FIRST HORIZON
NATIONAL CORPORATION

1025-300

LETTER OF COMMENT NO. 145

May 31, 2006

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

By email to: director@fasb.org

Re: File Reference No. 1025-300

Director:

First Horizon National Corporation appreciates the opportunity to comment on the 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"). While we agree with the objective of enhancing financial reporting, we do not believe that the Exposure Draft represents, in any meaningful form, a significant improvement to the quality or quantity of financial information provided to investors. The Exposure Draft's requirement, for all intents, is to take information from the footnotes and place it on the face of the balance sheet. We do not believe that such a change provides any incremental value to the users of financial statements. If the information is already available in the footnotes, and has been for many years, financial statement users have already incorporated its usefulness in their analyses. Including such information on the face of the balance sheet will only serve to increase user confusion regarding the financial position of a company because of the unique methods used to value pension and postretirement obligations. Accordingly, we believe that it would be more appropriate for financial presentation changes to accompany the re-consideration of pension and postretirement accounting methodologies that are currently planned for Phase II of this project. We believe that this would provide a more efficient transition process associated with the reconsideration of pension and postretirement plan accounting since the "interim" changes proposed in the current Phase I would be folded into a single, coherent accounting model, avoiding an intermediate step of limited usefulness.

Should the Board decide to continue with Phase I, as manifested in the Exposure Draft, we have additional concerns regarding the provisions and consequences of the Exposure Draft as currently presented. Our concerns are presented on the following topics.

- Use of Projected Benefit Obligation for Pension Plans
- Use of Accumulated Postretirement Benefit Obligation for Other Postretirement Plans
- Measurement Date
- Regulatory Capital Effects
- Loan Covenants
- Disclosures, Effective Date and Transition

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Use of Projected Benefit Obligation for Pension Plans

We believe that comparison of the Projected Benefit Obligation ("PBO") for pension plans to the current fair value of plan assets in determining a plan's funded status represents a mismatch that is inconsistent with the conceptual definitions of assets and liabilities. Statement of Financial Accounting Standards No. 87: *Employers' Accounting for Pensions* ("SFAS No. 87") provides the following definition of the PBO.

> **Projected benefit obligation**
> The actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using assumptions as to future compensation levels if the pension benefit formula is based on those future compensation levels (pay-related, final-pay, final-average-pay, or career-average-pay plans).

Many pension plans (including ours) include future compensation levels in the pension benefit formula. Therefore, those future compensation levels are included in the PBO. The following definitions were obtained from Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements* ("SFAC No. 6").

> 25. Assets are probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.
>
> 35. Liabilities are probable future sacrifices of economic benefits arising from present obligations of a particular entity to transfer assets or provide services to other entities in the future as a result of past transactions or events.

Clearly the fair value of current plan assets meets SFAC No. 6's requirements for recognition. However, the PBO's inclusion of future salary increases results in a value that does not meet the "past transactions and events" requirement for recognition as a liability. Inclusion of projected future salary increases within an asset or liability will introduce an additional accounting methodology to the balance sheet, which will further increase confusion regarding the content of financial statements.

The following definition of accumulated benefit obligation ("ABO") was also provided in SFAS No. 87.

> **Accumulated benefit obligation**
> The actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specified date and based on employee service and compensation (if applicable) prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same.

Absent an obligation on an employer to future salary increases, we believe that the ABO represents a measurement that is consistent with SFAC No. 6's definition of a liability and therefore is the appropriate amount to recognize on the balance sheet.

Use of Accumulated Postretirement Benefit Obligation for Other Postretirement Plans

In considering the appropriateness of presenting the Accumulated Postretirement Benefit Obligation ("APBO") for other postretirement plans (specifically retiree medical plans) we note that obligations arising from these plans are fundamentally different from those of pension plans. Regarding our retiree medical plan, which we believe is fairly standard, we have the ability to terminate the plan at any time, thereby eliminating future obligations solely at our discretion. Thus, the APBO does not represent a liability within the definition of SFAC No. 6, as presented previously. Accordingly, we do not believe that the APBO should be the basis for recognition of assets or liabilities associated with standard retiree medical plans.

Measurement Date

We believe that the requirement to use a fiscal year end measurement date for pension and postretirement plans fails to appropriately weigh the benefits to be obtained from the use of this date in comparison to the difficulties involved in accomplishing all necessary control procedures prior to completion of the financial close process. The development of key measurement assumptions often involves a significant time period after the measurement date. This is especially true for development of the discount rate, which is one of the most critical measurement assumptions. Significant time and effort is required in developing a hypothetical yield curve, as suggested in EITF Topic D-36 *Selection of Discount Rates Used for Measuring Defined Benefit Pension Obligations and Obligations of Postretirement Benefit Plans Other Than Pensions* and mentioned by the Securities and Exchange Commission ("SEC") in its *Current Accounting and Disclosure Issues in the Division of Corporation Finance* dated December 1, 2005. As an institution that utilizes a hypothetical yield curve, should a fiscal year end measurement date be required, we would be compelled to either: 1) switch to an index approach, which is not preferable, 2) develop a hypothetical yield curve with significant estimates, which decreases accuracy, or 3) develop multiple hypothetical yield curves prior to year end and select the most appropriate at year end, which is expensive. None of these alternatives is preferential, in our view, to use of a plan measurement date prior to fiscal year end.

We also anticipate considerable difficulty in determining the fair value of plan assets, establishing the estimated long term rate of return, and gathering retiree medical claims information in a timely manner if a fiscal year end measurement date were adopted. Valuation of plan assets, other than guaranteed investment contracts, can take several weeks, and estimation would be necessary to comply with current financial reporting deadlines. Having to estimate these amounts would directly conflict with the Exposure Draft's desire for increased accuracy through the mandate of a fiscal year end measurement date. Establishing the assumed long term rate of return can also take a month or longer assuming it is developed using a consultant's model. Assembling claims information necessary for valuation of a retiree medical plan typically requires a minimum of two weeks before submission to an actuary for measurement of the plan, which can consume another two weeks. This circumstance would not provide sufficient time to properly develop external reports after the books were closed at year end. Therefore, use of the APBO for balance sheet recognition would require estimates to be developed in order to meet financial reporting deadlines, again frustrating the Exposure Draft's intent of improving financial statement accuracy.

Currently the time necessary to develop key assumptions is expended prior to fiscal year end, which provides sufficient time for the determination of key assumptions and assessment of the resulting plan measurements. Shifting to a fiscal year end measurement date would needlessly compress the time available to perform these procedures, which would unnecessarily increase financial risk. This increased risk would result from the lack of time provided for performance of adequate control processes associated with the development of assumptions and verification of the related calculations. Since the SEC has shortened filing deadlines for the current fiscal year end, time constraints have already been placed on the financial close and reporting processes with respect to the mandatory end date. Therefore, imposing a fiscal year end measurement date would further stress already compressed control processes, primarily due to the time that would be consumed after fiscal year end in preparation of plan measurements.

Additionally, we believe that the long-term nature of pension and postretirement obligations requires projections for key assumptions which cause a requirement to use a fiscal year end measurement date to be of limited value. Is a December 31 discount rate statistically more valid than a similar rate selected on September 30 of the same year when the term is ten to twenty years into the future based on the anticipated timing of payouts under the plan?

Regulatory Capital Effects

As a provider of diversified financial services with a national bank subsidiary, we are regulated by both the Federal Reserve and the OCC and certain capital constraints are placed on us to ensure the continued viability of our institution. The Exposure Draft's requirement to include actuarial gains/losses and unrecognized prior service cost as components of other comprehensive income may have significant unintended consequences to our regulatory capital ratios. This is particularly true given the sensitivity of unrecognized actuarial gains/losses to the input assumptions included within the measurement of our plans' obligations. A small change in an input assumption could have dramatic effects on our regulatory capital position. Such changes could be either beneficial or detrimental to regulatory capital, but it is likely that they would also be extremely volatile.

The volatility of the capital effects, in combination with the proposed fiscal year end measurement date could significantly inhibit a financial institution's management team from ensuring that it maintains capital consistent with its own policies, as well as the expectations of regulators and rating agencies. Issuing capital necessitates real cash outflows from an institution, either in the form of dividends (equity) or interest (debt). We strongly believe this should be considered as comments to the Exposure Draft are addressed because adverse economic effects should not occur as a consequence of a non-economic accounting event.

Loan Covenants

Studies currently available indicate that billions of dollars in reductions to equity (via other comprehensive income) will result from companies' implementation of the Exposure Draft as currently written. As a lender and as an issuer of debt, we noted that these significant balance sheet changes are likely to trigger a round of re-negotiation of loan covenants and/or numerous requests for waivers of loan covenant restrictions. We believe that this is another unintended, but very real, consequence of implementing the Exposure Draft as currently presented. As a borrower and a lender, we question whether the costs of amending loan and debt agreements and/or preparation of covenant waivers are necessary when the financial presentation changes do not reflect new information and no economic change has occurred for the borrower. We note that use of the ABO rather than the PBO for measurement of pension assets or liabilities may alleviate many, but not all, of the concerns on this issue.

Disclosures, Effective Date and Transition

We believe that the additional disclosures required by the Exposure Draft would not be overly burdensome as presented. Nor do we believe that the effective date and transition requirements would require excessive effort from a pure accounting perspective. However, the additional efforts that may be necessary to address the ancillary effects of the Exposure Draft, especially raising additional capital, would present a significant challenge given the anticipated issuance date of the final standard in relation to the proposed effective date. Therefore, we reiterate our belief that the Exposure Draft should be deferred in its entirety until a comprehensive re-consideration of all pension and postretirement accounting is completed. We also note that the continuous implementation of new standards (some cumulative effect, some restatement, some prospective only) is significantly increasing the complexity, and reducing the comparability, of financial information.

If you have any questions or comments regarding the comments presented in this letter, please contact me at (901) 537-1937.

Sincerely,

/s/ Shawn P. Luke

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