Appendix
Detailed response to consultation questions

Question		Response
Q1	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)?	We consider that recognition of a liability to pay benefits should be based on current salaries including non-discretionary increases. It should not be based on expected employees' pensionable salaries on leaving service. In accordance with the IASB Framework (paragraph 49) a liability is a present obligation arising from past events. Employee expectations of pensionable salaries on leaving service will include expectations of discretionary future salary increases. These are not present obligations arising from past events – rather these are future operating costs and as such should not be recognised.
Q2	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?	We consider that financial reporting should be based on the premise that a liability is owed to the workforce as a whole rather than on an individual employee by employee basis as this most accurately represents the substance and economic reality of the situation. This is especially true in the public sector where pay increases are generally agreed 'en block' across the workforce as a whole rather than individually. We do not consider that our view has any consequence on the recognition of pension obligations. After all, the employer's pension obligation to the workforce as a whole should simply reflect the sum of the obligations to individual employees. We do recognise however that this view increases statistical confidence in the measurement of the obligation due to the use of a weighted average method of estimation to the population of individual employees in the workforce as a whole (the 'expected value' technique).

Q3	Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?	We agree with this principle. This is in accordance with the IASB Framework (paragraph 60) which states that 'liabilities are obligations of an entity to transfer economic benefits as a result of past transactions or events.' In other words, only present obligations arising from past events should be recognised as liabilities.
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 agree that usual consolidation principles should be applied in determining whether consolidation of pension plans is appropriate. There is no reason why the accounting treatment for the different pension arrangements described in chapter 3, paragraph 1.3 should differ. The consolidation of pension plans would bring about the gross accounting of pension plan assets and liabilities and lead to the similar treatment of these items across the different pension arrangements described. It would also be consistent with the principle of gross accounting found in accounting standards generally. However, there may be reason to separately identify assets held to fund pension benefits (maybe in a similar manner to the separate disclosure required of restricted fund assets & liabilities in charity accounts).
Q5	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, it is agreed that changes in pension assets and liabilities should be recognised immediately. Whilst there are inherent uncertainties and assumptions used in their measurement which suggests there are merits in not recognising small changes within certain limits, this could also be argued to be the case in other areas of the financial statements. This is the basis of the concept of materiality. However, there are no exceptions from recognition of other items in the accounting period in which they occur. In our view, there are no reasons why pension assets and liabilities should be treated any differently. This will improve comparability and transparency and accord with likely IASB and FASB developments in this area.

Q6 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? • The discount rate should reflect the time value of money only, and therefore should be a risk free rate? • Information about the riskiness of a liability (i.e. the risk that the amount of pension benefits will differ from today's expectations) is best conveyed by disclosure rather than by adjusting the amount of the reported liability? • The liability should not be reduced to reflect its credit risk?	We agree that: • regulatory measures should not replace measures derived from general accounting principles; and • expenses of administering the plan's accrued benefits should be reflected in the liability. Such expenses would be present obligations arising from past events and therefore meet the definition of a liability as set out in the IASB Framework. However, we have concerns regarding the use of a risk free discount rate that reflects only the time value of money and that does not incorporate neither the risk associated with the pension liability nor the employer's credit risk. Ultimately, we realise that it is difficult and subjective to measure these risks and agree that no attempt should be made to quantify them. As far as the riskiness of the liability is concerned, the approach suggested in the discussion paper (paragraph 6.53 of chapter 5) of the use of a risk free rate with narrative description of the associated risks is the most pragmatic and objective way forward on this matter. As regards credit risk, there is no credit risk for public sector entities in respect of their pension liabilities. Public sector pensions in the UK are underwritten by Government, or, for Local Government Pension Schemes, secured on future council tax income. However, credit risk does exist in the private sector but again it is very difficult to quantify this risk. On the basis of the arguments set out in paragraph 7.10 of chapter 5 and in the interests of consistency and objectivity, we therefore agree that the pension liability should not be reduced to reflect its credit risk.

	• Expenses of administering the plan's accrued benefits should be reflected in the liability?	
Q7	Where 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?	We consider that it is appropriate to reflect the probability of different outcomes where a large number of outcomes are involved. This is in line with the approach outlined in IAS 37 (paragraph 39) which refers to the statistical 'expected value' approach of weighing all possible outcomes by their associated probabilities in order to estimate the amount of the obligation. To not apply an expected value approach would invariably lead to overstatement of the liability in this situation.
Q8	Do you agree that assets held to pay benefits should be reported at current values?	We agree that pension assets should be reported at current values. This will be market value where assets are traded in active markets and estimated using appropriate valuation techniques in other cases. This is a more decision useful basis of reporting than historic cost, particularly in respect of assessing the stewardship of trustees. It is also consistent with the current value approach to measurement of pension liabilities supported in this discussion paper.
Q9	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	We agree that a net asset or liability in the employer's accounts should be calculated as the difference between the amounts at which the assets and liabilities would be measured if they were directly measured. This will appropriately reflect the employer's obligation to the pension fund to either make good any shortfall of pension fund assets to meet trust liabilities or to recover any surplus pension fund assets (subject to any restrictions on employer recovery of such assets).

	measured directly?	
Q10	Do you agree that different components of changes in liabilities and/or assets should be presented separately?	We agree that different components of changes in pension assets and liabilities should be separately presented as proposed in chapter 8. This will improve comparability across bodies as well as improve users' ability to understand past trustee decisions in assessing their stewardship. From a stewardship perspective, the suggestion that actuarial gains and losses could be split between those relating to internal and external factors has significant merit. However any such split would ultimately be arbitrary and would not therefore aid comparability across entities. It is agreed that actuarial gains and losses are, in effect, changes in estimates and as such should be reported through profit and loss. Exceptionally, their separate presentation outside of operating activities appears to be justified.
Q11	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, we agree that the financial performance of an entity should reflect the actual return on assets, rather than the expected return. Financial statements should reflect the transactions and events that have occurred during the period and should therefore include the actual return on assets. We agree that there are valid reasons for disclosure of the expected return on assets (as set out in the discussion paper). However we consider that this should most appropriately be included in the notes to the accounts rather than in the primary financial statements themselves.
Q12	Do you agree with the objectives of disclosure that are identified in this Chapter? Are there specific	We agree with the objectives for disclosure identified in Chapter 9. The principle that the financial statements give adequate information on pension costs, risks and rewards and funding obligations clearly cannot be faulted. We do however have concerns regarding the volume of pension disclosures required

	disclosure requirements that should be added to or deleted from those proposed?	– it is often difficult for users to see the 'wood for the trees'. For this reason, we consider that disclosure of alternative measures of measuring pension liabilities should not be required. We are of the view that the financial statements should include disclosures about the amounts included in the accounts themselves rather than alternative measures that are not included. If alternative measures are to be provided (and we are not convinced of their worth) they should be disclosed in the management commentary rather than in the accounts.
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?	We agree that multi-employer plans should be reflected in an employer's accounts using the same principles as those that apply to a single employer plan. As chapter 10 of the discussion paper suggests, there will be difficulties in measuring the individual employer obligations to the multi-employer plan. Whilst ideally, individual employer settlement amounts should be obtained, there will clearly be practical difficulties in obtaining this information. With regard to local authorities pension funds, most of which are multi employer schemes, the triennial valuations are undertaken on robust bases, but interim valuations undertaken for FRS 17 purposes incorporate a number of 'shirt cuts' in order to reduce the costs of each year's exercise. Detailed breakdowns of multi employer schemes are therefore possible, albeit at a price. As suggested, a more realistic approach is likely to be the use of an 'allocation key' such as pensionable salaries of active employees in calculating the proportionate shares of the pension asset or liability. However, there will often be instances where even this information is not readily available in which case recognition of the contributions payable should still be allowed.
Q14	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	We agree that a pension plan's financial report should include its liabilities to pay future pensions. We also agree that the plan's liabilities for future benefits should be quantified using the same principles as are used in calculating the employer's liability. Such liabilities should be based on present obligations to pay pension benefits – in other words, based on current salaries (including any non-discretionary increases) in accordance with generally accepted practice for liability recognition.

	future benefits should be quantified using the same principles as an employer's liability?	The recognition and measurement of the pension liability in this way will not only provide 'decision useful' information to users of the accounts but also allow assessment of the trustees' stewardship.
Q15	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?	It is agreed that a pension plan's statement of financial position should reflect an asset in respect of amounts receivable under an employer's covenant. This is assuming that any inflow of benefits from the employer is virtually certain, in accordance with the requirements of IAS 37 regarding contingent assets. This asset should be measured as the difference between the amount of the plan's liability & the value of its assets available to pay those benefits, as proposed in paragraph 7.5 of Chapter 11 of the discussion paper. Clearly the greater the risk of the employer becoming insolvent, the less is the employer's covenant worth from the perspective of the pension plan and this needs to be reflected in the measurement of the asset in the pension plan's accounts. In other words, despite the inconsistency with the exclusion of credit risk in the measurement of the employer's pension liabilities as proposed in chapter 5, the amounts due under the employer's covenant should reflect the employer's credit risk. In reality, the issue of employer's credit risk is not relevant to public sector pension schemes given such schemes are underwritten by Government or for Local Government Pension Schemes by future council tax income.
Q16	Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the	We are unaware of any other types of pension arrangements that require further consideration in this paper.

	principles of this paper would require development to secure appropriate financial reporting for them.	
Q17	Are there further specific issues relating to the cost and benefit of the proposals that should be taken account of in their further development?	We are unaware of any cost/benefit aspects of the proposals that should be further considered.