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April 25, 2016

Via email to director@fasb.org

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

Re: Compensation – Retirement Benefits – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (File Reference No. 2016-200)

Dear Ms. Cosper:

We are pleased to provide comments to the Board's proposal to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost. We support the Board's objective of improving the decision usefulness of information reported about the costs of pension and postretirement benefit plans.

We believe that in order to truly improve the accounting for pension and postretirement benefit plans, measurement must be addressed in addition to presentation and disclosure. Specifically, we recommend that the Board consider eliminating the corridor method for accounting for changes in actuarial assumptions and actual return on plan assets that are different than expected. While we certainly understand the rationale for the use of the corridor method when the guidance in Statement of Financial Accounting Standards (SFAS) No. 87 and SFAS No. 106 were initially issued in 1985 and 1990, respectively, the use of fair value and current recognition of changes in assumptions has expanded significantly since that time. Most recently, the Board issued Accounting Standards Update 2016-09, which simplified the accounting for stock-based compensation through elimination of the APIC pool and recognition of excess tax benefits and losses in net income in the period in which the tax deduction arises. We believe the accounting for pension and postretirement benefit plans could likewise be improved and simplified by eliminating the corridor method. While this change would increase volatility in earnings, it would greatly simplify the accounting process, and we believe it would improve the decision usefulness of reported information by eliminating the collection of gains and losses resulting from the remeasurement of plan assets and defined benefit obligations in accumulated other comprehensive income.

If the Board does not agree that full recognition of changes in actuarial and plan return assumptions in the period of measurement is appropriate, we recommend consideration of alternative approaches that would result in more decision-useful information, such as shortening the amortization period to result in expedited recognition of those changes.

Regardless of the Board's decisions related to readdressing measurement, we believe certain clarifications will be necessary in the final amendments related to the proposed changes concerning presentation. We believe certain changes would enhance and simplify the guidance for pension and postretirement benefits, as elaborated in the Appendix to this letter.

We would be pleased to discuss our comments with the FASB staff. Please direct questions to Angela Newell at (214) 689-5669 or Liza Prossnitz at (312) 233-1818.

Very truly yours,

BDO USA, LLP

BDO USA, LLP

Appendix

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?

Because the components of net benefit cost are already disaggregated and reported in the footnotes to the financial statements, we do not believe that separately reporting the service cost component will improve the decision usefulness of the information available to financial statement users. In addition, we recommend considering the potential impacts this change might have on other areas of accounting where interest and time value elements are combined with other elements and reported as one amount. While the Board noted in BC7 that disaggregation would improve consistency with the reporting practice for many other parts of an entity's operations, other areas will continue to aggregate disparate components. For example, changes in the values of derivatives and changes in the value of contingent consideration in business combinations both combine an interest component with other components that result in a single element of income or expense. Without a strong rationale articulated in the basis for conclusions about why bifurcation of the various components of net periodic pension cost and net periodic postretirement benefit cost provide more decision-useful information, preparers may inappropriately analogize to this guidance in other areas in which the literature is silent. Assuming the Board would not welcome such an analogy, we recommend that the Board articulate the concept underpinning bifurcation in this situation, and why it does not impact other areas of accounting.

Although we do not agree that separate presentation of service cost improves financial reporting, we would not object to reporting components of net benefit cost as compensation expense within operating income and components related to interest expense and investment returns outside of operating income. However, we note that the service cost component is not the only component of net periodic benefit pension cost and net periodic postretirement benefit cost that relate to compensation. Specifically, we believe that the proposals would be enhanced by including the prior service cost or credit component with service cost in operating income. We note the Board's comments in BC8 that this component is not exclusively related to the current period's employee services and is not expected to arise frequently in the future. However, generally accepted accounting principles often require recognition of costs within operating income that may not relate solely to the current period nor are expected to recur in the future. Impairment losses are one such example. We do not believe that the fact that prior service cost does not exclusively relate to the current period and is not expected to arise frequently in the future outweighs the concept that costs associated with compensation should be accounted for in a like manner.

We agree that the items reported in operating income should be the only components eligible to be capitalized in assets. We agree that the interest cost component reflects an accounting convention resulting from the requirement to present pension and postretirement benefit liabilities on a discounted basis, rather than a borrowing cost incurred for the qualifying asset.

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 noted above, we believe that prior service cost should be reported within income from operations with service cost. We agree that the other components of net benefit cost should be presented outside a subtotal of income from operations. We agree that the other components primarily represent financing activities, which are historically presented below operating income.

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 do not believe that separate presentation of the interest cost component and expected return on plan assets separately from the other components of net benefit cost would provide a significant benefit to users of the financial statements. While we would not object to separate presentation with the goal of improving convergence with IFRS, we would object to a requirement to present the interest cost component in a single financial statement caption with other interest expense. As noted above, we do not believe that the interest cost component represents a borrowing cost, and thus should not be reported with interest expense related to borrowing.

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

As noted above in response to question 1, we do not agree that the proposed amendments improve the usefulness of financial information provided to users, primarily because the proposed amendments do not provide incremental information beyond what is already available to a user in the footnotes to the financial statements.

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

We do not believe that the proposed amendments should be different for rate-regulated entities. In many cases, existing accounting requirements for net periodic pension cost and net periodic postretirement benefit cost are already different than the methods required by regulatory bodies for rate-making and other purposes. In those instances, the rate-regulated entities account for the difference through the recognition of a regulatory asset or liability. We believe that any additional differences caused by the proposed amendments would be treated in the same manner.

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 do not believe that the proposed amendments would result in significant incremental costs.

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?

Given the limited amount of incremental information required by the proposed amendments, and the limited cost of complying as noted above in response to question 6, we believe that the amount of time needed for public entities to implement the proposed amendments should be minimal. In addition, because almost all companies with significant pension and postretirement benefit plans already engage the services of actuaries in order to comply with the existing accounting and disclosure requirements, we do not believe that nonpublic entities will require incremental time to implement the proposed amendments, although we would not object to an additional year being provided. We agree that early adoption should be permitted for both public and nonpublic entities.

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?

We agree with the proposed transition guidance.

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?

We agree with the proposed disclosure.