

Accounting Standards Board  
Aldwych House  
71-91 Aldwych  
London  
WC2B 4HN

Monday 14<sup>th</sup> July 2008

Dear Sirs,

**Re: Consultation on the financial reporting of pensions**

Please find enclosed the response of Royal Mail Pensions Trustees Ltd to the above named consultation. Royal Mail Pensions Trustees Ltd is the corporate trustee of the Royal Mail Pension Plan, which has assets of £23.7 billion and a total membership of 452,000 as at 31 March 2008.

We look forward to receiving the summary of responses received in due course.

**Peter Metcalfe**  
**Head of Finance**  
**Royal Mail Pensions Trustees Ltd**

## **ASB CONSULTATION RESPONSES**

- 1. Should a liability to pay benefits that is recognised be based on expectations of employees' pensionable salaries when they leave service, or on current salaries (including non-discretionary increases)?**

When they leave service

- 2. Should financial reporting be based on the premise that a liability is owed to an individual employee or to the workforce as a whole? What consequences do you consider your view has for the recognition and measurement of pension obligations?**

No comment.

- 3. Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?**

No.

The summary of views in chapter 5 regarding measurement of liabilities proposes that liabilities for future pensions should be measured at current value, and that this is best achieved as a settlement amount, reflecting the cash flows needed now or in the future to discharge the liability.

We believe the most accurate way to reflect the cash flows needed in the future to meet the liabilities would be to include estimates of anticipated future obligations.

- 4. Do you agree that the consolidation of pension plans should be subject to the same principles as are usually applied in determining whether consolidation is appropriate?**

We believe that showing a net presentation as currently provides more clarity than consolidating pension plan assets and liabilities would provide. Pension plans are not typical financial reporting entities and need special consideration.

Where pension plan assets are held separately in trust, we do not believe consolidation into the sponsoring employer's accounts would be appropriate.

- 5. Do you agree that changes in assets and liabilities relating to pension plans should be recognised immediately, rather than deferred and recognised over a number of accounting periods or left unrecognised provided they are within certain limits (a 'corridor') approach?**

Yes.

- 6. Do you agree with the paper's views in the measurement of liabilities to pay benefits? In particular do you agree that:**

- **Regulatory measures should not replace measures derived from general accounting principles?**

No.

We do not believe that there should be a fundamentally different approach adopted for the measurement of liabilities for funding purposes and for accounting purposes. We believe that the valuation of liabilities carried out by the actuary meets the criteria to provide a current value on the cash flows needed to be paid now and in the future to discharge the obligations.

- **The discount rate should reflect the time value of money only, and therefore should be a risk-free rate?**

No.

We believe that using the risk free rate (or the corporate bond yield) produces an unrealistic valuation of required cash flows to meet the obligation.

We believe the discount rate should be set by the Plan's actuary, having regard to prudence and to the asset mix of the Plan.

We acknowledge that there needs to be parameters set to avoid underestimation of liabilities. However, we believe the recent guidance from the Pensions Regulator on strengthening mortality assumptions goes some way to addressing one major concern in this area and would support industry debate on similar guidelines with regard to allowing for future investment returns above the risk free rate in actuarial valuations.

- **Information about the riskiness of a liability (i.e. the risk that the amount of the pension benefits will differ from today's expectations) is best conveyed by disclosure rather than by adjusting the amount of the reported liability?**

We welcome the current debate about how to measure and disclose liabilities. We believe there is merit in pursuing the ideas published by Professor David Blake of the Cass Business School about disclosing a spread of possible future outcomes for liabilities which would provide useful information for all interested users of accounts. In this respect, we cannot support the proposal to use a discount rate for measurement which is at one end of the scale with regard to possible future outcomes. We do, however, support its disclosure.

- **The liability should not be reduced to reflect its credit risk?**

Yes.

- **Expenses of administering the plan's accrued benefits should be reflected in the liability?**

Yes as a general principle. However, as with investment expenses, these costs are to some extent under the entity's control (at least in scale).

- 7. When employees have options to receive benefits in different ways, should the liability be reported at the highest amount or at an amount that reflects the probability of different outcomes?**

In line with comments above, we believe this should be in line with expected probability of different outcomes.

- 8. Do you agree that assets held to pay the benefits should be reported at current values?**

Yes.

- 9. Do you agree that a 'net' asset or liability should be based on the difference between the amounts at which the assets and liabilities would be measured if they were measured directly?**

Yes.

- 10. Do you agree that different components of changes in liabilities and/or assets should be presented separately?**

Yes.

- 11. Do you agree that the financial performance of an entity should reflect the actual return on assets, rather than the expected return, and that the expected return should be required to be disclosed?**

Yes.

- 12. Do you agree with the objectives of disclosure that are identified in Chapter 9? Are there specific disclosure requirements that should be added to or deleted from those proposed?**

Yes.

- 13. Do you agree that multi-employer plans should be reflected in an employer's financial statements using the same principles as those that apply to a single employer plan? How, in your view, should an accounting standard require that this be implemented in practice?**

Yes.

We support the idea of using an allocation key to apportion each employer's share of assets and liabilities and whilst this is not a straight forward issue, the suggestion to use the pensionable payroll figure for each employer seems the most appropriate.

**14. Do you agree that a pension plan's general purpose financial report should include its liabilities to pay benefits in the future? Do you agree that the plan's liabilities for future benefits should be quantified using the same principles as an employer's liability?**

We do not support this proposal. We believe pension plans should not be considered as general purpose financial reporting entities. Pension plans already disclose information to members and other stakeholders on actuarial valuations and annual funding updates.

If it does become a requirement that pension plans have to show liabilities in their accounts, we would not support a figure for liabilities which produced a different result to that shown by the actuary. We believe that this would devalue the actuarial valuation process and cause further confusion for Plan members receiving such information. As noted in our earlier comments, we cannot support valuing liabilities using a method which produces results at one end of the scale of probable outcomes.

Therefore, should the requirement to show liabilities come to fruition, we believe this should be done using the actuary's valuation of the liabilities.

**15. Do you agree that a pension plan's statement of financial position should reflect an asset in respect of amounts potentially receivable under an employer's covenant, and that this should reflect the employer's credit risk?**

Notwithstanding our response to the last question, we agree that if an asset is shown to reflect amounts potentially receivable, but that the employer is considered unlikely to meet the obligation, this needs reflecting in the valuation of the debtor.

**16. Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the principles of this paper would require development to secure appropriate financial reporting for them.**

No comment.

**17. Are there further specific issues relating to the cost and benefit of the proposals that should be taken account of in their further development?**

No comment.