

IASB Pensions Discussion Paper

A corporate perspective

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IASB PENSIONS DISCUSSION PAPER



Agenda

- Background
- Deferred recognition
- Presentation
- Contribution-based promises
- Areas not covered in discussion paper
- Contrast with the PAAinE discussion paper
- Group response

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Background

- Perceived need for short-term improvements to IAS 19
- Discussion paper issued 27 March 2008
- Comment period closes 26 September 2008
- Exposure draft planned third quarter 2009
- Interim standard issued by 2011
- Applicable for calendar year 2013 ?
- Longer-term joint project with FASB

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Deferred recognition

- Removal of the pensions corridor
- Expected and actual investment return
- Unvested past service cost

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Presentation

Three possible approaches (see Appendix A)

- All items to P&L
- Service costs to P&L; effect of deferred settlement to SORIE
- Annual costs to P&L; effect of remeasurements to SORIE

All of these will introduce more volatility to employers' results

Financial impact on Aviva shown in Appendix B

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Contribution-based promises

- Identification – contribution-based promises
- Measurement – fair value

Issues over observable values and allowance for risk

- Presentation
- "Higher of" option

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Areas not covered in discussion paper

- When and how a DB obligation should be recognised
- Measurement of DB obligations
- Status of scheme assets and liabilities
- Multi-employer plans

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Contrast with the PAAinE discussion paper

- | | |
|---|-------------|
| • Discount future cash flows at risk-free rate | Difference |
| • No allowance for credit risk | Difference |
| • No allowance for future pay increases in DB plans | Not covered |
| • Recognise all costs in the year | The same |
| • More consolidation of pension plans | Not covered |

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Aviva's concerns

- Changes in presentation will cause more volatility in income statement
- Neither measurement model is satisfactory if extended to all DB schemes
 - IASB suggest buy-out basis discounted at risk-adjusted rate
 - PAAinE suggest (lower) accumulated benefits settlement discounted at risk-free rate
 - Potential threat to continued existence of DB schemes

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Aviva's response to discussion paper

Initially co-ordinated through the CFO Forum

Key points raised in discussions so far :

- Need for change in the short-term ?
- Inconsistent principles for DC promise measurement
- Wrong forum for discussion on presentation

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Any questions?



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