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PRESS STATEMENT



ACCOUNTING FOR PENSIONS

EFRP SUPPORTS REFORMS OF PENSION ACCOUNTING

The European Federation for Retirement Provision (EFRP) has submitted its response on the PAAinE¹ discussion paper on the financial reporting of pensions. This consultation was launched by the UK's Accounting Standards Board (ASB) in collaboration with the European Financial Reporting Advisory Group (EFRAG)².

The key responses from EFRP are:

- Pension liabilities should not be discounted at the risk free rate as proposed in the paper. The current AA corporate bond rate is appropriate as it reflects that pension liabilities carry some risk.
- Future discretionary salary increases should no longer be included in the measurement of pension liabilities for current employees. The effect of these should however be included in the disclosures in company accounts.
- Expected returns should continue to be included in financial statements (rather than actual returns) as pension schemes invest over many decades to meet their liabilities, and returns in an annual period are volatile and distort shareholders expectations. Better disclosure of how expected returns are derived is a more appropriate solution.
- Employers in industry-wide plans – such as in the Netherlands - and other multi-employer arrangements where risks are shared, should continue to be exempt from the pensions accounting standard

¹ Pro-active Accounting Activities in Europe (PAAinE) – the objective of this initiative by EFRAG and the European National Standard Setters is to stimulate debate on important items on the IASB agenda at an early stage in the standard-setting process before the IASB formally issues its proposals. The initiative has the joint ambitions of representing a European point of view and exercising greater influence on the standard-setting process.

² About EFRAG: <http://www.efrag.org/content/default.asp?id=4103>

- Pension funds need not include in their own accounts the liabilities on the same basis as the sponsoring employers, as each of those accounts serve different purposes.

EFRP joined this debate because:

- Pension funds are substantial investors in European listed equities, and have a legitimate interest in ensuring that pension liabilities are properly reflected in the accounts of companies in which they invest
- IAS 19 has been subject to much comment in recent years, and
- Over the last years, we have seen a number of employers modifying their occupational pension plans/schemes which is in part due to the volatility caused in company's accounts by the current standard.

Since both the IASB (International Accounting Standards Board) and the FASB (United States Financial Accounting Standards Board) have indicated that they are committed to a long-term review of the financial reporting of pension benefits, it is important that the required specific approach to account for single as well as multi-employer sponsored pension schemes is established as early as possible in this review process.

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ABOUT THE EFRP

The European Federation for Retirement Provision represents the various national associations of pension funds and similar institutions for supplementary/occupational pension provision. Its membership at large consists of institutions for occupational (2nd pillar) retirement. Some of them are also operating purely individual pension schemes (3rd pillar)

The EFRP has **members** in most EU-15 Member States and other European countries³. In the Central & Eastern European region it affiliates Hungary, Slovakia as well as Croatia.

Within EFRP the **Central & Eastern European Countries Forum (CEEC Forum)** has been established (26 October 2006) to discuss issues common to pension systems in that region. The Forum may be viewed as a mechanism to phase in CEEC industry associations into the regular EFRP Membership while taking on board their specific needs for information and representation at EU level.

In some Member States up to 90-95 % of the work force have their occupational pension funded through EFRP membership (e.g., Denmark, Netherlands and Sweden). In countries such as Germany, Spain, Ireland, the United Kingdom 80 % of the occupational pension provision is funded by EFRP members. Most EFRP members are non-profit making institutions. Their governance structures usually include the scheme members and beneficiaries representation. Many of them are managed on a paritarian basis between unions/employees and employers.

73 million EU citizens are covered for their occupational pension plan by EFRP Members.

Through its Member Associations the EFRP represents €approximately **3,8 trillion** of assets (2006) managed for future occupational pension payments.

³ EU Member States: Austria, Belgium, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Slovakia, Sweden, UK.
Non-EU Member States : Croatia, Guernsey, Iceland, Norway, Switzerland.