

# McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen LLP  
Third Floor  
3600 American Blvd West  
Bloomington, MN 55431  
O 952.835.9930 F 952.921.7702

June 13, 2006

Ms. Suzanne Bielstein  
Technical Director, Major Projects and Technical Activities  
Financial Accounting Standards Board  
401 Merritt 7  
PO Box 5116  
Norwalk CT 06856-5116



LETTER OF COMMENT NO. 234

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 Ms. Bielstein:

McGladrey & Pullen appreciates the opportunity to comment on the March 31, 2006 Exposure Draft (ED) of the proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We support the overall premise of the ED to improve the reporting of pensions and other postretirement benefit plans in the financial statements of employers. We believe it is important to make the information more useful, complete and understandable for all preparers and readers of the financial statements.

Our comment letter will first respond to the issues for which specific comment is sought. Thereafter, our letter will comment on other matters.

## Comments on Specific Issues

*Issue 1:* The Board concluded that the costs of implementing the proposed requirement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in the notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required.

Do you agree that implementation of this proposed Statement would not require information (other than that related to income tax effects) that is not already available, and, therefore, the costs of implementation would not be significant? Why or why not?

We concur that the majority of the information needed to implement the Standard is presently available as it has been presented in the notes to the financial statements. However, because of our disagreement with Issue 2 (see below), we do not believe that the adoption of this proposed requirement will be cost free for certain organizations as alluded to in the ED.

*Issue 2:* Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This proposed Statement would eliminate 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.

Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

We disagree with the Board's proposal to eliminate the provision available in Statements No. 87 and 106 that allowed organizations to perform the measurement at a point in time not more than three months earlier than the date of the employer's statements of financial position. We believe this provision is more related to measurement and recognition issues versus display and presentation issues. Therefore we believe the decision to eliminate this provision should be addressed in the Board's phase II project.

In addition, we believe that the arguments supporting the elimination of this exception are not compelling enough to warrant the change at this time. The elimination of this exception:

- Will cause certain employers to have multiple valuations performed during the transition period thereby increasing their costs of adopting the Standard.
- Will significantly compress the time frame that employers have in obtaining the necessary valuations.
- May not significantly improve the accuracy of the valuation.

*Issue 3(a):* The Board's goal is to issue a final Statement by September 2006. 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 it is deemed impracticable for the reason discussed below.

An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the proposed Statement.

Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

We appreciate the Board's desire to issue a final Statement by September 2006 and encourage the Board to meet this goal. However we believe that the use of an effective date of fiscal years ending after December 15, 2006 in various provisions in the ED is too short of a time-frame for preparers of financial statements to fully determine the consequences of this proposed Statement. We believe readers of financial statements need time to digest the requirements and determine what effects it may have on their interpretation of the financial statements. Therefore, we believe that public entities should be given additional time until mandatory adoption of all parts of the proposed Statement to no earlier than fiscal years ending after December 15, 2007 and nonpublic companies be given at least an additional year after the mandatory adoption date for public companies.

*Issue 3(b):* Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-

equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this proposed Statement.

The Board is interested in gathering information for use in determining the time required to implement this proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

We believe the changes proposed could have significant impact, especially on non public entities, on certain requirements or analysis such as debt covenants, regulatory capital requirements, bond ratings, any formula based agreements such as buy/sell agreements and share repurchase arrangements under book value stock plans.

*Issue 4:* This proposed Statement 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 the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year.

Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007, alleviate those impediments?

As noted in our response to Issue 2, we do not agree with the change to eliminate the provisions that permit measurement as of an earlier date and have no other comments on Issue 4.

*Issue 5:* This proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, *Reporting Comprehensive Income*, Paragraphs 7 – 13 of this proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities.

Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

We believe this proposed Statement should apply to not-for-profit organizations and other entities that do not report other comprehensive income. We recognize that the Board released guidance related to such entities in a separate document entitled "Illustrative Examples for Not-For-Profit Organizations and Other Entities That Do Not Report Other Comprehensive Income." We believe additional guidance such as this is very helpful and the Board should incorporate the guidance into the final Statement as either relevant illustrations or as an appendix to the final Statement.

## Other Comments

### *Write-off of Remaining Transition Asset / Obligation:*

We disagree that this issue needs to be included in the ED. There appears to be no persuasive need to write-off the remaining unamortized transition amounts at this time. Whatever problem this item is perceived to represent will disappear over time through regularly scheduled amortization. As a self-amortizing matter that in many cases is not material, it doesn't warrant the added complexity it causes in the ED.

### *Current Versus Noncurrent Presentation:*

Paragraph B35 states, "The Board decided to include in this Statement, classification along the lines of Question and Answer No.41 in FASB Special Report, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions*, to explicitly articulate the present requirement." The last sentence of Paragraph 4.b., states, "An employer electing to present a classified statement of financial position shall separately report the current and noncurrent portions of that asset or liability in accordance with existing standards." In addition, the last two sentences in paragraph C.2.i. states "If it is assumed that the liability will not be funded in the next 12 months (or operating cycle, if longer), then it shall be classified as a noncurrent liability. If, however, it is expected that a part or all of the liability will be funded in the next 12 months (or operating cycle, if longer), the portion to be funded shall be classified as a current liability." We believe this guidance to be too subjective in that it is not clear whether the funding is voluntary or required. In addition, since there can be many complex issues to consider in the classification of such proposed asset/liability, we believe issuers of financial statements should receive more specific guidance than the Board has included so far. Additionally, we don't consider the reference to Q & A No. 41 of Statement No. 87's implementation guide in Paragraph B35 to be relevant since that Q & A was written to address Statement No. 87's "additional minimum liability" and "intangible asset" that will no longer exist upon the effectiveness of this ED. We also noted that the illustrated statement of financial position the Board chose to use in paragraph A6 is an unclassified illustration. If a classified statement is used, the Board would have an opportunity to provide at least additional guidance relative to the current/noncurrent classification of the proposed asset/liability.

### *Discount Rate:*

We agree that there was need for additional guidance that assists preparers in determining the discount rate in order to improve consistency among employers. We believe that the guidance provided in paragraph C2.o. is an improvement that clarifies the determination of the discount rate for all employers. However, there is more and more pressure, particularly on public entities, to accelerate the release of financial information as of the year end date. As a result of this pressure, the precision in the financial statements will necessarily be reduced. We believe the elimination of the "three-month provision", as proposed under Issue 2, will contribute to this result.

### *Suggested change in wording:*

Paragraph 6.b. states in part, "For each period for which a statement of financial position is presented..." We recommend the language in 6.b. be changed to, "At each date for which a statement of financial position is presented..."

We would be pleased to respond to any questions the Board or its staff may have about any of the foregoing comments. Please direct any questions to Jay D. Hanson (952.921.7785) or Jolene M. Hart (952.921.7735).

Sincerely,

McGladrey & Pullen, LLP