



Letter of Comment No: 2
File Reference: FSPFAS106B
Date Received: 04-08-04

280 Park Avenue
New York, N.Y. 10017
8th Floor

Telephone 212-909-5600
Fax 212-909-5699

April 8, 2004

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

Proposed FASB Staff Position No. FAS 106-b, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003"

Dear Mr. Smith:

We agree with the accounting guidance related to the federal subsidy provided in paragraphs 12 through 18 of proposed FASB Staff Position (FSP) No. FAS 106-b, and we agree with the transition and effective date guidance provided in paragraphs 21 through 28 of proposed FSP FAS 106-b.

The accounting guidance related to the impact of recognizing the federal subsidy on income taxes is consistent with our interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. We believe that it would be helpful to modify the wording of paragraph 18 to state explicitly that sponsors will need to account for the gross amount of the accumulated postretirement benefit obligation and the federal subsidy separately to facilitate the calculation of income taxes under Statement 109.

In addition to these overall comments, we have the following specific comments:

- Paragraph 3 – We believe that the FASB staff should clarify this paragraph so that accounting recognition for the federal subsidy is required only when actuarial equivalency has been determined for the plan in its entirety. Many sponsors have terms and conditions within a single plan that may vary for different groups of employees, and there is some complexity and uncertainty associated with the ability to bifurcate these groups of employees to assess actuarial equivalency.
- Paragraph 3 - Some sponsors expect to receive a subsidy in excess of the employer's share of costs of postretirement prescription drug coverage. We encourage the FASB



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staff to provide guidance on this matter in the FSP to avoid the potential for divergent accounting treatments.

- Paragraph 20 - We believe that it may be useful to require disclosures for those sponsors that ultimately determine that their plans are not actuarially equivalent.
- Paragraphs 21 through 28 – Although the examples provided in paragraph 24 help to clarify the transition and effective date of FSP 106-b, the FASB staff also should consider including a flowchart or a matrix to further clarify this guidance. The transition and effective date requirements depend on (a) whether a sponsor elected deferral under FSP FAS No. 106-1, (b) the sponsor's year-end and its measurement date for its plan, (c) the effect of amendments after the Act's enactment date but before either January 31, 2004 or the adoption of FSP FAS 106-b, and (d) the sponsor's assessment on adopting FSP FAS 106-b of whether the plan is actuarially equivalent. A flowchart or a matrix would enhance the clarity of the guidance.

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If you have questions about our comments or wish to discuss any of the matters addressed herein, please contact John Guinan at (212) 909-5449.

Very truly yours,

KPMG LLP