MAKINSON COWELL

Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

21 January 2013

Dear Miss Raval,

THE FINANCIAL REPORTING OF PENSIONS

Makinson Cowell

Makinson Cowell is a capital markets advisory firm specialising in investor relations. As part of our advisory role we advise large quoted companies on how their accounts are interpreted by investors, what questions those investors might ask, and what additional information, in the form of adjustments to the IFRS figures, would be helpful to investors. We work for more than one third of the FTSE 100 and for over 40 of the FTSEurofirst 300.

We fully support the FRC's involvement in producing a Discussion Paper on this subject and welcome your attempt to influence the development of financial reporting standards in this important area. We also congratulate the FRC on producing a discussion paper which is concise, clear and relatively low in technical language.

There follow our comments and suggestions on the Discussion Paper.

1/ We feel that the questions identified provide a good basis for addressing a disclosure framework.

2/ The disclosure themes on p16 appear to provide a helpful breakdown for disclosures. We note that it is, at least theoretically, possible that a risk could be positive as well as negative (i.e. positively rather than adversely affect the financial statements) and that this could also be a useful financial disclosure. Perhaps also the distinction between risks and uncertainties could be clearer (we would assume that the former apply to circumstances which might occur in the future and the latter to circumstances applying at the balance sheet date though sensitivities might not, therefore, fit comfortably in uncertainties.

3/ Commentary, Governance and Financial Statements should provide sufficient categories to fit most components of the financial report of a company. There are other items in many sets of accounts (e.g. information on shareholdings) and disclosures which might fit in these (e.g. identities of major shareholders) but we do not see a pressing need for these to be covered by this paper or that they would be appropriate locations for the disclosures discussed therein.

4/ The placement criteria suggested in the paper seem reasonable and the examples given sensible. As far as risk is concerned we can see some support, particularly in financials, for the grouping of risk information together and wouldn't wish to preclude this.

5/ The FRC's approach of separate standards for smaller and lower public interest companies seems a sensible approach to proportionality. We can imagine that it would be difficult to reconcile local practices with the single principles based disclosure requirement approach though it might be theoretically more attractive.

6/ We are happy with the framework for assessing materiality in the paper. It may need a little more information as to how it applies to comparatives. We also support the grouping of remuneration and related party disclosures together in the corporate governance section of the report and their different levels of materiality, though we can envisage a need for occasional particularly large transactions being noted additionally in the management commentary.

7/ There are often ways to improve specific items of disclosure, maybe by use of tabular or graphical formats or combination with disclosures required by another standard, these are not generic solutions across the board however. For this reason we think that standard setters should generally avoid setting specific formats for disclosures though innovative methods could be encouraged where helpful.

8/ We use financial reports for building models of companies' financial position and performance to allow us to compare them with peers and follow trends over time. In more common terms we are probably most similar to buy-side investors in our needs, though may require more detail than some of these as, due to client related projects, we spend more time on specific companies than is available to generalists on the buy-side.

9/ Use of disclosures varies by company. Those virtually always used include segment disclosures, cash flow reconciliations, reconciliations of non-GAAP measures (and exceptional or other items therein), geographical breakdowns (if not considered part of segment disclosure), finance and pension costs, provisions (mainly to highlight unusual cash flows) and fixed asset notes. Some important in some cases would be maturity analysis of debt, disaggregations of debtors and creditors and acquisition and disposal notes.

10/ Rarely used disclosures would include accounting policy notes (though these can be useful in some esoteric sectors such as oil exploration companies or those with biological assets), deferred tax, related party disclosures, split of financial assets and liabilities by valuation hierarchy, principal subsidiary notes, share based payments, remuneration details such as breakdowns of options owned (though the basis, relative importance and drivers of schemes are important, and we are hopeful that the new disclosures associated with the company law update will be useful) and disaggregations of derivative assets (though this is more a matter of these not providing information in a useful form than there not being useful information in some cases), lists of principal risks (which usually aren't principal or are obvious).

11/ **Use of information**

Management commentary: for analysis of the reasons for changes in financial performance or position or cash flows associated with them and for information on prospects.

Governance: we do not use this section much

Notes to the financial statements: we use the information here to support management claims in the commentary, to help to put peers onto a similar basis for comparison purposes and to make adjustments to performance, position and liquidity measures. Analysis of specific items within the notes is fairly common with guidance on which are most frequently used considered in response to questions 9 and 10.

Regards

Andrew Jones

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