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From: JOSEPH.SCLAFANI@chase.com
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To: Director - FASB
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JPMorgan Chase & Co. ("JPMorgan Chase") appreciates the opportunity to comment on issues relating to the Financial Accounting Standards Board's (the "Board") Exposure Draft ("ED") of the Proposed Statement of Financial Accounting Standards, Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132.

JPMorgan Chase supports the Board's efforts to provide greater transparency of financial information relating to pension and other postretirement benefits, especially in light of recent economic volatility. However, we do not believe that the added disclosure requirements proposed by the Board will provide financial statement users with more meaningful information. We question whether the added disclosures will provide a greater understanding of the sponsor's benefit plan when compared with the current disclosures required under FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("Statement 132"). We recommend that the Board reevaluate certain proposed requirements, as explained in our response to the Board's request for comments on the ED in the Attachment below, in terms of whether there is enough substantive benefit to financial statement users to justify the additional cost and effort of providing the additional disclosures.

In addition, if the ED is finalized in its current form, we request that the Board reconsider the effective date of the final standard as implementation will be difficult given the short time frame between issuance of the final standard and issuance of a plan sponsor's financial statements and the need to obtain and generate information that is not currently available. This is further complicated given the accelerated filing deadlines imposed on public companies by the Securities and Exchange Commission.

If you have any questions or would like to discuss our comments, please do not hesitate to contact David M. Morris at (212-648-0377) or me (212-270-7559).

(See attached file: J.S. Letter on Pension

Disclosures-Oct. 27, 2003.doc)

Disclosures in Annual Financial Statements

Request for Comments 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?

Plan Assets

Issue 1: This proposed Statement would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. Disclosure by narrower asset categories and additional information about specific assets within a category would be encouraged if that information is expected to be useful in understanding the investment risks or expected long-term rate of return on assets.

The following information would be required to be presented for each major asset category:

- a. Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
- b. Target allocation percentage or range of percentages, presented on a weighted-average basis
- c. Expected long-term rate of return, presented on a weighted-average basis.

In addition, this proposed Statement would require disclosure of the range and weighted average of the contractual maturities, or term, of all debt securities.

Additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments, would be encouraged.

Paragraphs A10–A14 of this proposed Statement provide the basis for the Board’s conclusions on this issue.

Although JPMorgan Chase supports the Board’s ongoing efforts to provide financial statement users with more transparent financial information, we disagree with the Board’s view that the proposed benefit plan disclosures detailed above are meaningful to financial statement users. The Board’s focus should not be on the underlying plan assets, as these disclosures are provided in the plan’s financial statements, but rather emphasis should be placed on the asset levels required to meet the benefit obligation. Considering that the plan assets are investments managed over the long term, extending well into the future, any attempt to segregate individual components of the plan assets as of a specific point in time will not be meaningful. Given that plan assets are actively managed and the allocation will change at any time in response to market conditions, liquidity, and other factors, target allocations and the related long-term rates of return would be reliable only as of the specific reporting date.

Plan assets are comprised of many types of investments (e.g., equity, fixed income, real estate). It is not reasonable to assume that debt securities will be the primary source of cash flows to meet future benefit obligations. Consequently, disclosure of the range and weighted average of contractual maturities of debt

securities will not provide investors with an enhanced understanding of assets designated to meet future benefit obligations.

However, we support a general disclosure of the broad categories of investments that comprise the assets of the plan and, in addition, the amount of plan assets invested in the plan sponsor's own stock. We do not object to a brief and general disclosure of the plan sponsor's investment strategy and policy including a qualitative description of the basis for determining the expected long-term rate of return on plan assets.

Defined Benefit Pension Plan Accumulated Benefit Obligation

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

Paragraph A24 of this proposed Statement provides the basis for the Board's conclusion on this issue.

JPMorgan Chase does not object to disclosure of the accumulated benefit obligation at the plan's measurement date.

Cash Flow Information

Issue 3: This proposed Statement would require disclosure of:

- a. A schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value
- b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
 - (1) Contributions required by funding regulations or laws
 - (2) Additional discretionary contributions
 - (3) The aggregate amount and description of any noncash contributions.

Paragraphs A22 and A23 of this proposed Statement provide the basis for the Board's conclusions on this issue.

JPMorgan Chase understands the Board's objective in seeking disclosure of estimated future benefit payments consistent with current disclosure requirements for other long-term obligations. However, benefit obligations are based on actuarial valuations using multiple assumptions about the ever changing covered population over their projected service period, which extends well into the future. Given the nature of such assumptions (e.g., mortality, retirement age, plan payout options), projections at the level of detail required to produce estimates of future benefit payments, even for the immediate future, could be unreliable and, thus, misleading to financial statement users beyond the immediate future.

Additionally, many companies sponsor multiple plans, both domestic and international, and as the Board is aware, each plan is independent and may or may not be funded. The benefit obligation of any given plan can be funded only from the assets of that specific plan or directly from the assets of the plan sponsor as contributions to that plan. Therefore, disaggregation of the estimated future benefit payments, by individual plan and sponsor, would be required to provide any meaningful disclosure to financial statement users. However, we do not believe that the cost and effort of providing that level of detail in the financial statements could be justified. Further, we do not believe that disclosure of estimated future benefit payments will achieve the Board's intended objective of clarifying a financial statement user's

understanding of a plan's future cash flow requirements. Plan assets are managed as long-term investments with a principal objective of generating capital appreciation over time. It is not reasonable to assume that the plan assets will be aligned with and managed for the sole focus of future benefit payments beyond a one- or two-year time horizon.

Finally, this information will necessitate additional complex actuarial computations that many actuaries may not be able to provide at this time and will result in a corresponding increase in costs. The Board must carefully consider the views of the actuarial community on this issue and their ability to provide this information. Accordingly, the Board should delay implementation of this disclosure requirement for at least one year.

Contributions are usually determined annually based on the year-end actuarial valuation and the level of plan assets at year end, and it is at this point or subsequent that the plan sponsor would make its decision as to the amount of funding beyond the minimum statutory requirements. Management can and should only be required to disclose what is reliably known based on current circumstances. Unreliable projections about the future will cause more confusion than clarification to financial statement users. We support limiting the disclosure to the plan sponsor's funding policy and the minimum funding requirement (as per paragraph 5g of the ED) under ERISA, IRS, or other regulatory bodies, if material.

Assumptions

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis. This proposed Statement would not change the information presently required to be disclosed but would seek to improve the clarity of the information.

Paragraph A28 of this proposed Statement provides the basis for the Board's conclusions on this issue.

We do not object to a separate tabular format for presentation of the assumptions used in the calculation of expense and the benefit obligation at the plan's measurement date as this requirement will enhance the clarity of this information for financial statement users.

Nonpublic Entities

Issue 5: This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost recognized.

Do you agree that all disclosures that would be required by this proposed Statement, except for interim-period disclosure of the components of net periodic benefit cost recognized, should be required for nonpublic entities? Do nonpublic entities have any special circumstances affecting their ability to provide the proposed disclosures?

Paragraph A30 of this proposed Statement provides the basis for the Board's conclusions on this issue.

Although we do not oppose the reduced disclosures for nonpublic entities, we believe that disclosures should be consistent for all entities.

Sensitivity Information about Changes in Certain Assumptions

Issue 6: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. The effect of a one-percentage-point increase and the effect of a one-percentage-point decrease in the assumed health care cost trend rates on (a) the aggregate of the service and interest cost components of net periodic postretirement health care benefit cost and (b) the accumulated postretirement benefit obligation for health care benefits would still be required.

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

Paragraphs A31 and A32 of this proposed Statement provide the basis for the Board's conclusions on this issue.

JPMorgan Chase concurs with the Board's view that to assess the sensitivity of a change in one assumption while holding all others constant is incomplete and can lead to misinterpretation. Therefore, information determined on this basis would not be meaningful to financial statement users.

Further, the Board should reconsider the sensitivity disclosures required for other postretirement benefits related to health care for the same reasons cited by the Board in paragraphs A31 and A32 of the ED. The Basis for Conclusions of Statement 132 acknowledged that health care cost assumptions interact with caps, cost-sharing provisions, and other factors which would preclude reasonable estimates of the effects of such changes. Therefore, the Board should consider removing this requirement from the final standard.

Measurement Date(s)

Issue 7: This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described.

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

Paragraph A29 of this proposed Statement provides the basis for the Board's conclusions on this issue.

We agree with the Board's view that the measurement date should be disclosed only when significant events have occurred. Certainly, any major economic event or condition that occurs during any part of the year that had a material effect on the benefit obligation or net costs should warrant full disclosure in the plan sponsor's financial statements.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations.

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

Paragraph A33 of this proposed Statement provides the basis for the Board's conclusions on this issue.

JPMorgan Chase supports the continued use of the reconciliation format for the fair value of plan assets and benefit obligation. This roll-forward format clearly presents the changes in plan assets and benefit obligation from the prior year and enables financial statement users to better analyze the effects of events or cash flows during the year on plan asset/liability balances. The proposed format will remove the completeness and flow of amounts relating to benefit plans. Since the new proposal does not alter the information currently provided (i.e., actual return on assets, estimated return on assets, employer/participant contributions, benefit payments, unamortized amounts will still be disclosed), disaggregating this information may confuse financial statement users rather than improve focus.

Disclosures Considered but Not Proposed

Issue 9: The Board considered but rejected a number of other disclosures that were requested by users of financial statements. The following information would not be required by this proposed Statement:

- a. A description of investment policies and strategies.
- b. An explanation of the basis for selecting the expected long-term rate of return on assets assumption.
- c. The pension benefit obligation and funded status determined on a regulatory basis (for example, Employee Retirement Income Security Act of 1974 [ERISA]).
- d. The pension benefit obligation and funded status determined on a plan termination basis (for example, the Pension Benefit Guaranty Corporation [PBGC] termination basis).
- e. The amount and classification of net periodic pension and other postretirement benefit cost or income recognized in the statement of income, showing separately the amounts of net benefit cost or income included in each line item in the statement of income and reported for each period for which a statement of income is presented. The aggregate amount of net benefit cost or income recognized would be reconciled to the total amount of net benefit cost or income, identifying the aggregate amount capitalized as part of inventory or other productive assets.
- f. The number of pension plan participants by group (for example, active, terminated-vested, and retired).
- g. The amount of benefit obligation by participant group (for example, active, terminated-vested, and retired).
- h. The weighted-average duration of the benefit obligation.
- i. Interim-period disclosure of plan assets and benefit obligations.
- j. A description of participation in multiemployer plans.

Should any of the above information be required to be disclosed and why?

Paragraphs A14–A21, A25–A27, and A35 of this proposed Statement provide the

basis for the Board's conclusions on these issues.

We agree that the additional information listed above should not be required in the final standard.

Disclosures in Interim Financial Reports

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:

- a. **The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment**
- b. **The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.**

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?

Paragraphs A35 and A36 of this proposed Statement provide the basis for the Board's conclusions on this issue.

JPMorgan Chase is strongly opposed to interim disclosure. Net periodic benefit costs are reasonably estimated by the actuary annually in conjunction with its year-end valuation. Therefore, to provide quarterly data broken out by individual components would not be meaningful since it is normally an allocation of the current year-end valuation. This requirement, to be somewhat meaningful, would require an interim review and recalculation by the actuary based on updated information. We do not believe that the cost to obtain a revised valuation would substantiate the benefit provided as, in most cases, the changes would be immaterial.

Disclosure of a significant event (i.e., settlements, curtailments, assumption changes) that occurred during the year and had a material impact on benefit costs and/or future liabilities should be required.

As previously discussed in our response to Issue 3, contributions paid or expected to be paid are typically not known until the actuary's final valuation during the last quarter of the year and, therefore, would be difficult to predict with any certainty on a quarterly basis.

Effective Date and Transition

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. The disclosures for earlier annual periods presented for comparative purposes would be restated for (a) the percentages of each major category of plan assets held and (b) the accumulated benefit obligation. The disclosures for earlier interim periods presented for comparative purposes would be restated for the components of net benefit cost. However, if obtaining this information relating to earlier periods is not practicable, the notes to the financial statements would include all available information and identify the information not available. All other disclosures, other than those identified above for restatement, would only be required to

be presented as of the date of the most recent statement of financial position.

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.

Paragraphs A38 and A39 of this proposed Statement provide the basis for the Board's conclusions on this issue.

JPMorgan Chase believes that if the proposed standard is adopted by the Board as currently drafted, an effective date for fiscal years ending after December 15, 2003 would make it difficult for plan sponsors to obtain all the newly required information, especially for plan sponsors with numerous domestic and international plans. Although some of the required information is currently available, certain information (e.g., future benefit payments) is not readily available and must be provided by actuaries. The burden on actuaries of having to provide this information for their clients in an unreasonably short time frame should be considered by the Board before finalizing the effective date of the new standard.

The difficulty in obtaining the information required for the current year is further complicated by the accelerated filing deadlines imposed on public companies by the Securities and Exchange Commission. Therefore, the Board should consider a delay in the effective date of the final standard by one year to provide sufficient time for required systems upgrades and data collection.