

NAPF Response to the IASB Discussion Paper: Preliminary Views on Financial Statement Presentation

1 About NAPF

1.1 The NAPF is the leading voice of workplace pensions in the UK. We speak for 1,200 pension schemes with some 15 million members and assets of around £800 billion. NAPF members also include over 400 businesses providing essential services to the pensions sector.

1.2 Our main concerns in responding to the Discussion Paper are twofold: to ensure that any new standard both provides meaningful information to investors and users of accounts and does not cause employers to withdraw from offering good quality pensions for purely accounting reasons.

2 General Considerations

2.1 We welcome the IASB's consultation on financial statement presentation. Presentation is a key issue in accounting. It would be naïve to assume that financial statements are entirely neutral, merely conveying information about the reporting entity. It is inevitable that presentation will, at least to some extent, drive decision making. This is particularly the case with long-term assets and liabilities, whose valuations are necessarily uncertain and subject to quite extreme changes, depending on the implicit and explicit assumptions on which they are based.

2.2 In our response to the IASB's Discussion Paper 'Preliminary Views on Amendments to IAS 19 *Employee Benefits*' we argued that the case had not been convincingly made for the removal of all options for deferred recognition of actuarial gains and losses, and that decisions on the options for deferral and changes to presentation in the income statement should await the outcome of the IASB's project on financial statement presentation. We are therefore disappointed that the IASB has decided to exclude pensions accounting from the scope of its consultation on financial statement presentation and to go ahead separately with proposals on pensions accounting presentation in advance of a wider decision on presentation. New approaches to presentation will require a major educational effort on the part of accounting standards setters to ensure that they are properly understood by both preparers and users of accounts. We believe that this process can only take place effectively in the context of the wider review of presentation.

- 2.3 We will not respond in detail to the IASB's Discussion Paper. We support the Board's objective of creating a format that addresses users' and preparers' needs. In particular, we support the concept of disaggregation, requiring information that responds differently to economic events to be shown separately. We have some concerns about the shift towards a management based approach to classification, but we recognise that there is a balance that must be struck between consistency (classifying assets and liabilities in the same way) and relevance (presenting information in a way that is most representative of a company's circumstances). Accounting standards setters will have to watch carefully how preparers of accounts strike this balance.
- 2.4 Our more specific comments below are based on our understanding of how the IASB Board is intending to take forward its proposals for pensions accounting presentation.

3 Pensions Accounting Presentation

- 3.1 Our understanding of how the IASB Board is intending, albeit tentatively, to take forward its proposals for pensions accounting are based on our discussions with the IASB and on reports in 'Update'. We are concerned about the presentational aspects of its intended approach and would again emphasise our belief that decisions on pensions accounting must be considered in the context of the IASB's project on financial statement presentation and await the outcome of the project. We are also concerned about the IASB Board's tentative decision to go ahead with proposals for pensions accounting before the completion of its review of fair value measurement of assets and liabilities.
- 3.2 We understand that the Board has tentatively decided to include remeasurements within the profit and loss account. Although they would be included separately in the profit and loss account, just above the profit and loss total, we believe that users of accounts will continue to focus on the profit and loss total and not properly take into account the different nature of the revaluation amounts and their lower predictive value.
- 3.3 There also appears to be a disconnect between the Board's proposed treatment of pension income and pension expense. The full movement in the return on the scheme assets will be included in remeasurements. This leads to the result that the unwinding of the discount on the scheme liabilities will be included in financing costs, separated in the profit and loss from the movement on the assets in remeasurements which is IASB expects should be afforded lower significance by users than the other profit and loss account items. A consequence of this is that unfunded schemes will receive a more favourable accounting treatment than funded schemes, as the lower bank interest that the employer with an unfunded scheme pays will reduce the

financing charge, offsetting the unwinding of the discount on the liabilities. Also, for an entity that has adopted a liability driven investment strategy for its pension scheme, where the assets are specifically intended to move in line with the liabilities, the movement on the assets will be in a different part of the profit and loss account from the movement on the liabilities and will potentially be viewed differently by users of accounts. This does not appear to be presenting information in a way that is helpful to users.