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LOCKHEED MARTIN

Rajeev Bhalla Vice President and Controller

October 27, 2003

TA & I Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Sent via email to director@fasb.org, File Reference No. 1025-200

Re: File Reference No. 1025-200

Proposed Statement of Financial Accounting Standards

Employers' Disclosures about Pensions and Other Postretirement Benefits

Lockheed Martin Corporation welcomes the opportunity to provide comments on the Exposure Draft (ED) concerning proposed additional pension disclosure requirements. Lockheed Martin is a publicly traded corporation principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. We reported sales of \$26.6 billion in 2002.

Before presenting our response to the specific questions posed in the ED, we have some general comments.

As stated in paragraph 4 of the ED, the proposed standard addresses disclosure only, and does not address measurement or recognition. The accounting for pensions and other postretirement benefits is replete with technical idiosyncrasies that are often difficult for the lay reader to understand. Disclosing a host of additional technical data does nothing to address the complex nature of benefits accounting. It may not clarify, and in fact could obscure, the underlying accounting and the relationships of the various elements. For example, data concerning anticipated near term funding of the plan, versus expected cash outflows for benefit payments, could readily be subject to misuse or misinterpretation by users not proficient in the nuances and

terminology of benefits accounting. We need to be sympathetic to both the ability of the user to properly process the information provided, as well as the time and expense required by the preparer to gather and present the data, when evaluating the costs versus benefits of this proposed standard.

We are also concerned that the near-term outlook implied by some of the proposed disclosure requirements – quarterly update of investment return data, short-term changes in investment mix, and so on – is fundamentally at odds with the long-term nature of the acts of earning benefits, investing assets, and accruing and discharging liabilities related to postretirement benefits. The challenge of measuring and accounting for these items in this long-term environment was acknowledged and addressed in the provisions of FAS 87 and FAS 106. Those standards correctly recognized that measuring most aspects of pensions and other postretirement benefit obligations involves estimates which can only be of limited precision at any one point in time, but which evolve and reconcile to actual experience over the long term as revised estimates are made at regular intervals throughout the life of the benefit plans. FAS 87 features such as the "corridor" and "minimum liability" provisions were designed to ensure that recent, short-term events did not run too far afield from the long-term expectations which formed the basis of the accounting, not to reflect the full effects of short-term fluctuations. The volatility that would result from fully accounting for short-term (and temporary) changes in elements of the pension calculations would be misleading if applied to such long-term obligations.

We believe it would be equally misleading to adopt or imply a similar short-term frame of reference in the proposed additional disclosures. To do so would suggest a level of precision and sensitivity that does not exist in any meaningful sense, and is at cross purposes to an understanding of the framework within which benefits accounting actually takes place.

Here are our comments concerning some of the specific issues raised in the ED:

### Issue 1 - Plan Assets

We do not believe that providing the expected long-term rate of return by broad asset category would provide the user of the financial statements with any meaningful information. An analysis of the appropriateness of the expected return would require more detailed information delineated for each specific asset, not just for more specific asset categories. Disclosure of such a level of detail would be too voluminous and cumbersome to be practical. We do not believe that separating the long-term return assumption into four components would be any more helpful than disclosing a single rate.

Some statement readers may find it useful to have a general understanding of how the assets are invested. For that reason we would agree that it may be somewhat helpful to provide the actual percentage of assets invested by broad asset category at a point in time, or perhaps the range of the percentages invested historically. Providing target allocation percentages would not really give any useful information. Just as the actual percentage of assets invested can change over

time, target percentages are similarly dynamic and reflective of changes in the investment climate. We believe it would be much more simple, direct, and helpful to know how the assets are actually invested.

We don't believe that disclosure of the range and average of the length of maturities of debt securities held would provide useful information, as it would not allow users to analyze the alignment of asset cash flows with benefit payments in any meaningful fashion. Debt securities are only one component of a typical investment portfolio, and maturities are only one component by which to evaluate debt security cash flows; coupon and yield rates also play a role.

In summary, we would agree that providing the percentage of assets invested by broad asset category would be an appropriate change, but we do not see any justification for any of the other proposed changes.

## Issue 2 - Accumulated Benefit Obligation (ABO)

We believe that it would be helpful to include the ABO in the pension disclosure.

### Issue 3 - Cash Flow

We don't believe that disclosure of benefit payment information would be useful to financial statement users. Such information would not identify actual projected cash requirements because, in order to reconcile to the benefit obligation, the forecasted benefit amounts would be adjusted based on each employee's accrued service. Because of this adjustment we don't understand how this disclosure would add any more value than simply providing the amount of the benefit obligation.

Regarding the disclosure of company contributions expected to be paid during the next fiscal year, we believe this should be limited to minimum contributions required by regulation. The potential for discretionary contributions is subject to the opportunities for alternative uses of cash that present themselves throughout the year. This could be a highly variable area and it would be difficult to accurately forecast the impact on pension contributions. Companies in our industry face the further complexity of being subject to U.S. Government Cost Accounting Standards (CAS). CAS is a major factor in determining our funding requirements and governs the extent to which our pension costs are allocable to and recoverable under contracts with the U.S. Government.

Even the expected contributions that are required by regulation could be subject to a material adjustment. Those amounts are often not finalized until the second or third quarter of the year in which they would apply. The funding calculations can be volatile and, depending upon specific circumstances, are very sensitive to swings in interest rates and asset performance. Therefore, if such a disclosure were to be required, we believe that it should be in the form of a range of probable expected required contributions. This range could be narrowed, or eliminated, in interim reporting as more information is obtained and the calculations are finalized.

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We also believe that, since this is forward looking information, it should not be a component of footnote disclosure, but rather an element of Management's Discussion and Analysis, where appropriate safe harbor protection would apply.

## Issue 4 - Assumptions

We agree with the Board that requiring the tabular format for the disclosure of certain key assumptions would be helpful.

### Issue 6 - Sensitivity Information

As noted above, we are concerned that the presentation of short-term sensitivity information could be misleading in the long-term context of pension accounting. We therefore agree with the Board that disclosing this information would most likely create additional confusion for the statement users and would not be productive. If deemed to be meaningful, we would expect this information to be discussed in the context of critical accounting policies included within Management's Discussion and Analysis.

### Issue 7 - Measurement Dates

We believe that FAS 87 allows for the use of a measurement date within three months of the fiscal year-end in order to allow companies additional time to collect data and calculate numbers that are needed for the disclosure. Requiring the disclosure of the impact of significant events that occur between the measurement date and the fiscal year-end seems to us to be contrary to purposes of this provision. We believe the more practical course is to allow for the earlier measurement date (and require that the measurement date be disclosed), with the impact of significant events to be included in Management's Discussion and Analysis when the impact is known. This would be done for any material event, irrespective of when it might occur during a year.

## Issue 8 - Reconciliation of Beginning and Ending Balances

In our experience, this item has been one of the more helpful pieces of information included in the current disclosure. The retirement benefits area has very specific technical rules and the financial results can be very complicated for financial statement users to grasp. Removing this item would reduce the size of the disclosures, but not in any meaningful way, and would not benefit the financial statement users. Scattering the data throughout the remaining disclosures, instead of retaining it in the current concise format, would be similarly counterproductive.

# Issue 9 - Disclosures Considered But Not Proposed

We agree with the Board's position to not require disclosure of this information. We believe that these disclosures do not pass the costs versus benefits test, and are pleased and reassured that the Board is considering this criterion in its deliberations.

### Issue 10 - Disclosures in Interim Financial Reports

We do not believe that there should be a disclosure of expense for interim periods. Barring significant events and given the long-term nature of the accounting, there is not much variance in the expense from period to period. It would be more useful to provide an estimated expense for the year. This could be included in Management's Discussion and Analysis with other forward-looking information, and updated as events warrant.

The disclosure of contributions already paid during a year could be disclosed on an interim basis without undue difficulty. However, as we have already commented, any change to contributions expected to be paid in future periods, if material, is information more appropriately presented with other forward-looking information in Management's Discussion and Analysis.

#### Issue 11 - Effective Date

We believe complying with the proposed 2003 year-end effective date would be difficult but achievable, assuming that the final statement does not include any requirements in addition to those included in the ED. The process of gathering and assembling pension data typically begins well prior to year-end. Delays in issuing a final standard, without a corresponding deferral of the required implementation date, could have a significant negative impact.

Furthermore, the fact that Lockheed Martin has only domestic plans will, we believe, allow us reasonable access to the additional data being requested. We believe that financial statement preparers with large numbers of plans, or plans operating in highly regulated or restrictive foreign jurisdictions, could well have difficulty complying with the provisions of the ED in the allotted time period.

If desired, we would be happy to provide more information about our reasoning. Thank you for considering our concerns during the Board's deliberations.

Sincerely,

/s/ Rajeev Bhalla Vice President and Controller