

A review of the form and content of pension scheme report and accounts

The regulator's response

November 2006

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Executive summary

As a result of changes in the UK pensions landscape, the Pensions Regulator recognises the importance of assessing the effectiveness of current pensions disclosure requirements. In particular consideration must take account of whether the current framework for pension scheme reports effectively supports stakeholders' information requirements.

The Pensions Regulator therefore initiated a review of these issues resulting in the publication of a discussion paper on 2 June 2006.

This paper summarises and draws conclusions on the responses received to questions raised in the discussion paper, reflecting where relevant the diversity of responses, and makes suggestions as to the way forward.

Summary of findings

Whilst, inevitably, there were a range of views on the questions asked, a number of common threads run through most of the responses, enabling us to draw the following conclusions:

- there is a strong message in the responses that there should be a distinction between disclosure to members (best achieved through the summary funding statement, statutory money purchase illustration and abbreviated reports and accounts) and the stewardship role of pension scheme reports and accounts. Enhancing disclosure to members should be achieved through the former means while the content of the latter should be restricted to matters germane to the accountability of the trustees;
- a large majority of respondents (83%) stated that the inclusion of actuarial liabilities would not add value to pension scheme financial accounts. Concerns were raised with regards to the practical complexities of including such a figure as well as recognising that the benefits of inclusion was outweighed by the annual cost – with a number of respondents recognising that this could be substantial;
- a majority of respondents were not in favour of the full report and accounts being sent out to all members, as this was considered disproportionate. Instead there was a strong preference for the better use of summary financial reporting;
- respondents recognised the importance of good scheme governance, with a majority supporting the communication of a governance statement;
- responses in relation to disclosure exemptions according to membership size were more evenly spread with respondents recognising the pros and cons to this proposal; and
- the majority noted that the proposed changes outlined (with the exception of actuarial liabilities referred to above) would result in additional costs, although many noted that these would be marginal, with some respondents stating that the perceived benefits would indeed outweigh these costs.

Next steps

The principal purpose of the review has been to inform the debate on the reporting of financial information to members and other stakeholders in the context of a range of communication channels already in place. The discussion paper has stimulated considerable debate amongst the pensions community, enabling a range of views, ideas and criticisms to be captured simultaneously, and as a result the discussion paper appears to have been successful in meeting its intended objective. In addition, information has been pooled centrally facilitating a collective review of responses and a more thorough analysis.

We have identified the following next steps:

- offer the findings of this review as a valuable input to the work that the Pensions Research Accountants Group (PRAG) is carrying out in reviewing the Pensions SORP (Statement of Recommended Practice), linking in with enthusiasm expressed for best practice guidelines in respect of financial reporting;
- reinforce the emphasis PRAG is already placing on summary financial statements, passing on the views expressed that these could represent the principal means of communicating to members, possibly drawing together summary financial information, funding and governance disclosure in one document, either subject to audit or to a consistency check with the unabbreviated accounts;
- feed responses received to the Pensions Advisory Panel of the Accounting Standards Board, pointing specifically to the views expressed on the treatment of actuarial liabilities in UK scheme accounts;
- contribute to the DWP review of disclosure drawing on the groundswell of support for accessible summary financial reports (properly regulated), a governance statement in the annual report (or 'popular' report) and enhanced funding disclosure in the summary funding statement;
- consider further the suggestion made by several respondents that a code of practice could be developed by the Pensions Regulator, possibly to be followed up with a meeting with relevant stakeholders. The intention would be for the code to cover the annual report disclosures, with the SORP concentrating more on effective accounting disclosure in the context of developing disclosure requirements; and
- ongoing liaison on the content of the scheme return to minimise duplication where possible.

Conclusions

A number of the collective findings of this first Pension Scheme Report and Accounts discussion paper provide some important conclusions relating to scheme disclosure. These must be taken into account not just by scheme trustees but also by other government bodies and accounting standard setters when considering amendments to the existing framework. The following are considered to be of particular importance:

- communication of meaningful and relevant information to members should be underpinned by an appropriate disclosure framework which is not overly prescriptive and promotes the use of good practice;
- pension scheme reports and accounts are not an effective means of communicating with members and therefore discharge only a stewardship function. It follows that disclosure in reports and accounts should be limited to that needed to ensure the accountability of trustees and to underpin disclosure to members, which may include summary financial information;
- there are strong arguments against including pension liabilities on the face of the primary statements – communication by improved disclosure outside the scope of audit is the preferred option;
- for DB schemes, the key matter of interest to members is the funding position of the scheme and its relevance to the likelihood that they will receive their benefits. Such funding information is better disclosed to members through the Summary Funding Statement (SFS), as distribution to all classes of membership is mandatory. The regulator's code of practice on funding defined benefits points to good practice in this respect;
- so that scheme accounts may disclose appropriate funding information, a pragmatic approach would be for a copy of the SFS to be appended replacing the current requirement to include the Regulation 30 Statement;
- whilst a number of the disclosure requirements suggested in the paper, for example review of employer covenant, do not hold as much weight in a defined contribution (DC) environment, investment performance and related disclosure holds equal if not greater importance to members. Whilst generic investment performance disclosure in the annual report is undesirable, perhaps greater focus should be given as to the adequacy of the Statutory Money Purchase Illustration (SMPI). By default this illustration is member specific but includes a number of variables which would appear to be confusing to members generally. It would therefore seem sensible to reconsider the existing contents of SMPIs, noting that the SMPI also provides an appropriate vehicle for communicating to members of DC arrangements. Content may, for example, be improved by focusing on more pressing matters such as:
 - benchmarking investment performance against the top five performing funds;
 - encouraging additional investment to increase retirement provision, showing the benefits of additional contributions;
 - better sensitivity analysis of estimated future investment returns and size of retirement fund;

- there may be a good case for requiring a governance disclosure in the report and accounts, and possibly in annual reports to members; and
- whilst the argument for and against blanket exemptions, based on scheme size for example, is well balanced, what should be recognised is the primary purpose of pension scheme reports and accounts – that of a stewardship report. With this in mind, it would seem appropriate to consider the removal of mundane compliance type disclosures which do not contribute to stewardship, as opposed to removing requirements only for smaller schemes. The intention would not be to abandon certain disclosure requirements; instead these disclosures would be better placed in other forms of communication. For example, if investment performance disclosure in both the trustees' report and accounts (including notes to the accounts) adds limited value to member understanding because it may be too generic and focused on scheme-wide asset allocation, then what use is this information to members – and more importantly, should we maintain such a disclosure regime? Taking this into account, there may be a strong argument for removing a number of superfluous disclosure requirements altogether.

To help readers of this document fully assess the views of other interested stakeholders in relation to disclosure related matters, this paper is also supported by a sample of responses (see Appendix). This provides detailed comments made by respondents in connection with both general and specific questions raised in the initial discussion paper.

Finally, the Pensions Regulator would also like to take this opportunity to thank all those that took part in this consultation, especially to those giving up time to provide us with formal responses.

Background

On 2 June 2006 the Pensions Regulator published a paper on the form and content of pension scheme report and accounts. This was produced to provide an opportunity for discussion on disclosure-related matters, recognising that the statutory annual reporting process is only one of a number of ways in which pension scheme trustees and managers communicate with their principal stakeholders.

It was intended that the review would help inform regulatory, government and accounting bodies by:

- helping the Pensions Research Accountants Group (PRAG) revise its Statement of Recommended Practice (the Pensions SORP) in respect of the form and content of financial statements of pension schemes. The intention is that the updated Pensions SORP will take account of representations made by the pensions community, removing what are perceived to be disclosures of limited value, and encouraging a disclosure framework which provides key stakeholders (eg members) with meaningful and relevant information;
- considering the scope for aligning reporting requirements with the information needs of the Pensions Regulator;
- helping the Department for Work and Pensions (DWP) in reviewing and defining the appropriate statutory framework for disclosure by pension schemes; and
- informing the work of the Accounting Standards Board (ASB) in its review of pensions accounting, particularly in relation to pension scheme accounting and convergence with international accounting practices (International Accounting Standard 26 – Accounting and Reporting by Retirement Benefit Plans).

To help facilitate the preparation of the discussion paper, our consultation process involved a number of meetings in the period from the spring of 2005 to the spring of 2006. These were chaired by the Pensions Regulator and included a number of industry representatives. Wide representation was gained for the two working groups (governance and stakeholder) set up to look at these areas and we are most grateful to those who gave up time to provide valuable input throughout the life cycle of this document. We also received valuable input when we tabled discussions at our advisory panel meeting in July in relation to questions included in the paper. This panel included a cross section of industry and consumer representatives.

We asked a number of questions (see Appendix) concerning the relative strengths and shortcomings of existing disclosures, of proposals to replace certain existing disclosure requirements (miscellaneous compliance disclosures) by more meaningful disclosure (for example on governance), specific questions in relation to improved funding disclosure for defined benefit schemes and investment disclosure for money purchase schemes. We also asked whether we are right in our assumption that these proposals are broadly cost neutral in nature either when taken together or in part. We recognised that one possible option, the inclusion of actuarial liabilities within schemes' financial statements, would be likely to result in substantial additional costs and therefore asked a separate question about the cost-effectiveness of such a change.

The closing date for comments was 25 August 2006 and we have been greatly encouraged by the scale and quality of response received on this important and topical subject. Since publication we have received nearly 50 responses to the discussion paper. The formal responses clearly reflect the breadth of knowledge and experience of respondents – they have certainly been most thought provoking. Thank you to everyone who has helped in the production of this piece of work.

Analysis of those that responded

Large schemes	10
Small/medium sized schemes	7
Independent Trustees	2
Benefit consultants	5
Administrators/service providers	4
Legal	2
Audit/accountancy	9
Actuarial	3
Government	1
Industry/lobby groups/individual members	6

In addition to the quality of responses, the diversity of respondents has also meant that we have been able to capture views from a broad section of the pensions community.

Findings

Following an in-depth review of all the responses, and after discussions held with others, for example at a recent advisory group meeting, there was a diversity of views expressed, as would be expected. However, there was remarkable consistency in relation to a number of specific areas, as outlined below.

Question 3: Do you agree with our analysis of the relative strengths and shortcomings of summary financial statements? If not, why not?

There was extensive support expressed for more widespread use of summary (popular) financial reports. Many felt that these should be subject to audit. Others felt that effective use of summary financial information, particularly combined with the summary funding statement, should go a long way towards meeting the needs of members.

Question 9: Is the 'one size fits all' (unabbreviated) report and accounts to all members a proportionate approach to take?

In response to this question, there was a resounding 'no'. The unabbreviated accounts are an important record of stewardship and benefit from being audited, but do not normally 'hit the mark' for members. They should, however, be available on request and placed on the pension scheme website for those with a particular interest in the detail.

One suggestion made in the discussion paper was for a code of practice to be assembled to provide the framework for preparing the annual report, with the Pensions SORP left to determine what should appear in the accounts. Some favoured this approach, with more still favouring best practice guidelines for summary financial statements ('popular' reports).

Question 11: How relevant is a governance statement for members, particularly in respect of risk assessment and internal controls?

Of the 25 respondents that expressed a view on this question, an overwhelming majority (20) were in favour of providing members with a governance statement. Many of the respondents were also in favour of a governance statement being included within the annual report and accounts as this stewardship document was considered to be the natural home for such a report, whilst others believed that a statement of this nature could be included in other source documents. Again, many were also supportive of this statement or the annual report as a whole being accessible to all members. Good scheme governance is seen to be an ever-increasing priority for all schemes and inclusion of some form of governance statement (similar to that for charities, for example) further supports the recommendation made in the regulator's code of practice on internal controls.

Question 13: Would the inclusion of actuarial liabilities within the primary financial statements of the scheme add value to the reader?

The overwhelming majority (83%) of those that expressed a view on this aspect were opposed to including the actuarial liabilities in the primary statements, preferring more extensive use of either the actuarial report or disclosure only within the annual report. Many cited the argument that the range of values depending on the assumptions rendered a single figure meaningless. Most also believed that there were significant cost considerations of including the actuarial liabilities within the audited accounts. The scope of the audit would need to be extended such that the auditor was able to give a true and fair view of the financial transactions of the scheme during the year, including liabilities to pay pensions and benefits after the end of the year. Whilst not specifically referred to, it is also important to note that recognition of any net actuarial surplus or deficit in the scheme accounts would also result in the need to recognise a corresponding asset (amount recoverable from employer) or liability (for fully funded schemes). And of course the asset, representing future cash inflows from the employer to clear the deficit, will need to be considered by the auditor with regards to recoverability, making provisions where appropriate.

Question 15: For DB scheme members, is the right place for disclosure of information on funding and the employer covenant in the financial statements of the pension scheme or can existing disclosure mechanisms (including the summary funding statement) be further developed to meet this need?

All but three of those that responded to this question said that the summary funding statement was the most appropriate vehicle for communicating funding-related information to members. However, there were a number of reservations received from respondents regarding the trustees' assessment of the strength of the employer covenant, recognising that this was subject to their own interpretation and therefore potentially subjective. Respondents also commented on matters relating to confidentiality and price sensitive information in relation to the employer covenant, particularly if the report and accounts, for example, were looked to solely for this information. It has also been noted that pension scheme reports and accounts and information contained therein are not publicly available. The inclusion of such information could therefore be detrimental to the employer should this data be misused in any way.

Some respondents also noted that summary financial information (including summary financial statements) provides a suitably framed and regulated vehicle for putting across the broader messages (including those on governance, as mentioned in question 11 above) to members.

Question 17: For DC schemes, do you anticipate practical difficulties in shifting the emphasis from a generic investment report to a more focused disclosure in the trustees' annual report?

In the main the majority of respondents felt that in addition to there being practical difficulties to enhanced investment disclosure, tailored investment information would be best communicated in the individual member's annual benefit statement. For any investment disclosure, consideration would also need to be given to the date at which investment performance is measured, particularly if members are expected to use information in the report and accounts to gauge investment performance. Peaks and troughs in unit prices or equity returns at a given point in time may mislead members. This would only be compensated by providing annualised returns, or by comparison to a rolling five year period as well as benchmarking. This information may be readily available. In the worst case this information will be provided by the investment manager at a cost: this may be undesirable, particularly if the information is already included in the SMPs.

Question 18: Given the importance of good governance, should any exemptions apply to smaller occupational pension schemes and if so, are limits, based on the number of members, appropriate?

A number of respondents that expressed a view were not in favour of exemptions unless all members were also trustees of the scheme. Many expressed the view that governance disclosure in particular was as important to the stewardship of smaller schemes as it was to larger schemes. This was particularly the view given the results of the regulator's recent governance survey which gave evidence to support the fact that generally it was the smaller schemes where improvements to governance were needed. By providing these schemes with exemptions for certain disclosure requirements, members would have limited information to assess the stewardship of their scheme.

However, it should also be noted that a number of respondents support the use of exemptions, recognising that this may be less burdensome for smaller schemes, although this would be subject to minimum levels of governance for all schemes, with enhanced disclosure for larger and more complex arrangements.

Some suggested that a simplified report for small schemes, concentrating on such things as quality of administration, employer covenant, trustee knowledge and understanding and investment would be a proportionate approach to take. Any exemption to the proposals outlined in the discussion paper for smaller schemes would bring with it a potential cost saving. Additionally, as the scheme report and accounts are a statement on the effectiveness of scheme stewardship and are rarely requested by members, would it not be appropriate to exempt schemes from certain investment disclosure requirements – are members not more concerned with the security of their pension and what would happen in the event that the employer covenant deteriorates?

It should be noted that HMRC expect to receive annual reports and accounts from all schemes with more than 50 members.

The use of exemptions could bring with it another set of complex regulations documenting as and when exemptions can be adopted.

Cost question: These proposals have been prepared on the assumption (other than for the inclusion of actuarial liabilities on the face of the primary statements) that they would be cost neutral. What in your opinion (based on your own experience and scheme size) are the cost implications of each of these proposals, is there an associated benefit that would justify any additional cost and are there either compensatory cost savings or intangible benefits?

A majority of respondents expressed concerns over cost. A number stated that the proposals to replace certain disclosures with more meaningful information would only result in minimal cost savings. It was noted by one respondent that proposals relating to DC investment disclosure in the scheme accounts could add major costs to those funds that operate multiple fund links, particularly where two or more fund managers are appointed. Other respondents noted that, with the exception of the inclusion of actuarial liabilities in the financial statements, most of the proposals would only result in marginal increases in cost.

A number, however, recognised that the overall benefits of the proposals outlined in the discussion paper (for example the availability of a governance statement to members) justified the additional costs because of the enhancement and improvement of meaningful information communicated to members; also, of course, the elimination of duplicate reporting of information will result in cost savings. Indeed one respondent to this argument further recognised that cost should not simply prevent change, particularly in a changing environment where better disclosure of information would provide users with more meaningful and relevant information.

Appendix

Details of responses provided

The following appendix captures specific comments made by respondents either personally or on behalf of their respective organisations and not those of the regulator. These have been analysed between general comments and responses to specific questions.

General comments

In addition to addressing specific questions included in the discussion paper, a number of respondents also provided their views on other areas of disclosure and regulation. This input is also very much welcomed as it raises further questions which we believe ought to be shared with the pensions community.

- There are two distinct elements that the regulator appears to be trying to cover in a single document or process: (i) collation and provision of financial information indicating the 'health' of the scheme, and (ii) provision of key information for members to help inform their decisions on planning for a financially secure retirement. Whilst we accept that the first element must, by reason of the Pensions Directive, be made available to members on request, it is unlikely to be of any help, or indeed interest, to the overwhelming majority of members. It is, however, likely to be of great use to, amongst others, the regulator and the Board of the Pensions Protection Fund.
- The second element is information that members should receive as a matter of course. In the interest of ensuring that this second element achieves its aims, it is critical that the content and use of the trustees' report and accounts is not confused with member-specific information, such as the annual benefit statement and statutory money purchase illustration (SMPI). It is likely to be most effective if it is kept as short and straightforward as possible. A surfeit of information will have the opposite effect to that desired.
- Furthermore, the disclosure legislation should be overhauled to provide a basic framework of principles, supported by more general guidance in the form of a code of practice. This would permit trustees to adopt disclosure processes that are specific to the needs of their scheme members, rather than complying with the prescriptive requirements that might be of little or no relevance in the context of their particular circumstances. With the statutory framework provided via the Pensions Act 2004, members now have far more safeguards than ever before and our view is that greater reliance can be placed on trustees ensuring that they meet the principles in a manner that is appropriate to the scheme.
- In our view, the value of a set of scheme report and accounts hinges on whether they provide information which at least some of the scheme members are interested in reading and basically understand when they do so. The fundamental reason for having reports and accounts is so that the trustees can report to the members on their stewardship of the scheme in the year just past. Effectively the members ought to be satisfied that the trustees have properly looked after the pension fund in the period immediately preceding.

- We view the discussion paper as a whole as largely unsympathetic to our view of the fundamentals. It gives too little attention to what is needed to make the report and accounts an annual document which scheme members actually want to read and can understand. The paper goes too far in the direction of meeting the requirements of the regulator for information from the trustees and the views of pensions professionals on what scheme members ought to want to read.
- We see little likelihood that the proposals will lead to less but more meaningful disclosure.
- A pension scheme is established as a vehicle for the provision of promised benefits to individuals. As a result, the primary focus of the scheme as a whole, including the financial statements, must be on the needs of members. Hence, the critical issue to address is whether the pension scheme report and accounts adequately address the needs of members. We are not aware of any extensive research conducted in the shortcomings of pension scheme report and accounts, and request that the Pensions Regulator makes available any such research to support the need for a fundamental change in the current regime.
- We believe that there is a need for the Pensions Regulator to establish a framework where information is made available to members in a more digestible and understandable way than the full annual report and accounts which can be over-complicated for non-specialists. Additional guidance, potentially through the medium of a code of practice, could establish a framework to harmonise existing practice on providing summary financial statements and information to members. Overall, we support the proposals outlined by the Pensions Regulator but would urge careful consideration of issues outlined.
- As effective communication with members is a prime responsibility of trustees we therefore welcome the overall direction of the discussion paper. We also support the view that duplication of information disclosure should be minimised, and that information should be disclosed in the most logical place where it is most likely to be read.
- The buzz word in the financial services industry is currently transparency. There appears to be increasing transparency in all sections except the pensions industry.
- Our view is that the discussion paper proposes changes which are entirely inconsistent with the purpose of the pension scheme reports and accounts, and which conflict with the 'shake-up' of pensions regulation that is proposed in the May 2006 White Paper.
- I note the comment in the foreword that the regulator has no desire to duplicate information provided elsewhere. There is a danger in some of the recommendations made in the paper that such duplication would arise. The needs of members of occupational pension schemes for information about the scheme and their own benefits are met from a number of sources, such as individual benefit statements, newsletters and 'popular' reports and now annual funding statements. The overwhelming majority of members do not ask to receive the annual report and financial statements and it is doubtful whether

many members would read them in detail, even if they were required to be distributed to them.

- It seems to us that the paper has confused a number of conflicting objectives which include the requirements of the pension directive for information to be available to members on request, information that members need to understand their own financial position, a public policy requirement that pension funds should be accountable and transparent, the requirements for information of the PPF and the Pensions Regulator, and the requirements of the auditors in the preparation of pension scheme accounts.
- The paper concentrates on the needs of members of pension funds in the face of and seemingly with no acknowledgement to the DWP study Effective means of conveying messages about pensions and savings for retirement report 239/2005, which demonstrates the enormous difficulty of conveying financial information to scheme members. It ignores the fact that active members and pensioners have very limited ability to make use of general information about their fund. They have no ability to remove their participation, except in the case of active members if they leave their job, and take a transfer of a deferred pension. It is therefore unclear why the information on a company covenant strength and scheme funding arrangements is being provided to members. What are they supposed to do with it? The assertion is made in paragraph 3.5 that 'well informed members help maintain the quality of the administration'. The evidence for this and the mechanisms by which this could occur when compared to the impact of the notification regulations, the audit and the obligations of the advisers are obscure.
- While the proposed approach may conceivably satisfy the requirements of the stakeholders listed in Appendix 3, we do not believe that it would suit the scheme members. Already, it is our experience that very few scheme members read and understand the full report, given its detailed technical content. Expanding its content way beyond its current parameters would make any aim of engaging with members through the report more difficult to achieve. The likelihood is, therefore, that the expanded report would become ostensibly a compliance-orientated document and any character it might currently have as a document in which trustees account for their stewardship to members would be diluted.
- We consider the process of revising the SORP and regulations on pension scheme reporting needs to address the fact that there are already too many disclosure requirements which are of little or no interest or usefulness to members. The extraction of key data from the main report and presenting it to members in the form of a summary statement is, along with the production of personal benefit statements, a more productive means of conveying information to members.
- As a general comment, when the discussion document was released, draft revised disclosure regulations had been released (with planned implementation in October 2006), and the document makes comments (for example in the area of annual benefits statements) assuming those revisions are implemented. Since then the DWP have announced that those revisions will not now take place pending the deregulatory review announced in the White Paper, so some of the rationale behind the discussion document no

longer applies (at this time at least). This does mean that revisions to the pension scheme account requirements at this time may not be appropriate as they may be amended by further changes to legislation but we would ask the regulator to consider the timing of this review so that it complements all the other revisions.

- We welcome the review of the purpose of the above document and how it could be improved to meet recipients' needs. We are also wholly in favour of less but more meaningful disclosure. It would also be very useful to have a list of all the required and best practice elements for the report contained in one clearly set-out document, rather than spread across regulations (as amended) and the SORP.
- Scheme annual reports and accounts generally have very limited readership. Few schemes circulate them to scheme members automatically and very few scheme members actually ask for and read them. As a result, some of the commentators feel that there should be some focus on how to persuade people to take an interest, and that reviewing the content should be examined in this context. It was also considered that trustees should be encouraged to explore alternative means of communication with scheme members, perhaps through AGMs or roadshows.
- Wherever possible, we would support the use of best practice principles and the use of a 'comply or explain' approach.
- It is debatable whether the report and accounts of a pension scheme are, or should be, designed to provide information to satisfy the varying requirements of a number of different groups of users, such as scheme members, trustees, external regulators and employers. Each user has different levels of knowledge and information needs, and attempts to meet all requirements in one report can result in no one being fully satisfied. At present the report and accounts are for the members of the pension scheme and we believe that this should remain the case, with the emphasis on providing succinct information that is meaningful to a typical member or other beneficiary. The Pensions Regulator already has access to the specific information it requires via the schemes' annual returns and by requesting additional information, and we think this should continue to be provided separately. We do not think it is appropriate to try and meet all potential users' information requirements by adding to the length and content of the schemes' report and accounts.
- Generally, we would make the point that pension scheme trustees, administration and sponsoring employers are already reeling under the weight of all the legislative and regulatory changes that have already been introduced. More changes are inappropriate at this time.
- We wish to register our dismay that the working groups described in Annex 4 of the discussion paper were comprised solely of industry participants and that accordingly not a single organisation that speaks for pension scheme members was invited to participate. In view of this, we see an unconscious irony in one of the working group's being styled the 'stakeholder' group, given that the paramount stakeholders in every pension scheme are the beneficiaries. As this discussion paper was about reporting to members, it appears to be a substantial oversight to exclude them from its preparation.

- We consider that the discussion paper fails to give proper weight to the interests and concerns of pension scheme members in relation to responsible investment and, indeed, in relation to corporate governance issues in general. As we have also made clear, we believe that this failure stems from the lack of any direct representation of scheme members in the consultation process which led up to the discussion paper. We would ask, therefore, that the voice of scheme members be heard in all future deliberations on scheme report and accounts, including the forthcoming consultation process for the new pensions SORP. Further, we would urge that, as a matter of course, there should be a presumption in favour of scheme member representation in all working groups on future discussion papers to be issued by the Pensions Regulator.
- Regulations need only set out the requirement to produce a report and accounts within a prescribed period with the detailed content and format specified by the SORP. The regulatory framework for the report and accounts could be streamlined with a statutory instrument setting out the basic requirements and the detail included in the SORP.
- One strand of information could be rationalised without difficulty. There are two sets of regulations which prescribe the form and content of scheme annual reports and accounts, as well as the SORP which covers much of the same ground. It is worth considering replacing the detailed requirements of regulations by a single statutory instrument which requires schemes to produce a report and accounts within a prescribed period. The detailed form and content could be left to the SORP, avoiding both duplication and meeting the objective of better regulation.
- The audited financial statements (and notes), statements of responsibilities and audit report on contributions should be a separate annual report, distinct from the trustees' annual report and compliance statement, and available to users on request. Disclosure in annual summary funding statements, SMPs and actuarial valuations might be improved to include fuller reporting on covenant strength, deficit repair and funding unless prohibitively expensive or of limited value to users. A copy of the annual scheme return might be made available to users on request. A new stand-alone trustees' annual report (excluding the audited financial statements) should be prepared in electronic and hard copy format and might be sent to all users in their preferred format. The contents might be prescribed in a code of practice, summarised according to the needs of the majority of users (the members) and tailored to circumstances and proportionate to needs.
- Information currently included in the trustees' report and compliance statement might be summarised and disclosed in the new trustee annual report with summary financial information and confirmation of the audit opinions on the audited financial statements and on contributions. If applicable, a governance report (or summary thereof, where a full report is available to users on request) and abbreviated reference to the annual scheme return may be included in the new trustee report. Disclosure of funding issues and covenant strength take from the scheme funding statement might be included in summary in the new trustee report.

- Those users (particularly the regulator) who require access to the full information summarised in the new trustees' annual report can refer to the unabridged supporting reports and statements. On the assumption that the new and unabridged report or statement could be provided as an electronic attachment or hyperlink in the electronic trustee annual report. This lends itself to subsequent electronic manipulation by the regulator for regulatory purposes. The new electronic trustee annual report addresses the provisions of relevant information to different users, avoiding the burden of unnecessary duplication. The new trustee report can reduce or eliminate the need for the auditor to review the contents for consistency with the audited financial statements.
- Scheme auditors may be asked to report by exception where their review of the most recent report appears inconsistent with the most recent financial statements. The new trustee report does not delay the timely issue of other member communications and may coincide with the issue of one or other of the other communications (benefit statements, summary funding statements or newsletter) to mitigate distribution costs.

Responses to specific questions

To help readers further, we have sub-analysed responses between views that either support or reject the various proposals outlined, views that share mixed feelings to the proposals outlined as well as responses which are slightly more radical.

Question 1: Do you agree with our analysis of the relative strengths and shortcomings of the annual report? If not, why not?

Those in agreement

- We agree with the general thrust of analysis. The main purpose of the annual report in our opinion is that it should be a readable summary of high level matters and events relating to a pension scheme. However, to attempt to meet all their (*those in annex 9*) needs comprehensively can only result in a messy compromise and a document that will not be read by members.
- We agree that most trustees' annual reports are quite basic, supplying only very basic information. They certainly do not provide great detail on the security of benefits and may, in many instances, lead to a false sense of security.
- Overall we agree with the analysis as there are too many standard disclosures that give very bland information to users. There is a clear argument for a summary of the information provided in the SFS to be included in the trustees' annual report or possibly the inclusion of the SFS as an appendix to the annual report and accounts. Alternatively, the key points could be included in the summary financial statements.
- In general, we agree with the analysis of the annual report. It is certainly true that the current content of the annual report can be improved upon by including more information on scheme specific funding. In addition, the review should consider whether the numerous ad hoc disclosure requirements should

be included in the annual report as they can distract from the more important issues which require reporting upon by the trustees.

- We agree that the trustee annual report is currently not required to provide information to members concerning the security of their pension or the strength of the employer.

Those in disagreement

- No - It is far from clear that the annual report is the appropriate place in which to report on the security of pensions, the strength of employers or related funding issues ... there seems little purpose in requiring the report to repeat information required to be provided in the annual funding statement. The benefit to users of subjecting additional disclosure in the annual report to review by auditors for consistency with audited financial statements is not clear and does not seem to justify the additional cost.
- The report and accounts should be a document that confirms activity over the year and the current financial status of the scheme. Although it could be argued that there is very little information supplied to members in the annual report concerning the security of their pensions this communication gap is being addressed by the summary funding statement and it would seem unnecessary to communicate the same information twice. We therefore believe that the current document is adequate.
- We would consider that the primary purpose of the annual report and accounts as a whole is to give an account of the stewardship of the scheme by the trustees over the period in question.
- Generally we agree with the analysis. It was considered that the annual report requirements provide a reasonable framework but that the information in it should be focussed on the question of whether the scheme member is going to receive his/her pension. As such, scheme members need to know the strength of the employer's covenant, coupled with how well the managers are performing and the security of the investments, the level of the liabilities and details of any recovery plan and how well the trustees are running the scheme.

Those with mixed views

- We agree, however, that it would be good practice in the trustees' report to members to cross refer to funding documents (the statement of funding principles, the latest actuarial valuation or actuarial report, any recovery plan, the schedule of contributions, etc) so that readers are aware of these other sources of information.
- If the annual report is to be the principal means of conveying information to members it will need to be more concise and focus on the security of members' pensions and by extension, the strength of the employer covenant.
- The annual report has potential to be more informative to the reader if an appropriate statement can reflect the security of benefits.

Those with differing views

- We propose an annual report where the compulsory elements are limited to:
 - summary financial statements (with the formal statements being available to members and with which the information must be consistent) – and the timing of the annual report continuing to be consistent with the delivery of this information;
 - possibly the compulsory elements of the summary funding statement;
 - for DC schemes, a high level investment summary;
 - a high level summary of the scheme’s governance;
 - basics, such as contact details, inform the administrator if you change address etc;
 - an explanation of where more information is available.

but with readily available disclosure of other key documents. How can an annual report, which by its very nature is a backward-looking document, report on the future?

- We do not agree that “there is very little supplied to members concerning the security of their pensions.” We believe that members are able to obtain and read a large amount of information currently which should assist them to form a picture on the security of their pensions. This information includes the accounts that contain an audited fund account and net assets statement, the actuarial statements contained in the annual report and accounts, the trustees’ report that provides a review of the management of the scheme and developments during the year, actuarial valuation reports (although copies of this are rarely requested), the new annual funding statements that now must be sent by the trustees to every member; and newsletters and other communications sent to members by trustees.
- The overriding objective should be that the form and content of pension scheme report and accounts ensure that beneficiaries are given meaningful information. The report and accounts should contain a statement of compliance with the revised Myners principles for institutional investment and an explanation for any non-compliance. In the light of the new reporting requirements on companies regarding their social and environmental impacts contained in the Companies Bill, the trustees’ investment report should disclose the arrangements in place to assess such reporting in relation to their investment and engagement policies.
- We consider that the recommended procedure here should be that set out in revised Myners principle 10 (regular reporting):

“Trustees should publish their Statement of Investment Principles and the results of their monitoring of their own performance, and that of advisers and managers. They should send key information from these annually to members of these funds, as well as posting this on a fund website, including an explanation of why the fund has chosen to depart from any of these principles. It is good practice for funds with more than 5,000 members to have a website dedicated to the fund.”

Question 2: Do you agree with our analysis of the relative strengths and shortcomings of pension scheme accounts? If not, why not?

Those in agreement

- I would agree with the general aims as to what accounts should show.
- Yes, they concentrate too much on process and not enough on communicating what members want to know. The trustees' report and accounts could be used as the main vehicle to hold all relevant information to members...
- We agree that accounts can actually disguise the overall welfare of the scheme. We are mindful of the tight deadline for the production of scheme accounts and hope this will be borne in mind when including additional information in the report and accounts
- Yes. The accounting information is likely to be of no use to an overwhelming majority of members.
- We agree that certain minutiae disclosure currently adds no benefit.
- We accept that members have a legitimate interest in the 'big picture' concerning the security of their scheme and their own pension.

Those in disagreement

- They do convey the message of stewardship as a whole and the use of summarised accounts can help provide a more easily digested message to the lay reader. The detailed accounts do provide useful information to the trustees, professional advisers and the regulator.
- We believe that the accounts should focus on providing a record of stewardship. The correct focus of the document is on the past.
- We do not believe that the pension scheme accounts should attempt to give an "indication of how a scheme might perform in the future". Accounts should simply show in a clear manner a summary of what money came in, and where from...
- It maybe that the accounts address seemingly trivial issues given your focus of pension scheme funding deficits, but in the light of past and current corporate accounting fraud, this is an important record for members and sponsors...

Those with mixed views

- The aim of the audited accounts has been historically to provide confirmation of the cash flows, to check the holding of the assets and to ensure good financial controls are in place. It is recognised that the accounts do not inform the members of the security of members' benefits ... no one can predict the future, and attempts to provide the big picture on security may be misleading.
- Overall, the consensus was that the accounts should continue to reflect the record of stewardship of the trustees, with information about pension liabilities being dealt with in an actuary's statement. This statement, rather than being dropped, should be improved to make the position clearer to scheme

members. The trustees in their report should provide an overview of the position shown by the accounts and the actuarial statement. In many cases, the biggest issue is the failure of the employer and this is notoriously difficult to predict over any reasonable period.

Question 3: Do you agree with our analysis of the relative strengths and shortcomings of summary financial statements? If not, why not?

Those in agreement

- Yes. Summarising the main points assists members to understand the parts most important to them.
- A two or three page summary should be the target, containing appropriate financial information. I believe that the annual funding statement should be reduced in length and be included in this document.
- Less than 1% of our members request the full report and accounts. All receive a summary of them within our regular newsletter. Requiring the auditor to check for consistency is best practice and does not incur a significant cost.
- We welcome additional guidance on improving communications to members in abbreviated form, and are very happy to engage in more detailed discussions and correspondence with members who have an interest in stewardship and funding matters.
- There are currently no requirements for schemes to produce summary financial statements. We note that research carried out by PRAG shows that, where schemes voluntarily produce summary financial statements, the content and quality varies considerably. We believe that there are supportable arguments for developing standards or extensive guidance on summary reporting so that members obtain further scheme information with their individual benefit statement and the scheme funding statement. This will be particularly useful for members who are not pension specialists
- Yes – they are varied as to the quality and extent of their content.
- At present, summary financial statements vary widely in scope and presentation. Consideration could be given to standardising the information that should be included in the summary financial statements. As this is sometimes the only form of annual communication received by the members, it is an important document.
- We agree that it may be helpful for pension schemes if there were further guidance issued to schemes as to the format and content of summary reports to members. We also agree there is merit in considering if the auditor should review the summary to ensure consistency with the full report and accounts.
- We support the principle of summary financial statements for members issued voluntarily and would see this as good practice. We would welcome further guidance for schemes including checks for consistency with the main document.

Those in disagreement

- We see no good case for producing any further prescription into the provision of summary financial statements ... further external intervention would sadly lead to fewer being produced.
- We see little merit in prescribing the form and content of summary financial statements since they are typically provided in a form and manner that is tailored to individual scheme requirements and this flexibility would be lost with prescription.
- The trustees are best placed to decide what and how to communicate with its members; not regulation.

Those with mixed views

- The main strength of the summary financial statement is that the trustees can produce reasonably cheaply a reader friendly summary of the annual report and accounts and issue it to all members. Trustees should continue to have flexibility with the production of these summaries, without there being too much prescription from the regulator.

Those with differing views

- Consideration should be given for making the production of summary financial statements mandatory for schemes above a certain size to ensure manageable and readable information is made available to members.
- These are optional statements and so, by their nature, are issued by trustees and companies who are concerned about keeping members fully informed. In that light, it is best to let trustees tailor these documents to the readership that they know best and not to prescribe the format. These documents should not become mandatory.
- In our experience, auditors are very rarely engaged to review summary financial statements. It has been represented to us that audited summary financial statements are deemed unnecessary and if they were to be in a prescriptive format, the summary might become too detailed, defeating the object of the exercise.

Question 4: Do you agree with our analysis of the relative strengths and shortcomings of summary financial information for members? If not, why not?

Those in agreement

- We agree that summary financial information is generally more accessible and relatively more popular with users. Provided it is clear that the trustees' annual report is the definitive source of information, we believe it is unnecessary to compromise this accessibility by having the material audited.
- Our respondents felt that the use of summary information will meet the needs of members if it is accessible, checked for consistency against source documents and contains adequate disclosure concerning funding and security of pensions. It provides a good mechanism for communicating with members in a cost effective way. The emphasis should be on improving the quality of such statements and the majority view was that this is probably best achieved through example, rather than regulation. There is a need for further guidance in this area and a guidance or briefing note issued by the Pensions Regulator is perhaps the best medium.
- I believe you should place more emphasis on short, succinct information that could go into a regular pensions bulletin.

Those with mixed views

- It would be sensible to remove the unregulated summary information so that only the regulated summary financial statements are issued for schemes that require an audit. This will help achieve the consistency and reliability of the information presented to members.
- In the main, we believe strongly that members are best served with summary information; for example, in a newsletter type format. Given that we would not want to include the actuarial liabilities in the accounts, we think that disclosure of funding information should be kept within the existing disclosure mechanisms and in the summary funding statement.
- Our view is that trustees should be able to decide what information to include in a communication/newsletter to members, and should have the responsibility for ensuring that the information is correct and, where applicable, consistent with the audited accounts. We do not believe that any further regulations are needed to cover summary financial information provided by trustees to members.

Those with differing views

- The trustee report and accounts could be used as the main vehicle to hold all relevant information to members and an abbreviated version of this be issued automatically (which many schemes do).
- We produce a leaflet annually and we believe such statements provide a useful way to communicate important information about the finances of the scheme to members ... we do not believe it needs auditing.

Question 5: Are we correct in our assessment here that the onus should shift from comprehensive disclosure in the scheme return to a more prescriptive set of disclosures in the scheme report and accounts?

Those in agreement

- Yes, avoids duplication and therefore costs.
- If the Pensions Regulator were to require a shift of emphasis to the report and accounts as the primary source of information for all other disclosures, the scheme return should be limited to information required by statute.

Those in disagreement

- Detailed financial information is of most relevance to the regulator and, in a stance that seems diametrically opposed to the proposal set out in the discussion paper, should be specified for inclusion in the scheme return – in order that the regulator can use this to supplement its other environmental screening, rather than routinely disclosed to members. Similarly, information about the governance of the scheme and the strength of the employer's covenant is likely to deliver little (if anything) in the way of material benefit to members.
- The possibility of the annual report and accounts becoming part of the regulator's process for gathering information about occupational pension schemes is not compatible with a document primarily intended for members.
- The regulator's information needs are much more detailed and technical than the typical scheme member would either need or be able to absorb. We would prefer the annual report to be prepared primarily for the members' benefit but to use other information strands for providing information automatically to members, with the full report and accounts being available on request.
- Having reviewed the information requirements of the scheme return, to include all the information in the annual report and accounts would result in additional disclosures and a more lengthy report. This combined with the suggestion that the annual report should also contain the governance statement could mean that we end up with a report which due to its size is off-putting for readers and in which important information could be overwhelmed.

Those with mixed views

- We do have concerns that providing the additional information in the accounts and thus in the timescale set for accounts, will lead to additional work for administrators and auditors which will increase costs.
- The information required in the scheme return (for instance about participating employers) can be very detailed and goes some way beyond that which would be of interest to users other than the regulator or appropriate for inclusion in the scheme report and accounts. They could only be combined if the scope of the scheme return was to be substantially reduced.
- Careful consideration needs to be given to the different and possibly divergent needs of the trustees, members and the regulator.

- The needs of the trustees, scheme members and regulator are likely to be different. Information the Pensions Regulator feels necessary should only be included in the annual report to the extent relevant to other users. Any change which avoids duplication of effort is welcomed but needs to take account of the primary use of the annual report. The scheme return need not ask for information already required in the annual report.

Those with differing views

- Completion of the scheme return would be less onerous if it were to be pre-populated, as is already the case for annual returns of limited companies and charities. This would mean that only information that has changed during the year would need to be updated.

Question 6: For DB members, will the ABS alone (in its proposed form) provide members with enough information to make an informed choice about their pension provision or is more information required. And if so where should this information be given?

Those in agreement

- Most members do not ask for the report and accounts, the actuarial statement etc. To them the most important document is their annual benefit statement.
- We think that the annual benefit statement is all that should be provided on a compulsory basis - to provide all the information a member would need to make an informed choice you could argue that a transfer value and state pension information (for instance) is also needed, but it is inappropriate to impose this.

Those in disagreement

- I do not think that the automatic issue of an ABS will enable DB members to make an 'informed choice'. The projected pension at retirement is affected by too many variables to be useful.
- In general the annual benefit statement does not provide members with enough information to make an informed choice about their pension provision. Only a few schemes provide information about accrued rights and rarely is any information given about benefits on early retirement. It would be helpful to issue the annual benefit statement with the summary funding statement which clearly emphasises the importance of the support from the employer which is a vital part of the 'informed choice'
- Many schemes are likely to take the opportunity of combining in the ABS with the summary funding statement and perhaps information on the scheme as a whole and this may be the most desirable route in setting comprehensive standards on reporting
- To be sufficient, the proposed annual benefit statement would have to be extended to include information about the employer covenant. Including information about governance matters would also give a more inclusive picture of how well the scheme is being run

Those with differing views

- The longer-term aim should be to provide all UK citizens with a consolidated and comprehensive account of their aggregate prospective retirement income across first, second and third pillar provision. The State (or a non-departmental government body) is the only realistic provider of this combined information and, in all likelihood, such a system is some years off. In the interim, annual benefits statements are probably the most useful tool that members have to assist in their retirement planning. However, prescription of the content of such statements needs to be kept to a minimum, leaving trustees to decide how best to communicate the prospective benefits for each member
- The amount of pension accrued to date and likely pension on retirement with an explanation of factors impacting on security would, in our view, appear to be the most relevant information for most scheme members. In particular it appears confusing to have an annual benefit statement and a separate summary funding statement since the information contained in both is of key interest and needs to be considered together if a member is to have a fully informed view of the state of their pension provision.
- We would propose that the ABS is a member specific publication and it would not be appropriate to combine scheme generic information within this document
- We do not believe it should be compulsory for trustees to issue annual statements to deferred members as they should have received sufficient information when they left the scheme. Our view is that such a requirement would increase the burden and costs of administration and the additional statements will have little value to deferred members, as they will only duplicate the information already provided to them

Question 7: For DB scheme members, will the summary funding statement (in its proposed form) provide members with enough information to appreciate the level to which the scheme is funded or will more information be required? And if so where should this information be given?

Those in agreement

- If the SFS is correctly worded it should inform the members and alert them to a threat to their benefits.
- The SFS is a most welcome advance in the provision of information to members.
- We think the summary funding statement is all that can be reasonably provided. It would be sensible to disapply the requirement to include regulation 30 statements in the annual report immediately, since all schemes will soon have issued their first SFS

Those with differing views

- As schemes are required to issue a summary funding statement, that is the place to include relevant information. Putting it in annual reports is a duplication with added adviser review costs.

- We do not believe that the scheme report and accounts is the appropriate place for statements on the employer covenant and the funding position ... these would be much more appropriately dealt with in the summary funding statement.
- The benefits to users of having scheme auditors review SFS disclosures if they are contained in the annual report, for consistently with the audited financial statements, may not justify the extra cost

Question 8: For members of DC schemes, does the statutory money purchase illustration (SMPI) fully meet the member's information needs concerning the 'value' of the fund administered on their behalf.

Those in disagreement

- The SMPI is almost entirely useless because of the unrealistic assumptions which have to be made.

Those with mixed views

- Yes, although can be confusing because so many variables. What is needed is better communications generally on risks/rewards of DC.
- Defined contributions scheme members need an illustration of the sensitivity of the outcome to investment and annuity rate variations in order to fully appreciate their possible benefits.
- The SMPI is a helpful addition for trustees communicating with members. It will provide a snapshot of current values which will assist members to make better decisions for their retirement. However, it is just that; a snapshot. What it does not require is an audited reconciliation between the units allocated to each member and the aggregate number of units held with the insurer. If the aggregated member records are in excess of the number of units held with the insurer, who funds the gap? This is particularly significant if the unassigned units are insufficient to bridge the gap.

Those with differing views

- Perhaps it is time to consider a bold move of prescribing a single basis for statutory disclosure to, say, the member's State pension age. Moreover, the resultant single (perhaps weekly), accrued pension figure should not be obscured by the inclusion of an array of 'assumption' notes – although the message that the quoted figure is not guaranteed will need to be given. Details of the (statutory) assumptions used could be made available *on request*.
- Information against relevant benchmarks for a member's own funds and all others offered by the trustees should be given. The benchmarks should include inflation and perhaps general market indices relevant to the specific investments.
- The approach to regulation of content and its maintenance needs review to make these effective. We believe the Institute of Actuaries, who advise the DWP, should reduce the level of prescription so that the SMPI can be more personalised.

Question 9: Is the 'one size fits all' (unabbreviated) report and accounts to all members a proportionate approach to take?

Those in agreement

- The report and accounts (or a summary of the report and accounts) should be sent to all members wherever practicable. In addition, the report and accounts should be posted on a dedicated scheme website. More generally, the trustees should ensure that their communication of information to members complies with the revised Myners principle 10 (regular reporting).

Those in disagreement

- Put all the information in the report part of the accounts. Require pension schemes to send out an abbreviated report that contains the same information, but remove the requirement for annual funding statements.
- It is completely over the top to suggest that all members should receive the full report and accounts. The great majority will either not read it or not understand it.
- This measure is disproportionate.
- We feel that it would be better to be more prescriptive on an abridged version and let members who are interested request a full version as of right.
- Members tend to find brief, simple information rather more helpful than dry and turgid material that the report and accounts could become (if not already). As schemes can currently provide cut-down information, tailored for their membership, we see little benefit in trying to make the report and accounts 'all things to all men' – which is what appears to be the consequence, if not the aim, of the discussion paper.
- Cost implications of providing reports to all members would be high and we have to ask the question is this the sort of information that the members of the scheme are interested in and would find beneficial? Most members would probably be happier with a summary report detailing all the salient points. The number of requests we receive for the full report and accounts is less than 100 each year.
- Its volume might lead to important information, for example on the scheme's funding position, being buried.
- For all schemes, but particularly a large scheme, the cost would be prohibitive and unnecessary.
- Yes, provided the information is made available via the internet or by a short statement on availability provided to the members.
- A mass distribution of the formal unabridged report and accounts is unlikely to add to the understanding of most members, while it will add substantially to the costs of administration. A summary of the accounts, including the key aspects, and written in plain English should serve the needs of most members.

- It is important that a member of a small scheme has the same access to information as a member of a larger scheme. Whilst the full annual report and accounts of a pension scheme should be available to all members of a scheme, we do not believe that there is any appetite from scheme members to receive the full annual report and the majority of scheme members will not gain any added value from a full set of accounts. In addition, the costs of compulsory provision of the full annual report would be excessive and it removes the trustees' discretion as to what to disclose and how to communicate to members.
- The printing, distributing and postage costs of such an exercise are totally disproportionate to the benefit derived. However, we do have an openly available scheme website and the full report is published here. Prior to it being on the website only a handful of members ever asked for a personal copy.
- Sending copies of the report and accounts to all members would be disproportionate (because of the cost) other than for the smallest schemes. Summary reports and financial statements should be encouraged as a matter of good practice, subject to checks for consistency with the main document.

Those with mixed views

- Perhaps a compromise solution would be for schemes to inform members, through benefit statements in the case of pensioners and on cessation of employment in the case of deferred members, that the report will be made available to them each year should they request it. If the report is placed on the company's website, deferred members and pensioners could be referred to where it is to be found.

Those with differing views

- I think some form of guidance as to best practice with different optional formats would be the best way forward.
- It is likely that most members are unaware that they are entitled to request a copy of the accounts. To increase members' awareness, we suggest that a statement be included on the ABS/SMPI, for example '*The annual report and accounts is due to be available on [date]. You can get a copy from [name and address of contact]*'.
- Many members would find an unabbreviated report difficult to understand. The Pensions Regulator has a role to play in encouraging alternative ways of providing information, via email, intranet and internet.
- We support the Pensions Regulator's objectives of seeking to promote and improve understanding of the good administration of pension schemes but seriously question whether this should focus on using the one document...

Question 10: Recognising the clear difference between pension schemes and charities, is there some merit in drawing on certain aspects of best practice in good governance for trustee bodies in the not-for-profit sector?

Those in agreement

- There is merit in drawing on the experience of the charity sector.
- Yes, provided the guidance that emerges is not overly prescriptive.
- Yes, we are very keen to assist pension scheme trustees deliver effective levels of governance and there are clear lessons to be learnt from the Charity sector in this regard where levels of trustee governance have clearly improved...
- The most useful lesson to be taken from the charity sector would be the requirement to carry out formal risk assessments and make a statement in the trustees' report about what has been done/is proposed to be done by the trustees in this area. Auditors would then need to see some evidence to support the statement made to ensure it is not misleading.
- We agree that it is always useful to share best practice between sectors.

Those in disagreement

- No, because pension schemes have a well-developed set of requirements and good practice designed to be specifically relevant to them.

Those with differing views

- In so far as the question seeks views on the format of a governance statement to be included in the report and accounts, we support the concept but caution against asking trustees to make explicit statements on the adequacy or effectiveness of internal controls.
- In relation to internal controls, we support the concept of disclosing a scheme's risk management process but we do not think it is appropriate for trustees to be required to report their conclusion on the effectiveness of their controls.
- The discussion paper asked this question in the specific context of the possible inclusion of a governance statement in scheme report and accounts. We believe, however, that the question raises more general issues for the governance of pension schemes in relation to responsible investment. These issues have implications for the new pensions SORP and for other guidance which could be given to scheme trustees. To answer the question fully one needs first to compare both the general legal principles and the specific regulations and guidance which currently apply to pension schemes and charities respectively in this regard.

Question 11: How relevant is a governance statement for members, particularly in respect of risk assessment and internal controls?

Those in agreement

- To make an impact, any governance statement needs to be included in an annual bulletin and be up to half a page in length.
- It would be welcome ... The best run schemes will already have considered the preparation of such a statement.
- We strongly support the provision of a governance statement to members and agree that it should show how well the trustees are fulfilling their fiduciary role and discharging their stewardship responsibilities. We believe that there is an emerging consensus that a properly exercised stewardship role needs to take account of social, environmental, ethical and governance issues, and address not only the financial returns from assets held but also the responsibilities of such ownership.
- Members should have access to the governance statement to enable them to make informed judgements as to the stewardship of heir scheme...
- We view a governance statement as important in giving scheme members comfort that the scheme is being run properly on their behalf. We felt that concerns about the boilerplate nature of such statements were unfounded – a boilerplate statement is perfectly accepted, indeed desirable, provided it is meaningful and true.
- We agree that a governance statement would be relevant for members, however our view is that it should be a dynamic document so should be held somewhere where it can evolve eg on the scheme website. Alternatively it could be referred to in the ABS/SMPI as a document which is available on request, thus allowing the most recent version to be distributed. We do not believe it is necessary to send the statement out to all members.
- We see advantages in a governance statement, provided that it is concise and relevant, without too much detail and cost.

Those in disagreement

- I doubt that a governance statement will be of any real relevance to members. What matters to them is the security of their pensions and whether governance is good or bad makes little difference: it is the funding that matters.
- It is probably not relevant to members **but** it should be of relevance to the Pensions Regulator to whom it should be addressed.

Those with mixed views

- Perhaps the key consideration for members is that they are made aware of serious breaches of regulations. More general, higher level, information on governance is probably more relevant to the regulator than it is to members. If there is a need for more access to governance information for members the right place to give it might be in the summary funding statement, since we

believe that the key governance issue for members of defined benefit schemes is that the trustees are discharging their obligations to ensure an adequate level of funding.

- The members will certainly be interested in knowing that their records are held appropriately and that there are procedures to ensure that the correct level of benefit is being paid. Whilst not all areas of governance may be of interest to members, statements around benefit calculations, payments and investment of contributions will be of interest to members.

Those with differing views

- We would be concerned if trustees were to be asked to give an opinion on the effectiveness of internal controls. Such an approach would be in stark contrast to the duties of PLC directors as set out in the Combined Code and particularly the Turnbull Guidelines. PLC directors have a duty to describe the process for identifying, evaluating and managing risks and stating that it has been reviewed, but they are not required to give a statement on the effectiveness of that system. It would be invidious if trustees were to be put in a more onerous position than PLC directors.
- If there is to be a requirement for trustees to produce a governance statement for members, we would urge that the requirements are not overly prescriptive, flexible so as to allow trustees to issue the communication with other issues that need to be communicated and flexible on the timing so that trustees can choose when it is most suitable to issue it.
- The proposed requirement to disclose "unusual powers" to determine contributions or to precipitate a wind-up appears at first sight to be straightforward. In practice it would be a nightmare. Most readers would have little idea as to what powers would be normal, and might regard as unusual powers that industry insiders would regard as commonplace (or vice versa). The balance between the trustees and employer(s) of powers in a scheme trust deed and rules are often nuanced, with checks and balances spread through the documentation, and are in legal language. Translating them into plain English and/or condensing them would be dangerous because the nuances are lost (and the words are often incapable of different interpretations even by lawyers). The checks and balances need to be understood in full to make sense. To avoid misleading readers, it would essentially be necessary to regurgitate large extracts from the scheme documentation word for word, not paraphrased.
- In terms of risk assessment and internal controls, it should be enough to state that a formal risk review is carried out regularly, include information on the scope of the review, provide an outline of any improvements made as a result of the process and the frequency with which risks and controls are assessed. If major risks need to be listed, much more information on what is being done to manage these would need to be provided and, in respect of the less well informed members, it might frighten them off the scheme.

Question 12: Do you consider that removal of miscellaneous compliance disclosures (the compliance statement) as a compensatory measure for inclusion of a governance statement provides the appropriate balance of disclosure?

Those in agreement

- The value of such a report is likely to be significantly greater than the loss of disclosure value from removing some of the more mundane disclosure requirements.

Those in disagreement

- Whilst we agree with the removal of certain of these disclosures, we remain unconvinced that the governance statement provides any material benefit...
- It is difficult to think of enough miscellaneous disclosures that would take anything like the time that it will take to prepare a governance statement.
- Most of the disclosures in the compliance statement are very easy to obtain and review, and hence require minimal resources.
- Whilst review and reform of some of the current disclosures requirements would be welcomed, some of these (for example, the details of dispute resolution arrangements, the contact details of the regulatory bodies and the tax status of the scheme) do not change from year to year, so there would be little or no saving of costs if these requirements were to be removed.
- We welcome the removal of obsolete disclosures as worthwhile in itself and is consistent with the DWP's deregulatory intentions. But this should be about the reducing burdens and not adding to them so that the overall volume remains the same.

Question 13: Would the inclusion of actuarial liabilities within the primary financial statements of the scheme add value to the reader?

Those in agreement

- We need not be concerned if the report and accounts seem to include a lot of data of marginal interest and low readability. What matters is that assets and liabilities – actuarial as well as current – should be presented so that the user can assess the solvency position.
- A statement of actuarial liabilities would add more meaning to the accounts but it would need to be up-to-date and it may take time to obtain this information. This may cause issues with the timing of the accounts.

Those in disagreement

- The inclusion of actuarial liabilities (whether in accordance with FRS17 or any alternative approach) would not assist users.
- In terms of telling members about the liabilities of the Plan, I believe one of our main difficulties would be (and I am sure we are not unique in this) that our pensions plan year end (31 March) and our employing company year end (30 September) differ.
- No, because any reader who wishes to have information about actuarial liabilities would be able to obtain it through the summary funding statement.
- We would have concerns that it would extend the scope of the annual audit and extend a responsibility to the auditor to audit the actuarial liabilities.
- In our view, the main purpose of pension scheme accounts should be to demonstrate the position and movement of the net assets of the scheme – and any statement of actuarial liabilities is not relevant for this purpose. Indeed, actuarial valuations rely on the audited accounts in preparing an actuarial valuation. However we note that IAS26 is being reviewed in this area and it may be that eventual changes here will dictate the outcome of the regulator's review.
- An alternative to including actuarial liabilities on the balance sheet would be to enhance the actuary's statement in the pension scheme accounts to include more information on the scheme's funding position.

Those with mixed views

- Any information on actuarial liabilities is going to be difficult for most members to take in and will require education.
- Consideration should also be given to the ASB's long term plans to converge UK GAAP with International Financial Reporting Standards.
- Whilst the majority view was that the inclusion of actuarial liabilities in scheme accounts was not recommended, opinion was divided. If they were to be included, then it would be logical to use:
 - the scheme-specific funding basis, which would include taking into account the scheme's circumstances eg whether or not it was closed or frozen; or
 - an FRS 17/IAS 19-related basis, with an explanation that this is the basis on which the employer must report it, and of the major reasons for the difference as trustees do not manage their schemes on the basis of these calculations; and
 - an explanation of the reduction in benefits if the scheme were to go into the PPF, and the circumstances in which that would happen rather than the discontinuance basis valuation.

It was observed that the Swiss had recently introduced a requirement to include actuarial liabilities and this was being done on a scheme-specific basis.

- If actuarial liabilities were to be included, there would then need to be a whole separate debate about the basis of measurement that should be adopted, including the treatment of future pay rises and discretionary benefits. We would question whether the snapshot approach of, for example, FRS17 / IAS19 is of any real value to members of a pension scheme who want assurance that their current pension will continue to be paid or that there will be sufficient funds to meet the commitments made to them many years in the future.

Question 14: Do you agree that there would be a significant additional cost from the inclusion of the actuarial liabilities on the face of the net assets statement or in the notes and, if so, do you think the benefits outweigh the costs?

Those in agreement

- Yes. The most obvious cost will be the requirement for the actuarial figure to be audited.
- Including a statement of technical provisions in each year's financial statements requires that these technical provisions be calculated at the balance sheet date. The figure needs to be to an appropriate degree of accuracy given that it will normally be the largest single figure in the audited financial statements and it is not obvious that the indicative figures from an actuarial report will suffice. Figures at any other date will be misleading, potentially to a large degree. Other figures which are prepared annually (such as IAS19) may well be at a different date, made for a different purpose, or indeed undertaken for a different party by a different firm of actuaries and hence not available to be relied upon by the trustees. So, this requirement would effectively convert the legislative requirement for the trustees to commission triennial valuations into a requirement for annual valuations. There is a significant cost to this which parliament did not consider justified when approving the Pensions Act 2004.
- If such figures are included in the scheme financial statements, which are subject to audit, then the actuarial liabilities themselves will presumably also be subject to audit. This is also likely to involve a very significant additional cost. It is not clear whether the estimate in the discussion paper of £5,000 to £10,000 per annum per scheme of more than ten members (page 22 of the discussion document) relates to the extra cost of annual valuations or the extra cost of the audit requirement or both. We have not done any analysis of this, but we strongly suspect that this is an underestimate of the true cost.
- On the inclusion of the actuarial liabilities in the accounts, even those actuaries who are philosophically inclined towards this do not believe it is appropriate, given that Parliament did not impose a requirement to carry out annual valuations. If the actuarial liabilities are to be meaningful and accurate in the context of the audited accounts, the only means of doing this is a full version. At a practical level, there are two points. First, there is a degree of circularity – an actuarial report cannot be issued without audited accounts, but under this proposal the audited accounts will require the value of the liabilities to be included! Secondly, the accounts are supposed to be prepared in seven

months, while the valuation has 12 to 15 month depending on whether it is an actuarial report or a full valuation. It also appears that the estimated costs only take audit fees into account – if the actuarial fees are included, these will be substantially higher. The summary funding statement is the place for comprehensible disclosure of the funding position.

- Our view is that inclusion of actuarial liabilities within the primary financial statements would not add value to the reader. The existing disclosures made on the financial health of a pension scheme ie the formal triennial actuarial valuation reports (and accompanying actuarial statement and certificate), disclosures in the accounts of the sponsoring employer and the summary funding statement already adequately meet the needs of all interested parties. The additional costs of including actuarial liabilities on the face of the net assets statement would be significant and in our view totally unjustified by the dubious benefits.
- We have concerns about the level of costs that have been imposed on pension funds in recent years by the number of new regulatory requirements. The costs and benefits of any further rules or information requirements need to be fully and carefully analysed and justified. Of considerable concern in any cost/benefit debate is the possibility of including one or more of the measures of the actuarial liabilities (ongoing basis, statutory funding, FRS17 or estimated buy-out) in the pension scheme's report and accounts. We strongly believe that the costs of complying with such a requirement would be unacceptably high to provide pension members with information they do not want.
- The auditor would assume additional responsibility for the actuarial information over and above what the auditor has at present and it is very likely therefore that there will be significant additional audit costs, as well as additional actuarial costs in responding to auditor queries. This would run into thousands of pounds for the larger schemes. It would also add to the time taken to produce the report and accounts. The benefits are extremely unlikely to outweigh the costs particularly if adequate information is provided to scheme members in the annual report and through other means.

Those with mixed views

- Concerns have been expressed that inclusion of actuarial liabilities will present great practical difficulties to schemes and their auditors. Similar concerns were raised a number of years ago by the life assurance industry at the time of moving from a fund accounting basis, which recognised the existence of long term liabilities on a very approximate basis, to one which accounted for such liabilities on an actuarial measurable and auditable basis. The changes were in due course accepted and auditors adapted their approaches, including the involvement of other experts under the terms of relevant auditing standards. The experience of the life assurance industry is a source of practical help and encouragement during the period of any change in pension schemes' reporting. Additional audit work would be necessary if the actuarial liability is included within the audited financial statements.

Those with differing views

- We note in passing the practical point that actuaries rely on scheme financial statements in order to prepare their actuarial valuations (in more complex ways than just relying on the stated value of assets). If actuaries are to prepare actuarial liabilities for disclosure within the financial statements then the process of agreeing those financial statements promptly will be made more difficult by this additional circularity. The timetable for producing the valuations will also have to be shortened beyond what parliament has determined to be appropriate (15 months for an actuarial valuation and 12 months for an actuarial report, compared to seven months for the financial statements).

Question 15: For DB scheme members, is the right place for disclosure of information on funding and the employer covenant in the financial statements of the pension scheme or can existing disclosure mechanisms (including the summary funding statement) be further developed to meet this need?

Those in agreement

- Yes, we believe the financial statements are the correct place.

Those in disagreement (preferring the SFS or other mechanisms)

- Duplication should be avoided with the SFS being the sensible place to include funding type information.
- A better place for these is the summary funding statement. However, the inclusion of information on the employer's covenant could cause misunderstandings and anxiety amongst the members if not accompanied by a careful analysis...
- We feel that the other disclosure mechanisms are adequate to cover details on the employer's covenant and the recovery plan, and these other documents can be referred to in the trustees' report. Inclusion of these items in the trustees' report would add significantly to the length and complexity of the report. We would suggest that it would be sufficient for inclusion in the document a list of the publications issued during the year and what additional material is available on request.
- We are not in favour of any requirement to cover the actuarial valuation results and funding position in the trustees' annual report and accounts. Members already have statutory rights to access this information via other means. We are concerned that the disclosure of sensitive information about the employer covenant in published documents will act as a further disincentive to employers to participate in pension schemes.
- We agree that there is very little information within the report and accounts regarding the security of members' benefits and the strength of the employer covenant. However, the inclusion of such information leads to a risk of trying to meet too many needs in one document

Those with mixed views

- We believe for communication to members the summary funding statements could be further developed to meet this need. However the trustees' report should also include certain information in respect of funding of the scheme and the employer covenant to give a clear picture in respect of the scheme's financial information. The investment strategy and the contribution rates are based on this information and therefore inclusion of the funding position and employer covenant will enhance the understanding of the financial information in the accounts.
- Information about funding and the employer covenant (in a defined benefit scheme) is most important in understanding the benefits that a member is likely to receive. A lot of effort has been devoted to 'statement of funding principles' and annual funding statements under the new scheme specific regime. Any information on funding included on the annual report or accounts should reuse this material rather than involve fresh preparation cost.

Those with differing views

- This is potentially a minefield that may ultimately destroy the pension scheme if, for example, the company winds up the scheme to avoid disclosure.
- We consider that in practice it would be difficult for trustees to make any statement about the covenant of the employer beyond very general statements or publicly available information (eg the dun & Bradstreet rating or the rating of bonds issued by the employer). This is because of the potential severe negative impact of any statement that might be interpreted as casting doubt on the solvency of the employer. This may be particularly acute in the financial services sector, where any statement that was perceived as implying doubt on the solvency of the sponsoring employer could be against the public interest, in that it could raise doubts as to the security of deposits with that institution.
- A meaningful comment on the employer covenant is far more difficult. The interpretation of 'publicly available material' is difficult for trustees, let alone for a layman. Obtaining an independent assessment of the financial strength of the employer can be expensive, and should not be imposed as a specific requirement, and certainly not as an annual requirement. It should be sufficient to state, in an abbreviated members' report, that a statement of funding principle has been agreed between the company and the trustees, and a copy can be obtained on request, from the secretary of the scheme
- As a multi-employer scheme without a dominant single employer, a statement on the employer covenant will need to be presented differently from other types of schemes.
- There were significant concerns about any discussion of the employer covenant in the financial statements of a pension scheme. There is at present little established methodology for measuring the strength of the covenant and there is a potentially huge sensitivity to any disclosure – in particular, an expression of concern by the trustees could be extremely price sensitive for a listed group and, worse, could lead to a self fulfilling prophecy. In such

circumstances, the trustees could face legal challenge from both the members of the scheme and shareholders.

- Any disclosures on the strength of the employer covenant are likely to be bland and employers are likely to be less open with trustees if they think information is likely to be published.
- We have reservations about any suggestion that trustees should express an opinion on the strength of the employer covenant. The valuation of any covenant is, at best, a subjective exercise so we advocate that the relevant information about the trustees' evaluation processes (use of credit ratings, professional advice) and where to find further information about the employer is provided but that it must rest with each reader to form their own view.
- While I agree that the strength of the employer covenant is an important issue for employees, requiring trustees to make a statement as to its strength is inappropriate. Employees may be concerned as to their employer's financial health for a variety of reasons (unconnected with pension schemes) most obviously in connection with their future employment prospects. There is no reason to single out pension schemes in respect of this issue (particularly given that it is actually less important now that the Pension Protection Fund has been established).
- Such information should only be included if it is already in the public domain, due to the issue of potential market sensitivity. Given the likely low readership of report and accounts, this information would be more usefully provided in the summary funding statement.
- Although members have a strong interest in the financial strength of the sponsoring employer, the inherent sensitivity of information of this sort argues against detailed quantitative disclosures being made by the trustees.
- We think the proposal to include information on the employer covenant is wholly impractical.
 - The value of any statement on the employer's willingness to fund benefits is doubtful, in the light of the debt on the employer provisions,
 - It would be dangerous for the trustees to offer opinions,
 - Much financial information on which trustees base their opinions will be subject to confidentiality agreements,
 - There may also be problems with release of insider information,
 - It is impossible (and unethical) for the trustees to make a statement based on public information only when they are in possession of confidential and/or inside information that may not be consistent with the public information,
 - Any information not covered by the above is likely to be best taken in the context in which it is already available, eg company accounts

Question 16: Should the recovery plan be included in the report and accounts (in full or in summary) or should these simply be signposted in the financial statements?

Those in agreement

- Summary only, highlighting the salient points eg how much will be paid when and over what period, effect on the fund after paid.
- This information should be included in some format in the report and accounts. It will give members more information about the security of future benefits.
- Notwithstanding the lack of agreement over inclusion of actuarial liabilities in scheme accounts, there was consensus that there should be more actuarial information in the annual report, including some detail of any recovery plan. One suggested approach was that there should be cash flow information showing how the anticipated inflows and outflows have an impact on the longer-term ability to pay the promised pensions, looking at the expected cash outflows over the life of the scheme, the existing assets, the impact of the employer continuing to contribute to cover current service cost and any agreed additional contributions. This would be accompanied by information on what the return on assets needed to be to cover the outflows with the historic and current forecast of returns. Such information could be subjected to sensitivity analysis across a range of assumptions and show how quickly any deficit was being funded. This would tie in with the need for information on the strength of the covenant and investments

Those in disagreement (ie signpost in the accounts)

- The R&A is a stewardship document that will be referred to throughout the year. A recovery plan is drawn up at a specific point in time. Reference to it without context could falsely reassure or unnecessarily alarm. It would be reasonable to alert members to the existence of a recovery plan and to record that the schedule of contributions is drawn up in accordance with it.
- A summary of the recovery plan will be included in the summary funding statement – a copy of which will be included in the annual report. I can therefore see no need to separately include a copy of the recovery plan itself.

Those with mixed views

- We recommend that there should be no change from the current practice of leaving the actuarial liabilities out of the primary scheme financial statements. The accounts should only contain signposting to the actuarial valuation in the actuary's statement. The trustees' report could be improved, however, and linked to recovery plans, where these are required, giving users an indication of how valuation shortfalls are being made up.

Those with differing views

- The recovery plan should be included in the SFS.
- Mention of the recovery plan should be in the member funding statement.
- We believe the best approach is to give trustees freedom to write to their members in newsletters, or hold meetings, or devise other communication methods the trustees judge most suitable, to communicate information on the scheme's funding position, the agreed recovery plan and the safety net of the Pension Protection Fund.

Question 17: For DC schemes, do you anticipate practical difficulties in shifting the emphasis from a generic investment report to a more focused disclosure in the trustees' annual report?

Those in agreement

- Putting DC performance into annual accounts which could well contain DB type information is not the right place to get DC members to focus on this topic. A separate bulletin, or as part of the annual benefit statement, is a better place
- We question whether it would be of use to a member with investments in, say, ten or more different funds, possibly with two or three fund managers, to receive, each year, three reports (one year, three year and five year historic performance data) on how each fund has performed, all benchmarked (how?) and contained in a document that contains reams of other material?
- Whilst greater disclosure of investment performance might be useful, there would be practical difficulties where there is a wide choice of funds.
- The main practical problem in shifting the emphasis from generic investment reporting is that it is difficult to see how a scheme level document can properly cover the performance of options chosen by particular members. This is really a matter for reporting at individual member level, which already happens, with appropriate health warnings about how much reliance can be placed on the information as a guide to the future.

Those in disagreement (ie there won't be practical difficulties)

- We also feel that the level of funds invested in each fund should be disclosed – too often member opt for the default fund and leave their funds invested here until retirement. We do not feel this would create additional cost given that the investment information will already be available from the fund managers.
- We cannot see that this should cause any issues except in time and cost.

Those with differing views

- We agree that information about investment options is a key requirement for members of DC schemes. However, we question the emphasis given in your document to investment performance. Quite aside from the general principle that past performance is no guide to the future, for most members, decisions about the type of investment (eg equities or bonds) will be most important.

Undue emphasis on investment performance may cause members to switch from, say, a relatively poorly performing equity fund to a bond fund which has performed well, even though this is not their best long-term strategy.

- In considering the current form and content of pension scheme accounts it should also be noted that the current SORP is expected to be updated shortly for new accounting standards on investments that will significantly increase the disclosure of the risk profile of the investments held and trustee risk management policies. Meaningful disclosure of investment risk analysis and management will need to be set in the context of the overall scheme affairs, including the long term liabilities
- Many of the DC schemes we audit currently disclose investment performance on an individual investment fund level since this is the most meaningful disclosure for DC schemes. It would seem appropriate to encourage this approach. In our view member specific information on DC schemes is, as with DB, best dealt with at member level through the annual benefit statement. Therefore it would be appropriate to include a commentary on investment performance in the annual benefit statement that was consistent with funds invested by the member and the period covered by the statement.
- Striking a balance between brevity and clarity of the report to encourage members to read it and the provision of sufficient financial information to assist members in understanding the scheme and in the case of defined contribution schemes, ensuring appropriate investment choices is important. This proposal would benefit from more detailed market research to enable this balance to be struck and whilst supporting the overall proposal, suggest that this should be done in the first instance.
- We do agree that more specific disclosure of investment performance of the fund would be useful for DC members. As members may choose between various funds, specific investment performance disclosure as a minimum would relate only to the default arrangement, although if there is a lifestyling fund as the default, performance figures for the constituent funds in the lifestyling option would be required. Trustees could be encouraged to also set out the performance of all the underlying funds in the same format, but the decision on what is most appropriate for their particular circumstances would be left for consideration by the trustees, having regard to the number of funds offered, feedback from members and other communication material provided.
- The majority of defined contribution schemes are earmarked money purchase schemes and are exempt from the need to produce accounts. Members have little or no interest in the annual report. Adding information to it, with the intention of improving the knowledge members have of the scheme, is likely to fail.
- Current pensions and investment statements are long and unappealing. Layers of uncoordinated regulation make it difficult for customers to retrieve information. Poor design by the industry adds to the length and incoherence of these documents. IFAs do not often take the opportunity the statement presents to provide ongoing advice to the customer. In short, we all appear to overlook the customer.

Question 18: Given the importance of good governance, should any exemptions apply to smaller occupational pension schemes and if so, are limits, based on the number of members, appropriate?

Those in agreement

- Membership levels are a useful measure but the type of scheme will also be important eg complicated hybrid arrangements will require more disclosure than a basic DB scheme which, in turn, will require more than a DC scheme.
- The only schemes where exemptions might be appropriate are where the trustees are the members...
- Our view is that to avoid unnecessary burden, some governance disclosure exemptions should apply to smaller occupational pension schemes. As well as members, funding might be a consideration as there would be greater interest in the governance of a poorly funded small scheme than one which is well funded. Whether the scheme is small or large, the potential costs should not be disregarded.

Those in disagreement

- I do not see a need for exemptions. Whether it is 10,100, 1000 or 10000 members, I believe everyone is entitled to receive the necessary relevant information.
- We prefer a best practice approach rather than prescription and so no explicit exemptions are required.

Those with mixed views

- Rather than a regime of prescriptive requirements with exemptions for smaller schemes, we would prefer that the requirements were principles-based and capable of being observed in a proportionate way. This way, smaller schemes could provide useful and sufficient disclosures in a simple form. If this basis were adopted, there would be no need for bright line size limits
- There is a case for excluding insured schemes (or at any rate having a simplified set of disclosures) and possibly small self-administered schemes. But otherwise there is no logic in having a different and inferior regime for some members because their scheme falls below an arbitrary level. The emphasis should be on a streamlined and least onerous approach that can accommodate all schemes.

COST QUESTION: These proposals have been prepared on the assumption (other than for the inclusion of actuarial liabilities on the face of the primary statements) that they would be cost neutral. What in your opinion (based on your own experience and scheme size) are the cost implications of each of these proposals, is there an associated benefit that would justify any additional cost and are there either compensatory cost savings or intangible benefits?

- We are painfully aware of the sponsoring employers frustrations on the extra compliance costs they are being asked to bear
- The proposals on DC investment disclosure could add major costs to those schemes that operate multiple fund-links, particularly with two or more fund managers.
- Change is never cost neutral as practices have to change in the first year. However, this need not prevent change, if the change is worthwhile. The pension scheme accounts should demonstrate that the trustees are exercising their duties properly and that the scheme's assets are accounted for.
- The paper has proposals for change. There is no evidence to support the changes proposed so it is not clear how much research has been carried out, or whether the users of the report would agree with the changes proposed. In addition there is no cost benefit analysis to enable readers of the report to form a view of the value of the proposed changes versus the costs. We believe a cost benefit analysis needs to be carried out to inform decision making here
- The majority of pension schemes in the UK are small. (This is acknowledged in point 3.1), and the vast majority of them are administered by insurance companies. The working party has no representation from anyone representing small schemes, or insurers. The working party reflects a strong bias towards larger schemes, yet the proposals also affect small schemes, typical of those administered by insurance companies.
- In particular the proposals would add to scheme costs. In fully insured money purchase schemes, even although they are exempt from the requirement to produce audited accounts, the additional costs will almost certainly have to be borne by the members. Insurers can only recoup their costs via the charges they levy. Increased charges therefore has the effect of reducing the benefits the members will receive. Any changes that add to costs need to be considered in terms of the lost of benefits to members.
- The size of the additional costs will depend critically on the nature of the additional disclosures that ultimately are introduced. For example, it would cost little for trustees to summarise the arrangements that they have made to review the strength of the employer but the cost would increase significantly if quantitative information was required to be disclosed (and audited).
- We support the general objective of improving the scheme annual report and accounts but not to add disproportionately to the costs of production. The scheme report and accounts is the primary stewardship document and its production is a useful and valuable discipline which we believe should be primarily a reporting document for members and other stakeholders. It should not to become a reporting tool for the Pensions Regulator.

- In practice for smaller schemes disclosure of internal controls, risk management, governance and covenant may prove difficult. Most smaller schemes will not commission independent financial reports etc. and so clear guidance as to what must go in would need to be forthcoming from the regulator or SORP. We do not feel that any further costs imposed upon small schemes is desirable. The Pensions Act 2004 has already resulted in many employers of small schemes closing these to future accrual. Any further costs would encourage this trend to continue and it is clear that any additional benefit was not worthwhile for such schemes. For larger schemes most of the information should be available and documented so cost impact would be minimal although there is a significant risk that even large schemes will resist any more changes unless the benefits are very clear and not imposing any significant cost or time burden on already hard pressed trustees.