

Letter of Comment No: 33
File Reference: 1025-300

May 18, 2006

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

RE: Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R), (File No. 1025- 300)*

Dear Ms. Bielstein:

The Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) appreciates the opportunity to comment on the March 31, 2006 Exposure Draft (ED) of the proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

AcSEC supports the Board's decision to reconsider the existing guidance on postretirement benefits, including pension benefits. We believe that the proposed Statement is a step in the right direction. While we understand the reasons behind the Board' decision to split the project into two phases, we urge the Board to expedite the completion of Phase II of this project. We have provided more specific comments in the attachment to this letter. AcSEC has incorporated into this letter the views of several AICPA industry expert panels.

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We appreciate the opportunity to comment on the proposed Statement and would welcome the opportunity to discuss our comments with Board members or staff.

Sincerely,

Ben Neuhausen
Chairman
Accounting Standards Executive Committee

Steven Lilien
Chair
Pensions Task Force

Attachment

Costs of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employer's Statement of Financial Position

Issue 1: The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not? (See paragraphs B20–B34 for the basis for the Board's conclusions.)

AcSEC supports the Board's decision to recognize the overfunded or underfunded status of defined benefit postretirement plans as an asset or a liability in the statement of financial position. AcSEC agrees that implementation of this proposed Statement generally would not require information (other than that related to income tax effects) that is not already available.

One Employer's Measurement Date

Issue 2: Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position? (See paragraphs B36–B40 for the basis for the Board's conclusions.)

AcSEC is supportive of changing the date plan assets and benefit obligations are measured to coincide with the date of the employer's statement of financial position, but believes that change should be part of the second phase of this project. AcSEC believes the change in the employer's measurement date is a discrete item that could be included in either the first or second phase of this project. On balance, AcSEC believes it is more appropriate to make this change in the second phase of this project when other issues surrounding measurement and recognition of pension expense are addressed. In addition, from a practical standpoint, moving the elimination of provisions that permit measuring plan assets and benefit obligations at a date that is up to three months earlier than the date of the employer's statement of financial position to the second phase of this project would simplify the implementation of this proposed Statement. This practical consideration takes on added importance given the Board's aggressive timetable for completion and mandatory adoption of this proposed Statement. If the Board rejects this suggestion and

requires a change in measurement date in phase one, AcSEC recommends that the effective date for this provision be delayed one year.

AcSEC notes the following situations associated with implementing the measurement date change requirement that argue for allowing more time before requiring the change in the date for measuring plan asset and obligations.

1. Entities that have a large portion of their plan assets in alternative investments, which are not readily marketable, often consider information provided by the investment manager in determining fair values for such investments. The valuation process for these investments takes a significant amount of time. Entities with this fact pattern will need time to work with their investment managers to develop the processes needed to complete the valuation process within a shorter timeframe than has been the case in the past.

2. Entities that have defined benefit plans outside of the United States may have difficulty obtaining timely actuarial information. AcSEC is concerned there may not be sufficient numbers of qualified actuaries to meet the now compressed timetable for providing actuarial information to public enterprises in some countries outside of the United States.

3. Changing the measurement date to coincide with the employer's statement of financial position may directly affect some entities' budgeting and planning cycles. For some entities, such as health care organizations and others that engage in government contracts, budgeting can drive price setting, contract negotiation, staffing, and ultimately the mix of services provided. Today, organizations that have elected to use the earlier date for measuring plan assets and obligations have good information available to them concerning the next year's defined benefit post-retirement costs at the time they are completing their budgeting process for the coming year. Once those entities are required to measure plan assets and obligations as of the date of their statement of financial position, they will no longer have as good information available to them during their budgeting process.

AcSEC also recommends that the FASB consider whether there is an overall actuarial capacity to provide their reports in a timely manner.

Effective Dates and Transition

Recognition of the Overfunded or Underfunded Status

Issue 3(a): The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below. An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of? (See paragraphs B61–B64 for the basis for the Board's conclusions.)

AcSEC agrees with the Board's view on providing an impracticability exemption related to the assessment of the realizability of deferred tax assets. AcSEC also suggests that the FASB further define situations involving "impracticability" and provide examples in the final Statement.

AcSEC is evenly divided on the FASB's proposal regarding the effective date for recognizing the over- or underfunded status of defined benefit postretirement plans effective for fiscal years ending after December 15, 2006. About half of AcSEC recommends a one-year delay because of potential implications to other agreements that use data drawn from financial statements. If the issuance of a final Statement is delayed beyond September, a solid majority of AcSEC believes the Board should delay the mandatory effective date of the proposed Statement.

Issue 3(b): Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements. (See paragraph B65 for the basis for the Board's conclusions.)

AcSEC believes that nonpublic entities should be given additional time until mandatory adoption of the proposed Statement. However, AcSEC was split on a decision to recommend a two years postponement for such adoption versus a one-year delay. AcSEC requests the Board study additional practices with respect to nonpublic entities before finalizing this requirement.

The Board considers the costs, primarily to preparers, and benefits, primarily to users, in its deliberations. Overall, AcSEC agrees with the Board's costs and benefits analysis for this proposed Statement. However, in AcSEC's view, that analysis differs somewhat for nonpublic, as compared with public entities, and that different analysis argues for a delay in mandatory adoption for nonpublic entities. First, AcSEC believes that, due to the common use of the metrics noted above by nonpublic entities, the costs for nonpublic entities to adopt this proposed Statement are greater than for most public entities. Secondly, AcSEC perceives that the benefit of the proposed Statement to users of nonpublic entities' financial statements is not as great as the benefit to users of public entities' financial statements. AcSEC believes that a delay in the mandatory effective date of the proposed Statement will somewhat mitigate the costs incurred by a nonpublic entity in adopting the proposed Statement.

AcSEC identified the following situations that illustrate the additional cost that will be incurred by nonpublic entities in adopting the proposed Statement:

1. Some private entities have contractual arrangements that reference metrics based on the company's book values. For example, employees of some private entities are allowed to buy their employer's stock at book

value, and subsequently, when these employees retire, they are allowed (or required) to sell these shares back to their employer at book value. Such entities will need time to modify their arrangement with employees or otherwise adjust their internal procedures for the impact of the proposed Statement on their calculation of net assets.

2. Some not-for-profit organization (NPO) specific issues exist as well. For example, government regulators and accrediting bodies (e.g., Department of Education), watchdog groups (e.g., the Better Business Bureau), and various resource providers specify metrics and ratios, such as spending rates and balance sheet ratios. The time required for those entities and groups to revise their metrics in response to the guidance in the proposed Statement tends to exceed the time required for banks and other lenders to revise their metrics. In response to the Board's other specific questions, the AICPA NPO Expert Panel's experience is that the economic status of postretirement plans that is currently disclosed in the notes to financial statements is relatively unimportant to NPO financial statement users imposing those metrics. In other words, those financial statement users rely on liabilities reported on the balance sheet and discount the economic status of postretirement plans that is presently included in note disclosures. In addition, the NPO Expert Panel believes those financial statement users do not focus on the current requirement in Statement 87 to recognize a minimum pension liability.

Measurement Date

Issue 4: This proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments? (See paragraphs B66–B69 for the basis for the Board's conclusions.)

For the reasons stated earlier in this letter, AcSEC believes that the requirement to measure plan assets and obligations as of the date of the entity's statement of financial position should be moved to the second phase of this project.

Not-for-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income

Issue 5: This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, Reporting Comprehensive Income, Paragraphs 7–13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided? (See paragraphs B53–B58 for the basis for the Board’s conclusions.)

The proposed Statement lists no amendments to FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. Paragraph 8 of the proposed Statement, however, provides that “NPOs that present an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer shall recognize, in separate line items apart from that measure, the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraph 4(c) of this Statement...” AcSEC recommends that paragraph 23 of Statement 117 be amended to reflect this potential limitation on a reported intermediate measure of operations.

Performance indicator as the functional equivalent of income from continuing operations. Paragraph 8 of the proposed Statement provides that an NPO that presents an intermediate measure of operations (or performance indicator) in its statement of activities that is the functional equivalent of income from continuing operations of a for-profit shall recognize, in separate line items apart from that measure, the actuarial gains and losses and the prior service costs and credits that would be recognized in other comprehensive income pursuant to paragraph 4(c) of the proposed Statement.

AcSEC believes the Board should clearly define what it means by “a performance indicator that is the functional equivalent of income from continuing operations of a business enterprise” and that that definition should be along the lines of having an accounting policy to include in that performance indicator all items that a business enterprise would include in income from continuing operations and exclude from that performance indicator all items that a business enterprise would exclude from income from continuing operations.

Depending on what changes the Board makes to paragraph 8, if any, we believe the Board should consider revising the last sentence of paragraph 8 as follows: “Other not-for-profit organizations may voluntarily choose to present that measure or another intermediate measure of operations in their statement of activities.”

Paragraph 9 provides that “Consistent with the provisions of Statement 117, this Statement does not require presentation of an intermediate measure of operations *or prescribe how an organization that presents that measure should determine its components (that is, it does not prescribe whether the actuarial gains and losses and the prior service costs and credits should be included in that measure).*” That sentence could be read as in conflict with the guidance in paragraph 8. The Board should consider revising that sentence to read as follows: “Consistent with the provisions of Statement 117, this Statement does not require presentation of an intermediate measure of operations. Also, other than for employers that present an intermediate measure of operations (or performance indicator) in their statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer

(as discussed in paragraph 8), this Statement does not prescribe how an organization that presents an intermediate measure should determine its components (that is, it does not prescribe whether the actuarial gains and losses and the prior service costs and credits should be included in that measure)."

Definition of "public entity." Paragraph 14 of the proposed Statement provides that "this Statement also has different effective dates for a public entity than for a nonpublic entity, including not-for-profit organizations, regarding . . ." The definition of a *public entity* (paragraph 14) includes an entity that has issued debt securities that are traded in a public market. Paragraph 21 implies that all NPOs are nonpublic entities. Some NPOs, however, issue debt securities that are traded in a public market. AcSEC believes the Board should clarify whether NPOs that issue debt securities that are traded in a public market are public entities. This is a significant issue for certain NPOs, and has implications for other GAAP requirements, such as FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*. Similarly, NPOs with for-profit public subsidiaries are unsure whether the consolidated NPO should be considered a public entity under the proposed Statement.

Because different definitions of a public entity exist in different parts of the existing literature, AcSEC recommends that the Board address this issue in a broader context than this particular project, and AcSEC encourages the Board to arrive at a common definition of a public entity that applies for all purposes.

Other general comments

rent/noncurrent classification guidance. Paragraph 4(b) of the proposed Statement indicates that "an employer electing to present a classified statement of financial position shall separately report the current and noncurrent portions of that asset or liability in accordance with existing standards." AcSEC recommends that the final Statement include illustrations and additional guidance regarding presentation of the asset or the liability representing the status of over- or underfunded plans, respectively, in the classified balance sheet. AcSEC believes that "in accordance with existing standards" could be interpreted in a number of different ways. For example, it could be interpreted as—

- Any payment expected to be made by an employer to a defined benefit plan within the next twelve months is a current liability.
- Any payment expected to be made by an employer to a defined benefit plan within the next twelve months, less the expected service cost for that period, is a current liability.
- Benefit payments expected to be made by the plan within the next twelve months are a current liability.

Further, AcSEC notes that it is possible an employer may be in an overfunded position with respect to a defined benefit plan and yet expect to make contributions to the defined benefit plan in the next twelve months. Is it possible for an employer with a net defined plan asset to have a current liability?

AcSEC recommends that the FASB provide examples of current and noncurrent assets and liabilities of the defined benefit plan.

Multi-employer plans. AcSEC recommends that the Board explicitly state that this proposed Statement does not affect the accounting for multi-employer plans.

Paragraph 17. This paragraph provides that "a single method of transition shall be applied consistently for all of an employer's defined benefit plans. An entity shall provide the disclosures related to a change in accounting principle that are required by paragraph 17 of Statement 154." A nonpublic entity may consolidate a public entity, including perhaps a nonpublic entity NPO parent that consolidates an NPO with public debt. In that situation, would the nonpublic entity be required to apply the transition guidance applicable to its public subsidiary to its nonpublic consolidated financial statements?

Amendments to other literature. Paragraph C2(t) includes various amendments to Statement 87. Paragraph C2 refers to various sections of Statement 87 that discuss other comprehensive income and the applicable reporting by NPOs that present an intermediate measure of operations (or performance indicator) in their statement of activities that is the functional equivalent of income from continuing operations of a for-profit employer. Should paragraph C2(t) also refer to paragraph C2(n) (paragraph 38 of Statement 87)?

Paragraph C2(u) includes various revisions to the Glossary of Statement 87. Revisions to some of those terms, such as *amortization*, *gain or loss*, and *gain or loss component (of net periodic pension cost)* appear to omit addressing NPOs and other entities that do not report accumulated other comprehensive income.

Inconsistencies in illustrations. AcSEC notes certain inconsistencies in presenting net period pension cost and actuarial loss in the statement of changes in stockholders' equity for 2006 and 2007 that shows the effect of the change in the measurement date [paragraphs A18 versus A22]. In paragraph A18, net periodic pension cost and actuarial loss (October 1-December 31, net of tax) are presented after the balance of stockholder's equity at December 31, 2006. In paragraph A22, however, such information is presented before such balance at December 31, 2006. The Board should conform these illustrations or explain these inconsistencies.

Guidance on discount rates. In the Basis for Conclusions, paragraph B60, the Board acknowledges that codification of this guidance might result in changes to current practices. While AcSEC supports the Board's decision to incorporate the guidance pertaining to selection of discount rates from paragraph 186 of Statement 106 into codified literature, AcSEC recommends that the Board provide transition guidance in the final Statement for those entities for which this codification will result in a change in accounting.

AcSEC recommends that the final Statement incorporates a requirement for additional note disclosures that would elaborate on the changes in the components of other comprehensive income. For instance, in the Implementation Guidance, paragraph A 22, the Board illustrates the entity's statement of changes in stockholder's equity incorporating a settlement loss. AcSEC suggests the Board develops further illustrations of a note disclosure accompanying that example.