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Accounting Standards Board
Aldwych House
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by email only

For the attention of Michelle Sansom

Dear Sirs

Information Sheet No 90 – UITF Draft Abstract

I am writing to comment on the UITF Draft Abstract that considers the accounting for the change to past service cost brought about in public sector pension schemes by a switch to the consumer price index (CPI) for pension increases.

Formerly an audit partner at Deloitte I am now a non-executive director at a Building Society and also a board member at The Arts University College at Bournemouth, a Higher Education college. It is in the latter capacity that I have been caused to consider the Draft Abstract as most HE institutions will approve their annual financial statements during November. I am however writing solely in my personal capacity.

The Draft Abstract broadly concludes that where scheme liabilities were previously linked to the retail prices index (RPI) the impact of the change to CPI should be taken through the current year. Where previously they were not so linked the change should be recognised as an actuarial gain or loss and hence through the STRGL. Whilst I understand this approach I do not believe it has addressed some aspects of the issue.

1) FRS 17 addresses past service costs at paragraphs 60 to 63. These do not specifically address decreases in benefit, although of course reverse principles may be expected to apply. That is presumably because it was not anticipated employers would propose and more particularly employees would accept such changes – ie decreases in benefit. The principle was clear; if the employer agreed to up grade benefits the cost should be recognised in the performance statement as agreed just like any other change and hence cost that is under the control of management. For many entities affected by this change this is not the case. Management have not, nor do they propose change, central government has or is in the process of determining it. Paragraph 61 starts “Past service costs arise when an employer makes a commitment...”. In many cases here the employer is not making a commitment; rather it is being externally imposed upon it. For this reason I do not accept that the sections of FRS17 regarding past service costs are pertinent to

those entities where management has neither initiated nor is not able to influence this change.

2) The alternative is recognition through the STRGL. Paragraph 57 of FRS 17 requires that "actuarial gains and losses.....from updating the latest valuation to reflect conditions....should be recognised in the statement of recognised gains and losses" I do not think there is a definition of "conditions". However in the current UK financial environment the proposed move to CPI indexation appears to me to be driven precisely by economic "conditions". On that basis the change is thereby one that should be accounted through the STRGL.

I hope you will find these comments helpful and constructive. I shall be pleased to discuss them should that be helpful.

Yours sincerely

Paul Sheppard