From: Nicholas Lewis
To: Asbcomment Letters;
Subject: The Financial Reporting of Pensions - comments
Date: 20 July 2008 22:46:02

I apologise that this submission is a few days after the 14 July closing date, but hope that you will nevertheless take account of it. I am a chartered accountant specialising in investment analysis and financial modelling (including of pension liabilities), and I also have a certain amount of actuarial experience. My answers to the numbered questions posed
is:

1. Liability to pay benefits should be recognised be based on expectations of employees' pensionable salaries when they leave service. To do otherwise does not accurately match costs to the period in respect of which they have been incurred.

2. Financial reporting should be based on the premise that a liability is owed to an individual employee; no liability is owed to the "workforce" as a whole.

3. Yes, subject to answer to Q1.

4. It is logical to consolidate pension schemes in the sense of showing assets and liabilities separately, gross, on the balance sheet whether or not full consolidation would be required on general principles.

5. Yes - immediate recognition in balance sheet.

6. Agree with all, but consider that the risk-free discount rate used should be slightly higher than for government bonds, the yield on which is likely to be depressed by their special treatment for regulatory purposes and/or their high liquidity. The yield on AAA bonds, or gilt rates plus a fixed and modest margin, might be more suitable.

7. Generally, reported at the highest amount (prudent, and avoids assuming that many beneficiaries will continue to make poor choices), but allow probability approach to be used where the highest amount of the liability does not correspond to the highest net benefit to the individual (e.g., due to tax free treatment of lump sums).

8. Yes - bid prices, save maybe for investment in own shares which should be treated as own shares held directly by the company.

9. Yes

10. Yes

11. Yes, but with the actual return separated into a risk free return (at the rate at which liabilities are discounted) and a risk based excess return, as the latter is an unpredictable item that should not be treated as part of recurring earnings when valuing a company.

12. Yes

13. No response

14. Yes

15. Reflect asset, but symmetry with employer's accounts requires that their credit risk is not reflected in the amount of the asset (but could be noted). If it were reflected, then a contingent asset should be recognised in respect of payments out of the PPF in the event that the employer defaults.

16. No response

17. No response

I have two further comments:
a) the ASB should take no notice of special pleading from the NAPF and other organisations, which fear that the proposed more realistic accounting for pension fund costs and liabilities will cause more companies to clsoe their pension schemes.
b) the current ability to charge administrative/ fund management costs by way of a reduction in the expected return on assets, rather than direct to the profit & loss account, should be removed. Doing so means that valuations of companies on an enterprise value (as is logical) based on total market capitalisation + net debt + pension scheme deficit/(surplus) in relation to pre-tax earnings before finance costs are erroneous, since the such profit does not allow for the non-finance costs of running the pension scheme.

Yours faithfully

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