The South African Institute of Chartered Accountants

Accounting Standards Board
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COMMENTS ON DISCUSSION PAPER – *THE FINANCIAL REPORTING OF PENSIONS*

In response to your request for comments on the Discussion Paper – *The Financial Reporting of Pensions*, attached is the comment letter prepared by the Retirement Funds Project Group of the South African Institute of Chartered Accountants (SAICA). This submission was prepared based on the input of preparers of financial statements and auditors in the retirement funds industry in South Africa.

We thank you for the opportunity to provide comments on this document. We have, in addition to our responses to the questions raised, also included general comments on aspects not specifically dealt with in the questions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

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GENERAL COMMENTS

We believe that the discussion paper proposes significant improvements for the accounting and reporting of pensions. The discussion paper does not address regulatory reporting requirements, which we agree is appropriate.

We have outlined our answers to the specific questions below. A general comment is that the principles that already exist in the International Financial Reporting Standards should be used as far as are appropriate to address the identified issues. This will ensure that reporting requirements for pensions align, as far as is appropriate, to the reporting requirements for other entities.

RESPONSES TO SPECIFIC QUESTIONS

Question 1
The liability should be based on current salaries, including non discretionary increases. When defining 'non-discretionary increases', the extent to which management has discretion over the increases should be taken into account.

In highly unionised countries such as South Africa, the United Kingdom and Italy; it is highly unlikely that management will be able to avoid granting increases linked to inflation. While this might not be an issue in countries that have reasonably stable inflation rates, inflationary increases can be significant in South Africa where inflation is relatively high.

Question 2
Financial reporting should be based on a portfolio of contracts with similar risks. If a company operates a post retirement pension and medical scheme, the recognition and measurement principles should be applied to each scheme but not to each individual employee within the scheme.

Question 3
We agree that recognition should be based on the principle of reflecting only present obligations as liabilities.

Question 4
We agree, but think that presentation should be considered and that pension fund assets and liabilities should be presented separately from other assets and liabilities of the entity.

Question 5
We 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.

Question 6
We agree that regulation should not influence accounting but caution that depending on the tax laws, this could result in complex deferred tax calculations.

We agree that the risk free rate is an appropriate discount rate.

We agree that the riskiness of the liability to pay benefits is best disclosed rather than measured.

In our view, the liability should reflect the credit risk.

We agree with the proposed treatment of expenses.

Question 7
If the employer has an alternative but does not intend to exercise it then information based on that alternative does not provide relevant reliable information. The liability should be reflected at an amount that reflects the probability of the different outcomes.

Question 8
In our view the assets should be valued in the same manner that would be applicable if they were held for another purpose.

Question 9
We agree with the principle of measuring assets and liabilities directly whether or not they are presented separately or as a net amount. In our view the assets and liabilities should be disclosed separately.

Question 10
We agree with the proposals for presentation, subject to the conclusion of the IASB's project on performance reporting

Question 11
We agree with the proposal that the actual return should be included in the income statement for the period. We do not believe that disclosing expected returns will add any value to the users of the financial statements.

Question 12
We agree with the objectives of the disclosures and have nothing further to add.

Question 13
We 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. We do not have any specific views on how an accounting standard should require this to be implemented in practice.

Question 14
We agree with the principle that a plan should measure assets and liabilities on the same principles that the employer would use in its own financial statements.

Question 15

We agree with the principles proposed and emphasise our response to Question 6 that the employer's liability should also reflect credit risk.

Question 16

Consideration should be given to retirement annuity funds and preservation funds underwritten by life insurers. The members of these funds are administered as individual policies by the insurer and are reported to as individual policyholders. As such the financial reporting on a fund level has a very limited benefit. We propose that these types of retirement funds be excluded from the scope of financial reporting requirements for pensions.