FedEx Corporation has reviewed the proposed Statement of Financial Accounting Standards Exposure Draft, Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, issued March 31, 2006 and submits this letter of comments on the Exposure Draft. The comments in this letter include our overall observations on the project to reconsider current defined benefit plan accounting and specific comments on certain of the proposals presented in the Exposure Draft.

We support the Financial Accounting Standards Board (FASB) in its objectives to develop accounting principles that enhance the transparency and relevance of financial statements. However, we do not believe the Exposure Draft would improve the financial reporting for defined benefit plans because it does not reflect a complete and comprehensive review of the accounting principles for this area. We do not believe the FASB should piecemeal the reconsideration of the accounting for defined benefit plans as there are significant practical and international harmonization issues that should be more fully considered in this debate. Instead, we believe the proposals presented in the Exposure Draft should be considered as part of the FASB’s long-term project to review all aspects of accounting for pension and other postretirement benefit plans.

We believe there is a basic inconsistency in the FASB’s approach to addressing defined benefit pension and other postretirement benefit accounting as set forth in the Exposure Draft and its stated objectives of developing more principles-based rules and addressing international harmonization in rule setting activities. For example, the proposals set forth in the Exposure Draft would make the accounting for U.S. companies more divergent from international standards in terms of how actuarial gains and losses and unrecognized prior service costs are reflected in a plan sponsor’s balance sheet. We also question how the Exposure Draft can propose such a dramatic change to balance sheet accounting for these obligations and not address the reporting of multi-employer plan obligations whose funded status is not reported at all in a participating employer’s financial statements. Finally, we cannot reconcile the proposal to reflect an unfunded projected benefit obligation (PBO) in the balance sheet with the conceptual framework for the definition of a liability.
We urge the FASB to proceed cautiously in considering changes to defined benefit plan accounting standards. Radical reform to these accounting standards without practical transition could result in unintended consequences and jeopardize the entire system of employer-sponsored defined benefit plans. The smoothing and estimation techniques embedded in the current accounting models for defined benefit plans acknowledge the long-term nature of these obligations and provide practical methods for plan sponsors to measure and report these obligations. While not theoretically perfect, these techniques were thoughtful additions to Statements 87 and 106 to make these standards operational. We believe that many employers will find it untenable to assume the balance sheet volatility that would result from the proposals outlined in the Exposure Draft and the earnings volatility that could result if mark-to-market accounting is proposed in a subsequent phase of this project. Moreover, we do not believe this increased volatility will result in more meaningful information to the users of financial statements.

We agree that faithful representation of the financial position of an entity should be a priority in the development of accounting standards. However, we do not believe that the users of financial statements will ultimately benefit from the application of the model proposed in the Exposure Draft. Significant changes in discount rates and market values of plan assets can occur over short time periods. For large plans, these fluctuations can materially affect the plan’s funded status at its measurement date, which under the Exposure Draft would continue to be reflected in the balance sheet for the succeeding year. We do not believe the FASB has fully explored the impact this added volatility will have on the relevance of financial statements to investors, lenders and other users of financial statements.

While we feel strongly that the accounting model proposed in the Exposure Draft should not be adopted, we do believe that employer-sponsored defined benefit plan disclosures could be substantially enhanced to provide users of financial statements with more relevant data. For example, we do not believe most companies provide transparent disclosures on the sensitivities to changes in defined benefit plan assumptions. We also believe certain pro forma disclosures could be established to display potential balance sheet implications if the net funded status of a defined benefit plan were to change in the future. We believe these types of sensitivities would give financial statement users a better picture of the long-term funded status of these obligations. We recommend the FASB continue to solicit input from analysts, investors and preparers about the specific disclosure information that would enhance their ability to understand this complex area.

In addition to these overall observations, we have the following comments on specific proposals outlined in the Exposure Draft.
Exposure Draft Issue 2: The Employer’s Measurement Date

We encourage the FASB to reconsider the requirement in the Exposure Draft to eliminate a company’s ability to set their measurement date up to 90 days before an employer’s fiscal year-end. This provision was included in existing literature for practical purposes and the accelerated filing requirements for larger public companies make this election an important capability to meeting financial reporting timelines. In fact, many companies that had year-end measurement dates recently changed them to allow for adequate time to meet the new accelerated filing requirements. For large, multinational employers with multiple overseas defined benefit plans, the time afforded by an earlier measurement date is needed to accurately accumulate and review benefit plan valuations. The increased risk of error in reducing the time available to perform, review and audit these valuations appears to far outweigh the perceived improvement in comparability that a required fiscal year end measurement date would bring.

Since discount rates for liabilities should be based on the expected timing of the payout of benefits and the valuation of plan assets is largely dependent on investment mix, the notion that a year-end measurement date would by definition create enhanced comparability is questionable in our view. Furthermore, the variability in fiscal year ends also impacts comparability. If the FASB’s goal is to enhance comparability, perhaps all defined benefit plans should be measured at a common date, regardless of fiscal periods.

Requiring a fiscal year-end measurement date will adversely impact many companies’ ability to manage internal planning, budgeting and product pricing. Employers with significant pension costs and funding requirements frequently make trade-offs in resource allocations and pricing decisions based on anticipated pension costs and contributions. Requiring year-end measurement dates limits the ability for many companies to effectively plan for these items. In addition, earnings reports and future earnings guidance may need to be delayed in order to have sufficient time to accumulate valuation data. In our view, the benefits of greater comparability and theoretical consistency are limited and this provision of the Exposure Draft should be removed.

Exposure Draft Issue 3: Use of the projected benefit obligation to measure a balance sheet pension liability

We believe that the FASB should also reconsider the requirement in the proposed rules to measure the net asset or net liability in the balance sheet on the basis of the unfunded or over-funded projected benefit obligation (PBO) because we do not believe the salary progression component of the PBO meets the definition of a liability. Furthermore, we do not believe that a net over-funded PBO represents an asset to an employer as such amounts would only be recoverable in the event of a plan termination, wherein the amount recoverable could be substantially less than the over-funded PBO (due to the impact of excise taxes and the valuation of liabilities in a termination scenario).
The PBO represents an expected future obligation that is calculated based on assumptions about future pay increases. Unless contractually required, a future pay increase is not a promise between an employer and an employee and, in our view, should not be reflected in an employer's balance sheet. Additionally, measurement of this obligation using the net funded status at the measurement date does not give consideration to other factors that would impact the ultimate net obligation such as future earnings on plan assets. This lack of symmetry should be addressed by the FASB before any rule changes are enacted.

We believe the accumulated benefit obligation (ABO) is more consistent with the notion of a recorded liability under the conceptual framework of Statement of Financial Accounting Concepts No. 6. Current standards require an underfunded ABO to be reflected as a liability in the balance sheet. However, the extent to which the ABO is funded is irrelevant to the balance sheet obligation under the accounting model set forth in the Exposure Draft.

As the Exposure Draft points out, there are inconsistencies in the current accounting literature between future pay increases being considered in net periodic cost but not in determination of the accrued liability. However, the proposed accounting in the Exposure Draft is incomplete and we do not believe some change is incrementally better than the status quo. In our view, the FASB has a responsibility to give this area its due consideration, ensure they are adopting principles that make financial statements relevant and meaningful to users and not rush to a partial conclusion.

We appreciate the opportunity to comment on these proposed rule changes and thank you for your consideration of our comments.

Sincerely,

John L. Merino
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Principal Accounting Officer
FedEx Corporation