constructive support to the Board for its planned project on benefit accounting.

Our specific comments follow:

Required disclosure for each major asset category

We support the Exposure Draft's proposal to separately disclose percentages of the fair value of total plan assets, provide target allocation percentages and expected long-term rates of return for the major asset categories equity securities, debt securities, real estate and other assets. This information will allow investors and analysts to better judge the overall reasonableness of the total expected long-term rate of return as well as the Company's efficiency over its asset management.
However, we ask the Board to reconsider it's decision to require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities. Debt securities represent only one component of the total asset mix. Maturity dates of other asset categories would either be omitted or would require broad estimation. Consequently, a complete picture about asset maturity dates would not be given. This is particularly true for plan assets that incorporate almost no debt securities.

Encouraged disclosures for Plan Assets

We agree with the Board's conclusion to not require but rather encourage narrower asset category disclosure, if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets. We believe broader asset categories presented in a tabular format are sufficient. Management may describe narratively specific and significant risks or situations, when necessary such as a concentration of equity stock in certain industries).
Additionally, the disclosure of management's investment strategies and policies over plan assets as suggested by the Board will support the asset category disclosure.

We agree with the Board's decision to not require but rather encourage the disclosure of the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments. In some cases, a portion of plan assets may not have fixed or determinable maturity dates, such as real estate or equity investments. While a separation into long-term and short-term assets based on management's intent to hold or divest, may be possible, this information is approximated and therefore subject to change and, as such, may be of limited use to financial statement users. As noted above, non-U.S. companies may have plans not subject to specific funding regulations. Direct payments to plan participants in, for example unfunded plans, additionally dilute the value of this information.

Defined Benefit Pension Plan Accumulated Benefit Obligation

We believe, under the current accounting structures disclosure of defined benefit pension plan's accumulated benefit obligation is useful information. One must however question the appropriateness of this accounting approach. The ABO serves as a cornerstone in recognizing additional minimum liabilities (ABO exceeds the plan assets' fair value) and in that scenario impacts balance sheet reporting. Presenting the ABO, both when it exceeds or is less than the plan assets' fair value, will present how far away, or how close, plans are to recognizing additional minimum liabilities.

Cash Flow Information

We support the Board's decision to require cash flow information provided in a schedule of estimated future benefit payments included in the determination of the benefit obligation for each of the five succeeding fiscal years and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the payments over the next five years. Along with information about the funded status of pension plans and disclosure about plan assets, as commented above, the understanding for a pension plans' cash flow implications will be improved.

Due dates of benefit payments can vary significantly among companies (for example start up companies with relatively young employees will incur substantially less pension payments in the near future than companies that have existed over a long period of time and that have many retirees eligible for current pension payments). The disclosure would include payments from plan assets as well as direct payments. We believe the disclosure will make amounts and timing of benefit payments over the next five years transparent – either payable from pension plan assets or in the form of direct payments - and as such, will provide beneficial cash flow information. While pension plans have a long-term component, we believe a five year horizon is a reasonable assessment since financial statement users may be more concerned about short-term or near future cash flow information.

However, while we do strongly support cash flow information, we have some concerns over the usefulness of disclosing employer's contributions expected to be paid to the plan during the next fiscal year beginning after the latest statement of financial position, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions and (3) the aggregate amount and description of any non-cash contributions. Multinational companies may have material pension plans in countries that are not subject to specific funding regulations and accordingly, may also have plans that can lawfully remain unfunded. We also would like to note, that discretionary contributions are by definition, not forecasted over long-term horizons. They may be determined based on short-term liquidity results. Accordingly, we believe presenting the amount and timing of employer's contributions at the beginning of a period is not realistic. This information could be misleading and of limited use to investors and analysts. We believe a description of a company's general funding and contribution policies would be more beneficial to investors. We therefore ask the Board to reconsider its decision.

Assumptions

We support the Board's decision to require separate disclosure of key assumptions used to measure benefit obligations for the assumed discount rates, rates of compensation increase and expected lon-term rates of return specifically a) to measure benefit obligations as of the plan's measurement date and b) those used to measure net benefit costs for the period. While disclosure of key assumptions were made in the past as well, it was often not transparent to financial statement users as to which period those assumptions relate and to which component. The proposed separation will provide clarity as to which period and pension measure those assumptions relate.

Pension plans maintained by multinational corporations in multiple countries and regions can be exposed to significantly varying equity and interest market risks, as well as to differing regulations and labor laws. This consequently may result in significantly different assumptions being applied to each individual plan. We therefore suggest key assumptions be disclosed per region or per country, if applicable.

Sensitivity Information about Changes in Certain Assumptions

We do not agree with the Boards' decision to disregard sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in assumptions used. While we agree that multiple assumptions are often affected simultaneously and that changes in key assumptions are usually not linear, we do not believe that disclosing sensitivity information about a hypothetical change while holding the other assumptions constant would be misleading. We therefore propose to present sensitivity information along with a description of the overall scenario applied. Warning language should be given explaining that assumptions are usually not linear and are often affected simultaneously. The percentage and amount of a hypothetical change in an assumption while holding the others constant would then be presented in an appropriate context. The impact of a change in assumptions will be more obvious and accordingly will make the financial statement user more alert about the significant impacts a slight change in assumptions can have and it will stress the significance of properly assessing those assumptions subject to management estimates.

Measurement Dates

We do not agree with the Board's decision to only ask for disclosure of the measurement dates when different from the fiscal year end and if an economic event occurs, or economic conditions change and if those changes may have a significant effect on plan assets, obligations or net periodic cost. This information is readily available and will enable the financial statement user to apply his/her own judgement over the significance of its impact as opposed to having it rest within the responsibilities of company's management.

Reconciliation of Beginning and Ending Balances of Plan Assets and Benefit Obligations

We believe the reconciliation of beginning and ending balances of plan assets and benefit obligations should be retained. Investors and analysts are used to its presentation and know where to look up information needed quickly and efficiently. The established reconciliation is a helpful guidance for investors and analysts and serves as a beneficial bridge between the prior year and current year. It provides a more complete picture of how the pension components developed over time and between the periods in review.

Disclosure in interim financial reports

We support the Board's decision to require disclosure of each of the components of net periodic pension and other postretirement benefit costs separately in interim financial statements. Pension cost information is new and additional beneficial information in the first quarter following the annual report.

We also support the Board's decision to only require disclosure of employer's contributions paid or expected to be paid if significantly different from previous disclosures.

Disclosures considered but not proposed

Our comments on the Board's omitted disclosures are as follows:

We do not agree with the Board's decision to not require interim-period disclosure of plan assets and benefit obligations. The funded status of pension plans is derived from the PBO and the fair value of plan assets. The preceding annual report does not necessarily provide sufficient information to reasonably determine a pension plan's funded status in interim periods (for example due to volatile fair market values). We therefore ask the Board to propose interim period disclosure of plan assets and benefit obligations.

Additional disclosures

In addition, we would recommend that the basis for determining the expected return on plan assets be disclosed. FAS 87 provides two alternatives in measuring the market related value of plan assets: either to use the plan assets' actual fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. The two methods can result in significantly different bases for determining the return on plan assets and hence can significantly affect reported earnings of the plan sponsor. Consequently, we recommend to require disclosure of how much the net period pension cost would have changed in the absence of the second alternative (i.e. calculated value).

Effective Date and Transition

We believe the proposed effective date provision for fiscal years ending after December 15, 2003 and the transition date provision are appropriate and allow companies sufficient time to implement the proposed statement and to present comparable prior year information. We agree that companies should have the systems and processes in place necessary to furnish the proposed information.

Cost Benefit Judgement

While additional costs may be incurred, such as for actuaries, auditors or internal costs to generate information being presented, we believe that a professionally managed pension accounting system would in most cases, have much of this information already.

If you have questions about our response, or wish to discuss any of these matters addressed herein, please contact Dr. Elisabeth Schmalfuss at elisabeth.schmalfuss@siemens.com.

Very truly yours,

Dr. Elisabeth Schmalfuss
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