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Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board

Subject: File Reference No. 1025-200

Dear Director:

Eaton Corporation appreciates the opportunity to respond to the Financial Accounting Standards Board's (the Board) Exposure Draft on *Employers' Disclosures about Pensions and Other Postretirement Benefits* (ED). Eaton Corporation is a global company with over 50,000 employees on six continents serving the industrial, commercial, construction, automotive and consumer sectors.

We recognize that the objective of the ED is to provide more information about assets, obligations and expenses related to pension and other postretirement plans. However, given the technical nature and complexity of employee benefit calculations, we believe the additional disclosures proposed in the ED would generally prove to be of little incremental value to users of financial statements.

We are also convinced that for global companies such as ours, that have many employee benefit plans in many countries, the perceived benefits derived from the increased disclosures will not offset the significant increase in costs that will be incurred to comply with the requirements. Issuance of the new disclosure rules will result in significant costs related to re-work of actuarial calculations, internal data accumulation and verification and external audit procedures. These costs escalate as the number of benefit plans, countries, actuaries and plan trustees increase.

Pensions are but one area of risk and accountability that companies deal with. Putting more emphasis on the disclosure and accounting results of pensions than perhaps warranted and needed runs the potential risk of causing readers to ignore the pension disclosures altogether. In particular, we believe most of the additional proposed pension disclosures are excessive and disproportionate to the issues that need clarification.

Additionally, the timing of the implementation of the new rules is of great concern. Most large, multi-national companies have numerous benefit plans in many countries and are already in the process of sending out year-end reporting instructions to international locations and working with actuaries to satisfy existing year-end measurement and reporting requirements. Given the large volume of data that will need to be collected, combined with the fact that calendar year companies are so close to year-end, compliance with the new requirements as of December 31, 2003 would be extremely difficult and costly. Accelerated SEC annual report filing deadlines for 2003 would also make compliance with new disclosure rules at this late date overwhelming. Therefore, we believe the Board should delay the effective date of any final rules requiring additional disclosure for one year.

In our view, existing disclosure requirements currently allow users of the information to effectively analyze benefit liabilities, plan assets and the impact of pension plans on net income. As an active participant in the financial markets, we are aware of the significant amount of market concern over pension funding issues. Through our own communications with analysts, rating agencies and shareholders the primary concerns of financial statement users appear to be in the areas of minimum liability requirements and the expected cash needed to fund pension plans which would compete with other corporate requirements for cash.

We believe companies can satisfy these concerns effectively by disclosing the amount of accumulated benefit obligations and the statutory minimum funding requirements of the pension plans. However, it should be noted that for companies with plans in countries other than the U.S., minimum funding requirements might have different meanings in those countries and the aggregation of those funding requirements may not be meaningful.

\* \* \*

We appreciate the Board's consideration of these important matters and welcome the opportunity to discuss any and all issues with the Board at its convenience. Comments requested by the Board on selected issues contained in the Exposure Draft are included below. If you have questions regarding this letter, please call me at (216) 523-4175.

Sincerely,



Billie K. Rawot  
Vice President & Controller  
Eaton Corporation

## **Comments on Selected Proposed Disclosure Issues**

Our comments on the Board's specific proposed disclosures (paraphrased in italics) are as follows:

### **Issue 1: Plan Assets**

*Disclosure of the following information for each broad category of plan assets (i.e., equity securities, debt securities, real estate, and all other assets):*

- *Percentage of fair market value of total plan assets,*
- *Target allocation percentage,*
- *Expected long-term rate of return on a weighted-average basis, and*
- *Range and weighted-average of the contractual maturities of all debt securities*

We acknowledge that some disclosure about plan assets is necessary for financial statement readers to gain an understanding of a company's ability to fund its pension obligations. However, we believe the proposed requirements would prove to be costly to provide and add little value. The aggregation of multiple plan assets and returns, as proposed, with significantly different economic conditions are likely to confuse readers. The asset classes are broad and suggest conformity of return that does not exist. As an example, expected returns for junk bonds and international bonds could be significantly different.

The target allocation percentage of pension assets would not be useful to users of the parent company statements because of the myriad of plans that exist in a global company with differing plan objectives. The resulting details would be complex to communicate in any meaningful way, and would not likely provide the insight that is sought.

We believe that the current disclosure requirement of the expected long-term rate of return for all plan assets combined accurately reflects management's return estimates. Any attempt to separate estimates into specific asset categories would confuse, rather than inform, the reader, and in particular for cases where multiple plans exist.

In summary, we contend that the information currently provided on pension plan assets allows for informed assessments about resources available to satisfy pension obligations.

### **Issue 2: Defined Benefit Pension Plan Accumulated Benefit Obligation**

*Disclosure of the amount of the accumulated benefit obligation.*

We agree this amount could be disclosed given that the accumulated benefit obligation is the basis for the minimum liability accrual requirements. This information is already included in normal valuations and does not include any incremental cost.

**Issue 3: Cash Flow Information**

*Disclosure of estimated benefit payments for all future years and estimated employer contributions to the plan, including those required by funding regulations as well as discretionary contributions.*

While we understand the goal of this ED is meant to establish the matching of future benefit payments and plan asset maturities, we do not believe this disclosure meets that objective. It is our opinion that future cash flow requirements are not directly tied to the plan's current funding position. We believe that disclosing minimum funding requirements as mandated by law, combined with current disclosures of the plan's funded status and benefits paid, is meaningful information for a reader to assess a company's future cash requirements related to pensions. However, it should be noted that for companies with plans in countries other than the U.S., minimum funding requirements might have different meanings in those countries and the aggregation of those funding requirements may not be meaningful.

Given that management's estimates of voluntary capital contributions to be made to the plans can change significantly depending on a variety of factors, we believe disclosing contribution amounts should be limited to the minimum funding requirements as mandated by law. In addition, disclosing plan contribution estimates other than those required by law, constitutes forward-looking information and is best captured as a part of MD&A.

A schedule of estimated future benefit payments included in the determination of the benefit obligation is not currently produced within the actuarial valuation and could add confusion for the readers. Most actuarial valuations are based on data collected and rolled forward to the measurement date. The proposed standard would require census data to be collected at the measurement date to perform an additional valuation. The additional efforts to produce a cash flow on a PBO basis would be costly and could cause companies with large plans to move the measurement date forward to have the analysis completed by the fiscal year-end. This information is not collected for any other purpose, would be costly to provide, and ultimately would be misleading.

**Issue 4: Tabular Format for Disclosure of Key Assumptions**

*Disclosure of currently required information in a tabular format.*

We agree that the tabular format would improve the clarity of the information. This information is already available and does not include any incremental cost.

**Issue 6: Sensitivity Information about Changes in Certain Assumptions**

*Disclosure of sensitivity information about hypothetical changes in certain assumptions.*

We agree with the Board that sensitivity analyses would be misleading to financial statement users, as several assumptions may change at once as

economic conditions change. The impact of individual assumption changes is also not necessarily linear and thus not able to be used for meaningful extrapolation.

**Issue 7: Measurement Date(s)**

*Disclosure of the measurement dates when an economic event occurs after the measurement date, and the effect of that change on plan assets, obligations or net periodic cost had the fiscal year-end date been used instead.*

We believe disclosure of measurement dates and significant changes for economic events between the measurement date and the fiscal year-end on plans would lead to a hugely burdensome exercise for companies with an early measurement date. Further it would be very difficult for companies with operations in multiple countries with benefit plans with different measurement dates. Alternatively, the Board could consider requiring the disclosure of the measurement date without the requirement to evaluate for significant economic changes. Companies choose early measurement dates, in the first place, to allow for enough time to gather the required information for timely disclosure in the annual report footnotes. This further burden on valuations would be extremely costly for companies to comply with. Pensions represent long-term obligations that are affected by economic events on a continual basis, and the snapshot in the annual report is meant to be an indication of the situation, rather than an absolute measure assuming a shut-down of a plan.

**Issue 8: Reconciliations of Beginning and Ending Balances of Plan Assets and Benefit Obligations**

*Elimination of the reconciliation of beginning and ending balances of the fair value of plan assets and benefit obligations; disclosure of ending balances, with other key disclosures.*

We do not feel strongly about the elimination nor the retention of the reconciliation of beginning and ending balances of the fair value of plan assets and benefit obligations. We believe these disclosures add some value and their elimination will not necessarily reduce costs.

**Issue 9: Disclosures Considered but Not Proposed**

*Consideration of a number of other disclosures requested by users.*

We agree with the Board's rejection of the various additional disclosures. The suggested but rejected proposals would lead to significant compliance cost with little value to financial statement users.

**Issue 10: Disclosure in Interim Financial Reports**

*Disclosure of the amount of net periodic pension and OPEB cost recognized, showing separately the various components included.*

We do not believe that increased interim reporting disclosures related to pension and OPEB costs are warranted, since they would be of little incremental value to users of financial statements. These costs are generally consistent from period to period within the year, and if inconsistent from year to year warrant an explanation in MD&A.

**Issue 11: Effective Date and Transition**

*Implementation would be effective for companies with fiscal year ending after December 15, 2003.*

If the proposed ED disclosure changes are adopted, then the effective date should be deferred until 2004. The large volume of data that will be required to be collected, the fact that distribution of year-end reporting packages for companies with December 31 fiscal year-end is already in progress, and the accelerated SEC annual report filing deadlines all support our view that a December 2003 effective date is unrealistic and extremely burdensome.