

10 Paragon Drive
Montvale, NJ 07645-1760
Tel: 800-638-4427, 201-573-9000
Fax: 201-573-8185



Certified Management Accountant Program
Certified in Financial Management Program

October 28, 2003

Mr. Lawrence W. Smith
Director of Technical Application and Implementation Activities
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Letter of Comment No: 84
File Reference: 1025-200
Date Received: 10/28/03

File Reference: 1025-200

Dear Larry,

The Financial Reporting Committee of the Institute of Management Accountants appreciates the opportunity to comment on the Exposure Draft, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. We are aware of investor concerns that gave rise to the fast-track project to enhance pension disclosures and we support disclosures that make this important area more transparent. That said, we find that the disclosures proposed in the ED extend well beyond this goal and would require a tremendous amount of effort over a remarkably short implementation period. We disagree with certain of the proposed disclosures and believe that the Board needs to give additional consideration to whether they further the objectives that underlie the ED. Furthermore, the Board needs to be sensitive to all that is being asked of companies – not just to comply with recently issued FASB standards, which are by themselves substantial, but also by others. For example, companies are devoting significant resources to implementing many of the requirements of the Sarbanes-Oxley Act. With so much unsettled about the disclosures proposed, we believe that it is in the best interests of the Board and its constituents to defer the effective date of final disclosures to year-end 2004 financial statements. However, if the Board is unable to do so, we believe a phased approach offers a better chance for successful implementation of the disclosures on an accelerated timetable.

It is important that the Board recognize that many large companies have well in excess of one hundred individual benefit plans for which these disclosures would have to be assembled. These separate plans exist for a variety of reasons including acquisitions, tax consequences, etc. Many of these plans, and in some cases a majority, are administered outside the United States and have statutory funding requirements that are unique to their jurisdictions. Accordingly, any new set of

requirements will require significant efforts to adopt over an abbreviated transition period. In that regard, information that is regularly used by management in administering the plan is more likely to be readily available and capable of being reported in an aggregated disclosure than data that would be produced solely for purposes of complying with the disclosure requirements. In addition, we strongly believe that the relevance of the proposed disclosures, which already is questionable in our view, is greatly diminished when a diverse group of plans that are subject to different national requirements are combined into a single overall disclosure.

If the Board decides to proceed to a final standard and intends to make the disclosures effective this year-end, we believe that it will need to narrow the proposed disclosures to those that constituents will be able to comply with in the time available. We recommend that the Board take additional time to reconsider the utility of the remaining disclosures and either eliminate or refine them so that they meet a minimum standard of utility. We recommend that the second set of disclosures, if any, should be required no earlier than 2004 year end financial statements.

With respect to disclosure changes that would be effective for year-end 2003, we recommend that the Board:

- Modify the ED to retain the roll-forwards of the assets and projected benefit obligation (PBO), which provide useful information for a reader to understand pension plan status and annual activity.
- Limit disclosures about plan contributions to management's best estimate of those required to meet the minimum funding requirements specified by local regulations. Voluntary or discretionary contributions frequently are not reasonably estimable and could change dramatically as a result of economic and business factors.
- Continue to include the minimum pension liability (ABO) proposed in the ED.
- Eliminate the proposed interim disclosures. The components of net periodic pension expense are computed on an annual basis. Providing the details implies that the calculation is performed quarterly and is otherwise more precise than it is. If the Board remains convinced that some interim disclosure is necessary, it should be limited to total pension expense or income.

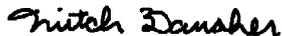
With respect to the remainder of the disclosures proposed, the Board needs to take additional time to fully consider whether and, if so, how they can be modified to add value at reasonable cost. As a whole, these data elements are difficult to assemble, are not reflective of how plan assets and obligations are managed, and are of dubious value to users of financial statements. Principal weaknesses of these proposed disclosures are as follows.

- Target Allocation of Plan Assets and Expected Returns – Expected return assumptions are not mathematical proofs of static investment positions. The allocation of assets is managed dynamically to optimize investment returns in light of actual and expected changes in market conditions. Furthermore, the aggregation of such information across the hundreds of plans typically sponsored by large companies is of questionable relevance to financial statement users.

- **Cash Flow Information** – Providing the maturities of debt securities is, at best, an incomplete picture of cash flows available to satisfy benefit obligations. A majority of investments (e.g., real estate and equity securities) have no maturity date. The benefit obligations themselves can vary widely from projections due to specific actions (e.g., restructuring) and the employees’ selection of payment options (e.g., lump-sum versus annuities). Because the term of these obligations span 50+ years in many cases, the amount shown in the “5 years and after category” will always dwarf the annual cash flows during the forecast period. Discretionary employer contributions are determined based on the balancing of competing factors and frequently are not estimable at pre-defined reporting intervals.

We appreciate your consideration of our comments. Our concerns regarding the proposed disclosures are discussed more fully in the attachment. Please feel free to contact me at (203) 373-3563 if you have any questions regarding the issues discussed in this letter.

Sincerely,



Mitchell A. Danaher
Chair, Financial Reporting Committee
Institute of Management Accountants

Issues 1 – Plan Assets

We understand concerns raised by analysts and investors regarding the composition of plan assets and agree that some disclosure of plan assets is essential to an understanding of how a company's pension obligation will be funded. However, we believe that neither the analyst community nor the Board has presented a clear case supporting the need for such a detailed and significant expansion of disclosures. In addition, for companies that offer pension plans in multiple countries and jurisdictions, these additional disclosures will prove onerous to provide and add little value to financial statement users.

The proposed disclosures for plan assets appear to be a "roundabout" attempt to address recent perceived abuses in sponsors' long-term rate of return assumptions. We believe that efforts would be better served to address this issue directly by developing guidance on the long-term rate of return assumptions. Such guidance could better clarify the degree to which recent actual market returns should be factored into a long-term rate of return assumption.

As related to the requirements in paragraph 5.d.(1) of the proposed standard (Issues 1.a., b., and c.), in many countries pension plan asset investment options are restricted and require the use of local trustees as a result of local regulatory restrictions. Thus, plan sponsors may not have complete control over actual asset allocation mixes, or timely access to actual allocations as of a point in time. The proposed disclosure also assumes a relatively static environment, when many companies' asset allocations are actively managed. Against this and the backdrop of the SEC's accelerated filing deadlines, the requirement to provide actual fair value percentages by asset type for overseas and multiple domestic plans on a timely basis will be difficult.

We also do not believe that providing the Company's expected rate of return by broad asset category (Issue 1.a.) is meaningful to financial statement users. Management develops its estimate of expected returns on plan assets based on several assumptions, including the composition of current invested assets, projected long-term inflation rates, and numerous other assumptions. The expected rate of return by broad asset category may not be indicative of the expected return of the entire portfolio. Further, if the plan assets contain the employer's securities as a separate asset class rather than as a component of an index fund, we would question the appropriateness of requiring a company to separately disclose an expected return for its own securities.

We believe the current disclosure of the expected long-term rate of return for total plan assets, combined with a potential disclosure of a company's general investment strategy by the types of broad asset categories, is sufficient to provide users information regarding this assumption. Any attempt to "disaggregate" plan assets and return assumptions into a specific asset category would be problematic for the reasons discussed above.

We do not believe the disclosures required in paragraph 5.d.(3) of the proposed standard are particularly relevant. We understand the Board's basis for requesting this disclosure, in order "to assess the degree to which investment cash flows are aligned with benefit payments." However, the maturities of debt instruments within the asset portfolio will not provide any such insight. Many companies do not currently track the range and weighted average of the contractual

maturities or term of the debt securities included in our plan assets, because investing decisions for the related funds are often made by trustees, and are not meant to match the timing of projected benefit payments. In addition, contractual cash flows from debt securities represent only one source of cash to fund benefit payments. There are typically significant assets held in the form of equity investments and real estate, which have no contractual maturity, and debt securities can be sold to raise cash when needed. Benefit payments are also funded with company contributions. Thus, disclosing the maturities of debt securities provides limited information into how obligations will be met at best, and could be misleading at worst. We believe that the current disclosures of the funded status of the plan (i.e., fair value of assets compared with the projected benefit obligation), combined with the requirement for providing the amount of benefits actually paid, provide appropriate information for a reader to assess asset coverage of plan obligations.

Issue 2 – Defined Benefit Pension Plan Accumulated Benefit Obligation

We believe the accumulated benefit obligation is a good alternative measurement of actual amounts earned to date under pension plans, which may aid some investors in understanding the financial condition and results, market risks and cash flows associated with pension plans. In addition, such information should be readily available. Thus, we would not object to the proposed disclosure.

Issue 3 – Cash Flow Information

We understand analysts and investors occasionally inquire as to the future cash flow requirements of a pension or OPEB plan. However, this requirement, as currently written, will require excessive and overly complex computations that many actuarial valuation systems, particularly outside the U.S., do not routinely handle. We also question the value of this information to the user, as compared to a more straightforward disclosure of expected future benefit cash flow.

With respect to the proposed disclosure in paragraph 5.f. about future benefit payments (Issue 3.a.), we understand that the intention of this proposed disclosure is to provide information about the amount and timing of benefit payments in relation to contractual maturities of debt securities in plan assets. As noted above in our response to Issue 1, we do not believe the proposed disclosure about debt securities provides a relevant picture of funds available to satisfy benefit obligations. Further, future benefit payments from a funded or partially funded plan have little or no correlation to funding requirements of a plan, which are often based on minimum funding requirements. Thus, the proposed disclosure of expected benefit payouts, coupled with the proposed disclosure on the maturity characteristics of fixed income securities, would not provide a complete or meaningful picture of the timing and amount of future funding requirements.

We also believe it is misleading to present a maturity schedule with an imputed interest component similar to what is currently required for debt and capital lease obligations. This could lead investors to the improper conclusion that such payments have similar characteristics to debt and leases (i.e., fixed and determinable). In reality, this is not the case. In fact, actuarial models include projected payments for significant periods of time - often in excess of 50 years -

and include a relatively large degree of uncertainty. This long time horizon also results in an imputed interest component that we do not believe is relevant and is potentially misleading due to its disproportionately large size in relation to the underlying pension and OPEB obligations. Finally, while our experience indicates that such information could be readily available on the larger pension and OPEB arrangements in the U.S., it may not be readily available on many plans outside the U.S. The cost to obtain the proposed information for such plans could be significant (up to two or three times the current going cost of the SFAS 87/88 actuarial services). We do not believe this cost is justified in relation to the relevance of the resulting disclosure.

With respect to the proposed disclosure in paragraph 5.g. of the proposed standard (Issue 3.b.), the requirement to provide up to 12 months advance disclosure of the company's intended cash contributions to its plans is not straightforward. Plan sponsors often adjust decisions concerning pension plan contributions throughout the year. A company's use of capital varies significantly over the course of a fiscal year and voluntary contributions are often made based on a number of factors, which can change dramatically (e.g., tax considerations, investment market conditions, availability of capital and other capital requirements). In fact, final decisions on discretionary contributions are often not even seriously contemplated and finalized until very late in a sponsor's year, often within the final weeks. Thus, requiring disclosure of the projected payments in connection with the preparation of the prior year annual report does not reflect the realities of pension/OPEB funding planning. Rather, it will require companies to expend both monetary and non-monetary resources in a non-value added exercise to estimate and compile the disclosure well outside the normal planning cycle. Further, discretionary funding is virtually certain to change during the course of the year due to the premature timing of this exercise, resulting in a repeating quarterly cycle of wasted effort to update interim disclosures. Finally, this information may be considered forward-looking; a disclosure more appropriately located and already required in the liquidity section of the MD&A, where it is covered by safe-harbor provisions. These factors lead to our strong belief that contemplated disclosure of discretionary contributions should not be required.

Disclosure of minimum funding requirements will also pose significant issues. The reality of frequent changes to the regulatory environment in multiple countries regarding minimum funding requirements and the complex interactions of the minimum funding rules in each local market could make it difficult for sponsors to provide understandable and useful information in the proposed format, particularly information that remains relevant for any meaningful period of time. In addition, minimum funding requirements are not even finalized in many countries, including the U.S., until well into the following plan year. In such cases sponsors are allowed to satisfy the minimum funding on a retroactive basis.

All of the factors discussed in the preceding paragraph will make the proposed disclosure more complex to prepare and understand than may have been contemplated. Another unintended result of the proposed disclosure requirement may be frequent interim adjustments to the information and confusion for the user. In addition, plan sponsors could find compliance to be excessively burdensome, with many assumptions to be made. Finally, the amount of additional discussion and management perspective that would be required to make the required disclosures understandable to the reader would be excessive, leading to disclosure overload for this particular footnote.

At a minimum, if the Board ultimately requires disclosure of management's best estimate of contributions to be made for pensions and OPEB's over the next year, such disclosure should be limited to the minimum funding requirements required by local regulation (e.g., ERISA, etc.) based on the most recent information available. In addition, due to the concerns raised above, we would strongly object to an extension of such disclosure beyond the currently proposed one-year period.

Issue 4 – Assumptions

We believe the proposed disclosures would be useful to users in understanding the financial condition and results, market risks and cash flows associated with pension and OPEB plans.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions

We agree that additional sensitivity information should not be required for the reasons cited by the Board. Specifically, we agree with the views in paragraph A31 that sensitivity information would be misleading to financial statement users, as several assumptions may change at once as economic conditions change. The impact of individual assumptions may also not be linear or able to be used for extrapolation. We do not object to the retention of the required sensitivity disclosure related to health care cost trend rates, as this assumption involves a fair amount of subjectivity and judgmental and the effect of a change is difficult for a user to model.

Issue 7 – Measurement Date(s)

We do not believe disclosure of the measurement date should be required, as we believe the focus on the measurement date itself is not relevant. If the conditions noted in paragraph 5.k. of the proposed standard existed, that would have a significant impact on the plan assets, obligations or pension costs we believe existing standards would already require the sponsor to make the appropriate disclosure of such conditions and the potential impacts in its financial statements. In addition, if conditions exist that would require the proposed disclosure, such conditions would likely exist for numerous plans. In the case of companies with multiple plans in multiple countries, it could be confusing to users if such circumstances caused a plan sponsor to disclose multiple measurement dates for the multiple plans.

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

We believe the reconciliation table currently required by Statement 132 is a concise and easily understood format for presenting the various required disclosures, making it useful to users. Accordingly, we would retain the reconciliation. However, we believe the FASB should limit the components requiring disclosure to those specified in paragraph 5(a) and (b), plus any other individually material items, with the other captions currently required by Statement 132 grouped into an "other" caption.

Issue 9 – Disclosures Considered but Not Proposed

We agree with the Board's preliminary conclusion that none of the other informational items included in this issue should be required disclosures. We believe the disclosures proposed in the

standard, as adjusted for the comments expressed herein, provide a reasonable balance between what is needed by users to perform an analysis of the sponsor's financial condition, future operations and cash flows and the amount of cost/effort required to compile that disclosure. We do not believe the other items listed in this issue would add meaningful information.

Issue 10 – Disclosures in Interim Financial Reports

We do not believe the proposed interim disclosures required by paragraph 9.a. of the proposed statement (Issue 10.a.) are needed for users to understand the financial condition, results and cash flows associated with pension and OPEBs. By their very nature, pension and OPEB obligations and related funding are of a non-current nature. The amount of costs recognized for these items and the underlying funding are based on long-term plans and needs of the plan sponsors. Thus, they are not generally subject to significant changes in the short term (i.e., interim financial reporting periods). Further, when unusual situations/events would cause a change from year-end in underlying assumptions that resulted in a significant change in interim operations or cash flows, existing accounting standards (APB 28, Interim Financial Reporting) would already require relevant disclosure, in subsequent interim financial statements, of the underlying changes in estimates and/or the resulting impacts on financial position and operations. Current SEC rules contain similar requirements for updating interim footnotes for significant changes from annual audited footnotes.

Thus, existing guidance would already appear to require the Board's proposed interim disclosure for re-measurements, if material. To require interim disclosure for all plans, regardless of occurrence of an unusual interim event, would inappropriately assert a level of short term, interim volatility that does not exist. We also see no reason why interim disclosures for pension and OPEB plans should be held to a higher threshold than other general disclosure items. Thus, we do not believe this disclosure is necessary or relevant on an interim basis.

For the reasons discussed in our response to Issue 3.b., above, we do not believe the disclosures proposed by paragraph 9.b. of the proposed statement (Issue 10.b.) should be required.

Issue 11 – Effective Date and Transition

Given our stated concerns and the large volume of data that multi-national companies will be required to collect and consolidate, particularly as it relates to actuarial studies for the current fiscal year, much of which may already be in process or completed, the proposed effective date is overly burdensome, particularly in light of the SEC's accelerated filing deadlines. The proposed standard would require actuaries to calculate and publish data that is not routinely provided as part of a standard plan valuation. Companies with measurement dates prior to the issuance of a final Statement may have to re-perform actuarial work in order to comply with the proposed year-end disclosures. Further, additional time would be required by actuarial consultants to revise computer models used to support a company's valuation study, particularly for multi-national companies with multiple plans outside the United States. This could result in significant additional expense to gather and calculate data for current and prior years. For these reasons, we believe the FASB should delay the effective date of any final rules for approximately one year from the issuance date (i.e., effective for years ending after December 15, 2004 for a final standard issued during December 2003).