The Pensions Research Accountants Group

Exposure draft on the financial reports of pension schemes

A response by

The National Association of Pension Funds

March 2007

Introduction

The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF member schemes while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF member schemes hold assets of approximately £800bn, accounting for one sixth of the investment in the UK stock market.

The NAPF welcomes the opportunity to comment on the PRAG discussion paper.

Generally speaking, the scheme report and accounts is the trustees' primary stewardship document and its production is a useful and valuable discipline which we believe should be primarily a reporting document for members and other stakeholders. We support the general objective of improving the scheme annual report and accounts but not to add disproportionately to the costs of production.

Our comments

The proposed revisions do not require the inclusion of actuarial liabilities directly into the financial statements. We concur within this approach.

Actuarial information is already available in the triennial valuation reports, in the recovery plan (where there is a deficit) and in the summary funding statement. We recognise, nevertheless, that it is unusual for a pension scheme to have no meaningful disclosure in its main stewardship document and so would suggest that a summary of the key points from the latest actuarial valuation, including the principal actuarial assumptions, recovery plan and schedule of contributions be included within the scheme annual report with a cross reference to the appropriate documents.

If the actuarial liabilities were to be included, there is the issue of how the liabilities should be valued with possible pressure to move to a basis, for which the accountants take responsibility, e.g. FRS17, with the attendant problems, costs and inconsistencies that would entail.

Although information about the employer covenant is clearly relevant, the disclosure is problematic because of market sensitivities. We reiterate a point we made in our earlier responses to The Pensions Regulator on the same subject – Trustees can only give information which is in the public domain.

Contributions

We are confused by the guidance provided on the use of the time value of money when linked to the accounting for contributions in paragraph 2.48. The scheme actuary utilises the audited assets for actuarial valuation purposes. To determine the future funding needs, recovery plan etc, contributions due after the net assets statement date need to be excluded. We think it would increase the rate of errors if the scheme actuary was required to review in detail the nature of the net assets and exact contributions that were accounted for other than on a receivable basis.

As legislation to amend the Disclosure Requirements has, we understand, been withdrawn, we expect that the audit opinion on the summary of contributions will be continuing. Neither the exposure draft content or illustrative format of the accounts make any reference to the summary of contributions. It would be useful for this to be included as a single reference point for accountants and other users of the PRAG document.

Investments

It is beneficial for there to be consistency in the basis of valuation of investments in the reporting by companies and pension scheme hence we welcome the intention to introduce bid price as the basis of valuation.

On derivatives, the additional guidance presented is useful but we think users of the document would benefit by examples of the intended disclosures being included in the illustrative format of the accounts.

We welcome additional disclosures on transaction costs by pension schemes and hence by their appointed investment managers. The information required does, however, need to be readily available and we are not convinced that the systems are necessarily in place to extract all such costs and report them separately from other investment transactions.

We are happy to answer questions on any aspect of our response.

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