Williams

TED TIMMERMANS
Vice President Controller and
Chief Accounting Officer
918/573-3437
918/573-4054 fax
ted.timmermans@williams.com

One Williams Center
P.O. Box 2400
Tulsa, OK 74102-2400
918/573-2000

April 25, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
Electronic Address: director@fasb.org

RE: File Reference No. 2016-200, Proposed Accounting Standards Update, Compensation – Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

The Williams Companies, Inc. (Williams) appreciates the opportunity to provide our comments to the Financial Accounting Standards Board (Board) on the proposed changes to the presentation of net periodic benefit cost. Williams is a public company which, through its subsidiaries, gathers, processes and transports natural gas.

While we acknowledge the Board's continuing efforts to improve the accounting related to defined benefit postretirement plans (pensions and other postretirement benefits), we have concerns about these particular proposed revisions to current accounting guidance.

Income Statement

While the six components comprising net periodic benefit cost may represent different attributes, all the components comprise the total cost of the obligation to provide employees a postretirement benefit. As such, we are not supportive of the proposal to report the service cost component of net periodic benefit cost separate from the other components. We believe the six components should continue to be aggregated and reported as a single cost as an element of other compensation costs and therefore continue to be a component of operating income.

Additionally, we mention several other considerations; i) footnote disclosure of the components of net periodic benefit cost provides transparency without the need for separate reporting in the statement of income, ii) prior service cost or credit, net gain or loss, and net transition asset or obligation components proposed to be aggregated and reported outside of operating income may embody elements of service cost, albeit prior costs, iii) current accounting allowing a "smoothing" of the volatility in net periodic benefit cost does not lend itself to a meaningful separation of the components as several of the components are not discrete items per se, and iv) presentation on the balance sheet of a plan's funded status (plan assets and benefit obligation) would continue to be a net reporting, which seems inconsistent with the proposed separation in the statement of income. Also, as a basis for their conclusion, the Board notes that the components have key differences. For example, return on plan assets and interest cost components are in substance financial items rather than employee compensation costs. We point out several examples in current accounting where amounts that represent financial items are not separately reported outside of operating income. Among other examples, accretion cost on the discounted obligation for asset retirements and, under pending new lease accounting guidance, accretion on the discounted lease liability for operating leases.

Capitalization

We disagree with limiting only the service cost component to be eligible for capitalization in assets. We believe all the components comprising net periodic benefit cost should be eligible for capitalization, continuing with current practice. While U.S. GAAP does not necessarily include specific guidance on capitalization policies for facilities constructed for an entity's own use, ASC 360-10-30-1 states in part; "the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use." As discussed above, all the components of net periodic benefit cost comprise the total cost of the obligation to provide employees a postretirement benefit. Therefore, in capitalizing employee compensation and benefit costs in the historical cost of a constructed asset, we believe all the components of net periodic benefit cost should be included to properly capture the entire cost of readying the asset for its intended use.

For Williams, the proposed accounting could have unintended financial and economic impacts. In particular, Williams has certain contracts in place involving the construction of assets (as the service provider) that allow for the recovery and related return on invested capital. Invested capital is defined to include costs of constructing associated assets utilized in the service agreement and appropriately incorporate costs of labor associated with preparing the asset for its intended use. Thus, reducing the scope of costs eligible for capitalization would result in reduced revenues and cash flows. These contracts would have to be renegotiated as a result of the proposal if we are to retain the economic benefits intended when the agreements were originally executed. In our regulated gas pipeline business, subject to regulation by the Federal Energy Regulatory Commission (FERC), accounting rules of the FERC would allow us to continue to include these costs in rate base. The proposal would create additional compliance effort and incremental cost to maintain accounting records for the difference now created between U.S. GAAP and FERC accounting rules. This situation is not unique to Williams, but rather common in industries wherein returns are regulated by government entities.

Implementation

We also question whether the value associated with the requirement to retrospectively apply the presentation of the service cost component and other components of net periodic benefit costs in the income statement outweighs the cost. As a large, public company with diverse operations, we utilize allocation processes to distribute certain costs, such as those associated with enterprise-wide functions and corporate oversight, to appropriately reflect the results of our individual businesses and capture allowable costs recoverable in rates for our regulated gas pipeline operations. These allocated costs, which include net periodic benefit costs, are not always separately identifiable by individual components following the allocation process. As such, we believe compliance with the retrospective presentation requirements would require re-performing our allocation processes for all periods affected, the burden of which would be significant.

We appreciate the opportunity to comment on these matters and would be happy to provide any additional information you may require or discuss our comments further.

Sincerely,

Ted Timmermans
Vice President, Controller and Chief Accounting Officer
The Williams Companies, Inc.