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TA & I Director – File Reference No. 1025-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: ED: Employers' Disclosures about Pensions and Other Postretirement Benefits

Dear TA & I Director,

This response represents the views of the Accounting and Valuation Group of the UBS Investment Bank's ("UBS") Equity Research area. The Accounting and Valuation Group provides advice on financial accounting and equity valuation methodology to UBS equities clients and to equity analysts within UBS Equity Research. The views expressed here are provided from an equity analysis perspective and are independent of, and may not necessarily coincide with, the views of our parent entity UBS AG. A letter representing the views of UBS AG as a publicly traded company and sponsor of pension and other postretirement benefit plans for its employees worldwide has been sent to you separately.

The Accounting and Valuation Group of UBS Equity Research appreciates the opportunity to comment on the proposed statement "Employers' Disclosures about Pensions and Other Postretirement Benefits". We believe the proposed *incremental* disclosure requirements significantly improve the usefulness and transparency of pension disclosures. But we believe disclosure is only a temporary solution to users' information needs. We hope the FASB will reexamine the measurement and recognition provisions of FAS 87 in the near future and adopt a fully transparent pension accounting model.

We favor a pension accounting model that reflects the true funding position in the balance sheet. In our view, changes in the plan assets and obligations associated with actual asset returns and actuarial gains/losses should be recognized immediately as a separate line item in the income statement outside of the operating section. We believe this model is superior to the FAS 87 model in terms of transparency and representational faithfulness.

In the context of the FASB's decision to not change the measurement and recognition provisions of FAS 87 at this time, we support all the proposed disclosures that are *incremental* to FAS 132 requirements. Particularly useful are disclosures on plan asset allocation, expected long-term rates of return by asset category, expected employer contributions, and interim disclosures on net periodic pension cost components and employer contributions. For the purposes of estimating a going-concern company's pension risk, we believe information on the funding status and asset allocation is far more important than cash contributions. But existence of ERISA funding requirements and PBGC premiums may create a liquidity problem for some companies. It has been a challenge, to say the least, for investors to forecast the required cash contributions and the potential liquidity risk. We believe these proposed disclosures help users of financial statements assess a company's exposure to market risk and liquidity risk and provide relevant information on a more timely basis.

However, we believe the proposed disclosures do not improve the usefulness of information in terms of assessing the quality of reported earnings. We believe only the service cost component of net periodic pension cost should be included in the operating section of the income statement. If this classification issue is outside the scope of this limited-scope project, we believe, at a minimum, that companies should be required to disclose the amount of pension cost (or income) included in each line item on the income statement. This would enable users to make their own adjustments to affected income statement subtotals, such as gross margin, and user-defined performance measures such as EBITDA or EBIT. Without such disclosure requirements, earnings and income statement subtotals will continue to be distorted by unrealistic assumptions.

We do not support the Board's proposal to eliminate the requirement to provide reconciliations of beginning and ending balances of plan assets and benefit obligations. We feel the existing disclosure format is more complete and more transparent than the proposed format. We believe eliminating the information would not result in meaningful cost savings for preparers and would require users to exert materially more effort to estimate missing but potentially relevant and important information, e.g., changes in actuarial gains and losses. We believe the Board implicitly assumes that all users are capable of sorting out the relationships among various pension items and performing their own calculations. We question whether this assumption may be too strong.

We recommend disclosure of sensitivity information on key pension assumptions, particularly discount rates. We agree that such information may be misleading or misinterpreted, as pension obligations and net periodic pension costs are based on many assumptions that may be correlated and in a complicated way. But we believe sensitivity information is relevant, and can be disclosed in a way that would minimize the degree of potential misinterpretation.

We support the proposal to require the use of a tabular format for disclosure of key pension related assumptions. We recommend a standardized tabular disclosure format *wherever* appropriate. Although this format may induce simplistic interpretation of the

data, we believe it should improve comparability and materially reduce users' information processing costs.

In summary, we think the *incremental* requirements in the ED would significantly improve the usefulness of pension disclosures. But we would like the ED to address the issue of quality of reported earnings and retain the existing reconciliation requirement. More importantly, we hope the FASB will revise the existing measurement and recognition provisions in the near future. If you would like us to clarify the views expressed in this letter, please contact Stephen Cooper, at +44 207 568 1962, or Zhen Deng, at 212 713 9921.

Sincerely,

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