



October 14, 2011

Director of Research and Technical Activities
Governmental Accounting Standards Board
Submitted by email to: director@gasb.org

Project No. 34-E and Project No. 34-P

The American Public Power Association (APPA) submits these comments in response to the Governmental Accounting Standards Board's (GASB's) exposure drafts (EDs) on Accounting and Financial Reporting for Pensions (Project No. 34-E) and on Financial Reporting for Pension Plans (Project No. 34-P).

APPA represents the interests of the approximately 2,000 publicly owned electric utilities in the United States. These utilities take various forms. Most are municipally-owned, and these utilities may be a department of the municipality or an independent authority established under state or local law. Other forms include political subdivisions of the state, such as public utility districts or public power districts; state-owned utilities, created under state statutes; and joint action agencies ("JAAs"), formed under state law to provide wholesale power supply and transmission service to distribution entity members.

RESPONSES TO ISSUES RAISED IN THE EXPOSURE DRAFTS

Issue 1: We are concerned with the complexity and administrative burden that would result when an employer, who participates in a multi-employer plan, has a year end that differs from the plan's year end. We agree with the AICPA's proposed, more practical approach, which suggests GASB change the timing that employers account and report plan net position to a valuation date within 3 months of the employer's year end. Plans could then perform less extensive quarterly valuations, thus significantly reducing administrative burdens that would be incurred under GASB's current proposal.

Issue 2: The proposal does not appear to provide clear guidance on the transition rules in the year of implementation. Specifically, should the total net pension liability be recorded through prior year retained earnings in the initial year of implementation? At what point should the changes in assumptions and projected investment earnings be included in the calculation of pension expense – as a comparison to prior year or a roll-forward to the end of the current year?

Issue 3: The blended discount rate proposed by GASB is not a fair representation of actual returns of the plan assets and therefore would create a worst case (i.e., overstatement) scenario in calculating the amount of the net pension liability. Pension plan investments are not restricted to tax-exempt securities. Even if the "issuing debt to pay for the unfunded portion of pensions" line

of reasoning is followed, governments would contribute bond proceeds to the pension plans, and the pension plans would invest in higher yield investments. Therefore, if a tax-exempt rate is used as part of the blended rate, it follows that the amount for the net pension liability would be overstated.

According to the Pew Center, in fiscal 2009, 31 state pensions were less than 80% funded, with 11 of those 31 state pensions dropping below 80% in 2009. Illinois was 51% funded in fiscal 2009. Applying the 30-year municipal bond rate to the unfunded portion of the pension would result in a pension liability amount that would far exceed realistic expectations.

A high quality taxable rate should be used to discount the unfunded portion of the pension liability.

Issue 4: The guidance does provide for a gradual build-up for the 10 years of historical information, however, we believe that this requirement is overly burdensome and excessive. In addition, this level of detail is inconsistent with prior pronouncement implementations as well as comparable information within our annual reports. We suggest an historical period which is consistent with other information within the financial statements.

Issue 5: We are concerned with the volatility of the annual pension expense due to the proposed requirement to immediately recognize changes in projected investment earnings and assumptions related to retiree economic and demographic factors. It should be noted that as a result of this guidance, regulatory utilities may establish policies to apply regulatory accounting in order to ensure rate stability. As such, we believe that actuarial techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period more accurately reflect the value of the plan's assets.

Issue 6: Due to the recording of the total net pension liability in the financial statements beginning in the year of implementation, we anticipate additional time and effort will be required to educate ratepayers, Board members, and other users of the financial statements.

Issue 7: The conditional effective dates do not appear to consider the time and effort that will be required to implement the complexities of the proposal, as well as educate users on the changes to the financial statements. Therefore, we believe that both of the effective dates of implementation, included in the EDs, should be extended one year.

APPA appreciates the opportunity to provide these comments.

Sincerely,



Harry Olibris
Vice President, Finance & Accounting