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June 6, 2006



LETTER OF COMMENT NO. 233

Technical Director - File Reference No. 1025-300 Financial Accounting Standards Board Financial Accounting Foundation 401 Merritt 7 Post Office Box 5116 Norwalk CT 06856-5116

Re: Proposed Statement of Financial Accounting Standards – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans

#### Dear Director:

Western AgCredit, ACA, a member institution of the Farm Credit System (System), welcomes the opportunity to share its views with respect to the proposed statement of Financial Accounting Standards on employers' accounting for defined benefit pension and other postretirement benefits.

## Background Information regarding Western AgCredit and the System

Western AgCredit is one of 96 member Associations of the System. The System is a federally chartered network of borrower-owned lending institutions comprised of cooperatives and related service organizations. Through its five Banks and 96 Associations, the System provides sound and dependable credit to American farmers, ranchers, producers or harvesters of aquatic products, their cooperatives, and farm-related businesses. The Associations are cooperatives owned by their borrowers, and the Banks are cooperatives owned by their affiliated Associations. As of March 31, 2006, Western AgCredit's assets totaled \$383 million, primarily consisting of loans. As of March 31, 2006, the System's assets totaled \$143 billion, with \$108 billion of the assets consisting of net loans, and liabilities consisting of System-wide debt obligations (publicly-traded) of \$120 billion.

## Comments

Western AgCredit's comments relate to the issues as set forth in the exposure draft.

# Issue 1: Cost of Implementing the Proposed Statement's Requirement to Recognize a Plan's Overfunded or Underfunded Status in the Employers' Statement of Financial Position

The Financial Accounting Standards Board (FASB) concluded that the costs of implementing the proposed requirement would not be significant. Western AgCredit disagrees with the FASB's conclusion. In order to apply retrospective application, an entity will be required to assess, for the periods covered, the realizability of any incremental deferred tax assets and whether there is a need for a valuation allowance related to those assets. This retrospective application will require a significant amount of work and additional related costs. In addition, if actuaries and asset managers are required to use a measurement



date that is the financial statement date instead of being allowed the option of up to three months prior for the measurement date, the costs incurred are likely to increase due to the premium third parties are likely to charge for determining and providing such information within a very brief period of time. Another item that will result in increased costs is the review and potential revision of loan agreements with Western AgCredit customers and related debt covenants that will be necessitated from the implementation of the provisions of the proposed Standard.

## Issue 2: The Employer's Measurement Date

The FASB is proposing that the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position be eliminated. Western AgCredit strongly disagrees with this proposal. Measurement of the pension information is generally not under management control but relies heavily on third parties, specifically plan trustees and fund managers for measuring plan assets, and actuaries for the projected benefit obligation. Allowing measurement up to 90 days before the statement of financial position provides additional time for third parties to provide companies with their required data that can then be reviewed, allocated and recorded before reporting it in the financial statements. Requiring the measurement date to be the same date as the employer's financial statement date would result in a significant lengthening of the "closing process," which would threaten companies' abilities to meet regulated and accelerated reporting deadlines.

Western AgCredit believes that benefit obligations are estimates taking into account many assumptions so using an earlier measurement date for this estimate should still be acceptable. An acceptable compromise may be to shorten the provisions in the Statements to permit a measurement not more than one month prior to the date of the employer's financial statement date.

## **Issue 3: Effective Dates and Transition**

Issue 3a: Recognition of the Overfunded or Underfunded Status

The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006, retrospective application would be required unless deemed impracticable. Western AgCredit believes that the FASB should allow for the impracticability exemption related to the assessment of the realizability of deferred tax assets. As a network of cooperatives, determining the realizability of the System's deferred tax assets may not be possible. In addition, a significant amount of effort would be required for retrospective application with minimal value to be gained.

## Issue 3b: Contractual Arrangements

The FASB is interested in how the proposed Statement impacts contractual arrangements other than debt covenants. System institutions are financial institutions regulated by the Farm Credit Administration. As financial institutions, System institutions are required to comply with certain regulatory capital requirements that would be impacted by the proposed provisions of the Statement. The System's regulatory agency will most likely carefully consider whether regulatory relief related to capital requirements may be necessary under the circumstances. This process would take additional time and any relief may not be determined by year-end 2006.

## Issue 4: Measurement Date

The proposed Standard would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement a change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. Converting to a different measurement date can be accomplished, but at a cost and at the risk of accurately reporting

under accelerated reporting deadlines. As discussed in Issue 2, the significant issue is whether or not the measurement date must be the date of the statement of financial position. Western AgCredit believes that a provision allowing for an earlier measurement date should continue to be retained in the proposed Standard.

## Other Issues

Western AgCredit agrees with the goal of enhancing understandability of accounting and reporting of pensions as contained in the financial statements. However, we do not believe the proposed Statement, as currently written, achieves that goal. Financial Accounting Concept Number 6 defines liabilities as:

Liabilities are probable future sacrifices of economic benefits arising from **present** obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of **past** transactions or events.

Western AgCredit does not believe using the Projected Benefit Obligation (PBO) to determine the pension liability is consistent with the definition of a liability. If a pension plan is terminated or curtailed the liability is the short fall of plan assets compared to benefits earned through the termination date. The PBO, especially in a final average pay plan, reflects projected obligations related to future salary increases and future service. Including these future salary increases, which are within the control of the employer, is inconsistent with the FASB's objective of reporting the current economic status of the pension plan. In addition to the future salary increases, the PBO is discounted at a current discount rate. This ignores that in many interest rate environments, including the current environment, the existing plan assets are expected to generate a rate of return in excess of the discount rate used to value the PBO. The accumulated benefit obligation (ABO) is a more realistic measure of the current liability.

The exposure draft addresses the lack of comparable measures to the ABO for other post-retirement benefits. The lack of a comparable measure does not seem to justify using a less meaningful measure for the pension obligation. The magnitude of the pension component merits using the most relevant information to best meet the needs of users of the financial statements.

Western AgCredit is concerned that if the Exposure Draft is finalized as written that many employers will be forced to close or substantially diminish the projected payouts of their defined benefit plans. Can you imagine the federal government having to immediately recognize the PBO of all future social security benefits? It seems like an impractical and unreasonable request; yet, that is the requirement of the exposure draft for thousands of companies across the country with defined benefit plans.

Western AgCredit appreciates this opportunity to respond and hope our comments prove useful to the FASB. If you have any questions, please feel free to contact us.

Sincerely,

LaDell Eyre, CPA

Audit Committee Chairman

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Richard Weathered

President and Chief Executive Officer