

## Hymans Robertson Consultation Response

### **Q1 Do you agree with the approach to adoption of the Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement? If not, why not? What alternatives do you suggest?**

Please see below our Hymans Robertson firm wide response (from October 2015) to the original IASB consultation on this particular IAS19 amendment. You will see that we raised concerns specifically about the impact on local authority LGPS accounting.

*Whilst again we can see the logic of the proposal, we believe that the change is unnecessary and may, in some circumstances, be entirely impractical. It is not clear to us whether the proposal offers any advantages over the current approach, or solves any particular issues. The proposal could make budgeting more difficult, or could lead to sponsors “gaming” the system – for example by having minor plan amendments or settlements part way through a year simply to improve the P&L position.*

*There is a more material issue arising in the Local Government Pension Scheme in the UK, which is a funded defined benefit plan typically operated by local authorities. It is not unusual for a given authority to oversee a multiple number of curtailment events in a given year, for instance due to outsourcings or academy school conversions. The proposals as drafted would appear to require the re-measurement of net interest cost and current service cost after each and every one of these events. This in turn would very significantly add effort, cost and uncertainty to the production of local authority accounts, with no apparent improvement in user understanding as a result.*

*We would strongly urge that this element of the proposals is materially reconsidered.*

We still believe the adoption of the new approach is unnecessary and even more so for local authorities where we cannot see any advantages over the current approach.

Our strong preference would be for CIPFA to not automatically adopt this change in their 19/20 code for local authorities. Full details of our reasons behind this approach are provided below when considering the practical impacts of adoption.

### **Q2 What do you consider the practical impact of the adoption of the Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement will be for you or your organisation? Please provide details.**

We feel that in the majority of circumstances the adoption would be entirely impractical to implement. The following practical aspects would be impacted:

- significant increase in the complexity of the IAS19 process and calculations we would have to carry out for local authorities.
- each local authority report effectively being produced in a batch of 1 (removing the benefits of economies of scale within our typical LGPS reporting exercises)
- significantly increased actuarial fees to handle the added complexity of the calculations and reporting
- a new reporting framework may have to be agreed upon (by who?) to capture the level of detail local authorities show in their accounts on the methodology and assumptions used for each known date a material amendment, curtailment or settlement occurred.
- extended timescales for the production of IAS19 reports

If the change was incorporated into the CIPFA 19/20 Code, we simply feel there is no tangible gain for local authorities. The change goes against the grain of public sector best value accounting (fast and cost effective IAS19 reporting for the taxpayer).

Finally, we do note the comment under point 25 regarding materiality considerations. However, there are also further practical considerations in this regard.

- How would a local authority and its auditor determine materiality? In our experience local authorities and (in particular) their auditors take different views on certain accounting aspects, so that (for instance) what is considered immaterial in one case is regarded as material in another; the unpredictability and unevenness of the likely reactions to this change would in itself add cost and delay to the pension accounting process.
- We are finding it difficult to construct scenarios where an amendment, curtailment or settlement (i.e. an academy conversions) could be considered material enough to the local authority to justify the additional reporting costs required to comply strictly with the IAS19 standard.

As a result of the above and in the absence of explicit guidance from CIPFA, we currently have no intention of adopting this change within our annual local authority IAS19 exercises, and instead will state that we assume the settlements occurring during the year would be considered immaterial for this purpose. We believe our local authority clients would not welcome the alternative additional complexities or the additional costs of reporting.

Please note we will be sharing our above consultation response with our local authority clients as some have asked us for our views on these IAS19 amendment questions.