new york state society of
NYSSCPA
certified public accountants
530 fifth avenue, new york, ny 10036-5101
www.nysscpa.org

October 22, 2003

Ms. Suzanne Q. Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7, PO Box 5116
Norwalk, CT 06856-5116

By e-mail: director@fasb.org

Re: Proposed Statement of Financial Accounting Standards, *Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132*

File Reference 1025-200

Dear Ms. Bielstein:

The New York State Society of Certified Public Accountants, the oldest state accounting association, representing approximately 30,000 CPAs, welcomes the opportunity to comment on the Proposed Statement of Financial Accounting Standards noted above.

The NYSSCPA Financial Accounting Standards Committee deliberated the Exposure Draft and prepared the attached comments. If you would like additional discussion with the committee, please contact Robert Dyson, chair of the Financial Accounting Standards Committee, at (212) 842-7565, or Robert Colson, NYSSCPA staff, at (212) 719-8350.

Sincerely,

Jeffrey R. Hoops
President

Attachment

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NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

FINANCIAL ACCOUNTING STANDARDS COMMITTEE

COMMENTS ON FASB EXPOSURE DRAFT

Proposed Statement of Financial Accounting Standards, *Employers' Disclosure about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88, and 106 and a replacement of FASB Statement No. 132*

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General Comments

We recognize the need for better financial statement disclosures, but the disclosures proposed in the ED do not adequately provide the information requested by users. The exposure draft (ED) notes that financial statement users have indicated that the disclosures required by FASB Statement 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, do not provide sufficient information. Paragraph A4 of the ED identifies four types of information sought by users of financial statements: (1) plan assets, (2) benefit obligations, (3) cash flows for both benefit payments to retirees and contributions by the plan sponsor, and (4) net benefit costs. The ED's requirements donot provide information on the benefit obligations that reflects the future cash contributions by plan sponsors. In our opinion, the FASB can fully meet the needs of users by issuing guidance on both the measurement and disclosure of pension and other postretirement benefit obligations and liabilities.

The current methodology in measuring pension and other postretirement liabilities is confusing and masks the related future cash contributions. Pension obligations included in the financial statements of sponsors are calculated differently than pension obligations calculated for purposes of preparing stand-alone financial statements submitted to the Department of Labor and Internal Revenue Service. The defined benefit pension plan accumulated benefit obligation, calculated in accordance with Statement 87, *Employers' Accounting for Pensions*, reflects the actuarial present value of benefits earned while the accumulated plan benefits calculated in accordance with Statement 35, *Accounting and Reporting by Defined Benefit Plans*, reflects the actuarial present value of benefit payments. There is no clear reason why defined benefit pension and other postretirement plans, alone among all reporting entities, must compute information on the same obligation two different ways for presentation in two different financial statements, both of which are prepared in conformity with generally accepted accounting principles. The Statement 35 computation, based on future benefit payments, is more consistent with the users' request for information on future cash flows of employer contributions.

Adopting Statement 35 accounting for disclosing pension plans in the employers' financial statements would have several advantages. The information is readily available and is easily understood, having been used since 1981. Entities would not incur any additional cost since the information is already available. Reporting entities may actually save money by not having to obtain duplicate actuarial information. In addition, the need to determine minimum liability, with its confusing requirements for intangible assets and other comprehensive income, would be eliminated. Reporting entities do not understand the intricacies of the minimum liabilities and consider the intangible asset required by paragraph 37 of Statement 87 to be a plug number.

We agree with the FASB's conclusions, discussed in paragraphs A16 through A18, that the PBGC termination obligation should not be disclosed. We note that the PBGC termination obligation is different from the accumulated plan benefits calculated in accordance with Statement 35.

We are concerned about the increasing number of final and proposed accounting pronouncements covering limited areas that subsequently require the issuance of new statements of financial accounting standards, FASB interpretations, or FASB staff positions to clarify implementation and application issues. The FASB adding a new limited scope project on "cash balance defined pension plan obligations" that would further amend Statement 87 on September 24, 2003 is an example of this piecemeal approach. Such rapid changes and modifications in accounting standards will contribute to confusion among users, preparers, and auditors on the proper accounting standards and disrupt consistency in the application of accounting principles between periods.

Accordingly, we urge the FASB to perform a comprehensive evaluation of both measurement and disclosure issues related to accounting for pensions and other postretirement benefits. This study of pension and other postretirement benefit issues should include cash balance defined pension plan obligations. A comprehensive study should consider the advisability of reflecting Statement 35's measurement and disclosure requirements in presenting pension plan information in the sponsor's financial statements. Once the FASB resolves the measurement issues, it can readily identify the related disclosures necessary to enhance users' understanding of the pension and other postretirement plans' effect on the reporting entity.

Comments on Specific Issues

The following comments on specific issues raised in the ED reflect the conviction that certain risk disclosures required by Statement 35 are applicable in the sponsors' financial statements.

Issue No. 1 – Plan Assets

With the exceptions noted below, we support the proposed disclosure on plan assets.

Paragraph 5d(1)(c) requires the disclosure of "expected long-term rate of return on assets presented on a weighted-average basis for the latest period for which a statement of income is presented." Users could evaluate the plans' performance and rate of return assumptions better if the entity is required to disclose the actual historical rate of return achieved during the current plan period. This information is readily available and could be compared with such investment indices as the Dow Jones Industrial Average, NASD Composite, and S & P 500.

Statement 35, paragraph 13, requires plans to identify investments whose fair values are determined by quoted market prices in an active market and those whose fair values are determined by other means. This disclosure is useful because it indicates the liquidity of the portfolio and the amount of objectivity applied in determining the fair values. Accordingly, we recommend this disclosure be required in the employer's financial statements.

Statement 35, paragraph 28g requires plans to disclose investments representing five percent of net assets available for benefits. Such disclosure of a significant concentration of credit risk relative to investments also should be required in the employer's financial statements. Such a requirement is consistent with Statement of Position 94-6, *Disclosure of Certain Significant Risks and Uncertainties*. In light of recent scandals, the FASB should require also disclosure of material amounts of employer securities held by the plans.

Issue No. 2 – Defined Benefit Plan Accumulated Benefit Obligations

The current disclosure of the funded status of pension and other postretirement plans is clear. In particular, the tabular presentation separating plans whose assets exceed benefit obligations from plans whose benefit obligations exceed assets clearly shows the employer's exposure to under-funded plans. According to Illustration 1 in Appendix C, the ED permits the tabular presentation of all plans in the aggregate and the disclosure of under-funded plans in a narrative paragraph. Information shown in a table is clearer than that shown in a paragraph. The proposed disclosure obscures the employers' exposure to under-funded plans.

Paragraph 5f should be clarified to indicate the discount rate used to determine the present value of the five years estimated future benefits should be consistent with the discount rates used elsewhere in accounting for pension and other postretirement benefits.

Issue No. 3 – Cash Flow Information

Subject to our comments in Issue No. 2, we agree with the ED in this matter.

Issue No. 4 - Assumptions

Subject to our comments in Issue Nos. 2 and 3, we agree with the ED in this matter.

Issue No. 5 – Nonpublic Entities

Nonpublic entities do not have any special circumstances that would affect their ability to make the proposed disclosures. Nonpublic entities must obtain an actuarial report containing the required information regardless of financial statement disclosure requirements. In addition, financial statement users may consider the lower amount of disclosure inferior to full disclosure and make economic decisions adverse to the reporting entity.

Issue 6 – Sensitivity Information about Changes in Certain Assumptions:

We agree with the final sentence in paragraph A31, which notes that "economic factors and conditions often affect multiple assumptions simultaneously and the effects of changes in key assumptions are not linear." Disclosing sensitivity information concerning hypothetical changes of selected assumptions could mislead a user regarding the variables inherent in estimating benefit obligations by presenting only a partial picture. Accordingly, this information should not be required.

Issue 7 – Measurement Date(s):

We agree with the FASB's conclusion that measurement dates should be disclosed only in the specific circumstances presented in the ED.

Issue 8 – Reconciliation of Beginning and Ending Balances of Plan Assets and Benefit Obligations:

From a practical point of view, the reconciliations of the beginning and ending balances of plan assets and benefit obligations clearly present an overview of the changes in the plans' funded status. The disclosures illustrations in Appendix C are longer and more difficult to absorb. Accordingly, the reconciliations should remain.

Issue 9 – Disclosures Considered Not Proposed:

We agree with the Board that none of the additional disclosure items identified in the ED should require disclosure.

Issue 10 – Disclosure in Interim Financial Reports:

The ED proposes the disclosure of net periodic benefit cost recognized, showing separately the service cost component, the expected return on plan assets for the period, the unrecognized transition obligation or transition asset, the amount of recognized gains or losses, the amount of prior service cost recognized, and the amount of gain or loss due to settlement or curtailment. Actuaries provide much of this information, particularly the service cost component and the expected return on plan assets. We are concerned that this provision may force companies to obtain costly interim actuarial reports. We do, however, believe that certain information regarding significant changes, such as a plan settlement or curtailment, should be disclosed in the period of occurrence. In those cases, an actuarial report for the interim period would be in order.

Issue 11 – Effective Date and Transition:

The effective date should be deferred pending consideration of measurement issues