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Dear Michelle

Proposed UITF Abstract 'Accounting implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits'

We are writing in response to the UITF's invitation to comment on the above Draft UITF Abstract. We agree that guidance is required in this area and appreciate the speed with which the draft abstract has been issued.

We support the basic proposal that a change in benefits arising from a change in the scheme rules should be recognised in profit and loss and that a change of assumptions should be reflected in the Statement of recognised gains and losses as an actuarial variance. We also support the proposals on timing of recognition. Namely changes in benefits are recognised in the period that the changes occur and that changes in assumptions should be recognised in accordance with market assumptions at the balance sheet date.

We do not agree with the assertion in the first sentence of paragraph 6 that "where the Scheme liabilities are linked to at least RPI any change to these liabilities will generally require the agreement of either the retirement benefit scheme trustees and/or the members of the scheme". Our concerns in this respect are set out in the main comments below.

Main comments

Where a company has a constructive obligation to give increases based on at least RPI it is by no means certain that agreement of the trustees or members will be required to change the index used as implied in paragraph 6 and also in A10. It is our understanding that for many schemes, a change in the government published indexation measure is sufficient on its own to permit the company to implement the change in the determination of indexation benefit and that agreement with the scheme trustees or members will not be necessary even where previously a constructive obligation to use RPI was considered to exist.

There is a danger that the abstract as currently worded could be read to imply that any change that is not required to be approved by the trustees or members is considered to be a change of estimate. In this regard we believe it is pertinent to look to certain provisions in IFRS, such as BC 55 of IAS 19 and the subsequent comment by the IFRIC that "the IASC did not believe that the source of the change should affect the accounting. Therefore, the accounting for changes caused by government should be the same as for changes made by an employer" (IFRIC Update November 2007).



The statement on 8 July 2010 announced the Government's intention to move to using the Consumer Price Index (CPI) as the measure of price inflation for the purposes of regulating occupational pension schemes. The government had already announced their intention to change the accrual rate for many unfunded public sector schemes the participants of which may include private sector entities required to apply FRS 17 and this abstract. The June 2010 emergency budget 1.106 noted *"The Government will use the Consumer Prices Index (CPI) for the price indexation of benefits and tax credits from April 2011. This change will also apply to public service pensions through the statutory link to the indexation of the Second State Pension."* This seems an even stronger argument for an approach based on IAS 19 BC 55 giving a change in benefits rather than simply a change in assumptions.

We believe the phrase "linked to at least RPI" is unclear. Paragraphs 6 to 9 of the draft abstract refer to scheme liabilities being or not being "linked" to at least RPI without saying what is meant by linked. We assume that the intention is that "linked" means there is an obligation (legal or constructive) to pay a pension increase based on at least the RPI as discussed in paragraph 5. Paragraph 7 seems to imply that there is a category of change from measuring indexation benefits based on RPI to one based on CPI which is not "linked". Does a change of legislation fall within the scope of paragraph 7? It would be helpful if this was made clearer. Our view would be that indexation of a benefit calculated by reference to RPI in accordance with the "old" statutory indexation requirements could be considered "linked" to RPI.

Other comments

References are made in various paragraphs to past service costs. We note that FRS 17 defines a past service cost in terms of increasing the present value of scheme liabilities and not in reducing that value. This contrasts with IAS 19 which does explicitly envisage negative past service cost.

Paragraph A6 of the draft abstract makes reference to IFRS adopters. We believe it would also be helpful to draw their attention to BC 55 of IAS 19 and the subsequent comment by the IFRIC (see above).

If you would like to discuss this please contact Iain Lawson on 0207 893 3623.

Yours faithfully



BDO LLP