

NAPF Response
ASB Financial Reporting Exposure Draft:
The Future of Financial Reporting

1 About the NAPF

The National Association of Pension Funds (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. Our members are interested in the future of financial reporting in the UK on three accounts:

- as major investors, advisers and investment managers, our members are interested in the usefulness of the financial statements as a basis for their investment decisions;
- as institutions responsible for the pensions of millions of workers, our pension scheme members are interested in a framework for scheme accounting that meets the needs of their beneficiaries; and
- more generally, our members are interested in financial statements that provide an realistic view of the employer's pensions obligation and do not discourage the provision of good quality pensions.

2 Scope of response

We recognise that the increasingly global acceptance of International Financial Reporting Standards (IFRSs) has significant implications for UK GAAP and welcome the Accounting Standards Board (ASB)'s efforts to consolidate and simplify the framework for financial reporting in the UK. In our response we restrict our comments to the ASB's proposals for pension scheme accounts.

3 Response

- 3.1** We believe that the Accounting Standards Board (ASB)'s proposals for pension schemes' financial statements will be onerous, particularly for larger, more complex schemes, without providing a corresponding benefit to the stakeholders – particularly the beneficiaries of the scheme, pensioners and other scheme members – for whom the financial statements are intended. We also believe that the ASB is incorrect in its analysis of the legal basis for its proposals for pension schemes' financial statements.

- 3.2** The ASB proposes that pension schemes should be treated as ‘entities with public accountability’ and as such be subject to a ‘Tier 1’ reporting obligation to apply EU-approved International Financial Reporting Standards (IFRSs)¹. The Exposure Draft’s Impact Assessment concludes that ‘there are likely to be minimal changes in reporting by pension funds and minimal costs’². We understand that the ASB now believes that this is not the case and that, in particular, the derivative disclosures required by IFRS 7³ would impose a significant extra cost burden on larger, more complex schemes. We do not believe that disclosures at the level of detail and complexity required by the IFRS would benefit scheme members to whom the scheme accounts are primarily addressed. Pension schemes are already under considerable pressure and we fear that additional burdens could provide a further incentive for employers to close good quality pension schemes that should be perfectly affordable.
- 3.3** Our understanding of the legal position is that pension scheme beneficiaries are not ‘outsiders’ but are an essential element of the pension trust. Pension schemes therefore do not meet the criteria for ‘public accountability’ that the ASB is following⁴. There is thus no over-riding requirement to treat pension schemes as ‘publicly accountable’, and decisions about how they should report can be based on the merits of the case. This would point to pension schemes being treated as Tier 2 and Tier 3 entities, depending on their size. We would support an update of the pensions SORP, which is more or less consistent with the existing international standard for pension schemes (IAS 26⁵), to provide guidance on the application of the new financial reporting arrangements.

June 2011

¹ Part One: Explanation, paragraphs 4.8 and 10.54-10.55.

² Part One: Explanation, Section 11: Impact Assessment, paragraph 11.70.

³ IFRS 7 ‘Financial Instruments: Disclosures’.

⁴ In paragraph 10.54 of Part One of the Exposure Draft, the ASB refers to BC59 of the IFRS for SMEs (IASB ‘International Reporting Standard for Small and Medium-sized Entities’, Basis for Conclusions, paragraph BC59) where pension funds are listed with a range of financial institutions as entities that ‘hold and manage financial resources entrusted to them by a broad group of clients, customers or members ...’. The definition given at BC56 of the IFRS in fact refers to ‘a broad group of outsiders’.

⁵ IAS 26 ‘Accounting and Reporting by Retirement Benefit Plans’