

## How to communicate reality? The future of pension accounting

Cass Business School, Wednesday 30 April 2008

1. The event is opened at 6pm by the Dean of Cass, Richard Gillingwater, and chaired by Jeffrey Highfield, Chairman of PRAG
2. Presentations summarising the ASB report (given by Andrew Lennard) and the Pensions Institute report (given by David Blake)
3. Formal response from the CBI (Neil Carberry, Head of Pensions and Employment, CBI), NAPF (Nigel Peaple, Director of Policy), ABI (Michael McKersie, Assistant Director, Capital Markets, ABI) and tPR (Phil Spary)
4. Panel discussion with audience Q&A (chaired by Crispin Southgate, Institutional Investment Advisors):  
Andrew Lennard, ASB  
Dr Zaki Khorasaneh, Cass Business School  
Fraser Low, the Pensions Regulator  
Andrew Evans, Partner, PwC
4. Finishing with drinks and canapes from 7.45pm

### **Financial Reporting of Pensions: ASB issues Discussion Paper on future directions**

The Discussion Paper 'The financial reporting of pensions' was developed under the ProActive Accounting Activities in Europe (PAAinE) initiative. The Accountign Standards Board (ASB) led the development and, along with others, published the paper on 31 January.

It represents a fundamental rethink on pensions accounting and suggests that many aspects could be improved by adopting the principles used elsewhere in financial reporting. It controversially suggests that the reported liability might not reflect the effect of future salary increases, that financial reporting should reflect the actual rather than the expected return on assets and that the liability should be measured by discounting at a risk-free rate.

<http://www.frc.org.uk/asb/press/pub1513.html>

'An Unreal Number. How Company Pension Accounting Fosters an Illusion of Certainty' was published on 31st January 2008 by the Pensions Institute. This research paper, funded by the ICAEW's charitable trusts, is intended to be a 'state of the art' review of the ways in which companies account for their pension obligations. It explains how pension accounting has evolved both to reflect changing views of the nature of the pension promise and to help fulfil the accounting objectives of stewardship and decision-usefulness. The paper contends that the most useful information that accounts can provide about a defined benefit plan's funded status is the market, or fair, value of its assets and the amounts, timing and uncertainty of its projected pension payments. By reducing this information to a single number, pension accounting standards create an 'illusion of certainty' which supplementary cash flow projections and sensitivity analyses do not dispel.

<http://www.pensions-institute.org/reports.html>

## **Biographies of Speakers**

### **Professor David Blake**

Dr David Blake is Professor of Pension Economics and Director of the Pensions Institute at Cass Business School, London and Co-Founder with JPMorgan of the LifeMetrics Index. He is a consultant to many organisations in the financial services and public sectors, including the Office of Fair Trading, the Office for National Statistics, the Government Actuary's Department, the National Audit Office, the Department for Work and Pensions, HM Treasury, the Bank of England, the Prime Minister's Policy Directorate, the World Bank and the IMF. His recent books include *Pension Schemes and Pension Funds in the United Kingdom* published by Oxford University Press in 2003, and *Pension Economics* and *Pension Finance*, both published by Wiley in 2006.

### **Neil Carberry**

Neil Carberry is Head of Pensions and Employment Policy at the CBI, leading the CBI's work on a diverse range of issues including pensions, working time and the National Minimum Wage. He returned to the CBI's pensions team in April 2007 after a period as Head of Public Procurement, a role in which he was responsible for CBI policy on the Private Finance Initiative. Neil initially joined the CBI as an employment and reward specialist after graduate study at the London School of Economics. Previously, he worked in the City as an HR Consultant

### **Andrew Evans**

Andrew is a Partner in PricewaterhouseCoopers and Chairman of the Pensions Assurance Practice. He is a chartered accountant with particular experience in auditing pension schemes, pension costs, undertaking risk reviews and process improvements including restitution of control and legislative compliance.

Andrew is a co-opted member of NAPF Benefits Council and a member of the Accounting Standards Board review panel looking at the future direction for pension cost accounting. He is a former Chairman of the ICAEW Pensions Sub-Committee. He has also chaired the joint ICAEW and Institute/Faculty of Actuaries working party giving guidance on inter-professional communications.

Andrew is a regular speaker on pensions, including at NAPF Conferences in May 2004 and May 2006.

His other interests include orienteering, which is sometimes easier than navigating a way through the complexities of pension cost accounting.

### **Jeffrey Highfield**

Jeffrey Highfield is Chairman of PRAG and Head of Finance at the Pension Protection Fund

### **Dr Zaki Khorasane**

Zaki Khorasane is a Senior Lecturer in Actuarial Science at the Cass Business School. He started his career working for employee benefits' consultancies and qualified as a Fellow of the Institute of Actuaries in 1992. He completed a PhD on defined-contribution pension schemes in 1999 and is the author of a number of pensions-related papers published in actuarial and finance journals.

### **Andrew Lennard**

Andrew Lennard joined the staff of the Accounting Standards Board in 1990 from KPMG, where he had spent several years in a technical role. During his time at the ASB, he has played a major part in the development of Financial Reporting Standards, including FRS 4 'Capital Instruments.' and the Board's Statement of Principles for Financial Reporting. Now Director of Research, Andrew plays a central role in the ASB and chairs the ASB's Pensions Advisory Panel. He is the author of a number of papers and articles, including, "Liabilities and

how to account for them”, which was published by the ASB. Although of Scottish origin, Andrew is a Fellow of the Institute of Chartered Accountants in England and Wales.

### **Fraser Low**

Fraser Low is currently Actuary, Europe, Defined Benefits & Research at the Pensions Regulator. He has been involved with:

- the Code of Practice on Scheme Funding,
- example documents for use in scheme funding,
- the consultation document on Cross-border schemes, the approach to implementation by the Pensions Regulator,
- the Statement on how the Pensions Regulator will regulate the funding of defined benefits,
- the guidance paper on “Criteria for the use of contingent assets”,
- the review of the form and content of the trustees’ annual report and accounts,
- the guidance on Abandonment of defined benefit pension schemes,
- Purple Books 1 & 2,
- Recovery Plans – an initial analysis, and
- the consultation document on proposed new guidance to trustees on Good practice on choosing funding assumptions for defined benefit pension schemes with a special focus on mortality.

### **Michael McKersie**

Michael McKersie is Manager, Assistant Director, Capital Markets at major institutional investor representative organisation, the Association of British Insurers, having previously worked in both stockbroking and fund management. He has a variety of responsibilities, covering public policy issues relating to investment matters, the operation of the investment markets and corporate governance matters generally. The interests of investors in accounting and audit matters have been and continue to be a particular focus of importance within this remit.

### **Nigel People**

Nigel People is Director of Policy at the National Association of Pension Funds.

### **Crispin Southgate**

Crispin Southgate is one of the founding Directors of Institutional Investment Advisors, an FSA authorised firm providing investment advice and arrangement and ALM consulting services to pension funds, financial institutions and corporates. He serves on the Risk Working Group of the FRC Board for Actuarial Standards, the Employee Benefits Working Group of the IASB, the Corporate Reporting Users Forum and the finance and investment committee of Dulwich Picture Gallery. Prior to joining IIA, Crispin was a Managing Director and European Credit Strategist at Merrill Lynch. His thirty years of experience in financial services includes board positions at SG Warburg and Charterhouse Bank. He qualified as a Chartered Accountant at Price Waterhouse and holds an MA in Politics, Philosophy & Economics from Merton College, Oxford.

### **Phil Spary**

Phil has worked at the Pensions Regulator for a number of years having joined its predecessor organisation Opra in June 2004. Since then Phil has had the benefit of working within a number of operational teams. He now works in the Governance team and is actively involved in governance related matters, analysing current and future issues in the pensions environment both nationally and internationally, as well as drafting regulatory material. This has included the Internal Controls Code of Practice and Guidance and more recently the Conflicts of Interest consultation document. His responsibilities also include regulatory input into a number of accounting and auditing matters together with liaison with professional bodies. Prior to joining Opra Phil worked at KPMG.

## **About the Pensions Institute**

The Pensions Institute at Cass Business School aims to:

- undertake high quality research in all fields related to pensions
- communicate the results of that research to both the academic and practitioner community
- establish an international network of pensions researchers from a variety of disciplines
- provide expert advice to the pensions industry and government.

The Pensions Institute takes a fully multidisciplinary approach. For the first time disciplines such as economics, finance, insurance, and actuarial science through to accounting, corporate governance, law and regulation have been brought together in order to enhance strategic thinking, research and teaching in pensions.

As the first and only UK academic research centre focused entirely on pensions, the Pensions Institute unites some of the world's leading experts in these fields with a view to resolving many of the problems caused by the disparate elements making up the pensions mix.

<http://www.pensions-institute.org/>

## **About PRAG – the Pension Research Accountants Group**

PRAG is an independent research and discussion group for the development and exchange of ideas in the pensions field.

Its efforts are concentrated mainly on the areas of reporting and accounting by pension schemes but it has also produced reports on other related matters.

It was established in 1976 on the initiative of Mike Young, a chartered accountant and pension scheme manager. He was the first chairman and is now the Group's life president.