



LETTER OF COMMENT NO. 134

May 31, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft. "Employers' Accounting for Defined Benefit Pension and Other

Postretirement Plans"

File Reference No. 1025-300

Dear Sir or Madam:

America's Community Bankers ("ACB")¹ is pleased to comment on the Exposure Draft ("ED") issued by the Financial Accounting Standards Board ("FASB") containing a proposed Statement for Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. The objective of this ED is to make employers' financial statements more complete and understandable with respect to postretirement benefit plans and, thus, more valuable for users of financial statements.

ACB Position

ACB agrees that the current standards regarding accounting for defined benefit pension and other postretirement plans are in need of revision. As public concern continues regarding the overall health of pension plan accounts for employees, we believe it is imperative that institutions provide a clear and informative picture of their pension funding status in their financial statements. ACB generally agrees with the proposed changes, including the proposal that institutions should be required to report the status of their postretirement benefit plans for the same as-of-date that the statements of financial position are presented. However, we do have a few concerns.

Retrospective application is proposed for the changes outlined in this ED. ACB strongly urges FASB to grant exemption from retrospective application if it is deemed impracticable to assess the deferred tax assets in prior periods. Allowing for this

¹ America's Community Bankers is the member driven national trade association representing community banks that pursue progressive, entrepreneurial and service-oriented strategies to benefit their customers and communities. The learn more about ACB, visit www.AmericasCommunityBankers.com.

exemption would follow the standard set in FAS 154, Accounting Changes and Error Corrections.

ACB has significant concerns regarding the proposal's requirement to use the projected benefit obligation ("PBO") for measuring the defined pension liability rather than the accumulated benefit obligation ("ABO"). Unlike the ABO, the PBO takes into consideration future salary increases and additional years of service, which we believe are inappropriate balance sheet items. We recommend that this proposal instead require the use of the ABO for measuring this liability.

ACB opposes any effective date that would cause hasty application for all institutions and a greater burden for our community banks in comparison to their larger competitors. We believe the changes proposed would be time consuming and potentially complex. Community banks are likely to incur significant costs during implementation, especially if such changes are effective for fiscal years ending after December 15, 2006, as proposed. Therefore, for both public and private entities, we recommend that all aspects of this proposal become effective for fiscal years ending after December 15, 2007.

Background and Summary of Proposed Changes

Existing standards for employers' accounting for defined benefit postretirement plans are outlined in FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, and No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. However, concerns from users of financial statements indicate that these standards fail to produce fully understandable financial statements because they do not require an employer to report the current economic status of such a plan or provide recognition in comprehensive income of events that occurred during the period. Current standards push all financial information regarding an entity's pension plan to the notes to the financial statements. FASB has agreed with the concern that this presentation method makes it difficult to assess an employer's ability to satisfy plan obligation. Therefore, FASB has issued this ED as a first step in a comprehensive project to remedy this problem.

This proposed Statement would alter current practice by requiring that an entity recognize the over-funded or under-funded status of a defined benefit postretirement plan; recognize the actuarial gains and losses and the prior service costs and credits that arise during the reporting period; recognize any transition asset or obligation as an adjustment to retained earnings; measure plan assets and obligations as of the date of the statement of position; and disclose certain additional information in the notes to the financial statements. Additionally, although not applicable to community banks, the proposed Statement outlines the changes proposed for not-for-profit organizations.

Cost of Implementation

The proposed Statement indicates that the cost of implementing the proposed requirement to recognize the over-funded or under-funded status of a defined benefit post retirement plan would be insignificant to all institutions due to the fact that the information required is already disclosed in the notes to the financial statements. ACB agrees that in order to compute the proposed over-funded or under-funded status, new information is not required from the reporting entity. However, we strongly disagree that the cost of implementing the proposed changes would be insignificant for all institutions due to the fact that such revisions involve more than simply moving financial figures from one place to another. Specifically, we are concerned that computing related income tax effects of such changes could be costly, complicated and time consuming for community banks, especially when institutions are required to do so retrospectively.

As is required by GAAP, community banks disclose the fair value of their pension plan assets as well as their retirement plan's accumulated and projected benefit obligation in the notes to the financial statements. The calculation of the over-funded or under-funded status of these plans, which is required in this proposed Statement, is the simple aggregate difference between the fair value of the plan assets and the benefit obligation. Additionally, entities will be required to recognize as a component of other comprehensive income, net of tax, the reporting period's actuarial gains and losses as well as the prior service costs and credits as they relate to the newly reported asset (overfunded status) or liability (under-funded status). Entities must also recognize as an adjustment to the opening balance of retained earnings, net of tax, any transition asset or obligation remaining from the initial application of the FASB Statements amended by this proposed Statement (FAS 87, 88, 106, and 132(R)). All of the changes discussed above are required to be made retrospectively, causing the need not only to alter the current financial disclosures, but also those of past periods that would have been effected by the proposed changes. ACB believes this is where the cost of implementation could become significant.

We do not agree that implementing such changes for reporting requirements will cause only a minor inconvenience to all institutions or that the cost of implementing the current and retrospective alterations would be insignificant across all entities. Calculating the retrospective income tax effects could be a time consuming task for institutions with a small number of staff and could be complicated for institutions holding more than one type of pension plan.

Retrospective Application Exemption

Concerning the requirement to apply the reporting revisions in this proposed Statement retrospectively, the current proposal says that retrospective application would be required unless it is deemed impracticable by the entity to assess the deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement. FAS 154, Accounting Changes and Error Corrections summarizes this issues as follows:

"[FAS 154] requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable."

ACB strongly supports this exemption as outlined in the proposed Statement and would oppose any requirements regarding retrospective application of this proposed Statement that do not fully comply with the requirements of FAS 154.

PBO vs. ABO Measurement

An institution's PBO is the year-end pension obligation based on projected future salaries and years of service for current employees. The PBO can also take into account employee turnover rates. The PBO measure is based on estimates and can vary widely depending on employer approximations. On the other hand, an institution's ABO is the year-end pension obligation based on past and current salaries as well as years of service rendered to date. The ABO is based on actual figures and cannot be varied by an employer's estimates.

ACB has significant concerns regarding the proposal's requirement in Phase I for an employer to use the PBO for measuring the defined pension liability rather than the ABO. We believe that estimated future salary and expected years of service are not appropriate data items for the balance sheet. We recommend that this proposal instead require the use of the ABO for measuring this liability with due consideration given to this important calculation in Phase II.

Employer's Measurement Date

Current practice for reporting an employer's pension plan assets permits measurements as of a date that is not more than three months earlier than the date of the employer's statement of financial position. The proposed statement, as outlined in this ED, would require an employer to report the current economic status of its post retirement benefit plan in its statement of financial position, rather than in the notes to the financial statements, whereby eliminating the need to reconcile the notes to the statements. Therefore, postretirement benefit plan assets and obligations will need to be measured as of the same date that the employer's other assets and liabilities are measured.

ACB agrees that this change will improve financial reporting by making it more complete and representative of the current financial condition of the entity. While this change will reduce flexibility in reporting, we believe it to be useful and do not consider that this change in particular will cause significant additional burden or the need for large scale alterations from current practice.

Implementation Date

It is FASB's goal to issue a final Statement on accounting for postretirement benefit obligations by September 2006. For both public and private companies, the requirement to recognize the funded status of a defined benefit postretirement plan and the related disclosure requirements would be effective for fiscal years ending after December 15, 2006. For public entities only that measure plan assets and benefit obligations as of a date other than the date of its statement of financial position, the requirement to change that date to the fiscal year-end reporting date would be applied to fiscal years beginning after December 15, 2006. For non-public entities, this same requirement will be applied to fiscal years beginning after December 15, 2007.

ACB recommends stronger consistency with the application of this Statement. The purpose of this ED is to enhance completeness and understandability of financial statements with regard to pension benefits. We believe that a uniform effective date will serve to enhance this objective. Therefore, for all revisions outlined in this proposed Statement, including the recognition of the funded status of a defined benefit postretirement plan as well as the change in the measurement date requirement, ACB strongly recommends that the effective date for public and private companies be for fiscal years ending after December 15, 2007. This will serve to mitigate the potential complexity and time consuming changes associated with implementing the proposed changes as discussed above. Early adoption should continue to be encouraged by FASB, but the required effective date for implementation should be extended.

Conclusion

ACB believes that this proposed Statement is timely due to the concerns investors have regarding the overall health of pension accounts. Current standards do not allow users of financial statements to fully understand the status of an employer's postretirement obligations and the proposed revisions to current practice will certainly aid in promoting greater understanding across all institutions.

ACB supports an exemption for retrospective application of the new accounting treatment for postretirement benefit plans if such an application is deemed impracticable by the entity. We also support the requirement for employers to report their benefit plan assets and obligations as measured on the same as-of-date that the employer's other assets and liabilities are measured. ACB strongly urges FASB to reconsider the use of a employer's PBO for calculating its pension liability. Finally, we believe FASB must allow all institutions, public and private, to apply all the changes outlined in this proposed Statement for fiscal years ending after December 15, 2007. We believe this will

accommodate entities for the time consuming task of implementing the proposed changes and allow them to spread the potentially significant costs across a greater time horizon.

ACB appreciates the opportunity to comment on this important matter. If you have any questions, please contact the undersigned at (202) 857-3158 or via email at jgoff@acbankers.org or Robert Davis at (202) 857-5088 or via email at rdavis@acbankers.org.

Sincerely,

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