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Accounting Standards Board
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Dear Sirs

The Financial Reporting of Pensions

Enclosed is a response to the ASB published discussion document on the financial reporting of pensions, submitted on behalf of the British Universities Finances Directors Group (BUFDG).

BUFDG have decided to respond only on those areas where there are distinct and important issues that impact on the higher education sector, in particular proposals made in relation to accounting for multi-employer schemes. Consequently, our response is limited to Questions 4, 13 and 16.

Yours faithfully,

Philip Harding

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Q4 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 would make a general comment that UK pensions legislation has significiantly strengthend the independence of pension trustees. This has led to a clearer separation of roles and legal responsibilities of trustees and employers, further substantiating current practice of not consolidating pension plans.

Q13 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?

Higher education institutions (HEIs) are members of a large number of multi-employer pension schemes which are both funded and non-funded:

Funded:	Universities Superannuation Scheme (USS)
	Superannuation Arrangements for the University of London (SAUL)
	Local Government Pension Schemes (LGPS)
Un-funded	Teachers Pensions Scheme (TPS)
	National Health Services Pensions Scheme (NHSPS)

In addition, many HEIs operate their own self-administered trusts (SATs) for support staff.

Current reporting arrangements have led to a significant loss of comparability between HEIs, as different accounting is adopted according to the nature of the pension scheme. This has resulted in institutions reporting different exposure to pension liabilities compared to one another, even though their underlying economic position may be identical. This is counter to the ASB's 'Statement of Principles for Financial Reporting' where the principle of 'comparability' features as an important concept.

In many HEIs, the prime financial statements reflect a minority of their pension liability exposure (single employer schemes), excluding the majority of their pension liability exposure (in multi-employer schemes), resulting in a materially misleading 'state of affairs' reported through balance sheets.

For all these reasons, BUFDG is supportive of the principle of applying an approach to the accounting for pensions in employer financial statements that should result in an improvement in the comparability and reliability (completeness) of pension reporting. But while supportive of the principle, we have serious concerns about the proposed method of identifying an individual employers' share of the pension scheme surplus/deficit based on active member employer's contributions. We also have some concerns of the practicality of the proposal which we consider significant.

The Universities Superannuation Scheme (USS) is a large multi-employer scheme, covering 391 employer reporting entities. USS is underpinned by the concepts of mutuality and 'last man standing'.

The mutual or 'pooled' nature of the USS scheme means that attributing its assets/liabilities on the basis of the share of the employers' contribution will result in an estimate for each employer that is likely to be materially unreliable and uncorrelated to the underlying asset/liability position of that employer. The 391 member entities will have materially different active member age profiles, gender balances, salary distributions, ratios of active/deferred/retired members and very different early retirement histories. Employer members of USS can also have different retirement ages. These variations will result in very different underlying liability structures for each employer member. The proposed pro-rata allocation of pension assets/liabilities will be far removed from the underlying liabilities for each HEI. The estimate produced by the proposed 'allocation key' will, we believe, be so unrepresentative of the underlying asset/liability for each employer that it could not be said to be a faithful representation of the truth. The unreliable estimate that would result may well warrant a 'true and fair' override and could all too easily, and justifiably, be excluded from the reporting entity's financial statements. This would negate the intended objective of the proposal.

Even in some multi-employer schemes where the share of participating employers' liabilities are segregated and 'carved out' so that they can be directly attributed to individual employers, such as many Local Government Pensions Schemes, external auditors have challenged the validity of FRS17 data. The actuarial basis of LGPS valuations are uniform across the whole scheme rather than reflecting local circumstances of member employers (e.g. do secretaries in a University have the same expected mortality as social workers in a local authority?) Similarly, the assets of multiemployer schemes are generally pooled and not matched to the individual pension liabilities of participating employers. However, a case could be made that the resultant FRS17 estimates are broadly reliable. We believe the same could not be said for the proposed method of attributing multi-employer scheme assets/liabilities to individual employers.

As well as our serious concerns about the reliability of the estimate of the pension's estimate, there are significant practical issues. The assumptions made for reporting pension liabilities are those of the reporting entity. USS, with 391 participating employers, would have to produce multiple versions of its surplus/deficit, with each HEI aligning its assumptions with its other pension schemes. This is likely to confuse sector stakeholders and will itself undermine many of the principles set out in the ASB's own Statement of Principles – reliability, comparability and understandability of financial information. Producing multiple versions of financial reporting data will have a high transaction cost of producing the information and great difficulty in ensuring it is available in good time for the production of employer financial statements.

We believe the 'mutuality' concept that underpins many multi-employer schemes such as USS, will fatally undermine the credibility of pension estimates for inclusion in employer financial statements on the basis proposed. We can see no alternative method that would result in the production of a reliable estimate in such circumstances.

Q16 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.

The discussion paper does not cover state sponsored defined benefit multi-employer schemes that are unfunded, such as the NHS Pension Scheme or the Teacher's Pension Scheme. HEIs participate in both schemes. The proposals relating to multi-employer schemes attempt to address issues of comparability. But if un-funded multi-employer schemes are not also adequately addressed then the objectives of the multi-employer scheme proposal will not be achieved.

Other public benefit entities, besides HEIs, operate similar unfunded schemes, such as the police and fire services. In such schemes, the pension liabilities are backed by notional assets with actuarial calculations premised on a state sponsored 'promise to pay'.

Consideration of these large multi-employer unfunded schemes will be needed.