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Sent by email to:
asbcommentletters@frc-asb.org.uk

9 November 2010

Subject: UITF Draft Abstract - Accounting Implications of the replacement of the Retail Prices Index with the Consumer Prices Index for Retirement Benefits

Dear Ms Sansom,

We welcome the opportunity to comment on the above draft Abstract.

Mercer Limited is a global leader for HR and related financial advice and services. In the UK, our client base includes employers and trustees providing occupational pension schemes to employees in all sectors of industry; we provide pensions advice and services to 60% of companies in the FTSE 100 but we also have a large proportion of clients that are employers classed as 'Small to Medium sized Enterprises', or trustees of pension schemes with sponsoring employers in this class.

In preparing our response we have considered our clients' interests and we have also responded in our position as a leading firm of pensions professionals.

Overall, we welcome the draft Abstract as providing clarification of the circumstances in which a change to CPI retirement benefit indexation should be accounted for as an assumptions change or a benefit change. Our comments are as follows:

Para 6 - We agree that, in general, where there is a legal or constructive obligation to provide RPI, requiring the consent of the scheme trustees and/or members to alter, the change should give rise to a negative past service cost.

Para 7 – Statutory orders commonly form the legal obligation for deferred revaluation in the UK. In our view, it will generally not be necessary to obtain trustee or member consent to

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change the deferred revaluation from RPI to CPI in cases where the scheme rules refer to statutory orders. Even though scheme documentation (e.g. member booklets, benefit statements) may explicitly refer to RPI deferred revaluation rather than statutory orders, it will generally include a caveat stating that it is overridden by the formal Trust Deed & Rules, in which case it can be argued that there is no constructive obligation. Even where there is no mention of the Trust Deed & Rules, in many cases it will be clear that the intention is to provide revaluation in a way that meets the statutory requirements, and so the presumption that it will need to follow RPI in future might not be correct.

Further, in many cases, including those where booklets, for example, mention RPI, the expectation will be for inflation linking, as opposed to any particular index. The Government has decided that CPI is a more appropriate measure of this inflation.

Determination of whether or not a constructive obligation exists is addressed by the draft Abstract's suggestion that there will be no constructive obligation provided that the plan sponsor does not need to seek trustee or member consent for a change to the measure of the level of increase. We believe that this is reasonable. In general, we believe that when scheme documentation refers to statutory orders, the only valid member expectation will be for statutory orders based on inflation-linked increases, rather than for RPI. We do not believe that past practice to give RPI increases because past statutory orders reflected RPI creates a valid expectation for RPI. A change in the assumption for future statutory orders reflects the Government's ability to change the model and assumptions used to measure the general level of price inflation.

Para 10 – The effective date should not require restating of prior years' results.

Again, we would like to thank the UITF for the opportunity to comment. If you would like clarification of any of the points raised in this letter, please do not hesitate to contact Warren Singer (warren.singer@mercer.com) or me (sarah.smith@mercer.com).

Yours sincerely

Sarah Smith
Principal

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