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Emerging Issues Task Force
Financial Accounting Standards Board
Attn.: Director; File Reference EITF 0602
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Gentlemen:

This letter, via e-mail, is a comment on Issue 06-02 of the Emerging Issues Task Force. (A copy is also being sent by post.)

My background of more than 40 years as a financial officer at secondary and post-secondary educational institutions, and as a financial consultant at numerous others in the United States and elsewhere, leads me to concur with the Task Force proposal to require accrual of the cost of a sabbatical under the conditions set out in the exposure draft. These conditions would require that eligibility for a sabbatical come only after a defined period of service at a particular entity, and that the staff member on sabbatical have no duties that benefit the granting organization during the sabbatical period.

It is especially the second of the conditions that makes me agree with the Task Force. If it is known in advance that a staff member must be paid even if the member does nothing for the granting organization during some future sabbatical before retirement, the payment in that period is not a routine operating expense from which the grantor will somehow gain. Treating the payments in the sabbatical period as routine operating expenses seems contrary to the accepted meaning of operating expenses. It seems more reasonable to say that the service period prior to the sabbatical period must bear the cost not only of the work done in the service period but also of the sabbatical period because only during the service period is the granting entity receiving benefits for the compensation it is, and will be, paying.

Perhaps the Task Force needs to recognize more clearly that what may benefit an employer is open to a very wide interpretation, especially in the educational world. If a teacher studies for a higher academic degree (which will often lead to a higher salary at an academic institution) or seeks commercial employment that applies the teacher's main subject of interest, a strong argument can be made that such use of a sabbatical benefits the grantor as well as the grantee. I suggest that the final document be amended to recognize some flexibility of judgment on the part of the employer as to whether a particular use of a sabbatical is beneficial to the grantor or not.

Another example would be the professor of classical languages who uses a sabbatical to take a job in a company that repairs household appliances. It would be stretching one's imagination to claim any connection with the professor's academic field or employing institution. But the same professor could readily argue that an extended trip to Greece would be advantageous to the academic institution upon returning to the classroom.

As for the effective date, I believe it would be very unwise if the Task Force proposal takes effect on June 28, 2006 (on the assumption that the FASB will ratify the Task Force consensus on that date). That implementation date could create severe difficulties in many educational institutions.

First, the financial offices of many educational institutions have fiscal years that end on June 30 or on another date during the summer. The offices are quite busy in bringing one year to a close, having an audit of that year, and starting a new year. Unless these offices have a large staff—and, in my experience, most do not—it will be difficult to prepare for implementation during the fiscal year starting in the summer of 2006.

Second, implementation could require the amendment of contracts or other agreements. Most educational institutions have contracts with faculty members either individually or through a union or association of faculty members. It would certainly seem imprudent for academic institutions to make changes of any kind, especially a unilateral change, in an area as sensitive as sabbaticals without first reviewing all faculty contracts. In addition, accruals of the cost of sabbaticals could

require modifications to the instructions given to endowment fund managers at those institutions fortunate enough to have significant endowment funds. In some cases, the accruals could affect governmental funding processes. Such changes as these require study and also negotiations that may sometimes be lengthy and difficult.

Third, some educational institutions may wish to consider changes in their sabbatical programs that would take the programs entirely outside the scope of this proposal and thus allow the institutions to continue charging the cost of sabbaticals as an operating expense of the sabbatical period. One way of doing this would be for an educational institution to require that there be some sort of measurable benefit flowing to the grantor due to a sabbatical. But often such adjustments could not be unilateral and would take more time than an effective date in the summer of 2006 would permit.

Consequently, I strongly recommend that the Task Force change its proposed date of implementation at least to the fiscal year beginning on or after January 1, 2007.

Another shortcoming of the proposal is that it does not explicitly acknowledge that academic institutions may sometimes have common benefit programs that include sabbaticals. These sabbaticals may be earned by service at several different institutions within a defined group of distinct institutions. It may happen that service at any one of the institutions may not suffice, but service at two or more, taken together, would suffice. I suggest that the Task Force modify its wording to allow for joint sabbatical programs within a specific group of institutions.

If the Task Force has any questions regarding this letter, I would be glad to respond to them.

Very truly yours,

Henry T. Chamberlain, SJ