



European Commission
Directorate-General for Employment, Social
Affairs & Equal Opportunities
Green Paper on Pensions consultation
Unit E4
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Cc: Mr. Karel van Hulle
Head of Unit H2 Insurance and Pensions
DG Internal Market and Services
European Commission

16 November 2010

Ref.: INS/HvD/LF/ID

Dear Sir or Madam,

Re: FEE Comments on EC Green Paper - Towards adequate, sustainable and safe European pension systems

- (1) FEE (the Federation of European Accountants) is pleased to provide you with its comments on the EC Green Paper – Towards adequate, sustainable and safe European pension systems (the “consultation document”).
- (2) We welcome the timely launch by the European Commission of a broad public debate on the future of pensions as this is a critical issue for citizens, businesses, national governments and future generations.
- (3) As the European Commission highlights in the consultation document, the crisis has revealed that more must be done to improve the efficiency and safety of pension schemes. FEE is committed to contribute its views and experience to the debate on the crisis, the ways to mitigate its effects and to speed-up recovery.¹ More importantly, FEE remains committed to contributing to a sustainable EU economy.
- (4) The issue addressed is multifaceted and FEE welcomes the integrated holistic approach adopted by the European Commission. It is important that policymakers take such an approach to ensure consistency in policy measures adopted in different fields.

¹ A series of papers have been issued between December 2008 and March 2010, one presenting background information and analysis on the crisis (I), a second paper on the matters of specific relevance for statutory auditors during the financial crisis (and the 2008 year-end closing) (II), a third paper containing views of specific relevance to Small and Medium-sized Entities (SMEs) (III), a fourth paper on dynamic provisioning (IV), a fifth paper on the financial crisis and sustainability (V), a sixth on key issues for management and auditors for the 2009 year-end financial reporting (VI) and a seventh on issues in the public sector and the financial crisis (VII).

- (5) In a globalising world and a more and more integrated Europe, it is equally important that consistency is also ensured amongst Member States' policies. The European Commission can make an important contribution by stimulating Member States to adopt a long term perspective, deliver effectively the necessary reforms and, where relevant, coordinate their policies.
- (6) While FEE supports this holistic approach and encourages using such methodologies in other policy fields wherever appropriate, we will assess on which specific proposal we can provide an added-value to the debate. In this consultation, we would like to focus our comments on the principles rather than answering in details to all the questions raised.
- (7) **Better regulation** - We welcome this consultation and the integrated approach it takes as an element of the EC better regulation strategy.
- (8) **Appropriate and comparable accounting standards** - Financial reporting plays an important role in enhancing transparency and the quality of the information reported, including the financial information regarding pensions and pension funds. It is helpful in providing transparent and reliable information on pension liabilities on which an informed and objective debate can be held and appropriate decisions can be made both at entities level and public policy level.
- (9) FEE has contributed extensively to the project undertaken by the IASB to review the accounting standard on Pensions (IAS 19)². In the FEE responses to the IASB and EFRAG on the proposed amendments in the Exposure Draft "Defined Benefit Plans Proposed Amendments to IAS 19", we encouraged the IASB to take a fundamental review of IAS 19. We find this necessary as pension arrangements have moved on from the initial inception of this standard. For instance, there are new types of pension arrangements of a hybrid nature that do not fit in the binary classification – Defined Benefit/Defined Contribution – that is being proposed.
- (10) **Disclosures** - The notes to the financial statements include information on financial impact of private pension schemes. Enhanced disclosures may include disclosures on governance, strategy, key business challenges and also the broader policy of the company concerning post-retirement benefits afforded to the employees.
- (11) **Auditors' involvement and regulatory reporting**- FEE has significantly contributed to the EC work in the area of insurance undertakings and Solvency II and could provide additional input where possible also in the matters affecting the accounting and auditing of pensions. The accounting profession has significant expertise on the "practicability" and "auditability" of regulations related to governance and financial reporting.
- (12) We support the call of the EC for a rigorous impact assessment to consider the suitability of Solvency II for pension funds. Thereby it has to be considered that differences in risk between the different policies with long-term guarantees should result in different solvency requirements. A solvency regime for pension funds has to take into account the diversity of pension schemes and the wide variety of additional security mechanisms concerning occupational pensions in the member states.

² FEE has provided comments on all the discussion papers and exposure drafts issued by the IASB on IAS 19. As a founding organisation of EFRAG, FEE has also contributed to the EFRAG consultation process by submitting FEE comments on all the related EFRAG Draft Comments. All FEE comment letters are available at www.fee.be.

- (13) We believe that the opportunity to bring together a prudential supervision on private pension schemes or certain categories of private pension schemes should be further considered.
- (14) There are serious concerns that increased capital requirements on implementation of the “Solvency II Directive” as they stand today or potential volatility in performance reporting arising on fair value measurement would create a disincentive to life assurance companies to offer policies with long term guarantees. Therefore, the adequacy of these increased capital requirements should be looked at in detail in a first step before thinking about how Solvency II rules can be transferred to Institutions for Occupational Retirements Provision (IORPs). We also recommend a proceeding in depth analysis of the potential macro-economic impact.
- (15) **The public sector** - Member States and their Governments also play an important role in the provision of pensions. Pensions obviously form an integral part of the government accounts, more specifically the recording of government debt and deficit, which has recently received considerable public attention in many respects. Taxpayers, investors and citizens in different member states are entitled to relevant and reliable information about the operation of their governments.
- (16) Therefore, it is expected that governments provide faithful presentation about their fiscal performance and position. This includes information about commitments that will be provided on an ongoing basis over a long term in the form of social benefits to the community, such as pensions. Typical, cash based public sector reporting may not include this information. Indeed, many countries have substantial long-term civil service pension obligations that may not be properly reflected in their financial reporting. Therefore, governments should be encouraged to adopt accrual accounting. This could be achieved by adopting standards for public sector financial reporting set by an independent body such as the International Public Sector Accounting Standards Board (IPSASB) and other relevant standards independently developed of high quality to promote transparency and accountability.
- (17) We also note that the European System of Accounts project (ESA 1995) includes a new supplementary pension table which will contain data for public sector pension schemes similar to those that are currently required by national and international accounting standards such as IAS 19 Employee Benefits for the private sector. This will systematically show the accrued-to-date obligations for all type of pension schemes and thereby facilitate transparency and comparability in Europe. It will also help to assess the sustainability of public finances and provide projections on future pension entitlements across the whole Europe. However, the supplementary table is only due to come into force in 2014. We also add that it should not be considered as an alternative to accrual based accounting but as part of a “big picture”, namely the future treatment of pension schemes for public sector.
- (18) **Streamlining of data** – In our view, having data about pension systems available from the different national and EU-level sources would be of some benefit and streamlining the information on pensions could help in increasing their comparability and represent a cost saving.

- (19) However data collection, transmission, integration and analysis should not generate additional costs and administrative burdens on undertakings. To meet that goal, we believe the use of an open standard such as XBRL should be further explored. XBRL could also play an instrumental role in the field of supervision referred to above.
- (20) **Socially responsible investment (SRI)** – FEE has supported the development and growth of SRI which play a growing role. We believe this role is even more important in the field of pensions where the investment horizon should be long term. It is also in the interest of pensions beneficiaries that investments are made in sectors, technologies and enterprises that are environmentally and socially responsible and preserve the capacities of future generations. Pension funds' SRI can also contribute to the necessary transition to a sustainable economy.
- (21) FEE believes that there is a clear business case, as well as a wider social imperative, for organisations of all kinds and all sizes, to ensure that their information systems embrace performance indicators which reflect the urgent challenge of sustainability.
- (22) **Taxation** – FEE would like to emphasise that tax rules can still represent a barrier to free movement in Europe and is committed to contributing to reducing tax obstacles in the internal market.
- (23) The European Commission and Member States should ensure that the current divergent tax treatment of private pension schemes does not adversely impact the proper functioning of the labour market, by restricting the fundamental right to free movement in Europe.

We are prepared to contribute in further details in these different fields should the EC launch further work.

For further information on this letter, please contact Leyre Fuertes, Project Manager, at the FEE Secretariat on +32 2 285 40 76 or via email at leyre.fuertes@fee.be.

Yours sincerely,



Hans van Damme
President