REVISED SEC STAFF ANNOUNCEMENT

Topic: *EITF Abstracts*, Topic No. D-36, "Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions"

Date Discussed: November 16, 2006

The SEC staff announced that the following amendments to Topic D-36 were made to conform with FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (additions are underscored and deletions are ~~struck through~~).

Topic No. D-36

Topic: Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions

Dates Discussed: September 23, 1993; November 16, 2006

The SEC Observer made the following announcement of the SEC staff's position on the selection of discount rates used for purposes of measuring defined benefit pension obligations under FASB Statement No. 87, *Employers' Accounting for Pensions*, and obligations of postretirement benefit plans other than pensions under FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

The SEC staff recently questioned a registrant about that registrant's selection of discount rates for purposes of measuring its defined benefit pension obligation under Statement 87. ~~The staff believes that the guidance that is provided in p~~Paragraph ~~186~~44A of Statement ~~106~~87 (as amended by FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*), ~~for selecting discount rates to measure the postretirement benefit obligation also is appropriate~~provides guidance for ~~measuring the pension benefit obligation~~selecting discount rates to measure defined benefit pension obligations.[1] That paragraph states:

> Pursuant to paragraph 44, an employer may look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed

[1] Paragraph 31A of Statement 106 (as amended by Statement 158) provides similar guidance for selecting discount rates to measure postretirement benefit obligations.

> discount rates is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the ~~accumulated~~pension benefits when due. Notionally, that single amount, the ~~accumulated postretirement~~projected benefit obligation, would equal the current market value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates ~~should~~shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio above. Assumed discount rates ~~should~~shall be reevaluated at each measurement date. If the general level of interest rates rises or declines, the assumed discount rates ~~should~~shall change in a similar manner.

Interest rates have been declining and are at their lowest levels in more than a decade. At each measurement date, the SEC staff expects registrants to use discount rates to measure obligations for pension benefits and postretirement benefits other than pensions that reflect the then current level of interest rates. The staff suggests that fixed-income debt securities that receive one of the two highest ratings given by a recognized ratings agency be considered high quality (for example, a fixed-income security that receives a rating of Aa or higher from Moody's Investors Service, Inc.).