The Actuarial Profession
making financial sense of the future

Consultation response
Accounting Standards Board

Financial Reporting Exposure Drafts

43 – application of financial reporting standards; and

44 – financial reporting standard for medium-sized entities

April 2011

About the Actuarial Profession

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.

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Dear Ms Sansom

Consultation on Exposure Drafts 43, on the application of financial reporting standards, and 44, on the financial reporting standard for medium-sized entities

The Actuarial Profession is grateful for the opportunity to comment on your proposals for *The Future of Financial Reporting in the UK and the Republic of Ireland*, including a draft of a UK Financial Reporting Standard based on the IFRS for SMEs.

We do not have any comments on the direction of UK financial reporting, or on how the draft FRS has been derived from the IFRS for SMEs. However, we do have one comment and a couple of other concerns which, whilst not strictly relevant for this consultation, we thought it might be helpful to bring to your attention.

First, in paragraph 11.17 of Part 1 (Explanation) of the Financial Reporting Exposure Draft, in the section covering the costs associated with the preferred option, you say that "there will be minimal changes in reporting by pension funds". However, IAS 26 requires disclosure of a value of the liabilities of the pension plan, albeit not necessarily at the relevant balance sheet date, nor on a specified basis. We agree that, on the face of it, complying with this requirement can be done without significant extra cost, by re-using a value of liabilities that has been determined for other purposes. For example, the Trustee Report and Accounts might include a copy of the annual Summary Funding Statement.

However, if a consequence of including (say) a copy of the Summary Funding Statement within the Trustee Report and Accounts is to make the Summary Funding Statement and the calculations that lie behind it subject to audit, the result could be a significant increase in cost, depending on how extensive this audit is required to be. Others will be better placed than us to comment on this issue - and whether for example the consequences depend on whether the disclosure of liability value is included within the notes to the financial statements or elsewhere in the Trustee Report and Accounts. However, we suggest that the issue should be considered carefully to check whether it is indeed true that there will be minimal changes in reporting and the cost thereof for pension schemes.

Secondly, it appears that the timetable for the updating of the IFRS for SMEs does not link to the updating of the full IFRSs. Thus, for example, if a revised version of IAS 19 is issued with application mandatory with effect from (say) 1 January 2013, our understanding is that it is only some time after 1 January 2013 that there is a review of whether the changes should be reflected in the Employee Benefits section of the IFRS for SMEs. Accordingly, there is a period while that section of the IFRS for SMEs is not a simplified version of the full IFRS, but something different and potentially contradictory. We suggest that this is unsatisfactory. In particular, this is likely to cause difficulties for groups which comply with full IFRS for the consolidated accounts, but use the proposed new FRS for the accounts of some or all of the subsidiary company accounts.

Finally, the Employee Benefits section of the IFRS for SMEs was changed at the last minute before the final Standard was issued. As a result, it is potentially confusing. In particular, it is not clear whether the intention is for the Expected Return on Assets to be included in P&L with the difference between the actual and expected return included in OCI (as in IAS 19), or for the full actual return to be included in P&L (which would not be consistent with IAS 19). The relevant text is retained in the draft FRED although this is of course simply a consequence of the drafting of the IFRS, not something that has been introduced by the ASB.

We would be very happy to discuss these matters in more detail if that would assist. Please contact us via Margaret Watchorn, the Pensions Practice Manager, on 020 7632 2185 or margaret.watchorn@actuaries.org.uk

Yours sincerely

Martin Lowes

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