Watson Wyatt Worldwide

Watson Wyatt & Company

1055 Washington Boulevard
Stamford, CT 06901
Telephone 203 356-1220
Fax 203 964-9282

October 27, 2003

Mr. Lawrence W. Smith
Director, Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 67
File Reference: 1025-200
Date Received: 10/27/03

Subject: **File Reference No. 1025-200**

Dear Mr. Smith:

Watson Wyatt Worldwide is taking this opportunity to comment on the Proposed Statement of Financial Accounting Standards, "Employer's Disclosures about Pensions and Other Postretirement Benefits." As a large employee benefits consulting firm, Watson Wyatt assists many companies with the preparation of pension and other postretirement information to be disclosed in their financial statements. It is from this perspective that we are providing comments on the proposed changes to SFAS 132.

We employ approximately 6,000 associates on a worldwide basis. As the company's Resource Actuary in the U.S., I have prepared our comments with input from others in the firm.

In summary, we appreciate the attention being given to financial disclosure for pension and other postretirement benefit plans. This effort to provide better information to investors and other interested parties should prove beneficial. However, we feel that the proposed timetable is aggressive. In addition, we have several other comments that we have included below.

We agree with the Board's conclusion in A35 of the Exposure Draft that "pension plans are long-term in nature," so we are concerned that some of the new requirements appear to emphasize short-term aspects of plan funding. Finally, as noted above, we believe the timing of the effective date for the new standard is too tight and should be deferred for a reasonable period of time after finalization of the standard in order that companies and their advisors may establish the systems and processes necessary to gather the new information.

The comments below address the issues as numbered in the Exposure Draft.

Issue #1: Plan Assets

We believe the disclosure of assets separated by broad investment categories will generally be useful to financial statement users. We agree with the statements in A11 of the Exposure Draft that disclosure of the new asset information will provide users with more information to assess the reasonableness of the plan sponsor's long-term rate of investment return assumption and the market risk of investments. However, we find the simplistic mathematical development of the total weighted-average expected long-term rate of return in the asset table and the comparison of this mathematically determined value with the assumption used for the year to be overly simplistic. We expect to see modest differences between the weighted-average return and the assumed long-term rate of return. For example, these differences may be due to fluctuations in asset allocation within the range specified in the investment policy or timing of cash flows that may overweight cash due to year-end contributions. We assume that most companies will provide explanations as to why these two rates of return may reasonably differ.

Furthermore, we expect that the proposed asset table will be particularly difficult for companies to prepare on a timely basis, particularly for 2003 disclosures. Plan Trustees already struggle to provide market value information as of year-end. They, or someone else using their data, must now segregate those market values into at least the four asset classes required by the statement. Companies with many plans, as well as companies sponsoring non-US plans, will need to gather all this information quickly and weight it appropriately. Further, the statement requires disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities. Since the systems have not been established to gather and process this information, we believe the effective date of the standard should be deferred relative to this item.

Issue #3: Cash Flow Information

We are concerned that financial statement users will misunderstand the projected benefit payment information. Since the Board is interested in providing useful information about the amount and timing of total benefit payments, we are concerned that a comparison of total benefit payments for the two prior years with future expected payments "included in the determination of the benefit obligation" could fail to accomplish the Board's objective. Under the proposed standard, the present value of the future disclosed payments must be equal to the plan's PBO or APBO. If this is the case, such payments may not reasonably compare with historical plan benefit payments. As an example, if the pension or other postretirement benefit plan involves employee contributions, those employee contributions will be netted from the future payments in determining the plan's PBO, and thus will not be comparable with total prior benefit payments in prior years. We believe more meaningful benefit information can be obtained by requiring disclosure of total expected benefit payments for the next five years, and deleting the requirement to show the interest discount and the net Projected Benefit Obligation.

While the Board believes that obtaining projected benefit payments is simply a process of disaggregating information currently available, we don't believe that this process will be that easy. This information is not readily available at many actuarial firms and will require system changes to accomplish. We believe this is another reason supporting deferral of the effective date of the standard.

Many companies don't know what their discretionary contribution will be for the upcoming fiscal year and may be reluctant to provide an estimate in their annual report. Contributions can vary significantly from year to year and actual contribution information is already provided in the footnote disclosure. Since plan accounting focuses on determining the amount of expense associated with a plan and not the amount actually funded for that plan, we find it unusual that users would find more value in a one-year projection of plan funding requirements than in a one-year projection of plan expense.

Issue #7: Measurement Date

Companies may have plans with different measurement dates. It seems unnecessarily complicated to require disclosure of measurement dates only if the company believes a significant economic event or change occurred after one of these measurement dates and prior to the end of the fiscal year. A simpler approach would be to require companies that use non-fiscal year measurement dates to list the measurement dates used and provide some kind of average measurement date if the dates are not uniform. Users of financial statements should know whether there have been any changes in financial conditions after these dates.

Issue #8: Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

We believe these reconciliations assist users in seeing how plans' assets and liabilities change each year and should be retained. While many of the components in these reconciliations are still required elsewhere in the disclosure, these reconciliations provide a comprehensive picture of year-to-year changes in assets and obligations. We would concur with the views expressed in A41 of the Exposure Draft that support the usefulness of this item.

Issue #11: Effective Date and Transition

As noted above, we believe the effective date of the new disclosure requirements should be deferred to a reasonable period (such as six months) after the standard has been finalized in order to allow companies and their advisors to implement necessary system and process changes. The timing of the new requirements will be particularly difficult for companies with non-US plans. If the Board determines that the effective date should not be deferred, it may wish to consider a delayed effective date for companies with non-US plans. Alternatively, perhaps the Board would consider deferring the effective date of this requirement only for the non-US plans of companies sponsoring both US and non-US plans.

If you have questions about our comments, please feel free to contact us.

Sincerely,

Kenneth A. Steiner
Resource Actuary

jv

K:\33310\WPD\03\1027-smith.doc