



April 20, 2016

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
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Dear Ms. Cospers,

Willis Towers Watson is a leading global advisory, broking and solutions company with 39,000 employees in more than 120 countries. Each year we perform actuarial valuations and/or prepare disclosure information for more than 10,000 retirement plans around the world in more than 100 jurisdictions.

We appreciate the opportunity to comment on the FASB's Exposure Draft of the Proposed Accounting Standards Update, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (the "proposed ASU"). We offer the following observations related to some of the specified questions:

Question 1: Should the service cost component be reported in the income statement apart from the other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 and be the only component eligible to be capitalized in assets? Why or why not?

Observation: While we see merit in separately reporting the compensation, net financing costs and remeasurement effects in the income statement, the proposed ASU would require recognizing only the service cost component of net benefit cost as a compensation cost, with the other components of cost reported separate from service cost and operating income when such a measure is presented.

The proposed ASU notes that "the proposed amendments would provide the benefit of improving consistent application of GAAP by providing explicit guidance on the presentation of the service cost component and other components of net benefit cost in the income statement". The proposed ASU also states that the proposed changes arise in part from financial statement users' observations that the elements of cost have differing predictive value and that they generally analyze the service cost component differently than the other components of cost.

An additional element of net periodic cost with qualities that could cause it to be viewed as an operating cost is prior service cost. Like current service cost, prior service cost is a change in the employee's deferred compensation, and arises from a specific action taken by the company that may be offset by a change in other forms of compensation.

On the other hand, prior service cost/credit is not exclusively related to employees' service in the current period -- it arises from amendments improving or reducing benefits attributed to service in prior periods. Further, anomalies arise from the current requirement to amortize prior service cost or credit (unless there is evidence a pension plan change has no future economic benefit). So while amending a benefit plan is a current period

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activity, the cost recognized in P&L under the current rules relates to an action taken in a prior period. Some may argue that those facts outweigh the similarities between current service cost and prior service cost.

If the proposed ASU is intended to set the stage for the Board's future consideration of the effect of benefit plans on current period income (most specifically the expected reconsideration of the delayed recognition provisions of ASC 715-30 and ASC 715-60), the Board should consider the nature of the actions triggering the cost (or credit) and whether those actions would be viewed as operating activities.

We also note that curtailments arise from a specific action taken by the plan sponsor and often are the result of a restructuring, the cost of which is included in operating expenses (when operating income is presented) or a plan change.

We have observed, through our analysis of financial statements, that many companies that provide a non-GAAP measure of operating income or that disclose business segment operating results include both service cost and prior service cost amortization in those operating measures, and exclude all other components of net periodic benefit cost.

Question 2: Would it be useful to require presentation of the prior service cost or credit component separately from the other components? Should all of the components of net benefit cost other than the service cost component (for example, the prior service cost or credit component) be presented outside a subtotal of income from operations, if one is presented? Why or why not?

Observation: While we are not expressing a view on whether including the components of cost in operating or non-operating income is more useful to investors and other users of financial statements, we believe enhanced comparability with IAS 19 should be one of the Board's objectives, recognizing the global environment in which companies and their competitors operate. We note that IAS 19 includes past service cost as a component of service cost.

Question 3: Would it be useful to require presentation of the net amount of the interest cost component and expected return on plan assets separately from the other components of net benefit cost to improve convergence with International Financial Reporting Standards (IFRS) or for other purposes? Why or why not?

Observation: It is our understanding that investors generally view the unfunded benefit obligation as debt, suggesting the most relevant measure of the cost of financing that debt would be the net of the interest cost and expected return on plan assets components of net periodic benefit cost. This is consistent with the presentation of the unfunded benefit obligation as the net of the benefit obligation and fair value of plan assets, and plan sponsors' intent that the asset return should fund the growth in the benefit obligation due to the time value of money.

Question 5: Should the proposed amendments be different for rate-regulated entities? Why or why not?

Observation: While the definition of net periodic cost is unchanged by the proposed ASU, rate recovery by some utilities could be affected. In some cases we are aware of, operating expenses are recoverable from rate-payers, but non-operating costs/credits are not. Yet all of the components of net periodic benefit cost that arise from the rate-regulated entity are considered by the utility to be part of the cost of providing retirement benefits – the costs would not exist if the company did not provide retirement benefits. By considering only some components of net periodic benefit cost to be attributable to operations, the revenues of some utilities could be affected. Further, we understand that many utilities do not have the infrastructure in place to enable them to split the operating versus non-operating components of benefit costs attributable to certain employees, such as the Service Company employees, in order to allocate those costs in a cost-effective manner between regulated and non-regulated operations.

Question 6: Would the proposed amendments be operable without incurring significant incremental costs by entities (such as not-for-profit entities, entities that enter into cost-plus contracts or government contracts including but not limited to contracts under Cost Accounting Standards Board regulations, and entities that allocate cost from cost pools)? Why or why not?

Observation: While the incremental cost to not-for-profits of implementing the proposed change in presentation may not be significant, based on our discussions with those entities, the proposed change appears to add no discernible value to the users of their financial statements and there is some concern that such a change could raise more questions than it answers. We note that the needs of the user of the financial statements of a not-for-profit differ considerably from those of a for-profit investor. Consequently, we question the usefulness of imposing similar presentation requirements on for-profit and not-for-profit entities, when there is no similar benefit to the users of their financial statements.

Question 7: How much time would be necessary to adopt the proposed amendments?

Observation: We note that some entities' loan covenants, internal performance measures and/or reward structures are tied to operating income. So while the actual reclassification of the components of cost within the income statement may not be onerous for many companies, additional time could be needed to renegotiate loan covenants, and/or adjust their internal metrics and reward programs and educate their operating units accordingly. The time needed is likely to depend on the language in their current loan covenants and compensation plans, and the significance of the change in operating income resulting from the adoption of the final ASU.

Other observations: Although service cost is defined in ASC 715-30-20 as the "actuarial present value of benefits attributed by the pension benefit formula to services rendered by employees during that period", there is diversity in practice in what is included in service cost. For example, some companies include interest on current year service cost in the service cost component and others include it in the interest cost component. Similarly, some companies include the estimated administrative costs expected to be paid from plan assets in the current period in the measurement and presentation of current service cost, while others reduce the expected return on assets by the plan administration costs expected to be paid from plan assets during the period and reduce the actual return on assets by the plan administrations costs actually incurred (in both cases recognizing the difference between the actual and expected plan administration costs as an actuarial gain or loss). Still others expense the plan administration costs (whether paid from plan assets or by the employer) with other administrative costs incurred by the company. In order to enhance comparability, the Board may wish to clarify the amounts that should or should not be included in the amount presented as the service cost component of net periodic benefit cost.

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We would be happy to discuss our views with you further or answer any questions you may have.

Sincerely yours,



Diana J. Scott, CPA



Michael Pollack, FSA, EA, MAAA, FCA