St Bartholomew House, 92 Fleet Street
London EC4Y 1DG
Telephone: 020 7353 1688 Facsimile: 020 7353 9296
Web: http://www.spc.uk.com
e-mail: john.mortimer@spc.uk.com

Email: asbcommentletters@frc-asb.org.uk

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

Our Ref: JM/JB/4.1 June 27th 2008

Dear Sirs,

DISCUSSION PAPER: THE FINANCIAL REPORTING OF PENSIONS

We welcome the opportunity to comment on the above discussion paper.

INTRODUCTION TO SPC

SPC is the representative body for a wide range of providers of advice and services to work-based pension schemes and to their sponsors. SPC's Members' profile is a key strength and includes accounting firms, solicitors, insurance companies, investment houses, investment performance measurers, consultants and actuaries, independent trustees and external pension administrators. SPC is the only body to focus on the whole range of pension related services across the private pensions sector and, through such a wide spread of providers of advice and services. We do not represent any particular type of provision or any one interested body or group.

Many thousands of individuals and pension funds use the services of one or more of SPC's Members, including the overwhelming majority of the 500 largest UK pension funds. SPC's growing membership collectively employs some 15,000 people providing pension-related advice and services.

The discussion paper has been considered by SPC's Actuarial and Investment committees, which comprises representatives of actuaries and consultants, insurance companies, investment houses, investment performance measurers and pension lawyers.

COMMENTS ON THE DISCUSSION PAPER

Question One: Should the 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)?

Future salary increases are not generally used in measuring other relevant balance sheet items, so we see no particular justification for using them in the pension context. We would therefore support the use of current salaries (including non discretionary increases).

An allowance should be made for withdrawals from scheme membership and for revaluation of benefits, if provided for under the scheme rules.

Question Two: Should the 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?

The discussion paper does not address individual pension arrangements and, given that the schemes under consideration are collective in nature, we suggest that financial reporting, based on the premise that a liability is owed to the work force as a whole, is the only practicable approach.

Question Three: Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?

Yes.

Question Four: 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 do not believe that this question is relevant to UK pension schemes set up under trusts separate from the employer. We consider that the current basis of disclosure in the UK remains appropriate.

Question Five: 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)?

The question is concerned with the way in which the impact of changes in assets and liabilities are presented, rather than with the actual measurement of the assets and liabilities.

We have no doubt that the additional volatility which would be introduced by immediate recognition, would generally be unpopular among employers which continue to support defined benefit schemes and would be another factor contributing to their decline.

Question Six: Do you agree with the paper's views on the measurement of liabilities to pay benefits. In particular, do you agree that:

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

  We would not support the imposition of additional costs arising from a need to prepare disclosures based on differing requirements of regulation and general accounting principles.

  The aim should be, where necessary, for regulatory requirements and accounting principles to operate mutually consistently.

  In the final analysis, where there are legal requirements with an impact in the accounting field, compliance with the legal requirements must take priority.

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

  Yes, but the implications would potentially require a considerable degree of explanation. For example, if the risk-free rate exceeded that which would apply if one actually bought out the scheme benefits.

However, we would encourage debate on what the reference point for "risk free" should be. There is a tendency to equate risk free with gilts, but swaps could be considered as the reference yield. The following are some reasons for doing so.

- Swaps do not have a material credit premium inherent within them - daily collateralisation is becoming the industry standard. This eliminates loss on default.

- Swaps are available across the term structure of pension liabilities. Inflation swaps provide market implied inflation.

- Using swaps rather than gilts as the reference discount rate would enable international comparability.

- Pension schemes seeking to match liabilities use swaps not gilts.

- Gilts are not available at all terms and the gilt strip market is limited (the swap market is far larger than the gilt market).

- Gilts arguably have a negative liquidity premium.

- **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.**

  We would support conveying the information by 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.

Question Seven: Where employees have options to receive benefits in different ways, should the liability be reported at the highest amount which reflects the probability of different outcomes?

If one seeks to take a going concern approach, in respect of the liabilities for a group of members as a whole, and to take a scheme specific approach, the appropriate approach would be to report an amount which reflects the probability of different outcomes.

Question Eight: Do you agree that assets held to pay benefits should be reported at current value?

Yes.

Question Nine: Do you agree that a "net" asset or liability should be based on the difference between the amount at which the assets and liabilities would be measured if they were measured directly?

Yes.

Question Ten: Do you agree that different components of changes in liabilities and/or assets should be presented separately?

Yes.

Question Eleven: 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?

The actual return is the key disclosure and we are not clear as to the value of disclosing the expected return.

Question Twelve: Do you agree with the objectives of disclosure which are identified in Chapter 9? Are there specific disclosure requirements which should be added to or deleted from those proposed?

We agree with the objectives of disclosure which are identified.

We have no comments on the specific disclosures.

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

The proposal is theoretically appealing, but we see practical difficulties.

If the employers are not connected, and there is significant movement into and out of the plan, it would be difficult to achieve year to year consistency in the statements.

If the employers are connected, considerable amounts of work would seem to be required to prepare the various accounting statements for no apparent practical value.

Question Fourteen: 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 agree that a pensions plan's general purpose financial report should include its liabilities to pay benefits in the future. The question of quantifying the plan's liabilities for future benefits does not therefore arise.

Question Fifteen: 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?

No, because the relevant information is already available in the UK under other disclosures.

Question Sixteen: Are there types of pension arrangements which require further consideration?

No.

Question Seventeen: Are there further specific issues relating to the cost and benefit of the proposals, which should be taken account of in their further development?

1. The proposals have the potential, without materially improving on the information which can be derived from existing disclosures, to produce reported pension costs which could force weaker employers into insolvency.

2. The approach in the discussion paper is that pensions costs should be marked to market. This is not an approach, as we understand it, which is generally applied in other areas of the balance sheet, so there is an inconsistency between the treatment of pensions and other areas.

3. For smaller entities, with a limited number of share holders, the value of implementing these proposals in comparison with the cost of doing so seems very low.

Yours sincerely

John Mortimer
Secretary