



May 31, 2006

Mr. Lawrence Smith
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 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) File Reference No. 1025-300

Dear Mr. Smith:

Citigroup is pleased to have this opportunity to provide comments to the Financial Accounting Standards Board (FASB) regarding the 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) (proposed ED). Our comments address both the public policy issues and our specific technical accounting concerns with the proposed ED.

Public Policy Issues

We are concerned that issuing the proposed ED could cause companies to re-evaluate their existing retirement plans. The proposed accounting will likely increase earnings volatility, impacting price earnings ratios and shareholder value without clear benefit to the company or its shareholders. As a result, it is likely to lead to a reduction in the number of pension plans, causing a significant impact on employee welfare across the country. Indeed, we have already seen that the issuance of the pension standard in 1985 led to large scale conversions of traditional defined benefit pension plans to cash balance plans and 401(k) plans.



The current accounting for pension and postretirement plans recognizes that these benefit obligations are long-term in nature and provides smoothing mechanisms that avoid short-term volatility in earnings and equity. Citigroup has been responsible in funding its pension plans, more than compensating for market losses experienced by the plans during market downturns and significantly exceeding the minimum funding requirements of ERISA. We believe that the current accounting should not be lightly discarded in response to current concerns with certain inadequately funded plans and without considering the economic impact the standard may have.

Technical Accounting Issues

We believe that requiring an employer to use the projected benefit obligation (PBO) as the balance sheet liability is inconsistent with the Board's goal of achieving representationally faithful and understandable financial statements. We believe a more appropriate measure would be the accumulated benefit obligation (ABO). There are several reasons why using ABO would be more appropriate than using PBO. Under Concepts Statement 6, *Elements of Financial Statements*, a liability has three essential characteristics:

- (a) It embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand,
- (b) The duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and
- (c) The transaction or other event obligating the entity has already happened.

An employer's pension obligation to its employees is based on years of employee service already provided and actual compensation paid. A PBO calculation is based on future salary levels and represents a projected, as opposed to an actual, liability. Under the proposed method, an employer will have to recognize a liability that is more than what the employee will have earned to date. Accordingly, it would be inappropriate to recognize a projected liability in the balance sheet, because balance sheet liabilities, we believe, represent shareholders' obligations as of the reporting date of the financial statements.

Instead, an ABO calculation is based on current salary levels and represents the actual liability of an employer to an employee for service provided and, in case of a settlement, can be settled under FAS 88 accounting guidance. In addition, using the ABO would be consistent with the use of the accumulated postretirement benefit obligation (APBO) under FAS 106 for postretirement plans. Therefore, we believe that the ABO should be used in calculating the funded status of defined benefit pension plans in order to achieve



the Board's intent to produce representationally faithful and understandable financial statements.

Mandating use of the PBO to determine the funded status would likely result in increased liabilities for many plan sponsors (compared with liabilities calculated on an ABO basis) and may well result in forcing many plan sponsors to either freeze their defined benefit pension plans or, in a worst case scenario, completely discontinue their defined benefit pension plans. While we acknowledge that the pension expense is currently calculated using the PBO, we believe this inconsistency could be addressed in Phase II of FASB's deliberations.

In addition, we ask the Board to provide transition guidance for existing intangible assets. While the proposed ED provides sufficient guidance on how to treat the unrecognized items that are currently accumulated off balance sheet (i.e., transition obligations, prior service costs or benefits and actuarial gains and losses), it is silent on how to treat an existing intangible asset, which an employer may have recognized in accounting for an additional minimum liability under current rules.

We would be pleased to discuss our comments with you at your convenience.

Very truly yours,

Robert Traficanti
Vice President and Deputy Controller
Corporate Accounting Policy