



Comment Letter

**“Exposure Draft: Proposed amendments to FRS 17
'Retirement Benefits' and a draft Reporting State-
ment 'Retirement Benefits - Disclosures'”**

The Austrian Financial Reporting and Auditing Committee (AFRAC) is the privately organised standard-setting body for financial reporting and auditing standards in Austria, and is supported by the competent Austrian authorities. The members of the Austrian Financial Reporting and Auditing Association, AFRAC's parent organisation, are several Austrian Federal Ministries and a number of public institutions. The members of AFRAC represent preparers of financial statements, certified accountants, academics, investors, analysts, and oversight bodies of capital markets and regulated industries.

The AFRAC International Financial Reporting Standards Working Group prepares comment letters on recent IASB publications and on publications of other standard-setting bodies pertaining to IFRS and submits them for final approval by AFRAC. Principal authors of this comment letter were Otto Altenburger, Leopold Fischl, Christoph Krischanitz, Dieter Nefischer, Roland Nessmann, Roman Rohatschek, Gerhard Schwartz and Hartwig Sorger. More information about the Working Group and AFRAC is available under www.afrac.at.

AFRAC is available for further questions, which should preferably be sent by email to office@afrac.at or addressed to Austrian Financial Reporting and Auditing Committee (AFRAC), Schönbrunner Strasse 222–228/1/6, A-1120 Vienna, Austria.

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1. General comments

The Austrian Financial Reporting and Auditing Committee (AFRAC) welcomes the opportunity to comment on the “Exposure Draft: Proposed amendments to FRS 17 'Retirement Benefits' and a draft Reporting Statement 'Retirement Benefits - Disclosures'” issued by the UK Accounting Standards Board in May 2006.

2. Specific questions

Q1. Proposed amendment to FRS 17 “Retirement Benefits”

The proposals set out in the Exposure Draft propose to replace the existing disclosure requirements of FRS 17 with those of IAS 19 'Employee Benefits'. The ASB considers that, as part of its convergence programme of UK accounting standards with International Financial Reporting Standards (IFRS), it can replace the disclosure requirements set out in FRS 17 with those of IAS 19 and in doing so address some of the concerns expressed by commentators in relation to the disclosures of defined benefit schemes whilst achieving greater convergence with IFRS.

Do you agree with the proposal to replace the existing disclosure requirements in FRS 17 with those of IAS 19?

If not please identify your reasons for not supporting the proposal.

Yes, we agree: we support the idea of further convergence of accounting standards within Europe.

Q2. Scheme liabilities calculated on a buyout basis

FRS 17 requires liabilities of defined benefit schemes to be measured on an actuarial basis using the projected unit method, there are however alternative measurement bases. One such alternative is the buy-out cost with an insurance entity. The ASB has considered alternative views on whether the financial statements of the reporting entity should include disclosure of scheme liabilities calculated on a buy-out basis, some of these views are set out above.

The draft Reporting Statement includes the recommendation to disclose the scheme liabilities calculated on a buy-out basis. However, the ASB wishes to seek the views of constituents before finalising the Reporting Statement.

Do you agree with the recommendation in the draft Reporting Statement to disclose the scheme liabilities as calculated on a buy-out basis?

If not, please identify your reasons for not supporting the disclosure of the scheme liabilities calculated on a buy-out basis.

No, we do not agree with the recommended disclosure of scheme liabilities calculated on a buy-out basis with an insurance company. The main reason for our opinion is that this segment of the insurance market is not sufficiently homogenous to assure a reliable measurement of buy-out cost. Insurance premiums strongly depend on the insurance company making the offer. For insurance products various different calculation schemes are in use, and there are different cost structures implemented in the insurance industry. Buy-out values also depend strongly on supervisory regulations for the insurance industry, which still differ widely even within Europe. Therefore, buy-out values are neither unique nor comparable.

On the other hand, the projected unit credit method is a unique, well defined, and widely accepted valuation method for scheme liabilities. Provided the parameters are disclosed, this method gives comparable and robust information.

Finally, it is unclear how users of financial statements should interpret any differences between the recognised liability and the buy-out cost.

Q3. Pension Protection Fund (PPF) Levy

The Pensions Act 2004 established the Pension Protection Fund to pay compensation to members of eligible defined benefit schemes in the event of a qualifying insolvency event in relation to the employer. The compensation is, in part, funded by a levy on all UK defined benefit schemes. The ASB considers that the financial statements of the reporting entity should not be required to disclose the PPF levy.

Do you agree that the PPF levy should not be disclosed in the financial statements of the reporting entity?

If not, please explain why not.

Yes, we agree.

Q4. Regulatory Funding

The draft Reporting Statement aims to complement the disclosure requirements of draft FRS 17 by requiring additional disclosures. The additional disclosures include greater information about scheme funding. The ASB has not, however, recommended the disclosure of the level of compensation benefits that would be payable in the event of insolvency (section 179 of Pensions Act 2004).

Do you agree that the financial statements should not require disclosure of this amount?

If you would prefer disclosure please explain why?

Yes, we agree.

Q5. Effective Date

The ASB proposes the amendment to FRS 17 and the Reporting Statement be effective for accounting periods ending on or after 31 December 2006. This Exposure Draft proposes that corresponding amounts for the previous period are provided in accordance with FRS 28 'Corresponding Amounts'.

Do you agree with the proposed effective date?

Do you agree with the proposal to require corresponding amounts?

If not, please explain your reasons why.

Regarding the proposed effective date, we do not feel qualified to comment. We support the disclosure of corresponding amounts.

Q6. Regulatory Impact

The ASB's view is that the proposals in this Exposure Draft will, in the main, lead to disclosure of information an entity already has available and as such additional costs incurred with the proposals set out in the Exposure Draft should be minimal.

Do you agree? If not, can you identify and quantify costs resulting from the proposals?

The ASB would also welcome views on whether the costs of providing the disclosures recommended in the Exposure Draft outweigh the benefits of disclosure.

We are not in a position to comment.