



**Deloitte & Touche LLP**  
695 East Main Street  
Stamford, CT 06901-2141

Tel: +1 203 708 4000  
Fax: +1 203 708 4797  
[www.deloitte.com](http://www.deloitte.com)

April 25, 2016

Ms. Susan M. Cospers  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**File Reference No. 2016-200**

**Re: Proposed Accounting Standards Update, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*.

We support the FASB's objective of making improvements to the presentation of net periodic pension cost and net periodic postretirement benefit cost in the financial statements. However, as discussed in the appendix below, we believe that the Board should reconsider many aspects of the proposed amendments before issuing final guidance.

The appendix of this letter contains our responses to the proposed ASU's questions for respondents as well as additional matters of importance for the Board's consideration.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions about our comment letter, please feel free to contact Curt Weller at (415) 783-4995 or Karen Wiltsie at (203) 761-3607.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Questions for Respondents**

*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?*

While we support the FASB's efforts to improve aspects of U.S. GAAP, we suggest that the Board reconsider the proposed approach to presentation of the components of net benefit cost.

Stated objectives of the proposed amendments are to improve transparency of net periodic benefit cost and to provide financial statement users with additional disaggregated information. We believe that the disclosures required under current U.S. GAAP already accomplish those objectives. Although the components of net benefit cost have different characteristics, in the aggregate they reflect the total cost of delivering the promised compensation benefits to plan participants.

Further, we believe that the Board should consider deferring completion of a project related to changes to presentation under ASC 715<sup>1</sup> until it completes work on its broader research project on financial performance reporting. Below are some additional specific considerations related to separating the service cost component from the other components of net benefit cost.

**Amortization of Prior Service Cost/Credit**

We believe that amortization of prior service cost or credit should be treated similarly to current service cost and should therefore be presented together with the current service cost component. The amortization of prior service cost or credit component arises from plan amendments, and these increases or decreases in benefits are granted as part of an exchange with employees for their services. The rationale for the current standard's requirements related to deferred recognition of prior service cost is explained in paragraph 159 of the Basis for Conclusions of Statement 87,<sup>2</sup> which states, in part:

Most respondents agreed with the rationale in Preliminary Views and the Exposure Draft that a plan initiation or amendment is invariably made with a view to benefiting the employer's operations in future periods rather than in the past or only in the period of the change. The Board believes that a future economic benefit exists, that the cost of acquiring that benefit can be determined, and that amortization of that cost over future periods is consistent with accounting practice in other areas. ...The Board concluded that the increase in the projected benefit obligation resulting from a plan change should be recognized as a component of net periodic pension cost over a number of future periods as the anticipated benefit to the employer is expected to be realized.

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<sup>1</sup> FASB Accounting Standards Codification Topic 715, *Compensation — Retirement Benefits*.

<sup>2</sup> FASB Statement No. 87, *Employers' Accounting for Pensions* (superseded).

Further, as noted in paragraphs 287 and 326 of the Basis for Conclusions of Statement 106,<sup>3</sup> the Board reached a similar conclusion in its deliberations of that standard. We therefore believe that conceptually there is no underlying difference in principle between current service cost and prior service cost or credit components, and that both are compensation for employees as they perform services for the employer. Accordingly, segregating *only* the service cost component does not adequately represent the full cost of compensation benefits to which employees are entitled in exchange for services provided.

### **Interest Cost and Expected Return on Plan Assets**

We believe that requiring presentation of the interest cost component of net benefit cost outside of operating income will create an inconsistency with other requirements of U.S. GAAP, including the presentation requirements of interest accretion expense related to asset retirement obligations (AROs) under ASC 410.<sup>4</sup>

The nature of the interest cost component of net benefit cost could be viewed as analogous to the interest cost accretion of an ARO liability. That is, from an accounting perspective, the accretion of a discounted future liability to its estimated future settlement amount is similar in substance to the interest cost component of net benefit cost. Under ASC 410-20, the accretion of expenses related to AROs are classified as an operating item in the statement of income. Specifically, ASC 410-20-45-1 states:

Accretion expense shall be classified as an operating item in the statement of income. An entity may use any descriptor for accretion expense so long as it conveys the underlying nature of the expense.

We note that in paragraph 57 of the Basis for Conclusions of Statement 143<sup>5</sup> the Board described concerns that influenced its final view that accretion should be classified in the operating portion of the income statement.

Furthermore, ASC 835<sup>6</sup> requires entities to capitalize interest costs for self-constructed fixed assets and other similar assets and to include those costs in operating income through depreciation or amortization expense in subsequent periods.

We also believe that entities should present the expected return on plan assets component in a manner similar to their presentation of the interest cost component given the view that under ASC 715, the balance sheet presentation of the obligation is the net funded status.

### **Gains and Losses**

We acknowledge that the Board indicated in paragraph BC6 of the Basis for Conclusions of the proposed ASU that an increasing number of entities have elected to immediately recognize in the income statement all gains and losses from the remeasurement of plan assets and defined benefit obligations. However, we believe that the overall number of reporting entities using this method

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<sup>3</sup> FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions* (superseded).

<sup>4</sup> FASB Accounting Standards Codification Topic 410, *Asset Retirement and Environmental Obligations*.

<sup>5</sup> FASB Statement No. 143, *Accounting for Asset Retirement Obligations* (superseded).

<sup>6</sup> FASB Accounting Standards Codification Topic 835, *Interest*.

is limited.<sup>7</sup> Accordingly, if the Board's proposed amendments are aimed at addressing those entities' concerns, the population served by such changes would presumably be narrow.

In addition, many components of gains and losses are related to actual or expected changes in the costs of the benefits that have been or will be provided to participants, such as gains or losses due to turnover, mortality, and health care cost trends. Although such amounts reflect changes from estimates made in prior periods, accounting for them outside of operating income seems inappropriate.

### **Capitalization of Net Benefit Cost**

We support the Board's effort to improve the comparability of the affected financial reporting measures between entities. However, we believe that either (1) reporting entities should have the flexibility to adapt the capitalization of such costs to their manner of conducting business with their customers or (2) the Board should consider granting exceptions allowing entities in certain industries<sup>8</sup> to continue to capitalize the components of net benefit cost consistently with their recovery of such costs from their customers. See our additional comments below regarding potentially significant increased costs to implement the proposed amendments for companies in certain industries.

*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?*

As we stated in our response to Question 1, we believe that if the Board chooses to proceed with the proposed amendments, it should consider requiring the amortization of prior service cost or credit to be presented together with the current service cost component.

For the reasons cited in our response to Question 1 related to inconsistencies with other areas of U.S. GAAP that could result from the presentation of the interest cost component outside of operating income, we believe that the Board should reconsider the nonoperating income treatment of all of the components of net benefit cost other than 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?*

We note that under IFRSs, IAS 19<sup>9</sup> does not prescribe the requirements for presentation of components of net benefit cost that are recognized in profit or loss; instead, such presentation is an accounting policy choice. Paragraph 134 of IAS 19 states the following:

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<sup>7</sup> Approximately 45 public reporting entities have made such a change in the past six years, and of those entities, approximately 8 limit immediate recognition to gains and losses that exceed the corridor.

<sup>8</sup> Such as rate-regulated entities and government contractors.

<sup>9</sup> IAS 19 (Revised 2011), *Employee Benefits*.

Paragraph 120 requires an entity to recognise service cost and net interest on the net defined benefit liability (asset) in profit or loss. This Standard does not specify how an entity should present service cost and net interest on the net defined benefit liability (asset). An entity presents those components in accordance with IAS 1.

Accordingly, we believe that the proposed amendments do not necessarily align with those under IAS 19 or increase convergence with IFRSs. They would, instead, establish a presentation requirement under U.S. GAAP that is not required under IFRSs. Similarly, we believe that the proposed amendments requiring capitalization of only the service cost component specifically diverge from the IFRS requirements for capitalization under paragraphs 120 and 121 of IAS 19.

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

We believe that the current presentation requirements for net benefit cost, along with the footnote disclosures, already provide sufficient information about the net benefit cost components for financial statement users. Further, we believe that the Board should consider the broader defined benefit financial reporting model of ASC 715 to evaluate the merits of making improvements to measurement and recognition guidance before amending the presentation requirements.

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

We believe that the Board should consider adding guidance to ASC 980<sup>10</sup> that would provide an exception to the proposed ASU's requirements and permit a rate-regulated entity's treatment of net benefit cost to be similar to its accounting for such cost for regulatory accounting purposes. While a regulated entity would recognize a separate regulatory asset for any costs that would otherwise be immediately expensed for U.S. GAAP reporting purposes but are expected to be recovered through cost-based rate-making in future periods, the entity would be required to perform significant detailed recordkeeping to amortize the appropriate amount of such a regulatory asset in the periods those costs are included in net income for regulatory reporting purposes, such as when plant assets are depreciated.

*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?*

We defer to the preparers' views on the anticipated costs of adopting the guidance in the proposed amendments.

However, under the proposed ASU, rate-regulated entities that apply ASC 980 may incur incremental cost because they will have to separately identify and track the current service cost

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<sup>10</sup> FASB Accounting Standards Codification Topic 980, *Regulated Operations*.

and the other components of net benefit cost. That is, such rate-regulated entities would most likely capitalize all components of net benefit cost within plant assets in their regulatory accounting. However, for U.S. GAAP reporting purposes, they would only be allowed under the proposal to capitalize the current service cost component in property, plant, and equipment and would need to recognize a regulatory asset in accordance with ASC 980-340 for the remaining components. Thus, they would be required to keep and maintain two sets of accounting records, which may be costly and burdensome. We believe that similar challenges may exist for entities that deal with contract accounting under Cost Accounting Standards Board regulations. As noted in our response to Question 1, we disagree with the proposal to require all entities to capitalize only service cost, and we suggest that before placing an additional burden on entities in these circumstances, the Board specifically inquire of users of financial statements about the need for this change.

***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?*

While we defer to preparers' views on the time needed to implement the guidance in the proposed ASU, we do not believe that a long transition period would be needed in most instances. However, as indicated above, there may be entities (such as rate-regulated entities) that need additional time to adjust their systems for the proposed cost capitalization changes.

We also believe that the effective date of the final guidance should be delayed for nonpublic business entities, as needed, by up to one year to give such entities time to comply with the additional requirements. All entities should be allowed to early adopt the guidance.

***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. We believe that the proposed amendments should be applied (1) retrospectively for the presentation of the service cost component and other components of net benefit cost in the income statement and (2) prospectively for the amendments related to the capitalization of the service cost component of net benefit cost in assets. However, we believe that the Board should further clarify the transition guidance on retrospective application for the presentation of the service cost component (i.e., after adoption of the proposed amendments, what portion of the net benefit cost capitalized in prior periods that is recognized in net income should stay in operating income through, for example, cost of sales or depreciation).

***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. We believe that an entity should be required to provide disclosures of the nature of and reason for the change in accounting principle in the first interim and annual reporting periods of adoption since entities may choose to early adopt the amendments, and changes as a result of the proposed ASU's guidance would affect comparability in the financial statements.

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