



THE INSTITUTE
OF CHARTERED
ACCOUNTANTS
IN ENGLAND AND WALES

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By email

Dear Shona

Financial Reports of Pension Schemes

The Institute of Chartered Accountants in England & Wales is pleased to submit its comments on the draft revised Statement of Recommended Practice, 'Financial reports of pension schemes' published by the Pensions Research Accountants Group in December 2006.

Please contact me if you would like to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW Representation

ICAEW REP 19/07

FINANCIAL REPORTS OF PENSION SCHEMES

Memorandum of comment submitted in March 2007 by The Institute of Chartered Accountants in England and Wales, in response to the draft revised Statement of Recommended Practice, 'Financial reports of pension schemes' published by the Pensions Research Accountants Group in December 2006.

Major comment

1. We have only one major comment. Paragraph 2.7 sets out the proposed transitional arrangements, which are that there should be no requirement to restate the comparatives in the year of transition for any of the three significant changes introduced in this SORP. Accounting standards (FRS 18) require changes in accounting policy to be introduced by prior year adjustment unless there is a specific transitional relief in a particular standard. The SORP cannot override the requirements of accounting standards in general, or FRS 18 in particular. Therefore, the SORP needs to explain the basic requirement and justify the reason for the departure (although it is not currently clear what that justification could be).
2. The paragraph should also make it clear that if a scheme wished to restate its comparatives, it could do so.

Suggested additional content

3. We consider that it would be helpful to have additional guidance on the treatment of s75 debts, including when these should be recognised in scheme accounts.
4. The Pensions Regulator's paper on scheme annual report and accounts includes recommendations for a Governance statement. We believe that although this is not required by statute or regulation, this is a helpful suggestion and should be included in the first section.

Other comments

5. *Preface* – the first two paragraphs are confusing in terms of what is meant by 'revised SORP'. Reference is made to the revision in 2002 (as well as the current revision), and the second paragraph starts with 'At this time' - which is confusing. We think some rewording and reordering would make matters clearer.
6. *Preface* – the paragraph on FRSs 25 and 26 is confusing. It would be helpful to give some indication of which parts of FRS 26 have been adopted in the SORP, and why. It should also state more clearly that the presentation aspects of FRS 25 are mandatory for pension schemes but that FRS 26 is **not** mandatory for them and will not become so until such time as the ASB extends the scope of that standard (and therefore those parts of FRS 25, and FRS 29, that apply only to FRS 26-users). It might also explain that the ASB's decision is likely to be influenced by its wider plans for further convergence with IFRSs.
7. *Paragraph 1.3* – it would be worth mentioning the Pensions Regulator and the Pension Protection Fund alongside the reference to HMRC, which ought to be in full – Her Majesty's Revenue and Customs.
8. *Paragraph 1.7* – the reference to Practice Note 15 should be replaced by the reference to the International Standards on Auditing (UK and Ireland) (*as mentioned in paragraph 1.19 of the draft SORP*), as it is the Standards that require the statement of trustees' responsibilities. The Practice Note sets out best practice, not requirements.
9. *Paragraph 1.14(c)* - we consider that the replacement of the Regulation 30 statement by the summary funding statement is a sensible approach. However, some trustees issue very long statements to members, and it may be appropriate for an edited, rather than full version to be included. Some multi-employer schemes have several sections, so the requirement would mean inserting numerous summary statements. We therefore suggest that the working party consider including guidance for trustees of such schemes and permits the use of a précis. The text throughout the SORP should refer to the possibility of the use of a shortened version of the summary statement.
10. *Paragraph 1.18* – the wording 'have been paid at least in all material respects' should be changed to 'have in all material respects been paid at least', thus being more closely linked to the wording in the legislation and the standard wording of the auditors' statement about contributions in the revised Practice Note 15.
11. *Paragraph 1.23* – this should be changed to reflect the fact that the actuarial position of the fund may not be dealt with in the statement by the actuary but by the scheme funding statement issued by the trustees.
12. *Paragraph 2.46* – we share the concern suggested in the square brackets at the end of para 2.46 as to whether schedules of contributions will make the distinction between normal contributions and deficit funding contributions. We agree with the concept regarding disclosure, but we note that trustees need help from the actuarial profession in drawing up schedules of contributions. We note the Scheme Funding regulations, (SI 2005 no 3377) Regulation 10

indicate that this has to be done.

13. *Paragraph 2.52* – we are of the view that if a member has failed to make the relevant choices about his or her benefits by the end of the accounting period and has therefore not drawn any benefits, the member should be treated as a deferred member (and not a pensioner) because the recommendation is that no liability should be recognised. Treatment as a pensioner would also be inconsistent with the requirements of paragraph 2.54.
14. *Paragraph 2.60* - this paragraph should deal also with dividends from unquoted securities, reflecting the requirements of FRS 21 *Events after the balance sheet date*.
15. *Paragraph 2.64* - we agree with the concept of disclosing investment transaction costs separately, but we are concerned as to whether the information will be made available by the investment managers. Trustees will need help from the investment management industry in making this information available as standard in their reports to trustees.
16. *Paragraph 2.73* – the first sentence should be amplified to state ‘In respect of defined contribution schemes, where the sponsoring employer has ceased contributions and the scheme is in wind up and therefore not a going concern....’ A full stop is required in the second line after restated. We believe that were the scheme to suffer loss through fraud or theft, then compensation would be payable to members and this might also be included in the paragraph.
17. *Paragraph 2.110* - it is perhaps worth clarifying that the cash and amounts due to and from brokers are included within investment assets/liabilities.
18. *Paragraphs 2.127 to 2.128* – these paragraphs make the distinction between investments ‘designated to members’, ‘allocated to members’ and ‘not designated or allocated to members’. However, the illustration in Appendix 2 does not make this distinction.
19. *Paragraph 2.157* – it might be appropriate to add that, under UK legislation, the trustees are also required to describe breaches of payment schedules and schedules of contributions in the annual report.
20. *Paragraph 2.161* - it is not clear why immaterial subsidiaries excluded from consolidation should be accounted for as associates (i.e., equity accounted) rather than accounted for simply as equity investments. We can see no logic at all in requiring an equity accounting treatment.
21. *Paragraph 2.166* – we agree that accounts should be prepared up to the date of winding up or entry into the Pension Protection Fund. This is a matter of trust law as well as regulation. Therefore, we believe that as well as stating that the preparation of accounts is a matter of good practice, the paragraph should, after the wording ‘schemes with less than two members are exempt from preparing accounts’, state ‘but trust law requires trustees to demonstrate how they have discharged their trust, so accounts should be prepared as a matter of good governance’. This will mean that the subsequent sentence should start ‘It is therefore recommended...’.

22. *Paragraph 2.189* - we would prefer to leave the number of trustees signing the annual report as two because we think that requiring the signature of two trustees gives added security, reinforces the collective responsibility of the trustees and underlines the need for effective governance. Therefore, we query the reasoning behind reducing the number of trustees signing the annual report from two to one.
23. *Appendix 2* - The example net assets statement needs to be modified to reflect the recommendations of the text in respect of the assets.
24. *Appendix 3* - Whilst the schedule goes into some detail about which schemes require audited accounts and the content, it only covers accounts for the annual report and does not include situations where accounts are required for actuarial valuations. We believe that it would be helpful to include this information.

Paragraph (e) – the phrase ‘at least and material’ should be amended as suggested above for paragraph 1.18.

Paragraph (g) – schemes are no longer ‘approved’ but ‘registered’ and the text needs to reflect this.

25. *Appendix 5* -
- FRS 4 – the paragraph should explain why the FRS 4 disclosure requirements continue to form the basis for the SORP’s disclosures despite being deleted (though not replaced) by FRS 25.
 - FRS 14 – this has been superseded by FRS 22.
 - FRS 26 etc – it might be helpful to have a fuller explanation of the relationship between FRSs 26, 25, 23, 24 and 29, explaining that adoption of FRS 26 brings with it adoption of those other standards.
 - FRS 29 – the reference to 2009 should be removed, since it suggests greater clarity as to the ASB’s plans for this standard than may currently be the case.

LC 21.3.07