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To: The Editor
The Financial Times
1 Southwark Bridge
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Sir,

Defined benefit pension obligations constitute a significant liability for many European companies. Falling bond yields and increasing life expectancy are driving these liabilities higher, but all too often the disclosures in relation to pension liabilities are not sufficient to allow investors and analysts to assess the impact of changes in these two factors.

At present most companies disclose nothing about the longevity assumptions they are using when calculating the pension liability. Without this information it is impossible to gain a true understanding of the risks inherent in the scheme, and the likelihood of increased cash contributions (or other actions) being required in the future.

It is clear that many companies will have to revise their longevity assumptions upwards at the next actuarial review. As professional users of financial reports and members of the Corporate Reporting Users Forum we believe that it is essential that companies begin to disclose information about their current assumptions in terms of life expectancy post retirement and also the sensitivity of the pension liability to changes in these assumptions.

Similarly, it is essential that companies disclose the sensitivity of the liability to changes in the discount rate used. Many companies merely disclose the discount rate itself.

These disclosures are not explicitly required by the accounting rules (IAS 19) but paragraph 120 of that standard says "An entity shall disclose information that enables users of financial statements to evaluate the nature of its defined benefit plans and the financial effects of changes in those plans during the period." Without these additional disclosures we find it hard to see how users can undertake such an evaluation.

We applaud, for example, recent disclosures by Hanson and WS Atkins providing some of this information and urge other companies to follow suit when they publish their next results.

Yours faithfully

Crispin Southgate

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