Ms. Bielstein,

I appreciate the chance to comment on the proposed Statement of Financial Accounting Standards “Employers’ Disclosures about Pensions and Other Postretirement Benefits.” In general, I think the document is an effective, if modest, repair for the existing disclosure flaws related to the accounting for these plans. The glaring exception is the proposed removal of the activity reconciliations for plan assets and liabilities. I believe there are some additional disclosures that would make it even more effective, which I will discuss later.

I would also like to point out that disclosures would be a far simpler matter if the “smoothing” mechanisms present in Statement Nos. 87 and 106 were eliminated: the expected return device, for instance, and the amortization of deferred gains and losses. I believe the FASB should consider adding a project to its agenda for the full reconsideration of these standards instead of patching up the disclosure faults.

That said, the Board should not underestimate the importance of the disclosures related to pension and other postretirement plans. The area has been under-reported for years, and the investor “pension anxieties” of the past two years might have been alleviated if disclosure had been clearer - particularly during a given reporting year. Some statistics rounded up from Standard & Poor’s Compustat database might help provide the proper perspective:

- There are 1,810 public companies having either defined benefit pension plans or other postretirement plans or both. The total universe in the database was 8,731 firms. That’s only about 21% of all of the companies - but those 1,810 companies accounted for 66% of the total stock market value as of the end of August. Not only are there a substantial number of companies that participate in these plans, they are significant in terms of market representation. Improving the effectiveness of disclosure in the accounting for these plans - particularly during the reporting year - would help insure that capital allocation is based on facts, not conjecture.

- The earnings of these “plan sponsor” companies have significant exposure to the economics of their plans, which should make effective communication of their effects to market participants a paramount concern to the Board. The table below summarizes the aggregate impact of pension costs and other postretirement benefit costs for the 1,810 firms in their most recent fiscal year (again based on Compustat data).

<table>
<thead>
<tr>
<th>Pension Cost</th>
<th>Other PRB Cost</th>
<th>Pretax Income</th>
<th>Adjusted PTI</th>
<th>Pension Cost/Adjusted PTI</th>
<th>Other PRB Cost/Adjusted PTI</th>
<th>Total Benefit Costs/Pretax Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34,999</td>
<td>$35,036</td>
<td>$637,271</td>
<td>$707,306</td>
<td>4.9%</td>
<td>5.0%</td>
<td>3.9%</td>
</tr>
</tbody>
</table>

Those effects on pretax income are substantial, and imply that these costs would have significant impacts in the geography of the statement of operations. It’s not enough for analysts and investors to know the bottom-line...
effects of costs like these; a firm’s progress is monitored through the examination of various ratios and margins in the income statement.

• Apart from the earnings effects on the sponsors of these plans, they are very relevant to the financial status of the sponsors. The following table shows the relationships of the plan obligations to the total common equity of the 1,810 firms.

<table>
<thead>
<tr>
<th>($ in billions)</th>
<th>% of Total Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension plan assets</td>
<td>$1,817</td>
</tr>
<tr>
<td>Pension plan projected benefit obligations</td>
<td>$2361</td>
</tr>
<tr>
<td>Net pension funded status</td>
<td>$544</td>
</tr>
<tr>
<td>Net other postretirement obligations</td>
<td>318</td>
</tr>
<tr>
<td>Total benefit plan obligations</td>
<td>$862</td>
</tr>
<tr>
<td>Net common equity</td>
<td>$5,061</td>
</tr>
</tbody>
</table>

While it’s true that the funded status of pension plans does not appear directly in the statement of financial position, it’s a more representative measure of the firm’s responsibilities than the net presentation of Statement No. 87. Regardless, the point is clear: these obligations should matter a great deal to analysts and shareholders - which is precisely why it is important to provide the most robust disclosures possible. These plans are essentially separate firms within publicly traded firms, with real effects on their sponsors - and there is currently not enough information available to help investors evaluate how the plans will affect those sponsors.

Issue 1: This proposed Statement would require disclosure of information for each major category of plan assets. The broadest categories of assets for which this information would be required are equity securities, debt securities, real estate, and all other assets. The following information would be required to be presented for each major asset category:

a. Percentage of the fair value of total plan assets as of the date of each statement of financial position presented
b. Target allocation percentage or range of percentages, presented on a weighted average basis
c. Expected long-term rate of return, presented on a weighted-average basis.

The disclosures are useful for analysts and investors in assessing the realism of the long-term expected rate of return on assets. As long as the expected return mechanism is a part of pension accounting, these disclosures should remain relevant to financial statement users.

The proposal encourages, but does not require, additional disclosures about investment strategies and policies, including the degree to which contractual maturities of plan assets align with the amount and timing of benefit payments. I would support the required disclosure of this information rather than “encouraging” its inclusion in annual reporting. This information would be useful in assessing the kind of risks borne by benefit plans, which could involve the plan sponsors at a future date.

Issue 2: This proposed Statement would require disclosure of the defined benefit pension plan accumulated benefit obligation. The accumulated benefit obligation is the measure of the pension obligation used to determine the amount of the minimum liability, when the accumulated benefit obligation exceeds the fair value of plan assets.

Being a driver of the minimum liability, this would be a useful disclosure to investors and analysts. It is difficult to see any incremental cost to companies for its inclusion in the notes, because they should have this information already.
Issue 3: This proposed Statement would require disclosure of:
a. Estimated future benefit payments included in the determination of the benefit obligation for each of the five succeeding fiscal years, and the total amount thereafter, with separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value

b. The employer's contributions expected to be paid to the plan during the next fiscal year beginning after the date of the latest statement of financial position, showing separately:
   (1) Contributions required by funding regulations or laws
   (2) Additional discretionary contributions
   (3) The aggregate amount and description of any noncash contributions.

I support the proposed disclosures relating to cash flows. I think they would be adequate for helping analysts and investors figure the forward cash flow effects of plan obligations, and would be far more reliable information than estimates made externally.

There is another cash flow effect not covered by the proposal that merits the Board's consideration. I find that analysts and investors are often interested in the cash flow effects of benefit plans on operations - yet there is rarely, if ever, any visibility of these effects in the operating section of the cash flow statement. If all companies used the direct method of presenting cash flows, it wouldn't be a problem - but there aren't many companies in that category.

The historical effects on cash flow can be pieced together from the pension footnote, of course, but a better presentation - one that would immediately provide a better perspective of how pensions affect cash flows - would be to require the display of cash and noncash effects of benefit costs in the operating section of the cash flow statement for companies using the indirect method of presentation.

Issue 4: This proposed Statement would require use of a tabular format for disclosure of the following key assumptions (separately identifying the assumptions used to measure benefit obligations as of the plan's measurement date and those used to measure net benefit cost or income for the period): the assumed discount rates, rates of compensation increase (for pay-related plans), and expected long-term rates of return on plan assets. Those disclosures would be reported on a weighted-average basis.

I support the tabular presentation of the assumption information. It should not require firms to cultivate costly new information.

An aside: the very nature of benefit plans is that the mechanics of all plans are similar. Pension information lends itself well to standardized formats across all companies, and that's a blessing to analysts and investors. It shortens the learning curve for those just beginning to learn how to analyze benefit plan effects on sponsors, and makes for quicker, clearer comparisons.

Issue 5: This proposed Statement would retain the more limited disclosures for nonpublic entities required by Statement 132. Of the new disclosures that would be required by this proposed Statement, all would be required of nonpublic entities except for interim-period disclosure of the components of net periodic benefit cost.

Do you agree that all disclosures that would be required by this proposed Statement, except for interim-period disclosure of the components of net periodic benefit cost recognized, should be required for nonpublic entities? Do nonpublic entities have any special circumstances affecting their ability to provide the proposed disclosures?

I agree that nonpublic entities should be subject to the same reporting requirements of this proposed standard with the exception of interim period disclosures.

Issue 6: The Board considered, but did not include in this proposed Statement, a requirement to disclose sensitivity information about the impact on net periodic benefit cost and the benefit obligation of a hypothetical change in certain assumptions, such as expected long-term rates of return on assets, discount rates, and rate of compensation increase, while holding the other assumptions constant. The Board was concerned that such disclosures of hypothetical changes would not provide useful information, because economic conditions and
changes therein often affect multiple assumptions. Also, an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted. Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

Sensitivity information is most useful when the other information provided doesn’t lend itself to estimating processes. For instance, sensitivity information is still required for the effect on the benefit obligation and current cost of a one-percent increase and decrease in the health care cost trend rate, because the health care cost trend rate interacts with other variables that are invisible to the users of financial statements.

Sensitivity information about the long-term rate for return on assets would not be terribly useful for analysts and investors; they should be able to figure that for themselves by tinkering with various rates of return applied to an asset base. However, sensitivity analysis for the discount rates and expected rate of compensation increases would be quite useful; the information provided by this proposal doesn’t help much in regard to figuring what the projected benefit obligation would look like under a different discount rate scenario. Even the cash flow disclosures referred to in Issue 3a. would be insufficient for an outsider to realistically estimate the effects of different discount rate scenarios.

Some firms actually disclose discount rate sensitivities already; that might mean that it’s not excessively costly to produce this information. I would support a requirement that would show the effects of discount rate changes and expected rate of compensation changes in a matrix format showing the simultaneous effects of changing both the discount rate and the expected rate of compensation growth. See the example below.

<table>
<thead>
<tr>
<th>% Shift in Discount Rate</th>
<th>-1.5</th>
<th>-1.0</th>
<th>-0.5</th>
<th>0.0</th>
<th>0.5</th>
<th>1.0</th>
<th>1.5</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Shift in Expected Compensation Increase Rate</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>-1.5</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>-1.0</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>-0.5</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>0.0</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>0.5</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<td>x</td>
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<tr>
<td>1.0</td>
<td>x</td>
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<td>x</td>
</tr>
<tr>
<td>1.5</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

**Issue 7:** This proposed Statement generally would not require disclosure of the measurement date(s) used to determine pension and other postretirement benefit measurements when different from the fiscal year-end date. Disclosure of the measurement date(s) would be required when an economic event occurs, or economic conditions change, after the measurement date(s) but before the fiscal year-end, and if those changes may have had a significant effect on plan assets, obligations, or net periodic cost, had the fiscal year-end date been used as the measurement date. The nature of the significant changes also would be described. Should disclosure of the measurement date(s) be required and why?

Disclosing the measurement date does not require a company to draw up new information or change its data processing systems. Financial statement users would be interested in knowing whether or not the measurement date of the plan status took place, say, three months before year end - because they’d like to judge for themselves whether or not subsequent external factors (like a stock market crash/boom or an interest rate spike/drop) have had an effect on the plan status. As the requirement is worded, it doesn’t require a simple disclosure until a management has decided whether or not a “significant change” has taken place - making it unlikely that firms will ever disclose the date.

As mentioned earlier, standardization of information is a good thing when it comes to benefit plan disclosures. A simple requirement that companies always disclose the measurement date would be easy to provide and would be like “born on” dating of the information in the footnotes. Users could assess for themselves the freshness of the data they’re relying upon.
Issue 8: This proposed Statement would eliminate the requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. This proposed Statement would instead require disclosure of ending balances and would retain key elements of the reconciliations that are not disclosed elsewhere, such as actual return on assets, benefit payments, employer contributions, and participant contributions. As such, this proposed Statement would provide a more focused approach for key items previously included in the reconciliations. Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

I strongly recommend that the existing reconciliations be retained. It’s worth repeating: benefit plan mechanics are similar across all benefit plans. Standardization of the information assists financial statement users of all stripes: neophytes who are learning about benefit plans through the on-the-job training of reading financial statements, as well as the veterans who are quickly making comparisons across many companies.

The existing reconciliations have not caused any confusion among financial statement users that I have ever encountered. There should be no reason to make investors and analysts do bookkeeping gymnastics to put together a summary of what happened to plan assets and obligations by plucking information from other parts of the footnotes and assembling them.

See page 7 and 8 of the enclosed report for more discussion of why the current system works and the proposed system doesn’t.

Issue 9: The Board considered but rejected a number of other disclosures that were requested by users of financial statements.

I would like to address the foregone disclosures in the following clusters:

- a. *A description of investment policies and strategies.*
- b. *An explanation of the basis for selecting the expected long-term rate of return on assets assumption.*

Taken together, these two disclosures provide financial statement users with a degree of assurance that a firm’s management has not backed into an expected long-term rate of return on assets to achieve earnings goals. I would support the required inclusion of these disclosures.

- c. *The pension benefit obligation and funded status determined on a regulatory basis (for example, Employee Retirement Income Security Act of 1974 [ERISA]).*

I agree that this would not be a useful disclosure. It would be most useful only for attempting to roughly interpolate expected ERISA-based contributions - but companies are already required by this proposal to discuss their anticipated contributions. The additional information, then, would not be as useful as the to-be-required contribution information.

- d. *The pension benefit obligation and funded status determined on a plan termination basis (for example, the Pension Benefit Guaranty Corporation [PBGC] termination basis).*

I agree that this would not be a useful disclosure. Financial statements are not prepared on a liquidation basis - and that’s the only time this information would be relevant.

- e. *The amount and classification of net periodic pension and other postretirement benefit cost or income recognized in the statement of income, showing separately the amounts of net benefit cost or income included in each line item in the statement of income and reported for each period for which a statement of income is presented. The aggregate amount of net benefit cost or income recognized would be reconciled to the total amount of net benefit cost or income, identifying the aggregate amount capitalized as part of inventory or other productive assets.*

I strongly urge the Board to reconsider making the disclosure of benefit costs capitalized and income statement line-item geography a requirement to be met on an annual and interim basis. I believe that this is one of the best opportunities to improve the benefit plan model as it currently exists. What we now see in the footnote
breakdown of pension cost is not necessarily what flows into the income statement. Some of the cost (or credit, depending on market conditions and funded status) might actually be directed to inventory or self-constructed property accounts. (Examples: in-house labor working on a new headquarters building, or factory, or store location.) Yet the only thing that analysts and investors can do is attribute the entire benefit cost to earnings - and with no clue as to how it affects gross profit margins, selling, general & administrative expenses, or other expenses.

There will be information in both the annual and quarterly information that will allow financial statement users to assess the veracity of the net benefit cost figures - but if the integrity of those figures comes into question as a result of the disclosures, the analyst or investor is at a dead end. For instance, if a firm moves from a net pension cost situation in one period to a net pension credit in a following period, it’s not perceived as high-quality income. Should the reader of the financial statements assume that the entire change is behind an improvement in gross profit margins as well? Or, has some of the credit been allocated to self-constructed property, plant and equipment? Or research and development? As pointed out earlier, it’s not enough for analysts and investors to know bottom-line effects of costs like these; a firm’s progress is monitored through the examination of various ratios and margins in the income statement.

f. The number of pension plan participants by group (for example, active, terminated-vested, and retired).
g. The amount of benefit obligation by participant group (for example, active, terminated-vested, and retired).

I would support the continued exclusion of this information. If investors and analysts are being provided the expected benefit payments for the next five years and a lump amount for the remainder, I don't think these disclosures would greatly improve upon that information.

h. The weighted-average duration of the benefit obligation.

I would encourage the Board to reconsider the inclusion of this information on an annual basis. It would give financial statement users better clues about the timing and duration of the plan obligations, and allow more reasoned comparisons of obligations to the asset information. While it is possible that assets and liabilities could have similar durations but different amounts and timing, it would still be useful to know how wide the differences might be where they exist.

i. Interim-period disclosure of plan assets and benefit obligations.

I strongly support the inclusion of this information on an interim basis.

FASB's reasoning in not requiring the interim period plan assets and benefit obligations was that while it might be relatively easy for preparers to present the fair value of plan assets, it would be impractical to update projected benefit obligations on a quarterly basis. To present current information on assets alone might mislead financial statement users.

While I agree that it would be impractical to revalue benefit obligations on an interim basis, I don't believe that it would be misleading to present the fair value of plan assets on an interim basis. A simple disclosure of the fair value of assets would be better information than relying completely on year end information that's been rolled forward. It is useful information that might reduce uninformed speculation about the financial condition of pension plans, and the effects it could have on plan sponsors - a reporting betterment.

Any "misleading" effects about reporting the fair value of assets alone could be mitigated by providing the sensitivity table suggested in Issue 6. Analysts and investors could estimate for themselves the effects on benefit obligations of any unusual interest rate change subsequent to year end.

j. A description of participation in multiemployer plans.

I encourage the Board to reconsider including information about sponsor participation in multiemployer plans.

A firm with a defined benefit pension plan will see its fortunes intertwined to some degree with the fortunes of the plan. Likewise, if a firm participates in multiemployer plans, their fortunes will be intertwined with the
economic well-being of the multiemployer plans. Yet most of the plan disclosures in the proposal do not apply to multiemployer plans.

It seems unlikely that this information would be so onerous for participating firms to gather; in fact, if a firm's management didn't have the information available, one would have to question how well they manage this activity.

Issue 10: This proposed Statement would require disclosure of the following information in interim financial statements that include a statement of income:

a. The amount of net periodic pension and other postretirement benefit cost recognized, showing separately the service cost component, the interest cost component, the expected return on plan assets for the period, the amortization of the unrecognized transition obligation or transition asset, the amount of recognized gains and losses, the amount of prior service cost recognized, and the amount of gain or loss recognized due to a settlement or curtailment.

b. The employer's contribution paid, or expected to be paid during the year, if significantly different from previous disclosures pursuant to paragraph 5(g) of this proposed Statement, showing separately (1) contributions required by funding regulations or laws, (2) additional discretionary contributions, and (3) the aggregate amount and description of any noncash contributions.

Are the proposed disclosures needed for users to understand the financial condition, results, and cash flows associated with pension and other postretirement benefits? Should additional disclosures be required? Should either of the proposed interim period disclosures be eliminated?

I support the proposed interim disclosures; I believe they would be helpful to users to understand the results and cash flows associated with benefit plans. I believe they would be more useful, however, if the line item information discussed in 9e. above.

I don't believe that the disclosures will help users much in assessing the financial condition of firms sponsoring benefit plans. I think the best way to help users in that effort on an interim basis is to include the plan asset and obligation information as discussed in 9i above.

Issue 11: The provisions of this proposed Statement would be effective for fiscal years ending after December 15, 2003. The interim-period disclosures in this proposed Statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. All other disclosures, other than those identified above for restatement, would only be required to be presented as of the date of the most recent statement of financial position.

Are the proposed effective date provisions and transition appropriate? If not, what alternative effective dates and transition would you suggest and why? If individual disclosures require additional time to compile, please describe the nature and extent of the effort required.

I support the transition requirements as described in the proposal.

Those are all the comments that I have at this time. If you have any questions, don't hesitate to call.

Sincerely,

Jack Ciesielski