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LETTER OF COMMENT NO. 52

Exposure Draft: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

The STP Nuclear Operating Company (STPNOC) operates a two unit nuclear power plant situated near Houston, Texas on behalf of one investor-owned and two municipal utilities. STPNOC sponsors both defined benefit and postretirement health and life insurance plans.

STPNOC appreciates the opportunity to respond to this Exposure Draft, and fully supports FASB's mission to continually improve on financial reporting. While this Exposure Draft covers many facets of this issue, STPNOC will confine its comments to the following two areas which it believes especially warrant revision.

Effective Date

STPNOC appreciates FASB's desire to "implement improvements in financial reporting as soon as possible". Also, STPNOC understands that financial reporting cannot be driven by fear of adverse economic consequences. However, economic consequences also should not be dismissed without due consideration.

As FASB is aware, certain companies, especially in the manufacturing section of the economy, would face draconian reductions in their shareholder equity due to the additional liabilities required to be recognized by this proposed accounting standard. In some extreme cases, it could cause shareholder equity to become negative. These companies face a difficult decision on the terms and future of their plans. Such decisions, given their importance, should only be made with great care and forethought. FASB's current proposed effective date would deny the opportunity for such planning.

Therefore, STPNOC believes that a one year delay in all of the proposed effective dates contained in this Exposure Draft, is a reasonable compromise between balancing improvements in financial reporting, and allowing companies a reasonable amount of time to mitigate undesirable economic consequences.

Finally, with respect to this issue, STPNOC notes that there is ample precedent for delaying the effective date of a new accounting standard. Indeed, both paragraphs 259 and 260 of Statement of Financial Accounting Standards (SFAS) No. 87 and paragraph 389 of SFAS No. 106, granted employers more than the normal time between issuance of these standards and their required implementation date. In fact paragraph 260 of SFAS No. 87 explicitly states, "The Board also decided to allow an additional two years before employers are required to apply the provisions of this Statement that require recognition of a minimum liability because of concerns expressed by some respondents that some employers would have to arrange to renegotiate or to obtain waivers of some legal contracts".

Therefore, for the reasons outlined above, additional time should also be granted in this instance.

Measurement Date

STPNOC strenuously disagrees with FASB's proposal to eliminate the option of an early measurement date for the following reasons.

FASB's basis for eliminating the early measurement date is "that allowing alternate measurement dates adds complexity and reduces understandability because potentially significant changes in plan assets and benefit obligations that arise after the measurement date but before the fiscal year-end are not recognized until the following period". Additionally, it cites:

This Statement's requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position is similar to IAS 19, which requires that measurements of plan assets and benefit obligations be determined with sufficient regularity that the amounts recognized in the financial statements do not materially differ from those that would be determined at the date of the financial statements.

Finally, the Exposure Draft states, "The Board noted that many employers already measure postretirement plan assets and obligations, at least for some of their plans, as of their fiscal year-ends, suggesting that it is often practicable to obtain the necessary date as of the reporting date".

STPNOC would like to address each one of these points. With respect to eliminating complexity and improving understandability, STPNOC notes that there are many different acceptable accounting practices used by companies and acceptable in GAAP. These include, but are not limited to, inventory valuation (e.g. FIFO vs. weighted average cost), depreciation expense (e.g. straight line vs. units of production) and even within the benefits accounting area, there can be widely varying actuarial assumptions. FASB has long recognized that one size does not fit all. However, one of the most important criterion is that the accounting practice be followed consistently. The Exposure Draft provides no empirical evidence that negates the original conclusion of SFAS No. 87 and SFAS No. 106 which requires "plan assets and benefit obligations be measured as of the date of the employer's

statement of financial position or, if used **consistently** (emphasis added) from year to year, as of a date not more than three months prior to that date”.

The goal of harmonizing US GAAP with IAS 19 is laudable. However, as noted “IAS 19 does not **require** (emphasis added) recognition of all actuarial recognition gains and losses.” Therefore, there is already a significant divergence between the tenets of this Exposure Draft and IAS 19. Additionally, even IAS 19.56 only requires that “Valuations should be carried out with sufficient regularity such that the amounts recognized in the financial statements do not differ materially from those that would be determined at the balance sheet date”. Based upon this language, there does not appear to be a prohibition against using a different measurement date in IAS 19. Therefore, given the fact that there is already a significant divergence between the Exposure Draft and IAS 19, and given the language of IAS 19.56, STPNOC does not believe that the prospects of eliminating the option of an early measurement date, in order to harmonize with IAS 19, is a compelling argument.

Finally, STPNOC believes that FASB’s argument that “many employers already measure postretirement plan assets and obligations, at least for some of their plans, as of their fiscal year-ends, suggesting that it is often practicable to obtain the necessary data as of the reporting date” is somewhat misleading. This argument ignores the fact that there will be a Phase II of this project which may have significant impacts on the Income Statement.

As FASB is well aware, the trend of regulatory reporting is toward shortening the amount of time in which a company reports their financial results. Eliminating the option of an early measurement date runs contrary toward this goal. It can be argued that companies already have this delay built in due to the recognition of an additional minimum pension liability. However, this would ignore the possibility of further acceleration of financial reporting deadlines.

Additionally, it ignores the issue of earning announcements which generally precede by a considerable timeframe the actual regulatory reporting of financial results. Since Phase I of the project deals primarily with the Balance Sheet, this Exposure Draft should have little impact on earnings announcement. However, Phase II of this project could have a tremendous impact on the timing of earnings announcements. FASB should take this prospect into consideration with respect to determining the appropriate measurement date.

A final point to note; concerns joint ventures such as STPNOC. STPNOC and other entities like it must report results early, in order for their owners to process and accurately report the results of the joint venture. Therefore, eliminating the option of an earlier measurement date would place an unreasonable burden on owners of joint ventures.

Therefore, for the reasons outlined above, the option of an earlier measurement date should not be eliminated. As an alternative, if FASB believes that there is too much lag (up to three months) in the measurement date, it may consider reducing the lag to two months in order to achieve a better measurement of plan assets and liabilities.

Again, STPNOC appreciates the opportunity to respond to the Exposure Draft and is confident that FASB will give its concerns full consideration.

Sincerely,

A handwritten signature in black ink that reads "Kathleen Cornett". The signature is written in a cursive style with a large initial 'K'.

Kathleen Cornett, CPA
Manager of Nuclear Accounting

A handwritten signature in black ink that reads "Dan Clark, CPA". The signature is written in a cursive style with a large initial 'D'.

Dan Clark, CPA
Lead Benefits Accountant