

POSTRETIREMENT BENEFIT PLAN ASSET DISCLOSURES COMMENT LETTER SUMMARY

OVERVIEW

1. The comment period for the proposed FSP ended on May 2, 2008. As of May 19, 2008, comment letters were received from 45 respondents which are summarized below.

Respondent Profile:

Type of Respondent	Number
Preparer	21
Investor/Analyst	1
Rating Agency	2
Accounting Firm	7
Industry Organization	7
Trust Asset Managers	3
Other	4
TOTAL	45

Five of the 45 respondents categorized as industry organizations represent multiple preparer constituents. Two of the 4 respondents categorized as other are actuarial firms.

OVERALL POSITION

2. The majority of respondents expressed support for improving disclosures about postretirement benefit plan assets. However, a majority of respondents disagreed with one or more of the proposed disclosure requirements regarding asset categories, concentrations of risk, or fair value measurements. Many respondents commented on the costs of complying with the proposed disclosures and questioned the benefits to users. Most respondents requested that the effective

date be delayed by one year or longer to allow for more time to implement the changes. Those and other issues raised by respondents are summarized below.

SIGNIFICANT ISSUES

Asset Categories

3. The Board included more detailed requirements for asset categorization in the proposed FSP to address users' concerns and staff research indicating that many employers solely provide the categories of equity, debt, real estate, and other investments when disclosing each major category's percentage of the fair value of total plan assets held. Some users have noted that those broad categories of plan assets are not specific enough to determine the types of assets held as investments and the related exposures to concentrations of risk. The proposed FSP amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to require disaggregation of plan asset categories based on the types of assets held in a plan. It provides the following categories that, if significant, should be disclosed: cash and cash equivalents; equity securities; debt securities issued by national, state and local governments; corporate debt securities; asset backed securities; structured debt; derivatives segregated by type of contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, and other contracts; hedge funds; private equity funds; venture capital funds; and real estate.

Principle for Disclosing Categories of Plan Assets

4. Most respondents agreed that the principle for disclosing categories of plan assets was understandable. CITI (CL# 15) stated, "We support the proposal to expand the disclosure of major asset categories of plan assets based on the types of plan assets held in the plan. We believe the categories are representative of the types of assets held in pension and other postretirement plans and will provide users with meaningful information about a plan's holdings."

5. RG Associates (CL# 6) supported the principle of disclosing categories by type of plan asset because it would provide useful information that is understandable to users of financial statements. Specifically, RG Associates stated:

Particularly useful: the disclosure categories related to asset-backed securities and derivatives. There is a singular scarcity of disclosures surrounding these instruments in current reporting, and these instruments could have enormous effects on benefit plan performance – especially asset-backed securities, during the past year.

6. Some respondents commented that the principle was unclear or not practical. E&Y, Grant Thornton, Credit Suisse, Nortel, CITI, State Street, Morgan Stanley, Grant Thornton, IMA, and Moody's (CL# 24, 34, 1, 12, 15, 16, 19, 34, 36, 38) questioned the principle for identifying asset categories. The World Bank, Nortel, State Street, and Grant Thornton were troubled that certain assets may have characteristics of multiple asset categories and requested more specific language on how to define and differentiate the asset categories. IMA and Moody's (CL# 36, 38) supported an alternative asset categorization principle that would require disaggregation based on management's approach to assessing risks and returns in plan assets. Moody's stated:

The proposed FSP is recommending a principle for asset disclosure, while at the same time prescribing rules on how to apply that principle...We believe that a principle of disclosing plan assets based on how management organizes, deploys and manages assets would be more useful to users of financial statements.

Moody's acknowledged that a principle based on a management approach would lead to less comparability between reporting entities.

Alternative Categories Proposed

7. Some respondents proposed alternative asset categories. Watson Wyatt and AIG (CL# 18, 23) proposed that insurance contracts be included as a separate asset category. Watson Wyatt, Johnson & Johnson, PwC, and IMA (CL# 18, 28, 30, 36) noted that the proposed FSP does not include an "other" category, which may imply that all plan assets must be categorized in one of the major asset categories

regardless of the significance of the investment. PwC (CL# 30) suggested keeping the “other” category for assets that are not significant, while Johnson & Johnson (CL# 28) suggested keeping the “other” category for smaller international plans. Moody’s (CL# 38) suggested that “the final standard require companies to disclose what risks the asset class is exposed to and how the company quantifies those risks for its internal purposes. Such quantification is relatively easy for fixed-income securities, which carry two main risks: interest rate risk and default risk. Both these risks can be quantified using measures such as duration and credit rating.” CIEBA, State Street, BNY Mellon, and Chevron (CL# 7, 16, 25, 26) suggested using asset categorization examples that are similar to those required in the ERISA Form 5500, which must be filed by plan sponsors with the Department of Labor each year in July.

Significance Threshold

8. Nortel, Watson Wyatt, BNY Mellon, CIEBA, United States Steel Corporation, Halliburton, FEI, and Morgan Stanley (CL# 12, 18, 25, 7, 8, 10, 35, and 19) questioned how significance would be determined when deciding what constitutes a significant asset category in the proposed FSP. FEI stated:

...the FSP introduces a co-existence of ‘major’ and ‘significant’ that we find difficult to follow in certain categories. FEI does not interpret major to be the same as significant. Significant can be interpreted to mean anything greater than 5% of either plan assets, total pension assets, or total corporate assets and could result in more than just ‘major’ categories.

9. Watson Wyatt suggested that because there are no thresholds or specific guidance on what constitutes a significant asset category, preparers and auditors will considerably scrutinize the examples in the FSP. For example, Watson Wyatt suggested that the lowest percentage provided (4.9% invested in REITs) may be interpreted as the significance threshold for asset categories. Similarly, Eli Lilly (CL# 3) was concerned that too much emphasis would be given to the examples because the body of the FSP does not provide thresholds, definitions, or guidance on what constitutes a significant asset category.

10. CIEBA, United States Steel Corporation, and Halliburton all proposed that significant asset categories should comprise more than 10% of total plan assets to prevent an overly granular breakdown of categories.

Disclosing Underlying Investments

11. United States Steel Corporation, Northern Trust, and Greg Swalwell (CL# 8, 29, 31) commented on the difficulty required to “look-through” assets such as hedge funds, private equity funds, and venture capital funds, etc., to determine what categories of investments are in each portfolio. The data related to these specific holdings of postretirement benefit plans are difficult to obtain, especially in a multinational reporting setting. Northern Trust and Greg Swalwell stated that the FSP should specify that disclosing the underlying assets of private equity or hedge funds is not required.

Derivatives

12. Eli Lilly, State Street, Chevron, and DuPont (CL#3, 16, 26, 32) were all concerned with the proposed requirement to disclose separate categories for derivatives contracts. They noted that since derivative instruments are intended to mitigate risks of other benefit plan elements, segregating the derivatives could be very misleading and not representative of the risks managed within the plan. Eli Lilly recommended including derivative contracts at fair value within the investment category that they are related to and, if material, a description of the use and type of derivative in the narrative discussion. State Street, Chevron, and DuPont recommended a supplemental qualitative narrative, which would describe the types of derivatives utilized and why they are used in connection with plan assets. This would help the user better understand the plan’s overall investment policies and strategies. The World Bank (CL# 14) recommended that entities disclose their risk management strategies with regard to pension surplus/deficit management including the use of derivatives, if significant.

Disclosure of Target Allocations of Plan Assets

13. The World Bank was concerned with the usefulness of disclosing target allocations for the proposed asset categories because they do not typically set target allocations for each detailed asset category. They concluded that presenting such information would require an estimate that would not be representative of how management views its investment strategy.

Concentrations of Risk

14. In developing the proposed FSP, the Board concluded that disclosures of concentrations of risk should relate to those that arise within and across the categories of plan assets disclosed, including concentrations of risk that may arise from different types of assets or investment vehicles that have the same underlying risk exposure. The Board decided that an employer shall disclose the nature and amount of a concentration of risk arising within or across categories of plan assets.

Defining Concentrations of Risk

15. Fitch Ratings, CIEBA, United States Steel Corporation, AIG, Johnson & Johnson, Grant Thornton, and IMA (CL# 5, 7, 8, 23, 28, 34, 36) all requested clearer guidance of what is considered to be a “concentration.” Fitch Ratings suggested that the Board should be clear about the proposed disclosures about concentrations of risks in order to avoid boilerplate disclosures that do not provide useful information for analysis. The IMA suggested that the Board extend the application of FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, and AICPA Statement of Position 94-6, *Disclosures of Certain Matters in the Financial Statements of Insurance Enterprises*, to plan assets to address the concept of concentrations of risk instead of developing a new definition.

Qualitative Alternative

16. Eli Lilly (CL# 3) wanted the Board to instead require more qualitative information about concentrations of risk—through a narrative of the company’s

investment policies, specific risk management strategies and processes—with additional disclosures of detailed asset classes. Pension Governance (CL# 37) had a similar suggestion that the FSP require plan sponsors to describe how it decided on a particular concentration, who monitors the concentrations, what triggers a breach, and what happens when a concentration is exceeded. Credit Suisse (CL# 1) preferred qualitative descriptions of the primary risk associated with the plan, management’s approach to mitigating that risk, and the investment strategy, including investment diversification.

Misleading Disclosures

17. Some respondents suggested that disclosing concentrations of risk are misleading. Mercer (CL# 11) stated, “Fully investing in a fund of US Treasury securities could be viewed as lessening of risk. More importantly, an investment strategy under which the sponsor invests entirely in fixed income securities that match the duration of plan liabilities is not concentrating employer risk, but minimizing it.” Similarly, Nortel (CL# 12) responded that the proposed disclosure only included risks arising within or across categories of plan assets, whereas consideration should be given to disclosures of total pension funded status investment strategies.

Usefulness

18. CIEBA, Halliburton, State Street, Computer Sciences Corporation, Chevron, Gregg Swalwell, World Bank and FEI (CL# 7, 10, 16, 17, 26, 31, 14 35) all questioned the usefulness of the disclosure requirement for concentrations of risk. Halliburton stated that “we believe disclosure of this type of information is only useful in certain circumstances, such as when a registrant is in a significant underfunded situation and also invests in high concentrations of nontraditional securities.” Additionally, State Street stated that “the proposed analysis of concentration of risk may make disclosures unnecessarily detailed, difficult, or impractical to compile accurately (plan fiduciaries already have a duty to ensure that risks and returns are appropriate for the plan).” Greg Swalwell and FEI

shared the same sentiment as State Street and further explained that regulations often require plan fiduciaries to diversify plan assets to minimize the risk of large loss, which protects against risk concentration.

Significance Threshold

19. CIEBA, CITI, Computer Sciences Corporation, Watson Wyatt, and Morgan Stanley (CL# 7, 15, 17, 18, 19) all requested a threshold to determine significance of the risk concentrations meriting disclosure. Watson Wyatt stated:

There is no threshold or guidance to help plan sponsors determine what constitutes a concentration of risk. Considerable time and effort will be required by multinational companies to try to identify concentrations of risk.

CIEBA suggested excluding plans that do not represent at least 10% of total plan assets.

Underlying Holdings of Certain Investments

20. CITI (CL# 15) stated that the FSP is unclear whether or not an entity is permitted to consider pension and other postretirement plans in the aggregate when determining concentrations of risk and the extent to which an entity should “look through” to the underlying holdings of certain investments, such as private equity or hedge funds.

Fair Value Measurements

21. The proposed FSP requires that an employer disclose information that enables users of its financial statements to assess the inputs and valuation techniques used to develop the fair value measurements of postretirement benefit plan assets. To meet that objective, entities must disclose the level within the fair value hierarchy (as defined in FASB Statement No. 157, *Fair Value Measurements*), in which the fair value measurements in their entirety fall (that is, Level 1, Level 2, or Level 3). For fair value measurements of plan assets using significant Level 3 inputs, an entity must provide a reconciliation of the beginning and ending balances. The

reconciliation must separately present changes during the period attributable to the actual return on plan assets; purchases, sales, and settlements (net), and transfers in and/or out of Level 3. To qualitatively supplement these tables, an entity must provide information about valuation techniques used to measure fair value and a discussion of any changes in valuation techniques and inputs during period.

Usefulness

22. The majority of respondents supported or did not object to the proposed disclosure of fair value measurements by Level. Watson Wyatt (CL# 18) commented that the fair value information would help identify companies with especially aggressive or conservative investment policies, which could be compared with the policies of other entities. Similarly, RG Associates (CL# 6) stated the following about the decision-usefulness of the disclosures:

They would allow users to assess 1) the veracity and integrity of the reporting, 2) the potential for liquidity issues within the benefit plan and 3) the likelihood that investment decisions might lead to increased future sponsor contributions that might affect the sponsor's own liquidity.

Mercer (CL# 11) commented that disclosing asset categories and their positions in the fair value hierarchy would provide useful information for assessing risk levels and the reasonableness of the expected rate of return assumption.

23. Some respondents did not think that any of the disclosures about fair value measurements would be useful, or recommended that the disclosures be required in limited situations. The Walt Disney Company, DuPont, Texas Instruments, IMA, Computer Sciences Corporation and Nortel (CL# 22, 32, 13, 36, 17, 12) did not support any of the fair value disclosure requirements. The Walt Disney Company, DuPont, Texas Instruments, and the IMA stated that the disclosures provide little information to users because annual postretirement benefit cost is based on the expected return on plan assets rather than the actual return.
24. Moody's (CL# 38) suggested that the disclosures are useful, but not necessary to

evaluate a sponsor's pension asset risk and that if entities deem them too costly the FASB should eliminate the disclosures. Moody's characterized the fair value information as "nice to have" rather than "need to have." United States Steel Corporation and Halliburton (CL# 8,10) stated that the disclosures would provide meaningful information but should not be required for the broad population of registrants. Lastly, PCPS (CL# 40) stated, "Paragraphs 9(b) and 9(c) [of the proposed FSP] may provide useful information for professional analysts but not for users of private entity financial statements. These disclosures add complexity and cost without a commensurate benefit."

Significance Threshold

25. The Chubb Corporation, United States Steel Corporation, Halliburton, and Morgan Stanley (CL# 33, 8, 10, 19) recommended that the fair value disclosures apply in limited situations. The Chubb Corporation recommended that materiality thresholds be created for the fair value disclosures as postretirement benefit expense may represent an immaterial portion of a company's operations. Morgan Stanley suggested that the level of detail [related to asset categorization] for the fair value hierarchy is not warranted unless it is significant to the overall plan sponsor's financial statements. Instead, Morgan Stanley recommended that the plan assets be aggregated in their entirety then classified based on the total level 1 assets, total level 2 assets, and total level 3 assets of the fair value hierarchy.

Level 3 Reconciliation

26. The other comments about the fair value disclosures related to the requirement that entities provide a reconciliation of the beginning and ending balances for plan assets with Level 3 inputs. Ernst and Young (CL# 24) did not support the disclosure requirement for the Level 3 reconciliation. They stated that it would provide less useful information than the Level 3 reconciliation required by Statement 157 because the changes in fair value of plan assets have only indirect effects on earnings for the period. CIEBA and PricewaterhouseCoopers (CL# 7, 30) commented that the Board should not require that the Level 3 reconciliation

individually identify the amount of return related to assets sold and held during the period as it provides little meaningful data to users. Additionally, CIEBA noted that if there is no materiality threshold, providing a breakout of Level 3 assets is proprietary information and should not be divulged.

General Cost/Benefit Considerations

Cost/Benefit

27. Eli Lilly, RG Associates, Computer Science Corporation, Johnson & Johnson, Halliburton, IMA, and Abbot (CL# 3, 6, 17, 28, 1, 10, 36, 4) commented on the costs and benefits of the amended disclosures in their entirety. Eli Lilly, Johnson & Johnson, and Computer Science Corporation all believe that the proposed disclosures do not provide adequate benefits to users that would outweigh the costs to gather all the data (especially for a multi-national employer) and prepare the required information. Credit Suisse, Halliburton, IMA, and Abbot believe that the accumulating, summarizing, analyzing, and auditing of the extensive supplementary data will require extra internal and external resources and substantial incremental costs. Opposing, RG Associates pointed out that some firms may already have the required information for the expanded disclosures.

Systems Costs

28. CIEBA, United States Steel Corporation, Mercer, Texas Instrument, CITI, Watson Wyatt, BNY Mellon, DuPont, and FEI (CL# 7, 8, 11, 13, 15, 18, 25, 32, 35) all commented on the additional costs associated with changing and implementing new systems that would be used to gather the necessary information to comply with the proposed disclosures. They all shared the same sentiment that the difficulties and costs of implementation would be magnified for companies with benefit plans in various geographic locations around the world. The World Bank, CITI, and AIG (CL# 14, 15, 23) stated that developing the reporting system that would be used to identify concentrations of risk will impose excessive incremental costs.

29. Mercer stated that the required disclosures will create additional costs because trustees will have to adjust their computer systems to track the necessary information. Also, the process of aggregating, particularly across countries, when various trustees may categorize assets differently, will be onerous and the development of systems to handle all of the various permutations will be time consuming and expensive. Lastly, where assets are held by multiple trustees in pooled asset accounts, the process of “looking through” those pools on an aggregate level to assess concentrations of risk can not be done by a trustee with partial information, and the employer may not have the skills or proper information to do so. In these instances, the employer would have to incur additional costs to either aggregate the information themselves or hire an external expert to do it for them.

Implementation Costs (Risk Concentrations)

30. The World Bank, CITI, and AIG (CL# 14, 15, 23) stated that concentrations of risk will impose excessive incremental costs. Watson Wyatt, AIG, and Chevron (CL# 18, 23, 26) expressed concerns about the difficulty in implementing the risk concentration requirements especially for non-U.S. based plans. These respondents explained that sponsors often have limited knowledge of the specific investment strategies used by international plans. Chevron was strongly opposed to this disclosure requirement due to the significant incremental costs of compliance.

Implementation Costs (Fair Value)

31. In regard to implementation costs for the fair value disclosures, BNY Mellon (CL# 25) was the only respondent to quantify the potential costs that would be incurred. BNY Mellon said that they have already spent \$2 million on system enhancements to assist clients in being able to comply with Statement 157, and that they estimate an additional \$4 million to implement the systems needed for the proposed requirements. In regard to the reconciliation requirement, DuPont suggested that system costs could be significantly reduced by showing one line

for the actual return rather than displaying separate lines for the return on assets still held at the reporting date and the return on assets sold during the period.

Other Costs

32. Grant Thornton (CL# 34) suggested that the proposed requirements would be particularly burdensome and costly for employers with small postretirement benefit plans, and because of this they propose exempting certain employers from the disclosure requirements in the proposed FSP. Nortel (CL# 12) stated that a significant burden is placed on those who comply with accelerated filing deadlines during the annual close process because they will incur costs to allocate additional internal resources to gather and analyze the data necessary to provide the disclosures within an already shortened filing window.

Effective Date

33. The disclosures about plan assets required by the proposed FSP would be applied on a prospective basis for fiscal years ending after December 15, 2008. A majority of respondents stated that the effective date should be delayed one year. The respondents' comments ranged from difficulties in obtaining plan information from non-U.S. custodians to accelerated filing deadlines.
34. Texas Instruments, State Street, Ohio Society of CPAs, Chevron, Grant Thornton, IMA, ACLI, CIEBA, Credit Suisse, Nortel, PwC, DuPont, United States Steel Corporation, and Watson Wyatt (CL# 13, 16, 21, 26, 34, 36, 39, 7, 1, 12, 30, 32, 21, 8, 18) all requested that the Board delay the effective date for at least one year (for fiscal years ending after December 31, 2009). The main reasons included time and cost constraints in gathering the necessary information, working with international custodians, and implementing effective systems to track fair value measurements and investments. United States Steel Corporation suggested delaying implementation to a later period after the appropriate data tracking and systems development can be implemented.

35. DuPont stated that they can not provide the level 3 roll forward for 2008 reporting without undue costs and effort because (a) beginning balances have not been established, (b) 2008 to-date activity has occurred but not been tracked by information systems, and (c) upfront education and other work is necessary before contracting for enhancements to the various asset information systems to be used by their foreign plans. They noted that December 31, 2009, would be the earliest feasible implementation date. PwC recommended that the Board defer the effective date for the fair value measurement disclosures until years ending after December 15, 2009. This would provide additional time for preparers to address issues related to data accumulation.

International Plans

36. Nortel, Johnson & Johnson, Greg Swalwell, Eli Lilly, Texas Instruments, and Halliburton (CL# 12, 28, 31, 3, 13, 10) all stated that they would have difficulty complying with the proposed requirements by the effective date due to their international plans. They noted that it would take additional time to educate plan managers so they have a consistent understanding of the requirements in Statement 157.
37. CITI (CL# 15) suggested a staggered implementation based on the location of the individual pension plan. For U.S. plans, CITI recommended the proposed effective date, but suggested that foreign plans be allowed a one year deferral. FEI (CL# 35) suggested to defer the effective date for one year for U.S. plans to fiscal years ending after December 15, 2009, which comply with the IRS and ERISA rules, and to defer the effective date for two years for all other plans to fiscal years ending after December 15, 2010. Chevron (CL# 27) suggested that, at a minimum, the effective date for implementation should be deferred for at least one year to fiscal years ending after December 15, 2009, but recommended the same staggered implementation as FEI because of the complexities of gathering the required data for non-U.S. plans.
38. Mercer (CL# 11) added that “we would point out the significant frustration

experienced last year by plan sponsors trying to get asset information (and by actuaries trying to finish net liability calculations and footnote disclosures) on a timely basis. The burden will be more difficult this year when essentially all companies will be required to use an end-of-year measurement date, and adding another layer of complexity at this point will add to the frustration and potentially decrease timeliness and accuracy of the financial statements.” Eli Lilly (CL# 3) stated that they have nearly 20 benefit plans worldwide with thousands of investments in various private and public companies managed by over 100 investment managers, and are concerned with the timing of the availability of data as of the financial statement date. They may have to manually aggregate the data across all of their plans, which would require them to delay their internal reviews with senior management and the audit committee.

Other Effective Date Issues

39. Abbott (CL# 4) suggested that the disclosure requirements be allowed to be presented within three months of year end because of the time necessary to gather, analyze, and summarize the disclosure information proposed by the FSP. ACLI (CL# 39) suggested deferring the effective date to fiscal years ending after December 31, 2008, to be more consistent with the later filing date for plan financial statements (typically filed with the Department of Labor around July 1 of the year), which is later than the SEC filing date for public companies.

Transition

40. In developing the proposed FSP, the Board considered several factors in reaching its conclusion that the disclosures about plan assets should be applied on a prospective basis for fiscal years ending after December 15, 2008. Because Statement 157 was applied prospectively, the Board concluded that the disclosures about fair value measurements of plan assets in this FSP should be applied consistently with the transition method in Statement 157. The Board discussed retrospective application of the provisions related to disclosures about categories of plan assets and concentrations of risk, but concluded that the

provisions also should be applied prospectively to reduce data collection issues and the complexity associated with requiring different transition methods. The Board also decided that early adoption would not be permitted.

41. Regarding the prohibition against early adoption, the IMA (CL# 36) commented that early adoption should be permitted, especially for standards that simply enhance disclosures. IMA questioned how a standard can keep a company from disclosing information it felt was useful to the users.

Other General Comments

42. The following comments made by respondents address the entirety of the FSP.

Existing Guidance

43. FEI and Texas Instruments (CL# 35, 13) both agree that the current existing guidance in FAS 132(R) provides a reasonable and prudent level of disclosure on plan assets. Texas Instruments does not believe there is additional value from requiring more levels or categories beyond what is already required in Statement 132(R). Mercer (CL# 11) warned that too much information in the disclosures may make the bigger picture indiscernible.

IFRS

44. The World Bank (CL# 14) provided an overall recommendation that quality disclosures on financial risks are fundamental to effective and useful corporate reporting. They noted that the topic should be addressed holistically with an emphasis on both quantitative and qualitative disclosures, written through the eyes of management. The World Bank recommended that the approach contained in IFRS 7 could serve as a good starting point to achieve this goal.

Professional Judgment

45. FedEx (CL# 9) supported a principles-based accounting approach that would allow preparers to make subjective decisions such as defining and classifying

“significant” asset categories and concentrations of risk in the proposed FSP. However, FedEx suggested that prior to issuance of the proposed FSP, the FASB and SEC develop a position on professional judgments made diligently and in good faith.