AIB Group
Group Financial Control
Bankcentre,
Ballsbridge,
Dublin 4,
Ireland

European Financial Reporting Advisory Group
13-14 Avenue des Arts
1210 Brussels
Belgium

14 July 2008

Discussion Paper
The Financial Reporting Of Pensions

Dear Sirs,

Allied Irish Banks, p.l.c. welcomes the opportunity to respond to the above Discussion Paper, and we have outlined our responses to the questions posed below:

Question 1

Should a liability to pay benefits that is recognised be based on expectations of employees' pensionable salaries when they leave service, or on current salaries (including non-discretionary increases)?

Yes, for a more realistic measure of the liability, expectations of future salaries should be taken into account. The liability would be unrealistically low if future salary increases were not taken into account. It is unlikely that an employer could completely freeze salaries for a whole group of people for a long period of time.

Question 2

Should financial reporting be based on the premise that a liability is owed to an individual employee or to the workforce as a whole? What consequences do you consider your view has for the recognition and measurement of pension obligations?

The liability should be based on the workforce as a whole. It should be treated as a collective liability. It is unrealistic to treat it on a person by person basis.

Question 3

Do you agree that recognition should be based on the principle of reflecting only present obligations as liabilities?

Yes we do, subject to ensuring that the cost of service based accrual is recognised.

Question 4

Do you agree that the consolidation of pension plans should be subject to the same principles as are usually applied in determining whether consolidation is appropriate?

Yes, if an entity controls it, it should consolidate it. However we note that the IASB is undertaking a review of IAS 27 and we believe that the matter of pension plan consolidation should be left to this review.

Question 5

Do you agree that changes in assets and liabilities relating to pension plans should be recognised immediately, rather than deferred and recognised over a number of accounting periods or left unrecognised provided they are within certain limits (a 'corridor') approach?

Yes, changes should be recognised immediately, it is more representative of the position of the entity at that point in time.

Question 6

Do you agree with the paper's views in the measurement of liabilities to pay benefits? In particular, do you agree that:

- Regulatory measures should not replace measures derived from general accounting principles?

Yes we agree, regulation differs in various jurisdictions and this would make comparability difficult.

The discount rate should reflect the time value of money only, and therefore should be a Risk free rate?

No, we do not agree with the use of a risk free rate to discount pension liabilities. If pension liabilities are treated similar to other liabilities of the entity, then they should be recorded in the balance sheet on a consistent manner with IAS 39. Fair Value of a financial liability would not in our view be calculated by using a risk free discount rate. Where it may be difficult to identify an entity specific risk rate for liabilities with a similar duration to the pension liability, we believe that the AA Corporate Bond rate may provide a good proxy.

As set out above, adjustments would have to be made to the risk free rate if it was going to be utilised. It should take into account the credit risk of the employer and possibly some other entity specific items. The risk free rate alone would overstate the liability and give the worst case scenario.

Information about the riskiness of a liability (i.e. the risk that the amount of pension benefits will differ from today's expectations) is best conveyed by disclosure rather than by adjusting the amount of the reported liability?

Yes we agree that disclosures could include risk information, possibly some sort of sensitivity analysis could be used.

The liability should not be reduced to reflect its credit risk?

We believe the liability should reflect the credit risk of the entity.

Expenses of administering the plan's accrued benefits should be reflected in the liability?

Yes we believe administration expenses should be reflected in the liability.

Question 7

Where employees have options to receive benefits in different ways, should the liability be reported at the highest amount or at an amount that reflects the probability of different outcomes?

We believe that the probability of different outcomes should be taken into account in accordance with IAS 37.

Question 8

Do you agree that assets held to pay benefits should be reported at current values?

Consistent with our views on the measurement of the liabilities, we agree that the assets should be reported at current values.

Question 9

Do you agree that a 'net' asset or liability should be based on the difference between the at which the assets and liabilities would be measured if they were measured directly?

Yes we do

Question 10

Do you agree that different components of changes in liabilities and/or assets should be presented separately?

The various components of changes in assets and liabilities should be shown separately within the primary statements to reflect their different nature and predictive value.

Question 11

Do you agree that the financial performance of an entity should reflect the actual return on assets, rather than the expected return, and that the expected return should be required to be disclosed?

Estimating the expected return is subjective so conceptually it would be more appropriate to use the actual return. However, greater volatility would arise in the income statement from using the actual return. The concept in the document of splitting the elements of the income statement into "operating," "financing," and other performance would be useful in this situation as the return on assets would be in the "financing" section.

In our view, the income statement should show a stable view of long-term liabilities with short-term fluctuations being shown in other comprehensive income. We note that this issue will be dealt with as part of the IASB's financial statement presentation project.

Question 12

Do you agree with the objectives of disclosure that are identified in this Chapter? Are there specific disclosure requirements that should be added to or deleted from those proposed?

Yes we agree with the objectives of the disclosure requirements in this paper. The aim of the disclosures is to provide more information about <u>the material</u> risks and rewards arising from the provision of pension benefits.

No, we don't believe there are any disclosure requirements that should be added or deleted. The extra narrative disclosures such as investment strategies, membership information etc should add greatly to the users understanding of the pension obligation. Where entities operate a number of different, often small, pension schemes throughout their group we believe that the disclosures should focus on the schemes that are material.

Question 13

Do you agree that multi employer plans should be reflected in an employer's financial statements using the same principles as those that apply to a single employer plan? How, in your view, should an accounting standard require that this be implemented in practice?

In broad terms, we agree but as we don't have multi-employer schemes, there may be complications with this approach that we may not be aware of.

Question 14

Do you agree that a pension plan's general purpose financial report should include its liabilities to pay benefits in the future? Do you agree that the plan's liabilities for future benefits should be quantified using the same principles as an employer's liability?

It is important to examine the purpose of a pension plans financial statements before determining whether it should include the liabilities. The pension liabilities are those of the employer rather than the pension scheme, and in our view there are no circumstances where the pension scheme will be forced to pay out more than its assets. Accordingly, we don't believe it is appropriate to show the liabilities on the balance sheet for the purpose of the pension schemes accounts, albeit it may be appropriate to disclose by way of notes.

As these accounts are prepared by the Trustees, and the Trustees are responsible for determining the assumptions, including the expected rate of return on assets for the purpose of agreeing a funding rate with the employer. Being that the eventual cash cost to the employer will be determined, interalia, by the actual rate of return on the assets, we see no reason why the liabilities would not be discounted on the basis of the long term expected return on assets.

Question 15

Do you agree that a pension plan's statement of financial position should reflect an asset in respect of amounts potentially receivable under an employer's covenant, and that this should reflect the employer's credit risk?

Yes it should reflect an asset if it is receivable.

Question 16

Are there types of pension arrangements that require further consideration? Please identify the specific features of these arrangements and suggest how the principles of this paper would require development to secure appropriate financial reporting for them.

This paper does not mention defined contribution or hybrid plans to a great extent. These are now probably the most common type of plan and perhaps should be addressed.

Question 17

Are there further specific issues relating to the cost and benefit of the proposals that should be taken account of in their further development?

Disclosures should only be made for those schemes that are material.

If you require clarification with regard to the above, please do not hesitate to contact me.

Yours sincerely

Brendan McHugh
Group Financial Controller