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April 25 2016

The Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (File Reference No. 2016-200)

Dear Technical Director:

We appreciate the opportunity to comment on the proposed ASU, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. We support the Board's objectives to increase the transparency of the presentation of net periodic pension cost and net periodic postretirement benefit cost, and to provide financial statement users with additional disaggregated information.

KPMG's responses to selected Questions for Respondents are included in Appendix I to this letter. We believe that the preparers and users of financial statements are best positioned to respond to the other questions that the Board raised. This cover letter summarizes our key points. In addition, we have included other observations in Appendix II.

Presentation of Net Periodic Benefit Cost

The proposal would require an entity to present the components of net benefit cost other than the service cost component, outside a subtotal for income from operations, if one is presented. We believe that prior service cost or credit should also be reported separately from the other components of net benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees, as this component is closely related to employee service. We support limiting the amount eligible for capitalization to the service cost component.

Furthermore, we believe that the Board should reconsider this proposal in view of diversity in practice related to what constitutes income from operations. Some entities have applied the term narrowly to attempt to capture recurring items or *core* earnings items that are relevant to assessing their continuing operating activities, while others have defined it more broadly.

While the *FASB Accounting Standards Codification*® does not define income from operations, existing U.S. GAAP tends to support a broad definition. For example, although not recurring, costs associated with an exit or disposal activity that do not involve a discontinued operation are

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required to be included within income from operations by paragraph 420-10-45-3. Similarly, paragraphs 360-10-45-5 and 410-20-45-1 require gains and losses on sales of long-lived assets, and accretion expense on asset retirement obligations, respectively, to be included within income from operations. We also have observed that settlements and curtailments of defined benefit obligations often are incurred in connection with impairments and other exit and disposal activities that are required to be included within income from operations if that subtotal is presented. Without a Codification definition of what is included in operating income and in view of diversity in practice about what constitutes income from operations, we recommend that if the Board advances this proposal, entities be permitted to elect a policy about the income statement line item(s) in which to include the other non-service components of net benefit cost, as long as that presentation conveys the underlying nature of these components and the entity discloses the line item(s) in which the other non-service components are included. Some entities may consider it more appropriate to include some or all of these costs (e.g., gains and losses associated with settlements and curtailments) in income from operations. This approach would be consistent with the Board's intent and objective to provide disaggregated and decision useful information to improve the usefulness of financial statements.

Applying the Proposal Retrospectively

The proposal would require retrospective application for the presentation of the service cost component and other components of net benefit cost in the income statement. Retrospective application will be straightforward for entities that have not capitalized any portion of net benefit cost in prior periods. For entities that have capitalized a portion of net benefit cost in prior periods, guidance in paragraph BC12 states that the amount of net benefit cost capitalized in an asset would not be subject to further disaggregation for presentation or disclosure purposes when the cost of the asset is subsequently reported in net income. We believe that the Board should provide additional guidance to clarify what approach should be taken to determine the service cost and other components to separately identify for the comparative periods for those entities. It is unclear how an entity would apply the proposal retrospectively if a portion of net benefit cost was capitalized in inventory or other self-constructed assets and still comply with the guidance in paragraph BC12. Specifically, it is not clear whether the service cost component presented for a comparative period should include the service cost amount that was capitalized in that comparative period and the rollover effect of costs capitalized in earlier periods. As a pragmatic approach and to avoid this potential complexity, we recommend that the Board provide a practical expedient to permit entities to use the amounts reported in their pension and postretirement benefit plan note disclosure as the basis to determine the classification of service cost and other components for the comparable periods. Without additional guidance, it may be difficult to operationalize the requirement to retrospectively apply the proposal as it relates to presenting the components of net benefit cost in the income statement, and the requirement may create inconsistent presentation among entities for similar items.

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If you have questions about our comments or wish to discuss the matters addressed in this letter, please contact Kimber Bascom at (212) 909-5664 or kbascom@kpmg.com, Jeff Jones at (212) 909-5490 or jeffreyjones@kpmg.com, or Dan Langlois at (212) 872-3256 or dlanglois@kpmg.com.

KPMG LLP

Sincerely,

KPMG LLP

Appendix I – Responses to Selected Questions for Respondents

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?

We support the Board's proposal to require the service cost component to be reported separately from the other components of net benefit cost and to be the only component eligible to be capitalized. We agree that the service cost component has different characteristics and predictive value from that of the other non-service components of net benefit cost. As noted under Question 2, we believe that prior service cost or credit should continue to be classified along with the service cost component.

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?

Prior service cost or credit component

We believe that prior service cost or credit should be reported separately from the other non-service components of net benefit cost and classified with other items of compensation expense, consistent with the service cost component, as the prior service cost or credit component is closely related to employee service. We do, however, support the Board's proposal to limit the amount eligible for capitalization to the service cost component because only that amount represents the cost for current service.

Presentation of other components outside a subtotal of income from operations

As discussed in our cover letter, we believe that without a definition of what is included in operating income, and in view of the diversity in practice about what constitutes income from operations, the Board should allow an entity to elect a policy about the income statement line item(s) in which to include the other non-service components of net benefit cost.

Question 3:

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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 IFRS or for other purposes? Why or why not?

We do not believe it would 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.

The disclosure requirement in subparagraph 715-20-50-1(h) provides sufficient information to financial statement users to determine the interest cost and expected return on plan assets components. Furthermore, as discussed in paragraph BC10, the proposed amendments would not prohibit an entity from providing disaggregated information if the entity believes that information is important enough to the financial statement users to warrant separate presentation.

Question 4:

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

We agree that designating the service cost component as the only component eligible for capitalization would limit capitalized amounts to those costs related to current operating activities and improve the comparability between entities.

We have heard from some stakeholders who question the usefulness of having to disaggregate the components of net benefit cost, because U.S. GAAP already requires disclosure of the amount for each component in the notes to the financial statements. If the FASB decides to advance this proposal, we draw your attention to the comments in our cover letter about the requirement to present the non-service components of net benefit cost outside a subtotal of income from operations, if one is presented, and about amending the guidance on retrospective application.

Question 5:

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

Designating a rate-regulated entity's service cost as the only component of net benefit cost eligible for capitalization could affect the timing of expense recognition. This change could affect the entity's rate base in certain periods, and the timing of its cost recovery. However, we do not believe that the amendments should necessarily be different for rate-regulated entities as the proposed ASU would affect only the timing, but not the ultimate amount, of the recognized expense.

Question 6:

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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?

We believe that the Board should seek views from preparers about the operability and incremental costs of the proposed amendments.

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?

We believe that the Board should seek views from preparers about the time needed to implement the proposed amendments.

We support permitting early adoption. However, we believe that the Board should seek views from users about whether it would be disruptive if entities adopt at different times.

Question 8:

Should the proposed amendments be applied retrospectively for the presentation of 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?

As discussed in our cover letter, we believe that the Board should provide additional guidance to clarify what approach should be taken to determine the service cost component when applying the revised income statement classification retrospectively. If the method specified would be difficult to implement for some entities, we recommend that the Board also provide a practical expedient to permit entities to use the amounts reported in the pension and postretirement benefit plan note as the basis to determine the classification of service cost and other components for the comparable periods. Without additional guidance, the requirement to retrospectively apply the proposed amendments for presenting the components of net benefit cost in the income statement may be difficult to operationalize and may create inconsistent presentation among entities for similar items.

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?

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We agree that an entity should be required to disclose in the first interim and annual reporting periods of adoption the nature of and reason for the change in accounting principle. However, we believe that the requirement in Topic 250, *Accounting Changes and Error Corrections*, to disclose the method of applying the change also is relevant and should be a requirement when adopting this ASU.

As discussed in our cover letter, there is a need for additional guidance to help entities determine the service cost component for the comparative income statement periods. Without that guidance, entities may use different assumptions and methods to determine the amount of the service cost component for the comparative periods in retrospectively applying the proposed amendments. We believe that an entity should disclose the assumptions and methodology it uses to apply the change in accounting principle.

Appendix II - Other Observations

Comprehensive income

The amendments to paragraph 220-10-55-17B included in the proposed ASU would require an entity to refer to the relevant pension cost disclosure for pension cost component amounts reclassified out of accumulated other comprehensive income. Footnote (b) in the example under paragraph 220-10-55-17E in the proposed ASU also illustrates that point. On adoption of the proposed ASU, all pension cost component amounts reclassified out of AOCI would be reclassified in their entirety to net income in the same reporting period, as only the service cost component would be eligible for capitalization. Accordingly, it is not necessary to refer to the relevant pension cost disclosure, and footnote (b) is not required in the example. Instead, we believe the entity should refer to the income statement line item in which those costs are recorded.

Subtopic 220-10 includes paragraphs (e.g., 220-10-45-17A and 45-17B) that were not, but should be, amended as part of this ASU for the reason stated in the preceding paragraph. We would no longer expect situations whereby pension cost components would not be reclassified out of AOCI into the income statement in their entirety. Therefore, the final ASU should remove the words *in its entirety* and *in their entirety* from Subtopic 220-10 and make other conforming changes.

Other editorial points

The last sentence of paragraph BC13 states “the Board therefore decided not to require capitalization of the interest cost component of net benefit cost.” This appears to imply that while not *required*, the guidance would *permit* capitalization of the mentioned costs. We do not believe that was the Board’s intent.

The proposed amendments use the term *performance indicator* in paragraphs:

- a) 958-715-45-1
- b) 958-715-45-2

The term performance indicator does not apply to not-for-profit entities (except for entities within the scope of Topic 954, *Health Care Entities*). We suggest that the Board consider not using this term in these paragraphs.

Paragraph 958-225-45-11 discusses limitations on an NFP’s use of an intermediate measure of operations imposed by other Subtopics. We believe the Board should amend this paragraph to add a limitation, to be consistent with the proposed requirement, that the other components of net periodic pension cost and net periodic postretirement benefit cost be reported outside an intermediate measure of operations, if one is presented.