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April 21, 2016

Financial Accounting Standards Board  
Technical Director  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116

Via Electronic Submission: director@fasb.org, File Reference No. 2016-200

***Re: Proposed Accounting Standards Update – Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost***

Dear Sir/Madam:

Standard & Poor's Ratings Services appreciates the opportunity to provide the Financial Accounting Standards Board (the Board) our comments on its ***Proposed Accounting Standards Update – Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*** (Proposed ASU).

The views expressed in this letter represent those of Standard & Poor's Ratings Services and do not address, nor do we intend them to address, the views of any other affiliate or division of Standard & Poor's Financial Services LLC or of its parent, McGraw Hill Financial, Inc. We intend our comments to address the analytical needs and expectations of our credit analysts.<sup>1</sup>

#### **General**

We commend the Board's efforts to improve the presentation of net periodic pension and postretirement benefit costs. We believe the proposed changes prescribing the presentation, disclosure, and capitalization of these costs will add transparency, consistency, and comparability to financial reporting. Our credit ratings are relative and our approach to financial statement analysis is comparative. The comparability of financial information between companies is critical to facilitating this analysis.

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<sup>1</sup> The opinions stated herein are intended to represent Standard & Poor's Ratings Services' views on potential changes in accounting and financial reporting standards. Our current ratings criteria are not affected by our comments on the Proposed ASU.



**Disaggregation Of Service Cost From Other Net Periodic Costs**

We note that the proposal to treat all of the components of net periodic cost other than service cost separately from service cost and outside a subtotal of income from operations (where presented), is in line with how we arrive at our adjusted EBITDA and EBIT. The period's current service cost is the only component that we keep in operating expenses. It is important to our analysis that the amount of service costs included in the compensation line item(s), (i.e., exclusive of the amount capitalized), be clearly disclosed.

Because the subtotal of income from operations is important to our analysis, we urge the Board to give future consideration to requiring it on all income statements.

**Capitalization Of Only Service Costs**

We also agree with the proposal to allow only the service cost component to be eligible for capitalization, when applicable. It is important to our analysis that the amount of service cost capitalized be clearly disclosed, and that there is consistent treatment by companies.

**Convergence With IFRS**

We also urge the Board to give consideration to convergence of the treatment of the interest and expected return components to the net interest treatment prescribed by International Financial Reporting Standards (IFRS). This would provide increased global comparability between U.S. GAAP reporting companies and those reporting under IFRS.

In the Appendix, we provided more details to your specific questions only where applicable to our credit analysis.

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We thank you for the opportunity to provide our comments, and we would be pleased to discuss our views with members of the Board or your staff. If you have any questions or require additional information, please contact the undersigned.

Very truly yours,

A handwritten signature in black ink that reads "Shripad Joshi".

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Shripad Joshi  
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A handwritten signature in black ink that reads "Leonard A. Grimando".

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## Appendix - Responses To Specific Questions In The Proposed ASU

**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?

Yes. We support the disaggregation of the service cost component and its presentation in the same line item as other compensation costs. This change is in line with the classification we use to arrive at our adjusted EBITDA and EBIT, where the service cost is the only cost that remains as operating expense in our analysis. For the same reason, we support the proposal that service cost be the only component eligible to be capitalized in assets.

**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?

We do not believe it would be useful to include prior service cost or credit on the income statement separately from the other components, because we only see the current-year service cost as having an effect on current year income from operations. We still expect to see the prior service cost or credit, and the other components of net periodic cost, in the pension and postretirement footnote.

We support the presentation of the other components of net benefit cost outside of a subtotal of income from operations, where presented, because this is consistent with how we currently treat these costs under our credit analysis--provided we still see all of the individual components of the net period cost in the pension and postretirement footnote.

**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?

Yes, we believe it would be helpful to require the net amount of interest cost and expected return on plan assets separately from the other components, because we consider the net interest component as a finance charge, and reclassify it to interest expense in our analysis. For increased comparability with companies using IFRS, we ignore the expected return, but then perform our own estimated calculation of net interest expense. This allows us to compare U.S. GAAP companies and IFRS companies using a consistent approach.

We would encourage the Board to consider the convergence of this important difference between U.S. GAAP and IFRS in an effort to increase global comparability.

**Question 4:** Would the proposed amendments improve the usefulness of financial information provided to users? Why or why not?

Yes, we believe the proposed amendments will increase transparency about the location of the components of net periodic cost and the amount of net periodic cost that is capitalized to assets, and thus would be useful to financial statement users.

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

We do not see the need for the proposed amendments to be different for rate-regulated entities, because we apply our pension adjustments similarly for those entities.

**Question 7:**

How much time would be necessary to adopt the proposed amendments? Should early adoption be permitted? Would the amount of time needed to apply the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Why or why not?

Because comparability between entities is an important factor in our credit analysis, we believe all companies should adopt new standards at the same time.

**Question 8:** Should the proposed amendments be applied retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net benefit cost in assets when applicable?

Yes, in some scenarios. Comparability with prior periods is also an important factor in our ratings, so we generally prefer that new standards be applied retrospectively. Given the potential complexity in applying the capitalization proposal retrospectively, we would support prospective treatment where not considered material.

**Question 9:** Should the disclosures of the nature of and reason for the change in accounting principle be required in the first interim and annual reporting periods of adoption? Why or why not?

Yes, pension cost is often a significant component of a company's income statement, so we believe that these disclosures should be required in the first interim and annual reporting periods of adoption.