



April 28, 2016

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

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*

Dear Ms. Cospers:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants (IMA) is writing to share its views on the Financial Accounting Standards Board's (FASB) Exposure Draft (ED) of the Proposed Accounting Standards Update – *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (net periodic benefit cost).

The IMA is a global association representing over 80,000 accountants and finance team professionals. Our members work inside organizations of various sizes, industries and types, including manufacturing and services, public and private enterprises, not-for-profit organizations, academic institutions, government entities and multinational corporations. The FRC is the financial reporting technical committee of the IMA. The committee includes preparers of financial statements for some of the largest companies in the world, representatives from the world's largest accounting firms, valuation experts, accounting consultants, academics and analysts. The FRC reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. Additional information on the FRC can be found at www.imanet.org (About IMA, Advocacy Activity, Areas of Advocacy, Financial Reporting Committee).

We acknowledge that the accounting for employers' net periodic benefit cost for retirement benefits and postretirement benefits is not perfect. It reflects the delicate art of compromise. However, the current accounting has endured for over 30 years. Meanwhile, the reality of the eventual costs of defined benefits has resulted in the steady decline of such benefits. Given the reduced importance of such costs in general and the challenges facing preparers, users and auditors, as well as the FASB, in implementing the new revenue recognition, financial instrument impairment and leases standards, the FRC does not support a project to revolutionize the accounting for pension benefits and postretirement benefits.

FRC members have mixed views regarding this ED. Some preparers and users on the committee are supportive of the ED to incrementally improve the reporting of net periodic benefit cost to reflect users' needs. However, other preparers do not support the ED for either conceptual or practical reasons. Conceptually, some members believe that all components of net periodic benefit costs are compensation expense and should be reported consistently with other employee benefit expenses. On the practical side, some members object to the ED because the information users want is already readily available and the



incremental “improvements” for presenting net periodic benefit cost involve difficult and costly changes for limited benefit.

These views and our observation regarding the treatment amortization of prior service cost are discussed below.

Supportive View

The ED’s proposal to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs in operating income while classifying the other components of net periodic benefit cost below operating income is supported by some committee members because it is consistent with adjustments made by some users in their analysis of financial statements. Further, the proposed treatment of net periodic benefit cost is consistent for some companies with management’s treatment for budgeting and compensation purposes as reflected in segment reporting. Based on these FRC members’ experience, it is not uncommon for service cost (and related prior service cost amortization) to be included in segment operating results with the other components of net periodic benefit cost reported as unallocated corporate costs.

Conceptual Objection Views

Some FRC members believe that all components of net periodic benefit cost represent the cost of an employee benefit and should be classified consistently with other compensation expenses. They object to changing the definition of operating income to exclude some components of net periodic benefit cost.

Further, some members object to the ED because they do not support a prescriptive approach to income statement presentation for certain items.

Costs Exceed Limited Benefits View

For many preparers on the FRC, this proposal would require costly changes to systems and processes, including cost accounting applications. Since users are able to get information from current disclosures to make adjustments to their models similar to the ED’s proposals and given the above mentioned general decline in defined benefit retirement and postretirement plans, these FRC members are opposed to the proposal to require specific income statement classification for components of net periodic benefit cost.

Amortization of Prior Service Cost

We believe that the amortization of prior service cost is no different from the service cost component and, therefore, should be treated in the same manner.

Prior service cost under current GAAP is amortized because the attributing plan amendments or modifications are believed to have been made in exchange for future service. The basis for conclusion in Statement of Financial Accounting Standards (SFAS) No. 87 states “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 change.” SFAS No. 87 further states that “The Board concluded that the increase in the projected benefit obligation 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.” Excluding this amortization from compensation expense and operating income ignores the reason prior service cost has been deferred. Accordingly, should the FASB go forward with the proposal, we believe that the amortization of prior service cost should not be separate from current service cost.

We appreciate the opportunity to express our views in this letter and we would be pleased to discuss our comments with the Board or the FASB staff at your convenience.

Sincerely,

A handwritten signature in blue ink that reads "N. Schroeder".

Nancy J. Schroeder, CPA
Chair, Financial Reporting Committee
Institute of Management Accountants
nancy@beaconfinancialconsulting.com