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Accounting Standards Board
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Dear Sir/Madam

Charity Finance Directors' Group and the Charities Consortium Response to the Accounting Standards Board consultation on the Financial Reporting of Pensions

The Charity Finance Directors' Group (CFDG) and the Charities Consortium welcome the opportunity to comment on this consultation.

CFDG was set up in 1987 and is an umbrella charity that specialises in helping charities to manage their finance-related functions. Visit www.cfdg.org.uk for further information. CFDG has circa 1,500 members who are responsible for the finances of charities with a wide variety of income levels. Between them our members manage some £13.7 billion in charity income per year. CFDG is working to promote public confidence and good management within charities.

The Charities Consortium's membership criterion is the Finance Directors of the 50 largest UK charities. The Consortium currently has 46 members. The Consortium brings together the financial and business expertise of the largest charities in support of the charity sector as a whole and to tackle issues specific to large charities.

We think this is a useful addition to the discussion on pensions reporting. This issue has a material impact on the CFDG and Charities Consortium membership and is a key area of risk management. CFDG earlier this year published the 2008 Charity Pension Maze, well received by the sector, which highlighted the need for UK charities to address pension scheme issues in order to meet the challenges created by a less stable economic environment and continuing regulatory change.

Please find our answers to the specific questions below.

Yours sincerely,

Keith Hickey
CEO, CFDG

Charles Nall
Chair of Charities Consortium

ANSWERS TO SPECIFIC QUESTIONS

CHAPTER 2: LIABILITIES TO PAY BENEFITS

Q.1) Should a liability to pay benefits that is recognised be based on expectations of employees' pensionable salaries when they leave service, or on current salaries (including non discretionary increases)?

It depends on the contract between the employer and the employee and the historical actions of the employer. If a combination of these two create a valid expectation of continuing annual pay rises at, say RPI, then a constructive obligation exists and future pay rises should be taken into account. The fact that a pay rise is discretionary, based say on the employee's future ability to pay, is only relevant if the employer has historically demonstrated following this option; if not there is a valid expectation. If a valid expectation has not been created then the liability to pay benefits should be based on existing salaries.

Q.2) Should financial reporting be based on the premise that a liability is owed to an individual employee or to the workforce as a whole? What consequences do you consider your view has for the recognition and measurement of pension obligations?

See answer to Q1.

Q.3) Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?

See answer to Q1.

CHAPTER 3: ASSETS AND LIABILITIES - REPORTING ENTITY CONSIDERATIONS

Q.4) Do you agree that the consolidation of pension plans should be subject to the same principles as are usually applied in determining whether consolidation is appropriate?

Yes.

CHAPTER 4: RECOGNITION OF PENSION ASSETS AND LIABILITIES

Q.5) Do you agree that changes in assets and liabilities relating to pension plans should be recognised immediately , rather than deferred and recognised over a number of accounting periods or left unrecognised provided they are within certain limits (a 'corridor') approach?

Changes in assets and liabilities should be recognised immediately. This is the least bad of the options. The benefit is transparency – information is available to the decision maker on a (more) timely basis. The drawback is volatility.

CHAPTER 5: MEASUREMENT OF LIABILITIES TO PAY BENEFITS

Q.6) Do you agree with the paper's views in the measurement of liabilities to pay benefits? In particular, do you agree that:

- **Regulatory measures should not replace measures derived from general accounting principles?**

Yes

- **The discount rate should reflect the time value of money only, and therefore should be a risk-free rate?**

No

- **Information about the riskiness of a liability (i.e. the risk that the amount of pension benefits will differ from today's expectations) is best conveyed by disclosure rather than by adjusting the amount of the reported liability?**

We agree; this is the more transparent way to approach this matter.

- **The liability should not be reduced to reflect its credit risk?**

No

- **Expenses of administering the plan's accrued benefits should be reflected in the liability?**

The expenses of administering the plan are part of the costs of delivering the year's service liability and should be recognised as service accrues the liabilities on a reasonable basis, e.g. industry practice if scheme experience is limited.

Q.7) Where employees have options to receive benefits in different ways, should the liability be reported at the highest amount or at an amount that reflects the probability of different outcomes?

The aim is to reflect economic substance, so averaging/probability should be used and the maximum liability should be noted.

CHAPTER 6: MEASUREMENT OF ASSETS HELD TO PAY BENEFITS

Q.8) Do you agree that assets held to pay benefits should be reported at current values?

Yes. Transparency and objectivity should lead one directly to mark the market.

CHAPTER 7: MEASUREMENT OF EMPLOYER INTERESTS IN ASSETS AND LIABILITIES OF TRUSTS AND SIMILAR ENTITIES

Q.9) Do you agree that a 'net' asset or liability should be based on the difference between the amounts at which the assets and liabilities would be measured if they were measured directly?

Yes. The only exception would be where direct investment or liability management tools were used that link assets and liabilities in a manner that compromises to a material degree the common sense view that assets less liabilities represents a net asset or net liability. In those exceptional circumstances, the substance of the material transactions should be disclosed along with their effect and a 'revised' net figure be used to reflect the revised economic net burden.

CHAPTER 8: PRESENTATION IN THE FINANCIAL STATEMENTS

Q.10) Do you agree that different components of changes in liabilities and/or assets should be presented separately?

Materiality is what matters here. If assumptions or components are material, then they should be disclosed.

Q.11) Do you agree that the financial performance of an entity should reflect the actual return on assets, rather than the expected return, and that the expected return should be required to be disclosed?

Yes. What actually has happened is relatively certain. Disclosure on this basis is transparent and objective. The difference between this and what was expected to have happened is information to help guide the decision maker on the risks in the assumptions about future performance.

CHAPTER 9: DISCLOSURES IN THE EMPLOYER'S FINANCIAL STATEMENTS

Q.12) Do you agree with the objectives of disclosure that are identified in this Chapter? Are there specific disclosure requirements that should be added to or deleted from those proposed?

Yes.

CHAPTER 10: ACCOUNTING FOR MULTI-EMPLOYER PLANS

Q.13) Do you agree that multi-employer plans should be reflected in an employer's financial statements using the same principles as those that apply to a single employer plan? How, in your view, should an accounting standard require that this be implemented in practice?

Yes. Where there is sufficient information available about a multi-employer defined benefit plan, the employer should account for its proportionate share of the defined benefit obligation, plan assets and post-employment benefit cost associated with the plan, in line with the requirements of IAS 19. However, where such information is not available it is still important that the employer should make every effort to calculate the appropriate share. We believe that accounting for even a simplistic best estimate (accompanied by disclosure) provides better information to users than no accounting and as such any rational non-IAS 19 basis should be acceptable.

CHAPTER 11: FINANCIAL REPORTING BY PENSION PLANS

Q.14) Do you agree that a pension plan's general purpose financial report should include its liabilities to pay benefits in the future? Do you agree that the plan's liabilities for future benefits should be quantified using the same principles as an employer's liability?

Yes.

CFDG PROMOTING BEST PRACTICE IN CHARITY FINANCE

Q.15) Do you agree that a pension plan's statement of financial position should reflect an asset in respect of amounts potentially receivable under an employer's covenant, and that this should reflect the employer's credit risk?

Yes, provided and to the extent that a funding plan has been agreed or is reasonably certain of being entered into. Where no funding agreement has been reached and material uncertainty exists as to whether a funding agreement might be entered into, a default setting is needed. Without agreement, the pension scheme trustees would have to take action against the employer for recovery of the debt. The risk would arise of the employer's insolvency given the potential for crystallising liabilities under UK legislation. The default setting then becomes a going concern doubt.

GENERAL QUESTIONS

Q.16) Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the principles of this paper would require development to secure appropriate financial reporting for them.

No.

Q.17) Are there further specific issues relating to the cost and benefit of the proposals that should be taken account of in their further development?

Pensions effects/disclosures need to be aggregated in balance sheets and P&L's wherever possible to reflect the current UK context that defined salary schemes are sharply different businesses from most underlying trading businesses supporting them. Simply including in financing lines etc is inadequate. Departure from this would only be where the disclosed amounts were immaterial.