

October 27, 2003

Letter of Comment No: 66
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Mr. Lawrence W. Smith
Director-Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
Norwalk, Connecticut 06856-5116

Re: *Proposed Statement of Financial Accounting Standards Employers' Disclosures about Pensions and Other Postretirement Benefits*

Dear Mr. Smith:

FPL Group, Inc. (FPL Group) appreciates the opportunity to comment to the Financial Accounting Standards Board (Board) on proposed Statement *Employers' Disclosures about Pensions and Other Postretirement Benefits*. FPL Group is a public utility holding company. Its operations are primarily conducted through Florida Power & Light Company, one of the largest investor-owned electric utility companies in the nation, serving about half the population of Florida. FPL Group also owns and operates independent power facilities through its unregulated power generation subsidiary, FPL Energy, LLC. Our responses to the specific questions raised in the proposed Statement are addressed in numerical order by issue. We have no comments regarding Issues 5 and 7.

Plan Assets

Issue 1: Are the proposed disclosures needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

The proposed statement would require the percentage of the fair value of total assets held as of each date for which the statement of financial position is presented, the weighted-average target allocation percentage (or range of percentages) as of the date of the latest statement of financial position presented, and the weighted-average expected long-term rate of return as of the date of the latest statement of income to be presented for each major category of aggregated plan assets (equity securities, debt securities, real estate, and all other assets.)

We believe many financial statement users will expect the total rate of return to be a weighted average of the rates of return disclosed for broad asset categories, but this is a false expectation because it ignores the benefits of diversification and rebalancing. When investments are well diversified and regularly rebalanced, the expected rate of return for the total portfolio exceeds the weighted average of the expected rates of return for individual asset categories. Diversification and rebalancing typically adds 30 to 70 basis points to the total portfolio return; the effect increases with the number of different asset categories and when the returns of the various asset categories are less correlated with each other. However, the proposed disclosures do not provide a mechanism to incorporate the benefits of diversification and rebalancing into the disclosure. If management shows its actual expected rates of return for each asset category, together with an expected return for the total portfolio that incorporates the benefits of diversification and rebalancing, some users of the financial statements may conclude that the total portfolio return isn't supported by management's expected return for each class. If management adjusts the expected rates disclosed for each asset class to reflect the benefits of diversification and rebalancing, users may conclude that management has unrealistic expectations for each asset class. One option might be to disclose returns for each asset category, the effect of diversification and rebalancing, and the total expected return for the portfolio.

In addition, the proposed statement requires disclosure of the range of periods to maturity and weighted-average period to maturity of debt securities. But period to maturity is only half the story when it comes to understanding expected returns. Without information on debt quality, it will be impossible for users to draw valid conclusions about the appropriateness of the expected return disclosed for debt securities. This disclosure is intended to assist financial statement users to assess how well investment cash flows align with benefit payments. That disclosure is only relevant for well-funded plans invested almost exclusively in debt securities. However, since a significant portion of a plan's assets are generally invested in equity securities, we question the usefulness of this information and the ability of the reader of the financial statements to reasonably assess how well the plan assets align with the timing of benefit payments.

Lastly as to the Board's final question on this issue, we believe compiling this information will require significant additional time and expense.

Defined Benefit Pension Plan Accumulated Benefit Obligation

Issue 2: Are the proposed disclosures needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

The proposed statement would eliminate Statement 132's current requirement that public entities provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. We believe the accumulated benefit obligation (ABO) is a useful measure of the employer's pension benefit obligation. The ABO is measured in connection with the actuarial valuation of a pension plan, and therefore should be available with minimal cost.

Cash Flow Information

Issue 3: Are the proposed disclosures needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

The proposed statement would require new disclosures about employer and plan cash flows. The proposed statement would require disclosure of a schedule of estimated future benefit payments included in the determination of the benefit obligation, as of the date of the latest statement of financial position presented, for each of the five succeeding fiscal years, and the total amount thereafter, with a separate deduction from the total for the amount representing interest necessary to reduce the estimated future payments to present value. It would also require a schedule of 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 the contributions required by funding regulations or laws, additional discretionary contributions and the aggregate amount and description of any noncash contributions.

Compiling the benefit payment projection, especially for the 2003 year-end, will be a major challenge and will result in additional expense. One problem is that the actuarial valuation system used by our actuary, calculates FAS 87 and 106 obligations by applying annuity factors to projected annual benefits. Undiscounted cash flow projections are not an integral part or even a by-product of the benefit obligation calculations. Furthermore, where cash flow projection capabilities have been added to such valuation systems, they often project total expected future benefit payments, not just the portion of expected future benefits attributable to service before the measurement date.

FPL's actuary will probably have to perform additional work to produce the required cash flow projection at 2003 year-end, at additional expense to FPL. If the effective date of the proposed statement were delayed a year, we could have our actuary modify their actuarial valuation systems to automatically produce the required cash flow projections at much less additional cost. However, there still would be ongoing additional costs associated with the use of more refined actuarial assumptions.

Beyond the difficulty and expense associated with the proposed statement's required benefit payment projection is whether or not this disclosure will be meaningful to the users of financial statements. The Board's stated reason for requiring the benefit payment projection is to enable users to assess the amounts, timing, and pattern of cash flows and how well asset maturities align with benefit payments. But projecting only benefits included in the obligation undermines the user's ability to make such assessments for an ongoing plan. Aggregating funded and unfunded plan benefit payments makes it difficult to compare asset maturities with benefit payments. We don't feel the information that would be provided is sufficiently meaningful to warrant the additional expense.

Assumptions

Issue 4: Are the proposed disclosures needed for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans? Should any of the proposed disclosures be eliminated and why? What additional disclosures should the Board require that are not included in this proposed Statement or existing requirements? Can the information to be disclosed be provided without imposing excessive cost?

The proposed statement would require the use of a tabular format for disclosure of key assumptions such as the assumed discount rates, rates of compensation increase, and expected long-term rates of return on plan assets. We believe the proposal in the Statement requiring the use of a tabular format for disclosure of key assumptions is necessary for users to understand the financial condition and results, market risks, and cash flows associated with pension plans and other postretirement benefit plans and can be disclosed without imposing excessive costs.

Sensitivity Information about Changes in Certain Assumptions

Issue 6: Should disclosure of sensitivity information about hypothetical changes in certain assumptions be required and why?

The proposed statement, does not include 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. We agree that disclosures of hypothetical changes would not provide useful information, because economic conditions and changes therein often affect multiple assumptions. We also believe an analysis that varied only one assumption at a time, holding the others constant, could be misleading or misinterpreted.

Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations

Issue 8: Should the reconciliations, as required by Statement 132, be eliminated or retained and why?

The proposed statement would eliminate the current requirement in Statement 132 to provide reconciliations of beginning and ending balances of the fair value of plan assets and benefit obligations. We believe the elimination of the current reconciliation requirement would create more confusion and less understanding of the pension and other postretirement benefits information. The reconciliations provide the “key elements” (benefit payments, contributions and actual return on plan assets) along with information on actuarial gain/loss, plan amendments in a logical format that establishes a more meaningful context for understanding than if a subset of the same information is presented in a disaggregated manner. In order to provide transparent disclosures, we maintain that the current disclosure requirement to provide reconciliations of the fair value of plan assets and benefit obligations be retained and will alleviate the need to search for information in various sections of the notes to the financial statements.

Disclosures Considered but Not Proposed

Issue 9: Should any of the various disclosures considered but not proposed be required to be disclosed and why?

The proposed statement considered but does not require various other additional disclosures. We believe disclosure of these items would increase complexity, impose additional implementation costs and/or are not relevant. Therefore, we agree with the Board’s decision to not require the various additional disclosures considered but not proposed.

Disclosures in Interim Financial Reports

Issue 10: 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?

The proposed statement would require disclosure of the following information in interim financial statements:

- 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 unrecognized 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.

Pension and other postretirement benefit valuations often are not finalized until the fourth quarter of our fiscal year. In the interim, we recognize pension and other postretirement benefit cost based on estimates, which in most cases are not specific by component of cost. Requiring quarterly updates of estimated contributions would substantially increase employer costs to prepare interim disclosures. It would also introduce significant quarter-to-quarter volatility in the contribution estimate, which may confuse financial statement users and give the impression that management is indecisive.

In addition, corporate transactions will further complicate interim statement updates. Employers that engage in transactions during the year will show continually changing expense amounts and expected contributions.

We believe the requirement for interim disclosures should be eliminated and that the costs exceed the benefits for interim disclosures.

Effective Date and Transition

Issue 11: 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.

The proposed statement would require additional disclosures for fiscal years ending after December 15, 2003. The interim-period disclosures in the proposed statement would be effective for the first fiscal quarter of the year following initial application of the annual disclosure requirements. We believe it will be a challenge to gather the required information, particularly expected benefit payments, within the short time frame provided. In addition, we won't even know for certain what the disclosure requirements will be and when they will be effective until the final statement is issued, probably in late November early December. This gives FPL very little time to collect newly required information, especially when combined with the SEC's accelerated Form 10-K filing deadline, which was reduced from 90 days to 75 days after fiscal year-end. We recommend the Board delay the effective date until 2004.

In addition, the effective date presents additional problems for FPL because we use a measurement date before our fiscal year-end. FAS 87 and 106 permit FPL to use a measurement date that is as much as three months prior to fiscal year-end. Using an early measurement date facilitates preparing the year-end financial statements. Because we use a September 30 measurement date we often complete our pension and other postretirement benefit disclosures by mid-November. This year, however, the applicable disclosure requirements won't be known by then. We will have to decide whether to draft disclosures based on a best guess at the final requirements (knowing significant revisions may be required) or to delay preparing the disclosures until after the final statement is issued. In addition, as noted below, the proposed statement would require FPL to disclose any significant changes between the measurement date and fiscal year-end, which could negate much of the timing advantage gained by using an early measurement date.

Lastly as to the Board's final question on this issue, we believe we will incur a significant amount of time and expense to compile the newly required information in order to meet the SEC's accelerated Form 10-K filing deadline which is further compounded by the additional strain on our resources to comply with other recently issued authoritative guidance.

We agree with the Board that accounting for pensions and other postretirement is a complex subject about which investors, analysts, and other users of the financial statements want a better understanding. We believe the Board has for the most part, in this exposure draft, proposed an appropriate level of additional disclosures that will provide financial statements users with relevant information. We appreciate the opportunity to express our views. If you have any questions regarding our comments, please contact us at the numbers listed on the signature page of this document.

Sincerely,

K.M. Davis

Controller and Chief Accounting Officer