LETTER OF COMMENT NO. 125

American Cast Iron Pipe Company

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Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
Norwalk, CT 06856-5116

Re:
Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)

Dear Sir:

On behalf of American Cast Iron Pipe Company, we appreciate the opportunity to comment on the above described exposure draft. We support the objectives of the Financial Accounting Standards Board (FASB) to enhance the transparency and relevance of financial statements. However, we have a number of concerns with the principles set forth in the exposure draft as discussed in further detail below.

Two-Phase Approach

The Proposed Statement, intended to be Phase 1 of a two-phase project, addresses balance sheet issues. A second phase is intended to address income statement and measurement issues. The second phase is thought to require several years to complete because of the complex issues involved. The changes being suggested in this Proposed Statement, if adopted, will result in dramatic changes from the current accounting treatment of pension and postretirement benefits in several areas, including a change in the measurement of the liability recorded in the statement of financial position from the accumulated benefit obligation to the projected benefit obligation.

The Board seems to have taken the position that the issues raised in this first phase are well established principles, not controversial, and not open for debate possibly even in the later second phase of the project. This simply is not the case, especially as it relates the proper measurement of the pension liability. We believe that the issues involved in the accounting for pensions and postretirement benefits are too complex, controversial, and significant to have changes hastily adopted without full and complete discussion and analysis. We do not agree with the two-phase approach because the issues of each phase are too interrelated.

The statements that this Proposed Statement is amending required years of careful and thoughtful discussion and analysis before there was consensus. The FASB at that time, after a thorough review of the issues, believed that it was appropriate to defer the recognition of prior service cost and actuarial gains and losses in order to achieve stability in the recognition of those costs. These smoothing techniques included in the current accounting models for defined benefit plans acknowledge the long-term nature of these plans. The current proposal to immediately recognize these costs will result in significant volatility and cause the uncertainty which the previous statements' smoothing effect attempted to avoid. It is doubtful that this additional volatility will result in more meaningful information to the users of financial statements.

We urge the Board to withdraw the Proposed Statement and address all pension and postretirement issues in one comprehensive project, carefully considering all issues, and taking into account the framework that the FASB and International Accounting Standards Board are developing. We believe that adopting a temporary new accounting rule without complete consideration of the underlying accounting theory is not appropriate.

Liability Measurement

The Proposed Statement requires the use of the Projected Benefit Obligation (PBO) as the measure of benefit liability instead of the Accumulated Benefit Obligation (ABO). The PBO includes future compensation increases and as such is not the best measure of the benefit obligation at any balance sheet date. We believe that the best measure of the benefit obligation is the Accumulated Benefit Obligation.

The ABO is the present value of benefits earned by participants as of the valuation date. The PBO is a numerical result designed to smooth expense over each participant's career. It equals the present value at the valuation date of a hypothetical benefit determined by attributing projected benefits, including an assumption for future pay increases, to the projected retirement date. While the use of the PBO may be consistent with the accrual of net periodic cost, it overstates the liability at the valuation date because it includes the effect of salary increases that is only applicable if the employee renders future service and actually receives those assumed salary increases. The PBO was never intended to be and should not be considered a measure of a balance sheet liability. Balance sheet liabilities represent the economic obligations of an enterprise as of the statement date. Unless there are obligations to increase future compensation levels, they should not be reflected in the financial statements.

Including future pay increases in a liability also appears to be in conflict with Concept Statement 6 which states that a liability has certain essential characteristics. These include (1) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (2) the transaction or other event obligating the entity has already happened. Therefore, the accumulated benefit obligation (ABO) is more consistent with the determination of a liability than the PBO. The ABO represents the accrued liability, and is the amount that can be effectively settled under FAS 88. The excess of the PBO over the ABO cannot be settled, and lacks economic substance.

We urge the Board to reconsider the measurement basis of pension obligations and adopt the ABO or another measure that excludes the effects of future compensation increases. If the Board retains the two-phase approach for the comprehensive pension and postretirement benefits accounting project, we urge the Board to retain the ABO as the measurement basis in Phase 1 until the issue can more fully considered in Phase 2.

Postretirement Benefits Other than Pensions differ from pension benefits in that OPEB benefits are usually unilaterally rescindable, in whole or part by the employer. The APBO is typically not a vested liability as most plans reserve the right to unilaterally modify or eliminate their postretirement benefit benefits. Unless the sponsor is legally required to provide these benefits, including the APBO on the balance sheet would inaccurately overstate the liability of the sponsor. We recommend that the Board consider alternative methods of measurement of the OPEB obligation that would reflect the rescindable and unfunded nature of the OPEB obligation. This could be accomplished by using a higher discount rate than used in determining the APO of qualified pension plans, or including liabilities only for inactive participants and those currently eligible to retire.

Employer's Measurement Date

We encourage the FASB to reconsider the requirement in the Proposed Statement to eliminate a company's ability to use a measurement date of up to 90 days before the company's year end. From a practical viewpoint, allowing companies to make the necessary calculations early allows them to properly plan the many required activities and allows them to meet required financial statement filing deadlines. It is doubtful that any significant comparability issues would be introduced by continuing with the current practice.

Again, thank you for allowing this opportunity to provide our input as an affected party. I would be pleased to provide further information if I may be of any service in this matter.

Sincerely yours,

John M. Cook

John M. Cook
Vice President Finance and Treasurer
American Cast Iron Pipe Company