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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 Financial Reporting Committee (the “Committee”) of the Institute of Management Accountants appreciates the opportunity to provide its views to the Financial Accounting Standards Board (the “FASB” or “Board”) on the FASB’s 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”).

The Committee supports the FASB’s objective of improving transparency, understandability and representational faithfulness of amounts reported in financial statements. To that end, the Committee agrees that a 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. We do, however, have the following three significant concerns with the Proposed Statement: (i) the proposed requirement to measure a plan’s funded status based on the projected benefit obligation; (ii) the proposed change to the measurement date of funded status; and (iii) the required effective date and transition provisions of the Proposed Statement. We discuss these concerns in more detail in the following paragraphs. In addition, we also discuss in the following paragraphs certain issues of lesser significance (see Section IV) and we respond to the specific issues raised in the Exposure Draft (see Section V).

I. Use of Projected Benefit Obligation to Measure Funded Status

The Committee does not believe that the measure for determining the recognition of a defined benefit pension plan's funded status should be the projected benefit obligation. FASB Statement of Financial Accounting Concepts Statement No. 6, *Elements of Financial Statements* ("FASB Concepts Statement No. 6"), defines a liability as having "three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened." The Committee believes that using the projected benefit obligation overstates the entity's current obligation under the defined benefit pension plan on the balance sheet date because the projected benefit obligation includes the effect of employee salary increases that will only be earned if the employee continues to render future service to that entity. The Committee does not believe it is appropriate to include as a current obligation of an entity the effects of future salary increases because such increases are contingent on future events, beyond the employee providing additional years of service, such as future increase in value of the work being provided, future promotions, etc. Recognizing a liability for pay increases when such pay increases only will be realized if future service is performed is inconsistent with generally accepted accounting principles ("GAAP")._

The Committee believes that recognition of an obligation under a defined benefit pension plan should not be recognized until the event that has triggered that obligation has occurred. Accordingly, the Committee believes that using the accumulated benefit obligation 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. Indeed, if an entity were to freeze the defined benefit pension plan (i.e., cease providing/accurring benefits under the plan), the entity's obligation would be limited to the amount of service provided up to and pay levels as of the date the plan is frozen, which would represent the accumulated obligation. Thus, in accordance with the definition of a liability provided for in FASB Concepts Statement No. 6, the Committee believes the accumulated benefit obligation represents the entity's present responsibility of a probable future transfer of assets related to an event that has already happened (i.e., the employee providing service).

The Committee also believes that using the accumulated benefit obligation of a defined benefit pension plan would be more consistent with the FASB's current guidance in determining the amount of additional liability that is recognized in connection with underfunded pension plans under FASB Statement of Financial Accounting Standards ("Statement") No. 87, *Employers' Accounting for Pensions* ("Statement 87"), which considers the accumulated, not projected, benefit obligation to make this determination.

The Committee also believes that any asset recognized pursuant to the Proposed Statement representing the overfunded status of a retirement plan should be similarly measured using the accumulated benefit obligation, as this is the amount that is viewed as the amount to be effectively settled under FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefit*. That is, if a plan were terminated and the liabilities of the plan were to be settled (e.g., through the purchase of insurance annuities), the Company would receive back any plan assets in excess of the benefit obligation that had accumulated up to the date the plan were terminated.

The Committee agrees with the proposal to use the accumulated postretirement benefit obligation for use in determining the amount of asset or liability to recognize in connection with an entity's postretirement plans. While the Committee understands that the accumulated postretirement benefit obligation includes an assumption of future cost increases (i.e., assumed increased healthcare costs), the Committee does not view this as similar to assuming increased compensation increases, as future increases in healthcare costs do not require additional years of service by the employee to be earned and are not within the entity's control. Additionally, such amounts represent a better estimate of the amount at which the obligation will ultimately be settled.

While the Committee realizes the Board did discuss whether the accumulated or projected obligation would be more relevant in their deliberations on FASB 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 projected obligation 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 asset or liability to reflect on the balance sheet, the Committee believes the assets of the retirement plan, if any, should be compared to the accumulated obligation, as this is a more representative measure 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, cessation or termination of the plan. The Committee does, however, continue to support disclosing the projected benefit obligation.

II. Measurement Date of Funded Status

The Committee also is 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 other than the balance sheet reporting date in order to facilitate the amount of time and work associated with obtaining information about the benefit obligation as of that measurement date. Allowing for an earlier measurement also provides an entity's actuaries with the ability 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 companies are required to use the balance sheet date as the measurement date, this will result in a significant number of companies gravitating to the same measurement 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. This also will put added pressure on auditors to complete their audit procedures at the critical year-end period that already has been impacted by added Sarbanes-Oxley-compliance procedures, putting even more pressure on the accelerated reporting deadlines for some filers. One possible consequence is that companies may end up having to pay more to obtain what may be scarce actuarial and auditing resources. Importantly, it is questionable whether these added costs and efforts are justified, given that the three-month difference in measurement dates would have little impact on an entity's current liquidity and no impact on its current operating results.

There is also a concern of updating the census data underlying the valuation. This is oftentimes not available until months after the balance sheet, and it would be difficult to change processes to accommodate having the valuation also reflect updated census data. These concerns become

even more significant when considering the need to obtain similar valuation materials, using the same measurement date, for international pension plans.

Some companies choose an earlier measurement date because it is more efficient relative to their budgeting and planning process, by allowing them to determine the next year's pension and postretirement expense at the same time that they complete their budget. For some entities, for example, health care organizations and others that engage in government contracts, budgeted expenses including pension and postretirement costs can affect prices, contract negotiation, staffing, and ultimately the mix of services provided. For these entities, an earlier measurement date facilitates timely negotiations with the customer of prices for next year's services.

Further, it is common for 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 Committee why the funded status of pension plan obligations should not continue to be afforded a similar treatment.

Finally, the Committee does not believe that the nature of benefit obligations associated with retirement plans is such that the change during the last three months of a year provides decision-useful information for users of financial statements. We believe users of financial statements are more concerned with the trend in the funded status of an entity's defined benefit plans over a period of years and in different market conditions. We believe the requirement to recognize the funded status on an annual basis, in and of itself, is sufficient to meet this need. Defined benefit plans are long-term commitments, and an employer's cash flows are not affected by short-term fluctuations in the funded status. Accordingly, the Committee believes the cost of implementing a year-end measurement date would far outweigh any benefit achieved.

Additionally, if the Board concludes in the final standard that the measurement date should be the same as the entity's balance sheet date, the Committee believes that, consistent with other Statements issued by the FASB (e.g., FASB Statement No. 132R, *Employers' Disclosures about Pensions and Other Postretirement Benefit - An Amendment of FASB Statements No. 87, 88, and 106* ("Statement 132R")), the effective date for the measurement date provision as it relates to international benefit plans should be delayed for at least one year from the effective date of domestic benefit plans 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.

Finally if the Board still believes that the 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. Required Effective Date and Transition Provisions

The Committee is 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 its final form until sometime in September 2006 and it would have to be implemented by calendar year-end companies effective December 31, 2006. The Committee does not believe it is appropriate to have a standard issued so near the end of the year and to require implementation by the end of

that year. There often are unintended consequences when implementing a new standard. 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 Proposed Statement's provisions regarding the retrospective application of income tax-related effects, the removal of the transition obligation, if any, from the entity's expense recognition (and related impact on segment disclosures) and accumulating the information for worldwide retirement plans. Specifically regarding international plans, the Committee is concerned that not all of this information will be readily available, including having the requisite information necessary to evaluate the deferred tax consequences in different foreign tax jurisdictions. This becomes even more difficult and time consuming when you consider having to do this on a retrospective basis when deferred taxes could have been impacted by changes in tax laws in those jurisdictions.

In addition, as noted in the Exposure Draft, the Proposed Statement's requirements will have consequences on compliance with debt covenants and other contractual requirements. The Committee believes that three months is inadequate lead time for some entities to renegotiate their contracts.

The Committee also has some concerns over the requirement in the Proposed Statement mandating retroactive application to all prior periods presented. While we agree that this would enhance comparability the Committee believes this may prove challenging for some companies particularly if the required effective date is not changed. In particular, we believe companies may have difficulty with the retrospective application of income tax-related effects, adjustments related to the effects of any transition obligation and accumulating the information for worldwide retirement plans. Therefore, the Committee believes the Board should provide entity's with the option to apply the provisions of the Proposed Statement on either a prospective or retrospective basis.

IV. 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 Committee does not believe it is the Board's intent to have the recognized funded status adjusted during interim periods; however, it would be helpful for the Board to make that conclusion explicitly in the final standard.

Additionally, the Committee believes it would be helpful if the final standard provided an illustration of how the quarterly recognition of pension expense interplays with the recognition of a plan's funded status. If the Proposed Statement would require an entity to adjust the portion of unrecognized 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. 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 Committee 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, require entities to adjust shareholders' equity for impacts of remeasuring the funded status in the fourth quarter of each year.

Current vs. Noncurrent Classification on Balance Sheet

The Committee would like to see more illustrations of how amounts should be broken down as current vs. noncurrent on the balance sheet. For example, should the classification of the asset or liability that results from recognizing the funded status of a retirement plan be determined based on when the unrecognized amounts are expected to be recognized as expense? We would believe that if the retirement plan is not funded, the balance sheet classification would be based on the timing of the benefit payments that would be made under the retirement plan. Alternatively, if the retirement plan is funded, we are unsure whether the balance sheet classification should be based on a comparison of the expected benefit payments in the ensuing year to the plan assets available to fund those payments (in which case the obligation would be noncurrent in most circumstances) or based on the employer's expected funding during the next year.

Provide More Illustrations

The Committee believes that it would be helpful if more illustrations were provided in the final standard. For example, the Committee would appreciate illustrations that show the application of the Proposed Statement to interim periods (as noted above), and examples of foreign currency and minority interest effects of applying the final standard.

Applicability to Subsidiary Standalone Financial Statements

The Committee believes it would be helpful if the Proposed Statement address the application of adopting the Proposed Statement to standalone financial statements of a subsidiary. As an example commonly encountered, assume a parent company is the sponsor of a single-employer underfunded defined benefit plan that covers a number of the parent's subsidiaries. One of the parent's larger subsidiaries participating in this plan is a public company (i.e., has publicly held debt) and, therefore, has standalone financial statement reporting requirements. Question 87 of the FASB Staff Implementation Guidance for Statement 87, *A Guide to Implementation of Statement 87 on Employers' Accounting for Pensions: Questions and Answers*, provides that in its standalone financial statements, the subsidiary should account for its participation in the overall single-employer pension plan as a participation in a multiemployer pension plan (effectively on a cash basis). This would seem to imply that, upon adoption of the Proposed Statement, no liability would be recognized by the subsidiary in its standalone financial statements. The Committee would appreciate clarification from the Board on this matter in the final standard.

V. Response to Specific Issues Raised in the Exposure Draft

In addition to these concerns, and as requested by the Exposure Draft, the Committee has responded to the Issues raised by the Board.

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?

No. Please refer to the Committee's comments made in Section II.

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 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?

Yes. Please refer to the comments the Committee has made in Section II. In addition, there are several other issues to be considered. First, the computation of this obligation 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 increases the time necessary to complete a robust calculation of the obligation. This is very difficult to accomplish in such a short time horizon. Third, because this obligation 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. Finally, to the extent any significant event occurs subsequent to the balance sheet date that would affect the underlying measurement of a retirement plan, the rules governing subsequent events would require certain disclosures describing that event and the impact on the entity's financial statements.

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. Please refer to the comments the Committee has made in Section III. The Committee, however, is concerned with the timing of the Proposed Statement – to have it issued so near the end of the year and to require implementation by the end of that year. While we understand that the Board proposed this timing because it believed what was being proposed would 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 particularly as it relates to the proposals regarding accumulating the information for worldwide retirement plans, the retrospective application of income tax related effects and the removal of the transition obligation, if any, from the entity's expense recognition. Accordingly, the Committee believes

the effective date of the Proposed Statement should be delayed by at least one year (and two years for nonpublic entities). If the Board does not agree with the Committee's suggestion to delay the effective date of the Proposed Statement by one year, we would request that the Board consider providing a one-year delay for nonpublic entities.

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 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, and nonpublic entities that transact their sale and purchase of shares with employees at book value, the Committee is 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?

We believe there are specific impediments. Please refer to the Committee's comments made in Section II and III.

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 Committee has no view on this issue.

Financial Reporting Committee Comment Letter

File Reference No. 1025-300

Page 9

Again, we appreciate the opportunity to provide our views on the Proposed Statement and would be pleased to discuss any of these comments further. You may contact me at 513.983.3874.

Sincerely,

A handwritten signature in black ink that reads "Teri L. List". The signature is written in a cursive style with a large initial "T" and a long, sweeping underline.

Teri L. List

Chair, Financial Reporting Committee