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May 30, 2006



LETTER OF COMMENT NO. 128

Mr. Robert Herz – Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Re: File Reference No. 1025 – 300, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)"

Dear Mr. Herz:

IBM appreciates the opportunity to provide our views on the Exposure Draft (ED), Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R), (the "proposed Statement"). We believe that the proposed Statement will improve transparency in financial reporting and will provide more representationally faithful information about reporting entities' pension and other postretirement benefit obligations. We have, however, included several comments and recommendations below for the Board's consideration.

Transition Provisions

The transition guidance requires reporting entities to adopt the provisions of the proposed Statement on a retrospective basis (unless retrospective application is impracticable, as defined in the proposed Statement). In addition, the proposed Statement requires any transition asset or transition obligation (resulting from the adoption of FASB Statement ("SFAS") No. 87, Employers' Accounting for Pensions) to be recognized as an adjustment to the opening balance of retained earnings, net of tax, as of the earliest period presented, with previously recorded amortization of such transition asset or obligation reversed for each restated period. These transition provisions may result in many public companies restating both the statement of financial position and the statement of earnings, including earnings per share calculations.

While we understand that the proposed retrospective application would improve interperiod comparability and would be consistent with the provisions of SFAS No. 154, Accounting Changes and Error Corrections, we believe that for many public companies, the cost of restating prior periods may outweigh the benefit of doing so for the following reasons:

• Public companies with pension and postretirement benefit plans in various tax jurisdictions may have to expend significant efforts to evaluate the realizability of deferred tax assets and document the related analysis and conclusions for multiple jurisdictions for each period included in their SEC Form 10-K and 10-Q filings. Because the "impracticability" exception is defined narrowly, many companies may have to dedicate valuable resources to assess whether they do or do not meet that exception. Ultimately, many public companies may find that the exception applies in at least one of various tax jurisdictions, which would make the retrospective application impracticable for consolidated financial statements. We do not believe that the cost

- of the analysis associated with the "impracticability" exception would be justifiable on the grounds of improved interperiod comparability.
- Many companies will find it difficult to assess realizability of deferred tax assets without the use
 of hindsight and, as a result, will take advantage of the impracticability exception, which will
 affect the level of benefit associated with interperiod comparability the proposed Statement
 intends to achieve by requiring retrospective application.
- For many companies, any remaining transition asset or transition obligation and the related amortization in recent reporting periods are likely to be relatively insignificant. We do not see the benefit of restating prior period EPS as the magnitude of these restatements will be much less significant in more recent periods for many companies (as a result of the overall reduction in size of the unrecognized transition assets or obligations).

For many public companies, retrospective adoption will affect five years of historical statements of financial position and statements of earnings, including earnings per share calculations, as well as two years of quarterly information. In light of the potential significant changes that will occur in the second phase of the Board's project on pensions and other postretirement benefits and the likelihood for historical restatements during the second phase, requiring retrospective application for the adoption of this proposed Statement will likely cause multiple restatements of historical financial statements for the various stages of changes in pension and other postretirement benefits guidance.

Accordingly, we recommend that the Board consider allowing reporting entities an alternative to retrospective application. Specifically, we believe that the Board should consider allowing companies to adopt the proposed Statement on an "as of" adoption methodology. Under an "as of" methodology (consistent with the transition provisions of SFAS No. 143, Accounting for Asset Retirement Obligations), companies would record the funded status of each plan in the statement of financial position as of the date of adoption (for example, as of December 31, 2006) with the corresponding net of tax charge (credit) to other comprehensive income and to retained earnings (for any remaining transition assets or obligations). Under this approach, reporting entities would not be required to reverse any amortization expense (credit) recorded previously in the statement of earnings, including amounts recorded during the recently completed fiscal year.

We believe that this treatment would be consistent with the Board's objective described in paragraph B16 of the proposed Statement which describes that the Board's intent in this phase of the project was not to impact the measurement of plan assets, benefit obligations, or net periodic benefit costs. Further, by analogy to the Board's rationale for allowing an entity to adopt the provisions of SFAS No. 123(R), Share-Based Payment on a modified prospective basis, that is, without compromising interperiod comparability for companies that had previously disclosed pro-forma stock based compensation expense in the footnotes, allowing companies to adopt the provisions of the proposed Statement on an "as of" transition methodology would not necessarily compromise interperiod comparability, given the detailed nature of pension and other postretirement benefit plan footnote disclosures that are currently presented.

<u>Recommendation</u>: The Board should consider permitting a choice of transition provisions, including both retrospective adoption and an "as of" adoption methodology, as described above.

Effective Date and Deferred Tax Asset Calculation

In connection with the adoption of the proposed Statement, companies may be recording deferred tax assets related to the recognition of deferred actuarial losses and/or prior service costs in stockholders' equity. In accordance with the requirements of the proposed Statement and SFAS No. 109, Accounting for Income Taxes, the realizability of these deferred tax assets must be assessed for each tax jurisdiction. For companies with pension and other postretirement benefit plans in various countries, assessing

realizability of such deferred tax assets over multiple years (as many as five years for the majority of public companies) will require a significant investment of time and resources, especially if the final Statement requires retrospective adoption.

Given the effort involved in quantifying and assessing the realizability of deferred tax assets, companies may find it difficult to perform the required assessment in time to meet the adoption deadline in the event that the final Statement requires retrospective application.

As a result of the factors above, the issuance of the final Statement in the third or fourth quarter of 2006 with an expected adoption as of year-end 2006 for calendar-year companies may not provide enough time to adequately address the final Statement's requirements.

<u>Recommendation:</u> The Board should consider either delaying the effective date of this standard or simplifying the transition requirements (i.e., introducing the "as of" adoption alternative) to allow for sufficient time for proper adoption.

The Accumulated Benefit Obligation ("ABO") for Pension Plans

One of the core principles of the proposed Statement is to require the funded status of each pension plan to be recorded as either an asset or liability in the statement of financial position. The funded status calculation requires a comparison of the fair value of plan assets to the projected benefit obligation to determine either an over-funded plan asset or an under-funded plan obligation. The projected benefit obligation incorporates assumptions regarding future compensation levels. As a result of the use of the projected benefit obligation in the funded status calculation, the need for companies to consider the minimum pension liability requirements described in paragraphs 36 and 37 of Statement No. 87 would be eliminated upon adoption of the final Statement.

Under SFAS No. 87 the recognition of the minimum pension liability provided a mechanism for ensuring that deferred losses were recognized to the extent that the ABO exceeded the fair value of plan assets. Unlike the projected benefit obligation calculation, the ABO represents solely the benefits earned by participants to-date and does not include an assumption of future compensation increases. Under the proposed Statement, the calculation of a minimum pension liability and thus the requirement to identify and utilize the ABO has been eliminated for recognition purposes. The decision to eliminate this requirement is logical since the under-funded position calculated using the projected benefit obligation will always either exceed or equal the under-funded position calculated using the minimum liability requirements provided in SFAS No. 87.

Since the minimum pension liability calculation was the primary use of the ABO, the references to and required disclosures of the ABO should also be eliminated. However, Paragraph 5(e) of SFAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, has not been amended by the proposed Statement and continues to require the disclosure of the ABO.

Recommendation: The Board should consider eliminating the SFAS No. 132(R) requirement to disclose the ABO for pension plans or provide an explanation in the final Statement regarding the purpose and significance of ABO disclosures.

Hedging of Pension and Other Postretirement Obligations

The proposed Statement requires certain deferred actuarial losses and prior service costs to be recognized, net of tax, in other comprehensive income upon adoption on a plan-by-plan basis. In addition, on an ongoing basis, changes to other comprehensive income related to the deferred pension gains and losses will be recorded (e.g., as a result of continued amortization of the deferred items, curtailments or settlements, changes in employee demographics, etc.).

For companies that have multiple pension and other postretirement benefit plans in various countries, the initial impact and the ongoing changes to other comprehensive income (noted above), could have a significant impact on the stockholders' equity balances in each country. As a result, these changes could also have a substantial impact on the amount of hedgeable net investment for parent companies that wish to hedge the foreign currency-related changes of the net investment in their foreign subsidiaries. It would not seem logical that a significant change to a company's hedge of net investment programs could occur when, in fact, the economic substance of the deferred pension losses or gains has not changed.

Recommendation: The Board should consider clarifying the impact of the proposed Statement on hedge of net investment programs under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, and provide explicit guidance related to the application of SFAS No. 133 subsequent to the adoption of the final Statement.

We appreciate the opportunity to provide our views on the ED and are available to meet with you in person or telephonically to discuss these issues further. You may reach me at (914) 499-5260 or Gregg Nelson at (914) 766-0850.

Sincerely,

Richard Carroll
IBM Chief Accountant