September 13, 2011

David Bean
Director of Research
Project No. 34-E
Governmental Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Mr. Bean:

On behalf of the Tennessee Department of Audit, we thank the GASB for the opportunity to comment on its proposed Exposure Draft (ED), Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27. We generally agree with the requirements of the ED and the fundamental accounting and financial reporting approach used and have provided suggestions below to improve the proposed standard. We agree that the net pension liability meets the definition of a liability as presented in Concepts Statement No. 4, Elements of Financial Statements.

In regard to ¶22 (2)b (“an index rate for a 30-year, tax-exempt municipal bond rated AA/Aa or higher (or equivalent quality on another rating scale) to the extent that the conditions in (a) are not met.”) and ¶196, we believe some confusion could occur if the board did not clarify that the tax-exempt, high quality municipal bond rate index should be used regardless of the government’s actual credit rating (e.g., less than high quality rating). For ¶45 (“Separate display in the employer’s financial statements of each net pension liability is not required.”), we suggest that the board clarify that “each employer’s net pension liability” is not required to be separately displayed. Since only the proportion of the collective net pension liability is required to be presented, we question whether ¶45 is necessary (i.e., should this be inferred from ¶44 already?).

In regard to ¶56, (“The single rate of return that, when applied to all projected benefit payments,…”), should the board clarify that all projected benefit payments should exclude payments related to future employees? This would appear to be the intent from reading ¶54. In ¶59a (4), should the changes in assumptions that should be recognized be those that are significant based on professional judgment or all changes in assumptions? In relation to ¶67b, the board should consider requiring a disclosure of the investment policy, law, or regulation that might limit or prevent long-
term assets from being invested for paying pension benefits. The purpose of this disclosure would be to determine the entity’s ability to invest only short-term assets or long-term assets as well. In ¶68 (“…other standards about the elements of the plan’s basic financial statements.”), what specific “other standards” are being referenced? Also, does the board intend to use “elements” within the same context as Concept Statement 4 (i.e., assets, liabilities, revenues, expenses, deferred outflows of resources, and deferred inflows of resources)?

Paragraph 98 (“Separate display in the financial statements of the pension liabilities for benefits provided through each defined contribution pension plan used by an employer is not required.”) appears to mean that employers may collectively display the pension liabilities for each defined contribution pension plan. If that is the case, this suggested wording is clearer than the ED language. On page 46, why is the pension definition limited to defined benefit plans? The definition implies that pensions are not offered within defined contribution plans.

General Comments:

1. We do believe that the costs of implementation will be higher because many governments likely will have to obtain separate actuarial valuations for their plans if they were not already using the entry age normal method for funding purposes. In addition, if governments do not change their funding policy approach to mirror the financial accounting and reporting, then these costs are likely to be ongoing.

2. On page 112 for item i, “occurr” should be “occur.”

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz or me at (615) 747-5262.

Sincerely,

Arthur A. Hayes, Director
Division of State Audit