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

Re: File Reference No. 1025-300, Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106, and 132(R)*

Dear Director:

The American Bankers Association (ABA) appreciates the opportunity to submit comments on the Financial Accounting Standards Board's (FASB) Proposed Statement of Financial Accounting Standards, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (the proposal). The ABA brings together all categories of banking institutions to best represent the interests of the rapidly changing industry. Its membership – which includes community, regional, and money center banks and holding companies, as well as savings associations, trust companies and savings banks – makes the ABA the largest banking trade organization in the country.

Summary of ABA's Position

The ABA has the following concerns about the proposal: 1) the elimination of the 90-day measurement date window will place unnecessary burdens on and increase costs to preparers, 2) the projected benefit obligation (PBO) is an inappropriate factor to use in determining the funding status of a company's defined benefit pension plan for presentation on the balance sheet, 3) a one-time charge for the full amount of deferred gains and losses at transition does not accurately reflect the actual performance of the assets, and 4) upon adoption, the proposal is expected to reduce regulatory capital for many financial institutions.

Measurement Date

Currently, the 90-day window for measuring pension assets and obligations allows companies to schedule their postretirement valuation work as appropriate for the resources available for preparing the information. This window allows pension companies and actuaries, charged with providing the necessary assumptions, the ability to provide their limited resources to their client companies at a reasonable cost. We anticipate that the proposed elimination of the 90-day window will result in a significant staffing burden on actuaries and increased costs to preparers.

The elimination of the 90-day window may also have an impact on the timing of earnings releases. Markets expect rapid publication of earnings reports, and this change may prohibit the timely delivery of these reports for companies with postretirement benefit and defined benefit pensions plans. There is the potential for market backlash directed at companies that cannot deliver their earnings reports due to their sponsorship of these types of plans – simply because of an accounting delay.

Another widespread impact of eliminating the window is the problems it would cause trust companies that provide reports to trust customers on their plans' assets. Generally, trust companies do not balance and generate reports until the second or third week of each month. Therefore, an additional burden would be placed on trust companies in order to meet their customers' needs.

We understand the FASB's desire to require the measurement of all balance sheet items as of the balance sheet date and to eliminate timing discrepancies. However, we are concerned that the costs of obtaining this information could be high with very little corresponding improvement in quality. ABA members have recommended that the 90-day window continue. However, if the FASB believes that the quality of the information will be worth the costs of obtaining it, then we recommend that a more detailed study be done to obtain a better understanding of the practicability – including actuaries' availability and the time required of preparers – and to ensure that the end result is truly worth the cost.

We strongly encourage the FASB to work with the SEC and the banking regulators in order to ensure that preparers can continue to meet the current and future filing deadlines imposed by them.

Measurement of Defined Pension Benefit Obligation

The proposal would require that the over- or under-funded status of a defined benefit pension plan be reported on the balance sheet as an asset or a liability. Although that appears logical, the proposed calculation of that amount does not. The proposal requires the use of the PBO as defined in SFAS 87, *Employers' Accounting for Pensions* (SFAS 87).[1]

The definition of PBO, due to the inclusion of assumptions of future compensation increases, does not fit the definition of a liability according to other guidance issued in FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements, a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)* (CON6). In CON6, paragraph 36 states that "[a] liability has three essential characteristics: (a) it embodies a present duty or responsibility to one or more other entities that entails settlement by probable future transfer or use of assets at a specified or determinable date, on occurrence of a specified event, or on demand, (b) the duty or responsibility obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and (c) the transaction or other event obligating the entity has already happened." The PBO

[1] The PBO is defined as "[t]he actuarial present value as of a date of all benefits attributed by the pension benefit formula to employee service rendered prior to that date. The projected benefit obligation is measured using assumptions as to future compensation levels if the pension benefit formula is based on those future compensation levels (pay-related, final-pay, final-average-pay, or career-average-pay plans)."

definition in SFAS 87 has only the first of these essential characteristics. The second characteristic's absence of discretion requirement is not met by the PBO, since companies have the ability to freeze or convert their defined benefit pension plans, which would effectively exclude any future compensation increases from impacting the calculation of defined benefit pension liabilities. The third essential characteristic is equally inapplicable to the PBO, because the event obligating the increased benefits is the future service itself.

The accumulated benefit obligation (ABO) is a more appropriate measure of the defined benefit pension obligation for the very reasons that the PBO fails the liability criteria of CON6. The ABO is defined in SFAS 87 as "[t]he actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specified date and based on employee service and compensation (if applicable) prior to that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumption about future compensation levels. For plans with flat-benefit or non-pay-related pension benefit formulas, the accumulated benefit obligation and the projected benefit obligation are the same."

We believe that the ABO is a better measure than the PBO.

Transition Adjustment to Other Comprehensive Income

The proposal includes several adjustments to be made on the first financial statements for which the proposal is effective. These transition adjustments unreasonably accelerate recognition of items for which the FASB previously provided deferred recognition through amortization through the "systematic and rational manner" provided in SFAS 87.

It should be noted that the deferred gains and losses consist of two components: (1) gains and losses related to asset returns where actual results differ from expectations, and (2) gains and losses related to actuarial assumptions for estimating the liability. It may be reasonable to report the asset return gains and losses through OCI; however, we believe it is illogical to report the actuarial gains and losses immediately through OCI. Actuaries cannot provide accurate information about these two components.

As these deferred gains and losses have accrued over time, the transition should allow these previously accrued gains and losses to be recognized according to the SFAS 87 method under which they were recognized, not by means of an exaggerated one-time adjustment. Any new gains and losses (subsequent to the effective date) would be recognized in other comprehensive income (OCI).

Regulatory Capital Impact

Financial institutions are required by banking regulators to maintain certain levels of capital and liquidity in order to protect the safety and soundness of the domestic banking system. The effect of the current changes will likely cause downward shifts in many financial institutions' regulatory capital. This downward shift is caused primarily by the one-time transition adjustments referred to above. The proposal does not provide sufficient time for financial institutions to adjust their financial positions to adequately address the capital impact of the changes. In addition, the elimination of the 90-day window severely limits the ability of banks to react to and address downward shifts in regulatory capital caused by changes in the defined benefit pension and postretirement benefit plan assets and liabilities that are not measured until year-end. Pension and postretirement benefit assets can be volatile, because movements are generally based on market conditions. This inability to react to changes within a fiscal year could force banks to hold additional regulatory capital to ensure compliance even in situations in which the capital is not needed. This would result in reduced returns to investors due to the reduced levels of capital available for investment and income production. For these reasons, we ask that the FASB consider extending the effective date for one year so that banks and their regulators can adjust to the new model.

Thank you for your consideration in this matter. Please contact Charlie Gilman (202-663-4986; cgilman@aba.com) or me (202-663-5318; dfisher@aba.com) if you would like to discuss this letter in additional detail.

Sincerely,

Donna J. Fisher

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