14 July 2008

Accounting Standards Board

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Our Ref: SR/PS/ASB08

Dear Sirs

The Financial Reporting of Pensions – Discussion Paper

The Pensions Regulator (TPR) has pleasure in submitting its formal response to your discussion paper – The Financial Reporting of Pensions. This response seeks to flag formally those areas of concern TPR has in relation to the ASB's proposals for pension scheme financial reporting.

Whilst our comments focus on matters addressed in Chapter 11, TPR is supportive of the need to review the pensions accounting framework generally.

For employers we welcome proposals which will result in improved disclosure for stakeholders, although any enhancements to transparency will need to balance subsequent benefits with residual costs.

We recognise that there is an increasing need for continued transparency in financial reporting, which must include robust disclosures. As you are aware, we have already shared our views with you in respect of pension scheme financial reporting and disclosure generally. In particular we have commented on the continued need to 1). balance the value of reporting against additional costs, and 2). maintain a degree of consistency with the regulatory regime in terms of funding and disclosure.

It will therefore be of no surprise to you that we still have major concerns on a number of proposals or suggestions raised in Chapter 11. We do agree that pensions accounting should adopt a uniform approach, consistent with other UK or International accounting standards, but not in every respect.

Many of our views are already known publicly - key comments and observations are summarised below (for public record):

1. We support the rationale that scheme accounts have a stewardship function and agree that members rarely request a copy.

2. We do not agree that pension scheme accounts should be required to account for the liability to pay future pensions – we believe this proposal to be onerous for a number of reasons:

- **Member Understanding** - One of the strongest arguments opposing liability accounting is in relation to member understanding. The paper attempts to address this argument by stating that some plans already report alternative measures and seek to explain the difference of each. We take the view that the Summary Funding Statement[1] already communicates key funding information to members, and in our view is an ideal platform for disclosing this information. Currently it includes the solvency position (buy-out cost), the funding position on the scheme's agreed funding plan together with a summary of the recovery plan (which could include the amount and timing of future contributions agreed with the employer). This satisfies both your member information and stewardship criteria.

- **Consensus of opinion** - This matter was previously researched by TPR. Evidence gathered from our discussion paper indicated an overwhelming support from industry stakeholders for the continued *exclusion* of pension liabilities. Specifically, "83 per cent of the respondents to our paper stated that the inclusion of actuarial liabilities in scheme accounts would not add value".

- **Cost** - Little reference is made to the extent of additional costs associated with liability accounting except to say that "the most significant additional cost is likely to be that of audit"[2]. Additional costs will not be confined to the audit process, there will also be costs relating to both actuarial and accounting input.

  It is important that we don't over-look additional costs relating to both the accounting and audit of the employer deficiency[3], which will become more complex if contingent assets are involved. Placing a value on the employer covenant will probably result in significant costs and issues of practicality, especially for multi-employer schemes. However, if, contrary to our views, you mandate the inclusion of actuarial liabilities, it would be appropriate to adjust for the value of that covenant(s).

3. **Basis for measuring liabilities** - If liabilities were to be included in the scheme accounts, your Paper proposes an accounting measurement as opposed to a regulatory measurement basis. We agree that there are differences in the two approaches but must emphasis that the fundamental premise, to which trustees are accountable, is on going funding on a prudent basis. Technical provisions represent the trustees' assessment of the liabilities and are the amount which the trustees are legally obliged to secure, by way of an agreed contribution plan with the employer. They have no duty to secure funding above this level so long as the

[1] As required under the scheme funding regime of the Pensions Act 2004
[2] Chapter 11, paragraph 6.8
[3] Chapter 11, section 7 – The employer's covenant

employer is a going concern, but have a clear duty to close any deficit against them. However, regardless of the basis used the conclusion will remain – it would be very difficult to justify liability accounting.

4. **Legal obligation** - A crucial reason why the employer accounting approach is not appropriate is that the scheme is not itself ultimately legally obliged to meet the liabilities, this is the duty of the employer – whilst this does over simplify the legal framework, generally speaking a scheme is only obliged to provide what its assets can afford, any shortfall becoming a debt on the employer.

We welcome the opportunity to submit these comments, many of which were covered in more detail in our letter to you of 17 December 2007. We trust that our comments will help influence a desirable outcome for the pensions industry generally as well as assist with the global pensions accounting debate. If you would care to discuss further any points covered above, please don't hesitate to contact me.

Yours faithfully

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