U.S. Chamber of Commerce

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VIA E-mail to director@fasb.org

May 31, 2006

Technical Director – File Reference No. 1025-300
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
Norwalk, CT 06856-5116

Re: Exposure Draft of Proposed Statement of Financial Accounting Standards – Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans

Dear Sir or Madam:

Thank you for the opportunity to comment on the Exposure Draft related to accounting for pension and other postretirement benefit plans. The U.S. Chamber of Commerce is the world's largest business federation representing more than 3 million businesses of all sizes, sectors, and regions. Many of these businesses sponsor pension plans, as well as postretirement medical plans. These comments have been developed with input and insight of our member companies affected by the proposed changes.

We would like to first indicate our agreement with your position that the current accounting rules for these plans, and the resulting financial statement information, lacks sufficient transparency as required by shareholders, creditors, and other users. Nonetheless, we caution against requirements that create undue burdens without providing better or more useful information. Moreover, we are concerned about proposed changes that may cause plan sponsors to reconsider plan design based simply on the accounting changes. To this end, our comments focus on three main areas: the change in the measure of liability; the change of the measurement date; and the transition period and effective date.

The Accrued Benefit Obligation is the Appropriate Measure for the Balance Sheet.

We agree that illustrating the plan's current funded position directly on the balance sheet, versus in footnotes, will help address transparency. However, for the following reasons we view the Projected Benefit Obligations (PBO) as an inappropriate measure of liability for this purpose.

Balance sheets should reflect liabilities that are currently owed. The PBO includes liability related to assumed future salary increases. If salary increases are not currently owed under any contract between the employer and the employees, then the balance sheet should not reflect a liability for the increases. Reflecting such a liability is misleading and is not reflective of the true obligations of the employer. If employers are required to use the PBO, they may consider changing the plan design to limit the impact of assumed future salary. For example, a plan sponsor may decide to expand the averaging period for salaries or simply freeze its plan so that the PBO and ABO are the same.

There is no market for the PBO. Using current market rates to value a liability that would not be assumed by a current buyer is inappropriate. Only the ABO can be settled in today's market. This is supported by the requirements of FAS 88 with regards to Settlement Accounting. The PBO lacks marketability, and therefore, economic substance.

The Accrued Benefit Obligation (ABO) is the appropriate measure of a plan sponsor's current obligation. Therefore, we recommend it be used as the basis for the liability shown on the balance sheet. The ABO does not include future salary increases that may not be realized and that the employer is under no obligation to make. Whereas the PBO is based upon assumption and projection, the ABO provides an appropriate measure of liabilities actually incurred by the plan sponsor. Consequently, the ABO is an appropriate measure that should be used to provide the transparency being sought on the balance sheet.

The ABO could be assumed by a buyer, such as an annuity provider, or settled through lump sums payments. It is, therefore, a marketable obligation. Basing the liability on the ABO avoids the potential advance accrual of liabilities that must be reversed when a plan is frozen or terminated.

We recognize that, for non-pension postretirement benefits, an ABO calculation is not routinely determined and currently is not required for disclosures. Pensions and other retiree benefits, however, are quite different so a similar liability calculation may not be appropriate. We ask that the Board not automatically gravitate to a PBO / APBO liability solely because the concept exists in both FAS 87 and FAS 106.

Changing the Measurement Date is Unnecessary and Creates an Undue Burden on Plan Sponsors.

The change to require the measurement date to always be the statement date is unnecessary. Under current rules, plans may establish a measurement date that is up to three months before the fiscal year-end. The proposal would require plans to use the last day of the fiscal year as the measurement date. This change is unnecessary as there is no evidence that the measurement date has been used improperly or that the proposed change would produce greater accuracy. Currently, any change in measurement date is seen as a change in accounting principle. As a result, the measurement date cannot be changed frequently or without justification. We are not aware of any evidence that earlier measurement dates have been used as a tactic to obscure pension statement information. Pension obligations, even if measured based on the ABO, represent long-term obligations. A mere three-month shift in the measurement of a liability that could span over 40 years has little effect on the accuracy of the measurement.

<u>The change in measurement date would cause an undue burden on plan sponsors</u>. The use of an earlier measurement date allows for complex information to be compiled in a timely manner so that plan sponsors can appropriately review the information and complete the preparation of their financial statement information in time to meet the statement deadlines. It also allows them to budget for upcoming fiscal years.

Sarbanes Oxley requirements emphasize the importance of plan sponsors understanding and supporting the information provided on their financial statements. To do this effectively, plan sponsors must be allowed ample time to review and analyze the information. Statement information related to pension plans is very complex and takes time to compile, review, understand and ultimately approve.

Moreover, liabilities cannot be determined until the discount rate is finalized. Yield curves, which are increasingly being used to determine discount rates, may not be available for ten business days following the statement date. Once the curve is available, the plan's projected benefit payouts must be matched to the curve to determine the discount rate. Then, the resulting discount rate must be approved. The entire process of determining a discount rate can take up to four weeks.

Further, asset information for non-marketable securities can take thirty, sometimes forty-five, days to value. Statement information cannot be prepared until all asset information is received. Given the amount of time needed to compile pension information, requiring a measurement date at the statement date would put pressure on management to quickly approve the information without appropriate time for review and understanding.

In addition, without the use of an advance measurement date, plan sponsors will not be able to plan for the volatility from year to year during their budget process. There are new reporting requirements proposed in the Exposure Draft that will increase the volatility of financial statements. Allowing for an advance measurement date would help manage the added volatility.

Plan Sponsors Need Appropriate Transition Rules and More Reasonable Effective Dates.

We urge you to reconsider implementation of this change by retrospective application. Such implementation will force companies to restate 3-5 years of previously reported data. This process could become quite complex and costly, particularly in the determination of the realization of deferred tax assets in prior years. Rather than requiring retrospective application, we recommend that the Board permit companies a choice of transition provisions which would include both retrospective adoption and an "as of" adoption methodology.

Also, we believe that the effective date should be delayed. A final statement is not expected until September and most of the provisions would be effective at the end of the year for an employer with a calendar-year fiscal year. Employers will need more than just three months to adequately review the final rules and react to the effect of the changes on their business, such as the effect on loan covenants. Prior significant accounting changes have typically been made over a longer transition period. We ask that the Board delay the effective date for all provisions until the effective date for changes made in Phase 2. Not only will this provide more time to prepare for the changes, it will also allow for the Phase 1 and Phase 2 changes to be better coordinated.

Conclusion

We understand the urgency felt by FASB and users of financial statements for greater transparency and clarity. However, we encourage FASB to spend more time evaluating the appropriate measure of liability for this purpose and to consider the ABO as a superior alternative. Additionally, we do not see the change in measurement date as necessary in meeting FASB's goals. The change would only add burden to plan sponsors without benefit to financial statements users. Further, it would inhibit plan sponsors' ability to manage the added volatility brought on by the new rules. Finally, we urge FASB to consider a longer transition period and to extend the effective date.

The Chamber of Commerce is pleased to be able to offer these comments. Our members believe in both well-funded pensions and transparent financial statements. Our recommendations would encourage both of these principles in a fair and appropriate manner.

If you have any questions or would like to discuss the contents of this letter, please contact Aliya Wong, Director of Pension Policy, at 202-463-5458.