European Banking Authority

11 April 2014

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Discussion paper on the impact on the volatility of own funds of the revised IAS 19 and the deduction of defined pension assets from own funds under Article 519 of the Capital Requirements Regulation (CRR)

Dear Sirs,

The Investment Management Association (IMA) is the trade body for the UK asset management industry, representing around EUR5 trillion of funds under management. Its member firms include managers of a wide range of asset classes for a wide range of clients, including institutional funds, authorised unit trusts and open ended investment companies.

We welcome the opportunity to comment on the latest consultation.

Key messages

While we recognise that this consultation is dealing with defined pension assets we would like to take this opportunity to raise one of our particular concerns as to the impact of the defined benefit pension scheme deficits on own funds in the event that a firm is subject to CRD IV/R. The concern stems from the apparent disappearance of the relevant prudential filters in CRD IV/R that previously existed to 31 December 2013.

In the United Kingdom, many, if not most, investment firms in scope of CRD IV/R are part of groups where other authorised firms are not in scope of CRD IV/R. Often, the rest of the group/sister firms operate under the UK's previous CRD implementing legislation as permitted under CRR Article 95 (2) for certain types of MiFID Investment Firm.

The Financial Conduct Authority (FCA) authorises and regulates MiFID investment firms in the United Kingdom. The FCA's approach to implementing CRD IV has not changed for those firms out of scope of the CRD as from 1 January 2014; they will remain subject to the UK's previous CRD implementing legislation until the outcome of the EU's review of capital adequacy arrangements for investment firms review is completed in 2015. The previous CRD (CAD and BCD) approach when determining these firms' net (after deductions) regulatory capital will stay the same until, at least, the EU review is complete and its measures in place.

For MiFID investment firms that remain subject to the CRD (IV/R) from 1 January 2014, the FCA is not permitted to make its own rules where the Capital Requirements Regulation (CRR) applies.

Many defined benefit pension schemes are in deficit. Under current accounting standards, a firm is required to deduct the defined benefit scheme liability in full calculated under the on-

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going basis (not under the discontinuance basis) and then then to add back the firm's agreed deficit reduction contributions, typically set over a 5 year period. The deficit reduction contributions are those which form part of the agreed schedule of contributions (following recommendations from the Scheme Actuary). As a consequence of the previous prudential filters, no longer permitted under CRD IV, the net (after the adding back of the deficit funding) was deductible, not the full extent of the total unfunded on-going deficit.

It would be helpful for industry and its regulators to work together on a solution that addresses the loss of prudential filters.

Conclusion

The IMA looks forward to working with the international standard setters to develop a framework that is appropriate and effective for all stakeholders.

Annex 1 to our letter contains our formal response to the consultation, and further specific observations and questions arising from the proposals.

We hope that you will find our comments useful. Please contact me by way of e-mail (ihenry@investmentuk.org) or telephone on (00 44) (0) 20 7831 0898 should you require further information.

Yours faithfully,

Irving Henry

Prudential Specialist

Investment Management Association

Annex 1

1. Is the scope of the report appropriate? Are there additional elements to include in the scope of the report based on this mandate?

The scope is appropriate.

2. Do you agree with the proposed methodology for the objective of the report to be met? Please indicate whether additional areas need to be considered.

We agree with the methodology and urge the EBA to consider consolidation too, i.e. the treatment of groups that include firms in and out of the scope of CRD IV.

3. Do you agree with the identified prudential requirements relevant to the scope of the report? Are there additional elements to include in the analysis of the prudential requirements?

We agree with the prudential requirements that have an impact on own funds, but add the withdrawal of prudential filters.

4. Do you agree that the main drivers of the change in the amount of net defined benefit pension funds would be items for which a corresponding gain or loss is recognised on own funds (such as actuarial gains and losses)?

No comment.

5. Do you agree with the analysis performed on the amendments to IAS 19? Do you agree that the changes in IAS 19 relevant to the scope of this report are the immediate recognition of actuarial gains and losses and past services costs?

Please provide input on additional changes in IAS 19 that need to be taken into consideration in assessing the impact on own funds at initial application and application in subsequent periods under the scope of the report.

No comment.

6. Do you agree with the analysis performed for the changes of IAS 19 that are not expected to have an impact on own funds with regards to the scope of this report?

No comment.

7. Do you agree with the methodology of the analysis performed and the interpretation of the qualitative and quantitative data? Please provide additional data that need to be taken into account.

No comment.

8. Do you agree with the elements included in the additional qualitative assessment for the possible developments that could impact the volatility of own funds?

No comment.

Do you have any particular consideration with regard to the impact of the discount rates used for the measurement of the defined pension plans under the requirements of the revised IAS 19? Is there any difference compared to the previous IAS 19?

Please provide additional elements that need to be taken into account.

No comment.