



Lennox International Inc.
2140 Lake Park Blvd.
Richardson, Texas 75080

Mailing Address
P. O. Box 799900
Dallas, Texas 75379-9900

Phone 972.497.5000
Fax 972.497.5299
www.lennoxinternational.com

David L. Inman
Vice President, Controller &
Chief Accounting Officer
Phone 972.497.6678

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

Letter of Comment No: 62
File Reference: 1025-200
Date Received: 10/27/03

Subject:

Proposed Statement of Financial Accounting Standards
Employers' Disclosures about Pensions and Other Postretirement Benefits

To Whom It May Concern:

Lennox International Inc. (LII) is pleased to submit its comments on the exposure draft, "Employers' Disclosures about Pensions and Other Postretirement Benefits." LII, a Fortune 500 company, operating in over 100 countries is a global leader in the heating, ventilation, air conditioning, and refrigeration markets. The company employs approximately 18,600 employees, worldwide.

As both a user and preparer of financial statements, I understand the need for transparent accounting and reporting by public companies. Our management team supports FASB's efforts to strengthen the value and relevance of financial information reported to the users of financial statements. However, we have the following general concerns about this proposed statement of financial accounting standards.

- The level of detail about pension and other postretirement benefit plans proposed in this statement does little to explain this complicated subject matter to the financial-statement user and may actually create additional confusion due to the additional volume.
- Compiling the disclosures required by the proposed statement would substantially increase the time and cost of preparing the disclosures. The additional cost to obtain and disclose this information creates another negative attribute for defined benefit plans, augmenting the trend away from them -- to the detriment of employees.

The following sections of this letter provide more detailed comments about the specific issues raised in the *Notice for Recipients of This Exposure Draft*.

Issue 1 – Plan Assets

Actual allocation percentage. We support the disclosure of the percentage of the fair value of

total plan assets invested in each of four broad asset categories (equity securities, debt securities, real estate, and other assets) as of the date of each statement of financial position presented. This information is readily available, and the disclosure may be meaningful to financial-statement users. Additional narrative discussion may be required to explain temporary deviations from long-term policies, such as the distortions that might result because a large portion of the portfolio is temporarily invested in cash due to a substantial contribution immediately before the measurement date or because the plan is implementing a change in investment manager(s). In fact, we believe this information is sufficient to enable knowledgeable users of financial statements to understand our investment strategy and market risks and assess our expected long-term rate of return assumption.

Expected return for each asset category. We do not support the disclosure of expected long-term rate of return for each asset category. We believe disclosure of these rates is not meaningful, creates confusion, and raises more questions than it answers. For example, the illustrations in appendix C of the proposed statement create the impression that employers set their expected long-term rate of return for the total portfolio as the average of the expected returns for each category, weighted by the actual allocation on a single day, the measurement date. Development of the expected long-term rate of return on plan assets is a much more complicated process that entails assessing numerous factors for a broad range of plans. In so much as these factors will likely vary from company to company, comparisons between companies will be misleading.

Issue 3 – Cash Flow Information

Estimated future benefit payments. We do not support the requirement to disclose a schedule of the estimated future benefit payments included in the determination of the benefit obligation. Our actuaries have advised us that this information is not currently available without performing additional computer runs and analysis, at significant additional cost per plan. Obtaining this information for some of our non-US plans will be particularly difficult or impossible for 2003 fiscal year-end. Although our actuaries expect that their firms' valuation systems would be modified to automatically determine the required cash flows in future years, more refined actuarial assumptions would be required to accurately project cash flows, which will materially increase the ongoing cost to complete the valuations.

Beyond the added expense, we don't believe the proposed benefit payment projection achieves your stated objective of enabling users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments. Projecting only the portion of expected future benefits that is included in the obligations (PBO/APBO) understates the total cash flows. Combining funded and unfunded plans in the disclosure, makes it impossible to draw conclusions about the alignment of asset maturities and benefit payments. Finally, no meaningful conclusions can be drawn from the disclosure of total undiscounted benefit payments from years 6 through 100 (when the youngest current participant's pension payments are expected to end), and the discount for interest.

Estimated contributions. We understand disclosing the next fiscal year’s expected contributions may provide valuable information to financial-statement users about cash flows between the employer and its plans. However, in many cases, such as when the employer wishes to maintain a fully funded accumulated benefit obligation (ABO) to avoid an additional minimum liability, a contribution amount might not be known until late in the fiscal year, limiting the usefulness of advance disclosure. Further, a company’s use of capital can change significantly over the course of a year with the voluntary portion of contributions subject to general availability and other utilization/allocation considerations. These competing forces may not be resolved until the end of a fiscal year. Estimating these competing capital demands is not possible without significant risk of misleading the financial-statement user.

Expected contributions. While information about expected contributions may be useful, the breakdown between required and discretionary contributions is arbitrary, misleading and subject to manipulation, and should be changed to only include required contributions. For US qualified pension plans, discretionary contributions made for one plan year (up to 8½-months *after* the end of the year) can prepay, reduce, or, in some cases eliminate required contributions for a subsequent year. A plan sponsor has until the end of the 8½-month period to decide whether a particular contribution is discretionary for the prior year or required for the current year. Because these amounts are discretionary and subject to the capital resource allocation concerns previously mentioned, management should not be expected to disclose them.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions

We agree that additional disclosure of sensitivity information about hypothetical changes in certain assumptions should not be required.

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

We do not support eliminating the reconciliations of beginning and ending balances of plan assets and benefit obligations. The reconciliations provide a complete and straightforward explanation of changes in assets and benefit obligations, which help users of financial statements understand the various elements that affect retirement plans. Eliminating the reconciliation would not reduce our cost to prepare the disclosures. Most of the reconciliation elements are still required to be disclosed – the proposed statement simply moves them elsewhere in the disclosure. In addition, the proposed statement requires the disclosure of “any significant change in the benefit obligation or plan assets not otherwise apparent in the other disclosures required by this Statement.” This means the few items that are not automatically required to be disclosed – such as obligation gains and losses, asset gains and losses, and currency exchange rate changes – would still have to be tracked and disclosed if they have a significant effect on assets or obligations.

Issue 10 – Disclosures in Interim Financial Reports

Pension and other postretirement benefit valuations often are not finalized until the second or third quarter of a company's fiscal year. In the interim, we recognize pension and other postretirement benefit cost based on budgeted amounts, which in most cases are not specific by component of cost. We question whether the usefulness of interim cost on a component-by-component basis warrants the additional cost of developing budgeted information on that basis. We would support interim disclosure of any material change in total net periodic pension cost.

Issue 11 – Effective Date and Transition

The proposed effective date – fiscal years ending after December 15, 2003 – is much too aggressive. It takes time to gather newly required information from multiple sources in different countries. We believe that, to enable employers to arrange for the collection and compilation of the new information, the statement should be effective no earlier than fiscal years ending three months after the final statement is published.

Thank you for the opportunity to comment on the proposed statement. Should you have any questions on the above, please let me know.

Sincerely,

LENNOX INTERNATIONAL INC.



David L. Inman
Vice President Controller &
Chief Accounting Officer

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