



Letter of Comment No: 22
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October 24, 2003

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
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P.O. Box 5116
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Re: File Reference #1025-200

Dear Larry,

The Committees on Corporate Reporting ("CCR") and Benefits Finance ("CBF") of Financial Executives International ("FEI") appreciate the opportunity to comment on the Financial Accounting Standards Board's (the "Board") Exposure Draft of the Proposed Statement of Financial Accounting Standards, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (the "Exposure Draft"). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. CBF is a technical committee of FEI, which reviews and responds to existing or proposed legislation and regulations affecting employee benefits. This document represents the views of CCR and CBF and not necessarily the views of FEI.

On July 15, 2003, CCR and CBF sent a letter to the Board, which urged the Board to reconsider its then tentative decisions to require a broad new layer of disclosures, including among other things, point-in-time asset allocations, forecasts and justification for expected long-term rates of return and interim effects of defined benefit plans on earnings. We also appreciated the opportunity to subsequently clarify certain points from our July 2003 letter, particularly our cost analysis, with members of the pension project team. However, our primary concern that we raised initially in our July 2003 letter remains; that is, the costs incurred by preparers to comply with the proposed disclosures will far outweigh the benefits to financial

statement users, especially for multi-national companies with many defined benefit plans.

We understand that the genesis for the Board undertaking this broader disclosure project spawned from the FASB's User Advisory Council at a time when media interest was heightened due to the short-term effects the weakened economy was having on earnings and cash flows. However, we also understand that interest for increased disclosure wanes over time as both the economy shifts and the market effectively drives necessary changes. Our experience indicates these proposals far exceed the market's interest today.

As active participants in the markets, FEI companies have recently confronted a significant amount of market concern over pension funding issues. We believe these concerns should be met with narrow, targeted additional disclosures in the financial statements themselves, not in MD&A or "off line," as we are all doing now. Funding concerns are quite narrow, and therefore are best addressed with targeted disclosures.

Specifically, we recommend the following matters be included in annual financial statements:

- Minimum pension liability (ABO)
- Statutory minimum funding requirements (e.g., ERISA for U.S. plans)

With respect to transition, we believe that given the large volume of data that multi-national companies will be required to collect and consolidate, it will not be feasible for many calendar-year companies to be in a position to comply in their 2003 financial statements. We strongly encourage the Board to defer the effective date of these disclosures for one year. We also recommend that the Board allow implementation of the standard prospectively so that companies will not have to incur additional expense to gather and calculate data for prior years.

The Exposure Draft contains eleven issues on which the Board is seeking comment. Our responses to issues, of concern to CCR and CBF, are detailed in an attachment to this letter (Attachment A).

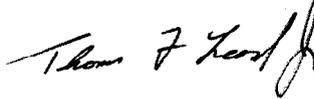
Mr. Lawrence W. Smith
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If you have any questions regarding this letter or would like further information about the complexity, costs and administrative requirements that this Exposure Draft would require, please feel free to call Ron Olejniczak at (860) 273-7231 or Frank Brod at (989) 636-1541.

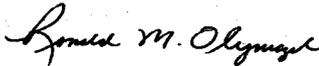
Sincerely,



Frank H. Brod
Chair, Committee on Corporate Reporting
Financial Executives International



Thomas F. Leonard, Jr.
Chair, Committee on Benefits Finance
Financial Executives International



Ronald M. Olejniczak
Chair, FASB/IASB Subcommittee
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Request for Comment on Issues 1-4

Are the proposed disclosures described in Issues 1-4 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?

Issue 1 – Plan Assets:

We believe the current disclosures of plan asset information required by FAS 132 provide the necessary information for users to understand the financial condition and results of plan assets. The additional disclosures on plan assets by the broad asset categories proposed will add minimal value to financial statements, and will likely result in increased confusion.

Within each broad asset category, investments often possess a wide array of risk characteristics (e.g., different investment grades, industries and countries). Because of these differences, the target allocation percentage is likely misleading.

We also do not believe providing the company's expected long-term rate of return by broad asset category is meaningful. In most companies, the allocation among asset categories is actively managed to optimize investment return opportunities that become available as markets and investment fundamentals change. The proposed disclosure assumes a relatively static environment that simply does not exist. Management develops its estimates of expected returns on plan assets based on an array of long-term assumptions, some implicit and some explicit and always in relation to current and expected market conditions. The aggregation of plan data for multiple-plans (i.e., a sponsor's non-U.S. plans) will result in a further differential between the build-up of expected rates of return of individual asset categories and the expected rate of return for the entire portfolio.

We are concerned that the proposed disclosure of the range and weighted average of the contractual maturities or terms of all debt securities would provide a limited view of sources of future cash. We acknowledge the Board's basis for requesting this disclosure that is, providing users the ability "...to assess the degree to which investment cash flows are aligned with benefit payments" (par. A11 of the Exposure Draft). However, the Board must acknowledge that most pension obligations extend well into the future, and disclosing the maturity of debt securities provides little insight into how the obligations will be met. Further confusion arises from the mix of investments given the extent of equity securities, real estate and other investments without contractual maturities. Such assets often represent a majority of the plan asset holdings. We believe that the current disclosures of the funded status of the plan (i.e., fair value of

assets compared with the projected benefit obligation), combined with the requirement for providing the amount of benefits actually paid, provide appropriate information for a reader to assess asset coverage of all liabilities.

Many of our member companies agree that the additional information on plan assets required by the Exposure Draft is available in accounting records. However, the additional costs to compile, analyze and audit the proposed additional disclosures, while modest for those companies with a single benefit plan, would be significant for a company with multiple plans. For companies that offer pension and other postretirement benefit plans in multiple countries and jurisdictions, these additional disclosures will be onerous to provide and subject to misinterpretation. In many countries, as a result of local regulatory restrictions, plan asset investment options are restricted and require the use of local trustees. Obtaining detailed information and maturity information from overseas and multiple domestic plan trustees on a timely basis will be difficult, especially in light of the accelerated SEC filing requirements for annual reports. We therefore suggest these proposed disclosures be removed from the final standard.

Issue 2 – Defined Benefit Pension Plan Accumulated Benefit Obligation:

We agree with the Board’s decision to require annual disclosure of the accumulated benefit obligation. This information is already analyzed by most companies when assessing the need for additional minimum liabilities. We agree that providing this disclosure will assist the reader’s comprehension of the financial condition and cash flows of the pension plans, as well as the technical accounting requirement for recording an additional minimum liability.

Issue 3 – Cash Flow Information:

We understand that the intention of the proposed disclosure of the projected future benefit payments included in the determination of the benefit obligation is to provide information about the amount and timing of benefit payments that can be aligned with plan asset maturities. We do not believe that the proposed disclosures will accomplish this objective. As described in Issue 1 above, the proposed disclosure of the maturity of debt securities does not present the complete picture of cash flows expected to be available from plan assets. Further, in times of significant downsizing, the estimated future benefit payments would be even more difficult to predict for those companies that offer lump sum distributions (e.g., qualified plan transfers).

The requirements of Statement 87 and Statement 106 are complex. For financial statement users who do not deal with these standards on a regular basis, the terms used are difficult to understand. It is highly improbable that more than a handful of financial statement users will, for example, understand the difference between the projected benefit obligation (“PBO”) and the accumulated benefit obligation for Statement 87 plans as well as the meaning of the accumulated postretirement benefit obligation (“APBO”) for Statement 106 plans.

We also understand that most actuarial firms will need to modify their valuation software to develop benefit payments on a PBO/APBO basis. Based on these changes, we expect ongoing incremental fees to comply with this new disclosure requirement. Early estimates¹ of this additional cost range from \$4,000 to \$7,500 per plan. As a result, companies with multiple plans may incur significant costs to comply with this proposed disclosure alone.

We understand certain financial statement users occasionally inquire as to a company’s future cash flow requirements of pension and other postretirement benefit plans. The proposed disclosure of estimated future benefit payments would not satisfy these concerns, as the future benefits payments from a funded plan has little or no correlation to contribution requirements of the plan, which impact a company’s cash flows. We believe users would benefit from increased disclosures on a pension plan’s contributions, as contemplated in the Exposure Draft. However, the disclosure of management’s best estimate of contributions to be made to a plan over the next fiscal year should be limited to the minimum funding requirements required by local regulation (or best estimates in circumstances where data and valuations necessary to determine minimum required contributions are not yet available for year-end disclosure).

Contemplated voluntary (or discretionary) contributions should not be required to be disclosed, as such information may lead to “second guessing” of management’s actual versus previously disclosed estimated contributions. A company’s use of capital varies significantly over the course of a fiscal year and voluntary contributions are often based on a number of competing factors, which can change dramatically (e.g., tax considerations, investment market conditions, availability of capital and other capital requirements). Oftentimes, the resolution of these competing factors is not known until close to the end of a fiscal year, at which time a company will evaluate the magnitude of voluntary contributions, if any, to be made to the plan.

¹ Early cost estimates were based on tentative decisions (as of July 2003), which *did not include* disclosure of other postretirement benefit plans, the measurement date(s) and related significant changes (see Issue 7 below), but *did include* disclosure of the net benefit cost by income statement line item (par. A27).

Our experience shows that, in certain circumstances, it is impossible to calculate the minimum contribution amount to be paid over the next fiscal year at the beginning of the fiscal year because of the timely availability of valuation information (e.g., companies required to fund quarterly, companies with valuation dates near the end of its fiscal year, etc.). Although the minimum contribution requirements may vary during the course of a fiscal year, these changes are better explained to financial statement users than shifts in management's discretionary funding. Synthesizing all of these technical issues as well as the uncertainty that any type of U.S. pension funding interest rate reform will be resolved soon (as of the date of this letter, Congress has still not formally acted) makes the requirements of these proposed disclosures less reliable and less useful.

Therefore, we believe the Board should limit the proposed disclosure of a company's *best estimate* of contributions to the minimum funding requirements. We also believe that this type of disclosure, which is forward-looking information, would be difficult to audit and is more appropriately included in the MD&A versus footnote disclosure.

We also request clarification of the definition of "...contributions required by funding regulations or laws" (paragraph 5.g.). For U.S. funded plans, it is clear that this requirement is referring to contributions required by ERISA minimum funding requirements. However, it is unclear from the Exposure Draft whether benefit payments from unfunded plans would be considered required or discretionary. Similar clarification is also needed with respect to contributions made to plans with negotiated contribution rates (e.g., collectively-bargained plans) as well as contributions made to non-U.S. plans that are set forth by trust agreements.

The requirement that a company disclose the method of contribution (e.g., cash, other assets, stock) at the end of the fiscal year for the upcoming fiscal year is highly susceptible to change based on market conditions throughout the year and timing of contributions and is unlikely to be a reliable and informative disclosure. Therefore, this proposed disclosure should be removed from the final standard.

Issue 4 – Assumptions:

We agree that the proposed disclosures of key assumptions used to measure benefit obligations as of the measurement date and those used to measure net benefit cost or income for the period will improve the clarity of the assumptions currently provided per Statement 132.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions:

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

We agree with the Board’s decision not to require disclosure of sensitivity information about the impact of a hypothetical change in certain assumptions. We agree with the views in paragraph A31 that sensitivity information would be misleading to financial statement users, as several assumptions may change at once as economic conditions change. The impact of individual assumptions may also not be linear or able to be used for extrapolation.

Issue 7 – Measurement Date(s):

Should disclosure of the measurement date(s) be required and why?

We believe the assessment of whether it is necessary to disclose the measurement date(s) used to determine pension and other postretirement benefit measurements would prove an onerous and costly task for those companies with measurement dates that differ from their fiscal year end. Based on our understanding of the proposed disclosure, when an economic event occurs or conditions change that may have had a significant effect on plan assets, obligations or net periodic benefit cost, the nature of the change and the measurement date must be disclosed. In essence, companies that elect to use a measurement date other than their fiscal year end as permitted under Statement 87 and Statement 106 will be required to evaluate whether an economic event had a “significant” effect on their disclosure and expense results. This evaluation will likely require the use of actuarial firms and plan asset trustees, representing an additional cost burden to affected companies. This proposal negates the practical benefit of using a measurement date other than a company’s year end and we do not support this proposed change in accounting in a “disclosure only” project.

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

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

We believe the reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations provide a concise format for presenting key information to financial statement users. Further, most of this information is retained in the Exposure Draft, merely in a different format. We do not agree that these reconciliations should be eliminated, nor do we agree that this elimination results in a meaningful reduction of “disclosure overload”.

Issue 9 – Disclosures Considered but Not Proposed:

Should any of the information (as detailed in Issue 9 of the “Notice for Recipients of This Exposure Draft”) be required to be disclosed and why?

We agree with the Board’s decision not to require the other disclosures noted in the Exposure Draft as “disclosures considered but not proposed”. These additional disclosures would add increased costs to comply, create further confusion of the complex accounting issues and ultimately add little or no value to financial statement users.

Specifically, we support the Board’s decision not to require disclosure of net benefit cost by income statement line item and strongly disagree with the alternative views espoused in paragraph A42. We do not believe that any related benefits from this previously considered disclosure would exceed the cost to compile and report this information. We previously provided examples to the Board detailing the cost that would be incurred by companies attempting to comply with the tentative decisions, which included net benefit cost by income statement line item and excluded disclosures related to other postretirement benefits and measurement date(s). These costs are summarized below:

- One company, a multi-national organization sponsoring multiple pension plans, estimated the cost to comply based on a high-level analysis at approximately \$1 million. This company has over 100 pension plans (78 are considered significant) operating in more than 25 countries. This company projected about \$700K out-of-pocket cash costs for actuarial and audit fees and approximately \$250K for internal costs. These internal costs are associated with aggregating the actuarial information, accumulating the pension plan asset information and allocating the pension cost between balance sheet and income statement line items. Since this last item is no longer required, the total estimate can probably be reduced by about \$150K.
- Another company estimated its costs to comply to be roughly \$12,000 per plan. Unlike the company previously discussed, this company has only two pension plans based in the U.S. and all pension costs are included in one line-item on the income statement (i.e., pension costs are not allocated and would not be reconciled). This company uses a third-party actuarial consulting firm to calculate its pension costs and obligations and has an internal workforce managing pension plan assets. This company estimated external costs (actuarial consulting fees and audit fees) of approximately \$9,500, per plan and internal costs to aggregate pension plan and asset information at \$2,500 per plan.

Issue 10 – Disclosures in Interim Financial Reports:

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?

For companies that do not capitalize pension and other postretirement benefit costs, we generally would not view the additional interim disclosure of the amount of net periodic pension and other postretirement benefit cost recognized as onerous. In principle, however, we do not support required disclosures in interim reports for costs recognized that are not subject to significant changes from one interim period to the next (as such costs generally are determined as of the measurement date).

We agree that changes in an employer's contribution paid, or expected to be paid during the year, from previous disclosures should be included in interim reports. However, as discussed in our response to Issue 3 above, this disclosure should be limited to changes in management's best estimate of the expected contributions to comply with minimum funding requirements.

Issue 11 – Effective Date and Transition:

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.

Given our concerns addressed in this Attachment and the large volume of data that multi-national companies will be required to collect and consolidate, issuance of a final standard that would be effective in 2003 for companies with December 31 fiscal year-end filings is burdensome, particularly in light of the SEC's accelerated filing requirements. The Exposure Draft would require actuaries to calculate and provide data that is not routinely provided as part of a standard liability valuation. For calendar year-end companies with measurement dates prior to the issuance of a final statement, actuarial work may have to be re-performed in order to comply with the proposed year-end disclosures. Further, additional time would be required by actuarial consultants to revise computer models used to support a company's valuation study. The Board should allow implementation of the standard prospectively so that companies will not have to incur additional expense to gather and calculate data for prior years. For multi-national companies, it is common practice to send out Annual Report instructions to regional accounting departments in September for December 31 year-end filers. For these reasons, we strongly believe the Board should delay the effective date of any final rule for one year.