ips

Our ref: NC/WM

Accounting Standards Board
5th Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

21 July 2008

Dear Sirs

The Financial Reporting of Pensions

I have been asked to respond on behalf of Invensys Pension Trustee Limited, the Trustee of the Invensys Pension Scheme. The Invensys Pension Scheme is one of the largest UK pension schemes with assets of £4 billion and almost 100,000 members.

The Trustee has considered your paper, the Financial Reporting of Pensions, and in particular the Governance & Audit Committee have reviewed the details of your proposals and discussed their thoughts with our advisers.

This response concentrates primarily on issues relating to pension scheme accounts but we also make a number of generic comments with regard to company accounts and the effect any changes would have on pension schemes. Therefore we have not answered the questions that you raised directly but make a number of specific comments with regard to the report and accounts issued by pension scheme trustees.

1. We believe that the preparation of pension scheme accounts is different to the accounting requirement of company accounts and therefore there is no reason why the two forms of accounts should be the same.

   We believe that the pension scheme accounts are specific purpose accounts intended to provide a sensible appraisal of the pension schemes financial position to members, they are not general purpose accounts designed for an evaluation of the pension scheme by analysts or investors.

2. The fact that pension schemes are operated by a trust means that the accounts should reflect the trustees stewardship and the establishment of future liabilities on the balance sheet does not in any way meet this criteria.

3. Any valuation of future liabilities by the trustee would be speculative and based on assumptions made by the schemes advisers. The funding agreement that is made between the sponsoring company and the trustee is not a legally binding agreement and therefore any commitment on behalf of the company within the funding agreement can only be seen as contingent. Over time we will find that many of the funding agreements are amended dependent on the outcome of external factors that cannot be controlled or foreseen by the trustee.

4. The evaluation of the employer covenant is also a qualitative analysis that will be helpful to the trustee during periods of valuation and negotiations of scheme specific funding but it would be wrong to incorporate any quantitative valuation (if this is possible) of the employee covenant as an asset on the balance sheet.

Invensys Pension Trustee Limited
Invensys Pensions Higham House New Bridge Street West Newcastle upon Tyne NE1 8AN
Facsimile +44 (0)191 206 1011 e-mail enquiries@invensyspensions.co.uk www.invensyspensions.co.uk

5. There are substantial consequences of pension scheme accounts adopting the proposals contained in the paper:

   (i) the cost of preparation would be increased substantially with no apparent benefit to the scheme member.
   (ii) the accounts as produced would become highly complex and difficult for an untrained, non-professional member to understand.
   (iii) the ability to audit the accounts, and in particular the employer covenant, would become similarly complex and as a consequence would again increase the cost of the preparation of the accounts.

6. **Company Accounts**

   The proposals to change financial reporting of pensions for company accounts has a major effect of increasing the volatility of company accounts as short-term changes in rates will have a substantial effect on a company's long-term pension liabilities. This is at variance with the long term nature of a pension fund where the trustee recognises that the assumptions used in the valuation process will always change throughout the extended life of the pension fund.

   This will create further balance sheet strains for employers and will decouple the reported liabilities from the basis on which the company and trustee intend to manage them.

   The obvious consequence of implementing these changes in company accounts is that companies will find that the short-term volatility of a defined benefit pension scheme causes difficulties in reporting their financial position and will attempt to close down and dispose of defined benefit scheme liabilities in the future. This will lead to substantial issues for both the pension scheme trustees and the members.

Overall the Trustee believes that these proposals do not help the financial reporting of pensions, the proposals have not been built to successfully integrate the accounting model with the behavioural assumptions of the economic model and in total we do not believe that the behavioural assumptions are appropriately addressed.

Yours faithfully

NIGEL CASSON
General Manager

Direct Tel (0191) 206 1020
Mobile: 07713 501 850
Direct Fax (0191) 206 1031
e-mail: nigel.casson@invensyspensions.co.uk