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LETTER OF COMMENT NO. 91

May 31, 2006

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

RE: File Reference No. 1025-300, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)*

Dear Ms. Bielstein:

The Committee on Corporate Reporting (“CCR”) and the Committee on Benefits Finance (“CBF”) (collectively, the “Committees”) of Financial Executives International (“FEI”) appreciate the opportunity to provide their views to the Financial Accounting Standards Board (the “FASB” or “Board”) on the FASB’s exposure draft for the proposed Statement of Financial Accounting Standards, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (the “Exposure Draft” or “Proposed Statement”). FEI is a leading international organization of 15,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior financial executives. CCR and CBF are technical committees of FEI, which review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of CCR and CBF and not necessarily those of FEI or its members individually.

The Committees support the FASB’s objective of improving transparency, understandability and representational faithfulness of amounts reported in financial statements. To that end, the Committees agree that a retirement plan’s funded status should be recognized on an entity’s balance sheet, as it represents an obligation of that entity and provides financial statement users with a clearer picture of the true impact that retirement plans have on an entity’s future obligations. As discussed in more detail in the following paragraphs, we do, however, have three significant concerns with the Proposed Statement: (i) the required effective date and transition provisions; (ii) the proposed change to the measurement date of funded status; and (iii) the proposed requirement to measure funded status of defined benefit pension plans based on the projected benefit obligation (“PBO”).

I. Required Effective Date and Transition Provisions

The Committees are concerned with the effective date of the Proposed Statement. In particular, based on the FASB's own timetable this standard is not expected to be issued in final form until sometime in September 2006 and it would have to be implemented by calendar year-end companies effective December 31, 2006. The Committees do not believe it is appropriate to have a standard issued so near to the end of the year and to require implementation by the end of that same year. While we understand that the Board proposed this timing because it believes what is being proposed will not be difficult to implement, we believe that more time will be necessary to ensure the appropriate processes have been put in place, training has been conducted and analyses have been performed to ensure the information is complete and accurate.

There always are unintended consequences when information that had previously been reported in a footnote is required to be recognized in the financial statements. Additionally, what the Board is proposing is not just a lift of information from the footnote to the core financial statements, particularly as it relates to the proposals regarding the change in the measurement date, the retrospective application of income tax-related effects, the removal of the transition obligation, if any, from the entity's expense recognition and accumulating the information for worldwide retirement plans.

Specifically regarding international plans, the Committees are concerned that not all of this information will be readily available. Indeed, when FASB Statement No. 132R, *Employers' Disclosures about Pensions and Other Postretirement Benefit - An Amendment of FASB Statements No. 87, 88, and 106* ("Statement 132R") was issued and provided for specific disclosures for international plans, application guidance provided that compliance with such international disclosures was sufficient if the international benefit plan information was accumulated that represented the majority of all measure disclosed. Thus, there is concern by the Committees that additional time will be needed in order to put processes in place to ensure that all international plan information is captured and appropriately recognized in accordance with the Proposed Statement.

The Committees also have some concerns over the requirement in the Proposed Statement mandating retrospective application to all prior periods presented. While we agree that this would enhance comparability, the Committees believe that this may prove challenging, especially for public companies that are required by Item 301 of Securities and Exchange Commission ("SEC") Regulation S-K to provide five years of comparative data. Further, some companies have a long history of providing ten years of comparative information and these companies will encounter additional challenges to retrospectively adopt the final standard. In particular, we believe some companies may have difficulty with the retrospective application of income tax-related effects and accumulating the information for worldwide retirement plans. The Committees believe the Board should provide entities with the option to apply the provisions of the Proposed Statement on either a prospective or retrospective basis, including limiting the retrospective application to the primary financial statements required by Rules 3-01 through 3-04 of SEC Regulation S-X for public companies

Additionally, moving information from the footnotes to the balance sheet will have consequences on compliance with debt covenants and other contractual requirements as these agreements have

equity requirements. The Committees believe that three months is inadequate lead time for some entities to renegotiate their contracts.

Accordingly, the Committees request that the effective date of the Proposed Statement be deferred for an additional year. If the Board continues to believe the Proposed Statement should be effective for calendar year-end companies by December 31, 2006, the Committees request that, consistent with other Statements issued by the FASB (e.g., FASB Statement No. 132R), entities be provided with the option to delay the effective date of the Proposed Statement as it relates to international plans for one year.

II. Measurement Date of Funded Status

The Committees are also concerned with the FASB's proposal to have a retirement plan's measurement date be the same date as the entity's balance sheet reporting date and the cost this may have on public companies. Many companies use a measurement date that is other than the balance sheet reporting date in order to facilitate the amount of work and time necessary in order to obtain the benefit obligation as of that measurement date. Allowing for an earlier measurement date also provides for the ability for the actuaries to complete the valuation on a timely basis and for the auditors to have that aspect of the financial statements completed from an audit perspective. We believe that if all entities are required to use the balance sheet date as the measurement date, this will result in a gravitation of a significant number of entities to the same date, primarily December 31, which will create significant pressure on the actuaries to be able to meet everyone's reporting deadlines, which have been recently accelerated by the SEC. One possible consequence is that entities may end up having to pay more to obtain what may be scarce actuarial resources. The Committees do not believe that, absent a significant change in the underlying plan, the benefit obligation associated with a retirement plan is such that it would materially differ within a short period of time and, accordingly, the Committees believe the cost of implementing such a proposal would far outweigh any benefit achieved.

The above concerns become even more significant when considering the need to obtain similar valuation materials, using the same measurement date, for international pension plans. Therefore, the Committees believe that, consistent with other Statements issued by the FASB, entities be provided with the option to delay the effective date of the Proposed Statement as it relates to international plans for one year to allow for the additional time necessary to put processes in place to ensure the information is being accumulated in a complete and accurate manner.

Further, it is common for generally accepted accounting principles ("GAAP") to permit the use of various accounting conventions to facilitate timely reporting of an entity's financial results. As an example, pursuant to paragraph 4 of Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, a subsidiary is permitted to have a fiscal year end within three months of its parent's year end, with recognition given by disclosure to the effect of material intervening events. It is, therefore, unclear to the Committees why the funded status of pension plan obligations should not be afforded a similar treatment.

Finally if the Board still believes that measurement date needs to be changed, we believe that this should be done as part of the Board's planned second phase of its retirement plan project as this is the phase with which other measurement issues will be dealt.

III. Measuring a Plan's Funded Status Using PBO

The Committees do not agree that the measure for determining the recognition of a defined benefit pension plan's funded status should be the PBO. The Committees believe that using the PBO *does not represent the entity's current obligation under the defined benefit pension plan on the balance sheet date* because the PBO includes the effect of employee salary increases that will only be earned if the employee continues to render future service to that entity, yet the PBO does not incorporate in its determination those added years of service necessary to achieve those levels of future compensation. The accumulated benefit obligation ("ABO"), however, is based on benefits earned to date using current salaries. Accordingly, the Committees believe that using the ABO to determine the funded status to be recognized on the balance sheet date would be a better representation of an entity's current obligation under that defined benefit pension plan as of that date. The Committees also believe that using the ABO of a defined benefit pension plan would be consistent with the FASB's current guidance in determining the amount of additional liability that currently is recognized in connection with underfunded pension plans pursuant to FASB Statement No. 87, *Employers' Accounting for Pensions* ("Statement 87"), which looks to the ABO, not the PBO, to make this determination. Additionally, the Committees believe the use of the PBO to measure funded status is inconsistent with other GAAP in that it requires a liability to be recognized for pay increases when such pay increases only will be realized if future service is performed.

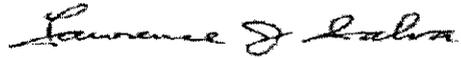
While the Committees realize the Board did discuss whether the ABO or PBO would be more relevant in their deliberations on Statement 87, such deliberation was in the context of determining the appropriate amount of expense to recognize in the income statement. Consistent with Statement 87's objective of spreading the full cost of the pension plans over the expected service period of the employee base, the PBO is arguably the better measure, as the objective is to *recognize the impacts of future sacrifices of assets in the period the related service is provided*. However, in the context of determining the appropriate measure to include on the balance sheet, the Committees believe the ABO is more representative of the entity's present obligation. It is a better measure of the benefits that have actually been earned by the plan participants as of the balance sheet and is more representative of the amount that would need to be satisfied today in the event of a liquidation of the plan. Indeed, most entity-funding practices and statutory funding rules, including those currently being deliberated in Congress, base the funding requirements on concepts similar to ABO as opposed to PBO. There already exists a concern and lack of understanding between funding and accounting. We believe that the Proposed Statement's use of PBO to determine amounts to be recognized on the balance sheet will exacerbate this confusion.

* * *

In addition, to the comments above, we have provided additional comments for the Board's consideration in Appendix A. Additionally, in Appendix B we discuss our responses to the specific issues raised by the Board in the Exposure Draft.

We appreciate the opportunity to express our views on this matter. Members of the Committees will be pleased to meet with the Board and Staff at its earliest convenience to discuss these issues in more depth and to clarify any comments contained herein.

Sincerely,



Lawrence J. Salva
Chair, Committee on Corporate Reporting
Financial Executives International



David L. Beik
Chair, Committee on Benefits Finance
Financial Executives International

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Other Items of Note

Interim Period Application

Because this Proposed Statement is an amendment of Statement 87, which requires annual measurement of the defined benefit pension plans, the Committees do not believe it is the Board's intent to have the Proposed Statement apply to interim periods; however, it would be helpful for the Board to make that explicit in the final standard.

In addition, we believe it would be helpful if the final standard also provided an illustration of how this Proposed Statement would be applied in interim periods. If the Proposed Statement would require an entity to adjust the portion of unrecognized gains/losses out of shareholders' equity that has been "recognized" or "amortized" as part of that quarter's pension expense, we believe this would be unduly burdensome and not meaningful. Additionally, under the Board's proposal, the Committees believe entities would be required to reflect in shareholders' equity the effect of changes in foreign exchange rates on unrecognized gains/losses recognized in shareholders' equity during interim periods, which will further complicate quarterly reporting requirements. We believe that the application of the Proposed Statement on a quarterly basis would be made simpler if there were not quarterly adjustments to equity.

In particular, since an entity's funded status is truly only known at one point during the year – on the measurement date – it is unclear to the Committees why it would be necessary to adjust shareholders' equity each quarter to reflect that period's amortization of previously unrecognized amounts as opposed to simply incorporating the retirement plan's funded status in the year-end funded status determination. That is, we suggest the final standard require entities to adjust shareholders' equity (with a corresponding liability or asset) in only the fourth quarter of each year to reflect the retirement plan's funded status or if the plan is subject to a new measurement date in accordance with existing guidance. This suggestion is consistent with Question 34 of FASB Staff Implementation Guidance, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers*, which provides that "the accounting for interim net periodic pension cost accruals and contributions made to the pension plan should be reflected in the unfunded accrued or prepaid pension cost account balance. That balance should be combined with the additional minimum liability account balance for presentation in the statement of financial position."

Provide More Simplified Illustrations

The Committees believe that it would be helpful if the Exposure Draft provided more and simplified illustrations (e.g., included retroactive application where an entity has an increase to its minimum liability provisions). In addition to providing illustrations of interim application of the Proposed Statement previously noted, we believe it would be helpful to also have simplified illustrations providing the impact of foreign currency effects during interim and annual periods, the treatment of unrecognized gains/losses and prior service cost related to a disposal group that has classified as "held for sale" in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and minority interests in unrecognized amounts included in other comprehensive income. We also believe it would be helpful if the Board provided illustrations of the retrospective application of the Proposed Standard, particularly as it relates to deferred taxes and the evaluation of the recoverability of any resultant deferred tax assets.

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Response to Specific Issues Raised in the Exposure Draft

Issue 1: The Board concluded that the costs of implementing the Proposed Statement to recognize the overfunded or underfunded status of a defined benefit postretirement plan in the employer's statement of financial position would not be significant. That is because the amounts that would be recognized are presently required to be disclosed in notes to financial statements, and, therefore, new information or new computations, other than those related to income tax effects, would not be required. Do you agree that implementation of this Proposed Statement would not require information (other than that related to income tax effects) that is not already available and, therefore, the costs of implementation would not be significant? Why or why not?

While we believe the majority of the information that is required to implement this Exposure Draft is readily available, it is not clear to us that the costs of implementation would not be significant. Of particular concern is the proposal to have the measurement date be the same as the entity's balance sheet reporting date and the cost this may have on public companies. Many entities use a measurement date that is other than the balance sheet reporting date in order to facilitate the amount of work and time necessary in order to obtain the benefit obligation as of that measurement date. Allowing for an earlier measurement also provides for the ability for the actuaries to complete the valuation on a timely basis and for the auditors to have that aspect of the financial statements completed from an audit perspective. We believe that if all entities are required to use the balance sheet date as the measurement date, this will result in a gravitation of a significant number of entities to the same date, primarily December 31, which will create significant pressure on the actuaries to meet annual reporting deadlines, which have also been recently accelerated by the SEC. One possible consequence is that entities may end up having to pay more to obtain what may be scarce actuarial resources. The Committees do not believe that the benefit obligation associated with retirement plans is such that it would materially differ within a short period of time and, accordingly, the Committees believe the cost of implementing such a proposal would far outweigh any benefit achieved. These concerns become even more significant when considering the need to obtain similar valuation materials, using the same measurement date, for international pension plans where actuarial resources in certain countries can be scarce.

Additionally, the Committees are concerned that not all of this information will be available for all international plans. Indeed, when Statement 132R was issued and provided for specific disclosures for international plans, application guidance provided that compliance with such international disclosures was sufficient if the international benefit plan information was accumulated that represented the majority of all measure disclosed. Thus, there is concern by the Committees that additional time will be needed in order to put processes in place to ensure that all international plan information is captured and appropriately recognized in accordance with the Proposed Statement. Accordingly, the Committees believe that, consistent with other Statements issued by the FASB, entities be provided with the option to delay the effective date of the Proposed Statement as it relates to international plans for one year.

Issue 2: Unless a plan is sponsored by a subsidiary that is consolidated using a fiscal period that differs from the parent's, this Proposed Statement would require that plan assets and benefit obligations be measured as of the date of the employer's statement of financial position. This Proposed Statement would eliminate the provisions in Statements 87 and 106 that permit

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Response to Specific Issues Raised in the Exposure Draft - (continued)

measurement as of a date that is not more than three months earlier than the date of the employer's statement of financial position. Are there any specific implementation issues associated with this requirement that differ significantly from the issues that apply to other assets and liabilities that are recognized as of the date of the statement of financial position?

Please refer to the comments we made under Issue 1 above. In addition, there are several other issues to be considered. First, the computation of this liability is much more complicated than the majority of liabilities on the balance sheet. In particular, the volume of data required to be collected far outweighs other liabilities and in most companies third-party experts are required to assist. Second, the use of external experts and the volume of data required increase the time necessary to complete a robust calculation of the liability. This is very difficult to accomplish in such a short time horizon. Finally, because this obligation is typically long term and does not change dramatically over a short time horizon (i.e., a three-month period), the quality of the obligation is not diminished by computing it at a slightly different date than the balance sheet date.

Issue 3(a): The Board's goal is to issue a final Statement by September 2006. The proposed requirement to recognize the over- or underfunded statuses of defined benefit postretirement plans would be effective for fiscal years ending after December 15, 2006. Retrospective application would be required unless it is deemed impracticable for the reason discussed below. An entity would be exempt from retrospective application only if the entity determines that it is impracticable to assess the realizability of deferred tax assets that would be recognized in prior periods as a result of applying the Proposed Statement. Should the Board provide an impracticability exemption related to the assessment of the realizability of deferred tax assets? Why or why not? Are there other reasons that retrospective application might be impracticable that the Board should be aware of?

We agree with the Board's provision of an impracticability exemption related to the assessment of the realizability of deferred tax assets in connection with the retrospective application of the Exposure Draft. However, the Committees have concern with the requirement mandating retrospective application to all prior periods presented, as well as having the effective date of the Exposure Draft being so near its anticipated final issuance. Please refer to the Committees' views expressed in Section I of the body of this letter.

Issue 3(b): Some nonpublic entities (and possibly some public entities) may have contractual arrangements other than debt covenants that reference metrics based on financial statement amounts, such as book value, return-on-equity, and debt-to-equity. The calculations of those metrics are affected by most new accounting standards, including this Proposed Statement. The Board is interested in gathering information for use in determining the time required to implement this Proposed Statement by entities that have such arrangements other than debt covenants. That information includes (a) the types of contractual arrangements that would be affected and what changes to those arrangements, if any, would need to be considered, (b) how the economic status of postretirement plans that is presently included in note disclosures is currently considered in those arrangements, and (c) how the effects of the current requirement in

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Response to Specific Issues Raised in the Exposure Draft - (continued)

Statement 87 to recognize a minimum pension liability previously were addressed for those contractual arrangements.

Other than debt covenants calculations, which will be significantly affected for both public and nonpublic entities, as these agreements have equity requirements, and nonpublic entities that transact their sale and purchase of shares with employees at book value, the Committees are not aware of any other such contractual obligations that would be affected by the Proposed Statement.

Issue 4: This Proposed Statement would require a public entity that currently measures plan assets and benefit obligations as of a date other than the date of its statement of financial position to implement the change in measurement date as of the beginning of the fiscal year beginning after December 15, 2006. If that entity enters into a transaction that results in a settlement or experiences an event that causes a curtailment in the last quarter of the fiscal year ending after December 15, 2006, the gain or loss would be recognized in earnings in that quarter. Net periodic benefit cost in the year in which the measurement date is changed would be based on measurements as of the beginning of that year. Are there any specific impediments to implementation that would make the proposed effective date impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007 alleviate those impediments?

Please refer to the Committees' views expressed in Section I of the body of this letter and to Issue 1 in this Appendix B.

Issue 5: This Proposed Statement would apply to not-for-profit organizations and other entities that do not report other comprehensive income in accordance with the provisions of FASB Statement No. 130, "Reporting Comprehensive Income," Paragraphs 7-13 of this Proposed Statement provide guidance for reporting the actuarial gains and losses and the prior service costs and credits by those organizations and entities. Do you agree that those standards provide appropriate guidance for such entities? If not, what additional guidance should be provided?

The Committees have no view on this issue.