LETTER OF COMMENT NO. 7

May 2, 2008

Russell G. Golden
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FASB
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P.O. Box 5116
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 132(R)-a.

Dear Mr. Golden:

The Committee on Investment of Employee Benefit Assets (CIEBA) is the voice of the Association for Financial Professionals on employee benefit investment issues. We are writing to express our views on the proposed FASB Staff Position (FSP) to amend FASB Statement 132 (revised in 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

CIEBA was formed in 1985 to provide a nationally recognized forum for ERISA-governed corporate pension plan sponsors on fiduciary and investment issues. CIEBA members are the senior corporate officers responsible for the management of $966 billion in pension assets and $573 billion in defined contribution plan assets. These plans cover 17 million participants and beneficiaries. Further, the almost $1 trillion in pension plan assets represent a source of long-term, disciplined investments for the U.S. capital markets.

As the chief investment officers for 110 major private-sector retirement plans, CIEBA members recognize the desirability of increased transparency and comparability in the financial statements of public companies. However, we posit that the proposals contained in this FSB will not lead to a meaningful increase in transparency and may reduce comparability.

Overall, CIEBA believes that disclosure should be focused on *strategic* investment policies and risk parameters. At a policy level, plans set asset allocation targets and associated risk parameters; plan fiduciaries oversee an investment program designed to achieve desired goals while adhering to policy guidelines and constraints. Disclosure should focus on these principles and not on ever-increasing levels of detail about particular investments.

The following are specific areas of concern with the FSP:

Asset Categories

CIEBA's primary concern about the FSP's on increased detail on asset allocation is the lack of a threshold and the level of granularity for the breakdown. CIEBA agrees that reporting on more asset classes may be necessary when those asset categories are significant. For example, greater detail on equity investments, such as U.S. and non-U.S. exposure, may be helpful. However, the lack of a threshold will cause plan sponsors to report fairly extensive information on categories that represent little or no risk to the overall portfolio. The following data from the *CIEBA U.S. Defined Benefit and Defined Contribution Membership Profile, 2006,* demonstrates this point.

- Hedge Funds - In 2006, CIEBA member investments in hedge funds only constituted 3.15% of defined benefit assets under management.
- Private Equity Funds - CIEBA member investments in *all types* of private equity investments total 4.66% of total assets. Venture capital investments constitute 0.85% of total assets, so all other private equity investments equal 3.81% of assets.

The categorization of 'derivatives' as an asset class may be misleading and will produce anomalous results. Many plans use derivatives and/or derivative overlays to mitigate risk, especially interest rate and/or foreign exchange risk. The cumulative gross derivatives exposure, if expressed as an asset category will result in asset allocations that add up to more than 100%. Further, gross exposure may lead to a total market value larger than total assets in the plan depending on the type of derivative strategies (overlays, long/short portfolios, etc.) being employed. Because of the variety of instruments and how they are used, derivatives are difficult to aggregate and group in a consistent way. For this reason, a 'derivatives' category is likely to reduce comparability between plans and plan sponsors.

The breakdown of debt into five (and possibly six categories if you include derivatives) is overly prescriptive. Plans manage their fixed income portfolios to achieve a number of objectives. The emphasis should be on how the whole fixed income portfolio is performing with respect to established strategic outcomes. It appears that this proposed requirement may have been prompted by recent disruptions in the U. S. credit markets, resulting from the sub-prime mortgage meltdown. While no specific data is available, it appears that private sector pension plans, as long-term investors, have little direct exposure to sub-prime mortgage-backed securities, such as Structured Investment Vehicles (SIV), Collateralized Debt Obligations (CDO), or Auction Rate Securities (ARS). We strongly urge that FASB not put in place a regime that will have little or no relevance in the future.

The proposed requirement for target allocation percentages disclosure is also problematic. The FSP requires disclosure of target allocation by major category as defined by the FSP. Plans do not manage target allocations to this level of detail. Plans

will typically have one target allocation percentage for each major asset type, such as debt securities.

CIEBA agrees that the current requirement to report on four categories of assets (equity, debt, real estate and other investments) may not provide sufficient information for investors. We suggest that FASB consider using asset allocation categories similar to those used in the Form 5500 that all plans must file with the Department of Labor. Adopting categories similar to those on the Form 5500, along with a threshold for reporting, would provide more useful information for investors in a cost effective way.

Recommendation: The revised FAS 132R should establish a threshold of 10% for reporting asset categories. Derivatives should not be a separate asset category. FASB should consider using asset allocation categories similar to those used on the Form 5500 for any new disclosure requirement.

Concentration of Risk

The first line of risk management for large defined benefit plans is diversification both within and across asset classes. The likelihood of undue concentration of risk, as presented in the example included in the FSP, is very small. *It is the duty of the plan fiduciary to assure that the risks and related returns are appropriate for the portfolio and that there is no undue concentration of risk.*

Many funds hold investments in a variety of commingled pools of assets. The FSP would require plan sponsors to 'drill down' to see 'concentrated' holdings. The lack of detail available to plan sponsors in certain pooled investment vehicles, such as a hedge fund of funds, may not be sufficient to meet the proposed risk concentration disclosure requirement. Further, plan sponsors' reporting protocols and systems will require significant enhancement to gather additional information and develop appropriate reporting and presentation.

The FSP is not clear if the goal is to better identify asset breakdowns or define risks in particular categories. It does not recognize that some asset categories can have very different risk profiles depending on what is 'inside' the categories. For example, the three major types of real estate investments – core, opportunistic, development – have very different risk profiles. The same is true for hedge funds and private equity investments.

Another key question is whether risk and concentrations of risk should be evaluated relative to a plan's funded status or to potential risks posed to the plan sponsor's balance sheet. The FSP does not include a standard on what actually constitutes concentration or

what threshold should apply. Is the risk concentration a concern for a single pension plan portfolio, across related pension plans or in relation to the entire corporate enterprise? How this threshold is established could have a significant impact on both transparency and comparability.

It is not clear how to identify homogeneous risk. Does a large investment in a single diversified pool of investments constitute a concentration of risk? Is an asset portfolio consisting primarily of debt and equity securities of one country, such as the United States, too concentrated? Will a portfolio designed to match assets and liabilities, primarily with fixed income securities and derivatives (liability-driven investments), result in a concentration of risk, or will it, in fact, reduce risk?

Finally, CIEBA agrees with the FSP that singular measures of risk, such as a Sharpe ratio, should not be mandated.

Recommendations: The revised FAS 132R should not include a concentration of risk reporting requirement. If FAS 132R includes a section on concentration of risk, clearer guidance on what risks are being evaluated, as well as a threshold for reporting those risks, should be provided.

Multiple/International Plans

The FSP presents distinct challenges for U.S. companies that manage multiple domestic and/or international plans. These plan sponsors may have responsibility for a large number of small, medium and/or large plans in the U.S. or in various countries.

The FSP does not give guidance on how plan fiduciaries with multiple and/or international plans should prepare the relevant disclosures. Should they report on all plans (U.S. and non-U.S.) in aggregate? Can they aggregate the non-U.S. plans and report on those separately? Can they establish a dollar or percentage threshold to avoid extensive reporting on plans that have little overall impact on the plan sponsor? Or, do they have to report on every plan, regardless of size?

The concentration of risk disclosure also presents issues for international plan sponsors. Gathering information across asset classes and drilling down into international pooled investment vehicles may be more difficult. Local law and customs may require a concentration of assets in a particular country and the plan sponsor has little ability to diversify those particular assets.

Recommendation: The revised FAS 132R should exclude plans that do not represent at least ten percent of total plan assets from the new disclosure requirements.

Effective Date

The effective date proposed in the FSP – fiscal years ending after December 15, 2008 – is not practical and should be changed. Plan sponsors are already devoting significant resources to complying with FAS 157. Since FAS 157 provides much of the basis for various disclosures in the FSP, CIEBA believes that the standards should be implemented sequentially rather than concurrently. At present, some issues under FAS 157 do not have definitive guidance from either FASB or from the major public accounting firms.

As mentioned above, plan sponsors will need to significantly enhance their current reporting systems and/or develop new systems to gather the relevant data. Companies with multiple domestic and/or international plans will need to design and implement major changes to reporting systems to ensure consistency across plans (and countries). Plan sponsors using multiple trustees/custodians will also have to assure that information submitted is usable and reconciled. Outside service providers, such as actuaries or investment advisors, who collect information for plan sponsors, will also have to change their systems for collecting and reporting data. These issues are even more acute for international plan trustees, custodians and service providers.

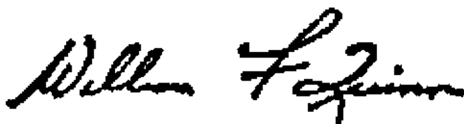
Developing and implementing new systems on a tight timeline would not only be expensive, but may also result in reportable data that is of lower quality.

Recommendation: Delay implementation of the revised FAS 132R for at least one year.

Improving transparency and comparability of information for investors are important goals. However, CIEBA believes that requiring some of the data elements described in the FSP will not have the desired impact. Investors would be better served by information that describes the strategic investment policies used by the plan sponsor, an understanding of the risk management tools employed by the plan and the overall status of the plan(s) and its impact on the plan sponsor.

We appreciate the opportunity to present our comments to the Financial Accounting Standards Board. If you have any questions about this letter, please feel free to contact Judy Schub, CIEBA managing director at (301) 961-8682, jschub@afponline.org.

Sincerely,



William F. Quinn
CIEBA Chairman