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## PRAG publishes guidance on accounting for GMP equalisation

The Pensions Research Accountants Group (PRAG) has published guidance on how pension scheme accounts should allow for their equalisation liabilities in relation to Guaranteed Minimum Pensions (GMPs) following the Lloyds judgement. Depending on materiality and other considerations, schemes might disclose an estimate of the likely accounting liability or a statement that the issue will need to be allowed for in future accounting periods. The guidance has been put together by PRAG's SORP Working Party.

Kevin Clark, Chair of the PRAG SORP Working Party, said:

*"The judgement reached in the High Court on 26 October in Lloyds Banking Group Pensions Trustees Limited vs Lloyds Bank Plc clarifies a legal obligation on scheme trustees to equalise GMPs through other scheme benefits. The implications of the judgement for scheme administration and funding have been well flagged. However, the judgement also needs to be considered for scheme financial reporting. This is because the judgement requires the backdating of GMP equalisation of pension benefits and provision of interest on these backdated benefits. This creates an accounting liability under the pension Statement of Recommended Practice (SORP) and Financial Reporting Standard 102 (FRS 102), which may need to be recognised in pension scheme financial statements or disclosed as a contingency.*

*"PRAG has prepared a guidance paper to help trustees and accounts preparers consider the accounting implications for these backdated benefits and related interest. The paper sets out a practical approach for determining the need to accrue or disclose based on materiality considerations and the ability to reliably measure backdated costs. The paper also provides suggested disclosures for the different scenarios schemes may face."*

Shona Harvie, Chair of the PRAG Executive, said:

*"I would like to thank Kevin Clark and the members of the working party for producing this guidance paper. PRAG recognises that many trustees are at an early stage of considering this issue and the actual adjustment of benefits may take some years to be put into effect. PRAG welcomes feedback on schemes' developing experiences of accounting for these costs and will keep the contents of this paper under review based on feedback received."*

**Ends**

### **Notes to editors:**

#### **Contacts:**

For further information or to obtain a copy of PRAG's guidance paper, please contact Mike Hammer, PRAG's Press Officer, on [press@prag.org.uk](mailto:press@prag.org.uk)

### **About PRAG:**

Pensions Research Accountants Group ("PRAG") is a leading independent industry body working for the development of occupational pensions schemes, with a focus on financial reporting and internal controls. PRAG is a body of accountants and professionals working in the pensions industry. PRAG is the body recognised by the Financial Reporting Council for the publication of the accounting guidance through the Pensions Statement of Recommended Practice ("SORP") which is a significant focus of our activities. PRAG also issues guidance on other topical areas and responds to consultations on areas affecting occupational pension schemes. [www.prag.org.uk](http://www.prag.org.uk)