**The
ERISA
Industry
Committee**

May 31, 2006

VIA e-mail to director@fasb.org, File Reference No. 1025-300
Technical Director -- File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
Norwalk, CT 06856-5116

RE: Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and other Postretirement Plans

Dear Sir or Madam:

The ERISA Industry Committee (ERIC) appreciates the opportunity to comment on the exposure draft regarding *Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans.* ERIC is a non-profit association that represents exclusively the employee benefits interests of America's largest employers. Together ERIC's members provide comprehensive retirement, health care coverage, and other economic security benefits directly to tens of millions of active and retired workers and their families in all 50 states. ERIC has, therefore, a strong interest in proposals affecting our members' ability to deliver those benefits, their cost and effectiveness, as well as the role of those benefits in the American economy.

ERIC's members also recognize the need for transparent accounting and reporting. However, we have significant concerns about FASB's March 31 exposure draft that proposes Phase I changes regarding accounting for defined benefit and other postretirement benefit plans. We believe that many of the Phase I changes have not received adequate review. We also believe that the phases of the Project should be combined so that FASB can adequately consider certain underlying issues prior to implementing changes to accounting procedures for defined benefit plans.

Our specific comments on the proposal follow.

I. "Phase I" imposes changes on balance sheets in advance of their substantive consideration as part of "Phase II." The changes are premature and may cause unnecessary confusion and disruption.

While Phase I does not require extensive calculations that are not already included in footnotes, including a substantial new liability on the balance sheet is both conceptually a major change and one that raises many questions about the composition of that liability. It appears that FASB plans to address composition and measurement questions associated with the new liability during "Phase II." Accordingly, the new liability should not be included on the balance sheet until the composition and measurement questions are answered.

1400 L Street, N.W.
Suite 350
Washington, DC 20005
Tel: (202) 789-1400
Fax: (202) 789-1120
www.eric.org

Premature action may in fact reduce the transparency of reporting as well as engender significant confusion among investors and impose unnecessary costs on companies. If "Phase II" discussions conclude that the appropriate liability measure is significantly different than the Phase I proposal of recording the unfunded PBO/APBO, balance sheets would be roiled simply because of an apparent desire to enact something quickly. We see no reason for a rush to change the current rules before the composition and measurement issues are considered in "Phase II," particularly given that the information is currently available in footnotes to the financial statement. Therefore, we strongly urge FASB to combine the two phases of the project to allow time for adequate consideration of the composition and measurement issues.

II. The Measurement Date changes in the proposal are not workable for large companies.

The proposal to mandate measurement of plan assets and benefit obligations as of the date of the employer's statement of financial position is also unworkable. Large, multinational companies will not have enough time to compile the necessary information by the accelerated SEC deadline dates. FASB should therefore retain the provisions in Statements 87 and 106 that permit measurement as of a date that is not more than three months earlier than the employer's statement of financial position.

III. The Effective Dates in the proposal do not provide companies with enough time to implement the changes.

We are concerned that FASB may inaccurately believe that that all relevant liabilities already exist, and therefore transition to the new requirements will be uncomplicated. However, there are several practical issues that make the transition problematic. First, the proposal requires restatement of multiple past years. Many large companies have a significant number of plans (a few in excess of 100). Just the effort of retrieving many years of results for those plans is massive, especially if a plan has been disposed of (terminated or transferred in a sale) in the interim. Once the data is retrieved, the work of restating the numbers will be expensive, complicated, and cumbersome, especially since the expense would need to be restated for each of several years. If Phase I is implemented at this time, we recommend that restatement be *required* for only those years included in the balance sheet, with restatement of earlier years *encouraged*.

Second, some companies have loan covenants that will be impacted by the promulgated changes. These companies need time to research, and potentially renegotiate, these agreements.

If a statement is published in September, a January implementation date will not allow adequate time to address either of these practical concerns.

IV. The transition to the new accounting rules provided in the proposal is unnecessarily complex.

We do not believe it is necessary or productive to retroactively adjust any unamortized transition assets or obligations. For the most part, these are currently immaterial to the overall accounting. The requirement for retroactive adjustment will cause complicated restatements, especially if settlements or curtailments occurred during the restatement period. Instead, in order to reduce complexity without materially reducing accuracy, we recommend that any

unamortized transition amount be written off as an adjustment to opening retained earnings for the first year that the statement is adopted.

The transition to a single fiscal year-end measurement date imposes unnecessary complications. Requiring special adjustments for three months (or less) of retirement plan costs imposes unnecessary costs to achieve an accounting accuracy that could be accomplished in far simpler ways – for example, by treating the difference in liabilities as an amortizable deferred gain or loss. Requiring two measurement dates is, simply put, overkill.

V. PBO and APBO do not represent accounting liabilities

Paragraph 36 of Concept Statement 6 says the following about liabilities: “A liability has 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.”

While a pension PBO reasonably satisfies condition a) of this paragraph, and arguably satisfies condition c), the applicability of condition b) is dubious. Since the pension PBO builds in an expectation of future pay increases, which can be – and often are -- unilaterally eliminated as witnessed by the numerous recent announcements by large companies, it is inappropriate to make the PBO the basis of a balance sheet liability.

The situation is even more pronounced when looking at other postemployment benefits, such as retiree medical. Here, while arguably condition a) is met, it is extremely clear that the company has significant discretion (in most cases) to avoid future sacrifice (thus violating condition b); in addition, there is no notion that the benefit vests (violating condition c).

Indeed, FASB made these distinctions in FAS 87 when it based balance sheet entries on the ABO for a pension plan, and it reaffirmed those decisions in FAS 106 when it decided that there should be no balance sheet entry for a retiree medical plan.

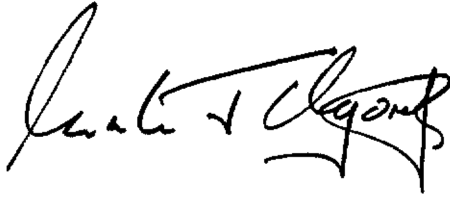
We therefore believe that: (1) it is inappropriate to base an entry for a pension plan on the PBO and that the ABO more accurately represents an accounting liability, (2) it is extremely inappropriate to record any kind of liability for a retiree medical plan (unless the company somehow has guaranteed that these benefits will be paid), and (3) what constitutes a liability for a retirement plan demands careful re-examination before final decisions regarding financial reporting and transparency are made.

Finally, we do not believe using a high-quality corporate bond rate to discount future cash flows is the best measure of plan liabilities, particularly for plans such as retiree medical plans that are typically neither funded nor guaranteed to participants. It would be more consistent with other accounting measures to use a rate that is tied to the company’s cost of capital.

The proposed changes to the accounting procedures for defined benefit plans and other post-retirement benefits will have a broad and substantive impact on the retirement security of millions of American workers. Given the substantive problems with proceeding with the current proposed “Phase I” changes, we strongly encourage FASB to combine the two phases, and to give careful and deliberate consideration to the measurement, effective date, and transition issues listed above. We believe that premature changes would have a significant and detrimental impact on American workers.

We appreciate the opportunity to offer these comments, and are prepared to answer any questions you may have regarding our recommendations.

Very truly yours,



Mark J. Ugoretz
President