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

April 25, 2016

RE: File Reference No. 2016-200

Dear Ms. Cosper,

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the FASB's Proposed Accounting Standards Update, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (the "ED").

We acknowledge the Board's overall objective to improve the reporting of net benefit cost in the financial statements for both for-profit and not-for-profit entities, and we appreciate the Board's attempt to address feedback from users to improve transparency in the presentation of net benefit cost. However, we believe the proposed amendment to require the presentation of service cost separately from the remaining components of net benefit cost is inconsistent with the underlying accounting model for pension and postretirement benefit obligations. We also believe this could result in a more confusing income statement presentation by isolating certain components of net benefit cost and introducing one or more additional line items for others. It would also establish a distinction between operating and non-operating expenses that exceed those required by other accounting standards. While we acknowledge the lack of explicit GAAP on this subject, we believe such distinctions are better addressed in the Board's broader project on financial statement presentation.

We agree with the Board's observation that the different elements of defined benefit cost have different implications to users in terms of predictive value. However, the single, aggregated presentation of the net overall cost of the benefit arrangement is fundamental to the underlying premise of pension accounting: that pensions are an element of employee compensation and maintaining plan assets in a trust exclusively for the payment of pension benefits simply adjusts an employer's total net cost of providing those benefits. That single unit of account notion is applied consistently throughout the balance sheet and income statement presentation model. Furthermore, the individual components of net benefit cost are readily available to users through existing disclosure requirements.

For these reasons, we are not supportive of changing the current presentation requirements for the costs of postretirement benefits at this time. If the Board believes changes in presentation should be made, we believe the Board should reconsider the underlying accounting model as well, to ensure consistency pwc

between recognition, measurement and presentation. However, recognizing the other priorities on the Board's current and forward agenda and the resources and time that might be required to undertake such a project, we recommend the Board not take up such a project in the near term.

With respect to the proposal that only the service cost component of net periodic benefit cost should be eligible for capitalization, we could understand that approach, particularly where a large proportion of plan participants are inactive or where the immediate recognition of remeasurement gains and losses introduces significant forward-looking financial impacts not reflective of the value of current employee service. However, for the same reasons described above that all components of net benefit cost derive from the single plan unit of account, we believe proscribing capitalization of the other elements of net periodic benefit cost is not appropriate. On balance, given the relatively broad principles-based cost capitalization guidance in ASC 330, *Inventory*, ASC 350-40, *Internal use software*, and ASC 360, *Property, Plant and Equipment*, we would be supportive of providing entities an accounting policy election to capitalize only the service cost component of net periodic benefit cost.

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Appendix 1 to this letter contains our responses to the Questions for Respondents in the ED, which includes additional observations and expands on our comments above. Appendix 2 includes other recommendations we have on areas not specifically addressed in the Questions for Respondents. If you have any questions, please contact Patrick Durbin at (973) 236-5152 or Jay Seliber at (973) 236-7277.
Sincerely,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Appendix 1

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?

Net periodic pension and postretirement benefit cost is defined in ASC 715 as the amount recognized in an employer's financial statements as the cost of a benefit plan for a period. Presenting the service cost component separately from the other components of net benefit cost would represent a fundamental shift in the pension and postretirement benefit accounting model. A key element of that model is the notion that the unit of account is the benefit plan, including plan assets. Thus, a single net obligation (or asset) is presented in the statement of financial position, and a single aggregate amount for defined benefit cost is determined and either capitalized in the cost of assets produced during a period or reported as a period cost. That single unit of account model is premised on the notion that, ultimately, all of the components of net benefit cost reflect the economic cost of the postretirement benefits that an entity has promised to provide its employees under the benefit plan.

While we acknowledge the complexity of the current pension accounting model, and that many of the deferral and smoothing elections available in that model likely reflect the fact that the model was developed in a different era in financial reporting, it is internally consistent and faithful to the single unit of account principle throughout. We are concerned that this perceived minor change in presentation would actually create more complexity because it departs from what is already a tenuous model from a conceptual standpoint. If prior service cost is an adjustment to the benefits for service already rendered, why shouldn't that adjustment be reflected in a manner similar to the annual estimated cost of those benefits? And current and prior service both depend on actuarial (demographic, experience, mortality) and interest rate assumptions which, when updated, give rise to gains and losses. Why shouldn't those adjustments to the original cost estimates be reported in the same manner? While one might make an argument that the asset return component of net periodic benefit cost, and asset-related gains and losses, might warrant separate treatment, that again is inconsistent with the single unit of account premise. Therefore, we believe that this proposed change should only be contemplated in the context of a project to reconsider the postretirement benefit accounting model in its entirety.

We also note that this change in presentation would create inconsistencies with other accounting literature. For example, in the recently released *Leases* standard, the balance sheet is presented on a gross basis (recognizing both a right of use asset and a lease liability for virtually all leases) but, for operating leases, the income statement is presented on a net basis. This is the opposite of the approach proposed for net periodic benefit cost—i.e., retaining a net balance sheet presentation and breaking out the presentation of the components of net benefit cost on the income statement. In addition, as described more fully in our response to Question 3, we also believe this change in presentation would create inconsistencies with the treatment of interest cost associated with asset retirement obligations and property, plant, and equipment.

As described further in our response to Question 2, if the Board moves forward with the proposed changes to income statement presentation, we believe that amounts recognized for prior service cost, which also relate to operations, should be combined with service cost, and presented as an operating cost. Prior service cost relates to a change in the benefits provided to participants (previously recognized in service cost) and, notwithstanding the deferral mechanism for recognition over time, does relate to the value of benefits provided for services rendered. In addition, curtailment gains or losses often also include the acceleration of prior service cost, which should also be considered from a classification perspective.

We can understand a view that includes service cost as the only component eligible for capitalization in the cost of assets. Even if service cost is not presented separately in the income statement, we believe that a reasonable interpretation of the cost capitalization guidance in ASC 330 and ASC 360 could nonetheless be limited to the service cost component of net benefit cost. Asset capitalization guidance is not explicit as to the types of costs to include; the principle is the expenditures and charges incurred in bringing an article to its existing condition and location through current production (ASC 330-10-30-1) or the costs incurred to bring an asset to the condition and location necessary for its intended use (ASC 360-10-30-1). Other guidance, such as for internal-use software, refers only to payroll-related costs (such as employee benefits) for employees who are directly associated with a project (ASC 350-40-30-1(b)). The focus is on the costs incurred for current service associated with the production of assets, which is consistent with the definition of the service cost component of net benefit cost in ASC 715. However, for the same reasons described above regarding viewing all components of net benefit cost as a single aggregate employee benefit cost, we do not believe that capitalizing only service cost should be mandated, but we would be supportive of providing entities a policy choice on this matter.

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?

If the Board moves forward with the proposal, we do not believe that prior service cost should be presented separately from the service cost component, nor should it be presented as its own line item outside of operations. As defined in ASC 715, prior service cost is the cost of retroactive benefits granted in a plan amendment attributed by the benefit formula to employee services rendered in periods before the amendment. Although the ASC 715 model defers the recognition of prior service cost (or negative prior service cost) over an extended period that does not align with the service period required to earn the additional benefit, we believe that the nature of service cost and prior service cost are fundamentally the same because both components are directly attributable to the value of employee services rendered.

We are not supportive of requiring an explicit presentation for 'all other components' of net periodic benefit cost "outside of income from operations" because (1) the benefit plan is a single unit of account and (2) no comprehensive framework exists in GAAP to distinguish between operating and non-operating expenses. We would acknowledge that, qualitatively, the return on plan assets component is different from the other elements of net periodic benefit cost as it may be viewed as an investment decision by the entity as to how to fund the payment of benefits rather than a direct cost of the benefit arrangement. In that regard, we could see an argument to consider presenting that element outside of operations, but the other elements of net benefit cost relate to the ultimate measurement of the obligation owed to participants for their service to the entity. However, for the reasons previously stated in our response to Question 1, we do not believe that separate line items outside of operations for pension cost would be valuable or useful to financial statement users, and we note that this information is already available in the notes to the financial statements.

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?

Consistent with the above, we do not believe that the interest cost component and expected return on plan assets should be presented separately from the other components of net benefit cost outside of operations. If presented separately, this would create multiple line items outside of operating for net benefit cost and we do not believe this would provide valuable or useful information to financial statement users.

Further, we believe the presentation of the interest cost component outside of operations is inconsistent with the treatment of similar cost in other areas of GAAP. Specifically, we noted inconsistencies with the following areas of the literature.

1. ASC 835-20, *Interest*, paragraph 15-2 states that interest cost is capitalizable for all assets that require a period of time to get them ready for their intended use. Therefore, it is inconsistent to view the interest cost component of net benefit cost as a corporate treasury financing decision or obligation but then preclude it from being eligible for capitalization when interest cost is capitalized when constructing assets within the scope of paragraph 15-5 of ASC 825-20.
2. ASC 410-20, *Asset Retirement Obligations*, paragraph 55-18 states that an entity recognizes the effect of the passage of time on the amount of a liability for an asset retirement obligation. This accretion expense is recognized as an operating item in the statement of income. The interest cost component of net benefit cost is defined in ASC 715 as the amount recognized in a period determined as the increase in the projected benefit obligation due to the passage of time. The nature of accretion expense in ASC 410 and interest cost in ASC 715 are the same. Therefore, the presentation of interest cost outside of operations will be inconsistent.
3. ASC 718, *Compensation - Stock Compensation*, as well as ASC 710, *Compensation - General*, state that deferred compensation and stock-based compensation can be long term obligations; however, the interest component is not accounted for separately from the overall cost.

We also believe that such a proposal would not necessarily converge with IFRS because under IAS 19(R), *Employee Benefits*, the net funded position is accreted at a single discount rate to determine net interest cost. This is different than the requirements in ASC 715 to independently calculate interest cost based on a discount rate applied to the projected benefit obligation and the expected return on plan assets based on an expected long-term rate of return applied to the market related value of the plan assets. Therefore, presenting these two items together and suggesting that results in convergence with IFRS could be misleading to users of the financial statements.

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

Based upon our outreach, we do not believe that the proposed amendments to the presentation of the components of net benefit cost would improve the usefulness of financial information provided to users. We recognize that presenting the service cost component separately from the other components of net benefit cost in the income statement may increase consistency for some entities with other areas of financial reporting, including segment reporting and non-GAAP disclosures. However, segment reporting is based on how an entity operates its business and does not need to follow GAAP. The individual components of net benefit cost are already disclosed in the pension footnote as required by ASC 715. Financial statement users currently are able to utilize this information to facilitate their analyses. Therefore, we do not believe changing the presentation improves transparency or provides additional disaggregated information to users, but would result in a more complex presentation by adding additional line items.

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

We understand that rate-regulated entities pay particular attention to the amounts capitalized into the cost of property, plant and equipment, as it impacts the asset base their regulators use to determine rates that can be charged to consumers. However, we generally support consistency of accounting across industries, as opposed to industry-specific exceptions, unless the underlying economics support different accounting results. Providing a policy choice for which components of net benefit cost are eligible for capitalization into the cost of assets, as we recommend in our cover letter and response to Question 1 above, would provide the necessary flexibility for rate-regulated entities to maintain appropriate cost accounting practices.

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 allocate cost from cost pools)? Why or why not?

We suggest that the determination of whether the proposed amendments would be operable without incurring significant incremental costs to entities would be best answered by preparers. We would not anticipate that the proposed guidance would require significant incremental costs. However, we suggest that when considering the time necessary to adopt the amendments, the Board should consider the impact the proposed simplifications may have on software, systems, internal processes and the interaction with actuarial specialists.

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?

We anticipate that the proposed guidance would not require significant time to adopt. We support a one-year delay in the effective date for nonpublic entities, consistent with the issuance of other recent standards.

We believe that early adoption should be permitted.

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?

If the Board adopts the proposed amendments, we agree with the Board's proposed transition plan for retrospective application of the presentation of the components of net benefit cost in the income statement and the prospective application of the capitalization of only the service cost component of net benefit cost into assets. We believe that requiring retrospective application of the capitalization of only the service cost component into assets would make the standard time-consuming and difficult for preparers to implement.

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?

Paragraph 50-1 of ASC 250-10 requires an entity to disclose the nature of and reason for a change in accounting principle in the fiscal period in which the change in accounting principle is made. It also requires a company to disclose the effect of the change on income from continuing operations, net income, any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted as well as the cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented. We believe entities should follow this disclosure guidance rather than including further incremental guidance.

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Appendix 2

In addition to our responses to the Board's specific questions, we have the following observations and recommendations on the application of the proposed ASU to not-for-profit entities:

Consistent with our responses regarding the proposed changes for for-profit entities, we believe not-for-profit entities should not be required to present the service cost component within operations separately from the other components of net benefit cost in the nonoperating section of the statement of activities. Furthermore, the proposed amendments would require a not-for-profit entity to create a new line item separate from the "pension related changes other than net periodic pension cost" line item in non-operating results, and result in the recycling of amounts between line items within the same category as deferred amounts are amortized.

If the Board moves to affirm the proposed amendments, we believe the following should be considered with respect to not-for-profit entities:

- We believe that the Board should not delete the example in ASC 958-715-55-7 because the example is very helpful to preparers. Additionally, we believe the Board should add another example of the presentation when an entity does not present an intermediate measure of operations in the statement of activities.

- In ASC 958-715-45-1 and 45-2 of the ED, the Board should delete the phrase "or performance indicator" from both paragraphs. The glossary in ASC 985-225-20 states that a performance indicator is analogous to income from continuing operations of a for-profit entity. When the ED states "outside an intermediate measure of operations or performance indicator, if one is presented," it is confusing because a healthcare entity would typically have both.