Dear Sir

ACA RESPONSE TO FASB AGENDA CONSULTATION

I am writing on behalf of the Association of Consulting Actuaries (ACA), in response to your Agenda Consultation Invitation to Comment (ITC) issued on 4 August 2016.

Members of the ACA provide advice to thousands of pension schemes, including most of the UK’s largest schemes. Members of the Association are all qualified actuaries and all actuarial advice given by members is subject to The Actuaries’ Code issued by the UK actuarial professional body. Advice given to clients is independent and impartial. ACA members include the scheme actuaries to schemes covering the majority of members of defined benefit pension schemes in the UK.

The ACA is the representative body of consulting actuaries, whilst the Institute and Faculty of Actuaries is the professional body.

We welcome the opportunity to respond to the Agenda Consultation. As actuaries it is the Chapter on Pensions and Other Postretirement Benefit Plans that is most relevant to the advice that we provide to clients, and therefore is the focus of our response.

We welcome FASB’s focus on the matters listed in Chapter 2 and agree that this is an area where there is scope for improvement. Our responses to the questions in Chapter 2 are given in the Appendix. We have responded in the context of plans which are affected by UK pension legislation. We have not considered the remaining Chapters of the ITC.
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We would be pleased to answer any questions you may have on our response.

Yours faithfully

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On behalf of
ACA Accounting Standards Committee
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APPENDIX

Question 2.1
Is the accounting for pensions and other postretirement benefit plans a major financial reporting issue that the FASB should consider for improvement? Please explain why.

Yes. Delayed recognition in particular leads to numerous differences between the pension costs reported under US GAAP and under both IFRS and UK GAAP (UK GAAP being largely aligned with IFRS in terms of employee benefits including pensions). A UK entity with a US reporting parent is required to produce pensions accounting disclosures under both US GAAP (for its US parent’s consolidation) and either IFRS or UK GAAP for its local accounts. This leads to additional costs for our clients and also acts as a potential barrier to some events, especially settlements, where the impact on earnings can be significantly different between US GAAP and the local accounting regime.

Question 2.2
Would Alternative A (see paragraphs 2.15–2.16) and/or Alternative B (see paragraphs 2.17–2.19) improve the usefulness of financial information provided to users and be operable?

We would prefer Alternative A as a means of reducing the differences between pensions accounting under US GAAP and IFRS/UK GAAP.

Question 2.3
If you support Alternative A (convergence with IAS 19), would you recommend any modifications to IAS 19 or would you expect any implementation issues? Please explain why.

This would largely depend on FASB’s aims of how fully to converge – for example whether it would replace the expected return on plan assets and interest cost with the net interest cost used in IAS 19. At this time we have no suggestions for modifications or implementation issues, but anticipate that some may develop when detailed changes are being developed.

Question 2.4
Are there other approaches to consider for addressing the issue of delayed recognition in earnings? If so, please provide them in sufficient detail so that the FASB can consider your proposal(s). Please provide your rationale for why your proposal provides users of financial statements with more useful information.

We have no suggestions at this time.

Question 2.5
Is the current measurement of a defined benefit obligation appropriate? If not, what changes do you suggest and why (for example, what characteristics of plans are not adequately reflected in the current measurement of the benefit obligation)?

The perceived issues regarding the measurement of the Defined Benefit Obligation generally do not affect many UK plans. FASB will be aware of the potential project that the IASB is considering to look
at the accounting treatment of hybrid plans, and the difficulties it has encountered in the past in trying to find a solution to the issues of hybrid plan accounting. We feel it would be helpful if FASB and IASB could work together to establish a common solution that addresses the issues for hybrid plans but without any unintended consequences for traditional defined benefit plans.

**Question 2.6**

*What approach (that is, targeted improvements or comprehensive reassessment) would you recommend and why?*

It is difficult to recommend an approach as it will depend on the ultimate scope and objectives of any improvement. Therefore we suggest that this point be revisited later.

**Question 2.7**

*Are there other issues for pension and other postretirement benefit plan accounting that should be considered for improvement?*

We have no suggestions at this time.