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VIA e-mail to director@fasb.org

Ms. Suzanne Q. Bielstein
Director -- Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 06856-5116
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

Dear Ms. Bielstein:

The Food Marketing Institute is pleased to provide comments on behalf of the supermarket and food distribution industry on the implications of the Financial Accounting Standard Board's (FASB's) Proposed Statement of Financial Accounting Standards: Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (File Reference No. 1025-300).

As a matter of background, the Food Marketing Institute (FMI) conducts programs in research, education, industry relations and public affairs on behalf of its 1,500 member companies – food retailers and wholesalers – in the United States and around the world. FMI's U.S. members operate approximately 26,000 retail food stores with a combined annual sales volume of $340 billion – three quarters of all food retail store sales in the United States. FMI's retail membership is composed of large multi-store chains, regional firms and independent supermarkets. Its international membership includes 200 companies from 50 countries.

FMI understands the need for transparent accounting and reporting. Our members appreciate FASB's efforts to improve the value and relevance of financial information reported to the users of financial statements by revisiting the decisions made in SFAS Nos. 87 and 106, from 20 years ago. However, we have significant concerns about the proposed statement of financial accounting standards entitled, Employers' Accounting for Defined Benefit Pension and Other Post Retirement Benefit Plans, which would amend SFAS Nos. 87, 88, 106 and 132(R). As discussed more fully below, we recommend that FASB make the following amendments in its Proposed Statement of Financial Accounting Standards.

A. GENERAL COMMENTS

First, FASB should use the accumulated benefit obligation (ABO)—the present value of benefits earned by the employees as of the valuation date. The ABO is the appropriate measure of the "market value" of the employer's pension liabilities. The proposed projected benefit obligation (PBO) is a numerical construct designed to smooth expense over each participant's career but instead distorts the value so that it inaccurately reflects the employer's liability. The PBO includes amounts that are not yet market liabilities of the company. PBO equals the present value of a "hypothetical benefit" determined by attributing projected retirement benefits, including assumed pay increases between the measurement date and the assumed retirement date, over service to the assumed retirement date. The fact that future growth patterns may vary is not sufficient justification for requiring balance sheet recognition of different amounts for otherwise identical present day liabilities. In this way, FASB's proposed use of the PBO distorts the financial picture and therefore decreases transparency.

Second, FASB should use the vested accumulated postretirement obligation – not the accumulated postretirement benefit obligation (APBO) to measure the balance sheet pension liability for other postretirement benefit (OPRB) plans. The balance sheet liability for OPRB plans should include only benefits to which participants have a legally binding right or that the employer otherwise has a substantive commitment to provide. OPRB plan benefits that can be cancelled and that the employer is not substantively committed to provide do not meet the definition of a liability under Concept Statement 6 and should not be required to be reported on the employer's balance sheet.

Third, FASB should replace the proposed fiscal year-end measurement date with one that occurs prior to fiscal year-end. Pension and other postretirement benefit (OPRB) plan assets and obligations are significantly different from other types of assets or liabilities recognized in financial statements and require additional lead time to measure accurately. The proposed fiscal year-end measurement date does not improve accounting but instead forces the use of additional estimation techniques. It could also increase more reporting errors. A measurement date up to three months prior to fiscal year-end is appropriate because it would allow the use of accurate measured values.

Finally, with respect to implementation, FASB should provide an effective date of at least six months following publication of the final standard because the implementation costs of the proposed standard will be significant. The transition method (retrospective application and the transition to a fiscal year-end measurement date) should be simplified, and expanded. We urge FASB to include straightforward examples to aid in implementation.

B. PROPOSAL WOULD HAVE DISPROPORTIONATE IMPACT ON COOPERATIVE WHOLESALERS AND OTHER BOOK VALUE PRIVATELY HELD COMPANIES

The FASB proposal will impact all companies offering pension and postretirement benefits, but will have a disproportionate impact on the business and financial results of companies whose equity securities are issued and redeemed at book value. So-called "book

value" companies include cooperative food wholesalers and other closely held or family held companies whose equity securities are issued this way. The proposed requirement to report certain financial assets and liabilities (such as, loans and notes receivable; notes payable) at fair value charged to income or equity to the company will be harmful to cooperative wholesalers in our industry. The proposed requirement to report at fair value could create competitive disadvantages pushing potential and existing cooperative members to purchase goods and services from alternate suppliers. It also could impact the perception of financial strength by the vendor community, putting such cooperative wholesalers at a competitive disadvantage in the marketplace.

The proposed standard treats publicly traded companies, with share values that are market based, differently from those based on book value. Publicly traded companies' valuations are primarily driven by their income statement and cash flows, which are not substantially impacted by the proposed standard. The traded value of the shares of book value companies, however, will be immediately impacted by the full amount of the adjustment upon implementation. In other words, they will be forced to immediately recognize this impact on their equity share values. The reduction in share value would negatively impact the value of a cooperative's shareholdings and potentially would create deficiencies in required minimum levels of ownership.

1. Increased Volatility

The proposed standard introduces economic volatility into the share value of book value companies because of the requirement to record the offsetting adjustment to the benefit obligation as a component of shareholders' equity. Even small changes in the discount rate, or a dip or increase in the return on investments held by benefit trusts, can have a significant impact on shareholders' equity. This significant volatility will be the result of factors outside of the sponsoring company's base operations.

It would be difficult to maintain consistent, fair distribution of benefit costs over the different generations of membership in the cooperatives under the proposed standard. A more appropriate treatment of the offset to recording the benefit obligation would be to establish a deferred charge or credit on the balance sheet. This deferred charge or credit could be accounted for in the same way as currently prescribed for intangible pension assets under SFAS No. 87. This would allow changes in prior service costs and actuarial gains or losses to be recognized as components of net periodic pension cost and provide a consistent, fair distribution of costs over multiple generations in a cooperative's membership. Since the liability represents a future benefit obligation, a deferred charge or credit would serve the same purpose as a charge (or credit) to shareholders' equity. Expense would be recognized as a component of net periodic pension cost and ultimately be recognized in equity.

Due to the volatility inherent in adjusting benefit obligations through shareholders' equity, the members of a cooperative may be unfairly penalized or benefited by the timing of their entrance into or exit from the cooperative firm.

Many cooperatives offer pension and postretirement benefits to their employees in lieu of stock options. However, if the benefit put the company at an economic disadvantage as a

result of the proposed accounting changes, companies may discontinue benefits, which would have a negative impact on employees.

2. Retrospective Application and Book Value Companies

Cooperatives will need to expend significant effort to identify and amend arrangements impacted by book value in order to implement the FASB proposal. The retrospective application is a unique issue and very troubling for book value companies. The proposed standard's retroactive application would require shares to be revalued as of their original issue date to a book value that differs from their historical issuance price. Retrospective determination of prior years' book value would complicate the issuance and redemption process by causing the value of previously traded shares to come into question. The proposed standard's requirement of retrospective application should be amended to permit pro-forma footnote disclosure of the impact on prior years' financial statements.

As indicated in the proposal, many companies will record a Deferred Tax Asset (DTA) related to the tax benefit portion of the Other Comprehensive Income charge. These DTA's will need to be assessed for when realized (and a potential valuation allowance) for each period affected. This is impractical and may indeed, not be possible. The ongoing need for a DTA valuation allowance in any subsequent period for which retrospective application would apply may not be possible.

Accordingly, FASB might consider reporting accumulated other comprehensive income (OCI) in a section between long-term liabilities and shareholders' equity. Long-term deferred charges or credits that will adjust future periods' statements of operations may be isolated and reported upon, without the potentially punitive impacts that will occur to book value companies if such components are included in shareholders' equity and thereby impact book value. This type of alternative would also serve to mitigate the impact of other pronouncements whose fair value or mark-to-market adjustments temporarily reside in OCI until final recognition occurs in the income statement.

Another alternative to be considered by FASB would be to report accumulated OCI in a separate caption following shareholders' equity, such that the components of OCI are isolated as described above, but allowing cooperative members' equity to be reported exclusive of OCI adjustments.

In responding to the different needs of investors in publicly traded companies as compared to the needs of investors in book value companies, FASB may also want to consider allowing companies whose stock is traded at book value to record the OCI charge using one of the methods described above.

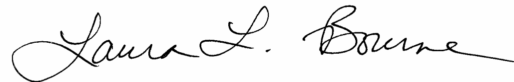
* * *

Defined benefit retirement plan sponsors provide highly-valued financial security programs for their employees. Without clear and precise rules, uncertainty around the accounting for these plans is a factor in the highly publicized trend of employers deciding to move away from these programs. We feel interim changes like those proposed by FASB require careful consideration and that a change should only be made if it clearly factors into the long-

term improvements FASB will make. We also ask FASB to consider the effect the proposed standard will have on companies where all purchases and sales of stock are based on book value and not driven by outside market forces. Such companies' capital stock, like that of other cooperatives, cannot be publicly traded and has limited liquidity.

We appreciate your consideration of these comments. If we can provide any additional clarification or assistance, please contact Laura Bourne at 202-220-0631.

Sincerely,



Laura Bourne
Director,
Federal Government Relations