



LETTER OF COMMENT NO. 56



HELENA CHEMICAL COMPANY

225 Schilling Blvd., Suite 300
Collierville, Tennessee 38017
Phone: (901) 761-0050

VIA E-MAIL to director@fasb.org, File Reference No. 1025-300

May 25, 2006

Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Subject:

**Proposed Statement of Financial Accounting Standards
Employers' Accounting for Defined Benefit Pension and Other Postretirement
Plans**

Helena Chemical Company is a privately held company that is a leader in the distribution and manufacturing of agricultural chemical products. Helena Chemical Company sponsors two pension plans and one other postretirement benefit (OPRB) plan covering approximately 4,600 current and former employees.

As Chief Financial Officer of Helena Chemical and as a preparer and user of financial statements, I understand the need for transparent accounting and reporting. Our management team supports FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made 20 years ago in developing SFAS Nos. 87 and 106. However, we have significant concerns about the proposed statement of financial accounting standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans*, which would amend SFAS Nos. 87, 88, 106, and 132(R):

- **Implementation costs, effective dates, and transition.** The implementation costs of the proposed standard will be significant. We estimate our implementation costs will be approximately \$700,000 and our ongoing costs of accounting for our pension and OPRB plans will increase 13%. To minimize transition costs, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application and the transition to a fiscal year-end measurement date) should be modified.
- **Measurement date.** Pension and other postretirement benefit (OPRB) plan assets and obligations are significantly different from other types of assets or liabilities recognized in

our financial statements and require additional lead time to measure accurately. A measurement date up to three months prior to fiscal year-end remains appropriate. In contrast, a fiscal year-end measurement date would represent false precision and would not materially improve the accounting. Instead, it would force us to use estimation techniques rather than accurate values as of an earlier measurement date, and it would increase the likelihood of reporting errors.

- ***Pension liability measure.*** The accumulated benefit obligation (ABO) – the current value at the measurement date of benefits earned to date by our current and former employees – is the most appropriate measure of the market value of pension liabilities. The ABO – not the projected benefit obligation (PBO) – should be used to determine the required balance sheet recognition.
- ***Liability measure for other postretirement benefits.*** Because OPRB plans can be unilaterally reduced or eliminated, their accrued postretirement benefit obligation (APBO) does not meet the definition of a liability under Concept Statement 6. Required balance sheet recognition of OPRB plans should include only the present values of future benefits to which participants have a legally binding right.

These concerns are detailed below.

Implementation cost, effective dates, and transition

We disagree with the Board’s conclusion that implementation costs will not be significant, as described under Issue 1 of the *Notice for Recipients of This Exposure Draft*. We estimate our costs to implement the proposed statement would be approximately \$700,000, arising from the sources described below. To minimize the implementation costs, the effective date should be at least six months after publication of the final standard, and the transition method (retrospective application and the transition to a fiscal year-end measurement date) should be modified as described below:

Contract renegotiation. We have determined that at least two contractual arrangements that reference financial statement metrics will have to be renegotiated if the proposed standard is adopted. These contracts include financing arrangements which are a particular concern since lenders may insist on less favorable terms in a forced renegotiation with a tight deadline. To provide sufficient time to renegotiate these contracts, the effective date should be at least six months after publication of the final standard. Changes in financial covenants alone, would have a cost impact in excess of \$500,000.

Transition to new measurement date. We currently use a measurement date that is two months before our fiscal year-end. As indicated under *Measurement date* below, we believe pension and OPRB assets and obligations are significantly different from other types of assets and liabilities reported in the balance sheet, so continued use of a measurement date within three months of fiscal year-end is appropriate. If FASB nonetheless decides to require a fiscal year-end measurement date, the proposed method of transition seems unnecessarily costly.

The proposed transition method requires measuring assets and liabilities twice within a period of no more than three months. The sole purpose of requiring two measurements – both composed of many estimates – is to refine the breakdown of amounts between retained earnings and unrecognized gains (losses) at the moment of transition. This marginally refined breakdown produces no valuable information for the user, yet our service providers estimate that performing the second measurement will cost \$15,000. We do not believe this cost is justified.

The transition can be easily accomplished with only one measurement at the new measurement date, significantly reducing implementation cost with no decrease in useful results. We therefore recommend modifying the transition method to require a single measurement at the new measurement date – with the adjustment to retained earnings at the start of the fiscal year determined from the prior measurement. For example, under our proposed transition method, we would measure assets and liabilities at October 31, 2006 for our December 31, 2006 financial statements. We would also use this measurement to determine net benefit cost for fifteen months (from October 31, 2006 through December 31, 2007). The first two months' net benefit cost would be an adjustment to retained earnings at January 1, 2007, and the next twelve months' net benefit cost would be 2007 expense. The next measurement at December 31, 2007 would be used for our December 31, 2007 financial statements and 2008 expense.

Ongoing requirement to use fiscal year-end measurement date. If FASB implements the requirement to use a fiscal year-end measurement date, we expect our ongoing costs of complying with the new standard will also increase. As detailed in the next section, a great deal of work must be completed between the measurement date and the date we close our financial statements. The only practical way we could implement a year-end measurement date would be to prepare multiple liability measurements using a range of discount rates before the end of our fiscal year. When the discount rate is determined after fiscal year-end, we would then select the measurement to use (or estimate liabilities by interpolating between measurements if an intermediate discount rate is selected). Performing these additional measurements will increase our ongoing cost of preparing financial statements by approximately 13% – costs we don't incur now because using a measurement date two months before fiscal year end gives us sufficient time to determine the discount rate at the measurement date and then prepare one liability measurement.

Measurement date

In particular, we are concerned about the time required to complete the following tasks:

- ***Select the discount rate for each plan.*** We use a high-quality matching bond portfolio to determine the appropriate discount rate for our plans. But the universe of appropriate high-quality corporate bonds, as of the measurement date generally, is not available until one to two weeks after the measurement date. It must then be matched against projected cash flows to determine the appropriate discount rate, a process that requires a few business days. After we provide the discount rate to each local actuary, the actuary needs another two weeks to determine all the required plan liabilities (including ABO for pension plans and trend-sensitivity demonstration for OPRB plans), reconcile the funded status, and prepare the balance sheet entries and footnote disclosures. If a fiscal year-end measurement date must be

used, liabilities won't be available until four to five weeks after fiscal year-end, which leaves insufficient time to complete our financial statements. To cope with a year-end measurement date requirement, we would need to either (i) adopt a less accurate discount-rate selection method (for example, using a bond yield index) or (ii) before fiscal year-end, perform multiple liability measurements using a range of discount rates – at substantial additional cost – and then select which measure to use after the appropriate discount rate is determined.

- **Obtain claims cost information for OPRB plans.** Our OPRB plan administrator does not provide claims information until 3 weeks after the measurement date. If forced to use a fiscal year-end measurement date, we will have to determine our starting claims cost using payments as of an earlier date plus estimated claims through fiscal year-end – a process which, one again, offers no improvement over use of an earlier measurement date.

We believe pension and OPRB assets and obligations *are* significantly different from other types of assets and liabilities recognized in our financial statements and require additional lead time to measure accurately. The use of a measurement date up to three months prior to fiscal year-end remains appropriate, and SFAS Nos. 87 and 106 should not be amended to require use of a fiscal year-end measurement date. Such a requirement would not materially improve the accounting. As a practical matter, it would force us to use estimation techniques rather than accurate values at the earlier disclosed measurement date, and it would increase the chance of material errors in our financial statements. The proposed requirement represents false precision – it is likely to result in more inaccurate and misleading information, not less.

Pension liability measure

The projected benefit obligation (PBO) – the present value of a hypothetical benefit determined by dividing projected retirement benefits (including assumed pay increases between the valuation date and the assumed retirement date) by benefit accrual service to the assumed retirement date – is *not* a measure of the “market value” of plan liabilities. Rather, it is merely another SFAS No. 87 smoothing mechanism designed to produce a more level pattern of net periodic cost over participants’ careers. The PBO includes amounts related to future salary increases that are not yet liabilities of the company as defined in Concept Statement 6. Requiring balance sheet recognition of the PBO goes against the underlying conceptual framework of GAAP accounting and artificially increases plan sponsors’ liabilities. It will discourage the continuation of defined benefit plans – a result that cannot be undone if the Board decides in Phase 2 that the accumulated benefit obligation (ABO) – or some other measure – is the correct measure for balance sheet recognition (and perhaps also for expense).

The ABO – the present value of benefits earned by our current and former employees as of the measurement date – is the appropriate market-value measure of pension liabilities. Use of the ABO to determine balance sheet recognition is a logical extension of the current SFAS No. 87 additional minimum liability rules. It would also improve comparability among companies. Using ABO, my company’s balance sheet liability for a 40-year-old employee who has earned a benefit of \$10,000 per year payable starting at age 65 would be the same as any other company’s balance sheet liability for a 40-year-old employee with the same accrued benefit – a logical and consistent result. But by using PBO, different companies’ balance sheet liabilities for identical participants with identical accrued benefits will vary according to whether the pension plan is

frozen, flat dollar, career pay, or final pay -- a result that defies logic. For these reasons, the ABO, not the PBO, should be used to determine any required balance sheet recognition.

OPRB liability measure

OPRB obligations are fundamentally and substantively different from pension obligations and as such require a different balance sheet liability measure. In a pension plan, the ABO becomes fully vested upon plan termination. The only way an employer can reduce pension liabilities below the level of the ABO is by underfunding the plan and entering bankruptcy. But this is not the case for OPRB plans. Helena Chemical Company has reserved the right to unilaterally reduce or eliminate OPRB liabilities for all participants. Furthermore, we are currently considering cutting back retiree medical benefits for participants who have not yet retired and increased retiree contribution levels for those who have already retired.

Similar to the PBO for pension plans, the APBO may be appropriate for long-term budgeting or expense, but it is not a "market value" of liabilities. Because OPRB plans can be unilaterally reduced or eliminated, their APBO does not meet the definition of a liability under Concept Statement 6. Including the entire APBO for all OPRB plans on the balance sheet vastly overstates the company's OPRB liability. A different balance sheet liability measure is needed for OPRB plans.

Because our historical practice is to cut back benefits only for participants who are not yet eligible to retire, we believe the appropriate OPRB balance sheet liability measure is the APBO for current retirees and for active participants who would be eligible for OPRB benefits if they retired on the measurement date.

Non-pension postretirement benefits are fundamentally and substantively different from pension benefits and raise significant measurement issues that should be considered before introducing balance sheet recognition.

I believe the proposed changes to the pension accounting rules would be a tremendous disservice to millions of workers because, if passed, the inevitable result will be the termination of most defined benefit plans.

We appreciate your consideration of these comments. Please call me if we can provide any additional clarification or assistance.

Sincerely,



Troy D. Traxler, Jr., CPA
Senior Vice President/Chief Financial Officer
Helena Chemical Company
225 Schilling Blvd. Suite 300
Collierville, TN 38017
901-537-7206

**cc: Mike McCarty
President & CEO
Helena Chemical Company**