



April 22, 2016

Sent via e-mail: [director@fasb.org](mailto:director@fasb.org)

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

Re: File Reference No. 2016-200

AT&T Inc. is pleased to respond to the FASB Emerging Issues Task Force consensus exposure draft on the *"Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost."* The proposed standard is of interest to us as a sponsor of pension and postretirement benefits to over one million employees, retirees, beneficiaries, and their dependents.

We agree with the concept of differentiating between the components of net benefit cost as a more useful presentation of financial statements and have been doing such in our segment reporting for several years. We also agree that classification of service cost as a component of operating expense aligns with the concept of compensation cost, while interest cost, expected return on assets, and actuarial gains and losses primarily correspond to the funding of our obligations. We believe, however, that prior service cost is a component of operating expense due to its relationship to compensation cost.

The basis of conclusion states that prior service costs/credits should not be considered part of operating expense because the component:

- Exclusively relates to current period's employee services.
- Arises infrequently.
- Does not prove useful in analyses of an entity's core operating performance.

A prior service cost/credit results from a change in the plan benefits provided to participants and is reflected over the average remaining service period. Had these changes been known at the beginning of the employee's term of employment, they would have been considered in service cost from inception. So prior service cost is effectively a true-up of the service cost estimate. Estimate adjustments are typically recorded on a prospective basis using the same classification as the original estimate.

We believe prior service costs/credits do arise frequently for plans that are still active. We have recorded new prior service costs/credits in seven of the past ten years for our pension plan and all of the past ten years for our other postretirement benefit plans. This demonstrates our active efforts to manage the balance between the costs of such plans and the benefit they provide as a component of the total compensation package used to attract and retain employees. We believe you will find similar results for other companies with open and active benefit plans.

Because the management of employees' total compensation is a key consideration for management and our investors, we include service and prior service cost in segment operating results and believe it to be useful to understanding our operating performance.

Following our belief that prior service costs/credits should be a component of operating costs, we also believe that it should be eligible for capitalization consistent with recommendation on the other component of service cost. We agree that the other components of pension and postretirement cost including actuarial gains and losses should not be eligible for capitalization as these components do not represent direct costs to construct or obtain an asset.

Finally, because the components are already calculated separately, we do not believe an extensive amount of time would be necessary to implement the standard. As long as this standard is issued prior to the end of the third quarter, we believe most companies will be able to implement it in 2017. If the adoption date is later than that, we recommend that early adoption be allowed so companies that are in position to adopt in 2017 can do so to provide better information to their investors.

We appreciate the opportunity to comment on the proposed changes. If you have any questions concerning our comments, please contact James Lacy (214) 757-4693.

Respectfully,

A handwritten signature in cursive script that reads "Debbie Dial".

Debbie Dial  
Senior Vice-President & Controller