STATEMENT OF RECOMMENDED PRACTICE

FINANCIAL REPORTS

OF

PENSION SCHEMES

(Revised May 2007) – Exposure Draft

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The additional commentary and guidance set out in section 1 of, and appendices 1 to 4 to, this document are not part of the formal guidelines constituting the Statement of Recommended Practice. Those formal guidelines are set out in section 2 of, and appendix 5 to, the document.
PREFACE

The Statement of Recommended Practice, Financial Reports of Pension Schemes (“the SORP”) was published in 1997 and was itself a major update and reassessment of the original SORP 1, Pension Scheme Accounts, which had been published in 1986. Under ASB guidelines, SORP making bodies are required to monitor and update the SORPs for which they have responsibility on a regular basis. PRAG therefore undertook a project to revisit the main provisions of the SORP in the light of new and revised accounting standards and developments in best practice since its publication in 1997. This revised version of Financial Reports of Pension Schemes (‘the revised SORP’) is the result of that project. The recommendations in the revised SORP have been arrived at after consideration of the Statements of Standard Accounting Practice and Financial Reporting Standards and applicable laws and regulations in force in the United Kingdom and the Republic of Ireland at 30 September 2002. In developing the revised SORP, PRAG consulted with The Pensions Board of the Republic of Ireland in relation to the existing Irish statutory requirements. Certain additional material in respect of the Republic of Ireland is included in Appendix 4. Regard must be paid to applicable accounting standards, laws and regulations, since SORPs cannot override these requirements.

At this time particular attention was paid to two Financial Reporting Standards issued since 1997 and to their potential impact on the financial reports of pension schemes. These two are FRS 12: Provisions, contingent liabilities and contingent assets; and FRS 17: Retirement Benefits. The issue of these standards has re-opened the debate on the recognition of the long-term, actuarial liabilities of pension schemes in their financial statements. It should be noted that under current legislation in the UK and the Republic of Ireland, pension scheme accounts need not recognise the liabilities to pay pensions and other benefits which fall due after the end of the scheme year and, in practice, no pension scheme accounts recognise these liabilities. It was agreed that such an important and substantial change in recommended accounting practice could not be contained within the present revision of the SORP, and that significant further consultation and debate was necessary before such a recommendation could be made. The ASB has asked PRAG to lead this consultation process and to this end PRAG will publish a discussion paper setting out some of the key issues and considerations involved, particularly the potential impact on the current recommendations for the treatment of insurance policies. PRAG is committed to report back to the ASB by the middle of 2003. PRAG also recognises that IAS 26, The regulatory and accounting standard regime is however changing. The United Kingdom is now moving towards convergence with international accounting standards. The Minimum Funding Requirement valuation is in the process of being replaced with scheme specific funding requirements and transitional rules will be in place until 2009, which will result in different valuation bases being adopted by schemes with some schemes producing these annually and other not. The EU Directive for pension schemes which came into force in September 2005 states that accounts should show a true and fair view. Additionally, the FRC is currently in the process of agreeing changes to the audit opinion from ‘true and fair’ to ‘presents fairly’ in accordance with the relevant standards.
Accounting and Reporting by Retirements Retirement Benefit Plans is due for revision. The debate about whether to include actuarial liabilities in the financial statements therefore needs to take account of this changing environment.

In October 2005 the Accounting Standards Board (ASB) announced a research project into accounting for pensions including for corporate accounts and pension scheme accounts, including the treatment of actuarial liabilities and we await the publication of their research.

The recommendations in the revised SORP are also subject to the overriding requirement that the financial statements should present a true and fair view.

In developing the revised SORP, PRAG has consulted The Pensions Board of the Republic of Ireland in relation to the existing Irish statutory requirements. Certain additional material in respect of the Republic of Ireland is included in Appendix 4.

The Financial Reports of Pension Schemes (Revised May 2007) has been updated to take account of the Financial Reporting Standards issued in respect of investments in particular the presentation requirements of FRS 25 (IAS 32): Financial instruments disclosure and presentation, parts of FRS 26 (IAS 39): Financial Instruments: recognition and measurement. Full adoption of these standards and of FRS 29: Financial Instrument: disclosure is not recommended at this stage given the ASB’s intention to delay implementation of these standards until 2009. Further convergence is however expected following consultation in these areas. Appendix 5 summarises the application of the Statement of Accounting Practice and Financial Reporting Standards to pension schemes. Regard must be paid to applicable accounting standards, laws and regulations, since SORPs cannot override these requirements. The recommendations in the revised SORP are also subject to the overriding requirement that the financial statements should present a true and fair view.

Neither PRAG nor the members of any working party or committee thereof can accept any responsibility or liability whatsoever (whether in respect of negligence or otherwise) to any pension scheme trustee or member or third party, wherever situated, as a result of anything contained in or omitted from the SORP nor for the consequences of reliance or otherwise on the provisions of the SORP.

November 2002 May 2007
THE ASB’S STATEMENT ON THE SORP – [TO BE REVISED BY ASB]

May 2007
1. COMMENTARY

Introduction

1.1 This Statement of Recommended Practice (‘SORP’) sets out recommendations, intended to represent current best practice, on the form and content of the financial statements of pension schemes. These guidelines are set out in section 2 of this document and Appendix 5 (Application of Accounting Standards). In addition to establishing these guidelines, this document also explains the context in which it has been assumed the financial statements will be placed and offers advice and suggestions on improving the quality of communication within the annual report as a whole. This additional commentary and advice (set out in section 1 of, and appendices 1 to 4 to, this document) are not part of the formal guidelines constituting the Statement of Recommended Practice.

1.2 FRS 18 Accounting Policies requires that where an entity’s financial statements fall within the scope of a SORP, the entity should state the title of the SORP and whether its financial statements have been prepared in accordance with its provisions. Hence pension schemes falling within the scope of the SORP must state in their financial statements whether they have followed the SORP. They must also, in accordance with FRS 18, give a brief description of any departures from the recommended practice set out in the SORP, the reasons why the treatment adopted is judged more appropriate to the scheme’s particular circumstances, details of any disclosures required by the SORP that have not been provided and the reason for not providing them. The provisions of the SORP need not be applied to immaterial items. As noted in Appendices 3, 4 and 5 to the SORP, current statutory regulations in the United Kingdom and the Republic of Ireland also require disclosure of compliance with the recommendations of the SORP relating to the financial statements.

The Annual Report

Objectives

1.3 There are broadly two types of party that have an interest in the annual report of a pension scheme:

- those participating in and managing the scheme such as the trustees, members and prospective members, pensioners, spouses and beneficiaries, and participating employers;
- external parties involved with the scheme such as the regulatory and governmental bodies and agencies (including the Inland Revenue/HMRC), actuaries, auditors, trade unions and other employee representative groups, bankers, lawyers and other professional advisers.
The general objective of the pension scheme’s annual report is to provide information that is relevant to these interested parties; as it is addressed primarily to the members it may not contain all the information that other users may require:

- **trustees** - the trustees, who are responsible for the annual report, use the annual report to demonstrate how they have discharged their duties and as a means of satisfying themselves that they have properly met their responsibilities;
- **members and prospective members, deferred pensioners, pensioners, spouses and beneficiaries** - this group typically requires information about the security of their pensions or pension promise and information about the progress of the scheme towards meeting its potential liabilities and obligations towards them. Research has also shown that this group needs a regular reminder of some basic information about the scheme;
- **participating employers** - employers typically require information about the trustees’ stewardship of the scheme, the development of the scheme and the security of assets;
- **regulators** - regulators require to be satisfied about compliance with regulations;
- **professional advisers** - professional advisers require clear and reliable information about the transactions of the scheme, including any unusual transactions, and about the current position, activities and policies of the scheme.

**Plain English**

The annual report should, as far as possible, be written in plain English so that it is clear to the reader why particular disclosures are being made and what they mean. However, it is impractical to avoid established pensions and accounting terminology entirely. For the financial statements in particular, there is an implicit assumption that users of financial statements have a reasonable knowledge of business and economic activities and a willingness to study the information presented with reasonable diligence. The use of established terminology does not detract from understanding, provided that the terminology itself is set in an appropriate context and, preferably, explained in user-friendly terms.

The overall structure of the report should also be made clear to the reader, with appropriate use made of headings and sub-headings. For longer annual reports, a contents page may be helpful.

**Content of the annual report**

Trustees are required to prepare an annual report in accordance with pensions regulations in the United Kingdom and the Republic of Ireland. It generally comprises the following:

a) **Report(s) by the trustees**

The regulations require that certain information should be provided to accompany the annual financial statements. This information may be incorporated within a single trustees’ report or presented separately within the annual report as:
b) Reports by professional advisers

- Actuarial Statements or Summary Funding Statements (as applicable), which set out the actuary’s opinion on the security of accrued and prospective rights (see paragraph 1.14(c)), which set out the actuary’s opinions on the security of accrued rights and the security of prospective rights, and reports on compliance with the minimum funding requirements (the content of the actuarial statements required by law varying depending upon the type of scheme);
- An Independent Auditors' Report on the scheme’s financial statements and on the payment of contributions into the scheme.

c) Financial Statements, which should give a true and fair view of the financial transactions of the scheme during the period and of the disposition of its net assets at the period end.

The contents of the annual report are discussed in further detail below.

**The Trustees' Report**

1.8 The purpose of the trustees' report is to demonstrate accountability of the trustees to the members, employers, regulators and other persons involved in the scheme. The report should include such information as is needed to explain how the scheme is managed, its financial development during the scheme year and other significant developments in relation to the employer, the scheme constitution or benefits, pension increases and scheme membership during the period.

1.9 The trustees’ report is a key component of the annual report. It sets the context in which the rest of the report is read and therefore has a significant effect on the overall message conveyed to the readers of the annual report. It should therefore be:

- written in a clear and simple style to be readily understandable by members and other readers of the annual report;
succinct whilst not excluding matters that are likely to be significant to the readers. Disclosures of a routine nature could be relegated to the compliance statement at the back of the annual report;

fair and impartial in the choice of matters for discussion and in the comments made.

The Investment Report

1.10 The trustees are responsible for preparing the investment report. The objectives are to outline and explain the trustees’ policies on investments and the strategy for achieving the policies, to review investment performance against that background and to compare the investment return with any benchmark adopted. All the material in the Investment Report should focus on the circumstances and requirements of the scheme itself, with commentary on general economic and market conditions restricted to what is necessary for an understanding of the scheme’s own situation. The report should include a note of the trustees’ policy for the custody of investments.

1.11 The investment manager(s) may assist in the preparation of the investment report. In some cases the trustees may indeed wish to include a report by the investment manager(s) within the investment report. Nevertheless, the investment report as a whole remains the responsibility of the trustees.

1.12 Where a scheme’s investments are managed by more than one investment manager, details of the investment strategy and investment performance of the scheme in aggregate should be disclosed, (and not just for each manager individually). This need not apply to defined contribution schemes and money purchase AVC arrangements which offer members a choice of investment funds, where performance of individual funds only is meaningful.

Compliance Statement

1.13 The purpose of the compliance statement is to disclose information which is required to be disclosed in order to comply with the law (hence the term ‘compliance statement’) or which is disclosed voluntarily but which is not of such significance to the users of the annual report that it requires the more prominent disclosure afforded by inclusion in the trustees’ report. It typically deals with matters of administrative routine.

Statements by the Actuary and Auditors

1.14 Regulations in the United Kingdom require the following statements by the scheme actuary (in the case of defined benefit schemes) and scheme auditors (in the case of both defined benefit and defined contribution schemes) to be included in the annual report:

a) a statement by the actuary concerning certain prescribed aspects of the latest actuarial valuation;

a) a copy of the latest certificate by the actuary of the adequacy of the rates of contributions for the purpose of meeting the minimum funding requirement imposed by statute on certain schemes;

b) a report by the auditors about the payment of contributions to the scheme together with the auditors’ opinion on the financial statements.
c) Once the Minimum Funding Regulations are no longer relevant to a scheme, the Summary Funding Statement should be included in the Annual Report in place of the Regulation 30 Statement. If the Minimum Funding Regulations still apply the Regulation 30 statement should continue to be included in the Annual Report. In the case of the Republic of Ireland the latest actuarial funding certificate prepared and the valuation report. At the time of preparation of the SORP, legislation in the Republic of Ireland only required the inclusion of (b) and (c) above in the annual report. An illustrative statement in respect of (a) above for defined benefit schemes in the Republic of Ireland is included in Appendix 4. However, section 37 of the (Republic of Ireland) Pensions (Amendment) Act 2002, when commenced, will require the inclusion in the annual report of a statement by an actuary in a form to be prescribed in relation to the satisfaction by the scheme of the Funding Standard under Irish legislation.

1.15 The actuary’s reports and actuarial information contained in the Summary Funding Statement referred to in paragraph 1.14 in (a) and (b) above are based on the actuary’s investigation into, and report on, the ability of the current fund of the pension scheme to meet accrued benefits and the adequacy of the fund and future contribution levels to meet promised benefits when due. The statements and certificate are each made in a format that in the United Kingdom is prescribed by regulations.

1.16 The actuary’s investigation - also termed an actuarial valuation - and the preparation of annual financial statements are discrete exercises. They serve two different purposes. The annual financial statements are essentially a matter of record of past performance, while the actuarial investigation is a forward-looking exercise the aim of which is usually to assess funding levels and to recommend contribution rates. The timing of the exercises is different. The actuarial valuation is not required to be carried out annually but rather at least every three years (in the Republic of Ireland it is required at least every three years and six months) and the effective date of valuation will not necessarily coincide with the accounting date. An annual review is however required of the actuarial position. The actuarial view of the values of scheme assets and the timing and incidence of scheme liabilities is shaped by the assessment of probabilities of future outcomes using actuarial techniques rather than being based on purely historical amounts and current market values. Thus, even though the underlying information may be the same, the bases of measurement could be fundamentally different from those adopted in the financial statements.

1.17 The purposes of the actuarial statement and certificate and summary funding statement in the annual report can therefore be summed up as follows:

- to complement the annual financial statements and the trustees’ and investment reports with forward-looking information about the liabilities of the scheme and its likely ability to meet the pensions promise;
- to confirm to the users of the annual report that the rates of contributions continue to meet the minimum scheme funding requirement;
- to confirm to the users of the annual report that an actuarial valuation has been carried out, when it was done and by whom, and to describe briefly its findings.
1.18 A pension scheme audit is an examination of the scheme's financial statements and accounting records designed to enable the auditors to form an independent opinion on the financial statements and on whether the contributions payable to the scheme have been paid at least in all material respects in accordance with the schedule of contributions or payment schedule, as appropriate (or, in the Republic of Ireland, in accordance with the scheme rules and the recommendations of the actuary and within the time frame for the remittance and investment of contributions provided for in the Pensions Act 1990, as amended by the Pensions (Amendment) Act 2002). The auditors’ report, which sets out the auditors’ opinions on these matters, also normally explains the auditors’ responsibilities and the basis of those opinions.

1.19 Auditors are required by Statement of Auditing Standards International Standards on Auditing (UK and Ireland) (SAS) 600 to distinguish between their responsibilities and those of the trustees by including in their report a statement that the financial statements are the responsibility of the trustees, a reference to the description of those responsibilities as set out either in the trustees’ report or elsewhere in the annual report, and a statement that the auditors’ responsibility is to express an opinion on the financial statements. If the annual report does not include an adequate description of the relevant responsibilities of the trustees, auditors are required to include a description of those responsibilities in their audit report.

The financial statements

1.20 Accounting information should be presented in a structured and articulated set of financial statements comprising primary statements and supporting notes. The objective of the financial statements generally is to provide information about the financial position, performance and financial adaptability of the reporting enterprise. They show the results of the stewardship of management, that is, the accountability of management for the resources entrusted to it.

1.21 In the context of enterprises generally, the primary statements are normally:

- a profit and loss account;
- a statement of total recognised gains and losses;
- a balance sheet;
- a cash flow statement.

The first two of these are statements of financial performance, enabling users to assess past performance of management and so modify assessments and expectations for future periods. The balance sheet provides information about the economic resources controlled by the enterprise, its liquidity and financial viability and its capacity to adapt to change. The cash flow statement provides information about the enterprise’s activities in generating cash through its operations and otherwise.

1.22 The financial statements of pension schemes should deal with these matters in a way that is appropriate to their special circumstances. In relation to financial performance, there are two key but distinct aspects of the trustees’ stewardship of the fund that should be communicated. First, the way in which the trustees have administered the scheme in terms of their financial dealings with the
members, participating employers and others directly involved in the scheme. Secondly, the way in which the trustees have looked after the investments in their care. These two aspects - administration and investment - should be presented separately although they can both be presented within a single statement, the Fund Account.

1.23 Information about the economic resources controlled by the pension scheme is provided by the Net Assets Statement, which summarises the net assets of the scheme, on the basis of current market values. The net assets statement does not take account of liabilities to pay pensions and other benefits after the end of the scheme year. The actuarial position of the fund, which does take account of such liabilities, is dealt with in the statement by the actuary, as discussed above.

1.24 Information about the cash flows of the scheme is normally provided by the fund account that in its two sections described above deals with the financial additions to and withdrawals from the scheme. Although the statement adopts an accruals basis of accounting rather than a strict cash flow basis, representing the information in the conventional format for cash flow statements would generally not provide any significant additional information for the readers of pension scheme financial statements.

**Other disclosures in the annual report**

1.25 Rather than include this information within the trustees’ report, the annual report may contain a separate list of Trustees and Advisers during the scheme year, together with a contact name and address for enquiries. Dates and other details of changes should either be shown on this list or be included in the compliance statement.

1.26 The registration number of the scheme with the Registrar of Occupational and Personal Pensions Schemes (in the United Kingdom) or The Pensions Board (in the Republic of Ireland) should be disclosed prominently, for example on the front cover of the annual report.
2. RECOMMENDED ACCOUNTING PRACTICE

Scope and effective date

2.1 The recommendations of this Statement apply to all pension schemes the financial statements of which are intended to give a true and fair view in accordance with accounting principles generally accepted in the United Kingdom and the Republic of Ireland. The scope of this Statement includes, *inter alia*:

- defined benefit schemes;
- defined contribution schemes;
- schemes which are fully insured;
- earmarked schemes (money purchase schemes under which all benefits are secured by annuity contracts or insurance policies which are specifically allocated to the provision of benefits for individual members or beneficiaries);
- financial statements prepared for the purpose of actuarial valuations (where no Trustees’ Annual Report is required);
- Common Investment Funds (in which only pension schemes participate);
- funded unapproved retirement benefit schemes (FURBS) (UK only);
- schemes in winding up;
- schemes constituted overseas;
- trust-based stakeholder pension schemes (UK only).

If they prepare financial statements which are intended to give a true and fair view.

2.2 The recommendations of this Statement do not apply to:

- schemes which are unfunded, i.e. those under which benefits are paid directly by the employer and no provision is made for future liabilities by setting aside assets under trusts;
- free standing AVC schemes;
- stakeholder schemes which are not trust based;
- personal pension schemes in which employees of a particular employer participate on a grouped basis (sometimes referred to as group personal pension schemes) where investments are earmarked for individual employees. These are merely arrangements for collecting contributions and not occupational pension schemes.
- Personal Retirement Savings Accounts (Republic of Ireland only)

2.3 The Occupational Pension Schemes (Administration and Audited Accounts) (Amendment) Regulations 2005 allows exemption from the appointment of an auditor for both defined contribution and defined benefit schemes that meet the following criteria:

- The scheme must have less than 12 members; and
All members must be trustees (or trustee directors); and either
• The provisions of the scheme provide that all decisions which fail to be
made by the trustees are made by unanimous agreement by the trustees
who are members of the scheme; or
• The scheme has an independent trustee who is on the approved list
maintained by The Pensions Regulator.

2.4 These regulations also introduced the requirement for an audit for certain
schemes with 100 or more members, see Appendix 3 paragraph 3(g).

2.5 In these circumstances financial statements which are intended to show a true
and fair view are only required if audited accounts are still required under the
scheme rules.

2.6 Guidance is given on the application of the SORP to special types of scheme.

2.7 The recommendations are applicable for all scheme years commencing on or
after 1 January 2003 and may be applied for earlier accounting
periods, provided early adoption is recommended and in these cases the
financial statements must disclose that this has been done. The SORP has been
adopted early. Where investments are valued on a bid rather than a mid basis,
transaction costs are disclosed and derivatives are no longer grossed up to the
associated economic exposure value there is no requirement to re-state the
comparatives in the year of transition. Disclosure should be made of the basis
on which the comparative numbers are disclosed.

Terminology

2.8 This statement is intended to be applied to schemes in the United Kingdom and
the Republic of Ireland, as well as to other relevant overseas schemes if their
financial statements are intended to give a true and fair view. However, for
simplicity, it adopts terms such as ‘UK investments’ and ‘sterling’ rather than
using phrases such as ‘investments in assets domiciled at home’ and ‘local
currency’. For the meaning of terms used in the statement, reference should be
made to ‘Pensions Terminology - A Glossary for Pension Schemes’ published
by the Pensions Management Institute and PRAG.

Recommended form and content of pension scheme financial
statements

2.9 The pension scheme financial statements should comprise:

• a Fund Account which discloses the magnitude and character of financial
additions to, withdrawals from, and changes in value of the fund during the
accounting period, segregated between Dealings with members and Returns
on Investments and which reconciles the net assets of the scheme at the
beginning of the scheme year with those at the end of the year;
• a Net Assets Statement which discloses the amounts and disposition of the
net assets of the scheme at the end of the scheme year.

The titles of these statements may be adapted for the purposes of a particular
scheme.
2.92.10 The financial statements should contain such additional information as is necessary to show a true and fair view of the financial transactions of the scheme for the scheme year and of the amounts and disposition of its net assets at the end of the scheme year. In particular, material unusual or non-routine transactions or balances should be given sufficient prominence on the face of the primary statements to draw readers’ attention to their non-routine nature (e.g. material group transfers or scheme mergers).

2.102.11 The statements, together with the notes to the financial statements, should contain as a minimum the items set out below. For ease of assimilation, only those items representing major categories of income, expenditure, assets and liabilities need be disclosed on the face of the Fund Account and Net Assets Statement (as appropriate). The major categories are indicated in bold in paragraphs 2.12 and 2.17 below. Items indicated in italics in paragraphs 2.12 and 2.17 below may be analysed in the notes to the accounts, if not shown on the face of the Fund Account.

Fund Account

2.142.12 The Fund Account should set out the following where material:

In relation to dealings with members, participating employers and others directly involved in the scheme

Contributions receivable
- from employers
  - normal
  - special augmentation
  - additional deficit funding
  - other
- from members
  - normal
  - additional voluntary (see paragraphs 2.129 to 2.134)

Transfers in
- group transfers in from other schemes and scheme mergers
- individual transfers in from other schemes

Other income
- claims on term insurance policies
- any other category of income which does not naturally fall into the above classification, suitably described and analysed where material

Benefits payable
- pensions
- commutation of pensions and lump sum retirement benefits
- purchase of annuities (see paragraph 2.85 to 2.90)
- lump sum death benefits

Payments to and on account of leavers
- refunds of contributions
- state scheme premiums
- purchase of annuities (see paragraph 2.85 to 2.90)
- group transfers out to other schemes
- individual transfers out to other schemes

Other payments
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premiums on term insurance policies
any other category of expenditure which does not naturally fall into the
above classification, suitably described and analysed where material

Administrative expenses borne by the scheme, with suitable analysis where
material

Net additions (withdrawals) from dealings with members, representing the
net amount of the income or expenditure represented by the items above

In relation to returns on investments

Investment income
income from fixed interest securities
dividends from equities
income from index-linked securities
income from pooled investment vehicles
net rents from properties (any material netting-off should be separately
disclosed)
interest on cash deposits
share of profits/losses of associates and joint ventures
other (for example from stock lending or underwriting)
income from derivatives (e.g. net swap receipts/payments)

Change in market value of investments (including realised gains, unrealised
gains and changes in the sterling value of assets (including cash) caused by
changes in exchange rates)
Taxation (see paragraph 2.138)
Investment management expenses borne by the scheme, with suitable analysis
where material

Net returns on investments, representing the net sum of the above items

resulting in a net total of

The net amount of the increase or decrease in the fund

to which is added the
Opening net assets of the scheme

to give
Closing net assets of the scheme.

2.122.13 For investments that have purchase costs or sales proceeds the total
amount of sales and of purchases of investments should be disclosed either
within the Net Assets Statement or in the notes to the accounts. These amounts
should be analysed by some meaningful categorisation such as:

- By major asset classes
- By named investment managers
- By investment strategy (active, passive, etc.)

so as to illustrate the implementation of the trustees’ investment strategy.

2.132.14 The disclosures of sales and purchases of investments and of the changes in
value during the period should provide a reconciliation between the opening
and closing value of investments, analysed as recommended in paragraph 2.13.
Such a reconciliation is illustrated in note 11 to the financial statements in
Appendix 1 and disclosure in aggregate is illustrated in note 11 to the financial
statements in Appendix 2.

2.142.15 For derivative investments where amounts are included in purchases and
sales the notes to the accounts should explain the nature of the amounts
included in purchases and sales. Where it is not considered relevant to include
these amounts in purchases and sales, this fact should be disclosed in the note
to the accounts and details of the volume of derivative trading during the year
should be disclosed in the notes to the accounts. For derivative amounts
included in the investments movements note in ‘purchases at cost and
derivative payments’ and ‘sales proceeds and derivative receipts’ the notes to
the accounts should explain the nature of the amounts included in purchases
and sales.

**Net Assets Statement**

2.142.16 All the assets and liabilities of the scheme at the scheme year end should be
included in the Net Assets Statement in order to show the size and disposition
of the fund at that time. The only items which are not required to be included
by regulations in the United Kingdom and the Republic of Ireland are liabilities
to pay pensions and other benefits in the future (which in the case of defined
benefit schemes will be reported upon separately either in the actuary's
statement provided under MFR regulations or the Summary Funding
Statement). Regulations in the United Kingdom and the Republic of Ireland
permit a special treatment of earmarked insurance policies purchased to match
the pension obligations of specific individual members, as explained in
paragraph 2.86.

2.152.17 The Net Assets Statement should contain the following items highlighted in
bold where material and the other items in the note to the accounts where
material:

- **Investment assets** (see paragraph 2.74)
  - fixed interest securities (analysed between public sector and other)
  - equities (including convertible shares)
  - index-linked securities
  - pooled investment vehicles (analysed between unit trusts, unitised insurance
    policies and other managed funds (including open-ended investment
    trusts, OEICs, and assets held in limited liability partnerships), showing
    separately those funds invested in property)
  - derivative contracts (including futures, options, forward foreign exchange
    contracts and swaps)
  - property
  - insurance policies (with-profits contracts, unitised with-profits contracts and
    annuity and deferred annuity contracts) (see paragraph 2.83 below)
  - loans
  - other investments (such as works of art)
  - cash deposits (including fixed term deposits, certificates of deposit, floating rate
    notes and other cash instruments)
other investment balances (such as debtors and creditors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; and other assets and liabilities directly connected with investment transactions, outstanding dividend entitlements and recoverable withholding tax, suitably analysed where material)

separately invested AVC funds (see paragraphs 2.129 to 2.134)

(See also paragraphs 2.105 to 2.122 for the treatment and disclosure of financial futures and options derivatives. See also paragraph 2.177 for recommendations on the disclosure of securities loaned out under stock lending arrangements).

Investment liabilities

Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)

Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)

Net investment assets

Fixed assets held for use by the scheme rather than as investments

Liabilities

Borrowings

sterling foreign currency.

Disclosure should be made of the maturity analysis of borrowings (between amounts falling due within one year, between one and two years, between two and five years and in more than five years) in accordance with FRS 4

Assets receivable in more than one year

Contributions due from employer

Net contributions due from employer (see paragraphs 2.46 to 2.49 and 2.153)

unpaid benefits (see paragraphs 2.45 to 2.48)

other current assets

cash balances (not forming part of the investment assets)

Current liabilities

unpaid benefits (see paragraphs 2.51 to 2.54)

other current assets and liabilities (such as accrued expenses (other than liabilities to pay pensions and other benefits in the future)).

2.162.18 Investments should be further analysed between 'United Kingdom' and 'overseas' and between 'quoted' and 'unquoted'.

2.172.19 ‘Quoted’ means listed on or traded on a recognised investment exchange. It is recognised that some securities have multiple listings and that the United Kingdom or overseas nature of a security may not be straightforward. The domicile of a quoted investment will normally be determined by what the investee entity regards as its primary listing but the trustees, with advice from their investment manager, may need to make judgements as to the intent of holding such securities when preparing this UK v. overseas analysis.

2.182.20 “Public sector” securities include those issued by national, regional or local government organisations. “Other” securities include those issued by
international and supra-national non-private sector organisations, as well as those issued by private sector corporations.

2.192.21 Pooled investment vehicles include the various forms of pooled investment such as unit trusts, unitised or unit linked insurance policies, open-ended investment trusts and open ended investment companies. All other types of insurance policy, for example with-profits contracts, unitised with-profits contracts and annuity contracts (including deferred annuity contracts) should be disclosed in the net assets statement under ‘insurance policies’. Regulations in the United Kingdom require the separate disclosure of unit trusts, managed funds and insurance policies but this analysis should preferably be made in the notes to the financial statements rather on the face of the net assets statement.

2.202.22 Where a substantial proportion of the assets of a scheme is held in pooled investment vehicles it will be helpful to show in the Investment Report the underlying economic exposure of the pooled investment vehicles to the other asset classes – UK equities, overseas equities, UK fixed interest etc. Pooled investment vehicles should not be disclosed in the net assets statement under the classification of the underlying asset; for instance, a managed fund invested wholly in European equities should be disclosed as a managed fund and not as a holding in overseas equities.

2.212.23 Holdings in investment trusts (ITs), which in essence are a type of a managed fund, should be shown as equities, on the basis that the investment is one of shares in the ITs rather than units in the underlying fund. Where material, it may be helpful to show in the Investment Report the underlying economic exposure of the ITs, as for pooled investment vehicles set out above.

2.222.24 Pooled investment vehicles should be further analysed between those where the company operating the vehicle is a company registered in the United Kingdom and those where it is not.

2.232.25 Derivative contracts should be disclosed by their main types for example futures, options and; forward foreign exchange contracts and contracts for differences. Derivatives contracts should be further analysed between exchange traded and “over the counter” (OTC). Summary information on the key terms and notional amounts of the derivative contracts held at the year should be rounded to assist the reader of the accounts understand the nature and purpose of the contract.

2.242.26 Assets held to provide defined contribution benefits for individual members should be clearly distinguished from those that are not.

Schemes with multiple benefit structures

2.252.27 Schemes with multiple benefit structures may comprise two or more discrete sections within the terms of a trust deed, for example:

- a defined benefit section - which is subject to the normal actuarial reviews and valuations
- a defined contribution (or money purchase) section - the contribution rates being set with the agreement of the employer.

(Schemes with multiple benefit structures should not be confused with industry
wide schemes and other similar arrangements, in which a multiplicity of otherwise unrelated employers participate, and to which the following recommendations do not apply.)

2.26 Nevertheless, a pension scheme with a multiple benefit structure remains one single trust, and it is imperative that the trustees are able to demonstrate their stewardship over the trust as a whole, while satisfying the information needs and interests of members of the different sections.

2.27 The objectives and relative importance of each section can vary according to the employer's circumstances and membership profile. Membership of both sections need not necessarily be compulsory or complementary.

2.28 Since the interests of members and calculation of benefits attributable to each section differ, these need to be separately identified and expressed in the financial statements within the framework recommended above. Clear segregation of investments between each section is necessary in order to determine the calculation and provision of benefits to members.

2.29 The recommended approach adopts a columnar analysis of the income and expenditure attributable to each section within the fund account and shows separately the net assets attributable to each section in the net assets statement. Transfers into and out of the pension scheme are dealt with under ‘Contributions and Benefits’ in the fund account, while transfers between the two sections of the scheme are dealt with in the reconciliation of movements in net assets within the fund account. Transfers between sections should only include funds transferring from one section to another. Contributions, benefits and expenditure payments in respect of each section should be included in the fund account balances for that section. These formats are illustrated in Appendix 1a. However, trustees may decide to adopt an alternative approach where the particular nature of the scheme requires it, in order to provide adequate disclosure of the scheme’s financial transactions and position.

2.30 Where one benefit section is not material in the context of the scheme as a whole, an acceptable alternative approach is to use the recommended format for the larger section of the scheme (whether defined contribution or defined benefit) and to disclose the net assets attributable to the smaller section and any movements between the sections in a note to the financial statements.

Format of pension scheme financial statements

2.31 The formats of presentation in Appendices 1 and 2 are illustrated for a defined benefit scheme and a defined contribution scheme respectively to provide the disclosures recommended in the preceding paragraphs. These examples are not comprehensive and do not, therefore, illustrate every disclosure requirement set out in the SORP and regulations.

2.32 The formats illustrate the preference noted in paragraph 2.11 above for analysing detailed items in notes rather than on the face of the primary statements. Striking the right balance between including additional detail on the face of the primary statements and relegating this detail to the notes will be a matter of judgement in the circumstances of the particular scheme.
2.332.35 As general rules of presentation: Assets and liabilities should not be offset unless Debit and credit balances should be aggregated into a single net item only where the scheme has the ability to insist on a net settlement which is assured beyond doubt, i.e. they would survive the insolvency of the counterparty: there is a legally enforceable right to set off the assets and liabilities and the scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously i.e. they would survive the insolvency of the counterparty. This means that where there is no legal right of offset, as will be the case in most instances, the total asset value and the total liabilities should be disclosed separately on the face of the net asset statement. Suggestions of how this may be achieved are shown in Appendices 1 and 2.

2.342.36 The terms “surplus” or “deficit” should generally be avoided in describing the difference between inflows and outflows as their use may mislead the reader into believing that the financial statements in some way reflect an improvement or deterioration in the actuarial position during the period.

2.352.37 The notes illustrated in the appendices deal with providing additional analysis of items in the primary statements. They do not cover all the disclosures recommended by this Statement.

**Principles of pension scheme accounting**

**Scope of accounting standards**

2.362.38 Pension scheme financial statements are required by law to show a true and fair view of the financial transactions in the period and of the amounts and disposition of assets and liabilities (other than liabilities to pay pensions in the future), and are therefore required to comply with applicable accounting standards.

2.372.39 Accounting standards form the frame of reference by which accounting information is generally communicated and understood and pension scheme accounting and reporting should adhere to such standards where relevant. Appendix 5 to the SORP provides guidance on the application of existing accounting standards to pension schemes.

2.382.40 Where requirements change as a result of changed regulations, legislation or accounting standards, the implications for this SORP may be dealt with by guidance until such time as the SORP itself is revised. PRAG will keep this SORP under regular review, in accordance with the ASB’s code for SORPs, and will amend it from time to time in the light of developments. Pension scheme financial statements must be prepared on the basis of applicable accounting standards and UITF Abstracts issued after publication of this SORP, from their effective dates.

**Substance of transactions**

2.41 An asset or liability as defined by FRS 5 should be recognised in the net asset statement if there is sufficient evidence of the existence of the item and the item can be measured at a monetary amount with sufficient reliability.
2.42 Under FRS 5: *Substance of transactions* an asset is the right or other access to future economic benefits controlled by the scheme as a result of a past transaction or event. A liability is a scheme’s obligation to transfer economic benefits as a result of past transactions or events. Where an asset is recognised by the Pension Protection Fund for levy purposes this does not necessarily mean that the asset should be included in the scheme’s accounts.

**Accruals**

2.392.43 FRS 18 *Accounting Policies* requires that an entity should prepare its financial statements (except for cash flow information) on the accruals basis of accounting. The accruals basis of accounting requires that the non-cash effects of transactions and other events are reflected, as far as is possible, in the financial statements for the accounting period in which they occur, and not, for example, in the period in which any cash involved is received or paid. In rare circumstances, it may not be possible to reflect such effects in the period in which they occur because the income or expenditure may not yet be capable of reliable measurement. Only in these very exceptional circumstances, recognition of the income or expenditure may be deferred until reliable measurement is possible. The accruals concept is also the key to determining when to recognise assets and liabilities in a scheme’s net assets statement. The accrual basis should be applied consistently from one accounting period to the next.

2.402.44 Guidance on individual items for which accrual policies may need to be developed is given in the paragraphs which follow. It is recognised that there may be difficulties dealing with specific items (for example, contributions from the multiplicity of employers in a trust-based stakeholder scheme) on an accruals basis. However, FRS 12 *Provisions, contingent liabilities and contingent assets*, makes it clear that the use of reliable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. It will always be preferable to use estimation techniques to give a range of possible outcomes and hence an estimate that is sufficiently reliable to use in preparing accounts, than to use a cash basis of accounting. In very rare cases where it is not possible to reflect the non-cash effects of transactions and other events in the financial statements for the period in which they occur, the accounting policies note should make clear what accounting policy has been adopted for such items, and give brief reasons justifying the adoption of the policy. The policies adopted in applying the accruals concept to significant categories of income and expenditure, such as contributions, investment income, transfer values and benefits should be disclosed.

**Contribution income**

2.442.45 *Employee contributions, including AVCs*: Since the employer acts for the trustees in deducting employee contributions from the payroll, such contributions should be accounted for by the trustees as soon as they are deducted. The payroll itself should be treated on a cash basis, for example where a scheme has a year end on 5 April and salaries are paid on the 30th of each month in arrears then contributions deducted on 30th March should be accrued, but not 5/30 of April contributions.
2.42.46 **Employers' normal contributions** are the ongoing contributions paid into the scheme by the employers, in accordance with the contribution schedule or payment schedule in force during the period. If they are based on rates of salaries or wages, they should be accounted for in the period to which the corresponding wages and salaries relate. There contributions normally relate to accrual of benefits for current service. If they are expressed as fixed amounts they should be accounted for in the period to which they relate. Employer normal contributions will also include contributions payable under flexible benefit arrangements where members sacrifice some of their salary which is paid to the scheme as an employer contribution. Where this is the case notes to the accounts should explain that employer normal contributions include amounts arising under flexible benefit arrangements, including salary sacrifice by members. Trustees may wish to disclose employer contributions that arise from member salary sacrifice, although this is not a requirement of this SORP. Some schemes include employer deficit funding in the contribution rates deducted from salaries or wages. Where this is the case the notes to the accounts should explain that employer normal contributions include deficit funding payments and the amount should be quantified and disclosed in the notes. [To check that payments can be separately quantified with actuary.]

2.43.47 **Employers' special augmentation contributions** are contributions payable for a limited period or as a single payment, often to provide new benefits or to augment benefits for specified members. These should be accounted for either in accordance with the agreement under which they are being paid or, in the absence of an agreement, on a receipts basis. The notes to the financial statements should explain why, and for how long, these contributions are payable.

2.44 **Employers' additional contributions** may arise only in pension schemes that form part of an employer's flexible benefit arrangements. Under such arrangements employees may choose to have the employer make contributions to the pension scheme as part of flexible arrangements for remuneration involving salary and entitlements to holiday and other benefits. In defined benefit schemes, these additional employer contributions generally provide benefits on a money purchase basis, in the same way as AVCs made by employees; these contributions should be disclosed in a similar way, and accounted for by the trustees in accordance with the employment contracts and flexible benefit arrangements under which they are payable. In defined contribution schemes, these additional contributions may in practice be difficult to distinguish from any "normal" or minimum level of contributions payable by the employer in respect of individual members, in which case they need not be accounted for separately. The notes to the accounts should make it clear that the value of employers' contributions includes all contributions payable under the flexible benefit arrangements.

2.45.48 **Employers’ deficit funding contributions** are contributions payable for a limited period or as a single payment, to improve the funding of the scheme, often arising from a scheme funding recovery plan. These contributions normally relate to past service benefit accruals. These should be accounted for either in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis. The notes to the accounts should explain why and for how long deficit funding contributions are payable. If past
service contributions are initially recognised at the total amount receivable, even though receipts may be spread over several years, the time value of money should be taken into account.

2.462.49 Employers’ other contributions may be paid for example to contribute towards the administration cost or life assurance costs of the scheme. These contributions should be accounted for in accordance with the agreed arrangements. Contributions payable in respect of section 75 debt are contributions payable when each employer ceases to be a participating employer in a scheme and the scheme actuary determines there is a past service deficit for members who are or were employees of the employer. The employer ceases to be a participating employer when for example they leave the employer corporate group, or they have no active members in the scheme. The section 75 debt should be accounted for when determined by the scheme actuary and should be recognised in full with any provisions for recoverability or time value of money as appropriate.

2.472.50 Age related rebates should be accounted for on an accruals basis, that is, based on the contracted-out earnings of relevant members during the scheme year, or, if the scheme is only contracted-out for part of the scheme year, during the part of the year when the scheme was contracted-out.

Recognition of benefits and payments to leavers

2.482.51 Under UK regulations, the net assets statement is not required to include liabilities to pay pensions and benefits after the end of the scheme year. The criteria for recognising provisions set out in FRS12 need to be interpreted in the case of pension scheme financial statements in accordance with these special requirements. The objective is to ensure that all benefits that fall due for payment in the accounting period are recognised in the financial statements. The following paragraphs give guidance on the recommended treatment of these benefit transactions in the most common circumstances. The membership statistics reported in the trustees’ report as at the scheme year-end should be consistent with the accruals treatment adopted in the financial statements for accounting for benefits.

2.492.52 Where a member has a choice about the form of their benefit, the liability to pay the benefit does not arise before the choice is made. For example:

- if a member, on leaving before normal retirement date, has the choice of either a refund of his contributions or a deferred pension, and has left employment before the end of the accounting period but as at the accounting date has not made his choice, then the scheme remains liable for the member’s deferred pension, payable at a future date; this liability is not included in the financial statements. The member would be shown as a deferred member in the membership statistics.

- if a member on retirement is entitled to either a full pension or a lump sum plus a reduced pension, and has reached retirement date before the end of the accounting period but as at the accounting date has not made his choice, then there is no liability at the accounting date to pay any lump sum potentially
payable and hence no liability should be recognised. The member should be shown as a pensioner in the membership statistics.

■ Where significant potential liabilities exist at the scheme year-end, pending members’ decisions, disclosure should be made of the potential effect on the financial statements.

2.502.53 Where the member has no choice (e.g. refund only, or single cash sum on retirement), accounting entries should be made based on the date of leaving or retirement, which is when the liability to pay the benefit arises.

2.542.54 The date on which a liability to pay a benefit arises is therefore defined under normal circumstances as the later of the date of leaving/retirement/death etc and the date on which any option is communicated to the trustees.

Transfers

2.522.55 The general recognition rule set out in 2.54 needs further clarification in cases where a member wishes to transfer benefits from one scheme to another. The receiving scheme will not, under normal circumstances, be liable for any pension benefits in respect of the transferring member until assets (whether in cash, investments or any other form of asset) have actually been received. The transferring scheme normally retains liability for the member’s pension benefits until payment of the transfer value has been successfully made, regardless of instructions from the member requesting a transfer value to be paid. Under these circumstances, no liability for the transfer value arises in either scheme until payment is actually made and hence the recommended basis of accounting for transfers is on the basis of amounts paid and / or received. Where significant potential liabilities exist at the scheme year-end, pending members’ decisions on transfer values, disclosure should be made of the potential effect on the financial statements.

2.532.56 Where, however, the trustees have agreed to accept liability in advance of the receipt of funds, as may happen for example in a group transfer or scheme merger, (and any necessary employee consents have been obtained), the liability to pay the transfer value exists from the date of the agreement. The transfer should therefore be accrued in accordance with the terms of the agreement.

2.542.57 Disclosure should be made of the method by which group transfers have been effected, where these have been other than by a cash payment, for example by the transfer of ownership of investment assets.

2.552.58 If the basis adopted for accruals of group transfers is different from that used in the report on membership statistics included in the trustees’ report, the difference, if material, should be disclosed either in the financial statements or the trustees’ report.

Expenses

2.562.59 Unless immaterial, expenses (such as the fees of actuaries, auditors and administrators) should be accrued to ensure expenses for the full accounting period are accounted for in each fund account. For significant projects done on
a consultancy basis, if the amounts involved are material, it may be necessary to accrue on the basis of the proportion of work completed by the scheme year-end.

**Investment income**

2.572.60 **Dividends** from quoted securities should be accrued when the securities are quoted ex-dividend. **Rents** should be accrued as earned in accordance with the terms of the lease. **Interest** on cash deposits and bonds should be accrued on a daily basis.

2.582.61 **Tax on investment income** should be accounted for in accordance with FRS16, and the terms “withholding tax” and “tax credit” in this paragraph carry the same meanings as in FRS16. Withholding tax on investment income should normally be accrued on the same basis as the net income. There may be a significant time lag between the receipt of an overseas dividend net of taxation and receipt of the withholding tax refund. However, only if there is significant uncertainty as to eventual receipt should the tax be deducted from the amount accrued. Accrued investment income should not include tax credits. Paragraph 2.138 below explains how any irrecoverable withholding tax should be treated in the accounts.

**Treatment of investment income in accumulation funds**

2.592.62 Where investment income is retained and automatically reinvested by an accumulation fund, there may be practical difficulties in establishing how much of the growth in value of the fund is due to the reinvestment of dividend and interest income and how much is due to growth in the capital value of the underlying securities.

2.602.63 It is recommended that any withholding tax reclaims received in respect of accumulation funds and all changes in value, whether attributable to reinvested income or growth in the value of the underlying securities, should be aggregated and shown as changes in the market value of investments in the fund account.

**Transaction costs**

2.612.64 Investment transaction costs should be separately included in investment management expenses in the fund account. Transaction costs should not be netted against sale proceeds of investment transactions or included in purchase cost. Transaction costs include fees, commissions and duties. Indirect transaction costs included within spread costs of pooled investment vehicles do not need to be separately disclosed.

**Foreign exchange rates**

2.65 At the scheme year end foreign currency monetary amounts (currency held and assets or liabilities to be paid or received) should be translated using the closing rate. Non-monetary items (investments) valued at fair value in a foreign currency should be translated using the exchange rates at the date the fair value...
was determined, usually the scheme year end date.

2.632.66 Foreign currency transactions should be recorded at the spot exchange rate at the date of the transaction.

2.642.67 Gains and losses on foreign currency investment balances should be shown in aggregate as changes in market value of investments in the fund account.

### Going concern

2.65 The actuarial statement and actuarial valuation are the primary sources of information regarding the ability of a defined benefit scheme to meet the benefit promises, although it should be noted that this may ultimately be dependent upon the employer’s continued ability to fund the scheme in accordance with funding rates advised by the actuary. The financial statements of the pension scheme itself do not provide any relevant information in this context other than to set out the type and value of the scheme’s assets at a particular point in time. For defined contribution schemes, the concept of solvency does not apply because the obligations of the scheme to pay benefits are dependent upon the funds available. Schemes that are closed to new members, or to which there will be no further contributions, are accounted for in the same way as continuing funds.

2.68 For all types of pension scheme, the basis of preparation note should disclose the trustees’ opinion of the going concern status of the scheme i.e. are the accounts prepared on a going concern or scheme cessation basis. If the accounts are prepared on a scheme cessation basis the reasons (both scheme-related and employer-related) behind their opinion, and the impact if any on the bases of valuing the scheme’s assets and liabilities should be disclosed in the notes to the accounts.

2.65 In view of the above, the going concern concept does not play the same fundamental role in the measurement and classification of assets and liabilities in pension scheme financial statements as it does in the financial statements of commercial entities. Accordingly, the basis of preparation of the financial statements should not change unless the trustees have taken the decision to wind up the scheme. In such circumstances, the bases of valuation of assets should be re-examined to ensure that the methods used are consistent with the intended method and timescales for wind up. (See paragraphs 2.162 to 2.166 for additional guidance in this situation). In pension schemes, the going concern status of the scheme is dependent on two factors, the funding position of the scheme itself, and the ability of the sponsoring employer(s) to continue to support the scheme.

2.67 In some cases, the trustees may be aware that the sponsoring companies are experiencing financial difficulties such that they are unable to continue with the recommended funding levels. In such cases, FRS 18 Accounting Policies requires trustees to disclose relevant information in the financial statements. As noted above, the basis of preparation of the financial statements should not change unless a decision has been taken to wind up the scheme. If there is a significant likelihood that the scheme may be wound up, the trustees’ report should make reference to the actuarial report which should provide details of
the valuation of the scheme on a discontinuance basis. The main sources of information in this context other than to set out the type and value of a scheme’s assets at a particular point in time. In this regard, schemes that are open to new members and schemes in which pensionable service continues to accrue are treated in the same way as schemes that are closed to new members or schemes with no contributing members. Where a defined benefit scheme is significantly underfunded, as disclosed in its actuarial statements, it should continue to be treated as a going concern for accounting purposes, provided the sponsoring employer(s) are willing and able to continue funding the scheme to the recommended levels.

2.682.70 If the (solvent) employer is solvent but has decided not to support the scheme any longer, then the employer would normally have to make good immediately any deficit in the scheme from buy-out levels of funding. If a decision is made to wind up the scheme the trustees should review the going concern status of the scheme, and if a decision is taken to wind up the (now solvent) scheme, the bases of valuation of assets and liabilities should be examined to ensure that they are consistent with the intended method and timescale for wind up (see paragraphs 2.162 to 2.166 for additional guidance). Should the trustees decide to run the scheme on as a closed scheme, no change to the going concern basis of accounting would normally be required.

2.692.71 In some cases, information may already be in the public domain which leads the trustees of a defined benefit scheme to have reason to believe that the employer(s) may encounter financial difficulties in continuing to fund the scheme to the recommended levels. Such circumstances would normally be significant enough for the trustees to disclose details of these circumstances in the annual report but would not normally require a change to accounting for the scheme’s assets and liabilities on a going concern basis.

2.72 Once an employer of a defined benefit scheme experiences an insolvency event, and if various qualification criteria are properly fulfilled, the scheme will enter a Pension Protection Fund assessment period. One potential outcome of which is that the scheme will enter the Pension Protection Fund and so cease to exist as a separate legal entity. If the probable outcome of the assessment period is that the scheme will enter the Pension Protection Fund, then for financial statements prepared during the assessment period, the basis of valuation of assets and liabilities should be examined to ensure they are consistent with the intended timescale and method of entry into the Pension Protection Fund (see paragraphs 2.162 to 2.166 for additional guidance). If the probable outcome of the assessment process is that the scheme will be proven to be adequately funded to meet its PPF liabilities, the financial statements should continue to be prepared on a going concern basis. Trustees may decide to proceed to wind the scheme up through the buy-out process or, in these cases, the bases of valuation of assets and liabilities should be examined to ensure that they are consistent with the intended method and timescale for wind up (see paragraphs 2.168 to 2.172 for additional guidance). Once the scheme has exited the PPF assessment period, the trustees may also decide to run the scheme on as a closed scheme as referred to above, in which case no change to the going concern basis of
accounting would normally be required. If the outcome of the assessment process is that the scheme is rescued, for example by another solvent employer taking on responsibility for the future funding of the scheme, then the scheme can again be considered a going concern.

2.73 In defined contribution schemes, where a scheme is not a going concern the asset values may have to be restated however the liabilities of the scheme are limited by the value of assets available in individual members’ accounts. Recoverability of the payment of contributions by employees and employers is also relevant where the employer is in administration or is insolvent.

2.69 Where a special purpose transaction results in an asset or liability as defined by FRS 5 it should be recognised in the net asset statement if there is sufficient evidence of the existence of the item and the item can be measured at a monetary amount with sufficient reliability.

2.70 Under FRS 5: *Substance of transactions* an asset is the right or other access to future economic benefits controlled by the scheme as a result of a past transaction or event. A liability is a scheme’s obligation to transfer economic benefits as a result of past transactions or events. Where an asset is recognised by the Pension Protection Fund for levy purposes this does not necessarily mean that the asset should be included in the scheme’s accounts.

2.71 Disclosure of special purpose transactions should be sufficient to enable the user to understand the effect on the scheme.

**Valuation of assets**

**Investments generally**

2.74 Investments should be included at their market fair value (i.e. market value) at the date of the net assets statement, where such a value is available. Changes in fair value should be charged credited/debited to the fund account. In accordance with The Occupational Pension Schemes (Requirement to obtain Audited Accounts and statement from the Auditor) Regulation 1996 (SI 1996/1975), investments should be valued at market value or the trustee’s or manager’s estimate thereof where market value is not readily ascertainable and this should be the fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between unrelated willing knowledgeable parties, in an arms length transaction. The best evidence of fair market value is for quoted investments are published quoted prices in an active market. An investment is regarded as quoted in an active market if quoted prices are readily and regularly available or calculated and these prices represent actual and regularly occurring market transactions on an arm’s length basis. Where there is an active market the bid price is usually the appropriate quoted market price. The bid price is the price that a third party would pay the scheme in an arm’s length transaction for the investment. Where current bid prices are unavailable, the price of the most recent transaction provides evidence of the current fair market value provided there has not been significant change in economic circumstances between the transaction date and the reporting date. If the market for an investment is not active, an fair-estimated market value can be
established using valuation techniques. The objective of a valuation technique is to establish what the price would have been at the year end date in an arm’s length transaction, in normal circumstances. The fair estimated market value is not the amount the scheme would receive or pay in a forced transaction or distressed sale. When a scheme is entering the Pension Protection Fund or being wound up the valuation should be consistent with the method and timescales for wind up or entering the Pension Protection Fund.

2.73 Investments with prices quoted in foreign currency (and any other assets and liabilities denominated in foreign currencies) should be translated at closing spot rates of exchange from a recognised information source. Gains or losses arising on translation should be included under ‘change in market value of investments’ in the fund account.

Where market value cannot be readily ascertained, the trustees’ estimate of market value should be used; this fact should be disclosed and the reason for using an estimate explained.

2.762.75 The values of the principal categories of investment should be arrived at by applying the valuation bases set out below in paragraphs 2.77 to 2.134. The bases adopted should be disclosed in the notes to the financial statements.

2.772.76 Any significant restrictions affecting the ability of the scheme to realise its investments at the accounting date at all, or at the value at which they are included in the financial statements, should be disclosed in a note to the financial statements. This will include, for example, legal or contractual restrictions on the surrender of units in pooled investment vehicles or material penalties which would have been suffered if units in pooled investment vehicles or holdings of with-profits policies had been surrendered at the accounting date. It will not normally include the inherent difficulties in disposing of a large investment. However, where the scheme has made a commitment to sell, or has a firm intention to sell, a holding that is so large that it is not expected to realise the current mid-market price, an adjustment to the value should be considered.

**Securities**

2.782.77 **Quoted securities** should be included at closing prices; these prices may be the last trade prices or mid-market prices depending on the convention of the stock exchange or other market on which they are quoted. Care should be taken not to double count (or omit) accrued income both in the valuation price and in investment income in the fund account. Particular care should be taken with fixed interest stocks, where market values may be quoted “clean” (that is, excluding the value of interest accruing from the previous interest payment date to the valuation date) or “dirty” (that is, including the value of such interest). The “clean” basis should be used for accounting for fixed interest stocks, including for purchase and sale activity on these stocks, since it enables the capital and income elements of total investment returns to be accounted for distinctly.

2.792.78 **Unquoted securities** should be included at a fair value estimated by the trustees, based on the advice of an investment manager or other appropriate professional adviser. Where such investments are material, the trustees should adopt an appropriate basis of valuation, such as the valuation guidelines of the
British Venture Capital Association, and apply the basis consistently. The valuation basis should be disclosed in a note to the financial statements. Trustees may use the latest available financial statements of the unquoted entity as a valuation basis, even if these financial statements are at a date different to the scheme’s accounting date. In these circumstances the valuation should be adjusted for cash movements in the intervening period.

Pooled investment vehicles should be included at the average of the closing bid and offer prices if both bid and offer prices are published or, if single priced, at the closing single price.

**Property**

Properties should be included at open market value or other appropriate basis of valuation determined in accordance with the Royal Institution of Chartered Surveyors’ Appraisal and Valuation Manual and the Practice Statements contained therein (or, in the Republic of Ireland, the Society of Chartered Surveyors’ Appraisal and Valuation Manual). Examples of circumstances in which open market value may not be the appropriate basis of valuation (see Practice Statement 3) include:

- properties in the occupation of the pension scheme which should be valued on the basis of the existing use value;
- properties held fully equipped as operational entities which should be valued having regard to trading potential;
- properties under construction or in the course of development or redevelopment, reconstruction or refurbishment which, depending upon the circumstances, including the stage of construction reached, should be valued either on the basis of open market value of the land and buildings in their existing state or on the basis of open market value of the land plus (stated separately in the valuation) the cost of development incurred.

For detailed guidance on the valuation of assets owned by pension schemes, reference should be made in particular to Practice Statement 20.

The valuation of properties may involve additional expense in professional fees and the frequency of valuation is therefore a matter of judgement for the trustees, subject to any specific requirements in the scheme documentation. Where property comprises a significant proportion of total investments, it is recommended that property valuations should be carried out by independent valuers at the same frequency as actuarial valuations of the fund, but in any case not less frequently than triennially. In other cases, properties may be included on the basis either of an annual valuation by an internal or external valuer or, where the proportion of property assets within total investments justifies a less frequent valuation, on a rolling basis over one to three years by an internal or external valuer. More frequent valuations may be necessary in the case of properties in the course of development, redevelopment or refurbishment.

The notes to the financial statements should disclose the name, or employing firm, and qualification of the valuer and should disclose, where relevant, that the valuer is an employee of the scheme or participating
employer(s). The date(s) and basis (or bases) of valuation should also be disclosed.

Insurance Policies

2.84.2.83 Trustees purchase insurance policies and enter into insurance contracts in a variety of circumstances and with a variety of intentions. The accounting treatment of these insurance transactions is therefore largely a matter of judgement for the trustees, assisted by their advisers. Trustees will need to have regard to relevant legislation and regulations, to the circumstances of the pension scheme, to the intentions of the trustees when entering into the policies and contracts, and to the specific terms and conditions of the policies and contracts. Trustees will also need to have regard to applicable accounting standards, in particular, FRS5 (“Reporting the Substance of Transactions”) and FRS12 (“Provisions, Contingent Liabilities and Contingent Assets”). The following paragraphs give guidance on the recommended treatment of these transactions in the most common circumstances.

2.85.2.84 Fuller guidance on the treatment of insurance policies in pension scheme accounts is provided in PRAG’s publication Accounting for Insurance Policies in Pension Schemes (Second Edition, published April 2001). This publication explains in greater detail the different types of insurance product operated by pension schemes and examines the accounting issues that arise, as well as offering practical guidance for the trustees and others involved in the management of insured pension schemes.

2.86.2.85 In certain circumstances, for example when a scheme is winding up, trustees may purchase insurance policies in the name of individual beneficiaries, or may assign existing policies in the trustees’ name into the names of individual beneficiaries. The trustees’ intention is generally to secure the benefits payable to those beneficiaries and to secure a legal discharge for the trustees of the corresponding liabilities. The policies in these circumstances are not, or cease to be, assets of the trustees and cannot be included in the scheme’s net assets statement. The purchase cost of such policies (or the write-off cost of such policies previously valued in the scheme’s net assets statement) should be accounted for as the “purchase of annuities” in the Fund Account. The costs should be disclosed under the “Benefits Payable” caption for immediate annuities and under the “Payments to and on behalf of leavers” caption for deferred annuities. Members whose benefits have been secured in this way should be treated in the scheme’s membership statistics as having exited the scheme.

2.87.2.86 In ongoing pension schemes, trustees may decide as matter of investment policy or of administrative efficiency to purchase annuity policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, or in respect of, particular members. These annuity policies are usually in the name of the trustees, and remain assets of the scheme. This is because the trustees are not legally discharged of the corresponding liabilities, even though the economic substance of the transaction may be that the trustees have secured an effective discharge of these liabilities to an insurance company. In the United Kingdom, regulations currently state that such policies “must be included in the [net assets] statement and there must
be a note of the existence of such policies but that entry need not include their market value or an estimate”. In the Republic of Ireland, regulations currently permit their exclusion from the net assets statements altogether.

2.882.87 Trustee therefore need to develop an accounting policy for the treatment of policies where an effective discharge of the trustees’ liabilities has been secured. In deciding whether to value the policies, trustees will need to take account of the scheme’s particular circumstances, their intentions in purchasing these policies and the terms and conditions of the policies and contracts involved. The status of the counterparty insurance company will also generally be relevant, including the risk of default by the insurer. Trustees will need to review the accounting policy regularly, taking account of developments in their own scheme, as well as changes to the regulatory status and solvency of the counterparty insurance company, in order to decide whether an effective discharge of their liabilities continues to be in place.

2.892.88 If trustees are satisfied that an effective discharge of their liabilities is, and continues to be in place, then the recommended treatment is that the annuity policies be carried at nil value. This recommendation is intended to give effect to the requirement of FRS12 that a provision should only be recognised when a present obligation actually exists at the accounting date. Since the economic effect of the insurance policies is to transfer the pension liabilities to the insurance company, the scheme need not value the assets it has purchased to discharge those liabilities. The purchase cost of such policies should be accounted for as the “purchase of annuities” in the Fund Account. The costs should be disclosed under the “Benefits Payable” caption for immediate annuities and under the “Payments to and on behalf of leavers” caption for deferred annuities. (See paragraph 2.91 below for the recommended treatment of policies that do not, or cease to, provide an effective discharge).

2.902.89 Members whose benefits have been secured by the purchase of such annuity policies remain members of the scheme and should be included in the scheme’s membership statistics (regardless of the accounting treatment of the annuity policies). It is recommended that they be disclosed as “annuitants” (either deferred or pensioner) so as to distinguish them from deferred members and pensioners whose benefits have not been re-insured in this way. It is recognised that schemes with a long history may have practical difficulties in identifying all annuity policies that the scheme has ever purchased in the past. Trustees should disclose any significant limitations on the accuracy and completeness of the disclosures of annuity policies and annuitants, arising from inadequate record keeping in the past or from any other cause. This disclosure should be included in the financial statements (in the note on existence of annuity policies) and in the trustees’ report (in the membership statistics section).

2.912.90 Trustees may also take over responsibility for such annuity policies following events such as scheme amalgamations. The accounting treatment for policies taken over, and the disclosure of annuitants brought into the scheme, should follow the same principles set out in the above paragraphs.

2.922.91 Trustees may invest in insurance policies that do not qualify for the exemption under current regulations from the requirement to be valued at
market value or an estimate (see paragraph 2.86 above), and which therefore need to be valued. As noted in paragraph 2.87 above, trustees may also decide that it is appropriate to value insurance policies that would otherwise qualify for this exemption because of the particular circumstances of their scheme. The main methods of valuation available in practice are outlined in paragraphs 2.94 to 2.102 below, with comments as to their suitability.

Trustees may invest in assets that take the legal form of insurance policies but which are unit linked or unitised and whose value therefore fluctuates directly in relation to the asset class or classes that constitute the investments underlying the insurance policy. These policies should be valued on the same basis as pooled investment vehicles set out in paragraph 2.79 above and disclosed as set out in paragraph 2.16 above.

It should be noted that regulations in the United Kingdom provide an exemption in defined circumstances for money purchase schemes holding earmarked insurance policies from the requirement to prepare financial statements (in the Republic of Ireland, all money purchase schemes are exempt and allowed to prepare alternative annual reports - see Appendix 4).

Valuation methods for insurance policies

The most commonly used methods of valuation are discussed below. The recommended approach is for trustees to select a basis of valuation that is as far as practical consistent with the fair value approach adopted for other types of pension scheme assets and to use the basis adopted consistently from year to year. In order to comply with FRS 18 Accounting Policies, where there is a change in the basis on which fair value is estimated, there should be disclosure to describe the change and, where practical, the effect of the financial statements in the current year. The valuation of insurance policies may involve additional expense in professional fees. It is appropriate for the trustees to take this into account when deciding on the method and frequency of valuation, subject to any specific requirements in the scheme documentation and taking into account the materiality of the policy values in relation to the scheme’s total assets.

The main methods of valuation available in practice are discussed below. The appropriate method will depend upon the circumstances and is a matter of judgement.

The actuarial value is the value that an actuary places on the policy on a basis that is consistent with the valuation of the liabilities. It is typically based on a discounted value of the estimated proceeds, allowing for anticipated future bonuses, mortality and other contingencies. The actuarial value and the premium (or modified premium) value are based on different assumptions and will not necessarily give comparable results. In practice, the valuation may also be up to three years old, but the value can be adjusted in the intervening years for the net cash invested in the policy together with any bonuses declared and/or other adjustment for interest recommended by the actuary.

The premium value method generally applies to contracts where there are
underlying guarantees; for example the method may be applied to non-profit, with-profit, deposit administration, or unitised with-profit contracts. The premium value is the amount that an insurer would charge at the date of valuation to provide the benefits bought to date and can therefore be regarded as a measure of replacement cost. In certain circumstances, it can approximate to the surrender value if the investment policy reflected the premium basis. However, it will include an allowance for expenses (including commission) and it may be appropriate to remove this so that the value is not overstated. On the other hand, there may be no allowance for terminal bonus, which can be significant, particularly for older policies. The premium value excluding the allowance for expenses is known as the modified premium value, and it is lower than the premium value.

Whether or not the premium value is adjusted to remove the allowance for expenses, it is important to use the insurance company’s current premium rates to ensure consistency with the expected level of future bonus. Both these premium value methods are somewhat artificial in their approach since in practice it is unlikely that the trustees would seek to replace the policies in this way. Nevertheless, the use of either method would generally result in relatively consistent values from year to year, albeit less so where the insurance company has rates or bonuses closely linked to current interest rates and there have been wide swings in these interest rates.

Surrender value is the value at which the insurer is effectively prepared to buy back the contract from the policyholder and is consequently a realisable value rather than a ‘mid-market price’. The surrender value quoted by the insurance company will depend on many factors, such as market conditions and the willingness of the insurance company to buy back the policy and its need to realise assets to pay the surrender value. The basis of arriving at the surrender value quoted may vary with changes in internal practice and the practices of competitors.

In many cases, insurance companies routinely provide surrender values for policies on the grounds that the scheme actuary requires the surrender value in order to carry out the MFR valuation. This value may be the most appropriate value for schemes in winding up (see 2.162), and where, for example, the contract is fully paid up and where the insurance company does not accept new business to that type of contract. In other circumstances, trustees will need to give careful consideration to whether this value is appropriate for use in their financial statements.

The actuarial value has the same drawback as the premium value in that it will probably not anticipate any future terminal bonus.

In summary, the trustees’ objective when valuing insurance policies is to select an appropriate method that produces a reasonable estimate of fair value, without incurring undue expense, on a consistent basis from year to year.

Income from Annuity policies

It is common practice that the income arising from annuity policies held
by the trustees of a scheme is paid initially to the trustees in order to fund the pension paid by the scheme to the pensioner(s). In these circumstances, the income arising from the annuity policies should be included in investment income and the pensions paid to the pensioners included in pension payments. There should be no netting off of these amounts. The scheme acts merely as a collecting agency between the insurance company with which the benefits are secured and the beneficiary and it is therefore appropriate that such income should be netted against the resulting pension payments. Where material, the value of annuity income netted off against pension payments should be disclosed.

Disclosure of insurance policies

Where insurance policies form a material part of the scheme’s net assets, their main characteristics should be disclosed. These may include:

- type(s) of insurance contract;
- name(s) of insurance company(ies) involved;
- if with profits, the method of bonus distribution and details of the latest bonus declaration and interim rates of bonus;
- details of discontinuance terms available and any commitment to pay future premiums;
- whether the policy document has been issued;
- the value of the policies and proportion of total scheme assets invested in insurance contracts with each company;
- the method of valuation and date(s) of valuation;
- whether valued by the insurance company and, if not, name of valuer(s), qualification and whether the valuer is an employee of the scheme or of the participating employer;
- reasons for any change in the valuation method;
- amount of premiums paid in the year, if any.

Futures and options

Financial futures and options provide pension schemes with the opportunity to reallocate risk within a portfolio, to limit the risk of a decrease in the value of the assets and potentially to enhance investment returns.

Futures and options, in accordance with the general rule set out in paragraph 2.58, should be included in the net assets statement at market value (known as “marking to market”). This market value is defined as the total exposure to the stock market or asset class that the futures or options contracts effect. This is calculated by taking the current quoted market price of the contract (derived from the index or security on which the futures contract is based) multiplied by the lot size (see paragraph 2.94 below) multiplied by the number of contracts held. The resulting value then increases (for long positions) or decreases (for short positions) the value of investment assets.

For disclosure purposes it is the economic exposure to the relevant stock market or asset class that is significant rather than the number of individual contracts and terms. The value resulting from the calculation described in paragraph 2.90 should therefore be included in the total values for the relevant investment class.
in the net assets statement. The notes to the financial statements should analyse
the total balance for each investment class between the value of the futures or
options contracts and the value of the physical stocks (see illustration below).

2.92 The market value resulting from the calculation described in paragraph 2.90
represents the total value receivable or payable, were the contract to be closed
out on the accounting date. As will be seen from paragraphs 2.94 et seq. below,
this will be significantly different from the value of the margin monies required
to maintain the contract up to the accounting date. An accounting entry is
required at the accounting date, which is in fact the other side of the “market
value” entry described in paragraph 2.90 above, to adjust the value of cash
balances. For long positions, this entry will result in the cash committed, to the
extent that it has not been advanced, being disclosed as a deduction from cash
balances, as ‘cash backing open futures positions’. For short positions, it will
result in the cash receivable, to the extent that it has not yet been received,
being disclosed as an increase in cash balances, also as ‘cash backing open
futures positions’.

2.93 The day to day accounting entries in relation to futures and options need to deal
separately with two separate aspects of the transaction: the changes in the
carrying value of the contract (including the initial recognition of the contract
and its termination), and any initial and variation margin transactions involved.

2.94 The initial margin is the amount required to be paid by the scheme to the broker
on the opening of a new futures contract. It is intended to represent the
maximum estimated gain or loss on the contract, based on current market
volatility. Initial margin will be an amount per ‘lot’ (‘lots’ being the units in
which futures are bought and sold) and will be set by the market as a percentage
of the contract value.

2.95 At the end of each day, each outstanding contract will be valued and, to the
extent that value differs from the previous day’s value, the scheme will be
required to pay additional margin amounts to the broker, or the broker will be
required to return some of the margin monies that it holds. These movements
are referred to as variation margin.

2.96 Transactions involving margin monies, whether payments or receipts, should be
accounted for as movements within the scheme’s cash and bank balances, with
the year end amounts shown as a deduction from cash balances and described as
‘cash backing open futures positions’.

2.97 The following worked example below illustrates the accounting method set out
above and demonstrates the individual accounting entries:

Worked example—a scheme enters into a short position (i.e. to sell) on the S&P
500 Index (the US futures index)

The example will assume 10 lots sold at a price of $1,000 per lot. The size of each lot
is $250 so the economic exposure is US$ (2,500,000). Assume an exchange rate of £1
= US$1.45 throughout.
Initial margin — the current initial margin per lot for S&P500 contracts is US$17,250. Thus on the sale of 10 lots US$172,500 will be paid to the clearing broker. This payment will flow through to the general ledger, where it will be translated and the resultant £118,966 will be credited to cash and debited to the balance with the clearing broker.

Variation margin — on day two, the price per lot moves to $1,100. The new economic exposure will hence be US$ (2,750,000) and thus, the contracts will have lost US$250,000; on day three, this amount must be paid to the clearing broker. Again, this will flow through to the general ledger, be translated and £172,414 will be credited to cash and debited to the broker balance.

Contract closure — on day three the contract is closed by buying 10 contracts. Assuming that the price is still $1,100, no further movements of variation margin are required. On day four the clearing broker will return the US$172,500 of initial margin that was paid across. This will flow through to the general ledger and be translated. £118,966 will be debited to cash and credited to the clearing broker balance account. This will leave a balance of £172,414 which will be credited to the clearing broker balance account and debited to gain/loss on S&P500 futures (which forms part of the change in market value of investments).

In the financial accounts — as can be seen from above, the ongoing financial records represent only margin movements. However, within the annual financial accounts an adjusting entry must be made to reflect the economic exposure. In the above example, if the annual accounts are struck after the initial transaction then the translated equivalent of US$2,500,000 will be deducted from the exposure to US equities and added to the cash and deposits area, thus reflecting the actual exposure to the positions held.

**Effect on Net Assets Statement—Illustration**

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1 £’000s</th>
<th>20X0 £’000s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed interest securities</td>
<td>5,067</td>
<td>4,031</td>
</tr>
<tr>
<td>Equities 1</td>
<td>10,823</td>
<td>16,599</td>
</tr>
<tr>
<td>Deposits and other investment balances 2</td>
<td>12,375</td>
<td>3,947</td>
</tr>
<tr>
<td><strong>Total Investments</strong></td>
<td>28,265</td>
<td>24,577</td>
</tr>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK listed equities</td>
<td>7,547</td>
<td>14,101</td>
</tr>
<tr>
<td>US listed equities</td>
<td>5,000</td>
<td>-</td>
</tr>
<tr>
<td>US stock index futures contracts</td>
<td>(1,724)</td>
<td>2,498</td>
</tr>
<tr>
<td><strong>Total Equities</strong></td>
<td>10,823</td>
<td>16,599</td>
</tr>
<tr>
<td><strong>Deposits and other investment balances</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sterling interest earning deposits</td>
<td>10,524</td>
<td>7,527</td>
</tr>
<tr>
<td>Amounts due from brokers</td>
<td>127</td>
<td>185</td>
</tr>
<tr>
<td>Cash backing open stock index futures</td>
<td>1,724</td>
<td>(3,765)</td>
</tr>
</tbody>
</table>
2.98 Options should be reported in the net assets statement at their market value at the end of the scheme year. This is essentially the cost of premiums that would be required to be paid, or the proceeds of premiums to be received, if all options were to be closed out at the accounting date. The values should be included in the totals for the respective investment classes. To the extent that the current market value has changed from the original market value, being the premium originally paid or received, the pension scheme should record a revaluation gain or loss.

2.99 Where options are used to create synthetic futures positions, for example, by writing a put option and buying a corresponding call, then these should be accounted for in a similar way to other futures contracts.

2.100 Initial and variation margins paid to or received from brokers and counterparties should be recorded as a separate item grouped within cash deposits in the net assets statement. Pension schemes may attribute the income earned on cash backing for futures contracts to those asset classes which contain the futures position. If this policy is adopted, the amounts of deposit interest attributed to other investment classes should be disclosed.

2.101 The accounting policies statement should include a description of the basis of valuation for futures and options contracts. If the basis is not applied to futures contracts held for duration switching purposes, this fact should be disclosed. If an attribution of deposit interest is made to investment classes containing futures contracts, the policy should be disclosed.

2.102 A consistent approach should be adopted from year to year. In the first year that an associated economic exposure basis is adopted for futures contracts, there should be a corresponding adjustment of the prior period amounts.

Derivatives

2.105 Derivatives are financial instruments that derive their value from the price or rate of some underlying item. Underlying items include equities, bonds, commodities, interest rates, exchange rates, and stock market indices. Derivatives include many instruments including futures, options, foreign currency contracts and swaps, interest rate, currency and inflation. The most commonly used derivatives in pension schemes are:

- **Futures** contracts are contracts to sell or buy a standard quantity of a specific asset at a pre-determined future date, at a price agreed by and traded through an exchange. There are many types of futures contracts including equity, bond and interest rate futures.

- **Forward foreign exchange contracts** are contracts whereby two parties agree to exchange currencies on a specified future date at an agreed rate of exchange. Forward foreign exchange contracts are over-the-counter so the size of the deal, the settlement date and price are all negotiable between the two counterparties.
• **Options** are contracts that give the purchaser, the right, but not the obligation, to buy (call option) or sell (put option), from/to the seller of the option, a specified quantity of a particular product at a specified price. Conversely options which are written gives the seller, the obligation to buy or sell, a specified quantity of a particular product at a specified price, should the buyer decide to exercise that option. Options can be exchange traded or over the counter. The cost of the option is known as the premium. The price of the underlying security at which the option can be exercised is known as the strike price.

• **Swaps** are over-the-counter contracts where the parties to the contract agree to exchange cash flows, the amount of which is determined by reference to an underlying asset, index, instrument or notional amount. An interest rate swap, for example, is an exchange of interest rates on a specified amount of notional capital. One party pays to the other a fixed rate of interest on the notional capital amount and receives in return the floating rate of interest on the same notional amount (fixed ‘leg’ for floating ‘leg’).

2.106 Derivatives can be used as part of the trustees’ investment strategy for many different purposes including managing economic exposure to markets; to enhance investment returns; and to manage pension liability risk. For example:

• futures and options in equities and bonds can provide trustees’ with the opportunity to reallocate risk and exposures within a portfolio;

• forward foreign currency contracts may be used to hedge against foreign currency movements or, to create an absolute return; and

• inflation swaps may be used as part of an investment strategy to match pension liabilities.

**Purchase cost**

2.107 If a derivative has a purchase price, for example the premium paid when buying the option, this is the cost of the investment. If the derivative does not have an initial purchase price but does require a deposit to be made with a broker for example an initial margin deposit under a futures contract, the cost of the investment is nil. The initial margin deposit is a balance due from the broker and is recognised as an asset.

**Accounting**

2.108 The day to day accounting entries in relation to derivatives need to deal with two separate aspects of the transaction: the changes in the fair value of the contract and the amounts due to or from the brokers or counterparties to the contract.

2.109 The fair value of an open derivative contract is shown in the net asset statement and the change in market value is shown in the fund account.
2.110 Changes in the fair value of open derivative contracts often have a cash movement associated with them. For example, futures contracts have variation margin receipts and payments, whilst swap and option contracts have collateral receipts and payments. These cash movements are typically intended to reduce credit risk between the contracting parties and do not represent realised gains and losses. Accordingly margin and collateral receipts and payments are accounted for within cash and amounts cash and due to and from brokers.

2.111 Changes in fair value of the derivative contract are reported as unrealised gains and losses until the contract is closed out, at which time gains and losses previously reported as unrealised become realised and are normally mainly represented by the accumulated variation margin/collateral holding. On close out of a derivative contract the market value of the contract at that date is reduced to nil. Any outstanding amount is then settled with the broker.

2.112 Some types of derivative contracts have cashflows that should be reported when they occur. For example, interest rate swaps typically have regular cash receipts or payments representing the difference between rates of interest that have swapped. Where the economic purpose of the swap is related to the assets or liabilities of the scheme the net cashflows should be reported within change in market value. Where the economic purpose of the swap is related to income, the net cashflow should be reported as investment income.

2.113 The nature of the derivative contract needs to be understood so that the most appropriate accounting for change in market value, cash flows associated with change in market values and other cashflows arising under the contract are accounted for appropriately.

2.114 For example, on futures contracts collateral is paid to the broker in the form of the initial margin. This is the amount required to be paid by the scheme to the broker on the opening of a new futures contract. Initial margin will be an amount per ‘lot’ (‘lots’ being the units in which futures are bought and sold) and will be set by the market as a percentage of the contract value. Interest is paid and received to/by the pension scheme on this margin deposit amount. At the end of each day and on close out of a contract, each outstanding contract will be valued and, to the extent that value differs from the previous day’s value, the scheme will be required to pay additional margin amounts to the broker, or the broker will be required to return some of the margin monies that it holds. These movements are referred to as variation margin. Interest on the margin monies on futures contracts may be payable or receivable by the scheme to or from the broker.

2.115 Amounts payable or receivable from brokers and counterparties should be recorded as separate items, within cash deposits and other balances in the net assets statement. Amounts due to and from brokers should not be offset unless there is a legal right of offset, as explained in paragraph 2.35.

**Valuation**

2.116 Derivative contracts should be included in the net asset statement at fair value. For derivative contracts that are assets fair value will be based on bid prices. For derivative contracts that are liabilities fair value will be based on offer prices.
• Futures are exchange traded and fair value is determined using exchange prices at the reporting date.

• Options can be exchange traded or over the counter contracts. For exchange traded options fair value is determined using the exchange price for closing out the option at the reporting date. For over the counter contracts options the fair value is determined using pricing models such as Black-Scholes.

• Swaps are over the counter contracts and fair value is the current value of future expected net cashflows arising from the swap, taking into account the time value of money. Fair value is normally calculated using discounted cashflow models and market data at the reporting date.

• Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Disclosure

2.117 Derivative contracts should be disclosed separately under investments. Derivative investments with positive values should be included in the net asset statement as assets and those with negative values should be included in the net asset statement as liabilities. These balances should not be offset unless there is a legal right of offset, as explained in paragraph 2.35.

2.118 The accounting policy statement should include a description of the basis of valuation for derivatives. If interest received or paid relating to margin deposits is included in the attribution of returns of an asset class then this must be separately disclosed. The basis of accruing for interest on interest rate swaps should be explained.

2.119 The key details of the contracts in place at the end of the financial year should be disclosed, this could include the types of contracts, an indication of the period covered by the contracts, the counterparties to the contracts, the nominal values or gross exposures of the contracts, the values of the contracts at the year end and whether they are assets or liabilities.

2.120 The amount and nature of any collateral held or that has been pledged at the year end should be disclosed (see paragraph 2.179).

2.121 The notes to the accounts should contain sufficient information to aid the understanding of derivative products. An explanation should be given of the objectives and policies for holding derivatives and the strategies for achieving those objectives that have been followed during the period.

Associated economic exposure

2.122 Derivative contracts should no longer be presented on the associated economic exposure basis in the net asset statement. However pension schemes are permitted to continue to disclose this information on the impact of derivatives on an associated economic exposure basis in the notes to the accounts, should it
be considered to be useful to the readers of the accounts.

**Further guidance** - Further guidance on accounting for derivatives is available from PRAG.

### Sundry investments and fixed assets

2.142 Sundry investments, such as works of art, are rarely significant enough to warrant valuation solely for accounting purposes. Where such investments are material, regular independent professional valuations should be carried out.

2.143 Fixed assets, where these are material, should be accounted for in accordance with FRS 15 *Tangible Fixed Assets*.

### Money purchase assets

2.144 The approach to accounting for, and disclosure of, money purchase assets should have regard to the terms of the scheme documentation under which they were effected.

2.145 In many defined contribution schemes, contributions are invested separately for the benefit of named individuals for whom they were paid rather than into a common fund of assets. The individual member’s benefits are defined by the contributions invested for the member and, while the corresponding money purchase assets remain under the legal ownership of the trustees, they are segregated and cannot be used to pay benefits for anyone other than the member (or other beneficiaries in respect of the member). These assets are therefore designated as being held solely for the benefit of the named members. The designation of these assets may be recorded by the administrator or by the investment manager; in either case, it is misleading to categorise these assets as forming part of a pool of assets available to members generally. Where money purchase investments are held on pooled basis by the investment manager (i.e. the manager cannot identify investments by member) and the administrator keeps records of the allocation of investments by member the investment are “allocated” to members.

2.146 The recommended method of presentation of money purchase assets is detailed below:

- money purchase assets should be included in the net assets statement, which should clearly distinguish between assets designated to members and assets not designated to members;
- money purchase assets should be valued in the net assets statement using the appropriate valuation treatment for the relevant asset type, as set out in paragraphs 2.74 to 2.124 above;
- income from money purchase assets should be aggregated and included as investment income in the fund account;
changes in the value of money purchase assets should similarly be aggregated and included under returns on investments in the fund account;

- money purchase assets used to settle benefits due to members should be treated as sales of investments and the benefits paid should be shown in the fund account under the relevant benefit captions;

- a note to the financial statements should explain that money purchase assets are allocated to provide benefits to the individuals on whose behalf the contributions were paid. The notes to the financial statements should disclose investments designated to members’ investments allocated to members and investments not designated or allocated to members i.e. held for the trustees. These categories may be grouped together and described as investments allocated to members and investments not allocated to members, and that assets identified as designated to members in the net assets statement accordingly do not form a common pool of assets available for members generally and that members receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

2.147 The illustrated format for a defined contribution scheme set out in Appendix 2 illustrates this recommended form of presentation.

Additional Voluntary Contribution (AVC) arrangements

2.148 Trustees of occupational pension schemes in the United Kingdom are required to provide an AVC arrangement and the paragraphs that follow apply only to schemes affected by the United Kingdom requirements (the treatment of AVC arrangements by schemes in the Republic of Ireland is dealt with in Appendix 4). The law required that scheme rules must secure that any voluntary contributions paid by a member are used to provide additional benefits for or in respect of the member, and the value of the additional benefits must be reasonable in relation to the amount of the voluntary contributions and the value of other benefits under the scheme. Under the Finance Act 2004 from 6 April 2006 schemes are no longer required to provide such arrangements, however many schemes still have such arrangements in place.

2.149 In practice, the nature of AVC arrangements can vary. For example, AVCs may be pooled with other contributions, invested as part of the scheme’s normal investment operations and used to acquire additional benefits within the provisions of the principal scheme. Alternatively (and most commonly) AVCs are invested separately from the scheme’s main assets (e.g. with insurance companies and building societies) and used to acquire additional money purchase benefits (i.e. benefits are dependent upon the value of each member’s AVC fund at retirement).

2.150 Current UK regulations allow for special treatment where AVCs are invested only for the purposes of securing additional money purchase benefits, and where the assets are specifically allocated to the provision of additional benefits for, or in respect of, particular members. In these circumstances, the net assets statement must include a note of the existence of these assets, and
specifying that these two criteria apply, but this entry need not include the market value or an estimate of value of those assets. Recommended practice, however, is that the value of AVC assets should be included in the net assets statement at market value, or an estimate thereof, using the appropriate valuation treatment for the relevant asset type, as set out in paragraphs 2.74 to 2.124 above. This treatment is recommended so that trustees can demonstrate their stewardship of AVC assets as well as other scheme assets, and so that trustees can show (for AVC contributors in aggregate) that the value of AVC assets is reasonable in relation to the amount of the voluntary contributions. Only where AVCs are invested in insurance policies that secure for the trustees an effective discharge of the liabilities to provide benefits in respect of those additional contributions (equivalent to the process described in paragraph 2.87 above) is a different treatment recommended. If trustees are satisfied that an effective discharge of their liabilities is, and continues to be, in place, then the recommended treatment is that they be carried at nil value. The purchase cost of such policies should be accounted for as the “purchase of AVC insurance policies” in the Fund Account and disclosed under the “Other Payments” caption.

2.151 The approach to accounting for, and disclosure of, AVCs should have regard to the terms of the scheme documentation under which they were effected. Where the scheme documentation requires that the AVCs must be used to provide money purchase benefits and that the AVC assets must be separately identifiable and isolated from other scheme assets and liabilities, AVCs should be accounted for in a manner consistent with the treatment of segregated money purchase assets as described above. Thus, to be consistent with the approach described in paragraphs 2.125 to 2.128:

- contributions received by the trustees in respect of AVC arrangements should be included under Contributions and Benefits in the fund account and separately disclosed under ‘contributions receivable’;
- AVCs paid onwards by the trustees to third party AVC providers should be treated as purchases of investments and should be included (albeit separately analysed) as investments in the net assets statement and in the disclosure of purchases of investments;
- Changes in the value of AVCs may arise in a variety of ways, for example from interest arising on deposits, from bonuses being declared on with profits policies or from the change in the value of investments underlying unit linked funds. These items should be included as “investment income” (for interest arising on deposits) or as “change in market value” (for the other transactions) in the Fund Account. The value of interest accumulating on AVC investments such as building society deposits will also need to be included as the purchase of further AVC investments;
- AVC funds to be dealt with in settling the benefits due to members, should be treated as sales of investments and included as a separate item in the disclosure of sales of investments;
- monies payable by the trustees in respect of benefits arising under AVC arrangements should be included as benefits payable in the fund account and shown under the relevant benefit caption;
AVC assets should be included in the net assets statement and valued using
the appropriate valuation treatment for the relevant asset type, as set out in
paragraphs 2.74 to 2.124 above;

the notes to the pension scheme financial statements should include an
explanation of the type of AVC arrangement and how the AVCs are invested
(i.e. as an integral part of the scheme's assets or with third parties and, in the
latter case, the institution and type of fund).

In practice, certain AVC providers are unable to supply details of
movements on the fund to a specified net assets statement date, typically
because calculations of interest and other income allocations are made to a
different timetable. If the provider does not supply information as at the
scheme year-end, the financial statements should include the information at a
date as near as practicable to the scheme year-end, adjusted for cash
movements in the intervening period. Similarly, where practical difficulties
arise in obtaining the necessary up-to-date information within the limited period
allowed for preparation of financial statements, the financial statements should
use the latest available information, adjusted for subsequent cash movements,
and explain the treatment adopted in the notes to the financial statements.

The recommended format for the disclosure of AVCs within defined
benefit schemes is set out in Appendix 1. An alternative acceptable format is to
adapt the columnar approach recommended for schemes with multiple benefit
structures set out in paragraphs 2.27 to 2.32, replacing the “Defined
Contribution Section” column with “AVC Section”.

Common investment funds

Some groups of companies retain separate pension schemes for different
group companies or sub-groups but maintain a common investment fund (CIF)
for the assets of all the group schemes, each scheme’s interest being
represented by units. The question arises whether it is sufficient for the
individual scheme’s annual report to give details of the units held in the CIF but
no information on the underlying assets. There are two reasons why
information on the underlying assets should be provided:

as for pooled investment vehicles (see paragraph 2.21) it is helpful to
disclose to the reader of the financial statements the underlying economic
exposure of the scheme to the main asset classes; and

the CIF is likely to be a related party because it will have trustees who are
also trustees of the participating schemes.

For these reasons, it is recommended that, where schemes participate in
a CIF and each scheme's interest is represented by units or shares in that fund,
the individual scheme's financial statements should state the percentage of units
in issue owned by the scheme at the beginning and the end of the scheme year
and either:

include the financial statements of the CIF itself within the annual report; or

provide equivalent details of the CIF’s portfolio and income and state the
scheme’s proportionate share thereof.
In either event, sufficient details should be provided to give the information required by the regulations and recommended by this Statement for individual schemes, particularly that relating to employer-related investment.

2.1562.137 The scheme's investment report should include appropriate details of CIF investments and investment performance.

Taxation

2.152.138 Where legislation provides that certain of the scheme’s income and chargeable gains are free of taxation (for example where in the United Kingdom the scheme has been approved by the Inland Revenue as an exempt approved scheme or has not yet formally been approved but is expected to be approved), then this fact should be disclosed (in the trustees’ report or the compliance statement). In accordance with FRS 16 Current Tax, investment income should be recognised at an amount that includes withholding taxes but which excludes any other taxes, such as attributable tax credits, not payable wholly on behalf of the recipient. Any withholding tax that is irrecoverable should be shown separately as a tax charge, together with any tax on any trading activities. Irrecoverable VAT should increase the costs to which it applies.

Related party transactions

The need for disclosure

2.1582.139 Scheme trustees have a general duty to act in good faith in relation to their dealings with the scheme and its assets. However, from time to time, trustees may lawfully undertake transactions with related parties. The objective of Financial Reporting Standard (FRS) 8 is to "ensure that financial statements contain the disclosures necessary to draw attention to the possibility that the reported financial position and results may have been affected by the existence of related parties and by material transactions with them." The following guidance is given to assist preparers of scheme financial statements in applying FRS 8, and words in italics in this section carry the same meaning as in the FRS. It is emphasised that the relations between parties involved in pension schemes, and the transactions between these parties, will vary enormously from scheme to scheme, and that the following guidance cannot be exhaustive.

The related parties of pension schemes

2.1592.140 In broad terms, parties are related for the purposes of FRS 8 when one has control or influence over the other, or they are subject to common control or influence. Influence in this context is expressed in terms of a party either:

- being potentially inhibited from pursuing at all times its own separate interests by virtue of the influence over its financial and operating policies; or
- actually subordinating its own separate interests in relation to a particular
...transaction.

Refer to FRS 8 for fuller definitions of related parties.

2.1602.141 It follows, therefore, that in assessing who should be identified as a related party in an arrangement involving the pension scheme, trustees should consider all those parties whose interests conflict (or may possibly conflict) with the interests of the beneficiaries of the scheme and who might be seen as influencing, or being influenced in determining, the terms of the arrangement. The guidelines that follow illustrate the breadth of this general principle.

2.1612.142 The related parties of pension schemes fall into three broad categories:

- employer-related;
- trustee-related, or
- officers and managers.

It is recommended that related parties should be deemed also to include other pension schemes for the benefit of employees of companies and businesses related to the employers, or for the benefit of the employees of any entity that is itself a related party of the reporting pension scheme.

**Employer-related parties**

2.1622.143 The relationship between an employer and a pension scheme set up for its employees is by its very nature close; FRS 8 cites pension funds of a reporting entity as a specific example of a related party. Each participating employer should therefore be considered a related party. Directors of participating employers, and of any holding companies of those employers, should also be presumed to be related parties. However, other parties related to the employer may also be related parties of the pension scheme because of specific transactions with the scheme where, as a result of the employer’s influence, they have subordinated their own separate interests in entering the transaction. Employer-related parties may thus include companies and businesses controlled by, or under the same control as, the sponsoring employer.

**Trustee-related parties**

2.1632.144 Trustee-related parties include:

- trustees and their close families;
- key management (that is the directors and any senior officers) of a corporate trustee and their close families;
- entities controlled by, and associates and joint ventures of, the scheme itself;
- companies and businesses controlled by the trustees or their close families;
- companies and businesses controlled by the key management of a corporate trustee, or their close families.

In addition, it is recommended that other pension schemes that have a majority of trustees in common with the scheme should also be presumed to be related parties.
Officers and managers

2.164.145 Related parties under this heading include:

- *key management* (senior officers) of the scheme and their *close families*;
- companies and businesses controlled by the key management of the scheme, or their close families.

Entities engaged by the trustees to manage the pension scheme or its assets, including any scheme administrator or investment managers, should be presumed to be related parties. ‘Manage’ in this context means directing or controlling part of the resources of the scheme.

Related party transactions

2.165.146 A related party transaction is defined as the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a price is charged.

2.166.147 The following examples are given to illustrate transactions which, if material, would require disclosure in the financial statements of pension schemes under FRS 8:

- the purchase, sale, lease, rental or hire of assets by a pension scheme from or to a *related party* irrespective of how the price (if any) was determined;
- the provision by a pension scheme to a *related party* of assets as loans, or as collateral to loans, of any description, irrespective of any direct or indirect economic benefit to the pension scheme;
- the provision by a *related party* (e.g. the employer) of a guarantee to a third party in relation to a liability or obligation of the pension scheme;
- provisions or write-offs made by the scheme against amounts due from or to related parties;
- the provision of services to a pension scheme by a *related party* irrespective of whether a price is charged, including the provision of scheme administration services by the employer or by employees of the employer.

Disclosure of transactions and balances

2.167.148 Pension scheme financial statements should disclose material transactions with related parties, irrespective of whether a price is charged, as required by FRS 8. The disclosure should include:

- the names of the transacting related parties;
- a description of the relationship between the parties;
- a description of the transactions;
- the amounts involved;
- any other elements of the transactions necessary for an understanding of the financial statements;
- the amounts due to or from related parties at the scheme year-end and provisions for doubtful debts due from such parties at that date;
- amounts written off in the period in respect of debts due to and from related parties.
Transactions with related parties may be disclosed on an aggregated basis unless disclosure of an individual or connected transactions is necessary for an understanding of the impact of the transactions on the scheme's financial statements or is required by legislation.

The following are examples of transactions for which it would normally be sufficient to make disclosures on an aggregated basis:

- Payment of employer and employee contributions - employer contributions and employee contributions are normally disclosed in aggregate in the fund account (or notes thereto) and further information on a disaggregated basis (e.g. names and contributions of each employer) is normally unnecessary. Overdue contributions are discussed under the heading of 'employer-related investment' below;

- Payment of pension benefits or receipt of contributions by the scheme to, to from or in respect of a trustee or other related party, provided these transactions arise solely in the individual's capacity as a beneficiary of the pension scheme and are either non-discretionary or are made on terms normally granted to members. In such cases, the disclosure of the individual's pension benefit transactions is normally unnecessary; it would normally be sufficient to disclose the status of the trustee as a person paying contribution or in receipt of benefits if that is not already disclosed in the trustees' report;

- Payment of fees and expenses to trustees and scheme advisors and managers (such as administrators, auditors, actuaries and investment managers) provided these are in the normal course of business for these services and activities. These fees and expenses will be disclosed in the Fund Account in accordance with paragraphs 2.12 and 2.59 and further disclosure as related party transactions is normally unnecessary. However, payments for goods or services to trustees or scheme advisors outside of the normal course of business (such as the purchase of an asset from a trustee or adviser) would require disclosure as a related party transaction. Where a fee is received by a trustee for their services this fact should be noted.

Where administration costs, investment management expenses and other services such as secretarial and management support are borne directly by a participating employer and not recharged to the scheme, that fact should be disclosed as a related party transaction. In such cases, disclosure of the amounts involved is unnecessary as there is no 'cost' to the scheme. Otherwise, the employer’s contribution may be actuarially calculated to include an allowance for costs and expenses. These may be paid by the employer for VAT purposes in the first instance and then re-charged to the scheme exclusive of VAT, but this method of settlement of itself does not make these costs and expenses related party transactions with the employer.

**Employer-related investment**

Disclosure should be made of any employer-related investment at any time during the period as well as at the scheme year-end. The disclosure at the year end should include details of any contributions not paid during the year in accordance with the schedule of contributions or payment schedule, irrespective
of whether or not these fall to be treated as ‘employer-related investments’ within the meaning of the relevant regulations.

2.172.153 Contributions unpaid at the scheme year end but not at that date due to be remitted to the scheme under the terms of the schedule of contributions or payment schedule, and which are remitted after the scheme year end in accordance with those terms, do not constitute employer-related investment. Any contributions that remain outstanding after the due date set out in the schedule do constitute employer-related investment and should be disclosed as such. They are however exempt from the 5% limit for employer-related investment imposed by UK regulations. Disclosures of employer-related investment are required by UK regulations to be made in the financial statements and the trustees’ report.

2.172.154 Republic of Ireland regulations currently require, other than where the assets of a scheme are wholly invested in managed funds, that employer-related investment at any time during the scheme year be disclosed in the notes to the financial statements. Those regulations also provide that contributions due by the employer to the scheme are not treated as employer-related investment where they are due for 30 days or less. These provisions are likely to be amended once the contributions remittance provisions of the Pensions (Amendment) Act 2002 are introduced.

2.174.155 All unpaid contributions at the year-end should be disclosed as a debtor in the notes to the financial statements, separately analysed between employer and employee contributions. A statement should be made as to whether contributions unpaid at the year end have been paid subsequent to the year end within the timescales required by the payment schedule or schedule of contributions.

2.175.156 If there has been no employer-related investment at any time during the period, a statement should be made to that effect in the compliance statement.

2.176.157 Disclosure of instances of late payment of contributions, where a significant number have occurred during the scheme year, should be done on an aggregate basis, setting out:

- The total number of instances in the year;
- The maximum value due to the scheme at any time during the year;
- The reasons for the late payments.

Subsidiary undertakings and joint ventures

2.177.158 Pension schemes that operate through subsidiaries should prepare consolidated financial statements in accordance with FRS 2: Accounting for subsidiary undertakings. The format of the consolidated statements should follow the recommendations in this SORP, with additional disclosure provided by way of segmental information where the activities of a subsidiary are both sufficiently significant and different from those of the scheme as to require this amplification. Minority interests should be shown as a separate item after borrowings in the net assets statement, analysed between equity and non-equity interests.
Subsidiaries include a subsidiary undertaking as defined by companies legislation and FRS 2 and quasi-subsidiaries as defined by FRS 5: Reporting the substance of transactions. In broad terms, the definitions adopted by standard accounting practice encompass any entities directly or indirectly controlled by the trustees.

Where a pension scheme conducts an activity through an associated undertaking or through a joint venture operation where it shares control of the operation with other parties, the activity should be accounted for in accordance with FRS 9: Associates and joint ventures.

Where subsidiary undertakings are not material in aggregate there is no need to consolidate and the subsidiary can be accounted for as if it was an associate of the pension scheme.

Schemes in winding up and similar situations

As noted in paragraph 2.1 above, the commencement of winding-up procedures, including schemes implementing a buy out strategy or entering the Pension Protection Fund assessment period, will cause the trustees to review, and if thought appropriate modify, the bases on which scheme assets are valued. The primary considerations will be the intended time scale and processes for winding up and, as a general rule, the values placed on assets should be consistent with those which may reasonably be expected to be achieved in an orderly winding up with appropriate allowance for the costs of realisation.

Quoted investments will normally continue to be valued on a bid basis as recommended in paragraph 2.77. However, in some cases an adjustment should be considered with the objective of valuing investments at net realisable value.

Unquoted investments, including properties, should be valued at the trustees’ estimate of net realisable value. Insurance policies will need to be valued using a method appropriate to the circumstances of the scheme; in many cases, surrender value may be the only reliable basis available at an acceptable cost and would be consistent with the basis adopted for the purpose of the minimum funding requirements.

The bases of valuation used should be disclosed. Certain additional disclosures may fall to be made in the annual report, such as:

- the resultant change in investment policy;
- claims and contingent assets;
- the extent and accounting treatment of unpaid contributions;
- an explanation of the role of any independent trustee appointed;
- any temporary embargo on benefit payments;
- likely timescales for winding up, to the extent these can be assessed.

Final accounts for schemes where the winding up process has been completed should be prepared so that trustees are able to demonstrate that all members’ benefits have been secured and all scheme assets finally disbursed in accordance with the scheme rules and relevant regulations. Under current
regulations, schemes with less than two members are exempt from preparing accounts. However, it is recommended as a matter of good practice that trustees prepare final winding up accounts even when the scheme membership has declined below this limit during the scheme year as a result of winding up activities. These final accounts should be prepared on an accruals basis where appropriate, showing assets (e.g. cash at bank) and current liabilities (e.g. benefits and fees payable) which total zero net assets. It is expected however that auditors will require evidence of the settlement of final benefits and fees, and the closure of all investment portfolios, bank accounts etc. before they sign the audit report.

**Other disclosures**

**Accounting policies**

2.1852.167 The accounting policies followed in dealing with items which are material in accounting for or reporting on the transactions and net assets of the scheme should be explained in the notes to the financial statements, together with the estimation techniques adopted that are significant. The explanations should be clear, fair and as brief as possible.

2.1862.168 The following are examples of areas where it may be appropriate to disclose the accounting policies and estimation techniques adopted:

- the policies adopted in applying the accruals concept to significant categories of income and expenditure, such as contributions and AVCs, investment income, transfer values and benefits;
- the bases adopted for the valuation of assets;
- the basis of foreign currency translation;
- the bases on which investment management expenses are measured and disclosed;
- the treatment of the acquisition costs of investments;
- the treatment of futures and options; the treatment of derivative contracts;
- the treatment of interest on property developments;
- the bases adopted for accounting for investments in subsidiary and associated undertakings.

Full disclosure of the accounting policy for the accrual of investment income is particularly important now that most schemes are required to submit tax returns, for which the policy on accruals may be different.

2.1872.169 It is a fundamental accounting concept that there is consistency of accounting treatment within each accounting period and from one period to the next. A change in accounting policy should not be made unless it can be justified on the ground that the new policy is preferable to the one it replaces because it will give a fairer presentation of the transactions and of the disposition of the net assets of the scheme. When changes are made they should be disclosed, along with a brief description of why the new accounting policy is thought more appropriate and, if practicable, the effect of a prior period adjustment on the figures for the preceding period and the effect on the figures for the current period should be disclosed. If it is not practicable to give these disclosures, that fact, together with the reasons, should be stated. Where there is a change in estimation technique, a description of the change and,
where practicable, the effect on the current figures, should be disclosed.

**Compliance with SORP**

2.182 A statement should be included (preferably in a ‘basis of preparation’ note to the financial statements) of whether or not the financial statements have been prepared in accordance with the SORP’s provisions currently in effect. In the event of a departure, there should be a brief description of how the financial statements depart from the recommended practice set out in the SORP, which should include the reasons why the alternative accounting treatment adopted is judged more appropriate to the scheme’s particular circumstances and details of any disclosures recommended by the SORP that have not been provided and the reasons why they have not been provided.

**Comparative amounts**

2.189 Corresponding amounts relating to the previous scheme year should be disclosed for every amount shown in the financial statements, including notes to the financial statements. Corresponding amounts need not be provided for sales and purchases of investments in the period.

2.190 Where the corresponding amounts in the financial statements are not directly comparable with the amount to be shown in respect of the current financial year, they should be adjusted and particulars of the adjustment and the reasons for it should be disclosed in the notes to the accounts.

2.191 The accounting period will usually be one year in duration. If this is not the case for both the current and corresponding periods, this fact should be clearly stated. Details of and reasons for the change in the length of accounting period should be given in the Accounting Policies notes.

2.192 Where schemes adopt fair value accounting or disclose transaction costs for years commencing on or after 31 March 2007 there is no requirement to amend the comparative amounts. Disclosure should be made of the basis on which the comparative numbers are disclosed.

**Investments**

2.193 The SORP recommends disclosure of the categories of investment held by the scheme in the investment report and in the net assets statement. The purpose of the disclosure is the same in both places although the context may be different. Repetition between the investment report and the financial statements may be avoided by cross-referring readers of the investment report to the relevant notes in the financial statements.

2.194 Where there is a concentration of investment (other than in United Kingdom Government securities) which exceeds 5% of the total value of the net assets of the scheme, then this should be disclosed, together with details of the amount and nature of the investment and the company involved, together with corresponding disclosures for the previous scheme year. Repetition between the investment report and the financial statements may be avoided by cross-referring readers of the investment report to the relevant notes in the financial statements.
2.194.176 United Kingdom regulations require the main characteristics of an insurance policy to be disclosed in the financial statements if more than 5% of the total value of the net assets of the scheme is invested in the policy. Guidance on the characteristics that may be included in such a disclosure is set out in paragraph 2.104.

**Stock Lending**

2.195.177 Where the scheme’s investment custodian is authorised to release stock to a third party under a stock lending arrangement that fact should be disclosed (even if no stock lending activity has taken place in the year). Where material amounts of stock lending income has been earned during the year, disclosure should be made of the major characteristics of the stock lending arrangements in place.

2.196.178 Any securities loaned at the scheme year-end should be included in the net assets statement to reflect the scheme’s continuing economic interest of a proprietary nature in those securities. However, the total value of securities out on loan at the year-end should be disclosed in a note to the financial statements together with an analysis by asset class of the securities out on loan and a description of the related types of collateral.

**Collateral**

2.197.179 A scheme should disclose the market fair value of financial assets that it has pledged as collateral for liabilities or contingent liabilities, the asset type pledged and the terms and conditions relating to the pledge. A scheme should also disclose the fair value of any collateral held, for example under derivative swap contracts.

**Long-term liabilities**

2.198.180 The financial statements should explain that they do not take account of liabilities to pay pensions and other benefits after the scheme year-end but rather summarise the transactions and net assets of the scheme. The explanation should be given prominence because the disclosure is fundamental to an understanding of the financial statements and should preferably form part of a ‘basis of preparation’ statement at the beginning of the notes to the financial statements made at the foot of the net asset statement. For a defined benefit scheme, the note should refer the reader to the actuary’s statement or Summary Funding Statement, which does take account of the long-term liabilities of the scheme.

**Contingent liabilities and contractual commitments**

2.199.181 Disclosure should be made of any material contingent liabilities, for example, claims against the scheme or the costs of litigation. Similarly, where the scheme has a material capital commitment at the end of the scheme year, for example a contractual commitment to purchase a property or to pay calls on shares, the nature and amount of the commitment should be disclosed.

2.182 Disclosure should be made where significant potential liabilities exist at the
year-end for benefit payments or transfer values, where the member has not yet expressed a choice by the year-end. This is explained in more detail in paragraphs 2.52 and 2.55 above. Disclosure should also be made of any guarantees given or security offered by the trustees, for example to secure the borrowings of the scheme.

Contingent assets

2.183 FRS 12: Provisions, contingent liabilities and assets defines a contingent asset as a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the scheme’s control. Under FRS 12 a contingent asset should not be recognised in the financial statements. Contingent assets include arrangements put in place with the employer which provide certainty that the employer can make further deficit funding contributions to the scheme in certain circumstances by making the assets available via a secure arrangement. These arrangements may be in a number of forms including letters of credit, guarantees and escrow accounts. Details of these arrangements should be disclosed in the trustees report.

2.184 Contingent assets are not recognised in the financial statements because it could result in the recognition of a gain that may never be realised. However, when the realisation of the gain is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

2.185 A contingent asset should be disclosed in the note to the accounts when an inflow of economic benefit is probable. In such circumstances, disclosure should be made of the nature of the contingent asset at the net asset date and where practicable, an estimate of their financial effect.

Subsequent events

2.202.186 Events after the scheme year end, both favourable and unfavourable, that occur between the scheme year end and the date the accounts are signed, and which provide evidence of conditions that existed at the scheme year end, shall adjust the amounts recognised in the financial statement (adjusting event).

2.203.187 Where such events are indicative of conditions that existed after the scheme year end (non-adjusting events), disclosure should be made of any material non-adjusting events that occur after the end of the scheme year in order to ensure that the financial statements are not misleading. The disclosures include:

- the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

2.204.188 Examples of such events may include:

- a significant drop in the value of investments (e.g. as a result of a permanent diminution in value rather than the fluctuations (however severe in the short term) of stock markets); and
- employer-related investment in the post year-end period that exceeds the
maximum permissible limits as defined by legislation.

Approval of financial statements

The date of approval of the financial statements by the trustees should be disclosed as required by SSAP 17: Accounting for post balance sheet events, FRS 21 (IAS10) Events after the balance sheet date, either on the face of the net assets statement or in a note to the financial statements. This approval should preferably be indicated by the signature of at least two trustees (or directors of corporate trustees).

Summary financial information and Statements – General Principles

Some pension schemes produce statements which summarise financial information based on the full financial statements in their publications. They do this to communicate key financial information without providing the greater detail required in the full accounts with the intention of making this information more accessible to the lay readership of these publications, particularly pension scheme members.

As the form of such publications will vary considerably, depending on the purpose for which they have been prepared, it is not practicable to give detailed recommendations on the form and content of summary financial information. Some recommended general principles are set out below.

Summary information should contain information on both the Fund Account and the Net Assets Statement, must be consistent with the full accounts and should not be misleading either by omission or amalgamation of details. Comparative amounts for the previous year should be disclosed for each summary item shown.

Summarised financial statements are to be accompanied by a statement, signed on behalf of the trustees, indicating:

(a) that they are not the statutory accounts but a summary of information relating to both the Fund Account and the Net Assets Statement;

(b) whether the full financial statements from which the summary is derived have as yet been audited; and

(c) where they have been audited, whether there was an unqualified audit opinion on the financial statements and an unqualified audit statement about contributions;

(d) where the audit opinion on the financial statements or the statement about contributions is qualified, sufficient details should be provided in the summary financial information to enable the reader to appreciate the significance of the report;

(e) details of how the full annual report can be obtained.

There is no requirement for trustees to attach to these summary financial statements a statement from the auditor giving an opinion as to whether the summary financial information is consistent with the full audited accounts. However, it is recommended as a matter of good practice that trustees include
the auditor in the distribution of any publications containing summary financial information.

Trustees may wish to quote individual pieces of financial information selectively in their publications where the context simply does not permit any comprehensive summary of information on the Fund Account and the Net Assets Statement. In these circumstances, trustees must make clear whether the financial information is sourced from audited or unaudited financial statements. If the source is audited financial statements, details of how the full annual report can be obtained must also be included.
APPENDIX 1 - DEFINED BENEFIT SCHEME - ILLUSTRATIVE FORMAT OF ANNUAL REPORT

This appendix, which does not form part of the formal guidelines constituting the Statement of Recommended Practice, is provided to illustrate:

- how those guidelines might be applied to the financial statements of a defined benefit scheme;
- how the information which is required by regulations to accompany the financial statements might be organised and presented so as to communicate effectively.

The text in the appendix is cross-referenced in the margin to the United Kingdom and Republic of Ireland regulations.

Marginal references in italics are to the United Kingdom regulations - the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. [“Sch 3 (1)” refers to paragraph 1 of Schedule 3 to the Regulations].

Marginal references in upright text are to the Republic of Ireland regulations - the Occupational Pension Schemes (Disclosure of Information)(No. 2) Regulations, 1998-2006 (SI 2006/1998/301349) [Sch. B(4) refers to paragraph 4 of Schedule B to the Regulations].

Note that the text is directed at the United Kingdom requirements and that these are not always exactly equivalent to the Republic of Ireland requirements.

Where text comprises presentational advice and suggestions rather than a requirement of the regulations, it is set out in italics.

Contents

The contents of the appendix are as follows:

- The Trustees’ Report;
- The Investment Report;
- The Financial Statements;
- Notes to the Financial Statements;
- The Compliance Statement.
- Actuarial Statement and Certificate

The Trustees’ Report

INTRODUCTION
A brief introduction, for example identifying the nature of the scheme, the bases on which benefits are provided and its relationship with state pension provision.

MANAGEMENT OF THE SCHEME
Particulars of the management of the scheme including:

- names of the trustees (or directors, if the scheme has only corporate trustees) who served during the year and those serving at the date of approval of the annual report. Details at the date of signing of the annual report must also be included in the Republic of Ireland;
who has powers to appoint and remove trustees (or directors, if the scheme has only corporate trustees) and the method of appointment, for example whether by election or selection.

Further particulars that may be helpful in understanding how the scheme is managed are:

- the composition and balance of the present board of trustees (or directors, if the scheme has only corporate trustees) between those appointed by the employer and by members;
- the number of trustees’ meetings held during the period, the voting arrangements and whether there were any sub-committee meetings.

Where disclosure of all the above details would result in statements of undue length or complexity, the nature of the arrangements and any changes in the period could be noted, indicating that fuller details are provided in the compliance statement at the back of the annual report or in some other scheme document that is available to members and others entitled to receive it.

**SCHEME ADVISERS**

Unless this information is given in a list at the front of the annual report, the names of the professional advisers to the trustees and other individuals and organisations who have acted for or were retained by the trustees during the year, with an indication of any change since the previous year, including:

- the scheme actuary;
- the scheme auditors;
- the investment manager(s);
- the legal adviser;
- the administrator of the scheme benefits;
- the custodians of the scheme assets;
- the banker(s);
- the secretary to the trustees.

Where disclosure of all the above details would be unduly lengthy or complex, reference could be restricted to any changes in the period, indicating that fuller details are provided in the compliance statement at the back of the annual report.

In the Republic of Ireland the names of those advisers retained at the date of signing the annual report (where different) must also be given.

**THE SPONSORING EMPLOYER**

Name and address of the sponsoring employer (or, in a group scheme, the name of the group) or an indication that the scheme is an industry-wide (or similar type of) scheme. In the Republic of Ireland, where there is more than one employer participating in the scheme at the end of the scheme year, a list of such participating employers must be given.

**FINANCIAL DEVELOPMENT OF THE SCHEME**

- In the United Kingdom, a statement confirming that the financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995 (unless the scheme is exempt from such a requirement by virtue of regulations made under that section);
- In the Republic of Ireland, a review by the trustees of the financial development of the scheme during the year as shown by the audited accounts.
- An explanation of important events or features that the trustees consider relevant for a proper understanding of the scheme’s financial development, including any which occur after the scheme year end:
  - changes in the membership profile;
  - special factors which have had a material influence on the position of the scheme, such as, contribution holidays or special contributions or the basis of bulk transfers, covering such matters as the past service reserve and the share of any surplus;
  - comments on significant variances in comparison with the previous year, for example in the levels of contributions, transfers, or fees;
Appendix 1 - Defined benefit scheme - Illustrative format of annual report

- a major acquisition or disposal of part of the sponsoring employer’s business which may have a material impact on the pension rights of a significant number of members.

Where trustees are required by regulations to notify members directly of certain developments, disclosure in the trustees’ report is not a substitute for such notification, although it may be a helpful way of bringing members up to date on developments already notified or to be notified to them.

- where the auditor’s statement about contributions payable to the scheme is qualified, an explanation of the discrepancy and how it has been or is likely to be resolved (and, similarly, an explanation if a discrepancy was left unresolved in a previous year).

**ACTUARIAL STATUS OF THE SCHEME**

- A description of the actuarial states of the scheme, with particular reference to the position as disclosed in the actuarial statement, summary funding statement, and or actuarial certificate (as applicable) that are required to be appended to the annual report. This should include an explanation of important events or features that the trustees consider relevant for a proper understanding of the development of the scheme’s actuarial position including any which occur after the scheme year end, such as:
  - changes in the membership profile;
  - special factors which have had a material influence on the position of the scheme, such as, contribution holidays or special contributions or the basis of bulk transfers, covering such matters as the past service reserve and the share of any surplus;
  - the impact of investment performance;
  - a major acquisition or disposal of part of the sponsoring employer’s business that may have a material impact on the pension rights of a significant number of members.

**CHANGES TO THE SCHEME**

In the Republic of Ireland, where any changes have been made since the previous scheme year in the basic information about the scheme to which members are entitled, a statement to that effect and that the members have been notified in accordance with article 11(4) of the Republic of Ireland regulations. Changes of lesser significance could be noted in the compliance statement.

**SCHEME MEMBERSHIP**

The number of beneficiaries and active, deferred and pensioner members as at any one date during the year. This may be given in the form of a summary of changes in scheme membership during the year (including joiners and leavers) to reconcile with information given for the previous year, and including an explanation of any significant increase or decrease in a category of membership.

In the Republic of Ireland, the number of beneficiaries and deferred pensioner members need not include any member or person in respect of whom an insurance policy has been purchased which has been specifically allocated to the provision of benefits for, and which provides all the benefits payable under the scheme to, particular members (or other persons in respect of particular members, or both).

It is a requirement in the Republic of Ireland that material changes in scheme membership details since the previous scheme year be accompanied by an explanatory note.

**TRANSFERS AT LESS THAN CASH EQUIVALENT**

In the United Kingdom, an explanation, if during the whole or part of the year the scheme was unable to offer the full cash equivalent as transfer payments, and a statement or estimate of when full values became, or are likely to become, available should be given. (A cash equivalent is the amount which a pension scheme member is entitled under social security legislation to have applied as a transfer payment to another permitted pension scheme or a buy-out policy.) If any cash equivalents paid
during the year were not calculated and verified in accordance with the relevant social security legislation, a statement is required explaining why.

**Contact for Further Information**

Unless provided with the list of trustees and advisers at the front of the annual report, a contact name and (in the Republic of Ireland the name or title of the person must be set out) address where members can obtain further information about:

- the scheme including copies of the scheme documentation;
- their own pension position;
- whom they should contact in the event of a complaint.

**Approval of Trustees’ Report (Including Investment Report and Compliance Statement)**

It is generally good practice for the trustees’ report to be approved by all the trustees and signed and dated by them or on their behalf. The signing of the trustees’ report confirms their approval of the accompanying disclosures in the investment report and compliance statement where these are presented separately and, to clarify this point, the trustees’ report may include a reference to further details of investment performance and further disclosures required by legislation being provided in the investment report and compliance statement respectively.

In the Republic of Ireland, the annual report must be signed by two trustees on behalf of the trustees, or if there is only one trustee by that trustee.

**The Investment Report**

**Investment Managers**

Unless this information is given in a list at the front of the annual report, the names of those who have managed the scheme’s investments during the year, and the extent of delegation of this function by the trustees. Where there is more than one manager, it may be helpful to outline the general remit (the proportion of the total fund managed, the asset classes and the style of management – active or passive) and the date of appointment of each manager and, where there has been a change in these details during the year, the reasons for the change.

The basis of remuneration of the investment managers where the cost is borne by the scheme. This additional disclosure is required in the Republic of Ireland.

**Investment Principles**

In the United Kingdom, a statement as to whether the trustees have produced a statement of investment principles as required by section 35 of the Pensions Act 1995 and that a copy is available on request. It may be helpful to outline the principles adopted and also to indicate whether the statement of principles has changed since the previous report.

In the Republic of Ireland, a statement of the principles of investment policy pursued during the year on behalf of the scheme, and any material change in these policies during the year.

It is suggested that an explanation of investment principles might include the nature of the asset allocation benchmark and the performance objective(s) set by the trustees and the reasons they were selected, rather than simply provide a general comment about seeking to maximise returns without exposing the fund to undue risk. The policies disclosed should for example include the following where relevant:

- the policies on seeking professional advice and the frequency with which such advice is sought;
- any prohibitions or restrictions on employer-related investment;
- any policies on the use of voting rights attached to investments;
- any policies on diversification;
- any limitations on the size of individual investments or investment categories;
the use of futures and options; derivatives in effecting the investment strategy;
the use of hedging to mitigate currency risks;
any policies on the use of stock-lending, including collateral arrangements;
any policy on socially responsible investment.

REVIEW OF INVESTMENT PERFORMANCE

A review of the performance of the scheme's investments during the year (and over a three to five year period) including an assessment of the nature, disposition, marketability, security and valuation of the scheme’s assets.

If the review of investment performance requires a discussion of general economic or other conditions in order to put the performance of the scheme investments into context, this discussion should be brief and in clear and simple language. Commentary on performance should include:

- a comparison with the performance objectives set by the trustees;
- the relative performance of major categories of investment;
- any substantial new areas of investment or disinvestment, with reasons;
- the name of any independent measurer of performance used by the scheme.

In addition, the review should demonstrate how the principles of investment policy are being implemented through an analysis showing:

- the total market value of the fund, which agrees with the net assets statement;
- how the assets are diversified, for example between different types of investment or different geographical areas, with significantly differing rates of return, degrees of risk and potential for growth (but see paragraph 2.175 for guidance on avoiding duplication of disclosure in the notes to the net assets statement and the investment report);
- where futures and options play a material part in the trustees’ investment strategy, further details should be given along the lines of the narrative and numerical disclosures required by FRS 13.

A useful way of making the analysis of investments more relevant and interesting to members is to provide details of the ten largest investments (aggregated if required across all the investment managers appointed by the trustees) and the proportion of the fund that they represent.

DEPARTURES FROM INVESTMENT PRINCIPLES

In the United Kingdom, in those cases where the trustees are required to maintain a statement of investment principles by section 35 of the Pensions Act 1995, a statement of any departures during the year from the statement of principles, giving details of the investments involved and an explanation of the reasons and what action, if any, is proposed to be taken, or has been taken, to remedy the position. This explanation should also be provided for departures made in previous years, if the investments involved continue to be held at the scheme year-end.

CUSTODIAL ARRANGEMENTS

A note of the trustees’ policy for the custody of the scheme assets, except in relation to a wholly insured scheme (a scheme where all the benefits are secured by one or more insurance policies or annuities). The note should indicate:

- who has custody and in whose name investments are held;
- the trustees’ role in custody procedures and the sponsoring employer’s role, if any;
- the main controls in place to secure safe custody.

EMPLOYER-RELATED INVESTMENTS

Where the scheme has employer-related investments, as defined by relevant legislation:

- a list of those investments;
- a statement as to the proportion of the scheme’s resources represented by those investments;
- a statement as to whether employer-related investments comply with any restrictions prescribed by regulation, and where they do not, how it is intended to remedy the position.
**The Financial Statements**

The following format of presentation is suggested for a defined benefit scheme. The notes illustrated below deal with providing additional analysis of items in the primary statements. They do not cover all the disclosures recommended by this Statement of Recommended Practice or by the Regulations.

### Fund Account

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contributions and Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>3</td>
<td>2,937</td>
</tr>
<tr>
<td>Transfers in</td>
<td>4</td>
<td>6,693</td>
</tr>
<tr>
<td>Other income</td>
<td>5</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,719</td>
</tr>
<tr>
<td>Benefits payable</td>
<td>6</td>
<td>3,950</td>
</tr>
<tr>
<td>Leavers</td>
<td>7</td>
<td>312</td>
</tr>
<tr>
<td>Other payments</td>
<td>8</td>
<td>53</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>9</td>
<td>425</td>
</tr>
<tr>
<td></td>
<td></td>
<td>14,186</td>
</tr>
<tr>
<td>Net additions(withdrawals) from dealings with members</td>
<td>(9,467)</td>
<td>4,923</td>
</tr>
<tr>
<td><strong>Returns on investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>10</td>
<td>5,263</td>
</tr>
<tr>
<td>Change in market value of investments</td>
<td>11</td>
<td>10,324</td>
</tr>
<tr>
<td>Investment management expenses</td>
<td>12</td>
<td>(288)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(282)</td>
</tr>
<tr>
<td>Net returns on investments</td>
<td></td>
<td>22,462</td>
</tr>
<tr>
<td></td>
<td></td>
<td>15,299</td>
</tr>
<tr>
<td><strong>Net increase in the fund during the year</strong></td>
<td>12,995</td>
<td>20,222</td>
</tr>
<tr>
<td><strong>Net assets of the scheme</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 20X1</td>
<td></td>
<td>96,467</td>
</tr>
<tr>
<td>At 31 December 20X1</td>
<td></td>
<td>109,462</td>
</tr>
<tr>
<td></td>
<td></td>
<td>96,467</td>
</tr>
</tbody>
</table>
### Net Assets Statement

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
</tbody>
</table>

**Investments**

|      | 109,483 | 97,920 |

**Borrowings**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th>(1,639)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>109,483</td>
<td>96,281</td>
</tr>
</tbody>
</table>

**Current assets and liabilities**

|      | (24)    | 486     |

**Investments assets**

|      | 109,483 | 97,920 |

**Borrowings**

|      | -       | (1,639) |

**Current assets**

|      | 276     | 278     |

**Current liabilities**

|      | (297)   | (92)    |

**Net assets of the scheme at 31 December 20X1**

|      | 109,462 | 96,467 |

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the [Summary Funding Statement/actuarial statement] included in the annual report and these financial statements should be read in conjunction with it(them). *(See paragraph 2.180 of the SORP)*

These financial statements were approved by the Trustees on *(date).*

Signed on behalf of the Trustees:
Notes to the Financial Statements (see paragraph 2.37 of the SORP)

1. Basis of preparation
The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 [in the Republic of Ireland, the Occupational Pension Schemes (Disclosure of Information) (No. 2) Regulations, 1998], and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year. The actuarial position of the scheme, which does take account of such obligations, is dealt with in the statement(s) by the actuary included in the annual report and these financial statements should be read in conjunction with it(them).

(See paragraph 2.156 of the SORP)

2. Accounting policies
(See paragraph 2.167 to 2.169 of the SORP)

3. Contributions receivable

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Employers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>normal</td>
<td>2,256</td>
<td>1,787</td>
</tr>
<tr>
<td>special<em>deficit funding</em></td>
<td>416</td>
<td>220</td>
</tr>
<tr>
<td>additional augmentation</td>
<td>20</td>
<td>-</td>
</tr>
<tr>
<td>Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>normal</td>
<td>1,128</td>
<td>861</td>
</tr>
<tr>
<td>additional voluntary contributions</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>3,879</td>
<td>2,937</td>
</tr>
</tbody>
</table>

*The note to the financial statements should explain why, and for how long, special deficit funding contributions are being paid

4. Transfers in

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Group transfers in from other schemes</td>
<td>-</td>
<td>6,420</td>
</tr>
<tr>
<td>Individual transfers in from other schemes</td>
<td>244</td>
<td>273</td>
</tr>
<tr>
<td></td>
<td>244</td>
<td>6,693</td>
</tr>
</tbody>
</table>

5. Other income

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Claims on term insurance policies</td>
<td>596</td>
<td>33</td>
</tr>
</tbody>
</table>
### 6. Benefits payable

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Pensions</td>
<td>3,781</td>
<td>2,776</td>
</tr>
<tr>
<td>Commutations and lump sum retirement benefits</td>
<td>427</td>
<td>399</td>
</tr>
<tr>
<td>Purchase of annuities</td>
<td>-</td>
<td>683</td>
</tr>
<tr>
<td>Lump sum death benefits</td>
<td>985</td>
<td>92</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,193</strong></td>
<td><strong>3,950</strong></td>
</tr>
</tbody>
</table>

The value of pensions is arrived at after netting off annuity income of £333,000 (20X0 £325,000) from the annuity policies referred to in note 11.

### 7. Payments to and on account of leavers

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Refunds to members leaving service</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Payments for members joining state scheme</td>
<td>15</td>
<td>7</td>
</tr>
<tr>
<td>Purchase of annuities to match preserved benefits</td>
<td>89</td>
<td>-</td>
</tr>
<tr>
<td>Group transfers to other schemes</td>
<td>7,813</td>
<td>-</td>
</tr>
<tr>
<td>Individual transfers to other schemes</td>
<td>664</td>
<td>295</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,603</strong></td>
<td><strong>312</strong></td>
</tr>
</tbody>
</table>

### 8. Other payments

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Premiums on term insurance policies</td>
<td>69</td>
<td>53</td>
</tr>
</tbody>
</table>

### 9. Administrative expenses

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Administration and processing</td>
<td>259</td>
<td>269</td>
</tr>
<tr>
<td>Actuarial fees</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>Audit fee</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Legal and other professional fees</td>
<td>35</td>
<td>121</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>321</td>
<td>425</td>
</tr>
</tbody>
</table>

All other costs of administration are borne by (name of employer)

### 10. Investment income

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td>Income from fixed interest securities</td>
<td>540</td>
<td>421</td>
</tr>
<tr>
<td>Dividends from equities</td>
<td>3,651</td>
<td>3,382</td>
</tr>
<tr>
<td>Income from index-linked securities</td>
<td>380</td>
<td>298</td>
</tr>
<tr>
<td>Income from pooled investment vehicles</td>
<td>386</td>
<td>399</td>
</tr>
<tr>
<td>Net rents from properties</td>
<td>592</td>
<td>787</td>
</tr>
<tr>
<td>Interest on cash deposits</td>
<td>21</td>
<td>69</td>
</tr>
<tr>
<td>Other</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,590</td>
<td>5,376</td>
</tr>
</tbody>
</table>

Irrecoverable withholding tax          | (155) | (113) |

Total investment income                | 5,435 | 5,263 |
11. Investments

<table>
<thead>
<tr>
<th></th>
<th>Value at 31.12.1</th>
<th>Purchases and derivative receipts at cost</th>
<th>Sales and derivative receipts</th>
<th>Change in market value</th>
<th>Value at 31.12.X1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
<td>£’000s</td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Fixed interest securities</td>
<td>7,111</td>
<td>2,004</td>
<td>(1,015)</td>
<td>1,367</td>
<td>9,467</td>
</tr>
<tr>
<td>Equities</td>
<td>69,549</td>
<td>20,615</td>
<td>(26,874)</td>
<td>14,932</td>
<td>78,222</td>
</tr>
<tr>
<td>Index-linked securities</td>
<td>1,563</td>
<td>5,962</td>
<td>(6,231)</td>
<td>709</td>
<td>2,003</td>
</tr>
<tr>
<td>Pooled investment vehicles</td>
<td>8,345</td>
<td>-</td>
<td>(3,419)</td>
<td>798</td>
<td>5,724</td>
</tr>
<tr>
<td>Derivative contracts</td>
<td>391</td>
<td>199</td>
<td>(261)</td>
<td>123</td>
<td>452</td>
</tr>
<tr>
<td>Properties</td>
<td>5,443</td>
<td>-</td>
<td>(1,162)</td>
<td>4,281</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>1,456</td>
<td>2,989</td>
<td>(373)</td>
<td>4,818</td>
<td></td>
</tr>
<tr>
<td>AVC investments</td>
<td>3,062</td>
<td>79</td>
<td>(44)</td>
<td>169</td>
<td>3,266</td>
</tr>
<tr>
<td></td>
<td>96,920</td>
<td>31,848</td>
<td>(37,844)</td>
<td>17,309</td>
<td>108,233</td>
</tr>
</tbody>
</table>

|                           | £’000s           | £’000s                                  | £’000s                        | £’000s                 | £’000s            |
| Cash deposits             | 350              | 100                                     |                               |                       |                   |
| Outstanding dividend     | 650              | 1,150                                   |                               |                       |                   |
| entitlements and recoverable withholding tax |                   |                                         |                               |                       |                   |
|                           | 97,920           | 109,483                                 |                               |                       |                   |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

<table>
<thead>
<tr>
<th>Fixed interest securities</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK public sector quoted</td>
<td>2,632</td>
<td>2,227</td>
</tr>
<tr>
<td>UK quoted</td>
<td>2,634</td>
<td>1,835</td>
</tr>
<tr>
<td>Overseas public sector</td>
<td>5,201</td>
<td>4,049</td>
</tr>
<tr>
<td></td>
<td>10,467</td>
<td>8,111</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK quoted</td>
<td>59,891</td>
<td>55,194</td>
</tr>
<tr>
<td>UK unquoted</td>
<td>5,048</td>
<td>4,011</td>
</tr>
<tr>
<td>Overseas quoted</td>
<td>13,283</td>
<td>9,327</td>
</tr>
<tr>
<td>Overseas unquoted</td>
<td>-</td>
<td>1,017</td>
</tr>
<tr>
<td></td>
<td>78,222</td>
<td>69,549</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Index-linked securities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>UK quoted</td>
<td>1,745</td>
<td>1,318</td>
</tr>
<tr>
<td>Overseas quoted</td>
<td>258</td>
<td>245</td>
</tr>
<tr>
<td></td>
<td>2,003</td>
<td>1,563</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pooled investment vehicles</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Managed funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-property</td>
<td>866</td>
<td>887</td>
</tr>
<tr>
<td>-other</td>
<td>2,286</td>
<td>3,075</td>
</tr>
<tr>
<td>Unit trusts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-property</td>
<td>-</td>
<td>1,994</td>
</tr>
<tr>
<td>-other</td>
<td>3,024</td>
<td>2,780</td>
</tr>
<tr>
<td></td>
<td>6,176</td>
<td>8,736</td>
</tr>
</tbody>
</table>
## 11. Investments (continued)

### Derivative contracts

<table>
<thead>
<tr>
<th>Type of future</th>
<th>Economic expiration</th>
<th>Exposure value £'000s</th>
<th>Market value £'000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK FTSE exchange traded</td>
<td>Less than 1 year</td>
<td>20,621</td>
<td>380</td>
</tr>
<tr>
<td>UK gilt exchange traded</td>
<td>Less than 1 year</td>
<td>732</td>
<td>11</td>
</tr>
</tbody>
</table>

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme decreases risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

### Properties

<table>
<thead>
<tr>
<th></th>
<th>£'000s 200X1</th>
<th>£'000s 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>3,106</td>
<td>5,443</td>
</tr>
<tr>
<td>Overseas</td>
<td>1,175</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>4,281</td>
<td>5,443</td>
</tr>
</tbody>
</table>

### 11. Investments (continued)

#### Cash deposits

<table>
<thead>
<tr>
<th></th>
<th>£'000s 20X1</th>
<th>£'000s 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sterling</td>
<td>200</td>
<td>-</td>
</tr>
<tr>
<td>Foreign currency</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>250</td>
<td>-</td>
</tr>
</tbody>
</table>

#### Other

<table>
<thead>
<tr>
<th></th>
<th>£'000s 20X1</th>
<th>£'000s 20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Policies</td>
<td>3,818</td>
<td>656</td>
</tr>
<tr>
<td>Loans</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Other investments</td>
<td>337</td>
<td>124</td>
</tr>
<tr>
<td>Other investment balances</td>
<td>163</td>
<td>176</td>
</tr>
<tr>
<td></td>
<td>4,818</td>
<td>1,456</td>
</tr>
</tbody>
</table>
AVC Investments
The Trustees hold assets invested separately from the main fund in the form of individual building society accounts and insurance policies securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement made up to 31 December confirming the amounts held to their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>ABC Building Society</td>
<td>1,127</td>
<td>1,057</td>
</tr>
<tr>
<td>XYZ Life Assurance Company</td>
<td>2,139</td>
<td>2,005</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,266</strong></td>
<td><strong>3,062</strong></td>
</tr>
</tbody>
</table>

Insurance policies
The Trustees hold insurance policies with the XYZ Insurance Company and other insurance companies that secure the pensions payable to specified beneficiaries. These policies remain as assets of the trustees, but as is permitted under current regulations and accounting practice, the trustees have decided that these policies need not be valued in the net assets statement.

12. Investment management expenses

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Administration, management, and custody</td>
<td>244116</td>
<td>17494</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>98</td>
<td>77</td>
</tr>
<tr>
<td>Performance measurement services</td>
<td>26</td>
<td>33</td>
</tr>
<tr>
<td>Other advisory fees</td>
<td>42</td>
<td>84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>282</td>
<td>288</td>
</tr>
</tbody>
</table>
### 13. Borrowings

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Sterling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>1,000</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>639</td>
</tr>
<tr>
<td>Analysed between amounts falling due</td>
<td></td>
<td></td>
</tr>
<tr>
<td>within one year</td>
<td>-</td>
<td>1,639</td>
</tr>
<tr>
<td>between one and two years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>between two and five years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>in more than five years</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>1,639</td>
</tr>
</tbody>
</table>

### 14. Current assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Contributions due from employer in respect of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>170</td>
<td>206</td>
</tr>
<tr>
<td>Members</td>
<td>42</td>
<td>51</td>
</tr>
<tr>
<td>Cash balances</td>
<td>64</td>
<td>21</td>
</tr>
<tr>
<td>Unpaid benefits</td>
<td>(160)</td>
<td>-</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(137)</td>
<td>(92)</td>
</tr>
<tr>
<td></td>
<td>(297)</td>
<td>(92)</td>
</tr>
</tbody>
</table>

All contributions due to the scheme relate to the month of December 20X1 and were paid in full to the scheme within the timescale required by the schedule of contributions currently in force.

### 15. Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Unpaid benefits</td>
<td>(160)</td>
<td>-</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(137)</td>
<td>(92)</td>
</tr>
<tr>
<td></td>
<td>(297)</td>
<td>(92)</td>
</tr>
</tbody>
</table>

The Compliance Statement

The paragraphs below set out disclosures that may be relegated to the compliance statement.

**CHANGES TO SCHEME RULES**

In the Republic of Ireland, where any changes have been made since the previous scheme year in the basic information about the scheme to which members are entitled, a statement to that effect and that the members have been notified in accordance with article 4(9) of the Republic of Ireland regulations.

**TAX STATUS OF SCHEME**

It may be helpful to include a statement confirming that the scheme is, where appropriate, an exempt approved scheme and that, to the trustees' knowledge, there is no reason why such approval should be prejudiced or withdrawn. If the scheme is not exempt approved or is seeking approval, a statement to that effect.
FUNDING STANDARD
A statement confirming that the latest actuarial funding certificate has been submitted to The Pensions Board (in the Republic of Ireland). Where a funding proposal has been submitted to the Board, this matter should be dealt with in the trustees’ report rather than in the compliance statement.

PENSION INCREASES
The percentage increases made during the year (otherwise than in accordance with a legislative requirement) to pensions in payment and deferred pensions, the extent to which they were discretionary and, in the Republic of Ireland, by whom exercised. If there have been different increases for different individuals or groups of individuals, in the United Kingdom the maximum, minimum and average percentage increases and in the Republic of Ireland the average percentage increase or the range of increases within these groups. In the Republic of Ireland, whether or not there were pensions or pension increases being paid by or at the request of the trustees for which the scheme would not have a liability in the event of its winding up and whether the persons concerned have been notified in writing by or at the request of the trustees.

CALCULATION OF TRANSFER VALUES
A statement whether discretionary benefits are included in the calculation of transfer values, and if so, the method by which the value of discretionary benefits is assessed.

CHANGES IN AND OTHER MATTERS RELATING TO SCHEME ADVISERS
Where there has been a change of auditor or actuary, a copy of any Declaration made by the retiring auditor or actuary in accordance with the relevant regulations. This should be referred to and commented upon in the trustees’ report. If the Declaration made by the retiring auditor or actuary indicates that there are circumstances connected with the resignation or removal dealt with in that Declaration, the Declaration should be included in the trustees’ report and not in the compliance statement.

Actuarial Statement and Certificate
The trustees’ annual report document should include within it:

- A copy of latest actuarial statement made by the scheme actuary under section 41(1) and (2c) of the Pensions Act 1995;
- A copy of the latest certificate as to the adequacy of contributions where required by section 56 of the Pensions Act 1995;
- Summary Funding Statement prepared by the trustees or actuarial statement (as applicable) under items 17 to 22 of Schedule 2 of SI 1996/1655;
- A copy of the latest certificate as to the adequacy of contributions where required by Regulation 10(6) of SI 2005/3377.

ADDITIONAL REQUIREMENTS FOR THE REPUBLIC OF IRELAND
Under the Occupational Pension Scheme (Disclosure of Information) (No. 2) Regulations 1998, the following additional disclosure requirements must be contained either in the trustees’ report or in the compliance statement, as appropriate.

(a) a statement that the right of members to select or approve the selection of trustees to the scheme is set out in the Occupational Pension Schemes (Member Participation in the Selection of Persons for Appointment as Trustees) (No. 3)
Appendix 1 - Defined benefit scheme - Illustrative format of annual report

Regulations, 1996 (SI 1996 /376), where a scheme is a relevant scheme as defined in those Regulations. (Sch. B (11))

(b) a statement of any costs and expenses incurred in relation to trustee training in the scheme year which have been met out of the resources of the scheme. (Sch. B (12))

(c) where the accounts of the scheme refer to a significant post year end item, a statement by the trustees in relation to that item. (Sch. B (13))

(d) a statement that the scheme has been registered with the Pensions Board and the registration number. (Sch. B (14))

(e) a statement as to whether the trustees and, if applicable, the administrator, have access to

   (i) the Trustee Handbook produced by the Pensions Board, and

   (ii) the Guidance Notes issued by the Pensions Board.
### APPENDIX 1A – SCHEMES WITH MULTIPLE BENEFIT STRUCTURES – ILLUSTRATIVE FORMATS FOR FUND ACCOUNTS AND NET ASSETS STATEMENT

#### Fund Account - Illustration

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contributions and Benefits</strong></td>
<td>Defined Benefit Section</td>
<td>Defined Contribution Section</td>
</tr>
<tr>
<td>£’000s</td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Contributions receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leavers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net additions (withdrawals) from dealings with members</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Returns on investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in market value of investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment management expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net returns on investments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase(decrease) in the fund during the year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets of the scheme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 1 January 20X1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers between Sections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At 31 December 20X1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>£’000s</td>
<td>£’000s</td>
</tr>
</tbody>
</table>
### Net Assets Statement - Illustration

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
</tbody>
</table>

#### Defined Benefit Section

**Investments**

#### Defined Contribution Section

**Investments**
- Pooled investment vehicles
**Current assets and liabilities**

### Net assets of the scheme at 31 December 20X1

#### Defined Benefit Section

**Assets**
- Investments
- Current assets

**Liabilities**
- Current liabilities

#### Defined Contribution Section

**Assets**
- Investments
  - Pooled investment vehicles
  - Current assets

**Liabilities**
- Current liabilities

**Net assets of the scheme at 31 December 20X1**
APPENDIX 2 - DEFINED CONTRIBUTION SCHEME - ILLUSTRATIVE FORMAT OF ANNUAL REPORT

This appendix, which does not form part of the formal guidelines constituting the Statement of Recommended Practice, is provided to illustrate:

- how those guidelines might be applied to the financial statements of a defined contribution scheme
- how the information which is required by regulations to accompany the financial statements might be organised and presented so as to communicate effectively.

The text in the appendix is cross-referenced in the margin to the United Kingdom Regulations. Marginal references in italics are to the Occupational Pension Schemes (Disclosure of Information) Regulations 1996. [“Sch 3 (1)” refers to paragraph 1 of Schedule 3 to the Regulations]. In the Republic of Ireland, regulations permit an alternative annual report to be prepared for defined contribution schemes (see Appendix 4, paragraph A2(f)). Where it is intended that a full annual report (and audited financial statements) be prepared instead of an alternative annual report, the requirements set out in article 6 and Schedule B of the Republic of Ireland regulations (the Occupational Pension Schemes (Disclosure of Information) (No 2) Regulations 1998–2006 (SI 1998/2006/349301)) must be complied with.

Where text comprises presentational advice and suggestions rather than a requirement of the regulations, it is set out in italics.

Contents

The contents of the appendix are as follows:

- The Trustees’ Report;
- The Investment Report;
- The Financial Statements;
- Notes to the Financial Statements;
- The Compliance Statement.

The Trustees’ Report

INTRODUCTION

A brief introduction, for example identifying the nature of the scheme.

MANAGEMENT OF THE SCHEME

Particulars of the management of the scheme including:

- names of the trustees (or directors, if the scheme has only corporate trustees) who served during the year and those serving at the date of approval of the annual report;
SCH 3(2) - who has powers to appoint and remove trustees (or directors, if the scheme has only corporate trustees) and the method of appointment, for example whether by election or selection.

Further particulars that may be helpful in understanding how the scheme is managed are:

- the composition and balance of the present board of trustees (or directors, if the scheme has only corporate trustees) between those appointed by the employer and by members;
- the number of trustee meetings held during the period, the voting arrangements and whether there were any sub-committee meetings.

Where disclosure of all the above details would result in statements of undue length or complexity, the nature of the arrangements and any changes in the period could be noted, indicating that fuller details are provided in the compliance statement at the back of the annual report or in some other scheme document that is available to members and others entitled to ask for the annual report.

SCH 3(3) - Scheme Advisers

Unless this information is given in a list at the front of the annual report, the names of the professional advisers to the trustees and other individuals and organisations who have acted for or were retained by the trustees during the year, with an indication of any change since the previous year, including:

- the scheme actuary, if one is appointed;
- the scheme auditors;
- the investment manager(s);
- the legal adviser;
- the administrator of the scheme benefits;
- the custodians of the scheme assets;
- the banker(s);
- the secretary to the trustees.

Where disclosure of all the above details would be unduly lengthy or complex, reference could be restricted to any changes in the period, indicating that fuller details are provided in the compliance statement at the back of the annual report.

THE SPONSORING EMPLOYER

Name and address of the sponsoring employer (or, in a group scheme, the name of the group) or an indication that the scheme is an industry-wide (or similar type of) scheme.

FINANCIAL DEVELOPMENT OF THE SCHEME

- A statement confirming that the financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995 (unless the scheme is exempt from such a requirement by virtue of regulations made under that section);

- An explanation of important events or features that the trustees consider relevant for a proper understanding of the scheme’s financial development, including any which occur after the scheme year end:
  - special factors which have had a material influence on the position of the scheme, such as special contributions;
  - comments on significant variances in comparison with the previous year, for example in the levels of contributions, transfers, or fees;
  - a major acquisition or disposal of part of the sponsoring employer’s business which may have a material impact on members.

Where trustees are required by regulations to notify members directly of certain developments, disclosure in the trustees’ report is not a substitute for such notification, although it may be a helpful way of bringing members up to date on developments already notified, or to be notified, to them;

- where the auditor’s statement about contributions payable to the scheme is qualified, an explanation of the discrepancy and how it has been or is likely to be
resolved (and, similarly, an explanation if a discrepancy was left unresolved in a previous year).

**SCHEME MEMBERSHIP**
The number of beneficiaries and active, deferred and pensioner members as at any one date during the year. *This may be given in the form of a summary of changes in scheme membership during the year* (including joiners and leavers) to reconcile with information given for the previous year, and including an explanation of any significant increase or decrease in a category of membership.

**TRANSFERS AT LESS THAN CASH EQUIVALENT**
Except in the case of wholly-insured money purchase schemes, an explanation, if during the whole or part of the year the scheme was unable to offer the full cash equivalent as transfer payments, and a statement or estimate of when full values became, or are likely to become, available should be given. (A cash equivalent is the amount which a pension scheme member is entitled under social security legislation to have applied as a transfer payment to another permitted pension scheme or a buy-out policy.) If any cash equivalents paid during the year were not calculated and verified in accordance with the relevant social security legislation, a statement is required explaining why.

**CONTACT FOR FURTHER INFORMATION**
Unless provided with the list of trustees and advisers at the front of the annual report, a contact name and (in the Republic of Ireland the name or title of the person must be set out) address where members can obtain further information about:
- the scheme including copies of the scheme documentation;
- their own pension position;
- whom they should contact in the event of a complaint.

**APPROVAL OF TRUSTEES’ REPORT (INCLUDING INVESTMENT REPORT AND COMPLIANCE STATEMENT)**
It is generally good practice for the trustees’ report to be approved by all the trustees and signed and dated by them or on their behalf. The signing of the trustees’ report confirms their approval of the accompanying disclosures in the investment report and compliance statement where these are presented separately, and to clarify this point, the trustees’ report may include a reference to further details of investment performance and further disclosures required by legislation being provided in the investment report and compliance statement respectively.

**The Investment Report**

**INVESTMENT MANAGERS**
Unless this information is given in a list at the front of the annual report, the names of those who have managed the scheme’s investments during the year, and the extent of delegation of this function by the trustees. *Where there is more than one manager, it may be helpful to outline the general remit and the date of appointment of each manager and, where there has been a change in these details during the year, the reasons for the change.*
INVESTMENT PRINCIPLES
A statement as to whether the trustees have produced a statement of investment principles where this is required by section 35 of the Pensions Act 1995 and that a copy is available on request. It would be helpful to indicate whether this statement of principles has changed since the previous report. The requirement to maintain statements of investment principles is a new development and it is unclear how this will affect current practices of providing brief explanations of investment policies in the investment report.

REVIEW OF INVESTMENT PERFORMANCE
A review of the performance of the scheme's investments during the year (and over a three to five year period) including an assessment of the nature, disposition, marketability, security and valuation of the scheme’s assets.
If the review of investment performance requires a discussion of general economic or other conditions in order to put the performance of the scheme investments into context, this discussion should be brief and in clear and simple language. Commentary on performance should include:
- a comparison with the performance objectives set by the trustees;
- the relative performance of major categories of investment;
- new choices of investment media, with reasons.
In addition, the review should demonstrate how the principles of investment policy are being implemented through an analysis showing:
- the total market value of the fund, which agrees with the net assets statement;
- how the assets are diversified, for example between different types of investment or different geographical areas, with significantly differing rates of return, degrees of risk and potential for growth (but see paragraph 2.175 for guidance on avoiding duplication of disclosure in the notes to the net assets statement and the investment report).
A useful way of making the analysis of investments more relevant and interesting to members is to provide details of the ten largest investments and the proportion of the fund that they represent.

DEPARTURES FROM INVESTMENT PRINCIPLES
Where the trustees are required to maintain a statement of investment principles by section 35 of the Pensions Act 1995, a statement of any departures during the year from the statement of principles, giving details of the investments involved and an explanation of the reasons and what action, if any, is proposed to be taken or has been taken to remedy the position. This explanation should also be provided for departures made in previous years, if the investments involved continue to be held at the scheme year-end.

CUSTODIAL ARRANGEMENTS
A note of the trustees’ policy for the custody of the scheme assets, except in relation to a wholly insured scheme (a scheme where all the benefits are secured by one or more insurance policies or annuities). The note should indicate:
- who has custody and in whose name investments are held;
- the trustees’ role in custody procedures and the sponsoring employer’s role, if any;
- the main controls in place to secure safe custody.

EMPLOYER-RELATED INVESTMENTS
Where the scheme has employer-related investments, as defined by relevant legislation:
- a list of those investments;
- a statement as to the proportion of the scheme’s resources represented by those investments;
- a statement as to whether employer-related investments comply with any restrictions prescribed by regulation, and where they do not, how it is intended to remedy the position.
Financial Statements

The following format of presentation is suggested for a defined contribution scheme. The notes illustrated below deal with providing additional analysis of items in the primary statements. They do not cover all the disclosures recommended by this Statement of Recommended Practice.

As discussed in paragraph 2.126 of the Statement of Recommended Practice, the nature of such a scheme often means that there is likely to be no general pool of assets from which pensions are paid and it is therefore necessary to distinguish those assets which are designated for members from any small pool of non-designated assets in the net assets statement.

Fund Account

<table>
<thead>
<tr>
<th>Contributions and Benefits</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions receivable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions receivable</td>
<td>3</td>
<td>276</td>
</tr>
<tr>
<td>Transfers in</td>
<td>4</td>
<td>33</td>
</tr>
<tr>
<td>Other income</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td>320</td>
</tr>
</tbody>
</table>

| Benefits payable           |      |      |
| Benefits payable           | 6    | -    |
| Leavers                    | 7    | 63   |
| Other payments             | 8    | 47   |
| Administrative expenses    | 9    | 18   |
|                             |      | 128  |

Net additions from dealings with members

<table>
<thead>
<tr>
<th>Net increase in fund during the year</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in fund during the year</td>
<td>1,003</td>
<td>13</td>
</tr>
</tbody>
</table>

Net assets of the scheme

| At 1 January 20X1   | 4,461| 4,448|
| At 31 December 20X1 | 5,464| 4,461|
## Net Assets Statement

<table>
<thead>
<tr>
<th>Note</th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£'000s</td>
<td>£'000s</td>
</tr>
<tr>
<td><strong>Assets designated—allocated to members</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments assets</td>
<td>11</td>
<td>5,205</td>
</tr>
<tr>
<td>Current assets and liabilities</td>
<td>12</td>
<td>4925</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>13</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>5,224</td>
</tr>
<tr>
<td><strong>Assets not designated—allocated to members</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments assets</td>
<td>11</td>
<td>239</td>
</tr>
<tr>
<td>Current assets and liabilities</td>
<td>12</td>
<td>47</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>13</td>
<td>(6)</td>
</tr>
<tr>
<td><strong>Net assets of the scheme at 31 December 20X1</strong></td>
<td></td>
<td>5,464</td>
</tr>
</tbody>
</table>

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

These financial statements were approved by the Trustees on (date)
Signed on behalf of the Trustees:
Notes to the Financial Statements (see paragraph 2.37 of the SORP)

1. Basis of preparation
The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes.

The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the scheme year.

2. Accounting policies
(See paragraph 2.167 to 2.169 of the SORP)

3. Contributions receivable

<table>
<thead>
<tr>
<th></th>
<th>20X1 £'000s</th>
<th>20X0 £'000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>normal</td>
<td>130</td>
<td>122</td>
</tr>
<tr>
<td>special augmentations</td>
<td>52</td>
<td>92</td>
</tr>
<tr>
<td>Members</td>
<td></td>
<td></td>
</tr>
<tr>
<td>normal</td>
<td>65</td>
<td>61</td>
</tr>
<tr>
<td>additional voluntary contributions</td>
<td>29</td>
<td>27</td>
</tr>
<tr>
<td>Total</td>
<td>276</td>
<td>302</td>
</tr>
</tbody>
</table>

4. Transfers in

<table>
<thead>
<tr>
<th></th>
<th>20X1 £'000s</th>
<th>20X0 £'000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual transfers in from other schemes</td>
<td>33</td>
<td>34</td>
</tr>
</tbody>
</table>

5. Other income

<table>
<thead>
<tr>
<th></th>
<th>20X1 £'000s</th>
<th>20X0 £'000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims on term insurance policies</td>
<td>11</td>
<td>180</td>
</tr>
</tbody>
</table>

6. Benefits payable

<table>
<thead>
<tr>
<th></th>
<th>20X1 £'000s</th>
<th>20X0 £'000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lump sum death benefits</td>
<td>-</td>
<td>177</td>
</tr>
</tbody>
</table>
7. Payments to and on account of leavers

<table>
<thead>
<tr>
<th></th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds to members leaving service</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>Purchase of annuities to match preserved benefits</td>
<td>22</td>
<td>15</td>
</tr>
<tr>
<td>Individual transfers to other schemes</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
<td><strong>55</strong></td>
</tr>
</tbody>
</table>

8. Other payments

<table>
<thead>
<tr>
<th></th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premiums on term insurance policies</td>
<td>47</td>
<td>44</td>
</tr>
</tbody>
</table>

A policy is held with CJ Insurance Co Limited to cover the scheme against the lump sum payment in event of a member’s death during service up to normal retirement date.

9. Administrative expenses

<table>
<thead>
<tr>
<th></th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration and processing</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>Audit fee</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Legal and other professional fees</td>
<td>-</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>

All other costs of administration are borne by (name of employer)

10. Investment income

<table>
<thead>
<tr>
<th></th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from pooled investment vehicles</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Interest on cash deposits</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
<td><strong>10</strong></td>
</tr>
</tbody>
</table>

11. Investments

Investments purchased by the scheme are allocated to provide benefits to the individuals on whose behalf the corresponding contributions were paid. Accordingly, the assets identified as designated to members in the net assets statement do not form a common pool of assets available for members generally. Members each receive an annual statement confirming the contributions paid on their behalf and the value of their money purchase rights.

The movements in investments during the year were:

<table>
<thead>
<tr>
<th></th>
<th>20X1 (£'000s)</th>
<th>20X0 (£'000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value at 1 January 20X1</td>
<td>4,444</td>
<td>4,490</td>
</tr>
<tr>
<td>Purchases at cost</td>
<td>283</td>
<td>257</td>
</tr>
<tr>
<td>Disposals</td>
<td>(88)</td>
<td>(93)</td>
</tr>
<tr>
<td>Change in market value of investments</td>
<td>805</td>
<td>(210)</td>
</tr>
<tr>
<td>Market value at 31 December 20X1</td>
<td>5,444</td>
<td>4,444</td>
</tr>
<tr>
<td>Designated to members</td>
<td>5,205</td>
<td>4,240</td>
</tr>
<tr>
<td>Allocated to members</td>
<td>239</td>
<td>204</td>
</tr>
<tr>
<td>Trustees’ unallocated account</td>
<td>5,444</td>
<td>4,444</td>
</tr>
</tbody>
</table>
11. Investments (continued)

The market value of investments at 31 December 20X1 can be analysed as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>XYZ With Profits Account</td>
<td>4,491</td>
<td>3,666</td>
</tr>
<tr>
<td>XYZ Managed Fund</td>
<td>953</td>
<td>778</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,444</td>
<td>4,444</td>
</tr>
</tbody>
</table>

Included in the above amount are separately invested AVCs as follows:

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>XYZ With Profits Account</td>
<td>246</td>
<td>229</td>
</tr>
<tr>
<td>XYZ Managed Fund</td>
<td>243</td>
<td>228</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>489</td>
<td>457</td>
</tr>
</tbody>
</table>

Investments purchased by the scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. For members who invest in the XYZ with profit account the investment provider designates the investment records by member. For members who invest in the XYZ managed fund the investment manager holds the investment unit on a pooled basis for the trustee. The scheme administrator allocates investment units to members. The trustee may hold investment units as a result of members leaving the scheme prior to vesting.

12. Current assets and liabilities

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td><strong>Designated to Members</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank balances</td>
<td>611</td>
<td>37</td>
</tr>
<tr>
<td>Contributions due from employer in respect of</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>Members</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Unpaid benefits</td>
<td>(6)</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Not Designated to Members</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank balances</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Creditors and accruals</td>
<td>(6)</td>
<td>(8)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47</td>
<td>4(4)</td>
</tr>
</tbody>
</table>

All contributions due to the scheme relate to the month of December 20X1 and were paid in full to the scheme within the timescale required by the payment schedule currently in force.

Included in the bank balance is £5,000 (20X0: £4,000) which is not allocated to members.

13. Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>20X1</th>
<th>20X0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£’000s</td>
<td>£’000s</td>
</tr>
<tr>
<td>Unpaid benefits</td>
<td>(6)</td>
<td>(3)</td>
</tr>
<tr>
<td>Creditors and accruals</td>
<td>(6)</td>
<td>(8)</td>
</tr>
</tbody>
</table>
The Compliance Statement

The paragraphs below set out the disclosures that could normally be relegated to the compliance statement.

CHANGES IN AND OTHER MATTERS RELATING TO SCHEME ADVISERS
Where there has been a change of auditor or actuary, a copy of any Declaration made by the retiring auditor or actuary in accordance with the relevant regulations. This should be referred to and commented upon in the trustees’ report. If the Declaration made by the retiring auditor or actuary indicates that there are circumstances connected with the resignation or removal dealt with in that Declaration, the Declaration should be included in the trustees’ report and not in the compliance statement.

TAX STATUS OF SCHEME
It may be helpful to include a statement confirming that the scheme is, where appropriate, an exempt approved scheme and that, to the trustees' knowledge, there is no reason why such approval should be prejudiced or withdrawn. If the scheme is not exempt approved or is seeking approval, a statement to that effect.
APPENDIX 3 - NOTE ON LEGAL REQUIREMENTS IN THE UNITED KINGDOM

The Legislative Background

1. Section 113 of the Pension Schemes Act 1993 provides the Secretary of State with a general power to make regulations requiring information to be given or made available to members of occupational pension schemes.

2. Section 41 of the Pensions Act 1995 enables regulations to be made to require trustees (or managers) of occupational pension schemes to obtain and make available copies of certain prescribed documents. The prescribed documents include:
   - audited financial statements;
   - the auditor's statement about contributions under the scheme;
   - actuary's valuation and statement about certain aspects of the valuation in a prescribed form. As referred to in paragraph 1.14(c) once the Minimum Funding Regulations are no longer relevant, the Summary Funding Statement should be included in the Annual Report in place of the regulation 30 statement.

3. The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975) impose requirements authorised under the section 41 referred to above. The relevant regulations are as follows:

   (a) Regulation 2 requires that the trustees or managers of an occupational pension scheme (other than those to whom the requirement of section 47(1)(a) of the Pensions Act 1995 to appoint an auditor does not apply - see (g) below) shall obtain, not more than seven months after the end of each scheme year which ends on or after 6 April 1997, audited financial statements for that scheme year prepared in accordance with regulation 3, together with the auditor’s statement about contributions under the scheme, prepared in accordance with regulation 4.

   (b) Regulation 2 also provides that the requirement to obtain audited financial statements shall not apply to earmarked schemes. However, the requirements to obtain an auditor’s statement about contributions under the scheme and to produce an annual report will apply). An ear-marked scheme is an occupational pension scheme which is a money purchase scheme under which all the benefits other than death benefits are money purchase benefits, and all the benefits are secured by one or more policies of insurance or annuity contracts and such policies or contracts are specifically allocated to the provision of benefits for individual members or any other person who has a right to benefits under the scheme.
(c) Where the trustees or managers fail to obtain accounts audited by the auditor or the auditor’s statement about contributions under the scheme, and there is no reasonable excuse for the failure to do so, Regulation 2 provides that they shall be liable to pay to the Occupational Pensions Regulatory Authority, The Pensions Regulator (TPR), within 28 days from the date of its imposition, a penalty not exceeding £5,000 in the case of an individual trustee and £50,000 in any other case.

(d) Regulation 3 provides that the audited financial statements shall contain the information specified in the Schedule to the Regulations and shall show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition of the assets at the end of the scheme year, and of the liabilities of the scheme, other than liabilities to pay pensions and benefits after the end of the scheme year. Regulation 3 also requires the audited financial statements to include a report by the auditor indicating whether, in the auditor's opinion, the financial statements contain the required information and show a true and fair view as required.

(e) Regulation 4 provides that the auditor’s statement about contributions under the scheme should indicate whether, in the auditor’s opinion, contributions have been paid at least and material in accordance with the schedule of contributions or payment schedule. If the auditor's report is negative or qualified, reasons must be given for the qualification.

(f) The Schedule to the Regulations sets out more detailed requirements for the contents of the financial statements referred to in regulation 3 which are reflected in the SORP. The Schedule also includes a requirement for a statement as to whether the financial statements have been prepared in accordance with the guidelines set out in the SORP current at the end of the scheme year to which the financial statements relate. The statement should indicate any material departures from those guidelines. Those guidelines are set out in section 2 “Recommended Accounting Practice” of the SORP.

(g) Regulations 3(1)(a) to (n) of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) set out a number of categories of scheme to which the requirement of section 47(1)(a) of the Pensions Act 1995 to appoint an auditor does not apply and which are therefore not required to produce audited financial statements under the regulations referred to in (a) above. The categories of scheme exempted include, among others:

- occupational pension schemes which (within the meaning of the relevant tax legislation) provide ‘relevant benefits’ but are neither ‘approved schemes’ (which term includes schemes which have an application for approval pending) nor ‘relevant statutory schemes’ (unless there are 100 or more members, see paragraph 4 below);

- occupational pension schemes in respect of which any Minister of the Crown has given a guarantee or made any other arrangements for the purpose of securing that the assets of the scheme are sufficient to meet its liabilities;

- certain public service pension schemes, including those made under section 7 of the Superannuation Act 1972 (relating to local government service);

- unfunded occupational pension schemes;
- occupational pension schemes with less than 2 members;
- occupational schemes in which the only benefits provided are death benefits and under which no member has accrued rights;
- occupational pension schemes with a superannuation fund such as is mentioned in section 615(6) of the Income & Corporation Taxes Act 1988 (unless there are 100 or more members, see paragraph 4 below);
- money purchase schemes which are small self-administered scheme, in which all the members are trustees and all decisions are made only by the unanimous decision of the trustees who are members (the participation by a pensioneer trustee in making decisions may be disregarded for this purpose);
- relevant ear-marked schemes, being occupational schemes which are money purchase schemes; under which all the benefits are secured by one or more contract of insurance or annuity contracts specifically allocated to the provision of benefits to or in respect of individual members; all the members of which are trustees; and under the provisions of which decisions to be made by the trustees must be unanimous or unanimous if any trustees who are not members are disregarded.

4. These regulations are amended by The Occupational Pension Schemes (Administration and Audited Accounts) (Amendment) Regulations 2005 which allows exemption from the appointment of an auditor for both defined contribution and defined benefit schemes where there are less than 12 members and all members are trustees or trustee directors where, all decisions are made by unanimous agreement of the members or the scheme has an independent trustee who is on the approved list maintained by TPR. These regulations also introduced the requirement for an audit for certain schemes with 100 or more members as referred to in paragraph 3(g) above.

45. The Occupational Pension Schemes (Disclosure of Information) Regulations 1996 (SI 1996/1655) (the Disclosure Regulations) impose disclosure requirements authorised under the sections 113 and 41 referred to above. The relevant regulations are as follows:

(a) Regulation 6 provides that not more than seven months after the end of each scheme year, the trustees must make available a document which contains:
- a copy of the audited financial statements for the scheme year together with the auditor’s statement on contributions, where these are required by the regulations (see paragraph 3(a) above)
- a copy of the latest actuarial statement, where required by regulations made under section 41 of the Pensions Act 1995 (relating to prescribed aspects of the actuarial valuation) (however the SORP recommends that once the Regulation 30 statement is no longer required the Summary Funding Statement is included instead);
- a copy of the latest certificate by the actuary under the Act as to the adequacy of the contributions payable towards the scheme;
- further information specified in Schedule 3 to the Disclosure Regulations, so far as the information applies to the scheme.

Regulation 6 also sets out the terms on which copies of the document are made available and to whom they should be made available. Such persons include members, prospective members, spouses, beneficiaries and trade unions recognised for collective bargaining purposes.
(b) Schedule 3 details the information which is to accompany the audited financial statements and the actuarial statement and certificate (see paragraph 5(a) regarding the Summary Funding Statement). The Schedule requires a broad range of specific items of information to be made available, including an investment report if the scheme is required to produce a statement of investment principles under section 35 of the 1995 Act. The requirements are summarised in Appendices 1 and 2 of this document, with references to Schedule 3 of the Regulations appearing in the margin of the text in those appendices.
APPENDIX 4 - NOTE ON REQUIREMENTS IN THE REPUBLIC OF IRELAND

Introduction

This appendix provides:

1. a) a note on legal requirements in the Republic of Ireland relating to the disclosure of financial and other information by pension schemes;

   b) a statement approved by the Society of Actuaries in Ireland in consultation with the Institute of Chartered Accountants in Ireland on the appropriate format for an actuary’s statement prepared in accordance with those requirements.

Note on legal requirements

2. a) Section 54 of the Pensions Act, 1990 (“the Act”) provides that the Minister for Social, Community and Family Affairs may make regulations relative to information to be furnished by the trustees of the scheme to members of schemes and others.

   b) Section 56 of the Act contains provisions on audited financial statements and actuarial valuations of schemes with exemptions for certain types of schemes. Requirements relating to the qualification of auditors of schemes’ financial statements are stated in the Section.

   c) At the time of preparation of the SORP, The Pensions (Amendment) Act 2002, which contains provisions (particularly in relation to the timeframe for remittance and investment of contributions and inclusion of an actuarial statement in the annual report) amending the Pensions Act 1990, had been enacted, but certain of that Act’s provisions (including those referred to) were not yet brought into force nor regulations made thereunder.

   The provisions of the 2002 Act and any regulations made thereunder should therefore be consulted in the preparation of documents to which the SORP relates with regard to the commencement of those provisions and their content.

3. a) The Occupational Pension Schemes (Disclosure of Information) (No. 2) Regulations, 1998-2006 (SI 19982006/349301) (“the Disclosure Regulations”) were made under, inter alia, Sections 54 and 56 of the Pensions Act, 1990 and set out requirements in relation to the disclosure
of financial and other information for pension schemes. Under the Disclosure Regulations, trustees of schemes are required, subject to exemptions referred to in sub-paragraph (f) below, to obtain annual audited financial statements, including the auditor’s report, and containing specified information, from an auditor who fulfils certain requirements. The Disclosure Requirements require that audited financial statements and the auditor’s report on the financial statements shall be made available by the trustees of the scheme, not later than nine months after the end of the scheme year to which it relates or such later date as may be approved by the Pensions Board, to persons specified in the Disclosure Regulations.

b) Article 4-5 and Schedule A of the Disclosure Regulations provide that the audited financial statements shall include the information specified in the Schedule which is applicable and material to the relevant scheme. The auditor’s report on the financial statements is required to state whether, in the opinion of the auditor, the financial statements show a true and fair view of the financial transactions of the scheme for the scheme year and of the amount and disposition of the assets and liabilities (other than liabilities to pay pensions and other benefits in the future) at the end of the scheme year. In addition, the auditor’s report shall state that the contributions payable to the relevant scheme during the scheme year have been received by the trustees within 30 days of the end of the scheme year and that in his opinion such contributions have been paid in accordance with the rules of the relevant scheme and, if appropriate, with the recommendation of the actuary. If the auditor’s report is qualified, reasons for the qualification must be given.

c) Schedule A also contains at paragraph 5 an important requirement for a statement as to whether the financial statements have been prepared in accordance with the SORP current at the end of the scheme year to which financial statements relate. The statement should indicate any material departures from the SORP.

d) Schedule B of the Disclosure Regulations details information which is to accompany the audited financial statements and the actuarial statement. The Schedule requires specific items of information including an investment report.

e) Article 5-6 of the Disclosure Regulations sets out requirements in relation to actuarial statements and the terms on which copies should be made available.

f) Article 6-7 of the Disclosure Regulations provides for the preparation of an annual report of the scheme as soon as reasonably practicable after the end of the scheme year. The Article also sets out the terms on which copies are to be made available and to whom they should be made available. A copy of the annual report, signed and dated by the trustees, must be made available by the trustees not later than nine months after the scheme year to which it relates or such later date as may be approved by the Board. The annual report must contain the following:-
g) Article 7–8 of the Disclosure Regulations contain exemptions for certain schemes. Defined contribution schemes and certain defined benefit schemes shall, in place of the full requirements for audited financial statements and reports, have the option of issuing an alternative annual report, which must be prepared by a qualified auditor or, where all of the benefits are secured under a contract of assurance with a life assurance company, by a person designated by that company. This important exemption for defined benefit schemes applies to “small schemes”, which means any defined benefit scheme where, at the start of the relevant scheme year, there are less than 50 active members and less than 100 members excluding members for whom the only benefit under the rules is in respect of death in service or for whom insurance policies which are specially allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, those members (or other persons in respect of those members, or both) have been purchased. The recommendations of the SORP do not apply to alternative annual reports.

h) In order to be consistent with the different legislative regime available to defined contribution schemes and applying to AVCs, paragraph 2.98 of the SORP notes that AVCs may be presented differently in the Republic of Ireland. Where AVCs are separately invested in such a way that the proceeds from the investment determine the benefit to the members, they may be disclosed separately from the transactions and net assets of the fund but accounted for within the accounts of the scheme or in a note to the financial statements that explains how the AVC funds are invested and the movements of those funds.

i) At the time of preparation of the SORP, the Pensions (Amendment) Act 2002, which contains provisions (particularly in relation to the timeframe for remittance and investment of contributions and inclusion of an actuarial statement in the annual report) amending the Pensions Act 1990, had been enacted, but certain of that Act’s provisions (including those referred to) were not yet brought into force nor regulations made thereunder.

The provisions of the 2002 Act and any regulations made thereunder should therefore be consulted in the preparation of documents to which the SORP relates with regard to the commencement of those provisions and their content.

B. Illustrative format of Actuary’s Statement

The illustrative statement set out below has been approved by the Society of Actuaries in Ireland in consultation with the Institute of Chartered Accountants in Ireland.
XYZ Pension Scheme
Actuary’s Statement

I last carried out an actuarial valuation of the XYZ Pension Scheme at an effective date of 1 July 20X1. Based on the results of that valuation I can confirm that:

1. On an ongoing basis, if the actuarial assumptions are realised and the recommended funding rate is paid, the resources of the scheme will be sufficient to meet its liabilities as they fall due.

2. If the scheme had been wound up at the date of the valuation, the resources of the scheme would have been sufficient to cover the liability for benefits payable to members under the winding up rules together with any associated expenses. Such benefits comprise pensions in course of payment from the scheme and any associated dependants’ pensions, deferred benefits for ex-members and accrued benefits for active members. Accrued benefits are calculated on the basis of pensionable earnings at the date of the valuation and pensionable service completed to that date*. I have assumed that if the scheme had been wound up the Trustees would, in accordance with Paragraph 48(b) of the Pensions Act, 1990, transfer the actuarial value of these benefits to other schemes or to approved insurance contracts.

* as appropriate.

Further details of the valuation are set out in my report to the Trustees dated 21 September 20X1.

Signature: __________________________ Date: __________________________
Name: _____________________________ Qualification: _____________________________

Name of Actuary’s Employer/Firm: __________________________________________

At the time of preparation of the SORP, the Pensions (Amendment) Act 2002, which contains provisions (particularly in relation to the timeframe for remittance and investment of contributions and inclusion of an actuarial statement in the annual report) amending the Pensions Act 1990, had been enacted, but certain of that Act’s provisions (including those referred to) were not yet brought into force nor regulations made thereunder.

The provisions of the 2002 Act and any regulations made thereunder should therefore be consulted in the preparation of documents to which the SORP relates with regard to the commencement of those provisions and their content.
APPENDIX 5 - APPLICATION OF ACCOUNTING STANDARDS

Introduction

Accounting standards in the form of Statements of Standard Accounting Practice (SSAPs), Financial Reporting Standards (FRSs) and Urgent Issues Task Force (UITF) Abstracts, form the frame of reference by which accounting information is generally communicated and understood. Financial statements that are intended to show a true and fair view should comply with SSAPs, FRSs and UITF Abstracts. Appropriate disclosure of the accounting policies should be made in the notes to the financial statements. Taken together, this should ensure that financial statements show a true and fair view.

International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are not directly applicable to pension schemes (only listed companies in the United Kingdom must comply with these standards in their consolidated accounts and all companies may adopt them in place of UK GAAP).

Where requirements change as a result of changed regulations, legislation or accounting standards, the implications for this SORP may be dealt with by guidance until such time as the SORP itself is revised. PRAG will keep this SORP under regular review, in accordance with the ASB’s code for SORPs, and will amend it from time to time in the light of developments. Pending such changes being issued, financial statements must be prepared on the basis of accounting standards and UITF Abstracts issued after publication of this SORP, from their effective dates.

In applying accounting standards it is important to be guided by the spirit and reasoning behind them. The spirit and reasoning are set out in the individual standards and are based on the Accounting Standards Board’s Statement of Principles for Financial Reporting. This Statement of Recommended Practice takes account of the accounting standards currently in issue and its recommendations are drawn up having regard to the spirit and reasoning behind them.

There are at present 29 accounting standards: 19 issued by the Accounting Standards Board (ASB) and 10 issued by its predecessor, the Accounting Standards Committee, which have not been superseded or withdrawn. Each of these standards contains a range of provisions, many of which will be applicable to pension schemes in particular circumstances. Some of these provisions will be readily capable of literal application; in other cases their application will be less clear and, to the extent that it is practical, this SORP provides guidance on how they should be applied to pension scheme accounts. It is impractical, however, for the SORP to provide comprehensive guidance on the provisions of accounting standards so as to cater for all situations in which they may be relevant to pension schemes. The purpose of this Appendix is to provide guidance for preparers of pension scheme accounts on how particular provisions of accounting standards are addressed in this SORP.
SSAP 5 - Accounting for Value Added Tax

Certain schemes may be registered for VAT and such schemes should account for VAT in accordance with SSAP 5. The treatment of taxation in the financial statements of pension schemes is discussed in paragraph 2.138.

SSAP 17 - Accounting for Post Balance Sheet Events

Paragraph 2.159 provides guidance on the disclosure of material non-adjusting events within the meaning of SSAP 17.

SSAP 19 – Accounting for Investment Properties

Paragraphs 2.81 to 2.82 provides guidance on the accounting treatment and disclosures required where a scheme holds direct investments in property.

SSAP 20 – Foreign Currency Translation

Guidance on the accounting treatment of differences arising on foreign currency translation is given in paragraph 2.65 to 2.67. (This standard is still applicable as FRS 26 is not yet applicable to pension schemes.)

SSAP 21 - Accounting for leases and hire purchase contracts

Guidance on leasing would be relevant where schemes hold property—land and buildings or other assets either as lessor or lessee.

SSAP 25 - Segmental Reporting

Although this standard is mandatory only for companies, all entities are encouraged to apply its provisions. The principles of SSAP 25 apply to pension schemes primarily in the area of analysis of investments and investment income and reporting of investment strategy and investment performance, as noted in Appendices 1 and 2 of this SORP.

Other current SSAPs are not considered to be relevant to pension scheme accounting. These are SSAP 4: Accounting for Government Grants; SSAP 9: Stocks and long-term contracts; SSAP 13: Accounting for research and development; and SSAP 24: Accounting for pension costs.

FRS 1 (Revised) - Cash Flow Statements

FRS 1 was revised in 1996 and the revised version specifically exempts pension funds from the requirement to prepare a cash flow statement. However, paragraph 1.24 of the SORP explains how useful information about the cash flows of a pension scheme is provided by following the recommendations in the SORP. The fund account provides separate information about the cash flows from ‘operating activities’ (within the meaning of FRS 1 (Revised) - i.e. in the context of a pension scheme’s dealings with members, employers etc. and administration) and from ‘returns on investments’,
and a note to the net assets statement provides detailed analysis of ‘investing’ cash flows (i.e. purchases and sales of investments). The further revisions made through FRS 25 make no change to this position.

**FRS 2 - Accounting for Subsidiary Undertakings, FRS 6 - Acquisitions and mergers, and FRS 7 - Fair values in acquisition accounting and FRS 9 – Associates and joint ventures**

Paragraphs 2.158 and 2.160 briefly discuss the application of FRS 2 and FRS 9 to pension schemes. Only a very small number of pension schemes conduct trading operations through subsidiary undertakings and accounting standards relating to the preparation of consolidated financial statements are therefore generally not relevant to pension schemes.

**FRS 3 - Reporting Financial Performance**

FRS 3 requires reporting entities to highlight a range of important components of financial statements. The SORP reflects this standard by recommending that all income and expenditure and gains and losses recognised in the financial statements for the period should be included in the fund account, and by distinguishing the total returns on investments from the net results of contributions, benefits and transfers (Contributions and Benefits).

FRS 3 calls for the separate reporting of exceptional items and, while bulk transfers, scheme reorganisations and exceptional losses of assets (through fraud for example) may fit that category, the SORP does not make any specific recommendations on the point as there is a general recommendation that accounting standards should be followed where relevant. Similarly, while the SORP does refer to prior period adjustments in paragraph 2.172, it does not give any detailed additional guidance additional to that contained in FRS 3.

Only in rare circumstances will a pension scheme be involved with the segmental reporting of ‘discontinued operations’ within the meaning of FRS 3 and there is a general presumption in pension scheme accounts that its ‘operations’ are continuing. The SORP accordingly makes no reference to this aspect of FRS 3.

The primary purpose of the note of historical cost profits and losses required by FRS 3 is to present the profits or losses of reporting entities that have revalued assets on a more comparable basis with those of entities that have not. This is not relevant to pension schemes as all schemes are required by the relevant legislation to value assets at market value. Additional information on comparative performance where relevant is provided through the investment report.

**FRS 4 - Capital Instruments**

Relatively few pension schemes issue capital instruments (that is, instruments issued in order to raise finance, such as shares, debentures and loans, and options and warrants to obtain such instruments) and the SORP does not therefore address their accounting treatment. However, the disclosure requirements of FRS 4 in relation to
borrowings are reflected in the format and note disclosures illustrated in the SORP.
FRS 25 withdraws parts of FRS 4.

**FRS 5 - Reporting the Substance of Transactions**

The principles of this standard have been followed in paragraph 2.178 of the SORP in the treatment of ‘quasi-subsidiaries’ and in the recommendations for the treatment of insurance policies, money purchase assets and AVCs. Substance over form is covered in paragraphs Error! Reference source not found. to 2.1.

This standard was updated by FRS 25 and 26.

**FRS 6 and FRS 7 – see FRS 2 above.**

**FRS 8 - Related Party Disclosures**

Detailed recommendations on the application of this standard to pension scheme accounts are set out in paragraphs 2.139 to 2.157 of the SORP.

**FRS 9 – Associates and Joint Ventures**

The guidance contained in paragraph 2.160 of the SORP is that, where a pension scheme conducts an activity through an associated undertaking or through a joint venture operation where it shares control of the operation with other parties, the activity should be accounted for in accordance with FRS 9.

**FRS 10 – Goodwill and intangible assets**

This will not normally be of relevance to pension scheme accounting

**FRS 11 – Impairment of fixed assets**

See FRS 15 – Tangible fixed assets, below

**FRS 12 – Provisions, contingent liabilities and contingent assets**

Situations in which the recognition of liabilities in the financial statements of pensions schemes must be considered are dealt with in paragraphs 2.51 (lump sum retirement and death benefits) and 2.55 (transfer values). Paragraphs 2.181 and 2.185 provide guidance on the disclosure of contingent liabilities in the context of pension schemes.

**FRS 13 – Derivatives and other financial instruments: disclosure**

FRS 13 deals with the disclosures required by certain entities that hold or issue financial instruments. Although pension schemes are not among the entities covered by this standard, consideration should be given to including relevant disclosures in the investment report.
Paragraphs 2.89 to 2.102 of the SORP give guidance on the appropriate accounting treatment and disclosures for futures and options, the derivatives most commonly used by pension schemes.

FRS13 is superseded by FRS 29. The SORP has been revised to remove the recommendation to use economic exposure accounting in the primary statements for certain types of derivative contracts.

**FRS 14 – Earning per share**

FRS 14 is of no relevance to pension scheme accounting.

**FRS 15 – Tangible fixed assets**

Schemes that hold fixed assets will be required to follow FRS 15, which applies to accounting periods ending on or after 23 March 2000. This standard applies to pension schemes that purchase fixed assets for use in the administration of the pension scheme. This standard requires fixed assets to be depreciated over the course of their useful economic lives. Where fixed assets are depreciated impairment reviews are only necessary where events or changes in circumstances indicate that the carrying amount may not be recoverable (FRS 11).

**FRS 16 – Current tax**

FRS 16 was issued in December 1999, is effective for accounting periods ending on or after 23 March 2000 and follows the restriction introduced in respect of the reclaimability by pension schemes of UK tax credits on dividend income. The FRS requires dividends, interest and other amounts receivable to be shown in the accounts net of any tax credit. Therefore it will no longer be acceptable to show investment income grossed up for any tax credit, with the tax then deducted as irrecoverable. This is covered in paragraph 2.138 of the SORP.

**FRS 17 – Retirement benefits**

FRS 17 deals with the way in which entities account for the provision of pension benefits in their own financial statements and are generally not relevant to the financial statements of pension schemes themselves, except where the pension scheme is itself an employer and provides occupational pension benefits within the scope of FRS 17.

**FRS 18 – Accounting policies**

FRS 18 supersedes SSAP 2 “Disclosure of accounting policies” for accounting periods ending on or after 22 June 2001 and sets out the principles to be followed in selecting accounting policies and the disclosures needed to help users to understand the accounting policies adopted and how they have been applied.

The disclosure of accounting policies and estimation techniques is discussed in paragraphs 2.167 to 2.169.
**FRS 19 – Deferred tax**

FRS 19 is of no relevance to pension schemes accounting except in the case of pension schemes which are subject to direct taxation, such as in the case of FURBS. In these cases the FRS 19 should be applied.

**FRS 20 (IFRS 2) – Share based payments**

Share based payments are of no relevance to pension schemes.

**FRS 21 (IAS 10) – Events after the balance sheet date**

Paragraph 2.187 provides guidance on the disclosure of material non-adjusting events within the meaning of FRS 21.

**FRS 22 (IAS 33) – Earnings per share**

Earnings per share is of no relevance to pension schemes.

**FRS 23 (IAS 21) – The effects of changes in foreign exchange rates**

The effects of changes in foreign exchange rates applies to all entities applying FRS 26 and therefore applies to pension schemes. Guidance is FRS 23 does not yet apply to pension schemes as FRS 26 also does not yet apply to pension schemes, however the SORP has been revised to include guidance as set out in paragraphs 2.62 to 2.64.

**FRS 24 (IAS 29) – Financial reporting in hyperinflationary economies**

FRS 24 does not yet apply to pension schemes as FRS 26 also does not yet apply to pension schemes. Financial reporting in hyperinflationary economies is of no relevance to pension schemes established in the United Kingdom and Republic of Ireland at the time of writing this SORP.

**FRS 25 (IAS 32) – Financial instruments: Disclosure and Presentation**

FRS 25 offset requirements apply to pension schemes. The SORP gives increase prominence to the offset requirements and provides guidance on dealing with areas in the investment portfolio that commonly require gross up, for example broker balances and derivative contracts with negative values, (see paragraphs 2.108 and 2.110). The other requirements of FRS 25 do not currently apply to pension schemes.

**FRS 26 (IAS 39) – Financial instruments: Measurement**

FRS 26 does not currently apply to pension schemes. However the SORP has been revised to require financial instruments to be reported at fair values in accordance with FRS 26 rather than mid values as previously recommended by the SORP.
FRS 26 requires investments to be classified as “fair value through the profit and loss”, held not maturity and available for sale. The most appropriate category for pension schemes is fair value through the fund account.

Pension schemes do not have profit and loss accounts therefore in relation to “Financial Assets at fair value through Profit and Loss” the reference to “Profit and Loss” will be replaced by “Fund Account”.

The phrase “held for trading” is not appropriate because pension schemes invest in the markets for the long term and do not carry on a trade. Similarly, the requirement for pension schemes to describe derivatives as held for trading, unless they are an effective hedging instrument, is not appropriate because pension schemes typically use derivatives for efficient portfolio management as part of their long term investment strategy. For these reasons it is not appropriate to require pension schemes to classify financial instruments at fair value through the Fund Account at “held for trading” or “other”.

Derivative contracts held by pension schemes are therefore valued at fair value and changes in value are charged through credited/debit to the fund account.

Investment transaction costs for investment reported as Fair Value through the Fund Account will be expensed through the Fund Account rather than current practice of capitalising in cost of investments. See paragraph 2.64.

**FRS 27 – Life assurance**

Life assurance entities are of no relevance to pension schemes.

**FRS 28 – Corresponding amounts**

Corresponding amounts are required to be disclosed in pension scheme accounts and guidance is given in paragraphs 2.157 and 2.158.

**FRS 29 – Financial instruments: disclosure**

This standard supercedes the disclosure requirement of FRS 13 and FRS 25. FRS 29 does not currently apply to pension schemes although is expected to be applicable in 2009 for years commencing on or after 31 March 2007, as agreed with the ASB.

The risk disclosures relevant to pension schemes are the subject of a discussion paper issued by PRAG. relevant and useful to readers of pension scheme financial statements and the SORP provides guidance on these areas in paragraphs [ ] to [ ].

**FRSSE—The financial report standard for smaller entities**

At the time of this revision of the SORP in order to apply the FRSSE an entity must not exceed two of the following criteria: income £5.6m, net assets £2.8m and 50 employees. The main exemptions relevant to pension schemes are that the requirements of FRS 25, FRS 26 and FRS 29 do not apply. If a scheme adopts the FRSSE the financial statements should state that they have been prepared in
accordance with the FRSSE rather than with the SORP. Where areas are not covered by the FRSSE guidance should be sought from other available accounting standards.

**Urgent Issues Task Force (UITF) Abstracts**

UITF Abstracts are issued from time to time to deal with matters that arise which are not adequately covered by existing accounting standards. The provisions of the SORP will cease to have effect to the extent that they conflict with more recent accounting standards or UITF Abstracts.

This current edition of the SORP has taken account of all UITF Abstracts up to and including UITF Abstract 43.
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