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Comments on Financial Reporting Exposure Draft (FRED) 48
"The Financial Reporting Standard applicable in the UK and Republic of Ireland"

I write on behalf of the Association of Consulting Actuaries (ACA) in response to the ASB's revised proposals for the future of financial reporting in the UK and Republic of Ireland (FRED48).

Members of the ACA provide advice to thousands of pension schemes and their sponsoring employers, including most of the country's largest schemes. Accordingly our response focusses on the revised proposals for the treatment of defined benefit pension plans, both in company accounts (FRED 48 Section 28), and in the financial statements of retirement benefit schemes (FRED 48 Section 34).

Members of the association are all qualified actuaries and are subject to the Actuaries' Code of the Institute and Faculty of Actuaries. 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 in the UK.

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

Financial reporting of post-employment benefits (FRED 48 Section 28)

We welcome the revised FRED, which has departed significantly from the IFRS for SMEs on which it is based. In doing so it removes significant ambiguities that exist in the IFRS for SMEs, and brought the requirements of the new FRS into line with the international accounting standard on employee benefits, IAS 19.

There are a number of shortcomings in the rules for defined benefit schemes in the IFRS for SMEs, not least that they have not yet been revised in line with the latest revisions to IAS 19, and we would support you in encouraging the IASB to revise the IFRS for SMEs to be in line with your proposals in FRED 48.

The FRED retains options to use simplified methods for measuring the costs of defined benefit plans. While these simplifications are sometimes appropriate for plans elsewhere in the world, for typical benefit plans in the UK and the Republic of Ireland, these simplifications are unlikely to result in cost savings. Instead, they could increase diversity in practice and add complexity by creating options for reporting entities to consider. Given that the FRS is targeted mainly at the UK and Republic of Ireland, we suggest that the options for simplification, given in paragraph 28.19, are removed. We believe that this would further simplify the standard and reduce diversity in practice.

In paragraph 28.18, we believe that the reference to "expected rate of return on plan assets" should be deleted as this is not part of the projected unit credit method for measuring the defined benefit obligation.

Financial statements of retirement benefit plans (FRED 48 section 34)

We confirm that we broadly agree with the proposals for disclosures about the liability to pay benefits (question 6 of the consultation). These require disclosure of information prepared on the most recent actuarial valuation. We make further comments as follows:

- Paragraph 34.43 (a) requires that vested and non-vested benefits are distinguished from each other. This information is rarely likely to be available in the underlying calculation, and we do not think it is likely to be relevant to readers of accounts. We therefore recommend that the requirement to give this distinction is removed.
- Paragraph 34.43 (a) requires disclosure of "the actuarial present value of promised retirement benefits", while paragraph 34.43 (b) requires disclosures of the "technical provisions". These two requirements could mean exactly the same thing but (a) is not defined and could be interpreted as having a different meaning. We suggest that to aid clarity (a) is defined as meaning the "technical provisions" and (b) is deleted.

We have some concerns with the requirements set out in paragraphs 34.17 to 34.30, which apply to financial institutions including retirement benefits schemes, and in some cases may be difficult to apply meaningfully to retirement benefits schemes. In particular, I highlight paragraph 34.29 of the FRED 48 draft, which states:

> *"34.29 A financial institution shall provide a sensitivity analysis for each type of market risk (eg interest rate risk, currency risk, other price risk) a financial institution is exposed to, showing the impact on profit and loss and equity. Details of the methods and assumptions used should be provided."*

This paragraph would appear problematic for a pension scheme because:

- It is not clear whether the requirement should be read as to apply for the assets only (which appear in the balance sheet), or also to the technical provisions (which do not appear in the balance sheet but do appear in the disclosures).
- If the requirement were applied to both assets and technical provisions, this would give information that is at best hard to interpret and at worst meaningless because they are measured at different dates.
- If the requirement were applied to assets only, the results would again be rather meaningless because information about the sensitivity of assets to market movements is of limited use in understanding pension schemes without also having the sensitivities to liabilities.
- Most pension schemes are unlikely to have meaningful sensitivity analysis (such as value at risk analysis) available without undue cost or effort.

We therefore suggest that retirement benefits schemes should be exempt from the requirements of paragraph 34.29.

Please do not hesitate to contact me if you have any questions.

Yours Sincerely,

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