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New accounting rules will create new conflict of interest for Directors on trustee boards

- **Companies may reduce funding so surpluses do not arise**
 - **Additional layer of complexity to trustee role**

New International Accounting Standards (IAS) guidelines which concern the treatment of pension scheme surpluses could create new conflicts of interest for Directors of sponsoring companies who also act as trustees, warns Trustee GAAPS, the trustee search and selection firm.

The new IAS guidance, IFRIC 14, which took effect earlier this month, could mean that in many cases surplus funds in a pension scheme will no longer count as assets on the company balance sheet.

According to Trustee GAAPS, under IFRIC 14 companies must have an 'unconditional right' to a refund, or 'sufficient scope to reduce future contributions' for a surplus to be included on the balance sheet. An 'unconditional right' means companies do not need trustees' approval to recover excess funds.

Trustee GAAPS says that if companies are unable to include surpluses on balance sheets as assets, they may stop putting money into schemes – particularly as many schemes are now in surplus – or they may even try to renegotiate the rights of the pension fund over the control of surpluses.

David Johnson, Consulting Director, Trustee GAAPS, comments: "Companies could seek to reduce payments into schemes or change scheme rules so that repayments are not contingent on the approval of trustees. Trustees with responsibilities towards scheme members and companies may find themselves in a difficult position."

"Directors will be concerned that surpluses may be trapped and will come under pressure from shareholders to address that - but how can they while simultaneously discharging their responsibilities to scheme members?"

He adds: "It adds another layer of complexity to the job of being a trustee and heaps further potential conflicts of interest on trustees who are connected with sponsoring companies. The case for independent trustees is becoming increasingly compelling."

Trustee GAAPS says that an additional complication arises if trustees demand extra funding, as under the new guidance that could mean companies have to widen their stated deficit.

David Johnson says that this may make trustees associated with sponsoring companies more reluctant than independent trustees to request additional funding, accentuating the division within trustee boards between independent and company trustees.

ENDS

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