Co-operatives UK Ltd
Holyoake House
Hanover Street
Manchester
M600AS

14 July 2008

Dear Sir,

Discussion Paper: Financial Reporting of Pensions

Attached is the response of the Performance & Accounting Standards Committee (PASC) of Co-operatives UK in relation to the Discussion Paper.

PASC is a standing committee of Co-operatives UK, which brings together professionals from within the co-operative movement to take responsibility for the movement's performance indicators and for promoting best practice on accounting standards.

Co-operatives UK is a co-operative owned and democratically controlled by its members. It was launched in January 2003 following the merger of the Co-operative Union (established in 1869) and the Industrial and Common Ownership Movement (ICOM). Co-operatives UK can therefore claim to have been in the business of promoting and representing co-operative enterprise for over 139 years. Co-operatives UK membership comprises individual co-operative enterprises ranging in size and diversity from large consumer owned co-operatives to small worker owned co-operatives. The number of co-operative organisations in membership exceeds 450 and has a combined turnover in excess of £13 billion. It employs over 98,000 staff trading through 4,500 retail outlets.

Yours sincerely

Phil Holmes FCCA
Secretary - PASC

The Financial Reporting of Pensions

	Questions	Comments
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)?	Expectations of employees' pensionable salaries. Whilst our initial thoughts were to use current salaries, which gives more certainty in measuring the liability, on reflection it was felt that the fact that the final liability is based on future salary levels could not be ignored and that the liability should be based on best estimates of those salaries.
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?	The liability is undoubtedly owed to the individuals but in valuing the liability it is appropriate to use the workforce as a whole in making assumptions. Effectively a portfolio approach to valuation assumptions. It is believed that this basis of valuation is unlikely to have a material impact on the measurement of pension obligations.
3.	Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?	Yes.
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, the usual principles should be applied. It is not believed that this will result in very many consolidations.

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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 unrecognized provided they are within certain limits (a ‘corridor’) approach?	Yes. Whilst there may be some advantages to the ‘corridor’ approach, for transparency it is considered better not to use this basis.
6.	Do you agree with the paper’s view 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? - The discount rate should reflect the time value of money only, and therefore should be a risk-free rate? - 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?	Yes. General accounting principles should apply. Agreed. The risk free rate should apply. Whilst concerned that this will impact negatively on schemes, we could not think of a valid reason not to use the risk free rate. Agreed. However, any proposal to disclose sensitivity analysis in respect of the impact of changes in key assumptions on pension liabilities would represent a fundamental change to the content of financial statements, which have always been based on a wide range of accounting estimates and assumptions. We believe that this will create unnecessary information overload and far from adding any value to the user of accounts, this will only serve to confuse users and undermine the value of the

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	- The liability should not be reduced to reflect its credit risk? - Expenses of administering the plan's accrued benefits should be reflected in the liability?	information incorporated in the financial statements, which must be based on the best professional judgment of the actuaries and accountants responsible for its preparation. Agree. To do otherwise would be to challenge the going concern basis. Agree.
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 liability should reflect the probability of different outcomes.
8.	Do you agree that assets held to pay benefits should be reported at current values?	Yes.
9.	Do you agree that a 'net' asset or liability should be based on the different between the amounts at which the assets and liabilities would be measured if they were measured directly?	Yes.
10.	Do you agree that different components of changes in liabilities and/or assets should be presented separately?	Yes. As they are now.

	Questions	Comments
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. Financial Statements should reflect the actual return, but we would question the need to disclose the expected return on assets. The possibility of showing the trend in actual returns should also be considered.
12.	Do you agree with the objectives of disclosure that are identified in this Chapter? Are there any specific disclosure requirements that should be added to or deleted from those proposed?	We broadly agree with the disclosure objectives. However we would not support the following proposals: <u>Sensitivity analysis</u> – The proposal to disclose sensitivity analysis in respect of the impact of changes in key assumptions on pension liabilities would create another layer of unnecessary and subjective information. The disclosure of sensitivity analysis will only serve to confuse users and undermine the value of the information incorporated in the financial statements, which should be based on the best professional judgment of the actuaries and accountants responsible for its preparation. <u>Alternative measures</u> - The proposal to disclose alternative measures of pension liabilities is likely to confuse the users of accounts in what is already an extremely complex technical area. As with the issue of sensitivity analysis, to present an alternative deficit figure is inviting the reader to use their own
	Questions	**Comments**
		(unqualified) judgment as to which figure is most appropriate, rather than relying on the professional judgment of the

		actuaries and accountants. Either the FRS17 deficit is a valid, defensible measure that is relevant for inclusion in the financial statements, or it is not. In which case, pension scheme accounting can be dramatically simplified by the inclusion of the buy-out deficit, based on an open market quotation and not reliant on a range of complex assumptions. Pension plan cash flows - The recommendation to include the cash flows of the pension plan in Financial Statements is inappropriate as these are not cash flows of the reporting entity. It is appropriate to disclose the impact on the reporting entity of it future funding obligations but that is adequately dealt with elsewhere in the proposals.
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. We did not feel we had enough expertise in / experience of the multi-employer environment to give appropriate comment.
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. Yes.
	Questions	**Comments**
15.	Do you agree that a pension plan's statement of financial position should reflect an asset in respect of	Yes, they should include an asset based on the recovery plan agreed with the employer, but should not reflect credit risk

	amounts potentially receivable under an employer's covenant, and that this should reflect the employer's credit risk?	under normal circumstances. If there is a serious risk of default by the employer, it would then be appropriate to reflect this is the valuation of such an asset.
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.	None that we are aware of.
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?	None.