



May 4, 2016

Russell G. Golden
Financial Accounting Standards Board
401 Merritt 7
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Norwalk, CT 06856-5116

**Re: File Reference 2016-200: Proposed ASU Compensation—Retirement Benefits (Topic 715).
Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
and;
File Reference 2016-210: Proposed ASU Compensation—Retirement Benefits—Defined Benefit
Plans—General (Subtopic 715-20). Changes to the Disclosure Requirements for Defined Benefit Plans**

Dear Chairman Golden:

Financial Executives International (FEI) is a leading international organization of more than 10,000 members, including Chief Financial Officers, Controllers, Treasurers, Tax Executives and other senior-level financial executives. The Committee on Corporate Reporting (CCR) is a technical committee of FEI, which reviews and responds to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. The Committee on Benefits Finance (CBF) debates and develops recommendations on existing and proposed legislation and regulations affecting pension and incentive compensation plans, health and disability insurance, unemployment compensation and regulation and other areas. When deemed appropriate, CBF may communicate its positions to government agencies, legislators, industry regulators and standard setters, as well as professional and business organizations. CCR together with CBF represent approximately 5 trillion in market capitalization.

We appreciate the opportunity to provide our views on the proposed Updates 2016-200 and 2016-210.

Until the comprehensive project to evaluate the presentation of the results of operations in a statement of income is complete, we believe that the proposed requirements related to the allocation and presentation of retirement benefits on the face of the income statement are premature.

Our members are split in their support for Update 2016-200. Those opposed to separation in the income statement indicate that such changes would be costly and would not represent an improvement to existing disclosures. In general, our members believe that all meaningful components of retirement costs are readily available and disclosed within the post-retirement footnote for classification and analysis; and therefore, the Exposure Draft provides no significant benefit for the users of the financial statements. Instead of requiring all companies to report service cost apart from the other components of net periodic benefit cost in the income statement, any additional disclosure requirement related to where benefit costs are presented should be limited to a footnote disclosure only. For companies with

frozen defined benefit plans that do not have the service component of retirement costs, the proposed changes in presentation would have little effect.

Additionally, while companies have the ability to calculate, at the front-end of their accounting processes, service costs separately from the other components of net periodic benefit costs, not all companies have the capability to “trace” where costs ultimately appear on the financial statements. In some cases, net periodic benefit costs become part of a broader rate charged out to affiliated entities who can either expense to income, capitalize, charge to inventory, or even further charge to other affiliated entities or third parties some portion of that rate. These members are concerned that the cost of developing new allocation and billing systems, along with the information collection efforts needed to meet the proposed new requirement, may far exceed the perceived benefit and render the proposal not practicable. For large multi-national companies these changes will impact a significant number of retirement plans and the underlying billing process across even larger numbers of cost centers. Finally, our members are not aware of significant demand for disclosure of the retirement costs as proposed. In fact, some members do not recall any such inquiries for this information.

Our members are supportive of Update 2016-210 and the proposal to remove the identified disclosures related to: (1) amount of accumulated benefit obligation for pension plans, (2) aggregate accumulated benefit obligation and aggregate fair value of plan assets for pension plans with accumulated benefit obligations in excess of plan assets, (3) amount and timing of plan assets expected to returned to the entity, (4) information related to the June 2001 amendments to the Japanese Welfare Pension Insurance Law, (5) related party disclosures about the amount of future annual benefits covered by insurance/annuity contracts and significant transactions between the employer or related parties and the plan, (6) amount in accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year. However, members are not supportive of the proposed additional requirements, specifically the description of the nature of the benefits provided, the employee groups covered, and the type of benefit plan formula because the information is across several defined benefit plans with different benefit formulas across multiple countries, and the information becomes overly general and diminishes its usefulness. Members also object to the expansion of the current disclosure requirement for quantitative and qualitative fair value information as this information is viewed as redundant since it is already presented in individual plan asset financial statement disclosures, as acknowledged by the Board in paragraph BC23.

We ask the Board to consider performing a more extensive cost benefit analysis of the proposed changes. Our members question the value / benefit of the changes to users, if any, and indicate that in some instances, changes to cost allocation and billing systems will be costly and disruptive. We also ask that if the Board finalizes the proposed amendments as drafted, that companies be allowed to make a policy election on its adoption.

Below are our responses to the specific questions in the proposed Updates.

Please feel free to contact Lorraine Malonza at (973) 765-1047 if you would like additional information on any of the issues or recommendations in this letter.

Sincerely,
Committee on Corporate Reporting
Financial Executives International

Committee on Benefits Finance
Financial Executives International

Compensation—Retirement Benefits (Topic 715)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

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?

Support for the proposed Update 2016-200 is mixed. Some believe the proposed amendments do not meaningfully improve the available decision-useful information whereas others believe the proposed amendments better align with their current reporting practices that eliminate many benefit plan components from disclosed profit metrics.

Those members in favor of reporting the service cost component in the income statement separate from the other components of the net periodic benefit, in fact already do so in their non-GAAP reporting. These members believe service cost should be reported separately as it is the component of net periodic benefit cost which results from employee services rendered during the current period and is most relevant in assessing an entity's continuing operating costs.

Others believe the proposed amendments do not meaningfully improve the available decision-useful information, especially when an entity has a frozen benefit plan. Such members believe the proposal to bifurcate the components of net periodic benefit costs in the income statement is counter to a fundamental principle associated with accounting for defined benefit plans. A fundamental of defined benefit plan accounting requires that the recognized consequences of events and transactions affecting a benefit plan be reported as a single net amount in the employer's financial statements. This aggregation occurs in both the income statement and the balance sheet by reporting net cost and offsetting liabilities and assets associated with a benefit plan. Those opposed believe the change is an arbitrary selection that alone does little to improve defined benefit plan reporting or streamline financial analysis. Members also note that overhead costs and employee benefits are generally eligible for capitalization, and therefore the individual cost calculation components (e.g., service, interest, return on assets, amortization) of the retirement benefit to employees should not be separated for capitalization purposes.

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?

We do not believe it will be useful to require presentation of the prior service cost or credit component separately from the other components. This information is available in the pension footnote disclosures if necessary to assess an entity's operating performance.

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 it would be useful to present the net amount of interest cost and expected return on plan assets separately from the other components of net periodic benefit cost. This information is available in the pension footnote disclosures if necessary to assess an entity's operating performance.

We also believe the convergence with IFRS should be considered in its entirety rather than considering only this one aspect of retirement benefit accounting.

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

Some companies currently segregate service related cost in the presentation of non-GAAP operating earnings and believe the proposed amendments would be useful. However, for others, the proposed amendments represent a substantial burden and would not be useful. While companies have the ability to calculate, at the front-end of their accounting processes, service costs separately from the other components of net periodic benefit costs, not all companies have the capability to “trace” where costs ultimately appear on the financial statements. In some cases net periodic benefit costs become part of a broader rate charged out to affiliated entities that can expense to income, capitalize, charge to inventory, or even further charge to other affiliated entities or third parties some portion of that rate. These members are concerned that the cost of developing new allocation and billing systems, along with the information collection efforts needed to meet the proposed new requirement, may far exceed the perceived benefit and render the proposal not practicable. For large multi-national companies these changes will impact a large number of retirement plans and billings to even larger numbers of cost centers. Finally, our members are not aware of significant demand for disclosure of the retirement costs as proposed. In fact, some members do not recall any such inquiries for this information.

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

N/A

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?

For those companies that currently segregate service related cost in the presentation of non-GAAP operating earnings the proposed amendments as drafted will not incur significant incremental costs. However, for other companies, the proposed amendments represent a substantial burden. While companies have the ability to calculate, at the front-end of their accounting processes, service costs separately from the other components of net periodic benefit costs, not all companies have the capability to “trace” where costs ultimately appear on the financial statements. In some cases net periodic benefit costs become part of a broader rate charged out to affiliated entities than can either expense to income, capitalize, charge to inventory, or even further charge to other affiliated entities or third parties some portion of that rate. These members are concerned that the cost of developing new allocation and billing systems, along with the information collection efforts needed to meet the proposed new requirement, may far exceed the perceived benefit and render the proposal not practicable. For large multi-national companies these changes will impact a large number of retirement plans and billings to even larger numbers of cost centers.

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?

Since for some companies the proposed changes would require extensive cost allocation, billing and disclosure reporting date collection efforts (see responses to Questions 4 and 6 above), we recommend the effective date of the proposed amendments, should the Board elect to issue a final standard, be no earlier than that of the new revenue standard Accounting Standards Update 2014-09 - *Revenue from Contracts with Customers (Topic 606)* effective for public entities for fiscal years beginning after December 15, 2017. This aligned timing may mitigate the significant challenges that certain companies may face with respect to the proposed requirement that only the service cost component may be capitalized because the amount of inventory recorded could be significantly different upon adoption of the new revenue standard.

However, for companies whose allocation and billing processes are not consistent with the proposed requirements, implementation timing should be sufficiently long to allow for the extensive system changes and for actual allocations and billings to be calculated with those revised systems for the three income statement periods presented at adoption of the proposed requirements. This would allow companies to avoid the burdensome effort and cost of attempting to retroactively identify cost details that were part of the previous billing and accounting process, and would imply an effective date no earlier than fiscal years including interim, periods, beginning after December 15, 2018.

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?

Due to the difficulty in implementing this amendment retrospectively for some companies, we believe that companies should have the option to implement this amendment prospectively or retrospectively (see response to Question 7). The proposed amendment for the capitalization of the service cost component should be applied prospectively, as it may be more difficult to determine the retrospective impact of this change. Our members believe that if the Board were to change the prospective application of the capitalization of service cost to a retrospective approach, this could add significant cost and time to the adoption effort.

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 that these disclosures should be required in the first interim and annual reporting periods of adoption in order to provide users of the financial statements visibility to the changes from the proposed amendments.

Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)
Changes to the Disclosure Requirements for Defined Benefit Plans

Question 1: Would the proposed amendments result in more effective, decision useful information about defined benefit pension and other postretirement plans? If not, please explain why. Would the proposed amendments result in the elimination of decision-useful information about defined benefit pension and other postretirement plans? If yes, please explain why.

We agree with the disclosure eliminations as we feel that they do not provide decision useful information to investors/analysts. However, the proposed amendments would add a considerable amount of additional information to what is already a lengthy, and often-maligned, disclosure.

We believe it is unclear what meaningful benefit the additional disclosure of the nature of the benefits provided, covered employee groups and type of benefit plan formula would provide to the users of the financial statements. Because of the number of plans maintained by multinational organizations, aggregating the information would ultimately be necessary. Aggregated information could become overly general in nature and not provide financial statement users meaningful information as to details regarding the contractual terms of the plan or how the employer's policies impact future cash flows related to the plan. Regarding the additional quantitative and qualitative disclosures from Topic 820, *Fair Value Measurement*, about assets measured at net asset value, we believe the information is not useful to the users of the financial statements, and is redundant with disclosures already provided in the individual pension benefit plan financial statements as acknowledged by the Board in paragraph BC23. The information for these plans can generally be found elsewhere, in Form 5500 filings or in benefit plan financial statements, and it is not certain that readers would find it useful within a 10-K. We likewise do not view the proposed disclosure requirement to disaggregate foreign and domestic plans as value-added.

Recognizing that materiality should be applied, it would be helpful for the FASB to provide an example of the level of detail that would be required for these disclosures.

Question 2: Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?

We believe the proposed disclosure requirements are operable and auditable. However, we do not view the proposed disclosure requirement to disaggregate foreign and domestic plans to add value to the financial statement disclosures and, although auditable, the additional disclosure requirements will result in increased broker and audit fees and time pressure to get required data for year-end reporting within an already short reporting window.

Question 3: Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.

The proposed disclosures would add additional preparation and review time, and costs including addition costs from third parties such as brokers, actuaries and independent public accounting firms. This will result in higher broker and audit fees and impose significant incremental costs.

We believe that, not only does the requirement to disaggregate foreign and domestic plans add little value; the additional disclosure requirements will result in increased audit fees and time pressure to get the required data for year-end reporting in an already short reporting window. In addition, we believe it would consume an extensive amount of time to gather and prepare the information for international pension assets that may not be readily available. This information is contractual in nature and in general can only be obtained through annual surveys and detailed reviews of each individual investment's contracts/agreements that becomes a manual process required to be completed annually for disclosures we feel are redundant in nature. We do not believe the addition of quantitative and qualitative

disclosures about assets measured at NAV, using a practical expedient, will provide decision-useful information to the employer financial statement users and the cost-benefit does not justify the changes.

Question 4: Are there any other disclosures that should be required by Subtopic 715-20 on the basis of the proposed Concepts Statement or for other reasons? Please explain why.

We do not believe there are any other disclosures that should be required.

Question 5: Are there any other disclosure requirements retained following the review of Subtopic 715-20 that should be removed on the basis of the proposed Concepts Statement or for other reasons? Please explain why. To see how the Board applied the decision questions from the proposed Concepts Statement to Subtopic 715-20, see Decision Questions Considered in Establishing Disclosure Requirements on this project's summary page on the FASB's website.

The Board should remove the requirement to disclose the basis used to measure plan assets at fair value (Levels 1, 2 and 3), from the pension footnote, as it is of nominal value to users of the financial statements. Plan assets are not owned by the company and are only one component used to determine a plan's funded status, which is the measure that is recorded on the company's balance sheet.

If the Board concludes this is still useful and necessary we ask that consideration be given to at least align with ASU 2015-12. The characteristics of the plan assets are the same, so it is not clear why the aggregation needs to be based on risks at the sponsor level. The higher level of detail for the sponsor also creates confusion when comparing to the actual Plan financial statements.

Question 6: How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by nonpublic entities be different from the amount of time needed by public entities? Should early adoption be permitted? If yes to either question, please explain why.

Should the Board elect to go forward with the proposal, we recommend that the Board provide a minimum of one year for entities to adopt the provisions of the proposed standard. This would allow entities appropriate time to work with service providers to develop the necessary information, especially since the proposal requires retroactive adoption. Early adoption should be permitted.