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Accounting Standards Board - Proposal for disclosures on "financial instruments"

15th June 2012

The Accounting Standards Board has been working to replace the battery of existing Financial Reporting Standards (FRSs) and Statements of Standard Accounting Practice with a single

comprehensive FRS that will provide consistency and cohesion. As part of this, in January 2012, it issued "Revised FRED 46, 47 & 48: The Future of Financial Reporting - Part Two: The Draft Standards" for comment (link provided below).

In early June, the NAPF issued a response to this document (link also provided below). It welcomed the overall aims of the simplification project, but highlighted the burden that the new disclosure proposals would place on larger schemes and recommended that pension schemes not be included within the definition of financial institutions as contained within the draft FRS.

However, we fear that the scope of disclosures may be wider than first thought and this, rather than solely impacting larger and more sophisticated schemes, also runs the risk of incurring an extra and unjustified burden for many medium and smaller schemes.

Our concern starts with Sections 34.17-18 of the ASB document which cite "retirement benefit plan" as one of the qualifying instances of a "financial institution". This places pension schemes within the same regime as banks, insurance companies and other financial entities for the purpose of existing and any new reporting requirements.

In particular, financial institutions are to provide detailed reporting on the valuation and credit, liquidity and market risk profile of "financial instruments" that are held and the NAPF press release draws attention to the derivatives and hedge fund investments that are held predominantly by the larger pension schemes.

However, consider the definition of "financial instruments" given by the ASB (Section 11.3): A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. and examples of basic financial instruments as given in Section 11.5: for instance cash, deposits or bonds. It would seem that the scope of those instruments to be captured could be wider than expected and reporting requirements could therefore extend to far more than the most sophisticated schemes.

We would certainly argue the more sophisticated pension schemes, such as those with segregated liability swap hedges, should certainly have this risk information available for reporting to trustee boards. However, we would agree with the NAPF's argument that the mandatory inclusion of this information in statutory documents does need justification given pension schemes' different legislative regime and the differing use to which these documents are put. We would also argue that to treat all retirement benefit plans within the same current and future frameworks as financial institutions would subject many of these schemes to an unnecessary and disproportionate reporting burden.

The ASB's formal consultation period has now passed but we would recommend schemes consult with their accountants if they have concerns. In our experience, regulatory bodies particularly welcome direct comment from end-users in addition to advisers and trade bodies.

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