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May 30, 2006

Ms. Suzanne Bielstein  
Director—Major Projects and Technical Activities  
File Reference No. 1025-300  
Financial Accounting Standards Board  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116

Dear Ms. Bielstein:

BDO Seidman, LLP is pleased to submit comments on the Exposure Draft (ED), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We agree with the FASB that:

- It is time to comprehensively reconsider employers' accounting for defined benefit retirement plans.
- Displaying the underfunded or overfunded obligation on the face of the balance sheet is better than disclosing that amount in the notes to financial statements. Accordingly, as an interim step before tackling the comprehensive reconsideration, it is appropriate to have a narrow scope project to achieve that change.

However, we believe that the FASB has loaded the ED with too much baggage, such that it will be unnecessarily costly and disruptive to implement. Most troublesome to us, the Board proposes to issue the final Statement in September 2006 with an effective date of fiscal years ending after December 15, 2006. For some employers the proposal will create violations of debt covenants or other contracts. It is untypical of the Board, and inappropriate in our opinion, to give these employers so little time to remedy their contract compliance issues. If the final Statement is substantially similar to the ED, then we believe the effective date should be delayed by one year. Some of the other baggage in the ED includes:

- Although the Board originally said that this Phase 1 ED would not affect earnings, the ED affects earnings by eliminating the amortization of transition amounts and by requiring employers who use an earlier measurement date to switch to the balance sheet date.
- The ED creates a significant new temporary difference, requiring additional effort in deferred tax computations.
- The ED requires employers to adjust the balance of the unrecognized items in other comprehensive income every quarter.

We believe the Board can accomplish its objective of displaying the underfunded or overfunded obligation on the face of the balance sheet in a way that is simpler for employers and could be implemented for fiscal years ending after December 15, 2006. This letter discusses our proposed alternative approach, and then responds to the ED's questions for respondents.

### **Our Proposed Alternative Approach**

Our approach is based on the FASB's November 1982 Preliminary Views (PV), *Employers' Accounting for Pensions and Other Postemployment Benefits*. The PV proposed that an employer should present on its balance sheet the underfunded or overfunded obligation, plus or minus a measurement valuation allowance (MVA) representing unrecognized gains or losses. A plan amendment giving retroactive credit would increase the obligation and an intangible asset. We suggest that the Board adopt the PV approach with one change—the underfunded or overfunded obligation and the MVA would be displayed gross on the face of the balance sheet rather than netted as proposed in the PV. Our approach achieves the objective of displaying the underfunded or overfunded obligation on the face of the balance sheet. However, because the MVA and the intangible asset are not elements of other comprehensive income, our proposal eliminates two of the complications of the ED:

- Our proposal creates no new temporary difference and so eliminates the need for additional deferred tax computations.
- Our proposal creates fewer issues of compliance with debt agreements or other contracts.

The Board states in the ED that it does not believe that benefits attributed to past service give rise to intangible assets, and we respect the views of the current Board in this regard. We suspect as well that the current Board does not believe that the MVA is a valuation allowance that should be displayed as an asset or liability. However, we have two observations in response:

- The Board that approved the PV in November 1982 consisted of the same seven members who two years earlier issued FASB Concepts Statement No. 3, *Elements of Financial Statements*. That is, the very Board members who created the definitions of assets and liabilities that we use today believed that the decisions in the PV were consistent with the definitions in Concepts Statement 3. We understand that the current Board has a different view, but the ED is intended as a short-term interim fix, not a permanent solution.
- The issue of how to characterize and display the unrecognized items is not one that the Board needs to address in Phase 1. The stated purpose of Phase 1 is to display the underfunded or overfunded obligation on the face of the balance sheet while the Board is deliberating on the comprehensive reconsideration. The most expedient way to accomplish that objective is for the Board to fix the display and refrain from making measurement and classification decisions that more properly belong in Phase 2.

### Questions for Respondents

*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?*

The information about the overfunded or underfunded obligation is available. However, other implementation costs may be significant:

- Determining the income tax effects, particularly for employers with large deductible temporary differences and inconsistent profitability
- Changing measurement dates (see further discussion below)
- Remediating noncompliance with loan agreements or other contracts

*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?*

GAAP is full of practical expedients to streamline the preparation of financial statements with little or no detriment to usefulness. As the question notes, ARB No. 51 permits subsidiaries to be consolidated using a fiscal period that differs from the parent's. FASB Statement No. 52 permits an entity to translate groups of transactions at the average exchange rate rather than translating each individual transaction at the exchange rate on the date of the transaction. FASB Statement No. 142 permits the annual impairment test for goodwill to be performed at any time during a fiscal year provided the timing is consistent. We view the permitted use of a measurement date up to 90 days before the balance sheet date to be a similar practical expedient that should be retained. Further, we believe the issue of whether to maintain the practical expedient should be addressed in Phase 2, not as part of the narrow Phase 1 project.

The use of an earlier measurement date offers several benefits to employers and indirectly to their shareholders:

- It allows them to move part of the work associated with preparation of the financial statements out of the period of peak workload. It also allows actuaries to spread their workload more evenly, which may reduce costs.

- Employers who prepare their budgets in the fall are able to lock in next year's retirement plan expense when they do the budget. If they had to use a year-end measurement date, next year's retirement plan expense would not be known until later and might require revisions to the budget.
- For some employers, for example, certain health care providers and government contractors, the prices they charge are based on their costs. An earlier measurement date allows them to fix their retirement plan cost at the same time that next year's prices are being set. If they had to use a year-end measurement date, they might need to renegotiate prices or run the risk of under-recovered costs.

We believe the choice of measurement date has little effect on the usefulness of the financial statements. Defined benefit plans are long-term obligations. Short-term changes in the financial markets have little immediate economic impact on employers. The stock market crash of October 1987, for example, had little immediate impact on sponsors of defined benefit plans, and the markets had largely recovered by the following year. What is important, and what users should be focusing on, is the trend in the funded status over time and in varied market conditions, not the funded status at one moment.

*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 impracticability exemption related to the assessment of the realizability of deferred tax assets.

As we noted in the introduction to the letter, we believe it is inconsistent with prior FASB practice and inappropriate for the Board to require application for fiscal years ending after December 15, 2006, knowing that some employers will have compliance issues with debt agreements or other contractual requirements. If the Board retains the measurement and display approach in the ED, we believe the adoption should be delayed by one year to give employers reasonable time to renegotiate their agreements.

*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.*

We believe that debt covenants and shareholder agreements with purchases and sales at book value are the two most common types of agreements that will be affected. We think it would be reasonable to allow one year between issuance of the final Statement and the adoption date for employers to revise these agreements.

*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 impracticable for a public entity? How would a delay in implementation to fiscal years ending after December 15, 2007 alleviate those impediments?*

As noted in our response to Issue 2, we believe this proposed change is ill advised. We also believe that the timing is unreasonable. All public companies with December 31 fiscal year ends will be required to obtain measurements as of December 31, 2006. For employers who currently use other measurement dates, those measurements will be needed not later than April 2007 to prepare first quarter 2007 financial statements. We think that may be difficult to accomplish, particularly for employers with numerous defined benefit plans or defined benefit plans outside the United States. The Board also should consider that during January and February 2007, large accelerated filers will be complying for the first time with a 60-day filing requirement for their Form 10-K's. A one-year delay would allow for a more orderly and better planned transition.

*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?*

We believe the guidance is adequate.



We would be pleased to discuss our comments with the Board or the FASB staff. Please direct questions to Ben Neuhausen at 312-616-4661.

Very truly yours,

s/ BDO Seidman, LLP