FASB

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Regarding : Compensation Retirement Benefits, Multi-Employer Plans

Ref. : 1860-100 Technical Director

Comments by: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

Thank you for the opportunity to critique this issuance. Details follow:

Background:

The Financial Accounting Standards Board (FASB) has issued an Exposure Draft of a proposed update to Subtopic 715-80 (Compensation - Retirement Plans - Multiemployer Plans). The purpose of the guidance is to increase transparency in financial reporting about entities that participate in multiemployer pension and other postretirement benefit plans.

Generally Accepted Accounting Principles rules currently require employers to disclose the total contribution to multiemployer plans, but *there is no specific requirement to describe the funding status of these plans. Under the proposed guidance, employers would have to provide more data*, including a description of the plans in which the employer is involved, the employer's contractual commitments to the plans, and the expected impact of participating in the plans on the employer's future cash flows, including the potential impact of plan withdrawal obligations. Ostensibly, this means the present value of future cash flows . *I concur.*

The guidance applies to non-governmental entities in Multi-employer Plans. The employer may provide pension and other retirement benefits. Essentially, the disclosure requires the following: o more transparency regarding the employer's obligation

- o the estimated amount of a withdrawal liability even when there is no reasonable possibility or imminent withdrawal anticipated
- o the implementation costs of applying the disclosure pp. 1-3

I concur.

Data about the employer's employees covered by the multiemployer plans(s) would need to be disclosed, including the percentage of the employer's employees covered by the plan(s) as well as arithmetic data about the employer's plan participation . i.e. The disclosure would show the number of the employer's employees participating in the plan as a percentage of the total plan participants with a dis-aggregation for active and retired participants.

I concur.

The disclosure should show the amount of the employer's contributions for the current period and the expected contributions for the next annual period. Any known trends in contributions to the plan(s) are to be reported, including the extent to which a surplus or deficit in the plan may affect future contributions. The disclosure does not say so; however, the sources for known trends would be an intermarket analysis, actuarial analysis, econometric forecasting, government data on the economy and even data which suggests the stability of the markets or major bourses which impact the corporation materially.

I concur with supplementary comments shown below.

The disclosure would also show the employer's contributions as a percentage of the total contributions to the plans(s). If ascertainable, the employer's contribution for the year ended is to be disclosed as of the employer's latest financial statement. The percentages for corresponding prior periods are to be shown to provide comparability for users of the financial statements.

715-80-50 1B requires employers to disclose separately for employer and other post-retirement benefit plans within each plan type. Separate disclosure is required for multi-employer plans where the fair value of assets at the reporting date is greater than the liabilities and multi-employer plans where the fair value of the asset at the reporting date is less than the liability. pp.5

If obtainable, the employer would have to disclose the total assets and the accumulated benefit obligations of the plan(s) as of the most recent financial statement plan year end and, for comparability, similar amounts for the corresponding prior periods.

I concur.

Data about withdrawal obligations must be disclosed, if ascertainable. Assuming that such information is not available, the disclosure must include information about the employer's relative participation in the plan(s), such as the percentage of total contributions to the plans or the percentage of participants covered by the plan(s). In the case of a dissolution of the plan, the disclosure should show the details of any agreed upon deficit or surplus allocations to participating employers. *The treatment for quasi-reorganizations in bankruptcy should be referenced.*

Narrative data foar differential risk characteristics or contractual commitments may be greater than the risks due to increased levels of underfunding. pp.12

The disclosure anticipates an enhanced transparency for the delineation of employer risks. The employer may have significant risks and uncertainties which arise from participation in the plan. The intention of the disclosure is to articulate these risks to the extent ascertainable and subject to quantification.

The XBRL SEC data format is mentioned in the guidance. The SEC is encouraging companies subject to XBRL compliance to contact the Office of Interactive Disclosure with questions about compliance. XBRL reporting may not just be for the SEC anymore. Businesses have not adopted the process completely.

If the entity has opted to do its own tagging internally, it may need assistance with validating tags and filing. The XBRL tagging process is intricate. Tags must match labels. Labels must match data. The taxonomies can be non-standardized. Experience has shown that automated solutions may mis-tag items resulting in filing difficulties. Some firms may outsource this process in whole or part.

Critique:

(1) The disclosure does not say so; however, the sources for known trends would be an intermarket analysis, actuarial analysis, econometric forecasting, government data on the economy and even data which suggests the stability of the markets or major bourses which impact the corporation materially.

pp. 1-3

(2) Separate disclosure is required for multi-employer plans where the fair value of assets at the reporting date is greater than the liabilities and multi-employer plans where the fair value of the asset at the reporting date is less than the liability.

pp.5

Disclosure of fair value of the assets implies stability in the employer plan investments. The stability of these plans may be addressed actuarially; however, economic events may over-ride even the best actuarial assessments governing portfolio valuations in corporate or union-based plans.

Currently, the USA is in a real estate recession and has been for nearly 4 years. Although the prognosis for long term values may be better based upon estimated population

increases, these trends are longer term. In real estate, location is the determining factor. Businesses in prime locations have a better chance of weathering the storm of a major recession. Current portfolios of stocks, in particular, may be subject to the stability of the VIX index and other indicators like moving averages and intermarket software.

Trends toward debt reduction and the stability of the national debt are other factors which may impact major economic segments in unpredictable ways. This discontinuity is happening in Europe right now. Greece is a prime example of debt unpredictability. The stability of the national debt could impact every government program in the social and military sectors.

Related impacts could be felt in the level of government contracts awarded and , by extension, corporate contractors across many industries. Major contractions can precipitate massive layoffs in some cases. By extension, pension funding and actuarial assumptions may change to reflect these new realities whether or not they are temporary. The government's entry into the Green Industries may have the opposite effect which may translate into significant growth over the intermediate to longer term horizon.

The comparative debt figures from 1792 to 2010 are listed at the site below:

http://www.usgovernmentspending.com/federal_debt_chart.html

The Gross Public Debt as a percentage of GDP (Gross Domestic Product) began at about 35% in 1792. The gross public debt reached a low point of 5.8% as a percentage of GDP in 1812 and 1813 during the term of James Madison of the Democratic-Republican Party. His most outstanding achievement was demilitarizing the US-Canadian border.

The Gross Domestic Product encompasses goods and services that have been bought for final use during a period of time. GDP covers workers and capital employed within the nation's borders.

The gross public debt remained in single digits from 1826-1862. In 1863, the gross public debt rose to 14.7% of the GDP and then to 27% of the GDP in 1865. The gross public debt was reduced to single digits again in 1892 and 1898-1917. The gross public debt rose to double digits as a percentage of GDP in every year after 1917.

The Gross Public Debt rose to 121% of GDP in 1946 and dropped steadily to 32% by 1975. The millenium began with the Gross Public Debt at 57% of the GDP and closed at 94% of the GDP in 2010. This year's Gross Public Debt at 94% is still well below the 121% in 1946 circa the end of World War 2. Our economic history shows that the public debt tends to increase quite considerably during wartime.

Sweden, Finland, Denmark and Australia have a Public Sector Deficit as a % of GDP at or below 50% compared to the USA at 94%. Greece, Italy and Japan have a Public Sector Deficit as a % of GDP over 114%. Japan's Public Sector Deficit as a % of GDP hovers around an incredible 200%!

http://europe.pimco.com/LeftNav/Featured+Market+Commentary/IO/2010/Investment+Outlook+February

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