PRAG - Consultation Exercise

Inclusion of Actuarial Liabilities in the Financial Statements of Pension Schemes

	QUESTION	Overall conclusion from Pension Scheme "related" responses
1a 1	In your opinion, are actuarial liabilities present obligations that should be recognised in pension scheme accounts under FRS12, or are they contingent liabilities that should not be recognised?	Among the pension schemes that responded, there appears to be uncertainty over how FRS 12 applies to schemes. These respondents accepted there were present obligations from a past event. Of the 12 accountancy firms and related professional bodies that responded, four concluded that FRS 12 did NOT apply to long term liabilities, one could not reach a consensus and 7 concluded that the tests in FRS 12 did apply. 11 actuarial firms, pensions consultants and associated professional bodies responded, of which only 1 considered these liabilities are present obligations that required recognition in the financial statements. The majority view was that they were contingent liabilities that should not be recognised.
	"Strongly agree / Agree / Undecided / Disagree / Strongly disagree"	The almost universal response was that the pension scheme respondents strongly disagreed that FRS 12 should apply requiring schemes to include actuarial liabilities in pension scheme financial statements. Only four of the accountancy firms were in favour of recognition, three of these supporting recognition in the balance sheet itself. The 8 other firms were against recognition. 10 of the 11 actuaries and consultants were against or strongly against recognition, 7 commenting that recognition would be positively misleading to readers. OPRA were especially concerned that it was unlikely that useful information could be provided without incurring significant additional costs.
1b 2	If actuarial liabilities are to be recognised in pension scheme financial statements, what actuarial	Most pension scheme respondents opted for the scheme funding rate as the most preferable, however, a number recognised the need for a standardised rate to enable regular and routine processing.

	basis or bases would be most appropriate?	The accountancy firms were generally in favour of using an ongoing valuation basis, but with discontinuance information given in addition, especially where a scheme was in wind up, or this was in prospect. No meaningful view was expressed by actuaries / consultants as a group, since the majority believed that these liabilities should not be recognised on any basis whatsoever.
1c 3	For your scheme or a scheme with which you are familiar, what is the likely impact on actuarial fees of the inclusion of actuarial liabilities in pension scheme financial statements?	All scheme respondents believed actuarial fees would increase significantly (some estimates were increases were 200%). A number of schemes responding were concerned that the additional expense, would be borne by the scheme and that if the scheme was closed to future accrual then members' benefits would be reduced. The accountancy firms' responses ranged from 'probable' increases to 'significant' and 'considerable' increases; none thought that fees would fall. The actuaries' and consultants' responses mirrored this view.
2a 4	Do you agree that the primary focus should be on the needs of members? If so, to what questions do members wish to receive answers?	All scheme respondents considered primary focus was on scheme members. Generally schemes considered the most important need of members to be the security of the promise to pay. A number of respondents were concerned that the accounts were not the best medium for communication, suggesting an alternative medium alongside a benefit statement. All the accountancy firms agreed that the interests of members were the primary focus, as did the actuaries and consultants. OPRA's view was that the needs of other users of the accounts (such as regulators and employers) were equally important as members' needs.
2b 5	Are the existing disclosures about funding and the actuarial position in pension schemes' annual reports adequate?	On balance, most scheme respondents considered the existing disclosures were very technical and provided little information. Relevant information was out of date. A number of respondents were aware of the review of actuarial reports. The accountancy firms were unanimous in their view that current disclosure

		requirements were inadequate. Actuaries and consultants were almost unanimous (10 out of 11) that existing disclosures were inadequate, but believed that the current consultation on actuarial reporting was the right way to address this inadequacy.
2c 6	Can additional disclosure best be made by the preparation of an actuarial balance sheet or by the provision of separate information about funding?	Almost all scheme respondents considered separate information about funding would be of benefit. Only three of the accountancy firms, and only one actuary / consultant, agreed that recognition and disclosure in the balance sheet would be appropriate to satisfy the information needs of members. The much-preferred answer was a more detailed actuarial report, giving information about the actuarial liabilities under a range of different circumstances.
2d 7	When principal disclosure is on an ongoing basis should discontinuance information also be provided?	Scheme respondents here were mixed in views. On balance the majority considered discontinuance should not be provided unless a decision to wind up had been made. The rationale being that the accounts were prepared on a going concern basis and that the actuary had certified that the assets would meet the liabilities. Responses from the accountancy firms and from actuaries / consultants were also mixed. The majority agreed that discontinuance information should be given; others thought it should only be given if a scheme was actually winding up or about to be placed in wind up, on the grounds that it could cause confusion.
2e 8	If separate information is produced about funding how should it be communicated to members? Should it be required to be appended to the annual report (as allowed for by IAS26 currently) or be made available only on request?	Mixed responses - on balance schemes considered the IAS 26 option to be the preferred route through appending a report into the financial statements. The consensus from the accountancy firms and from actuaries / consultants was that the information should be appended to the annual report. Two respondents thought that it should be provided automatically (NB the annual report is not provided automatically)

3a 9	What do you see as the implications for auditors of the inclusion of actuarial liabilities in pension scheme financial statements?	Most scheme responses expressed levels of concern for the ability of auditors outside the "Big 4" being unable to verify the actuarial liabilities contained in financial reports. To overcome the problem schemes considered it might be necessary for medium/small size firms to recruit an actuary or to have to place reliance on other professional advisers. A few pointed out that there may be logistic problems in meeting the seven month reporting deadline for financial reports. A number of issues were raised by the firms themselves: • Timing in relation to obtaining the required information and impact on statutory sign-off deadlines; • The scope of the audit would be increased as a result of having to review and assess actuarial assumptions and disclosures; • Difficulties would be experienced by firms without actuarial resources. A number of actuarial / consultant respondents considered that recognition would cause duplication of effort and what one described as "professional difficulties" between auditors and actuaries.
3b 10	For your scheme or a scheme with which you are familiar, what is the likely impact on audit costs of the inclusion of actuarial liabilities?	All scheme respondents believed audit fees would increase. A number of schemes responding were concerned that the additional expense would be borne by the scheme and that if the scheme was closed to future accrual then members' benefits would be reduced. All accounting and actuarial / consulting firms believed that if the audit opinion had to cover actuarial liabilities, fees would increase, these increases ranging from 'fairly modest' to 'onerous and prohibitive'.