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Mr. Laurence Smith
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Letter of Comment No: 65
File Reference: 1025-200
Date Received: 10/27/03

October 27, 2003

RE: File Reference No. 1025-200

Dear Mr. Smith:

UBS AG is pleased to have the opportunity to comment on the Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Employers' Disclosures about Pension and Other Postretirement Benefits*. UBS AG listed its global registered shares on the New York Stock Exchange in May 2000. UBS AG utilizes International Financial Reporting Standards (IFRS) as its primary reporting framework, and provides a reconciliation to US GAAP. We are thus keenly interested in the work of the FASB and cognizant of the need for high quality accounting standards, which facilitate the international comparability of financial statements. The views expressed here are those of UBS AG and may not coincide with those sent to you by the Accounting and Valuation Group of UBS Equity Research.

UBS AG sponsors a number of pension plans and other postretirement benefit plans for its employees worldwide, with the major plans located in Switzerland, the UK, the US and Germany. We believe that the current disclosure requirements for pensions and other postretirement benefits are overly complex and confusing, and therefore support the FASB's project to improve these disclosures, which will enhance the quality of financial statement reporting.

We generally agree that the proposals in the Exposure Draft will improve financial reporting, however, we have noted several areas that we believe should be reconsidered before a final standard is issued. These include disclosing a schedule of estimated future benefit payments, elimination of the requirement to reconcile the beginning and ending balances of the fair value of plan assets and benefit obligations, and the effective date of the proposed rules.

We do not believe that disclosure of a schedule of estimated future benefits payable adds value for users of financial statements. The key issue for users is whether or not the pension fund is adequately funded and any outstanding liability is recorded. For an entity with a separate pension fund, the

estimated future benefits to be paid from plan assets has no impact on the financial statements of the entity and does not provide users with information to assess the future cash flows of the entity. We are also not aware that this information is readily available from actuarial calculations and are very much concerned that these disclosures could not be produced without imposing excessive cost and effort on financial statement preparers. We believe that it is sufficient to disclose the effective benefits paid, the fair value of plan assets, the Projected Benefit Obligation and as proposed the Actual Benefit Obligation. As such, we recommend that the Board eliminate this proposed requirement.

Further, we strongly recommend that the Board reconsider removal of the requirement in Statement 132 to provide a reconciliation of beginning and ending balances of the fair value of plan assets and benefit obligations. We believe that this information is critical to understanding the economic events during the period.

Lastly, we believe that the proposed effective date is unreasonable considering that the final Statement is expected to be issued a few weeks before year-end 2003. We disagree with the Board that such disclosures are readily available and that entities should have little difficulty in providing this information. We believe that the new disclosures require the collection of detailed information that may not be currently collected or easily obtainable. Further, many calendar year-end entities have already begun their annual reporting process and have not anticipated including this additional information. We therefore urge the FASB to change the effective date to June 15, 2004.

We have included responses to selected questions asked in Appendix A of this letter.

We very much appreciate the opportunity to comment. If you would like to discuss any comments that we have made, please contact us at your convenience. Your contacts on the subject are Ralph Odermatt, Managing Director (+41-1-236-8410) and John Gallagher, Executive Director (+1-203-719-4212).

Yours sincerely,

UBS AG

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Managing Director
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Appendix A - Specific Questions Asked in Exposure Draft

Issue 3: This proposed Statement would require disclosure of:

- a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, 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 estimated future payments to present value
- b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
 - (1) Contributions required by funding regulations or laws
 - (2) Additional discretionary contributions
 - (3) The aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

Answer:

- a. We do not believe that disclosure of the timing of estimated future benefits payable adds value for users of financial statements. The key issue for users is whether or not the pension fund is adequately funded and any outstanding liability is recorded. For an entity with a separate pension fund, the estimated future benefits to be paid has no impact on the financial statements of the entity and does not provide users with information to assess the future cash flows of the entity. We are also not aware that this information is readily available from actuarial calculations and are very much concerned that these disclosures could not be produced without imposing excessive cost and effort on financial statements preparers. We believe that it is sufficient to disclose the effective benefits paid, the fair value of plan assets, the PBO and as proposed the ABO and we therefore urge the Board to eliminate this requirement.
- b. We agree with this proposal as it provides users of financial statements with pertinent information relating to the future cash flows of the entity. .

Issue 6 The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits would still be required.

Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

Answer: We strongly agree with the Board's conclusion not to require disclosure of sensitivity information, as we believe that sensitivity-derived disclosures are neither practical nor useful to users of financial statements. Such analysis might be performed by financial analysts but should not be part of financial statements as they could be misleading. The change of only one assumption, while holding all other assumptions constant, would be misleading since this will never give an indication of the actual future result. Sensitivity analyses that include multiple assumptions are very complex and cannot be presented meaningfully in a single tabular format. Various scenarios with extensive accompanying explanations would need to be provided to cover different combinations of variables in order not to be misleading, and even then actual future results might differ from all the scenarios provided.

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations

Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

Answer: We strongly recommend that the Board reconsider elimination of the requirement to reconcile the beginning and ending balances of the fair value of plan assets and benefit obligations as required by Statement 132. We believe that this information is critical to understanding the economic events during the period. The reconciliation's provide an understanding of the interaction between income statement and balance sheet items and allow users to perform additional reconciliation's, for example for unrecognized actuarial gains and losses. Further, if these reconciliation's are eliminated the disclosure of key information would be more dispersed or eliminated, which is rather confusing for financial statement users.

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:

- a. The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment
- b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

Answer: We do not agree with the Board's decision to increase disclosures in interim financial statements. We do not believe that disclosure of the different cost components of net periodic pension and other postretirement benefit cost would provide users of financial statements with relevant information for analyzing interim-period results. Generally, these cost components don't vary significantly from quarter to quarter and, as recognized by the Board, pension plans are long-term in nature and many elements of net periodic cost are determined on an annual basis. We therefore do not see a need for interim disclosure and propose to eliminate this requirement from the final Standard. In the case of significant events, APB Opinion No. 28 encourages management to provide commentary relating to the effects of the significant events upon the interim financial results which in our opinion is sufficient for understanding the financial performance of the financial statement preparers.

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

Answer: We agree with the transition provisions, however we do not agree with the proposed effective date. As communicated by the FASB, the final Statement is expected to be issued in mid-December 2003. Considering that the final Statement is expected only a few weeks before year-end 2003, the short period of time available to comply with the new disclosure requirements is clearly inappropriate. We disagree with the Board that such disclosures are readily available and that entities should have little difficulty in providing this information. We believe that the new disclosures require the collection of detailed information that may not be currently collected or easily obtainable. Further, many calendar year-end entities have already begun their annual reporting process and have not anticipated including this additional information. We therefore urge the FASB to change the effective date to June 15, 2004.