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Dear Ms Carter

ACA RESPONSE TO FRED 55

I am writing on behalf of the Association of Consulting Actuaries (ACA), in response to your consultation on FRED 55 regarding draft amendments to Section 28 of FRS 102.

Members of the ACA provide advice to thousands of pension schemes, including most of the UK's largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given by members is subject to the Actuaries' Code. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes.

The ACA is the representative body of consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

We welcome the opportunity to respond to the consultation. Our responses to the two questions set out in the consultation document are given below.

Question 1

Do you agree that FRS 102 should be amended to clarify that an entity is not required to recognise any additional liabilities to reflect an agreement with a defined benefit plan to fund a deficit, where the entity has already measured and recognised its obligation/asset in accordance with paragraphs 28.15 and 28.18 (and additionally for assets, paragraph 28.22) of FRS 102, even though this may differ from the accounting required by entities applying EU-adopted FRS? If not, why not?

We welcome the FRC's move to clarify the position and agree with the FRC's suggested approach on the grounds of achieving an outcome which is less complex than the corresponding treatment under IFRIC 14.

Furthermore the FRC's suggested approach is consistent with our understanding of how the existing UK accounting standard has been applied in practice. Despite the reference to onerous contracts in FRS 12 we are not aware of entities recognising an additional liability on their balance sheet in excess of the value required by paragraph 37 of FRS 17 (i.e. the value of scheme liabilities minus the value of the scheme assets).

As the draft amendment creates an inconsistency between FRS 102 and EU-adopted IFRS in the treatment of plans which would give rise to the recognition of a larger liability under IFRIC 14 we have two suggestions that the FRC might like to consider. These could be included in either in the final form of the wording of the amendment to FRS 102 or in the wider commentary that accompanies the FRC's decision on the draft amendment:

1. Clarify whether the other provisions of IFRIC 14 (aside from those related to minimum funding requirements / deficit contributions) should be taken into account when applying FRS 102, or whether IFRIC 14 is simply one source that the entity's management should consider when forming an accounting policy on this matter in accordance with paragraphs 10.4 to 10.6 of FRS 102.
2. Clarify how you expect disclosure of "funding policy" under FRS 102 paragraph 28.41(a) to be applied and whether this should include full disclosure of deficit contributions that have been committed to (e.g. in a schedule of contributions). Given the significance that pension scheme contributions comprise for many entities that sponsor defined benefit pension plans, we consider that users of accounts would find it helpful to know what specific funding commitments have been entered into by the entity (including the amount of contributions and the term over which those contributions are payable). Such information should be readily available to entities and therefore would not have a significant effect on the cost of compliance with FRS 102.

Question 2

Do you agree with the proposed new paragraph 28.15A of FRS 102 and the other proposed amendments to FRS 102? If not, why not?

We agree with these changes. In particular, paragraph 28.25 brings consistency with IAS 19's treatment of changes in the effect of the asset ceiling.

Yours sincerely

Andrew Mandley
On behalf of
ACA Accounting Standards Committee
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