FINANCIAL REPORTS OF PENSION SCHEMES

~~2018~~2025

PRAG
PENSIONS RESEARCH ACCOUNTANTS GROUP

Preface

The preface has not been provided in tracked-change format as it principally focuses on the current period.

Under the Financial Reporting Council's (FRC's) Policy on Developing Statements of Recommended Practice (SORPs) (November 2024), SORP-making bodies are required to monitor and update the SORPs for which they are responsible on a regular basis.

The Pensions Research Accountants Group ('PRAG') is the FRC's designated SORP-making body for pension schemes. PRAG is a company limited by guarantee (registered number: 03358278) and, as a corporate entity, it is managed by its board of directors.

In accordance with the FRC's policy, in particular paragraph 25, PRAG has established a 'standing group', the PRAG SORP Working Party. The governance arrangements and agreed terms of reference of the PRAG SORP Working Party is to develop and maintain the SORP and have a role in the SORP's formal decision-making process.

Entities or work complying with this SORP shall apply the accounting standards applicable at the relevant reporting date (which does not preclude early application when permitted). When the current edition of the SORP predates a change in legislation or accounting standards and a conflict is thereby created, or other developments lead to a conflict, the affected provisions of the SORP cease to have effect. All accounting standards and other FRC pronouncements issued by [a date on issue] 2025 were considered in the development of the SORP.

SORP (June 2018)

The recommendations in the Financial Reports of Pension Schemes – A Statement of Recommended Practice (2018) (2018 SORP) were arrived at after consideration of the Financial Reporting Standards (FRSs) and applicable law and regulations in force in the United Kingdom and the Republic of Ireland as of June 2018.

The 2018 SORP reflected the changes in the financial reporting framework in the UK and the Republic of Ireland for unlisted entities introduced by FRS 102 – The Financial Reporting Standard applicable in the UK and the Republic of Ireland. This standard specifically addresses the financial statements for pension schemes. FRS 102 applied for accounting periods commencing on or after 1 January 2015.

SORP (XX 2025)

Since the 2018 SORP was published, the FRC has made a number of amendments to FRS 102 arising from, inter alia, the FRC's second periodic review, focusing on updating accounting requirements to reflect changes in IFRS Accounting Standards, particularly with respect to revenue and leases, and making other incremental improvements and clarifications.

In the period since June 2018, there have been a number of industry developments which impact on pension scheme financial reporting; for example in pension scheme investment strategies.

Therefore, the updates to the 2018 SORP have been to apply the changes required to be consistent with the current version of FRS 102 and current pension legislation and regulations, alongside updates to reflect current pension scheme developments.

Requests were also received from stakeholder groups for amendments, additional clarifications and illustrative examples and these have also been incorporated in the revision, where considered appropriate.

In developing the revised SORP, regard was had to the FRC's objective for SORPs to recommend particular accounting treatments and disclosures with the aim of narrowing areas of difference and variety between comparable entities.

The revised SORP has, generally, sought not to extend the reporting and disclosure requirements beyond those required by FRS 102 or existing best practices, except where it is considered appropriate and proportionate to do so. Regard was paid to applicable accounting standards, laws and regulations since the SORP cannot override these requirements.The SORP is set out in Section 3 of this document (all other Sections and Appendices do not directly form part of the SORP).

As the pensions market develops, and as and when further guidance is considered appropriate or necessary, then consultations will be held with stakeholder groups and updates to the SORP will then be provided. Stakeholder groups are always welcome to suggest amendments to the SORP at any time.

Contents

As set out in the Summary of Contents, the full document is set out (in tracked-change format unless otherwise stated) as to:

- Section 1 is the Introduction.
- Section 2 sets out the requirements for the Annual Report.
- Section 3 is the Statement of Recommended Practice (SORP).
- Appendix 1 provides an illustrative format of financial statements; this detailed appendix has not been provided in tracked-change format as it has been substantially updated and now also provides references to source material.
- Appendix 2 provides an illustrative annual report; this is a new appendix, which provides an illustration, inter alia, of how the regulatory disclosure requirements as detailed in Appendices 3 and 4 should be met.
- Appendices 3 and 4 set out the legal disclosure requirements for the UK in respect of the annual reports for pension schemes and the legal framework in the UK, respectively. Appendix 4 also sets out the disclosure requirements under the Audited Accounts Regulations.
- Appendix 5 sets out the annual report disclosure and legal requirements in the Republic of Ireland.
- Appendix 6 sets out indicative fair value hierarchy levels for common investment types.
- The Basis for Conclusions summarises the main matters considered in developing (as to either retaining paragraphs, amending them, providing additional clarity, or deleting them) the SORP.

FRS 102

In relation to FRS 102, the SORP is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation.

Disclaimer

Scope of FRC review

In accordance with the FRC’s Policy on Developing Statements of Recommended Practice (SORPs), the FRC carried out a review of the proposed revisions to the SORP focusing on those aspects relevant to the financial statements but also including aspects relevant to the FRC’s broader responsibilities where appropriate.

STATEMENT OF RECOMMENDED PRACTICE

FINANCIAL REPORTS OF PENSION SCHEMES (Revised XX ~~June~~ ~~2018~~2025)

SUMMARY OF CONTENTS

APPENDICES

1 INTRODUCTION

1.1 Background

1.1.1 In March 2013, the Financial Reporting Council (FRC) issued FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (FRS 102). This standard applies to most non-~~-~~listed entities in the UK and Republic of Ireland including trust-based occupational pension schemes which prepare their financial statements under UK and Irish Generally Accepted Accounting Practice ~~Principles~~ (GAAP).

Since FRS 102 was issued, there have been a number of amendments. The current applicable standard on which this SORP is based was issued in ~~March~~September ~~2018~~2024 and incorporates, inter alia, Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs – Periodic Review 2024 issued March 2024 (applicable for accounting periods beginning on or after 1 January 2026).~~:~~

- ~~FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* issued in September 2015January 2022 (applicable for accounting periods beginning on or after 1 January 2015); and~~
- ~~Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs – Periodic Review 2024 issued March 2024 (applicable for accounting periods beginning on or after 1 January 2026).~~
- ~~Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland Fair value hierarchy disclosures* issued in March 2016 (applicable for accounting periods beginning on or after 1 January 2017); and~~
- ~~Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017 Incremental improvements and clarifications* issued in December 2017 (applicable for accounting periods beginning on or after 1 January 2019)~~

Formatted: Indent: Left: 0.7 cm, Space After: 3 pt, No bullets or numbering

Formatted: Indent: Left: 0.7 cm, Space After: 3 pt, No bullets or numbering

Formatted: Indent: Left: 0.7 cm, Space After: 3 pt, No bullets or numbering

1.1.2 The other relevant standard for occupational pension schemes is FRS 100 *Application of Financial Reporting Requirements*. Other UK and Irish accounting standards extant at the time of preparing this SORP are not applicable to occupational pension schemes. These are:

- FRS 101 *Reduced Disclosure Framework* – this relates to companies adopting reduced disclosure;
- FRS 103 *Insurance Contracts* – this applies to entities issuing insurance contracts;
- FRS 104 *Interim Financial Reporting* – this applies to entities issuing interim financial reports under FRS 102; and
- FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* – this applies to companies, LLP's and partnerships qualifying under the legal requirements applicable to micro entities.

1.1.3 The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting, proportionate to the size and complexity of the entity and users' information needs.

1.2 SORPs

1.2.1 FRS 100 states that the purpose of SORPs is to:

"Recommend particular accounting treatments and disclosures with the aim of narrowing areas of difference and variety between comparable entities. Compliance with a SORP that has been generally accepted by an industry or sector leads to enhanced comparability between the financial statements of entities in that industry or sector. Comparability is further enhanced if users are made aware of the extent to which an entity complies with a SORP, and the reasons for any departures. The effect of a departure from a SORP need not be quantified, except in those rare cases where such quantification is necessary for the entity's financial statements to give a true and fair view". (FRS 100:7)

1.2.2 The objective of the SORP, set out in section 3 of this document, is to apply the requirements of FRS 100 as described above, to financial reporting for pension schemes in the UK and Republic of Ireland. In doing so, the SORP has regard to the applicable accounting standard, FRS 102, which sets out specific requirements for financial reporting for pension schemes.

These requirements are set out in FRS 102 Section 34 "Specialised Activities" and cover:

- the form and content of pension scheme financial statements;
- the basis of determining the fair value of scheme investments;
- disclosures, mainly in relation to investment fair value determination and investment risks; and
- treatment of actuarial liabilities, which are to be reported in a separate report alongside the financial statements.

1.2.3 In addition, the financial statements of pension schemes have to comply with the whole of FRS 102, where applicable.

1.2.4 Whilst financial statement preparers shall~~ould~~ pay particular attention to the specific requirements for pension schemes in FRS 102 Section 34, regard shall~~ould~~ also be given to the other sections of FRS 102. The pension SORP covers FRS 102's specific requirements for pension schemes and the other requirements which are expected to apply to most pension schemes.

1.2.5 The pension SORP is set out in section 3 of this document. In addition, this document also explains the Annual Report in which it has been assumed that the financial statements will be placed. This additional commentary is set out in section 2 and Appendices 1 to 6~~5~~ of this document and does not form part of the SORP.

1.2.6 In relation to FRS 102, the SORP is for guidance only and is not a substitute for referring to the full text version of FRS 102 which is a joint copyright document of the FRC and the IFRS Foundation.

1.3 Abbreviations

1.3.1 This document refers to a number of different sources. Common abbreviations used are:

- FRS 100 – Financial Reporting Standard 100 Application of Financial Reporting Requirements;
- FRS 102 – Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- Periodic Review Amendments 2024 - Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and other FRSs – Periodic Review 2024;
- ~~Fair Value Disclosure Amendments – Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* Fair value hierarchy disclosures~~
- ~~Improvements and Clarifications Amendments – Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* Triennial Review 2017 Incremental improvements and clarifications issued in December 2017~~
- Disclosure Regulations – The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended;
- Irish Disclosure Regulations – The Occupational Pension Schemes (Disclosure of Information) Regulations 2006, as amended;
- Audited Accounts Regulations – The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, as amended;
- 1995 Act – Pensions Act 1995 as amended;
- 2004 Act – Pensions Act 2004 as amended;
- Irish 1990 Act – Pensions Act, 1990 as amended;
- Scheme Funding Regulations – The Occupational Pension Schemes (Scheme Funding) Regulations 2005, as amended;

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

- Investment Regulations – The Occupational Pension Schemes (Investment Regulations) 2005, as amended; and
- Practice Note 15 (Revised) – Practice Note 15 (Revised): The Audit of Occupational Pension Schemes in the United Kingdom.~~; and~~
  - ~~Irish Practice Note 15* – Practice Note 15 – The Audit of Occupational Pension Schemes in the Republic of Ireland.~~

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

Extracts from the above sources are generally set out in bold text in this document. References to "FRS 102" include the Standard and amendments thereto.

1.4 Terminology

1.4.1 This document makes use of the verbs 'must', 'shall', 'should' and similar. Their use is consistent with that of the FRC and are defined as follows:

- 'must' is used, sparingly, to refer to circumstances which are required to be the case, but which are not necessarily in the t~~T~~rustee body's gift. For example, the trustees must obtain an opinion from the auditor, but that is for the auditor, not the trustee body, to issue that opinion.
- 'shall' is used to refer to things that the trustee body is required to do. This is the usual approach taken in accounting standards to refer to mandatory requirements.
- 'should' is used, sparingly, to refer to a recommendation that is not an absolute requirement of the SORP. For instance, 'Trustees should prepare final winding up financial statements, even when the scheme membership has declined below this limit during the scheme year as a result of winding up activities'.

1.5 Effective Date

1.5.1 The requirements of the 2025 SORP are applicable for all scheme years commencing on or after 1 January 2026.

~~** The Irish Practice Note 15 is no longer published by the FRC and has not yet been adopted by the Irish Auditing and Accounting Supervisory Authority at the time of preparing this SORP.*~~

2 THE ANNUAL REPORT

This section sets our various requirements as they relate to the Annual Report. It does not directly form part of the SORP (in Section 3).

2.1 Requirement to prepare an Annual Report

2.1.1 The United Kingdom Disclosure Regulations require trustees to prepare an Annual Report within seven months of the end of the scheme year and to make this report available to members.

~~(~~Republic of Ireland Disclosure Regulations require ~~the~~ trustees to prepare an annual report within nine months of the end of the scheme year, ~~and~~ make it available to members and other groups within certain time limits and to make it publicly available~~)~~.

The Disclosure Regulations also set out the required minimum contents of the Annual Report:

- The audited financial statements;
- The auditors' reports;
- Actuarial certificate; and
- Information on the scheme in relation to, for example, scheme management, membership and investments.

2.2 Objectives

2.2.1 There are broadly two types of party that have an interest in the Annual Report of a pension scheme:

- internal parties, being those participating in and managing the scheme such as the trustees, members and prospective members, deferred pensioners, pensioners, spouses and beneficiaries, and sponsoring and participating employers; and
- external parties involved with the scheme such as ~~the~~ regulatory and governmental bodies and agencies (including His ~~Her~~ Majesty's Revenue and Customs, the Pensions Regulator and the Pension Protection Fund in the United Kingdom and the Irish Pensions Authority and Revenue Commissioners in the Republic of Ireland), actuaries, auditors, trade unions and other employee representative groups, investment advisers, bankers, lawyers and other professional advisers.

2.2.2 As well as complying with relevant legislation, the general objective of the pension scheme's Annual Report is to provide information that is relevant to these interested parties:

- 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, investment performance 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;
- sponsoring and 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 laws, regulations and regulatory guidance; and
- 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.

2.3 Plain English

2.3.1 The Annual Report ~~should~~shall, 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 and understanding of business, pension schemes 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 explained in user friendly terms.

2.3.2 The overall structure of the Annual R~~r~~eport ~~should~~ shall also be made clear to the reader, with appropriate use made of headings and sub headings. ~~For longer Annual Reports, a~~A contents page should ~~may~~ be included. ~~helpful.~~

2.4 Content of the Annual Report

2.4.1 The content of the Annual Report is largely based on legislative, ~~audit and~~ financial and audit reporting requirements and comprises:

- Trustees' R~~R~~eport;
- Implementation Statement for schemes to which Section 35 of the 1995 Act applies (forming part of the Trustees' Report, or direct cross reference within the Trustees' Report to an Appendix in the Annual Report where the Implementation Statement is included) (not in the Republic of Ireland);
- Statement of trustees' responsibilities (forming part of the Trustees' Report);
- Financial statements;
- Auditors' report on the financial statements (in the Republic of Ireland the auditors' ~~'s~~ report will also include a separate opinion on contributions);
- Summary of contributions, unless the scheme has 20 or more participating employers (not in the Republic of Ireland);
- Auditors' statement about contributions, unless the scheme has 20 or more participating employers at the start of the scheme year (not in the Republic of Ireland);
  - ~~Summary of contributions;~~
- Valuation report on liabilities (Defined Contribution scheme requirement for the Republic of Ireland only);
- Report on actuarial liabilities for defined benefit schemes (forming part of the Trustees' R~~R~~eport);
- Actuarial certification of the schedule of contributions for UK defined benefit schemes;
- Actuarial certifications and actuarial statements in relation to funding and actuarial liabilities for Republic of Ireland defined benefit schemes;~~ and~~
- ~~Chair's statement~~Annual statement regarding governance (also known as DC Chair's Statement) for relevant schemes within the meaning of T~~t~~he Occupational Pension Schemes (Scheme Administration) Regulations 1996 (not in the Republic of Ireland) forming part of the Trustees' Report, or direct cross reference within the Trustees' Report to an Appendix in the Annual Report where the Annual statement regarding governance is included); and~~.~~
- For schemes required to publish Climate Change Governance Reporting (also known as Sustainability Disclosure Standards) under regulation 6(1)(b) of T~~t~~he Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (not in the Republic of Ireland), reference and link in the Trustees' Report to the exact website address where the report for the year has been published.

2.4.2 ~~Each of~~ T~~t~~hese elements are ~~is~~ further described below. Detailed information on legal disclosure requirements for the Annual Report is set out in detail in Appendi~~cesx~~ 3 and 4 for UK pension schemes and Appendix 5 for schemes in the Republic of Ireland.

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

2.5 *Trustees' Report*

2.5.1 The primary 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 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~~ shall therefore ~~be~~:

- be written in a clear and simple style to be readily understandable by members and other readers of the Annual Report;
- be succinct, whilst not excluding matters that are likely to be significant to the readers; ~~and~~
- be fair, balanced and impartial in the choice of matters for discussion and in the comments made; and
- exclude matters which are not relevant to the scheme or to the readers of the Annual Report.

2.5.2 The Trustees' Report shall ~~can~~ be structured to cover ~~-~~scheme constitution and management, membership and benefits, ~~-investment matters, compliance matters and~~ actuarial liabilities, financial developments and investment matters.

~~**Scheme management**~~

2.5.3 The Trustees' Report shall include such information as is needed to set out and fully explain:

Scheme constitution and management

- the constitution of the scheme.
- how the scheme is managed.
- details of the trustees/trustee/trustee directors during the year (including appointments and resignations up to the date of approval of the Trustees' Report) and how they are appointed and removed.
- details of the scheme's advisers, including appointments, resignations and removals during the year (and up to the date of approval of the Trustees' Report).
- any significant developments in relation to the sponsoring and participating employers as they relate to the scheme.

Membership and benefits

- scheme membership during the year.
- pension increases in the year.
- calculation of transfer values.

Actuarial liabilities

Financial developments

- significant financial developments during the year; and
- further financial developments up to the date of approval of the Trustees' Report.

~~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. It will include details of the trustees and how they are appointed and details of scheme advisers. If there have been changes to the trustees in the period from the end of the scheme year covered by the annual report to the date of its approval by the trustees, it is recommended these should also be included.~~

Investment matters

2.5.4 The objectives of the investment commentary are to outline and explain the trustees' policies on investments and the strategy for achieving the policies. This will ~~may~~ be particularly useful to the readers of the financial statements where there is a complex investment strategy, which may involve alternative investments including derivative contracts.

~~The investment commentary should also review investment performance against that background and compare the investment return with any benchmark adopted.~~ All the material in the investment commentary shall ~~should~~ focus on the specific circumstances and requirements of the scheme itself, differentiated between defined benefit section investments and defined contribution investments. ~~, with~~

C~~c~~ommentary (if any) on general economic and market conditions shall be restricted to what is necessary for an understanding of the scheme's own situation.

The report shall ~~should~~ include a note of the trustees' policy for the management and custody of investments.

2.5.5 The investment commentary shall also review the scheme's overall investment performance during the year against the background of the scheme's investment strategy and compare the investment return with benchmarks adopted.

The SORP recognises that defined benefit and defined contribution schemes will have different investment objectives and, as such, the detail of the investment performance reporting shall ~~should~~ be tailored to scheme specifics.

For example, a defined benefit scheme may have a portfolio split between return seeking and matching assets, with two different benchmarks.

Alternatively, a defined benefit scheme investment strategy may be to seek a gilts (bonds) plus return or to align to liabilities.

The investment performance reporting shall ~~should~~ reflect the scheme's strategy.

A defined contribution scheme's performance reporting shall ~~should~~ report the performance for the default arrangement and, where deemed appropriate, for each fund a member can choose to invest in.

In addition to investment performance for the year, reporting shall also be provided for a period of 3 to 5 years (as required by the Disclosure Regulations).

2.5.~~5~~6 The investment advise~~o~~r or investment manager(s) may assist in the preparation of the investment commentary. In some cases, the trustees may, indeed, wish to include a report by the investment manager(s) within the investment commentary. Nevertheless, the investment commentary remains the responsibility of the trustees.

~~2.5.6~~ ~~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. For defined contribution arrangements, disclosure of investment manager/investment fund may also be disclosed as this is more relevant to members.~~

2.5.7 Irish Disclosure regulations require the investment report to include the latest Statement of Investment Policy Principles.

2.5.8 FRS 102 requires pension scheme financial statements to make disclosures in relation to investment risks. Trustees may wish to cross refer the Trustees' Report to the financial statements to avoid duplication.

2.5.9 The Disclosure Regulations require all schemes to which Section 35 of the 1995 Act applies (those who have to prepare a statement of investment principles) to include in the Annual Report a statement which sets out the scheme's compliance with its policy in relation to voting rights and undertaking engagement activities and describe the voting behaviour during the year, known as an Implementation Statement. Additional disclosures are required for relevant schemes within the meaning of T~~t~~he Occupational Pension Schemes (Scheme Administration) Regulations 1996. This does not apply to the Republic of Ireland.

This statement can be incorporated into the body of the Trustees' Report or, alternatively, included as an appendix to the Annual Report (with reference made to its approval by the Trustees in the Trustees' Report). This statement does not form part of the financial statements and is therefore not opined on by the scheme's auditors. However, the trustees shall ensure that it is consistent with the financial statements.

Other ~~Compliance~~ matters

2.5.10~~9~~ The purpose of this ~~the~~ paragraph, ~~compliance commentary~~, where applicable, is to disclose any other information which is required to be disclosed in order to comply with the law. ~~or~~

Additional information, such as matters of an administrative nature, may be ~~which is~~ disclosed on a voluntary~~ily~~ basis if it assists the reader of the Annual Report to understand how the trustees manage the scheme. ~~It typically deals with matters of administrative routine~~

2.6 *Statement of trustees' responsibilities*

2.6.1 ~~Revised~~ Practice Note 15 (Revised) includes an illustrative statement of trustees' responsibilities about their key responsibilities in relation to the preparation of financial statements, including going concern considerations. The example is included in Appendix 2. The statement shall be included in the Trustees' Report.

2.7 *Summary of contributions*

2.7.1 Practice Note 15 (Revised) requires the trustees to prepare a Summary of Contributions paid to the scheme under the schedule(s) of contributions/payment schedule(s) (the "schedule") and include this in the Annual Report (not in the Republic of Ireland).

An example is included in Appendix 2.

The summary of contributions shall not be presented as part of the Trustees' Report, but a separate section within the A~~a~~nnual R~~r~~eport; with the related independent auditors' statement about contributions (see paragraph 2.10.4) placed either immediately before or immediately after the summary of contributions.

It shall include a reconciliation of contributions payable under the schedule to total contributions reported in the financial statements.

When determining whether a contribution is required by the schedule, it shall be considered whether the contribution is required (indicators being stipulated amounts, rates and payment deadlines) or merely referred to by the schedule.

2.7.2 If the recognition point for contributions in the financial statements differs from the due date for payment, such timing differences shall be shown as reconciling items between contributions covered by the schedule and contributions reported in the financial statements.

2.8 *Report on actuarial liabilities*

2.~~7~~8.1 FRS 102 (34.48) ~~–~~requires a separate report alongside the financial statements on actuarial liabilities. This report shall contain~~s~~ the latest available valuation of actuarial liabilities and the assumptions and methodology used to calculate them.

This will normally be based on the latest available scheme funding valuation and the information contained in the related Summary Funding Statement and Statement of Funding Principles in the United Kingdom and the Actuarial Valuation prepared under Section 56 of the Irish 1990 Act in the Republic of Ireland.

The SORP also requires ~~recommends~~ that the report discloses the value ~~amount~~ of the scheme's net assets at the date of the actuarial valuation. An example is included in Appendix 2.

2.~~7~~8.2 The actuarial valuation and the preparation of ~~annual~~ financial statements are discrete exercises. They serve two different purposes.

The financial ~~–~~statements are essentially a matter of record of past transactions and balances. ~~performance~~, ~~while~~

T~~t~~he actuarial valuation is principally a forward-looking exercise, the aim of which is usually to assess funding levels and to recommend contribution rates. The actuarial view of the timing and incidence of scheme liabilities is shaped by the assessment of probabilities of future outcomes using actuarial techniques and assumptions.

The timings of the exercises are different. The actuarial valuation is not required to be carried out annually but rather at least every three years and the effective date of the valuation will not necessarily coincide with the reporting ~~accounting~~ date. ~~The actuarial view of the timing and incidence of scheme liabilities is shaped by the assessment of probabilities of future outcomes using actuarial techniques.~~

2.~~7~~8.3 If a more recent valuation other than the scheme funding valuation is available this shall ~~may~~ be used. However, th~~is~~e SORP does not require an annual valuation to be prepared for the purposes of providing the FRS 102 report on liabilities.

2.9 Actuarial certificates

2.~~8~~9.1 In the United Kingdom, the latest available certificate of the adequacy of the contribution rate is required to be included in the Annual Report under the Disclosure Regulations. The certification of the Schedule of Contributions certifies that the contribution rates are adequate for the purpose of securing that the statutory funding objective can be expected to be met. The certificate is prepared in a format that, in the United Kingdom, is prescribed by regulations. For the avoidance of doubt, the ‘latest available’ is that available as at the date of approval of the Annual Report.

2.~~8~~9.2 In the Republic of Ireland, the Irish Disclosure Regulations require the A~~a~~nnual R~~r~~eport to include the annual Actuarial Statement, the Actuarial Funding Certificate and ~~on and after 1 June 2012~~ the Funding Standard Reserve Certificate (with the same effective date as the Actuarial Funding Certificate) prepared under Section 42 of the Irish 1990 Act.

2.~~8~~9.3 The Actuarial Statement and Actuarial Funding Certificate state if the scheme satisfied the funding standard provided for in Section 44(1) of the Irish 1990 Act, while the Funding Standard Reserve Certificate states if the scheme satisfies the funding standard reserve under Section 44(2) of the Irish 1990 Act. If the funding standard/reserve is not satisfied, a proposal must be submitted to the Pensions Authority which details how the scheme will satisfy the funding standard/reserve within the required deadlines.

2.10 Auditors’ reports

2.10~~9~~.1 The Disclosure Regulations in the United Kingdom require the following statements by the scheme auditors (in the case of both defined benefit and defined contribution schemes) to be included in the Annual Report:

- a report by the auditors about the payment of contributions to the scheme, unless the scheme has 20 or more participating employers at the start of the scheme year; and
- an auditors’ opinion on the financial statements.

2.10~~9~~.2 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 as a whole.

For the UK, the auditors also report in a separate statement on whether the contributions payable to the scheme have, in all material respects, been paid at least in accordance with the Schedule of Contributions, ~~or~~ Payment Schedule, ~~or~~ Trust Deed & Rules, or recommendations of the actuary (if applicable), as appropriate.

The auditors’ report and statement on contributions, which set out the auditors’ opinions on these matters, also ~~normally~~ explain the auditors’ responsibilities and the basis of those opinions.

In the Republic of Ireland the auditors’ report is required to include:

- an auditors’ opinion on the financial statements; and
- a separate opinion on contributions covering whether contributions were received in accordance with the scheme rules and recommendations of the actuary and within the timetable for remittance and investment of contributions provided for in the ~~Pensions~~ Irish 1990 Act ~~1990 (as amended)~~ within 30 days of the scheme year-end.

2.~~9~~10.3 Auditors are required by International Standards on Auditing (UK) 700 and International Standards o~~f~~n Auditing (Ireland) 700 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.

2.10.4 The auditors' reports shall be included within the Annual Report in the exact style and format and content as the auditors shall, at their sole discretion, require and the preparers of the Annual Report, including the trustees, shall ensure and facilitate that this is the case.

2.11 The financial statements

2.1~~0~~1.1 The United Kingdom Audited Accounts Regulations and Irish Disclosure Regulations require trustees to obtain audited financial statements within seven months (nine months for the Republic of Ireland) of the scheme year-end which show a true and fair view of:

- the financial transactions of the scheme during the scheme year; and
- the amount and disposition of the assets and liabilities of the scheme at the end of the scheme year other than the liabilities to pay pensions and benefits after the end of the scheme year.~~; and~~

~~the liabilities of the scheme, other than the liabilities to pay pensions and benefits after the end of the scheme year.~~

2.1~~0~~1.2 Under Republic of Ireland legislation, when Additional Voluntary Contributions have been separately invested on a defined contribution basis, they can be excluded from the net assets of the scheme and disclosed separately in the notes to the financial statements. However, to comply with FRS 102 they ~~should~~ are required to be included in the net assets of the scheme where significant to the Statement of Net Assets available for benefits (see paragraph 3.26.8).

2.1~~0~~1.3 The pension scheme financial statements are, therefore, prepared in accordance with applicable UK/Irish accounting standards in order to show a true and fair view. The current applicable standard under UK and Irish GAAP is FRS 102 which states that the objective of financial statements is:

To provide financial information about the ~~financial position, performance and cash flows of an~~ entity that is useful for ~~economic decision~~ decision-making by a ~~broad~~ wide range of users who are not in a position to demand reports tailored to meet their particular information needs. (FRS 102:2.~~2~~4)~~. Financial statements also show the results of the stewardship of management – the accountability of management for resources entrusted to it. (FRS 102:2.3)~~

Such information includes information about:

(a) the economic resources of the entity, claims against the entity and changes in those resources and claims; and

~~(a)~~(b) how efficiently and effectively the entity's management has discharged its responsibilities to use the entity's economic resources (management's stewardship). (FRS 102:2.5)

The Statement of Recommended Practice (SORP) (see Section 3) provides, inter alia, guidance as to the application of FRS 102 to pension schemes.

2.1~~0~~1.4 FRS 102 sets out the format and content of pension scheme financial statements. They comprise:

- Fund Account – reporting dealings with members and returns from investments;
- Statement of Net Assets available ~~to meet~~for benefits – reporting the pension scheme net assets at fair value; and
- Notes to the Fund Account and Statement of Net Assets available ~~to meet~~for benefits.

2.1~~0~~1.5 FRS 102 does not require the actuarial liabilities to be included in the financial statements. It does require them to be included in a report alongside the financial statements. FRS 102 also exempts pension schemes from the requirement to include a statement of cash flows in the financial statements **(FRS 102:7.1A)**.

For these reasons, ~~PRAG believes~~ the main objective for pension scheme financial statements is ~~to~~, therefore, to report the results of ~~stewardship of~~the management of the scheme's economic resources ~~by the trustees~~.

~~*2.12 Small Entities*~~

Formatted: Indent: Left: 1.27 cm, No bullets or numbering

~~**2.11.1**~~ ~~FRS 102 allows reduced disclosures for Small Entities to the extent they are not needed for the financial statements to show a true and fair view. Under FRS 102 the definition of a Small Entity is as set out in the Companies Act 2006/Irish Companies Act 2014 for small companies and is applicable to all entities whether or not they are incorporated. The question arises as to whether the Small Entities regime applies to financial reporting for pension schemes.~~

~~**2.11.2**~~ ~~The criteria under the Companies Act 2006/Irish Companies Act 2014 are expressed in terms of number of employees, turnover and balance sheet totals (subject to a number of exclusions expressed under the Act) and do not clearly map across to pension schemes.~~

~~**2.11.3**~~ ~~Also differing required disclosures between large and small schemes could be seen as discriminatory against members' interests in smaller schemes.~~

~~**2.11.4**~~ ~~In light of these aspects this SORP does not believe the Small Entities regime set out by FRS 102 is applicable or relevant to pension scheme financial reporting.~~

2.12 Annual statement regarding governance

2.12.1 The Disclosure regulations require the Annual Report to include an annual statement regarding governance for all schemes that fall under the definition of a relevant scheme within the meaning of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (also known as a "DC Chair's Statement") (not in the Republic of Ireland). This statement shall comply with regulation 23 of the Scheme Administration regulations.

2.12.2 This statement does not form part of the financial statements and is, therefore, not opined on by the scheme auditors. However, it should be considered as part of the scheme auditors' review of other information in the Annual Report for material consistency with the financial statements.

2.13 Climate change governance reporting

2.13.1 Under regulation 6(1)(b) of The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (climate change reporting and publication requirements) certain schemes (as defined in the regulations) are required to publish Climate Change Governance Reporting (also known as Sustainability Disclosure Standards) on a website (not in the Republic of Ireland).

2.13.2 The Disclosure Regulations require that the website address where the report for the year has been published is included in the Trustees' Report. For Annual Reports published electronically this can be by way of a direct hyperlink.

2.13.3 This report is held outside of the Annual Report and therefore is not opined on by the scheme auditors, nor does it form part of the other information in the Annual Report required to be reviewed by the scheme auditor for material consistency with the financial statements.

3 STATEMENT OF RECOMMENDED ~~ACCOUNTING~~ PRACTICE

3.1 *Scope and purpose*

Financial reporting framework

3.1.1 FRS 100 sets out the financial reporting framework in the United Kingdom and Republic of Ireland and has the following objective and scope:

The objective of this Financial Reporting Standard (FRS) is to set out the applicable financial reporting framework for entities preparing financial statements in accordance with legislation, regulations or accounting standards applicable in the United Kingdom and Republic of Ireland. (FRS 100:1)

This FRS applies to financial statements that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period. (FRS 100:2)

3.1.2 The United Kingdom Audited Accounts Regulations and the Republic of Ireland Irish 1990 ~~Pensions~~ Act ~~1990~~ require the trustees to obtain financial statements which show a true and fair view. Therefore, FRS 100 applies to pension scheme financial statements which are prepared in accordance with these legislative requirements.

It also applies in situations where other requirements require the preparation of pension scheme financial statements which show a true and fair view under accounting standards applicable in the UK and the Republic of Ireland.

3.1.3 Under **FRS 100:4(b)** pension scheme financial statements may be prepared either in accordance with FRS 102 or IFRS Accounting Standards that have been adopted in the relevant jurisdiction; in the UK this refers to UK-adopted international accounting standards and in the Republic of Ireland this refers to EU-adopted IFRS. ~~EU-adopted International Financial Reporting Standards (IFRS).~~ If a pension scheme applies ~~EU-adopted~~ IFRS Accounting Standards, then th~~is~~e SORP does not apply, since SORPs are not recognised under IFRS Accounting Standards.

Instead, the pension scheme will prepare its financial statements in accordance with International Accounting Standard 26 *Accounting and Reporting by Retirement Benefit Plans* and other ~~EU-adopted~~ IFRS Accounting Standards as appropriate.

Scope

3.1.4 The scope of th~~is~~e SORP ~~Statement~~ includes pension schemes preparing financial statements under FRS 102 including inter alia:

- defined benefit schemes;
- defined contribution schemes;
- hybrid (defined benefit and defined contribution) schemes
- schemes which are fully insured;
- ear-marked schemes (where trustees choose to prepare financial statements, see paragraph 3.1.6 below);
- financial statements prepared for the purpose of actuarial valuations (where no Trustees' Annual Report is required);
- funded unapproved retirement benefit schemes/funded employer-financed retirement benefit schemes (FURBS) (UK only);
- schemes in wind~~ng~~ up;
- schemes constituted overseas;
- trust-based stakeholder pension schemes (UK only);
- trust based master trusts;
- defined benefit superfunds;

- collective defined contribution schemes;
- section 615 of the Income and Corporation Taxes Act 1988 arrangements (UK only); ~~and~~
- schemes in the Pension Protection Fund assessment period (UK only); and
- non statutory arrangements that chose to apply FRS 102 and the SORP.

The~~is~~ SORP also applies to common investment funds in which only pensions funds participate.

3.1.5 The requirements ~~recommendations~~ of the~~is~~ SORP ~~Statement~~ do not apply to:

- schemes which are unfunded, where benefits are paid directly by the employer and no provision is made for future liabilities by setting aside assets under trusts;
- free standing Additional Voluntary Contribution (AVC) ~~-~~schemes (except in the Republic of Ireland);
- stakeholder schemes which are not trust based;
- personal pensions;
- personal pension schemes in which employees of a particular employer participate on a grouped basis (sometimes referred to as a group personal pension (GPP) scheme~~s~~) 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); and
- Local authority pension schemes which are required to prepare their financial statements in accordance with the Code of Practice on Local Authority Accounting which is largely based on IFRS Accounting Standards.

3.1.6 The Audited Accounts Regulations ~~in the United Kingdom~~ and the Irish Disclosure Regulations provide an exemption, in certain set ~~defined~~ circumstances, for defined contribution schemes holding ear-marked insurance policies from the requirements to prepare financial statements.

These are referred to as "ear-marked" pension schemes and are defined as "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."

~~**3.1.7** In the Republic of Ireland all small schemes (defined there as being less than 100 active and deferred members) are exempt and allowed to prepare alternative Annual Reports, see Appendix 5.~~

Application of the SORP

3.1.7~~8~~ The SORP is applied to pension scheme financial statements by FRS 100 as follows:

If an entity's financial statements are prepared in accordance with FRS 102, SORPs will apply in the circumstances set out in those SORPs. (FRS 100:5)

3.1.8~~9~~ As explained above, the~~is~~ SORP applies to occupational pension schemes that prepare financial statements under UK and Irish GAAP in accordance with FRS 102.

Small Entities

3.1.9 FRS 102 allows reduced disclosures for Small Entities to the extent that they are not needed for the financial statements to show a true and fair view. Under FRS 102, the definition of a Small Entity is as set out in the UK Companies Act 2006/Irish Companies Act 2014 for small companies and is applicable to all entities whether or not they are incorporated. The question arises as to whether the Small Entities regime applies to financial reporting for pension schemes.

3.1.10 The criteria under the UK Companies Act 2006/Irish Companies Act 2014 are expressed in terms of number of employees, turnover and balance sheet totals (subject to a number of exclusions expressed under the Acts) and do not clearly map across to pension schemes.

3.1.11 Also, differing required disclosures between large and small pension schemes could be seen as discriminatory against members' interests in smaller schemes.

3.1.12 In light of these aspects, the Small Entities regime set out by FRS 102 is not applicable or relevant to pension scheme financial reporting and shall not be applied. However, please also see paragraph 3.4.6 with regards to the extent of required disclosures.

3.2 Effective date

3.2.1 The ~~recommendations~~ requirements of th~~is~~e SORP are applicable for all scheme years co~~m~~mmencing on or after 1 January 2026. Early adoption is permitted with disclosure of the fact **(FRS 102:1.38)**. Much of th~~is~~e SORP is based on the revised FRS 102 (issued ~~September~~September 2024 ~~2015~~~~January 2022~~) ~~and the Periodic Review Amendments.~~~~Fair Value Disclosure Amendments which are applicable for accounting periods commencing on or after 1 January 2015 and 1 January 2017 respectively. This SORP also incorporates the Improvements and Clarifications Amendments which are applicable from 1 January 2019 and which can be adopted early with disclosure of this as required by FRS 102~~ ~~**(FRS 102:1.18)**~~~~. Therefore if this SORP is adopted early a scheme shall disclose this and the early adoption of the Improvement and Clarifications Amendments.~~ Early adoption of the SORP is contingent upon early adoption of the revised FRS 102 and vice versa.

~~*3.3 Transitional provisions*~~

Formatted: Indent: Left: 1.27 cm, No bullets or numbering

~~**3.3.1**~~ ~~Transition from reporting under previous UK/Irish GAAP to FRS 102 is to be carried out in accordance with the requirements of Section 35 of FRS 102. These require the first set of financial statements that are prepared in accordance with FRS 102 to be prepared on the basis that FRS 102 always applied to the current and previous accounting periods. There is therefore no need to account for changes in asset recognition or valuation arising on transition to FRS 102 as a prior year adjustment. Full comparatives in accordance with FRS 102's disclosure requirements are required for the comparative period.~~

~~**3.3.2**~~ ~~FRS 102 requires the following disclosures in relation to the transition:~~

~~**An entity shall explain how the transition from its previous financial reporting framework to this FRS affected its reported financial position and financial performance (FRS 102:35.12). To comply with paragraph 35.12, an entity's first financial statements prepared using this FRS shall include:**~~

~~**(a) a description of the nature of each change in accounting policy;**~~

~~**(b) reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:**~~

~~**(i) the date of transition to this FRS; and**~~

~~**(ii) the end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.**~~

(c) ~~**a reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with this FRS for the same period. (FRS 102:35.13)**~~

~~**3.3.3**~~ ~~This SORP recommends that the disclosures required by FRS 102 above are satisfied by disclosing a reconciliation between the scheme net assets at the transition date and at the end of the comparative period and the net increase/decrease in the fund during the comparative period as previously stated under UK/Irish GAAP and as stated under FRS 102. The transition date is the opening date of the comparative period.~~

~~3.4~~3.3 Terminology

3.~~4~~3.1 Th~~is~~e SORP ~~statement~~ is required ~~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 and are prepared under FRS 102.

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 certain terms used in the SORP~~statement~~, reference should be made to "Pensions Terminology – A Useful Guide To Pension Terms and Keywords~~Glossary for Pension Schemes~~" published by the Pensions Management Institute and PRAG.

~~3.5~~3.4 Form and content of pension scheme financial statements

3.~~4~~5.1 FRS 102 requires the following in relation to the content of pension scheme financial statements:

The financial statements of a retirement benefit plan shall contain as part of the financial statements:

(a) statement of changes in net assets available for benefits (which can also be called a Fund Account);

(b) a statement of net assets available for benefits; and

~~(c)~~ **notes, comprising its ~~significant~~ material accounting ~~policies~~ policy information and other explanatory information. (FRS 102:34.35)**

3.~~4~~5.2 In accordance with FRS 102, th~~e~~is SORP requires ~~recommends~~ that pension scheme financial statements ~~should~~ comprise:

- **Fund Account** – a primary statement which discloses the magnitude and character of financial additions to, withdrawals from, and changes in value of the fund during the accounting year, segregated between dealings with members~~,~~ and returns on investments ~~and taxation~~ which fully reconciles the net assets of the scheme at the beginning of the scheme year with those at the end of the year;
- **Statement of Net Assets available for benefits** - a primary statement~~s~~ which discloses the amounts and disposition of the net assets of the scheme at the end of the scheme year available to meet benefits; and
- **Notes to the financial statements** which include~~s~~ information on the basis of ~~presentation~~preparation of the financial statements and the material accounting policy information~~ies used~~, plus further detail on items in the primary statements.

3.~~5~~4.3 The financial statements ~~should~~ shall 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~~ shall be given sufficient prominence on the face of the primary statements to draw readers' attention to their non-routine nature (for example ~~material~~ group transfers or scheme mergers).

3.~~5~~4.4 Appendix 1 provides an illustration of the ~~a suggested~~ presentation of pension scheme financial statements incorporating the main content required by FRS 102 and th~~e~~is SORP for a hybrid pension scheme, which covers both defined benefit and defined contribution arrangements.

This example is not comprehensive and does not, therefore, illustrate every disclosure requirement set out in the SORP and FRS 102. Further, paragraph 3.4.3 shall be applied on a scheme specific basis.

3.4.5 Within the context of section 3.4, each set of scheme financial statements shall be adapted to the specific circumstances of the scheme in question.

For example:

- if there are nil balances in both years presented of a particular line item, then that line item shall be excluded;
- accounting policy information shall only be included if it relates to the transactions and balances in the financial statements covering the two years presented;
- the terms Trustee or Trustees, shall be used, as appropriate;
- the term 'scheme' or 'fund' or 'plan' (or other name as appropriate) shall be used, as applicable, to define and name the pension entity and used on a consistent basis.

3.4.6 FRS 102 states:

This FRS specifies information that is required to be included in the financial statements, which includes the notes. An entity need not provide a specific disclosure required by this FRS if the information resulting from that disclosure is not material. This is the case even if this FRS contains a list of specific requirements or describes them as minimum requirements. (FRS 102:3.16B)

As such, the same principle is applied to the requirements of the SORP.

3.4.7 Given the nature of the financial statements of the scheme, and the separate audit report given thereon, inclusion of information required within the financial statements cannot be achieved through cross reference to other parts of the Annual Report, such as the Trustees' Report, where such information may also be included (for example, details of the scheme's investment strategy). The financial statements shall be standalone in nature.

If there is a disclosure requirement in the Trustees' Report and the same disclosure is required within the financial statements (for example employer-related investments), the Trustees' Report may cross reference to the disclosure in the financial statements.

~~3.6~~3.5 *Accounting principles, policies and presentation*

3.~~6~~5.1 FRS 102 sets out accounting concepts and principles that underpin the preparation of financial statements **(FRS 102:2)**. This section of the SORP sets out a summary of the more significant of these for pension schemes.

Accruals

3.5~~6~~.2 FRS 102 requires that an entity ~~should~~ shall prepare its financial statements on the accruals basis of accounting **(FRS 102:2.~~36~~48)**.

3.5~~6~~.3 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 Statement of Net Assets available for benefits.

The accrual basis ~~should~~shall be applied consistently from one accounting period to the next.

3.5~~6~~.4 Guidance on individual items for which accrual policies may need to be developed is given in the~~is~~ SORP.

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, because they cannot be reliably measured, the accounting policies note ~~should~~shall make clear ~~it~~ 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 and expense, transfer values, ~~and~~ benefits and expenses ~~should~~shall be disclosed.

Offsetting financial assets and liabilities

3.~~6~~5.5 Financial assets and liabilities ~~should~~shall not be offset unless 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 **(FRS 102:11.38A)**.

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~~shall be disclosed separately on the face of the Statement of Net Assets available for benefits. Examples ~~Suggestions~~ of how this shall be achieved are shown in Appendix 1.

Substance of transactions

3.5~~6~~.6 Under FRS 102, assets and liabilities are defined as follows:

An asset is a present economic resource controlled by the entity as a result of past events. An economic resource is a right that has the potential to produce ~~and from which future~~ economic benefits ~~are expected to flow to the entity~~. (FRS 102:2.33)

~~A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. (FRS 102:2.15)~~For a liability to exist, three criteria must all be satisfied:

(a) **the entity has an obligation;**

(b) the obligation is to transfer an economic resource; and

(c) the obligation is a present obligation that exists as a result of past events. (FRS 102:2.38)

3.5~~6~~.7 ~~An asset or liability as defined by FRS 102 should be recognised in the Statement of Net Assets if the following conditions are met:~~Only items that meet the definition of an asset or liability are recognised in the Statement of Net Assets available for benefits. **(FRS 102:2.50)**

~~**(a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and**~~

~~**(b) the item has a cost or value that can be measured reliably. (FRS 102:2.27)**~~

3.5~~6~~.8 **The failure to recognise an item that satisfies ~~those~~ the recognition criteria, and that would otherwise provide relevant information, is not rectified by disclosure of the accounting policies used or by notes or explanatory material. (FRS 102:2.~~28~~53)**

3.5.9 Uncertainty about whether an asset or liability exists may mean that the recognition of an asset or liability would not provide relevant information. Whether or not the asset or liability has been recognised, explanatory information about the associated uncertainties may need to be provided in the financial statements. **(FRS 102:2.57)**

3.5~~6~~.~~9~~10 ~~The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the entity. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items~~If the probability of an inflow or outflow of economic benefits is low, the most relevant information may be about the magnitude of the possible inflows or outflows, their possible timing and factors affecting their occurrence. However, recognition may provide relevant further information. **(FRS 102:2.~~29~~58)**

3.5~~6~~.~~10~~11 For an asset or liability to be recognised, it must be measured. In many cases such measurements must be estimated. ~~The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated.~~ The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine ~~their reliability~~the usefulness of the information if the estimates are clearly and accurately described. ~~When a reasonable estimate cannot be made, the item is not recognised in the financial statements.~~ **(FRS 102:2.~~30~~60)**.

~~**3.6.11** An asset or liability as defined by FRS 102 above should be recognised in the Statement of Net Assets where it meets the recognition requirements as set out by FRS 102.~~

Consistency

3.5~~6~~.12 It is a fundamental accounting concept that there is consistency of accounting treatment within each accounting period and from one period to the next. FRS 102 only allows a change in accounting policy for the following reasons:

(a) it is required by an FRS; or

(b) it results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows (FRS 102:10.8)

3.5~~6~~.13 Where a change arises in relation to an FRS, the change is accounted for in accordance with the transitional provisions of the amendment. Where the change is voluntary, it is applied retrospectively to comparative information for prior periods to the earliest date for which it is practicable, as if the new policy had always been applied **(FRS 102:10.11–12)**.

3.5~~6~~.14 When changes are made they ~~should~~shall 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 and current period ~~should~~shall be disclosed. If i~~I~~t is not practicable to give these disclosures, that fact, together with the reasons, ~~should~~shall be stated.

3.5~~6~~.15 Where there is a change in estimation technique, a description of the change and, where practicable, the effect on the current period figures, ~~should~~shall be disclosed. More detail on the required disclosures for changes in accounting policies and accounting estimates are set out in paragraphs 10.13 to 10.18 of FRS 102.

Comparative amounts

3.5~~6~~.16 FRS 102 requires comparative information in respect of the comparative period for all amounts presented in the current period's financial statements **(FRS 102:3.14)**. This applies to both disclosures

Formatted: Indent: Left: 0.69 cm, No bullets or numbering

Formatted: Font: Bold

required by FRS 102 and by th~~is~~e SORP unless otherwise stated in FRS 102~~ and this SORP~~.

3.~~5~~6.17 Under FRS 102, an entity shall retain the presentation and classification of items in the financial statements from one period to the next, unless there is a change in accounting standards, a change in the entity's operations or a review of its financial statements such that another presentation or classification would be more appropriate **(FRS 102:3.11)**.

Where a change in presentation or classification occurs the scheme ~~should~~shall disclose, where practicable:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification. **(FRS 102:3.12)**

3.~~5~~6.18 If it is impracticable to reclassify comparative amounts, an entity shall disclose why. **(FRS 102:3.13)**

3.~~5~~6.19 The accounting period will usually be one year in duration. If this is not the case for either ~~both~~ the current and/or corresponding periods, this fact ~~should~~shall be clearly stated. Details of and reasons for the change in the length of accounting period ~~should~~shall be disclosed. **(FRS 102:3.10)**.

For a pension scheme, the SORP requires the exact period of the current and corresponding period shall be stated on the face of the primary statements; and the details of and reasons for the change given in the basis of preparation.

3.~~5~~6.20 For United Kingdom ~~-~~pension schemes, the Audited Accounts Regulations require the statutory accounting period to be no shorter than six months and no longer than eighteen months.

This period may, under certain circumstances, be shortened or lengthened further, ordinarily (but not exclusively) in the case of a wind up of a scheme and a set of final financial statements.

For Irish pension schemes, financial statements can be prepared for a period up to ~~23~~ twenty-three months with the permission of the Irish Pensions Authority, or where certain criteria as outlined in the ~~Pensions~~ Irish 1990 Act ~~1990~~ have been met.

Accounting policies

3.~~5~~6.21 FRS 102 requires the disclosure of:

(a) Significant accounting policy information (paragraph 8.5);
(b) Significant judgements (paragraph 8.6); and
(c) Key sources of estimation uncertainty (paragraph 8.7).

~~significant material accounting policies policy information in relation to the measurement bases used in preparing the financial statements and other accounting policies that are relevant to the understanding of the financial statements, including any significant judgements or assumptions in applying accounting policy information. The explanations shouldshall be clear, fair and as brief as possible~~.

~~3.6.22~~ ~~The following are examples of areas where it may be appropriate to disclose the accounting policies adopted:~~

~~(a) significant categories of income and expenditure, such as contributions and AVCs, investment income, investment expenses, transfer values and benefits;~~
~~(b) the approach taken to determine fair value of investment assets;~~
~~(c) the basis of foreign currency translation;~~
~~(d) the accounting treatment of derivative contracts; and~~
~~(e) the bases adopted for accounting for investments in subsidiary and associated undertakings.~~

3.~~5~~6.2~~2~~3 FRS 102 ~~also~~ requires disclosure of ~~significant~~ key assumptions concerning ~~covering~~ the future, and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of the scheme's assets and liabilities within the next financial year. Generally, disclosure of the approach to determining fair value for investment assets and liabilities and reference to the fair value hierarchy will satisfy this requirement.

Consideration ~~should~~shall be given to whether any non-investment assets or liabilities are subject to significant estimation uncertainty and, where this is the case, the notes ~~should~~shall disclose the nature of the uncertainties and the carrying amount of the asset or liability at the end of the reporting period **(FRS 102:8.7)**.

Notes to the financial statements

3.~~5~~6.2~~3~~4 FRS 102 sets out certain requirements in relation to the notes that accompany the financial

Formatted: Font: 9 pt, Font color: Custom Color(RGB(35,31,32))

Formatted: Table Paragraph, Justified, Indent: Left: 0.19 cm, Right: 0.1 cm, Space Before: 1.95 pt, After: 6 pt, Line spacing: Multiple 1.04 li

Formatted: Font: 9 pt

statements.

3.~~5~~6.2~~4~~5 The notes shall:

(a) present information about the basis of preparation of the financial statements and the specific accounting policies used;

(b) disclose the information required by this FRS that is not presented elsewhere in the financial statements; and

(c) provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them. (FRS 102:8.2)

3.~~5~~6.2~~5~~6 FRS 102 notes that **an entity normally presents the notes in the following order:**

(a) a statement that the financial statements have been prepared in compliance with this FRS;

(b) a summary of ~~significant~~ material accounting ~~policies applied~~policy information;

(c) supporting information for items presented in the financial statements, in the sequence in which each statement and each line item is presented; and

(d) any other disclosures. (FRS 102:8.4)

~~3.6.27~~ ~~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.~~

3.~~5~~6.2~~6~~8 The terms “surplus” or “deficit” ~~should~~shall ~~generally~~ be avoided in describing the difference between inflows and outflows, as their use may mislead the reader into believing that the scheme’s financial statements, in some way, reflect an improvement or deterioration in the actuarial position during the period.

3.~~6~~5.2~~7~~9 Typical examples of the application of FRS 102’s requirements in relation to notes to the financial statements in the context of pension schemes are given in Appendix 1. The notes illustrated in the appendix deal with providing additional analysis of items in the primary statements. They do not, necessarily, cover all of the disclosures required ~~recommended~~ by th~~eis~~ SORP and/or ~~required by~~ FRS 102.

Compliance with FRS 102 and the SORP

3.~~5~~6.~~28~~30 A statement ~~should~~shall 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 FRS 102 and the SORP. In the circumstances of a departure from FRS 102 (**FRS 102:3.4**) the following disclosures ~~should~~shall be made:

(a) that management has concluded that the financial statements give a true and fair view of the entity’s financial position, financial performance and, when required to be presented, cash flows;

(b) that it has complied with the FRS or applicable legislation, except that it has departed from a particular requirement of this FRS or applicable legislation to the extent necessary to give a true and fair view; and

(c) the nature and effect of the departure, including the treatment that this FRS or applicable legislation would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements, and the treatment adopted. (FRS 102:3.5)

3.~~5~~6.~~29~~31 Where the financial statements depart from the SORP, FRS 100 states:

When a SORP applies, an entity~~,~~ (other than a small entity in the Republic of Ireland applying the small entities regime in FRS 102)~~,~~ shall state in its financial statements the title of the SORP and whether its financial statements have been prepared in accordance with the SORP’s provisions that are currently in effect. In the event of a departure from those provisions, the entity ~~should~~ shall give a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:

(a) for any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity’s particular circumstances; and

(b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided. (FRS 100:6)

3.56.302 The Audited Accounts Regulations require the financial statements to include a statement whether the accounts have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes current at the end of the scheme year to which the accounts relate and, if not, an indication of where there are any material departures from this framework. ~~and~~

~~-~~Tthe Irish Disclosure Regulations also require the financial statements to include a statement as to whether they have been prepared in accordance with the SORP and, if not, an indication of where there are any material departures from those guidelines.

~~3.7~~3.6 Fund Account – content and format

3.76.1 FRS 102 requires the financial statements of a pension scheme to contain a statement of changes in net assets available for benefits, which may also be called a Fund Account **(FRS 102:34.35(a))**. FRS 102 requires the presentation of the following items, for both defined benefit and defined contribution, in the Fund Account **(FRS 102:34.37)**:

(a) employer contributions;

(b) employee contributions;

(c) investment income such as interest and dividends;

(d) other income;

(e) benefits paid or payable (analysed, for example, as retirement, death and disability benefits, and lump sum payments);

(f) administrative expenses;

(g) other expenses;

(h) taxes on income;

(i) profits and losses on disposal of investments and changes in value of investments;

(j) transfers in; and

(k) payments to and on account of leavers

3.76.2 In relation to the above, the~~is~~ SORP requires ~~recommends~~ the following presentation~~disclosures~~, with bold items on the face of the Fund Account (in the order presented below) and items in italics disclosed separately in the notes to the financial statements.~~, where material~~.

Employer contributions

normal

augmentations

deficit funding

expenses funding

PPF levy funding

Section 75 debts (UK only)

other

Employee contributions

normal

additional voluntary

Transfers in

group transfers in from other schemes and scheme mergers (to be separately disclosed on the face of the Fund Account if material, quantitatively and/or qualitatively)

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 paid or payable

pensions

commutation of pensions and lump sum retirement benefits

purchase of annuities on retirement

p~~P~~urchase of Approved (Minimum) Retirement Funds (Republic of Ireland only)

lump sum death benefits

other benefits (this can include benefits taken under income drawdown arrangements (UK only))

taxation where ~~lifetime or~~ annual allowance~~s~~ ~~are~~is exceeded

Transfers out

group transfers out to other schemes (to be separately disclosed on the face of the Fund Account if material, quantitatively and/or qualitatively)

individual transfers out to other schemes

Payments to and on account of leavers

refunds of contributions ~~in respect of non-vested leavers~~

~~refunds of contributions in respect of opt-outs~~

purchase of annuities

~~Purchase of Approved (Minimum) Retirement Funds (Ireland only)~~

~~group transfers out to other schemes~~

~~individual transfers out to other schemes~~

Other payments

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 provided in the notes~~where material~~

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

Investment income

dividends from equities

income from bonds

~~net~~ rents from properties ~~(any material netting-off should be separately disclosed)~~

income from pooled investment vehicles

income from sole investor funds

income from special purpose vehicles

income from derivatives (for example, net swap receipts~~/payments~~)

~~annuity income~~

net receipts from longevity swaps

~~interest on cash deposits~~

interest income on reverse repurchase agreements

interest income on cash deposits

annuity income

other investment income (for example from stock lending or underwriting)

Investment expense

expenses on properties

expense from derivatives (for example net swap payments)

net payments from longevity swaps

interest expense on repurchase agreements

interest expense on bank overdrafts

other investment expense

~~**Change in market value of investments** (comprising profits and losses on disposal of investments and changes in the value of investments)~~

Taxation on income

Investment management expenses borne by the scheme, with suitable analysis provided in the notes ~~where material~~

Change in market value of investments (comprising profits and losses on disposal of investments and changes in the value of investments)

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/deducted

Transfers between sections and

Opening net assets of the scheme

to give

Closing net assets of the scheme.

3.6.3 Further items in relation to scheme transactions shall be included on the face of the Fund Account if material (quantitatively and/or qualitatively) to the scheme's affairs. See also paragraph 3.4.3.

~~3.8~~3.7 Fund Account – accounting policies and disclosures

Employee normal contributions

3.~~8~~7.1 Employee contributions, including AVCs (except for single premium AVC~~'~~s), ~~should~~shall be accounted for by the trustees when they are deducted from pay by the employer, except for employee contributions where the employee has been auto-enrolled by the employer (applicable in the UK only, see paragraph 3.7~~8~~.2 below) and the employer retains the employee's contributions as allowed under legislation. ~~At the time of preparing this SORP~~

Under auto enrolment rules, the employer may retain the first three months of employee contributions remitting them in the fourth month following auto-enrolment. The payroll itself ~~should~~shall 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 30~~th~~ March ~~should~~shall be accrued, but not 5/30 of April contributions.

3.~~8~~7.2 Under auto-enrolment, employers~~'~~ auto-enrol~~l~~ eligible employees into the pension scheme. The employees can then opt out of the scheme, if they wish, within one month of being auto-enrolled.

The employer has to remit the first three months' contributions deducted from an employee who is auto-enrolled within 22 days (for electronic remittance) or 19 days (for manual remittance) of the third month following the month in which the employee is auto-enrolled.

If an employee opts out before contributions are remitted to the scheme, the employer returns the contributions to the employee. The~~is~~ SORP requires ~~recommends~~ that such contributions are not reported by the scheme. If the employee opts out after the employer remits contributions to the scheme, then the scheme refunds the contributions to the employer who returns the contributions to the employee. In this case, the contributions are reported by the scheme and the refund of contributions for the opt out by the scheme to the employer is separately reported.

The~~is~~ SORP requires ~~recommends~~ that employee contributions retained by the employer under auto-enrolment legislation are recognised when the employee opt-~~-~~out period has expired and the employee has not notified their intention to opt-out. Thereafter, they are recognised in accordance with paragraph 3.~~8~~7.1 above (UK only).

3.~~8~~7.3 Where a ~~If a~~ scheme provides a membership reconciliation in the T~~t~~rustees’ R~~r~~eport, the~~is~~ SORP requires ~~recommends~~ that the approach to dealing with employees who are auto-enrolled and who subsequently opt-out is disclosed in the T~~t~~rustees’ R~~r~~eport, for example whether new joiners are reported net or gross of opt-outs (UK only).

Employer normal contributions

3.~~8~~7.4 Employer normal contributions are the ongoing contributions paid into the scheme by the employers, in accordance with the Schedule of Contributions, ~~or~~ Payment Schedule, Trust Deed and Rules or recommendations of the actuary in force during the year in the UK; and in accordance with the Trust Deed and Rules and the Actuary’s recommendations detailing the Actuarial Valuation or Funding Proposal (as applicable) in the Republic of Ireland.

These contributions normally relate to the accrual of benefits for current service. If employer normal contributions are based on rates of salaries or wages, they ~~should~~shall be accounted for on the same basis as employee contributions as set out in paragraphs 3.7~~8~~.1 and ~~to~~ 3.7~~8~~.2 ~~above~~. If they are expressed as fixed amounts, they ~~should~~shall be accounted for in the period to which they relate.

3.~~8~~7.5 Some employers ~~schemes~~ include employer deficit funding or expenses funding contributions in the contribution rates based on salaries or wages, in which case they ~~should~~shall be accounted for on the same basis as employee contributions as set out in paragraphs 3.7~~8~~.1 and ~~to~~ 3.7~~8~~.2 ~~above~~.

Where this is the case, the notes to the financial statements ~~should~~shall explain that employer normal contributions include deficit funding contributions ~~payments~~ and the amount ~~should~~shall be quantified and disclosed in the notes. Where this information cannot be easily extracted from systems without disproportionate cost, this fact ~~should~~shall be explained in the notes to the financial statements and the Trustees’ Report ~~should~~shall explain the rates paid in respect of deficit contributions and current service contribution payments. ~~(~~For deficit contributions paid for a limited period or as a single payment see paragraphs 3.7~~8~~.8 to 3.~~8~~7.11~~.)~~.

3.~~8~~7.6 Under salary sacrifice arrangements, employees sacrifice salary in exchange for the employer making contributions to the pension scheme on behalf of employees. Employer contributions made under a salary sacrifice arrangement are received by the scheme as employer normal contributions and ~~should~~shall be reported as such in accordance with the description of contributions set out in the S~~s~~chedule of ~~c~~Contributions or Payment Schedule (UK only).

The~~is~~ SORP requires ~~recommends~~ that a note is included in the financial statements to explain that salary sacrifice arrangements are in place.

Employer augmentation contributions

3.7~~8~~.7 Employer augmentation contributions are contributions payable to provide new benefits or to augment benefits for specified members. These ~~should~~shall 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.

Employer deficit funding contributions

3.~~8~~7.8 Employer deficit funding contributions are contributions payable, for example, for a certain ~~limited~~ period or as a single payment, to improve the funding of a defined benefit scheme, often arising from a scheme funding recovery plan. These contributions normally relate to past service benefit accruals.

These deficit funding contributions ~~should~~shall be recognised as assets on the due dates on which they are payable in accordance with the Schedule of Contributions in the UK ~~United Kingdom~~ or the Actuarial Valuation/Funding Proposal in the Republic of Ireland, or on receipt if this is earlier than the due dates in the ~~s~~Schedule/Actuarial Valuation/Funding Proposal and the employer and trustees agree this treatment and such treatment is not in direct conflict with the wording of the applicable ~~s~~Schedule/Actuarial Valuation/Funding Proposal.

Where deficit funding contributions are received and accounted for earlier than the due dates set out in the S~~s~~chedule of Contributions/Actuarial Valuation/Funding Proposal, this ~~should~~shall be disclosed in the notes to the financial statements.

The~~is~~ SORP also requires ~~recommends~~ that the notes to the financial statements explain for how long deficit funding contributions are payable and the annual amounts payable. This information ~~should~~shall reflect arrangements in place when the financial statements are approved ~~signed~~ if different to those in place at the reporting ~~reporting~~ date.

For multi-employer defined benefit schemes this information can be provided on an aggregated basis at scheme level.

3.~~8~~7.9 The trustees and employer may agree a recovery plan that is based on deficit funding contributions that are receivable by the scheme when certain triggers are met, for example the payment of a dividend by the employer or the profitability of the employer.

Such arrangements and associated triggers are normally set out in the Schedule of Contributions/Actuarial Valuation/Funding Proposal and the related deficit funding contributions ~~should~~shall be accounted for when they become due under the Schedule of Contributions/Actuarial Valuation/Funding Proposal.

The~~is~~ SORP requires ~~recommends~~ that the nature of these arrangements, including a reference to triggers and the amounts involved, ~~should~~shall be disclosed in the notes to the financial statements.

3.7~~8~~.10 Where a contribution is paid to a scheme through the transfer of non-cash assets, a fair value at the date of receipt ~~should~~shall be attributed to the assets. The contribution ~~should~~shall only be recognised if the non-cash consideration meets the asset recognition criteria set out in FRS 102 (see paragraphs 3.~~6~~5.6 to 3.~~6~~5.11).

3.7~~8~~.11 Deficit funding contributions that are expressed as a percentage of pay ~~should~~shall be accounted for as described in paragraph 3.~~8~~7.5 above.

Expenses and Pension Protection Fund (PPF) levy

3.7.12 Where the trustees and the employer agree that an employer will fund all or any expenses payable by the scheme by way of reimbursement (including, but not limited to, for example, the reimbursement of the scheme's PPF annual levy, or alternatively a fixed monthly allowance), such receipts shall be accounted for either in accordance with the agreement under which they are being paid (for example, the Schedule of Contributions) or, in the absence of an agreement, on a receipts basis.

If the employer pays scheme expenses directly and is not reimbursed by the scheme the financial statements do not include such amounts, however the existence of the arrangement shall be disclosed as a related party transaction (see paragraph 3.32.22).

Section 75 debt contributions

3.7~~8~~.13~~2~~ In the UK, ~~United Kingdom~~ contributions payable in respect of Section 75 (1995 Act) debts are contributions payable when an employer ceases to be a participating employer in a scheme and the scheme actuary determines that there is a past service deficit on a prescribed basis for members who are or were employees of an employer.

The employer ceases to be a participating employer when, for example, they leave an employer corporate group, or they have no active members in the scheme. A Section 75 debt becomes due from this time and ~~should~~shall be accounted for when a reasonable estimate of the amount due can be determined. In assessing this estimate, the trustees consider the amount determined by the scheme actuary and agreement~~s~~ with the employer as to how the Section 75 debt is to be treated. **FRS 102: 2.33-34** refers to the definition of an asset.

If the Section 75 debt is met by way of, for example, a guarantee, it ~~should~~shall not be recognised unless or until an asset arises from the guarantee. For contingent assets see section 3.36.

As there is no statutory timescale within which a Section 75 debt must be determined, where a reasonable estimate cannot be made, for example because the Section 75 debt has not been determined by the actuary, ~~th~~the~~is~~ SORP requires ~~recommends~~ that this is disclosed in the notes to the financial statements and a statement made that the debt cannot be reasonably estimated with the reasons why.

3.7~~8~~.14~~3~~ If the Section 75 debt arises on the insolvency of an employer, the estimated recoverable amount under the debt, if any, ~~should~~shall be accounted for based on the trustees' estimate taking into account latest available information from the Insolvency Practitioner.

Other contributions

3.7~~8~~.15~~4~~ Contributions receivable under Financial Support Directions or Contribution Notices issued by the Pensions Regulator ~~should~~shall be accounted for in accordance with the terms of the Direction or Notice, as appropriate, taking into account the trustees' expectations of likelihood of receiving the relevant contribution amounts from the employer.

3.7~~8~~.16~~5~~ Employer's~~'~~ other contributions may be paid, for example, to contribute towards ~~the administration cost,~~ life assurance costs ~~of the scheme or the Pension Protection Fund annual levy~~. These contributions ~~should~~shall be accounted for in accordance with the agreed arrangements.

3.7~~8~~.17~~6~~ Additional contribution categories shall ~~can~~ be added where appropriate.

Formatted: Font: Bold

Formatted: Font: Bold

Recognition of benefits and payments to leavers

3.7~~8~~.18~~7~~ Under UK ~~United Kingdom~~ and Republic of Ireland regulations and FRS 102:34.47, the Statement of Net Assets available for benefits is not required to include liabilities to pay pensions and benefits after the end of the scheme year.

The objective is to ensure that all benefits that fall due for payment in, or at the end of, the reporting ~~accounting~~ period are recognised in the financial statements.

3.7~~8~~.19~~8~~ The following paragraphs set out ~~give guidance on~~ the required ~~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~~shall be consistent with the accruals treatment adopted in the financial statements for accounting for benefits.

3.7~~8~~.~~19~~20 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 their ~~his~~ contributions or a deferred pension, and has left employment before the end of the reporting ~~accounting~~ period but, as at the reporting ~~accounting~~ date, has not made their ~~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 shall ~~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 retired before the end of the reporting ~~accounting~~ period but, as at the reporting ~~accounting~~ date, has not made their ~~his~~ choice, then there is no liability at the reporting~~e~~ ~~accounting~~ date to pay any lump sum potentially payable and hence no liability ~~should~~shall be recognised. The member shall ~~should normally~~ be shown as a deferred member in the membership statistics.~~;~~
- if a member has chosen to take benefits by way of income drawdown, the scheme accounts for the income drawdown benefit when the benefit becomes payable under the terms of the drawdown arrangements.

3.7~~8~~.21~~0~~ Where significant benefits are pending member decisions at the year~~-~~end, for example, bulk exercises, the~~is~~ SORP requires ~~recommends~~ that this is disclosed in the notes to the financial statements with an indication of the estimated amounts involved, if known at the time, together with an explanation that they will be accounted for when the member decisions have been received.

Where the member has no choice (for example is only entitled to a refund, or single cash sum on retirement), accounting entries ~~should~~shall be made based on the date of leaving or retirement, which is when the liability to pay the benefit arises.

3.7~~8~~.22~~1~~ 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 and the date on which any option or notification is communicated to the trustees.

3.7~~8~~.23~~2~~ Under flexible defined contribution benefits, ~~, introduced from April 2015,~~ members may use their pension pot to:

- ~~to~~ purchase an annuity;
- take a lump sum benefit equal to the value of the pot less tax at their marginal rate; or
- take income drawdown benefits from the scheme less tax at their marginal rate.

3.7~~8~~.24~~3~~ If a scheme does not offer income drawdown, members may transfer their pot to a pension arrangement that does provide income drawdown benefits. Benefits taken under the above arrangements will be reported in the appropriate benefit category.

For example, pots taken as lump sums shall ~~will~~ be reported within commutation of pensions and lump sum retirement benefits. Income drawdown arrangements shall ~~will~~ be reported within ~~other benefits~~Benefits paid and payable and disclosed separately. ~~if material. Benefits taken under these arrangements are reported gross of any tax settled by the scheme on behalf of the member by way of deduction from the member's pot.~~

3.7.25 Benefits are reported gross of any tax settled by the scheme on behalf of a member. For example, PAYE on pensions shall be ~~is~~ reported in pensions paid or payable and tax on retirement lump sums over the tax free limits shall be ~~is~~ included in lump sum retirement benefits.

Taxation where lifetime or annual allowances are exceeded

3.7~~8~~.26~~4~~ The lifetime allowance was abolished as of 1 April 2024. Where a member's benefit entitlement exceeds the UK ~~United Kingdom~~ ~~Inland Revenue~~HMRC tax limits (Lifetime Allowance (until 31 March 2024) or the Annual Allowance) or in the Republic of Ireland, Revenue Commissioners limits, the member is liable for taxation. If this tax is settled~~This tax can be settled by the member or trustees may agree to settle the tax~~ on behalf of the member in exchange for a reduction in benefit entitlement, ~~In this scenario~~ the~~is~~ SORP requires ~~recommends~~ that the payment of tax on behalf of the member is reported separately ~~in the notes to the financial statements~~within Benefits paid and payable. ~~This payment can be expensed or accrued as a debtor in which case it is recovered from the member when the member's benefit crystallises.~~

Transfers

3.7~~8~~.27~~5~~ Transfers in and out are accounted for when the related member liability transfers between schemes.

3.7~~8~~.2~~6~~8 For individual transfers this is normally when the transfer is paid. 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 required ~~recommended~~ basis of accounting for transfers is on the basis of amounts paid and/or received.

~~However, W~~where, however, an individual transfer takes place as part of a divorce settlement, the transfer value shall be accrued for when the settlement paperwork/court order is received by the scheme.

3.7~~8~~.29~~7~~ In the case of group transfers or scheme 'mergers', it is common for the legal agreement between the schemes to set a date of transfer for scheme member liabilities and scheme assets. This is the effective date of the transfer and ~~should~~shall be the date at which the transfer is accounted for in scheme financial statements. In practice, the scheme assets may not be registered in the name of the receiving/merged scheme for some time. Nonetheless, they become the assets of the receiving/merged scheme from the date of the legal agreement and ~~should~~shall be accounted for as such.

3.7~~8~~.30~~28~~ Where, however, the trustees of the receiving scheme have agreed to accept liability in advance of the receipt of funds, the liability to pay the transfer value exists from the date of the agreement and ~~should~~shall be accrued for in the transferring scheme and the scheme assets remain in the transferring scheme. The transfer ~~should~~shall therefore be accrued for in accordance with the terms of the agreement.

3.7~~8~~.31~~29~~ The~~is~~ SORP requires ~~recommends~~ disclosure 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.

3.7~~8~~.3~~0~~2 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~~is~~ SORP requires ~~recommends~~ that the difference ~~, if material, should~~shall be disclosed ~~either~~ in the ~~financial statements or the~~ Trustees' Report.

Expenses

3.7~~8~~.33~~1~~ ~~Unless immaterial, E~~Expenses ~~(such as the fees of actuaries, auditors, PPF levy and administrators)~~ ~~should~~shall be accrued to ensure that expenses for the full accounting period are accounted for in the Fund Account. For significant projects done on a consultancy basis, if the amounts involved are material, it could prove necessary to accrue on the basis of the proportion of work completed by the scheme year-end.

Investment income and expense

3.7~~8~~.3~~2~~4 FRS 102 requires, inter alia, the following disclosure in relation to investment income and expense:

An entity shall disclose the following items of income, expense, gains or losses:

(a) income, expense, net gains or net losses, including changes in the fair value, recogni~~s~~zed on: (i) financial assets measured at fair value through profit and loss; (ii) financial liabilities measured at fair value through profit or loss (with separate disclosure of movements on those which are not held as part of a trading portfolio and are not derivatives); (iii) financial assets measured at amortised cost; and (iv) financial liabilities measured at amortised cost. ~~and~~

(b) total interest income and total interest expense (calculated using the effective interest method) for financial assets or financial liabilities that are not measured at fair value through

Formatted: Font: 9 pt, Bold

profit or~~and~~ loss. (FRS 102:11.48)

3.7~~8~~.3~~3~~5 Since FRS 102 requires pension schemes to report fair value through the Fund Account, approach (a) above applies to pension schemes. Approach (b) does not apply and therefore pension schemes do not use the effective interest method when reporting, for example, interest income on bond securities or interest expense on repurchase agreements.

3.7~~8~~.3~~4~~6 The~~is~~ SORP requires~~recommends~~:

- dividends from securities ~~should~~shall be accrued when the securities are quoted ex-dividend, or dividend declared for unquoted securities;
- income on bond securities ~~should~~shall be accounted for on an accruals basis. Interest purchased and sold on investment transactions ~~should~~shall be reported through income on bond securities in the Fund Account;
- rents on properties ~~should~~shall be accrued as earned in accordance with the terms of the lease. Expenses on properties shall be accounted for on an accruals basis;
- interest income on cash deposits and reverse repurchase agreements and ~~bonds~~ interest ~~income~~ expense on repurchase agreements ~~should~~shall be accrued on a daily basis;
- investment income arising within pooled investment vehicles which is rolled up in the investment fund and reflected in the value of the units is not separately reported in the scheme's financial statements.
  Where income is distributed and immediately reinvested to purchase more units, it ~~should~~shall be reported as investment income and the purchase of units included as an investment purchase in the investment reconciliation table. Where units are issued by the investment manager as part of an investment manager fee rebate agreement, this shall be reported in investment management expenses and the purchase of units included as an investment purchase in the investment reconciliation table;
- distributions by certain investment vehicles, such as special purpose vehicles (SPVs) established for scheme funding arrangements (see paragraph 3.10~~1~~.7), LDI pooled investment vehicles and limited partnerships, will comprise an element of income and capital. If the split of income and capital elements of the distribution is readily obtainable, the distribution shall ~~will~~ be accounted for in part within investment income and in part within sale proceeds of investments in the investment reconciliation table. However, if the split between income and capital is not available, the~~is~~ SORP requires ~~recommends allows receipts~~ the distributions to be~~are~~ reported, on a case-by-case basis, as either investment income or sale proceeds of investments with ~~a note disclosing~~disclosure of the approach adopted. If the distributions are reported within the sale proceeds of investments, the SORP requires disclosure of the amount of distribution that is included within the sale proceeds balance;
- income arising from annuity insurance policies held by the trustees of a scheme may be paid to the trustees in order to fund the pension paid by the scheme to the pensioner(s) or it may be paid directly to the pensioner(s) by the annuity provider. In both these circumstances, the receipts arising from the annuity policies ~~should~~shall be included in the financial statements and the pensions paid to the pensioners included in pension payments. There ~~should~~shall be no netting off of these amounts. The receipts from the annuity provider can be reported as either investment income or sale proceeds of investments in the investment reconciliation table~~, investment income or apportioned between sale proceeds and investment income~~. The ~~his~~ SORP requires ~~recommends~~ that disclosure of the approach taken is included in the financial statements and applied consistently from one year to the next. If the income arising from annuity policies is reported within sale proceeds of investments, the SORP requires disclosure of the amount of income that is included within the sale proceeds balance;
- derivatives – where the nature of the cash flow is income/expense, the net cash flow is reported as investment income or ~~/~~expense, as appropriate. Where the nature of the cash flow is related to an asset or liability, the net cash flow is reported within change in market value of investments. Cash flows are analysed at contract level. It is not necessary to allocate cash flows arising from a contract between income and capital unless information is available to do so and trustees consider it appropriate in the circumstances; and
- longevity swaps – net cash flows arising on longevity swaps may be reported as investment income or ~~/~~expense, as appropriate, or investment purchases or sales proceeds in the investment reconciliation table, or allocated between income/expense and capital. Disclosure of the approach taken shall be ~~is~~ included in the financial statements and applied consistently from one year to the next. If cash flows arising from longevity swaps are ~~fully~~ reported within investment purchases or sales proceeds, the SORP requires disclosure of the amount of the cashflows that is included

within the investment purchase or sale proceeds balance.

Taxation on income

3.7~~8~~.3~~5~~7 FRS 102 requires the following disclosure in relation to taxation:

An entity shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of the current and deferred tax consequences of recognised transactions and other events. (FRS 102:29.25)

3.7~~8~~.3~~6~~8 Pension schemes registered with HMRC in the United Kingdom and the Republic of Ireland are exempt from income tax and capital gains tax. The~~is~~ SORP therefore requires ~~recommends~~ the notes to the financial statements to disclose the tax status of the scheme to explain that it is exempt from taxation, except for certain withholding taxes (see paragraph 3.7~~8~~.40~~38~~).

3.7~~8~~.3~~7~~9 If a scheme is an unapproved (by HMRC) scheme it shall comply with the accounting and disclosures set out in FRS 102 Section 29 "Income Tax" in relation to income tax and capital gains tax.

3.7~~8~~.40~~38~~ Tax on investment income ~~should~~shall be accounted for in accordance with **FRS 102:29.19**, and the terms "withholding tax" and "tax credit" in this paragraph carry the same meaning as in FRS 102. Recoverable withholding tax on investment income ~~should~~shall 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~~shall the tax be deducted from the amount accrued. Accrued investment income ~~should~~shall not include tax credits. Any withholding tax that is irrecoverable ~~should~~shall be shown separately as a tax charge.

3.7~~8~~.41~~39~~ FRS 102 requires expenses to exclude recoverable Value Added Tax (VAT). **(FRS 102:29.20)**. Consequently, expenses shall include irrecoverable VAT.

Investment transaction costs

3.7~~8~~.4~~0~~2 Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset or liability. An incremental cost is one that would not have been incurred if the scheme had not acquired or disposed of the investment. **(FRS 102: Glossary)**

3.7~~8~~.4~~1~~3 Transaction costs include, for example, fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Direct transaction costs do not include any difference between the quoted bid and offer prices, internal administration or holding costs.

3.7~~8~~.4~~2~~4 FRS 102 sets out approaches for initial recognition of financial assets and investment properties.

3.7~~8~~.4~~3~~5 For a financial asset, it states that an entity shall measure it at its~~'~~ fair value, which is normally the transaction price (adjusted for transaction costs except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit and loss). **(FRS 102:12.7)**

3.7~~8~~.4~~4~~6 FRS 102 sets out a different approach for initial measurement of investment properties. An entity shall measure an investment property at its cost at initial recognition. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. **(FRS 102:16.5)**

3.7~~8~~.4~~5~~7 The~~is~~ SORP requires ~~recommends~~ that transaction costs arising on all investment purchases and sales are charged to the Fund Account within "Change in market value of investments" by adding to purchase costs and netting against sale proceeds, as appropriate, for all investment types. This ~~recommendation~~ requirement achieves consistency between asset classes and ensures that all transaction costs are charged to the Fund Account.

3.7~~8~~.4~~6~~8 The~~is~~ SORP requires ~~recommends~~ that the total amount of direct transaction costs on all investment types, including property, derivatives contracts and the costs associated with aborted investments, ~~should~~shall be disclosed in the notes to the financial statements under the investment~~s~~ reconciliation table. ~~Direct transaction costs should be analysed for each significant asset class disclosed in the investment reconciliation table. The analysis should include disclosure of the amount of each type of direct transaction cost. Explanations should be given to enable users of the financial statements to understand the nature of transaction costs and how they arise for different types of investment.~~

3.7~~8~~.4~~7~~9 Indirect costs, such as bid-offer spread costs and costs charged within pooled investment vehicles, do not need to be disclosed. However, the notes to the financial statements ~~should~~shall explain the existence of these indirect costs. ~~If the trustees control the pooled investment vehicle (see 3.16.13) then this SORP recommends the transaction costs arising in that vehicle are disclosed in accordance with paragraph 3.8.46.~~

Use of surplus

3.7.50 A scheme surplus arises in a defined benefit (or hybrid) scheme where the scheme's assets are greater than the scheme's obligation to pay future benefits. In some circumstances, to the extent it is able to do so, the employer may wish to utilise this surplus, for example, as an alternative to paying certain contributions or to fund the scheme's expenses.

3.7.51 The SORP requires that the existence of any arrangement in place to use a scheme surplus to fund contributions or expenses required by a Schedule of Contributions is disclosed in the financial statements. However, quantification of the value of contributions or expenses funded indirectly through the surplus is not required.

3.7.52 Where a scheme has surplus funds, it is possible that the rules of the scheme will allow that surplus to be returned to a scheme employer, known as an authorised surplus payment. These payments shall be accounted for in accordance with the agreement under which they are being paid or, in the absence of an agreement, on payment. The resulting authorised surplus payment charge (tax charge) shall be accounted for on the same basis as the authorised surplus payment.

Under paragraph 3.4.3, an authorised surplus payment, being non-routine in nature, shall be reported on the face of the Fund Account, gross of the tax charge. The notes to the financial statements shall disclose the amount paid to the employer and the tax amount paid to HMRC.

~~3.9~~3.8 *Statement of net assets available for benefits – content and format*

3.~~9~~8.1 FRS 102 requires the following content for a pension scheme Statement of Net Assets available for benefits:.

The financial statements of a retirement benefit plan, whether defined contribution or defined benefit, shall present the following in the statement of net assets available for benefits:

(a) assets at the end of the period suitably classified; and

(b) liabilities other than the actuarial present value of promised retirement benefits. (FRS 102:34.38)

3.~~8~~9.2 FRS 102 does not provide guidance on what a suitable classification of assets may be. Therefore, th~~is~~e SORP requires ~~recommends~~ that a ~~suitable~~ classification for scheme assets and liabilities (other than the actuarial present value of promised retirement benefits) on the face of the net asset statement is as follows (in the order presented below):

- **Investment assets**
  - Equities
  - Bonds
  - Property
  - Pooled investment vehicles
  - Sole investor funds
  - Special purpose vehicles
  - Derivatives
  - Insurance policies
  - Reverse repurchase agreements
  - ~~Other investments~~
  - AVC investments
  - Cash deposits
  - Other investment balances
- **Investment liabilities**
  - Derivatives
  - Repurchase agreements
  - Short sold bonds
  - Other investment balances
- **Total net investments**, representing the net amount of the investment assets and investment liabilities
- **Current assets**
- **Current liabilities**
- **Net current assets,** representing the net amount of the current assets and current liabilities

Formatted: Indent: Left: 1.35 cm, No bullets or numbering

- **Total net assets available for benefits**

3.~~8~~9.3 Further items in relation to scheme assets and liabilities shall ~~can~~ be included on the face of the Statement of Net Assets if ~~significant~~ material (quantitatively and/or qualitatively) to the scheme's affairs. See also paragraph 3.4.3.

~~3.10~~3.9 *Statement of net assets available for benefits – disclosures*

FRS 102 financial instrument disclosures

3.~~9~~10.1 FRS 102 requires the following disclosures in relation to financial instruments:

A retirement benefit plan shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and performance. (FRS 102:34.40)

A retirement benefit plan shall disclose a disaggregation of the statement of net assets available for benefits by class of financial instrument. A class is a grouping of financial instruments that is appropriate to the nature of the information disclosed and that takes into account the characteristics of those financial instruments. (FRS 102:34.41)

3.~~9~~10.2 FRS 102 defines financial instruments as: **A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity (FRS 102:Glossary)**.

FRS 102 also provides definitions of financial assets and liabilities. These are very widely drawn and most scheme investment assets and liabilities would therefore be considered to be financial instruments, the main exception being investment properties. FRS 102 also requires disclosure of fair value determination (see ~~paragraphs~~ SORP section 3.12~~3~~) by class of financial instrument.

3.~~9~~10.3 Th~~is~~e requirements of the SORP~~'s recommendations~~ for the disclosure of scheme investments by category on the face of the ~~net asset~~ ~~S~~statement of Net Assets available for benefits is ~~normally~~ expected to meet FRS 102's requirements for disclosure of financial instruments by class.

3.~~9~~10.4 **FRS 102 investment properties disclosures**

FRS 102 requires, inter alia, the following to be disclosed in relation to investment propert~~y~~ies ~~valuations~~:

(a) the methods and significant assumptions applied in determining the fair value of investment property;

(b) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

(c) the existence and amounts of restrictions on the reliability of investment property or the remittance of income and proceeds of disposal; and

(d) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements. (FRS 102:16.10)

3.~~9~~10.5 In relation to investment properties, in addition to the above, th~~is~~e SORP requires ~~recommends~~ that the notes to the financial statements ~~should~~shall disclose the name, or employing firm, and qualification of the valuer and ~~should~~shall 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~~shall also be disclosed. Disclosure ~~should~~shall also be made of the basis of any fair value adjustments to the latest available valuations at the reporting ~~reporting~~ date.

Suitable analysis of the properties held shall be disclosed in the notes to the financial statements.

Derivatives

3.~~9~~10.6 Th~~is~~e SORP requires ~~recommends~~ the following disclosures in relation to derivatives:

- an explanation ~~should~~shall be given of the objectives and policies for holding derivatives;
- the accounting policies ~~should~~shall include a description of the basis (or bases) of valuation for derivatives;
- derivative contracts are disclosed separately under investments. Derivative investments with

positive values ~~should~~shall be included in the Statement of Net Assets available for benefits as assets, and those with negative values ~~should~~shall be separately included in the Statement of Net Assets available for benefits as liabilities. These balances ~~should~~shall not be offset unless there is a legal right of offset, as explained in paragraph 3.~~6~~5.5;

- derivatives ~~should~~shall be disclosed according to their type. The most commonly used are (a) futures, (b) swaps, (c) options or ~~and~~ (d) forward foreign exchange contracts. Derivative~~s contracts~~ disclosures ~~should~~shall ~~be further analysed between~~include whether the contracts are (a) exchange traded, (b) exchange cleared or~~and~~ (c) over the counter contracts;

- ~~the~~ key details of the contracts in place at the end of the financial year are disclosed in order for the reader to understand the associated investment risks. This shall ~~could~~ include (a) the types of contracts, ~~an indication of the period covered by the contracts, the counterparties to the contracts,~~ (b) the nominal values or gross exposures of the contracts~~,~~ and (c) the values of the contracts at the year-end and whether they are assets or liabilities. The key contract details may be disclosed on an aggregated basis, for example, by the ~~terms or durations~~nature of the contracts;

- the amount and nature of any collateral held or that has been pledged at the year-end ~~should~~shall be disclosed by derivative type;

- amounts payable to or receivable from brokers and counterparties ~~should~~shall be recorded as separate items, within ~~cash deposits and~~ other investment balances in the Statement of Net Assets available for benefits. Amounts due to and from brokers and counterparties ~~should~~shall not be offset unless there is a legal right of offset, as explained in paragraph 3.5~~6~~.5; and

- the investment reconciliation table ~~should~~shall show the movements on derivative investments during the year (see Appendix 1). ~~This can be further analysed by derivative type if this is considered helpful~~

3.9~~10~~.7 ~~Disclosures relating to derivatives may be presented as a separate note or included within the risk disclosures required by FRS 102 (see paragraph 3.15.1 to 3.15.11).~~ It is not necessary to provide detailed comparatives for the key contract disclosures ~~recommended~~ required above. An example of this is set out in Appendix 1.

~~Other I~~investment disclosures

3.9~~10~~.8 In addition to the above, the~~is~~ SORP requires ~~recommends~~ that the following disclosures are made to provide appropriate information on investments:

- for pooled investment vehicles, disclosure ~~should~~shall be made of the ~~type~~ primary underlying asset class of the fund, such as equity funds, bond funds, property funds, hedge funds, liability driven investment funds, diversified growth funds, private equity funds, private debt funds, infrastructure funds, cash funds and others specified as appropriate;

  ~~other investments should be disclosed by type of investments, for example; longevity swaps, special purpose vehicles and other;~~

- for special purpose vehicles which are highly illiquid, disclosure ~~should~~shall be made of the illiquid nature of the investment and the principal terms of the investment arrangement;

- balances ~~due and~~ payable and receivable ~~arising~~ under repurchase agreements and reverse repurchase agreements and ~~amount~~ the total value of securities sold which are subject to repurchase contracts (see section 3.18~~9~~);

- stock lending arrangements in place and the total value of securities on loan and an analysis by asset class of securities on loan (see section 3.20); and

- assets held to provide defined contribution benefits for individual members ~~should~~shall be clearly distinguished from those that are not.

3.9~~10~~.9 If the scheme holds material categories of other investments not covered by the above, disclosure ~~should~~shall be made taking into account the nature (qualitative and quantitative) ~~and size~~ of the investment.

Current assets and liabilities

3.9~~10~~.10 In relation to current assets and liabilities, the~~is~~ SORP requires ~~recommends~~ the following disclosures:

- current assets – disclosure of ~~–~~ (a) employer contributions due ~~from employer~~, (b) employee contributions due, (c) cash balances (not forming part of investment assets, with any amounts allocated or designated to defined contribution members distinguished clearly), and (d) other current assets (categorised as appropriate).

  If there are contributions due at the year-~~-~~end, disclosure of whether they were

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

subsequently received in accordance with the agreement under which they are payable (Schedule of Contributions, Payment Schedule, Trust Deed and Rules or recommendations of the actuary) is required; and

- current liabilities – disclosure of (a) unpaid benefits, (b) tax amounts due, (c) administrative expenses, (d) investment management expenses, and (e) other current liabilities (categorised as appropriate).

Audited Accounts Regulations disclosures

3.9~~10~~.11 The Audited Accounts Regulations (Regulation 3A) require certain ~~a number of~~ detailed disclosures. These are set out in Appendix ~~6~~4.

~~*3.11*~~*3.10* *Explanatory comments on investments*

Investment trust companies

3.10~~1~~.1 The~~is~~ SORP requires ~~recommends~~ that holdings in investment trust companies (ITCs) are classified as ~~an~~ equities~~y~~ if the holding is part of a wider equity portfolio, or as a pooled investment vehicle if they are ~~it is~~ held to obtain exposure to the underlying investments

Pooled investment vehicles

3.10~~1~~.2 Pooled investment vehicles include ~~the~~ various forms of pooled investments such as (a) authorised unit trusts, (b) unitised or unit linked insurance policies, (c) open-ended investment trusts, ~~and~~(d) open -ended investment companies, (e) shares in limited liability partnerships and (f) limited partnerships.

Insurance policies

3.10~~1~~.3 The typical insurance policies used by pension schemes are unit linked policies, annuities, longevity swaps (see paragraphs 3.10.8 and 3.10.-9) and with-profits policies.

Unit linked policies are reported within pooled investment vehicles.

Annuity policies are reported as scheme assets where the policy is in the name of the trustees and can comprise either policies relating to individual members or to bulk annuities covering groups of members (buy-~~-~~ins).

Annuities (including deferred annuity contracts), longevity swaps, with-profits contracts and unitised with-profits contracts ~~should~~shall be disclosed in the Statement of Net Assets available for benefits under "insurance policies".

Derivatives

3.10~~1~~.4 FRS 102 defines derivatives as: **a financial instrument or other contract with all three of the following characteristics:**

(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the "underlying"), provided in the case of a non-financial variable that the variable is not specific to a party to the contract~~.~~;

(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and

(c) it is settled at a future date. (FRS 102:Glossary)

3.10~~1~~.5 Underlying instruments ~~items~~ include equities, bonds, commodities, interest rates, inflation-linked, exchange rates, and stock market indices.

There are many types of derivatives including futures, swaps, options, and forward foreign currency contracts~~, and swaps~~. Derivatives can be exchange traded, exchange cleared, or traded over the counter.

The most commonly used derivatives in pension schemes are described below:

- Futures contracts are exchange traded contracts to sell or buy a standard quantity of a specific asset at a pre-determined future date, at a price agreed now. There are many types of futures contracts including equity, bond and interest rate futures.
- Swaps are 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"). Swaps are typically bespoke contracts (being over the counter) but are also often exchange~~d~~ cleared to reduce credit risk if a party to the contract were to default.

- 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 give the seller the obligation to buy or sell a specified quantity of a particular product at a specified price, if the buyer decides 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.

- Forward foreign exchange contracts are over the counter contracts whereby two parties agree to exchange two 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 give 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 normally 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").~~

3.10~~1~~.6 See section 3.17~~8~~ ~~of this SORP~~ for further guidance on accounting for derivatives.

Special purpose vehicles

3.10~~1~~.7 A typical special purpose vehicle (SPV) arrangement is where the employer places business assets into a ring-fenced structure, which acts as collateral for an investment made by the pension scheme into the arrangement. The pension scheme will then receive future cash flows from the SPV. The cash flow can be structured in a number of different ways, the most straightforward being a fixed regular amount. Alternatively, they may be more complex, typically varying depending on the funding level of the scheme and in terms of timing, with some arrangements using a potential "bullet payment" at the end of the term of the investment.

Longevity swaps

3.10~~1~~.8 A longevity swap is normally an arrangement whereby regular payments are made by a scheme based on mortality assumptions fixed at the outset to an investment bank or insurer and, in return, the bank or insurer pays out amounts based on actual mortality rates of the pensioner population being hedged. There are therefore fixed and floating legs and settlement is normally on a net basis.

3.10~~1~~.9 There are typically two types of swap: bespoke swaps and index-swaps. Bespoke longevity swaps provide a hedge against the longevity of actual members of the pension scheme whereas index based swaps move in line with general market developments in longevity.

Repurchase agreements and reverse repurchase agreements

3.10~~1~~.10 A repurchase agreement ("repo") is a~~n~~ legally enforceable agreement/contract under which one party receives cash in exchange for securities delivered as collateral, later "repurchasing" the securities within a specified time at a specified price (normally at a higher price to include interest expense).

A reverse repurchase agreement (reverse repo) is a~~n~~ legally enforceable agreement/contract under which one party disburses cash to receive ~~(~~"buy"~~)~~ securities, later "reselling" the securities at a specified time at a specified price (normally at a higher price to include interest income).

The economic nature of both repo transactions is a financing activity, a secured borrowing (repo) or secured lending (reverse repo). ~~or borrowing.~~

See ~~paragraph~~ section 3.18~~9~~ ~~of this SORP~~ for requirements ~~guidance~~ on accounting for repurchase and reverse repurchase agreements.

Short sold bonds

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

3.10.11 A short sold bond is a position whereby the scheme sells a borrowed security which, at a specified time, it will have to buy back in order to return it to the original owner.

A scheme may undertake such a transaction if the investment manager believes that the security is overpriced or anticipates a fall in value (and therefore will be able to buy it back at a lower price than it sold it for) or for hedging purposes where it wants to reduce its exposure to a similar security. This is sometimes completed using bonds received as collateral on reverse repurchase agreements (see paragraph 3.18.3 on re-hypothecation).

See section 3.19 for requirements on accounting for short sold bonds.

Valuation of assets and liabilities

3.10~~1~~.~~11~~12 FRS 102 contains specific guidance on the approach to determining fair value of pension scheme investment assets. **FRS 102:28.15(b)** requires scheme assets to be measured at fair value in accordance with guidance in ~~Appendix to~~ Section 2A ~~Concepts and Pervasive Principles~~Fair Value Measurement with the exception of annuity insurance policies (see SORP paragraph 3.11~~2~~.18~~7~~). This guidance within FRS 102, focuses on accounting by an employer, and shall also, where relevant, be applied to the SORP and accounting by pension schemes.

3.10~~1~~.~~12~~13 FRS 102 defines fair value as: **the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.** ~~"the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."~~ **(FRS 102:Glossary).**

~~3.12~~3.11 Fair value methodology

3.11~~2~~.1 FRS 102 requires the use of the following methodology to estimate the fair value of investments:

Category (a) – The best evidence of fair value is ~~a~~ an unadjusted quoted price for an identical or comparable asset or liability in an active market at the measurement date. ~~This is usually the current bid price~~.

Category (b) – When an unadjusted quoted price~~s~~ is not~~are~~ ~~un~~available, the price of~~in a binding sale agreement or~~ a recent orderly transaction between market participants for an identical ~~asset~~ or ~~similar~~comparable asset~~)~~ or liability ~~in an arm's length transaction between knowledgeable, willing parties~~ provides evidence of fair value. However, this price may not be a ~~good~~ reliable estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the ~~binding sale agreement or the~~ transaction, and the measurement date. ~~If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted~~.

Category (c) – If ~~the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates~~neither (a) nor (b) above are available or reliable, the fair value shall be estimated~~by~~ using another valuation technique. The objective of using another valuation technique is to estimate ~~what~~ the ~~transaction~~ price at which an orderly transaction to sell an asset or to transfer a liability would ~~have been on the measurement date in an arm's length exchange motivated by normal business considerations~~take place between market participants at the measurement date. (FRS 102:~~Appendix to Section 2~~2A.15)

3.1~~2~~1.2 FRS 102 defines active market as: **a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. (FRS 102:Glossary)**~~all the following conditions exist:~~

~~**(a) the items traded in the market are homogeneous;**~~

~~**(b) willing buyers and sellers can normally be found at any time; and**~~

~~**(c) prices are available to the public. (FRS 102:Glossary)**~~

3.11.3 **If an asset or liability measured at fair value has a bid price and an ask price (eg an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value. The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required. This section does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. (FRS 102:2A.18).**

Formatted: Indent: Left: 0.2 cm, No bullets or numbering, Pattern: Clear

Formatted: Indent: Left: 0.2 cm, No bullets or numbering, Pattern: Clear

The SORP requires the use of a bid price for asset positions and ask price for liability positions where there is a bid-ask spread.

The use of mid pricing is not expected to be applicable as bid prices are typically readily available and, as such, a practical expedient is not necessary.

Category (a) – further guidance

3.112.34 Assets that would typically fall in category (a) include actively traded exchange traded securities, such as equities and certain exchange traded derivatives where official prices are available from the relevant securities exchange at the reporting ~~e reporting~~ date. If a market is closed due to normal business hours at the time the fair value is determined, this does not cause an otherwise active market to be regarded as inactive. If a daily price is not available at the reporting ~~reporting~~ date (which is a normal business day), then the investment would be valued under category (b) or (c) below.

3.112.54 The prices used to value category (a) assets may be official close, settlement price, last traded or bid/offer depending on the market convention. For example: actively traded equities' fair value will be based on bid prices, official close or last trade depending on the convention of the stock exchange where the equities are listed. For exchange traded derivative contracts, fair value will be based on settlement prices or adjusted settlement prices.

Category (b) – further guidance

3.112.65 Category (b) assets would include exchange traded securities which are relatively illiquid, that is~~,~~ there were no traded prices available on the reporting ~~reporting~~ date. There is no guidance in FRS 102 as to what constitutes a "recent transaction" nor what may constitute "significant change in economic circumstances" or a "significant period of time since the transaction took place". Therefore, judgement will be required when considering the use of prices for assets which are other than at the reporting ~~reporting~~ date and any adjustment that may be made to those criteria.~~policies.~~

Category (c) – further guidance

3.112.67 Category (c) ~~as defined by FRS 102~~ includes a wide range of investments which use valuation techniques to determine fair value. Trustees shall ~~may wish to~~ distinguish between investments whose value is determined by valuation techniques that rely significantly on observable market data ((c)(i)) and those whose value is determined by valuation techniques that use non-observable market data ((c)(ii)).

3.112.78 Fair value based on a valuation technique using observable market data will generally include evaluated pricing techniques using inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. This could include bonds, over the counter ~~OTC~~ derivatives and investment properties. This category is referred to as (c)(i).

3.112.89 Fair value based on a valuation technique that relies significantly on non-observable market data will include values not primarily derived from observable market data. This could include private equity, insurance contracts, special purpose vehicles and investment properties where there are few transactions for the type of property. This category is referred to as (c)(ii).

Fair value methodology – pooled investment vehicles

3.112.109 Investments ~~Interests~~ in quoted pooled investment vehicles, such as exchange traded funds (ETFs), are valued in accordance with the guidance set out in paragraph 3.~~12~~11.~~3~~4 and 3.1~~2~~1.~~4~~5 ~~above~~.

The~~is~~ SORP requires ~~recommends I~~interests in unquoted pooled investment vehicles, which are valued using prices published by the pooled investment vehicle manager, ~~should~~ to be reported at the closing bid price if both bid and offer prices are published or, if single priced, at the closing single price. Interests in unquoted pooled investment vehicles which are valued using net asset values provided by the pooled investment manager are normally reported at the net asset value as determined by the pooled investment manager who uses fair value principles to value the underlying investments of the pooled arrangement.

See paragraph 3.1~~1~~2.1~~6~~5 for further consideration of valuing illiquid pooled investment vehicles.

Valuation techniques

3.112.101 FRS 102 comments as follows on valuation techniques:

An entity shall use valuation techniques consistent with one of more of these approaches: ~~Valuation techniques include using the price in a binding sale agreement and recent arm's length market transactions for an identical asset between knowledgeable, willing parties, reference to the current fair value of another asset that is substantially the same as the asset being measured, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the asset and that~~

~~**technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique.**~~

(a) the market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities or a group of assets and liabilities, such as a business.

(b) the cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

c) the income approach reflects expectations of future performance (for example, cash flows or income and expenses). Valuation techniques using the income approach include present value techniques, option pricing models, and the multi-period excess earnings method. (FRS 102:2A.~~2~~16)

~~**The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Fair value is estimated on the basis of the results of a valuation technique that makes maximum use of market inputs, and relies as little as possible on entity-determined inputs.**~~ **A valuation technique would be expected to arrive at a reliable estimate of the fair value if:**

(a) it reasonably reflects how the market could be expected to price the asset; and

(b) the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset. (FRS 102:2A.~~3~~19)

3.11~~2~~.1~~1~~2 The~~is~~ SORP sets out below the typical approach to applying valuation techniques to investments in category (c)~~ below~~.

Bonds

3.1~~2~~1.1~~3~~2 Bonds~~,~~ which do not trade frequently~~,~~ (including short-term instruments), are priced based on evaluated prices provided by pricing vendors. Such prices are normally on a "clean" basis (the value of the bond less the accrued interest) and may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, indexation, institutional size trading in similar groups of securities and developments related to specific securities. However, in some global markets, evaluated prices are on a "dirty" basis (the value of the bond that includes the accrued interest) and there will not be any separate interest accruals on these securities.

Unquoted securities

3.11~~2~~.1~~3~~4 Unquoted securities ~~should~~shall 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~~shall adopt an appropriate basis of valuation, such as the valuation guidelines of the International Private Equity and Venture Capital Valuation (IPEV) Guidelines, and apply the basis consistently. The valuation basis ~~should~~shall be disclosed in a note to the financial statements.

Over the counter derivatives

3.11~~2~~.1~~4~~5 Fair values for over the counter derivatives are determined using valuation techniques which depend on the type of derivative, for example:

- swaps – current value of future cash flows arising from the swap taking into account the time value of money calculated using discounted cash flow models and using market data at the reporting date;
- options – fair value determined using option-pricing models; and
- forward foreign exchange – fair value is determined as 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.

Pooled investment vehicles

3.11~~2~~.1~~5~~6 Private equity, private debt, hedge funds, infrastructure and other relatively illiquid pooled investment arrangements are normally reported at the net asset value (NAV) of the fund.

The NAV ~~should~~shall be determined by the pooled investment manager by applying fair value principles to the underlying investments of the pooled arrangement.

There may be circumstances where the NAV is not appropriate as a measure of fair value, for example if the trustees have decided to sell the pooled arrangement in a secondary market. There may be a discount or premium to NAV in a secondary market depending on the circumstances of the pooled arrangement. Therefore, if there is a commitment to dispose of the pooled arrangement, consideration ~~should~~shall be given to adjusting NAV to reflect the level of discount or premium to NAV at thereporting ~~-reporting~~ date.

Insurance policies – unit linked

3.11~~2~~.1~~6~~7 The value of u~~U~~nit linked or unitised insurance policies ~~value~~ fluctuates directly in relation to the fair value of the asset class or classes that constitute the investments underlying the insurance policies. These policies ~~should~~shall be valued on the same basis as pooled investment vehicles.

Insurance policies – annuities

3.11~~2~~.1~~7~~8 FRS 102 requires insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, to be valued as follows:

…the fair value of the asset is deemed to be the present value of the related obligation (FRS 102:28.15(b)).

This requirement applies to defined benefit and defined contribution arrangements.

3.11~~2~~.1~~8~~9 The present value of the related obligation will depend on the basis of the valuation of the scheme liabilities. Therefore, trustees shall adopt a reasonable basis for valuing annuities and apply it consistently from year to year.

There are several options available for determining scheme liabilities. For example, (a) the scheme funding valuation basis, (b) buy-out basis and, since FRS 102 also requires the employer to value annuities for the purposes of employer accounting for employee benefits, (c) the basis set out in FRS 102 for employer accounting.

The SORP no longer allows valuations carried out by the annuity provider. The change to one of (a), (b) or (c) listed above is a change in valuation technique rather than a change in measurement basis and, as such, is a change in accounting estimate, not a change in accounting policy. As such, under FRS 102:10.14A-17, the change shall be applied prospectively in the period of change. Disclosure of the change in valuation technique is not required under FRS 102:2A.17. ~~If the valuation is carried out by the annuity provider possible bases comprise include (a)the actuarial method which would approximate to a scheme funding approach or (b) the net premium method which approximates to a buy-out basis.~~

See Appendix 5 for additional Irish disclosure requirements for Section 53B insurance policies.

3.11~~2~~.~~19~~20 The Scheme Funding Regulations allow the scheme actuary to substitute their own valuation for the one reported in the financial statements for the purposes of the scheme funding valuation or exclude both the annuity asset and corresponding benefit obligation.

3.11~~2~~.2~~0~~1 If a scheme is using a valuation approach that is linked to a periodic full valuation of scheme liabilities, for example~~,~~ the scheme funding valuation, it may be more cost effective to adopt a roll-forward approach to the valuation of annuities for reporting dates that fall in between full valuations.

A roll-~~-~~forward of annuity value ~~should~~shall take into account any changes between the date of the previous valuation and the~~-~~ reporting ~~reporting~~ date which are significant to the valuation, for example, cash flows arising under the annuity, changes to the discount rate, changes to mortality expectations, changes to the terms of the annuity contract or significant changes to the scheme members covered by the annuity.

3.11~~2~~.2~~1~~2 The~~is~~ SORP requires the following to be disclosed in the financial statements:~~recommends:~~

- the valuation basis adopted; ~~should be disclosed in the financial statements;~~
- the key assumptions used in the valuation, including discount rates, mortality assumptions and those that have a significant risk of causing a material adjustment to the carrying value of the annuity policies;
- the name of the ~~the valuation is carried out by a~~ suitably qualified person or organisation carrying out the valuation;~~and this person or organisation is disclosed in the financial statements;~~ and
- the nature of benefits covered by the annuit~~y~~ies and any collateral arrangements in place. ~~are disclosed in the financial statements.~~

3.11~~2~~.2~~2~~3 In the Republic of Ireland, where Section 53B policies (otherwise known as sovereign annuities) have been purchased, the notes to the financial statements shall include a statement of the value of the pension obligations of the scheme which are matched by these policies and if there is any reduction in payments under any ~~section~~ Section 53B policies held by the scheme these notes ~~must~~ are required to include a statement detailing the particulars of that reduction.

Insurance policies – with-profits

3.11~~2~~.2~~3~~4 With-profits insurance policies ~~should~~shall be reported at an estimate of their fair value, which will normally be the on-going value of the policy based on the cumulative reversionary bonuses declared and the current terminal bonus. If there is a commitment to redeem the policy, then surrender value ~~should~~shall be used. Under FRS 102, which requires fair value to be determined on an "exit" value rather than an "entry value", the use of an actuarial value or premium value is not appropriate. The~~is~~ SORP ~~recommends~~ requires disclosing the name of the insurance company and the valuer of the policy.

Insurance policies - ~~L~~longevity swaps

3.11~~2~~.2~~4~~5 The fair value of the longevity swap ~~should~~shall be based on the expected future cash flows arising under the swap, discounted using market interest rates. The cash flows are discounted using market-based interest rates, taking into account risk premium, credit risk and liquidity premium appropriate for the circumstances. Projected variable cash flows also need to take into account current market views of longevity.

At inception, a longevity swap is normally valued at nil, since no consideration passes between the scheme and the counterparty. In order to achieve a nil value at inception, where the swap contract includes cash flows from the scheme to the counterparty in respect of expenses, fees and margins, the variable (receivable) leg of the swap is discounted using a rate that reflects the risk premium.

In some scenarios, ongoing counterparty fees (sometimes payable as a separately identifiable leg) may be considered as costs arising within the accounting period and therefore future commitment of fees may not be capitalised. As a result, all legs set out in legal agreements need to be considered individually to ensure that the accounting treatment is appropriate to the nature of the cash flows for each leg.

Special purpose vehicles (SPVs)

3.11~~2~~.2~~5~~6 SPVs are typically highly illiquid and are not transferrable, whilst some give the employer pre-emption rights such that disposal to a third party is highly unlikely to occur. Notwithstanding the illiquid nature of these arrangements and a lack of an active market, a fair value can be determined using valuation techniques.

3.11~~2~~.2~~6~~7 The valuation technique shall ~~will~~ be based on the expected future cash receipts and the discount rate used to bring these expected cash flows to a present value.

3.11~~2~~.2~~7~~8 The future cash flows may depend on the circumstances at the time that they are received; for example the future funding level of the scheme. In such cases, stochastic modelling (for example) will often be used to assess the future likely cash flows.

3.11~~2~~.2~~8~~9 The discount rate used will depend on a number of factors, for example~~,~~ the security of the arrangement; the credit worthiness of the employer and related collateral in the arrangement; the illiquidity of the arrangement; and the current yield on any market-traded securities which have features similar to the SPV.

3.11~~2~~.~~29~~30 When modelling the value of an SPV, some particular aspects that may need to be considered, depending on the nature of the arrangement, are:

- future assumed investment returns;
- the trustee's future investment strategy;
- the employer's approach to funding future deficit contributions;
- determination of the future actuarial valuation discount rate;
- development of the scheme's actuarial liabilities; and
- conditional criteria that may switch off cash flows from the SPV, for example, funding triggers.

3.11~~2~~.3~~0~~1 Consideration of the above ~~should~~shall be from the perspective of a third party willing buyer or seller at arms-length rather than from the trustees' perspective.

3.11~~2~~.3~~1~~2 These arrangements are highly illiquid and, in some cases, the arrangements cannot be sold on to third parties. The~~is~~ SORP requires ~~recommends~~ that, if an SPV is highly illiquid, this is disclosed in the scheme financial statements.

Investment properties

3.11~~2~~.3~~2~~3 The~~is~~ SORP requires ~~recommends~~ that properties ~~should~~shall be valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards. The Valuation Standards UK national supplement,~~PS 1.1,~~ Valuation Practice Guidance Applications 1: Valuation for financial reporting (UK VPGA 1') ~~for Financial Statements~~ (which also applies in the Republic of Ireland), provides that the basis of valuation shall be that:

(a) properties in the occupation of the pension scheme ~~should~~shall be valued at ~~existing use value~~cost or revaluation;

(b) all other properties, other than specialised properties, ~~should~~shall be valued at ~~market~~ fair value; and

(c) specialised properties with no active market ~~should~~shall be valued at depreciated replacement cost.

3.1~~1~~2.3~~4~~3 There is no distinction between bid and mid values in the case of property.

3.1~~1~~2.3~~4~~5 Properties are reported at fair value at the scheme year-end. The valuation of properties may involve additional expense in professional fees and the valuation approach is therefore a matter of judgement for the trustees, subject to any specific requirements in the scheme documentation.

Where property comprises a ~~significant~~ material proportion of total investments, it is required ~~recommended~~ by the SORP that property valuations ~~should~~shall be carried out by independent valuers at the same frequency as the scheme's actuarial funding valuation~~s~~ ~~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.

3.1~~1~~2.3~~5~~6 Where the valuation of investment properties is not at the reporting ~~reporting~~ date, for example where the rolling valuation approach described in paragraph 3.11.35 ~~above~~ is adopted, consideration ~~should~~shall be given to the need for a fair value adjustment to the latest valuation to the reporting ~~reporting~~ date using appropriate market information such as property indices.

~~3.13~~3.12 *Disclosure of fair value determination*

3.1~~2~~3.1 FRS 102 requires the following disclosure in relation to fair value determination:

For financial instruments held at fair value in the statement of net assets available for benefits, a retirement benefit plan shall disclose for each class of financial instrument, an analysis of the level in the following fair value hierarchy into which the fair value measurements are categorised. ~~(FRS 102:34.42)~~ A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety (Level 3 being the lowest level).

- **Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.**
- **Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.**
- **Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. (FRS 102:34.42)**

3.1~~3~~2.2 The~~is~~ SORP requires ~~recommends~~ that the above disclosure is made~~,~~ by each class of investment disclosed on the face of the Statement of Net Assets available for benefits.

Further analysis is required for pooled investment vehicles (see paragraph 3.12.22) and sole investor funds (see paragraph 3.21.5). Further analysis can be provided if desired.

FRS 102's disclosure requirements in relation to fair value only relate to financial instruments. The~~is~~ SORP requires that ~~recommends~~ all investments reported at fair value in the Statement of Net Assets available for benefits are included in the disclosure including, for example, investment properties, to achieve consistent disclosures for all scheme investments.

3.1~~2~~3.3 In preparing the valuation hierarchy, consideration ~~should~~shall be given to determine whether an investment class falls into level 1, if not, whether the investment class falls into level 2 and finally all remaining investments fall into level 3.

Guidance on which investment class generally falls into which level is provided below.

Level 1 quoted prices

3.12~~3~~.4 An unadjusted quoted price means that an official price is available for a security traded on a recognised stock exchange. For this quoted price to be in level 1, the security ~~should~~shall also be actively traded on the exchange.

3.12~~3~~.5 Level 1 includes exchange traded instruments in an active market, for example, quoted equities, exchange traded derivatives, exchange traded funds and, in certain circumstances, highly liquid exchange traded bonds, such as UK gilts.

Level 2 observable inputs

3.12~~3~~.6 Observable inputs to valuation techniques are inputs developed using market data that are available to other market participants over substantially the full term of the asset or liability.

3.12~~3~~.7 Level 2 includes over the counter instruments, such as bonds, ~~and~~ derivatives and repurchase agreements, where indicative (i.e. non-binding) quotes are available to market participants or where evaluated price feeds from pricing vendors are available.

These quotes are not level 1, because their indicative nature makes them less robust as estimates of the exit price than binding quotes on a recognised exchange.

It also includes the prices of recent transactions to the extent the prices are observable by parties other than those involved in the transaction.

3.12~~3~~.8 Bonds valued using an average of broker prices would fall into level 2. ~~Bonds valued using The Debt Management Office Gilt-edged Market Makers Association (GEMMA) evaluated mid prices, or an equivalent pricing source, would also fall into level 2.~~ Highly liquid exchange traded bonds can be valued using market quotes and, in these cases, they can be shown as level 1. ~~Where GEMMA evaluated mid prices or equivalent sources are used even though market quotes are available, provided the difference is deemed to be insignificant, these bonds may be shown in level 1, providing the reason for the classification is explained.~~

Level 3 unobservable inputs

3.12~~3~~.9 Unobservable inputs to valuation techniques are entity-specific estimates and inputs for which market data is unavailable to other market participants. Level 3 investments ~~each~~ include, for example,~~;~~ private equity, property and special purpose vehicles.

3.12~~3~~.10 The following table shows a guide to the fair value hierarchy mapping from the valuation methodology categories described in section 3.11~~2~~.

FRS 102 Determination	FRS 102 Disclosure
Category (a)	Level 1
Category (b) and (c)(i)	Level 2
Category (c)(ii)	Level 3

Pooled fund categorisation

3.12~~3~~.11 The analysis of pooled funds within the fair value hierarchy varies and will depend on the nature of the fund and the investors' ability to exit their holdings.

Some funds are exchange traded, whilst others are unlisted and may be open-ended or closed~~-~~-ended.

Open-ended funds give investors the right to redeem their holding at a price determined by reference to the value of the underlying assets (a NAV-~~-~~based price). Investors in unlisted closed-ended funds do not have a right to redeem but may be able to sell their units to other investors. A number of factors need to be considered when assigning funds to the most appropriate level.

3.13~~2~~.12 In some jurisdictions, for example the Republic of Ireland, funds have a technical listing on a regulated exchange but are not admitted to trading on the exchange. Such funds are not exchange traded and the term "unlisted" in respect of pooled funds ~~should~~shall be read as including funds with a technical listing but that are not exchange traded.

3.12~~3~~.13 The pension scheme's exposure to investments through a pooled fund is not the same as holding the underlying investments directly. In particular, in times of market stress units in a pooled fund may be more readily realised than the underlying investments. On the other hand, in order to provide clients with this enhanced liquidity, the fund manager will, at times, carry significant uninvested cash and highly liquid assets in the fund in order to fulfil redemption obligations if~~should~~ they were to arise. Therefore, when assigning holdings in pooled funds to a level in the fair value hierarchy, consideration ~~should~~shall be given to how and the extent to which the redemption terms represent~~s~~ the pension scheme's~~'~~ ability to exit the position.

It follows, that each pooled fund ~~must~~ is~~be~~ allocated in its entirety to the most appropriate level based on how the pooled fund is priced and not split across the levels according to the levels of the underlying investments.

3.12~~3~~.14 Pooled f~~F~~unds that are actively traded on an exchange should normally be in level 1, where official prices are available from the relevant securities exchange at the reporting date. Typically, exchange traded funds fall into this level.

3.12~~3~~.15 All other pooled funds, even if daily traded, would fall into levels 2 or 3. These funds typically have NAV-based prices published by the investment managers~~,~~ and they are set on a forward pricing basis. This means that the price is determined at the next NAV valuation point. Trustees do not know, in advance, the exact price that they will pay or receive as this will be based on the NAV at a future time. Therefore, the valuation of the pooled fund is on the basis of the most recently published price but, as a pension scheme cannot enter into a transaction on the year-end date at the published price, a NAV-based price is an observable input that cannot be considered to be equivalent to an exchange-~~ ~~quoted price.

3.12~~3~~.16 For pooled funds not traded on a recognised exchange, where a published price determined by reference to the NAV-based price exists and investors are entitled to redeem their holding without restriction, the right to redeem is deemed sufficient evidence that the observable price represents fair value, provided that the price was determined sufficiently recently to the pension scheme's year-~~ ~~end, e.g. typically within seven days before the year-~~ ~~end. Such funds ~~should~~shall normally be in level 2.

Examples ~~therefore~~ include unlisted open-ended funds priced on a daily, weekly, monthly or quarterly basis with unrestricted redemption rights, regardless of the underlying asset class(es). It can include funds invested in equities, bonds, property and diversified growth strategies and, in most instances, will include funds priced within the previous seven days.

3.12~~3~~.17 Restrictions on redemption rights include written notice periods and specified redemption periods and restrictions on withdrawals that apply under normal business conditions. Restrictions that would apply under certain market conditions are not relevant, unless those market conditions exist and the restrictions have been applied.

3.12~~3~~.18 In other circumstances, pooled funds will be included in level 3. Examples include closed-ended funds such as hedge funds, private equity funds and some property funds.

3.12~~3~~.19 If, after considering all the above points, uncertainty remains about the classification of a fund into levels 2 or 3, consideration shall ~~could~~ be given to the liquidity of the underlying investments, or the investment adviser could be asked how they would classify the fund.

3.12.20 If pooled funds are accessed through a platform, fair value levels shall be determined at the contract level (i.e. at platform level) based on the characteristics detailed above of the platform fund, not at the underlying fund level.

3.12~~3~~.~~20~~21 Once an appropriate category has been determined, this is to be applied consistently from one year to the next. For this purpose, if a pricing date occasionally falls on the scheme financial reporting ~~reporting~~ date or a public ~~bank~~ holiday, it ~~should~~shall not result in a change of classification from that used in prior years.

3.12.22 The SORP requires the fair value level disclosure for pooled investment vehicles to be analysed by underlying asset class (see paragraph 3.9.8).

3.12~~3~~.~~21~~23 Indicative levels for typical scheme investments are given in Appendix 6~~7~~.

Other valuation disclosure considerations

3.12~~3~~.2~~2~~4 Where a valuation technique is used, FRS 102 also requires disclosure of the following:

When a valuation technique is used, the entity shall disclose the assumptions applied in determining fair value for each class of financial assets or financial liabilities. (FRS 102:11.43)

3.12~~3~~.2~~3~~5 It will generally be sufficient to refer to the accepted valuation methodologies and use of market information to satisfy this requirement.

For example, in the case of private equity investments, referring to the use of the International Venture Capital Association's guidelines to carry out the valuation, or for properties referring to them being valued in accordance with the Royal Institution of Charter Surveyors' Appraisal and Valuation Standards would be sufficient.

However, for certain types of investments, such as SPVs and insurance policies, where the assumptions used are specific to the scheme, additional disclosure of the specific valuation technique used is required. ~~may be appropriate.~~

3.123.246 The disclosures made in relation to investment assets valued using a valuation technique ~~should~~shall have regard to the significance of the investment asset in relation to the overall investment portfolio and the disclosures ~~should~~shall be proportionate to the investment asset's value in relation to the overall value of the investment portfolio.

~~3.14~~3.13 Investment reconciliation table

3.134.1 The~~is~~ SORP requires ~~recommends~~ that the disclosure of sales and purchases of investments and of the changes in market value of investments during the year ~~period~~ ~~should~~shall provide a reconciliation between the opening and closing value of investments, analysed by each asset class as disclosed on the face of the Statement of Net Assets available for benefits as a minimum. Derivatives may be shown on a net basis in the reconciliation table.

Cash deposits, obligations due with respect to short sold bonds and other investment balances ~~such as broker balances~~ are ~~not~~ required to be included in this reconciliation, however disclosure of the sales and purchases during the year is not required.

Where there are derivative receipts and payments or repurchase agreements these amounts ~~should~~shall be described as "purchases at cost and derivative and repurchase payments" and "sales proceeds and derivative and repurchase receipts".

A comparative investment reconciliation table for the prior period is not required by the~~is~~ SORP. This is also aligned to FRS 102 (28.41), where a reconciliation need not be presented for prior periods.

3.134.2 Where purchase cost or sales proceeds include accrued income, for example on bond securities, these ~~should~~shall be excluded from investment purchases and sales and reported through investment income in the Fund Account.

3.13.3 Where there are significant movements in the investments as a result of changes in investment strategy, a summarised narrative explanation shall be provided below the table to explain the transaction amounts.

3.13.4 In the case of a defined contribution scheme arrangement, members may choose to move some or all of their funds to different pooled investment vehicles offered within the scheme, known as "switching". Switches are reported within purchases at cost and sales proceeds and the aggregated switched amount in the year shall be disclosed in the financial statements.

~~3.15~~3.14 Investment risk disclosures

3.154.1 FRS 102 requires certain disclosures in relation to risks arising from financial instruments:

A retirement benefit plan shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk and market risk arising from financial instruments to which the retirement benefit plan is exposed at the end of the reporting period and which may impact the ability of the plan to pay benefits to members. (FRS 102:34.43).

The SORP also requires disclosures in relation to liquidity risk.

3.145.2 FRS 102 defines credit risk as: **the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. (FRS 102:Glossary)**

3.145.3 FRS 102 defines market risk as: **the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.**

- **Interest rate risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.**
- **Currency risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.**
- **Other price risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. (FRS 102:Glossary)**

3.14.4 FRS 102 defines liquidity risk as: **the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. (FRS 102:Glossary)**

3.145.45 For each type of credit and market risk arising from financial instruments (and liquidity risk under the SORP), a retirement benefit plan shall disclose:

(a) the exposures to risk and how they arise;

(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and

(c) any changes in (a) or (b) from the previous period. (FRS 102:34.44)

3.145.56 FRS 102 requires these risk disclosures for financial instruments only, which would exclude other investments such as investment properties.

Theeis SORP ~~recommends~~ requires that the risk disclosures required by FRS 102 are applied to all investments reported at fair value in the Statement of Net Assets available for benefits including, for example, investment properties.

3.145.67 These disclosures are required for both defined benefit and defined contribution scheme investments ~~assets~~ (including AVC assets)~~, subject to materiality~~.

3.145.87 In order to satisfy FRS 102's and the SORP's requirement to provide information to enable an evaluation of a scheme's exposure to the nature and extent of credit risk, ~~and~~ market risk and liquidity risk at the year-end, theeis SORP requires ~~recommends~~ pension schemes disclose for significant risk exposures, the value of investment assets and liabilities subject to each of the above risks at the reporting ~~reporting~~ date (and for the comparative reporting ~~reporting~~ date) ~~or suitable alternative information~~. ~~Where these amounts are disclosed elsewhere in the financial statements it may be helpful to cross-refer to them in the investment risk disclosure note rather than reproduce them.~~

Typical disclosures shall ~~could~~ include:

- **Credit risk** – this ~~would~~ includes the value of investments such as bond securities, over the counter derivatives, certain asset backed contribution arrangements, annuity insurance contracts, balances with counterparties such as unsettled trades and cash deposits ~~balances~~ with banks or other financial institutions;
- **Interest rate risk** – the value of financial instruments subject to interest rate risk at the year-end. These ~~would typically~~ include ~~be~~ bond securities, derivatives whose value is impacted by interest rates~~,~~ (such as interest rate swaps), cash deposits, annuity insurance contracts and ~~other~~ investments valued using a valuation technique where interest rates are a major input;
- **Currency risk** – value of investment assets denominated in foreign currencies analysed by major currencies at the year-end. Foreign currency hedging arrangements ~~should~~shall be taken into account when making these disclosures. The impact of the hedging arrangements can be reported on a gross or net basis. In other words, total gross currency exposures may be given, together with a quantification of how these exposures are modified and how they are changed by the hedges, or the currency exposures may be reported net of the hedges;
- ~~**Interest rate risk** – the value of financial instruments subject to interest rate risk at the year-end. These would typically be bond securities, derivatives whose value is impacted by interest rates, such as interest rate swaps, and other investments valued using a valuation technique where interest rates are a major input;~~
- **Other price risk** – value of financial instruments subject to other price risk would normally comprise quoted equities and private equity;
- **Liquidity risk** – this would include details of the scheme's ability to meet member obligations, current liabilities and investment liabilities, including details on how the trustees have come to this conclusion. Liquidity risk also covers the ~~a~~ scheme's ability to fund undrawn capital commitments and potential collateral calls on derivative and LDI portfolios; and
- **Other risks** (if any)~~.~~ - if, in the context of the scheme's specific investment strategy, there are any other significant risk exposures arising then they shall ~~shall~~ be disclosed.

3.145.89 The notes to the financial statements shall explain how the risks arise in the context of the scheme's investment strategy. For example, foreign exchange risk arises where the trustees have chosen to diversify the investment portfolio into securities priced in foreign currencies. Credit risk will arise in bond portfolios which could be part of a liability driven investment strategy.

3.145.109 The scheme's investment strategy is often set taking into account wider risks.

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

For defined benefit schemes, these wider risks will relate, amongst other things, to the employer covenant, actuarial liabilities and funding.

For defined contribution schemes, these wider risks will relate, amongst other things, to the cost of annuity purchases, level of contributions and member investment choices.

Trustees shall, where applicable, ~~may find it useful to~~ put the investment risks required to be disclosed by FRS 102 and the SORP into the ~~wider~~ context of wider ~~other~~ scheme risks.

3.14~~5~~.1~~0~~1 For defined contribution schemes, investment risk at a scheme level may not be directly relevant to individual member investment risks. Trustees shall therefore ~~may therefore wish to consider~~ make~~ing~~ risk disclosures by reference to member investment funds, or the more significant member funds, such as the lifestyle or default funds.

3.14~~5~~.1~~1~~2 Disclosures relating to the objectives, policies and processes for managing the risks and the methods used to measure the risks ~~should~~shall explain how the trustees set their investment strategy, how this is translated into investment guidelines and limits for investment managers and an explanation of the trustees' approach to monitoring investment risks through management information.

For example, where the Statement of Investment Principles (SIP) (or the Statement of Investment Policy Principles in the Republic of Ireland (SIPP)) sets out the asset allocation for the scheme, the scheme shall ~~it may be useful to~~ explain the investment risk management process in the context of the SIP (SIPP), how investment assets are allocated in accordance with the SIP (SIPP) and how they are monitored for compliance with the SIP (SIPP).

Credit risk – additional disclosures

3.14~~5~~.1~~2~~3 FRS 102 also requires additional disclosures in relation to credit risk:

The amount that best represents its maximum exposure to credit risk at the end of the reporting period. This disclosure is not required for financial instruments whose carrying amount best represents the maximum exposure to credit risk. (FRS 102:34.45)

3.14~~5~~.1~~3~~4 Since pension schemes report investments at fair value, this disclosure is not required.

3.14~~5~~.1~~4~~5 **A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk. (FRS 102:34.45)**

3.14~~5~~.1~~5~~6 The amount and nature of collateral held at the reporting date, stated at fair value, ~~should~~shall be included in the notes to the financial statements, with an indication of the class of investment included in the Statement of Net Assets available for benefits to which it relates.

Typical arrangements with collateral are over the counter derivatives, repurchase arrangements ~~(repos)~~ and stock lending.

3.14~~5~~.1~~6~~7 **The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk. (FRS 102:34.45)**

3.14~~5~~.1~~7~~8 The~~is~~ SORP requires ~~recommends~~ additional disclosures relating to derivatives in paragraph 3.9~~10~~.86. If derivatives are held to mitigate credit risk relating to other financial instruments, ~~it would normally be appropriate to include~~ this information shall be included within the disclosures required for derivatives.

3.14~~5~~.1~~8~~9 **Information about the credit quality of financial assets that are neither past due nor impaired. (FRS 102:34.45).**

3.14~~5~~.~~19~~20 This requires the disclosure of the credit quality of bond portfolios and other financial assets subject to credit risk.

The~~is~~ SORP requires, ~~recommends~~ as a minimum, that pension schemes disclose (a) investment grade, (b) non-investment grade and (c) unrated financial assets, and the definition of each term. There is no industry standard definition of investment and non-investment grade. Therefore, trustees ~~should~~shall agree, with the provider of the credit, ~~quality information~~ the basis of this classification and apply it consistently across investments and from one year to the next.

3.14~~5~~.2~~0~~1 Where a scheme has had to take possession of collateral during the year, FRS 102 requires the following disclosures:

When a retirement benefit plan obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (~~such as~~eg guarantees), and such assets meet the recognition criteria in other sections, a retirement benefit plan shall disclose:

(a) the nature and carrying amount of the assets obtained; and

(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for retaining them. (FRS 102:34.46)

~~3.16~~3.15 Investment risk disclosures for pooled investment vehicles

Direct and indirect risks

3.15~~6~~.1 Where a pension scheme invests in a pooled investment vehicle it obtains direct exposure to the credit, ~~and~~ market and liquidity risks arising from the pooled investment vehicle and indirect exposure to the credit and market risks arising from the underlying investments of the pooled investment vehicle.

The SORP requires the indirect risk disclosures for pooled investment vehicles to be analysed by underlying asset class.

Direct market risks

3.15~~6~~.2 Pension schemes can have direct market risk arising from their holdings in pooled investment vehicles, for example, currency risk arises if the interest in the pooled vehicle is priced in a currency other than sterling (for UK) and ~~/~~E~~e~~uro (for Republic of Ireland).

Indirect market risks

3.15~~6~~.3 Indirect market risk arises if the underlying investments of the pooled vehicle are exposed to currency, interest rate or other price risks.

3.15~~6~~.4 For example, a pension scheme that invests in overseas securities via a pooled arrangement whose units are priced in sterling (for UK) and~~/~~ E~~e~~uro (for Republic of Ireland) has no direct foreign exchange risk. However, the underlying portfolio does have foreign exchange risks to which the scheme is exposed indirectly.

3.15~~6~~.5 Trustees shall make enquiries to determine if there are underlying market risks and the total value of the pooled fund shall be ~~is~~ included in the appropriate risk disclosure.

Direct credit risk

3.15~~6~~.6 Pension schemes generally have a direct credit risk to pooled investment arrangements where they are dependent on the pooled arrangement to deliver the cash flows which support the pooled arrangement's fair value, and units or shares in the pooled arrangement can only be transacted with the pooled investment manager.

This credit risk arises because the scheme is exposed to potential losses as a result of the pool or pool manager failing to discharge their obligations to the scheme. If a pension scheme's interest in a pooled arrangement can be traded in the open market, then the scheme generally does not have direct credit risk to the pooled arrangement.

3.15~~6~~.7 The nature of direct credit risk of pooled investment vehicles will generally depend on the legal nature of the pooled arrangement which can typically comprise unit-linked insurance policies, authorised and unauthorised unit trusts, shares in open ended investment companies and shares in partnerships.

Each type of arrangement has different regulatory and legal structures and the underlying investments of the pooled arrangement will have differing degrees of protection from insolvency of the pooled investment manager.

Trustees will manage and monitor the direct credit risk of pooled arrangements by considering the nature of the arrangement, the legal structure and regulatory environment. Typically, pooled arrangements are not credit rated.

Therefore, the~~is~~ SORP requires that ~~recommends~~ the financial statements disclose the legal nature of pooled arrangements and the trustees' approach to managing and monitoring the associated direct credit risk.

3.15~~6~~.8 Some pooled arrangements invest in other pooled arrangements, for example, hedge fund of funds or insured unit-linked investment platforms which invest in other funds using reinsurance agreements.

3.15~~6~~.9 Trustees shall consider the impact of these arrangements in relation to the scheme's exposure to failure by the sub-funds or reinsurers who may have different regulatory or insolvency protections compared to the pooled investment made directly by the scheme.

Indirect credit risk

3.15~~6~~.10 If the underlying investments in the pooled arrangement have credit risk, for example, bonds, then the pension scheme is indirectly exposed to these credit risks.

3.15~~6~~.11 The trustees shall make~~s~~ enquiries to the investment manager as to whether there is underlying credit risk. If there is, then this shall be ~~is~~ disclosed as indirect credit risk.

3.15~~6~~.12 An example of risk disclosures is given in ~~the illustrative pension scheme financial statements included as~~ Appendix 1. ~~to this document.~~

Direct liquidity risk

3.15.13 Direct liquidity risk can arise with respect to pooled investment vehicles due to redemption restrictions (limiting a scheme's ability to use the assets to settle other financial liabilities) or capital commitments made by the scheme ~~on~~ which an investment manager may call upon.

3.15.14 Quantification of the pooled investment vehicles held at the year-end subject to redemption restrictions shall be disclosed.

Reference to the capital commitments note, which discloses any undrawn capital commitments, is required to be made from the investment liquidity risks (if such capital commitments are in place).

Trustee controlled pooled investment vehicles

3.15~~6~~.15~~3~~ Where a scheme invests in a pooled investment vehicle where the trustees has have control over the investment mandate, for example, where the trustees are ~~is~~ the sole investor, the~~is~~ SORP requires ~~recommends~~ that the risk disclosures required by FRS 102 and the SORP, as described above, are disclosed on a "look through" basis as if the scheme held each of the investments in the pooled arrangement directly.

~~3.17~~3.16 Concentration of investment risk

3.16~~7~~.1 The Audited Accounts Regulations requires the disclosure of any investment (other than UK Government securities) in which more than 5% of the total value of the net assets of the scheme is invested and if any such investment is an insurance policy a statement of its main characteristics.

For the purposes of this disclosure, there is no need to "look through" pooled investment vehicles, including sole investor funds, to determine the holdings of underlying securities ~~however the~~e~~is SORP recommends the look though approach is adopted where the trustee controls the investment mandate of the pooled investment vehicle (see 3.16.13)~~. For Irish requirements please refer to Appendix 5.

3.16.2 Where an investment exceeds 5% of the total value of the net assets of the scheme for the first time, a prior year comparative is required (even though the comparative is less than 5%) to distinguish those that have no comparison as they are a new investment from those that have no comparison as they were historically less than 5%.

~~3.18~~3.17 Accounting for derivatives

3.17~~8~~.1 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:

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

(b) forward foreign currency contracts may be used to hedge against foreign currency movements or to create an absolute return; and

(c) inflation and interest rate swaps may be used as part of an investment strategy to match pension liabilities.

Purchase cost

3.17~~8~~.2 If a derivative has a purchase price, for example, the premium paid when buying an 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 cash balance returnable from the broker and is recognised as an asset.

Accounting

3.17~~8~~.3 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.

3.17~~8~~.4 The fair value of an open derivative contract is shown in the Statement of Net Assets available for benefits and the change in market value is shown in the Fund Account.

The fair value of an open futures contract is the unrealised profit or loss at the current market quoted price of the contract. The value will be the sum of the daily mark-to-market, which is a calculated difference between the settlement price at the reporting date and the inception date (commonly known in the industry as open trade equity). See paragraph 3.11.15 for valuation techniques for typical over the counter derivatives.

3.17~~8~~.5 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 cash collateral receipts and payments are accounted for within cash deposits and amounts due from ~~to~~ and to ~~from~~ brokers, within other investment assets and liabilities.

3.17~~8~~.6 Changes in fair value of the derivative contract are unrealised gains and losses until the contract is closed out, at which time gains and losses 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.

3.17~~8~~.7 Some types of derivative contracts have cash flows that are reported when they are due. For example, interest rate swaps typically have regular cash receipts or payments representing the difference between rates of interest that have been swapped.

3.17~~8~~.8 The nature of the derivative contract needs to be understood so that accounting for change in market value, cash flows associated with change in market value and other cash flows arising under the contract are accounted for appropriately.

3.17.9 Forward foreign exchange contracts are typically accounted for by investment managers showing two 'legs' of the transaction. On settlement, the investment manager may settle the legs on either a net or gross basis and trustees can choose to account for the transactions in line with the investment managers basis of reporting.

Cash flows in relation to forward foreign exchange contracts included in the investment reconciliation can be much greater than the fair value of the contracts and mask the cash flows from other types of derivatives held. As such, the SORP requires disclosure of the amount of derivative receipts and payments that are in relation to the settlement of forward foreign exchange contracts.

3.17~~8~~.10~~9~~ Accounting for collateral under derivative contracts depends on the terms of the contract and the management of collateral held by trustees. Collateral passed to counterparties continues to be reported as a scheme asset where the scheme retains the economic risks and rewards of ownership. Where a scheme receives collateral and does not expose itself to the risks and rewards of ownership then the collateral assets are not reported within the scheme assets. However, if the scheme uses the collateral assets within its investment activities, sometimes referred to as re-hypothecated~~ion~~, and ~~therefore does expose itself to the risks and rewards of ownership of the collateral assets~~goes on to sell collateral received, then it recognises ~~them as scheme assets~~the sale proceeds in cash together with an obligation to the counter-party to return the collateral assets. If collateral received is re-hypothecated, but only for use as collateral pledged or loaned to other third parties, there are no accounting implications; however (as the collateral is not typically considered a scheme asset) disclosure is required to be made of the nature and amount of collateral pledged or on loan that has been sourced through re-hypothecation.

~~3.19~~3.18 Accounting for repurchase agreements and reverse repurchase agreements

3.18~~9~~.1 When a pension scheme enters a repurchase~~o~~ transaction, the scheme continues recognising and valuing the securities that are delivered out as collateral and disclosing them in the notes to the financial statements. This is because the scheme retains substantially all the risks and rewards of the ownership of the securities. The cash received is recognised as an asset, the obligation to pay it back is recognised as a payable amount. ~~Where possible and material the i~~Interest is accrued and separately included in investment expense~~the payable amount to recognise the higher price when "buying back" the securities~~ and as a liability within other investment balances if outstanding at the year-end.

3.18~~9~~.2 When a pension scheme enters a reverse rep~~o~~urchase transaction, the scheme does not recognise the securities received as collateral in its financial statements, as the scheme does not have the economic benefits. The scheme does, however, recognise the cash delivered to the counterparty as a receivable in the financial statements. ~~Where possible and material t~~The interest is accrued and separately included in investment income and as an asset within other investment balances if receivable at the year-~~-~~end~~in the receivable amount to recognise the higher price due to be received when "reselling" the securities~~. The securities received as collateral shall be ~~are~~ disclosed in the financial statements.

3.18.3 If the collateral received in a reverse repurchase transaction is re-hypothecated and sold on by the scheme, effectively short selling the bond, an obligation to return the bond to the lender is recognised. See paragraph 3.19.1 for further details on accounting and disclosure for short sold bonds.

If the collateral received is re-hypothecated but only as use as collateral pledged or loaned to other third parties there are no accounting implications (as the collateral is not typically considered a scheme asset); however disclosure is required to be made of the nature and amount of collateral pledged or on loan that has been sourced through re-hypothecation.

3.18.4 If, at the end of a repurchase/reverse repurchase agreement term, the contract is "rolled" (being renewed without settlement of the existing obligations) the SORP does not require the reporting of notional purchase costs and sale proceeds. Trustees can adopt the basis for reporting the transactions provided by the investment manager (whether including or excluding notional purchase costs and sale proceeds).

~~3.20~~3.19 Accounting for short sold bonds

3.19~~20~~.1 When a pension scheme has entered into a transaction to short sell a security, the scheme shall recognise the proceeds from the sale of the security as the cost of the obligation to return the loaned asset to the lender. The obligation is then valued at the fair value of the security it has to return to the lender, with the change in market value being the difference between the cost of the obligation and the market value of the security the scheme is required to return at the reporting date.

The borrowed security is not reported as an asset of the scheme until it is bought back ready to return to the original owner. When the borrowed security is to be returned to the lender, the scheme will purchase the security from the market, reporting the purchase of the bond and then the subsequent 'sale proceeds' when the bond is transferred to the original owner, extinguishing the obligation. See paragraph 3.11.13 for valuation techniques for bonds.

3.20 Accounting for stock lending

3.20.1 Where the scheme's investment custodian or investment manager is authorised to release stock to a third party under a stock lending arrangement, the~~is~~ SORP requires ~~recommends~~ that this be disclosed, (even if no stock lending has taken place in the ~~last~~ year).

3.20.2 Any securities loaned at the scheme year-end are included in the Statement of Net Assets available for benefits to reflect the scheme's continuing economic interest in those securities.

The total value of securities out on loan at the year-end shall be ~~is~~ disclosed in ~~a~~ the notes to the financial statements, together with an analysis, by asset class, of the securities out on loan.

3.20.3 Where collateral has been received as part of a scheme's stock lending activities, this shall not be included in the scheme's assets. However, the value and nature of the collateral received shall be disclosed in the notes to the financial statements.

If collateral received is subsequently posted as collateral by the scheme, the value and nature of the re-hypothecated collateral shall be disclosed.

If the collateral received is subsequently sold, an obligation shall be recorded in the financial statements at the fair value of the asset to be returned to the third party as at the reporting date.

3.21 Sole investor pooled arrangements

3.21.1 A pension scheme may be the sole investor in a pooled arrangement, for example~~,~~ liability driven investment funds ~~typically~~ sometimes set up as a Qualifying Investment Fund (QIF).

Note the requirements in section 3.21 do not apply to pooled arrangements where the scheme happens (at the reporting date) to be the first in or last out of an arrangement open to other investors purely by means of timing.

3.21.2 FRS 102 contains consolidation requirements in relation to Special Purpose Entities **(FRS 102:9.10)** and it is arguably the case that sole investor funds would fall to be consolidated under these requirements.

However, FRS 102 requires investments held exclusively with a view to subsequent resale to be reported at fair value and not consolidated. FRS 102 defines "held exclusively with a view to subsequent resale" in its Glossary and this definition includes interests held as part of an investment portfolio, which is in turn defined in **FRS 102's Glossary** as

an interest is held as part of an investment portfolio if its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as media through which the investor carries out business. A basket of investments is indirectly held if an investment fund holds a single investment in a second investment fund which, in turn, holds a basket of investments. (FRS 102:Glossary)

3.21.3 Where this is the case, the~~is~~ SORP requires ~~recommends~~ that the scheme's investment ~~should~~shall ~~continue to~~ be reported as an interest in a pooled arrangement, albeit reported separately from other pooled investment vehicles on the face of the Statement of Net Assets available for benefits, with disclosure in the notes to the financial statements as follows:

- an explanation that the scheme is the sole investor in the pooled arrangement;
- an explanation of the purpose of the sole investor fund; and
- a summary of the ~~pooled arrangement's~~sole investor fund's underlying assets and liabilities at the reporting date (aligned to the format of the Statement of Net Assets available for benefits, with the exception of pooled investment vehicles and derivatives, which shall be further shown by type).

  Further detailed notes on the underlying assets and liabilities at the reporting date or the transactions that took place during the reporting period within the pooled arrangement are not required.

  Where the scheme invests in more than one sole investor pooled arrangement, the summary of underlying assets and liabilities can be at an aggregate or individual arrangement level.

3.21.4 In some situations, the breakdown of the assets and liabilities within the pooled arrangement may not directly match in value to the overall pooled value provided by the investment manager.

This can be caused by a number of reasons, including pricing methodology differences, investment manager fee accruals or differences in reporting date. It is important to understand the reasons for any differences in order to determine the appropriate way to account for and disclose the differences in the financial statements.

3.21.~~4~~5 The fair value level and investment risk disclosures required by FRS 102 and the SORP ~~should~~shall be made using the look through approach for sole investor pooled arrangements. Where the scheme invests in more than one sole investor pooled arrangement these disclosures shall be on an aggregate level.

3.22 Common investment fund

3.22.1 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 a share of the common investment fund, typically expressed in terms of investment 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 main reasons why information on the underlying assets ~~should~~shall be provided:

- it is helpful to disclose to the reader of the financial statements the underlying exposure of the scheme to the main asset classes; and
- the CIF is likely to be a related party because, inter alia, it will have trustees who are also trustees of the participating schemes.

3.22.2 For these reasons, the ~~is~~ SORP requires ~~recommends~~ 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~~shall state the percentage of units or share of the CIF owned by the scheme at the beginning and the end of the scheme year and either:

Formatted: Font: Bold

- include the financial statements of the CIF itself within the scheme's Annual Report; or
- provide equivalent details of the CIF's portfolio and income and expenditure and state the scheme's proportionate share thereof.

3.22.3 The scheme's ~~investment~~ Trustees' ~~r~~Report shall ~~should~~ include appropriate details of CIF investments and investment performance.

3.22.4 The CIF's financial statements shall ~~will~~ show a true and fair view under UK/Irish GAAP and will, therefore, be prepared in accordance with FRS 102.

The CIF shall ~~will~~ value its investments at fair value in accordance with FRS 102's fair value methodology.

~~-~~The CIF trustees determine ~~decide~~ whether the CIF is a Financial Institution as set out in the Glossary to FRS 102. If they decide it is, the CIF shall follow~~s~~ the financial instrument disclosures set out in FRS 102 for Financial Institutions and the~~is~~ SORP requires ~~recommends~~ that it also follows the additional investment disclosures required ~~recommended~~ by the~~is~~ SORP for pension schemes. If they decide it is not a Financial Institution, the~~is~~ SORP requires ~~recommends~~ that the CIF financial statements are prepared in accordance with FRS 102 and the~~is~~ SORP as if pension investment disclosure requirements apply and therefore contain the fair value hierarchy and risk disclosures in relation to investments that would be disclosed as if it were a pension scheme.

3.22.5 The~~is~~ SORP further requires ~~recommends~~ that, where the CIF financial statements are included in the scheme's Annual Report, ~~then~~ the scheme financial statements shall disclose the fair value and risk disclosures at the share of CIF level, for example, units in the CIF. If the scheme financial statements include equivalent details of the CIF's portfolio then it ~~they should~~shall also include the related risk and fair value disclosures.

3.23 Subsidiaries, associates and joint ventures

3.23.1 If a pension scheme has subsidiaries, joint ventures or associates it needs to consider its approach to these in its financial statements. FRS 102 has the following requirements that need to be taken into account:

- pension schemes are not required to prepare consolidated financial statements under **FRS 102:9.3(g)**, as the statutory framework for pension scheme financial reporting does not require consolidation, ~~**(FRS 102:9.2–9.3)**~~ but a pension scheme may choose to do so;
- investments in subsidiaries, associates and joint ventures are reported in the scheme's Statement of Net Assets at their fair values **(FRS 102:34.36);**
- a subsidiary shall be excluded from consolidation and included at fair value where investment in the subsidiary is held exclusively with a view to subsequent resale **(FRS 102:9.9(b) and FRS 102:9.9C)**; and
- FRS 102's definition of "held exclusively with a view to subsequent resale" includes an interest which is held as part of an investment portfolio **(FRS 102:Glossary)**. FRS 102 defines "held as part of an investment portfolio" as:

An interest is held as part of an investment portfolio if its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a media through which the investor carries out business. (FRS 102:Glossary)

3.23.2 Consequently, where a subsidiary is held as part of the scheme's investment portfolio it shall ~~will~~ be reported at fair value in the scheme's Statement of Net Assets available for benefits and, if the scheme chooses to prepare consolidated financial statements, the trustees shall consider~~s~~ whether the subsidiary falls to be consolidated or reported at fair value under FRS 102 as described above in the consolidated Statement of Net Assets available for benefits.

3.23.3 Where a subsidiary is not held exclusively with a view to resale, for example a trading subsidiary, it shall ~~will~~ be reported in the scheme's Statement of Net Assets available for benefits at fair value and, if the scheme chooses to prepare consolidated financial statements, it shall ~~will~~ consolidate the subsidiary and comply with the requirements of Section 9 of FRS 102 in relation to consolidated financial statements.

3.23.4 Where a pension scheme holds an investment~~s~~ in a subsidiary and the subsidiary is not consolidated, the~~is~~ SORP requires ~~recommends~~ that a summary of the underlying net assets of the subsidiary is disclosed or, if there are a number of subsidiaries, an aggregate summary of the net assets of the subsidiaries is disclosed.

Formatted: Font: Bold

Formatted: Font: Bold

3.23.5 FRS 102 requires the following disclosures:

- whether the financial statements are consolidated or non-consolidated;
- if the financial statements are non-consolidated the basis under **FRS 102:9.3** by which the scheme is exempt from preparing consolidated financial statements. This will normally be **FRS 102:9.3(g)**~~ as the statutory framework for pension scheme financial reporting does not require consolidation~~; and
- if the financial statements are non-consolidated, a description of the methods used to account for the investments in subsidiaries, joint ventures and associates **(FRS 102:9.27)**.

3.23.6 For consolidated subsidiaries where there is goodwill, for example, in trading subsidiaries, differences may arise between the parent and consolidated Statement of Net Assets because, under FRS 102, goodwill cannot be revalued and has to be amortised whereas shares in subsidiaries at fair value will include revalued goodwill.

3.24 Annuity (insurance) contracts

Buy-ins

3.24.1 Trustees may decide, as a matter of investment strategy ~~policy~~ or of administrative efficiency, to purchase annuity (insurance) 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. These transactions are generally referred to as "buy-ins". This is because the trustees are not legally discharged of the corresponding liabilities. Buy-ins can take the form of an individual annuity purchase for a single member or ~~in~~ the form of a bulk buy-in, where an annuity policy covers multiple members.

3.24.2 As set out in paragraph 3.11~~2~~.18~~7 above~~, FRS 102 requires these policies to be valued annually at the amount of the related obligation.

3.24.3 Members whose benefits are funded by the purchase of such annuity policies remain members of the scheme and ~~should~~shall be included in the scheme's membership statistics.

3.24.4 Bulk buy-ins often have "true-up" arrangements under which the final terms of the contract are agreed, normally taking into account a data cleanse exercise. If a true-up is in progress at the reporting date, the~~is~~ SORP requires ~~recommends~~ that this is disclosed in the financial statements in the annuity policy note to the financial statements. If the true-up involves a final settlement of premium between the scheme and counter-party, this shall be ~~is~~ accounted for when the settlement satisfies the asset or liability recognition criteria set out in FRS 102 (see paragraphs 3.5~~6~~.6 to 3.5~~6~~.11 and sections 3.35 and 3.36).

3.24.5 If a bulk buy-in is funded, either in part or in full, by the in-specie transfer of scheme assets (typically bonds in practice) the "sale proceeds" of the bonds, and "purchase cost" of the buy-in are valued at the fair value of the bonds as reported by the receiving insurer (being the value of the bonds to the scheme as opposed to the value of the bonds to the investment manager). Any further cash consideration to be paid as part of the initial transaction (not a "true-up" payment as discussed in paragraph 3.24.4) shall be accrued for and recognised in the buy-in's purchase cost at the risk transfer date and the obligation settled on payment.

3.24.6 If a buy-in is converted to a buy-out (see paragraphs 3.24.7 to 3.24.9) a "sale" of the buy-in policy is required to be recognised in the financial statements. The value placed on this sale shall be the fair value of the policy at the point of conversion from a buy-in to a buy-out. This shall be calculated in the same manner as used by the scheme for the previous period end buy-in valuation (see paragraphs 3.11.18 to 3.11.23).

Buy-outs

3.24.~~5~~7 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. These transactions are generally referred to as "buy-outs".

The trustees' intention is generally to secure the benefits 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 scheme and cannot be included in the scheme's Statement of Net Assets available for benefits. The purchase cost of such policies (or the disposal on assignment to members of such policies previously valued in the scheme's Statement of Net Assets available for benefits)~~)~~ ~~should~~shall be accounted for as the "purchase of annuities" in the Fund Account.

3.24.~~6~~8 The costs of buying-out individual benefits ~~should~~shall be disclosed under the "Benefits paid or p~~P~~ayable" caption for immediate annuities and under the "Payments to and on ~~behalf~~ account of leavers" caption for deferred annuities.

The costs of buying-out members' benefits on a bulk basis shall be reported on the face of the Fund Account (see paragraph 3.4.3).

Members whose benefits have been secured in this way ~~should~~shall be treated in the scheme's membership statistics as having exited the scheme.

3.24.~~7~~9 In the Republic of Ireland, buy-out policies include Section 53B (sovereign annuity) policies and, on the purchase of these policies, the financial statements are required to~~must~~ include in the notes to the financial statements a statement of the value of the pension obligations of the scheme which are matched by Section 53B policies and, where there has been any reduction in payments under any Section 53B policies held by the scheme, a statement detailing particulars of that reduction.

3.25 Defined contribution assets

3.25.1 In defined contribution schemes, contributions may be 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 defined contribution 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.

Alternatively, defined contribution investments may be held on a pooled basis by the investment manager such that the investment manager cannot identify investments by member, the administrator keeps records of the allocation of investments by member, and the investments are "allocated" to members.

3.25.2 The~~is~~ SORP requires ~~recommends~~ that the financial statements ~~should~~shall explain that defined contribution assets are held ~~allocated~~ to provide benefits to the individuals on whose behalf the contributions were paid. The notes to the financial statements ~~should~~shall disclose ~~investments~~ assets (a) designated to members, (b) ~~investments~~ allocated to members and (c) ~~investments~~ not designated or allocated to members which are held for the general purpose of the scheme.

Self-annuitisation

3.25.3 Some hybrid pension schemes allow members to purchase their pension benefits within the scheme using their defined contribution pot. This is referred to as self-annuitisation and normally takes the form of a transfer of defined contribution assets to the defined benefit section. The defined benefit section then provides the on-going pension to the member who becomes a member of the defined benefit section of the scheme. This typically enables members to benefit from more attractive annuity rates compared to the open market. In these circumstances, the~~is~~ SORP ~~recommends~~ requires that the transfer of investments is reported as a transfer between sections in the Fund Account.

3.25.4 The member will also be reported in the membership statistics as leaving the defined contribution section and joining the defined benefit section.

3.25.5 The example hybrid financial statements set out in Appendix 1 illustrates defined contribution disclosures.

3.26 Additional voluntary contribution (AVC) arrangements

3.26.1 Trustees of occupational pension schemes in the UK ~~United Kingdom~~ were historically required to provide an AVC arrangement and the paragraphs that follow apply only to schemes affected by UK ~~the United Kingdom~~ requirements (the treatment of AVC arrangements by schemes in the Republic of Ireland is dealt with in Appendix 5).

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. Following the UK 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.

3.26.2 In practice, the nature of AVC arrangements can vary. For example, AVCs may be pooled with other contributions or invested as part of the scheme's normal investment operations and used to acquire additional benefits within the provisions of the ~~principal~~ scheme.

Alternatively, AVCs are invested separately from the scheme's main assets (for example, with insurance companies ~~and building societies~~) and used to acquire additional defined contribution benefits (where benefits are dependent upon the value of each member's AVC fund at retirement).

3.26.3 AVCs and related investments, investment returns, contributions and benefit payments are accounted for within the pension scheme's financial statements in accordance with FRS 102 and the~~is~~ SORP.

Where the scheme documentation requires that the AVCs must be used to provide defined contribution benefits and that the AVC assets must be separately identifiable and isolated from other scheme assets and liabilities, AVC assets ~~should~~shall be accounted for in a manner consistent with the treatment of defined contribution assets, as described in section 3.25.~~above.~~

3.26.4 The notes to the ~~pension scheme~~ financial statements ~~should~~shall include an explanation of the type of AVC arrangement and state how the AVCs are invested (for example, as an integral part of the scheme's assets or with third parties and, in the latter case, the institution and type of fund – for example unit linked funds or with profits funds).

3.26.5 If defined benefit AVC assets are held within a scheme's defined contribution investments, for example, in a hybrid scheme where defined benefit members can invest AVCs in the defined contribution investment arrangements, the AVCs and related investment shall ~~can~~ be reported within the defined contribution section with disclosure of the amounts relating to AVCs and AVC investments.

Where defined contribution AVCs are co-invested with the main defined contribution investments, disclosure of this arrangement is required, however disclosure of the amounts relating to AVCs are not required.

3.26.6 In practice, certain AVC providers are unable to supply details of movements on the fund to a specified Statement of Net Assets 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~~shall include the information at a date as near as practicable to the scheme year-end, adjusted for cash movements in the intervening period, and explain the treatment adopted in the notes to the financial statements.

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~~shall use the latest available information, adjusted for subsequent cash movements, and explain the treatment adopted in the notes to the financial statements.

3.26.7 A ~~suggested~~ format for the disclosure of AVCs within defined benefit schemes is set out in Appendix 1.

3.26.8 In the Republic of Ireland, the requirements to prepare an Annual Report for pension schemes under the Irish Disclosure Regulations apply to AVC Schemes. Where AVCs are separately invested from other scheme contributions, in the form of a defined contribution scheme, they ~~should~~shall be disclosed separately in the fund account and the net assets statement. Where they are not significant to the Statement of Net Assets they can be accounted for within the financial statements of the scheme or in the notes thereto.

3.27 Multiple benefit structures

3.27.1 Schemes may have multiple benefit structures under one trust deed. For example:

- a scheme may be a hybrid scheme with a defined benefit section and a defined contribution section;
- a scheme may have a number of separate defined benefit sections which are financially ring fenced from one another; or
- a scheme may have a number of benefit structures that are provided from a common pool of assets

3.27.2 FRS 102 requires the following approach:

A retirement benefit plan may be a defined benefit plan, a defined contribution plan, or have both defined benefit and defined contribution elements. The financial statements shall distinguish between defined benefit and defined contribution elements, where material (FRS 102:34.34).

3.27.3 In considering the approach to disclosing financial information in relation to multiple benefit structures, the trustees shall also have regard to the requirements of the pension scheme's trust deed and rules in relation to financial reporting. Subject to any requirements set out therein, the SORP's requirements ~~recommendations~~ are set out below.

Hybrid

3.27.4 The~~is~~ SORP requires ~~recommends~~ a columnar analysis of the income and expenditure attributable to each of the defined benefit and defined contribution arrangements within the Fund Account and separate reporting of the net assets attributable to each of the defined benefit and defined contribution arrangements in the Statement of Net Assets available for benefits. The notes to the financial statements shall provide further detail on items in the primary statements.

Where disclosure of comparatives is impracticable in the primary statements, comparatives shall be ~~are~~ disclosed prominently in the notes to the financial statements.

Transfers between the two sections of the scheme are dealt with as transfers between sections in the respective columns within the Fund Account. Transfers between sections ~~should~~shall only include funds transferring from one section to another.

3.27.5 If the scheme has multiple defined benefit sections and/or defined contribution sections it is not necessary to report these multiple sections separately. They can be aggregated into one set of figures for defined benefit arrangements ~~operations~~ and/or defined contribution arrangements ~~operations~~. A presentation of a ~~n example of~~ hybrid arrangement ~~presentations~~ is set out in Appendix 1.

3.27.6 A scheme with an underpin is one where the benefit payable is calculated as the greater of two alternatives, typically the higher of a defined benefit or defined contribution benefit.

In the following cases, the financial statements of the scheme shall not be prepared on a hybrid basis:

(a) a defined benefit plan with a notional defined contribution underpin,

(b) a defined contribution plan with a contracted out underpin on a defined benefit basis.

(c) a defined contribution plan with a contracted in defined benefit underpin.

~~If the scheme is solely a defined contribution scheme but with a defined benefit underpin (or vice versa) the financial statements shall not need be prepared on a hybrid basis.~~

Ring-fenced defined benefit sections

3.27.7~~6~~ For schemes with ring-fenced defined benefit sections which meet the requirements set out in paragraph 1, Schedule 2, of the ~~Occupational Pension~~ Scheme Funding Regulations ~~2005,~~ (contributions payable in respect of an employer are allocated to that employer's section and a specific part or proportion of the assets of the scheme is attributable to each section and cannot be used for the purpose of any other section) that paragraph applies the requirement to obtain audited financial statements for the purpose of the scheme funding valuation to each section as if it were a separate scheme. Therefore, trustees ~~should~~shall consider the most appropriate approach to meeting this requirement.

3.27.8~~7~~ Where separate ~~audited~~ financial information is prepared for each section, the scheme is still required to prepare scheme level financial statements to satisfy the Audited Accounts Regulations.

Common pool of assets

3.27.9~~8~~ If a scheme has multiple benefit structures that are met from a common pool of assets and the Scheme Actuary performs a single Scheme Funding valuation at scheme level, there is no distinction required for the different benefit structures within the financial statements.

3.28 Foreign exchange rates

3.28.1 FRS 102 requires a reporting entity to identify its functional currency. Functional currency is defined as follows:

An entity's functional currency is the currency of the primary economic environment in which the entity operates. (FRS 102:30.2)

3.28.2 When determining its functional currency, a pension scheme ~~should~~shall consider the currency of its main items of income and expenditure. A pension scheme will normally collect contributions and pay benefits in the currency of the country in which it operates. It may invest in overseas currencies as part of its investment strategy, but these currencies will ultimately be realised and converted into the currency used to settle benefits. Therefore, the ~~this~~ SORP requires ~~recommends~~ that pension schemes determine their functional currency by reference to the currency used in their ~~its~~ dealings with members.

3.28.3 Monetary items denominated in a foreign currency ~~should~~shall be translated into the functional currency using the closing exchange rates at the scheme year-end date. **(FRS 102:30.9)**

3.28.4 Foreign currency transactions ~~should~~shall be recorded in the functional currency at the spot exchange

Formatted: Font: Not Bold

Formatted: Font: 9 pt

Formatted: Font: 9 pt

Formatted: Font: 9 pt

Formatted: Font color: Auto, Not Expanded by / Condensed by

Formatted: List Paragraph, Left, Right: 0 cm, Space After: 8 pt, Don't add space between paragraphs of the same style, Line spacing: Multiple 1.08 li, Numbered + Level: 1 + Numbering Style: a, b, c, … + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm rate at the date of the transaction. **(FRS 102:30.7)**

3.28.5 FRS 102 allows an approximation to the spot rate for practical purposes.~~:~~ The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with this FRS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. **(FRS 102:30.8)**

3.28.6 FRS 102 requires foreign exchange gains and losses on monetary items to be recognised in profit and loss for the period **(FRS 102:30.10)**.

The~~is~~ SORP requires ~~recommends~~ that foreign exchange gains and losses arising from investment activities are reported within the Fund Account within the account caption most relevant to the transaction which gave rise to the gain or loss. For example, foreign exchange gains or losses arising on foreign currency investments and cash deposits ~~balances~~ would be reported within change in market value of investments.

3.28.7 FRS 102 requires the disclosure of the amount of foreign exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss **(FRS 102:30.25)**.

Therefore, foreign exchange differences reported within change in market value of investments which arise on financial instruments (such as securities, cash and other investment balances) are not required to be disclosed. Foreign exchange gains and losses arising on investments that are not financial instruments, for example, investment properties, are required ~~will need~~ to be disclosed

3.28.8 FRS 102 allows an entity to present its financial statements in any currency. The chosen currency is the presentation currency. If the presentation currency is different from the functional currency, the entity has to convert the functional currency to the presentation currency for reporting purposes. It is not expected that pension schemes will have a presentation currency that is different from the functional currency.

3.29 Going concern

3.29.1 FRS 102 requires the following in relation to going concern:

3.29.2 **When preparing financial statements, the management of an entity using this FRS shall make an assessment of the entity's ability to continue as a going concern. An entity is a going concern unless management either intends to liquidate the entity or to cease trading, or has no realistic alternative but to do so. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, ~~twelve~~ 12 months from the date when the financial statements are authorised for issue. (FRS 102:3.8)**

3.29.3 **When an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that management has considered information about the future as set out in paragraph 3.8. It shall also disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern. (FRS 102:3.8A)**

3.29.~~3~~4 **When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties. When an entity does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the entity is not regarded as a going concern. (FRS 102:3.9)**

3.29.5~~4~~ The actuarial valuation and related reports are the primary source of information regarding the ability of a defined benefit scheme to meet the benefit promises.~~,~~ However, ~~although it should be noted that~~ this will ~~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.

3.29.6~~5~~ 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 of the pension scheme~~does not need to refer to the~~ would usually be expected to be prepared on a going concern ~~concept~~ basis, unless the trustees or employer have taken the formal decision to wind up the scheme or have no realistic alternative but to do so; ~~,~~ for example, where there has been a cessation event (these are normally set out in the trust deed and rules).

Appendix 1 sets out the going concern disclosures required by FRS 102 and the SORP.

3.29.7 When a strategic decision is made to discharge a scheme's obligations with respect to member benefits with a third party, for example by moving to a full buy-out or transferring to a master trust, the point at which the scheme will no longer be a going concern needs to be determined.

Consideration shall be ~~is to be~~ given to the specifics of the transaction taking place, the scheme rules (with regards to when a scheme wind up is triggered) and other relevant factors (for example, how to deal with the obligations towards any residual members remaining in the scheme, ~~, residual members which need investigating and exited in a different way,~~ there is a surplus for which the use has not yet been determined).

If a formal decision has not been made to wind up the scheme, but strategic decisions have been made with regards to discharging the scheme's obligations with respect to member benefits, this may result in a material uncertainty about the scheme's ability to continue as a going concern and such uncertainties are required to be disclosed in the notes to the financial statements (see paragraph 3.29.4).

A further example of where a material uncertainty about the scheme's ability to continue as a going concern may arise is where the principal employer becomes insolvent, as there may be uncertainty as to whether this will result in wind up being triggered.

3.29.8 For master trusts, if a triggering event is experienced (for example the scheme funder is unlikely to be able to continue as a going concern, or the Pensions Regulator issues a warning notice in respect of a decision to withdraw the scheme authorisation) it could indicate a material uncertainty over the scheme's ability to continue as a going concern.

A triggering event does not automatically lead to the scheme no longer being a going concern, and consideration shall be given to the specifics of the triggering event and if the scheme is able to resolve the triggering events and continue in operation or not.

In the case where the scheme is unable to, or has decided not to, resolve the triggering events, then the financial statements shall be drawn up on a basis other than going concern.

3.29.~~6~~9 There could be circumstances where there are no material uncertainties regarding a matter in relation to going concern, but its disclosure is required in order for the financial statements to give a true and fair view. For example, where a scheme is in the Pension Protection Fund (PPF) assessment period and is expected to leave the assessment period and continue as a closed scheme (see paragraph 3.~~30~~29.~~9~~ 11 ~~below~~).

3.29.~~7~~10 Where a defined benefit scheme is significantly underfunded, it will continue to be treated as a going concern for accounting purposes unless a decision has been made to wind up the scheme or there is no realistic alternative but to do so.

3.29.~~8~~11 When a UK pension~~-~~ scheme enters the ~~Pension Protection Fund~~ PPF assessment period, its funding level will be assessed against PPF levels of compensation. If it is found to be insufficiently funded, its assets and liabilities will transfer to the PPF and the scheme will be wound up.

If the scheme is sufficiently funded to at least meet PPF levels of compensation, it will exit the assessment period and may continue as a closed scheme or wind up after securing members benefits in the insurance market.

Therefore, for financial statements ~~accounts~~ prepared whilst the scheme is in the PPF assessment period, the trustees assess whether they expect the scheme to wind up either on entry to the PPF or on exit from the assessment period and, if so, adopt a ~~the non-going concern~~ basis of accounting other than going concern~~preparation~~.

If the trustees expect the scheme to exit the assessment period and continue as a closed scheme, they shall adopt the going concern basis of accounting and disclose their reasons for doing so.

If the funding levels of the scheme are uncertain at the time of preparing the financial statements, ~~accounts~~ the trustees shall consider whether or not to adopt the going concern basis. If they decide to do so they consider if there is a material uncertainty that casts significant doubt upon the scheme's ability to continue on a going concern basis relating to the possibility that the scheme may enter the PPF or wind up on leaving the assessment period depending on the funding level in relation to PPF compensation levels and disclose such matters in the notes to the financial statements~~as appropriate~~.

3.29.~~9~~12 If the financial statements are prepared on a ~~scheme cessation~~ basis other than going concern, this ~~should~~shall be explained in the basis of preparation note together with the reasons why (both scheme-related and employer-related) and the impact, if any, on the bases of valuing the scheme's assets and liabilities ~~should~~shall be disclosed in the notes to the financial statements.

If assets are expected to be transferred in specie at market value, or the investments are easily realisable there could be little to no impact. However if a scheme holds less~~-~~ liquid assets, for example Limited Partnerships, and these are not being transferred in specie, market value may not be a true representation of realisable value.

When the financial statements are prepared on a going concern basis, but there are material uncertainties related to events or conditions that cast significant doubt on the entity's ability to continue as a going concern, this fact shall be disclosed together with the reasons why.

3.29.~~10~~13 For multi-employer sectionalised schemes, each section ~~should~~shall be considered separately for these purposes.

3.30 Pension Protection Fund (United Kingdom only)

3.30.1 The Pension Protection Fund (PPF) was established under the ~~Pensions Act~~ 2004 Act to pay compensation to members of eligible defined benefit pension schemes, when the sponsoring employer has suffered a qualifying insolvency event, and where the scheme is assessed as having insufficient assets to cover PPF levels of compensation.

Effect of employer insolvency and assessment period entry

3.30.2 When an employer sponsoring an occupational pension scheme experiences an insolvency event, the PPF has a duty to validate whether the scheme is eligible for protection, and whether the insolvency is a qualifying event in accordance with the legislation.

Where both of these criteria are met, the scheme enters a PPF assessment period, during which the trustees are required to obtain an actuarial valuation of the scheme under Section~~.~~ 143 of the ~~Pensions Act~~ 2004 Act. The result of this valuation will determine whether the scheme is accepted into the PPF (because it cannot cover PPF levels of compensation) or whether it will continue as a closed scheme; or proceed to buy out in the insurance market at levels higher than PPF compensation.

3.30.3 This actuarial valuation is carried out at the "relevant date" defined in the legislation as the day before the insolvency event. Trustees will normally be required to obtain audited financial statements, as at the relevant date, in order to provide the actuary with an audited net asset value of the scheme to incorporate into the~~ir~~ valuation.

These financial statements ~~should~~shall be prepared in accordance with the requirements of FRS 102 and the ~~recommendations~~ requirements of th~~is~~e SORP, including its ~~recommendations~~ requirements on the valuation of assets where the trustees intend (or are obliged) to wind the scheme up. These financial statements do not need to be accompanied by other disclosures required for the annual report, unless they are also being prepared as the scheme's statutory financial statements required under the Audited Accounts Regulations. Financial statements prepared under Section 143 of the ~~Pensions Act~~ 2004 Act also have to comply with ~~detailed~~ investment disclosures as set out in The Pension Protection Fund (Valuation) Regulations 2005.

Ongoing obligation to obtain audited financial statements during assessment period

3.30.4 The entry of a scheme into a PPF assessment period does not exempt the scheme from the usual regulatory requirement to obtain audited financial statements under the Audited Accounts Regulations at regular intervals, usually annually.

3.30.5 The ~~annual~~ statutory financial statements will have to account for any assets accruing to the scheme as a result of the recovery activities of the PPF from the insolvency of the employer. Valuing these assets may require the use of judgement and estimation techniques, for example~~,~~ to estimate the dividend receivable from the insolvency practitioner against the scheme's S~~s~~ection 75 debt; or to assign a value to the loans or equity stakes obtained in a restructured business. Even if the trustees decide to assign no value to these assets, the financial statements ~~should~~shall note their existence.

3.30.6 These financial statements will also have to account for any assets pledged by the employer to the scheme, contingent on the employer's insolvency to which, following the employer's insolvency, the scheme has legal entitlement.

These contingent assets will normally have been certified prior to the insolvency to the PPF in order to reduce the levy payable to the PPF. Valuing these assets may require the use of judgement and estimation techniques, for example to estimate the actual amount recoverable from the insolvency practitioner. Even if the trustees decide to assign no value to these assets, the financial statements ~~should~~shall note their existence.

Multi-employer schemes and segregation

3.30.7 Where a number of employers, usually part of the same employer group, participate in and contribute to the scheme, the insolvency of one (or more, but not all) of the sponsoring employers may trigger a partial wind up of the scheme. In these circumstances there will be a requirement to ascertain a net asset value for the part of the scheme associated with the insolvent employer at the relevant date, in order to assess whether only that part should be accepted into the PPF.

3.30.8 In these circumstances, ~~it is recommended that~~the trustees shall implement ~~consider~~ the ~~recommendations~~ requirements of the~~is~~ SORP regarding the presentation of the financial statements of schemes with multiple benefit structures.

This presentation is required in order~~recommended in order~~ to disclose clearly the segregation of the net assets of the scheme, on the relevant date, over the parts of the scheme associated with solvent and insolvent employers; and to record the financial transactions and net assets of the segregated parts of the scheme for accounting periods after the relevant date.

3.30.9 The PPF has issued guidance on segregation for multi-employer schemes which is available on its website and the ICAEW has issued guidance to auditors in ICAEW Technical Release Tech12/2013BL "Audit Reporting on Financial Statements of Pension Schemes prepared for segregation under the Pension Protection Fund multi-employer regulations".

Impact of transfer to the PPF

3.30.10 Once the PPF Board's decision in respect of schemes transferring into the PPF becomes binding, the PPF Board will issue a Notice to the scheme's trustees. As soon as the Notice is received by the trustees, it has the effect of transferring to the PPF all of the scheme's net assets. The trustees and the PPF will arrange for the transition of the scheme's investments and other net assets into the PPF's management; the trustees will cease paying pensions, and the PPF will start paying compensation, to scheme members.

3.30.11 Where the assets of the scheme are held by means of a common investment fund~~s~~, it will usually not be possible to transfer ownership of the CIF units to the PPF. In these cases, the CIF units will have to be liquidated. In some cases, it may be possible for the CIF operator to make an in-specie transfer of underlying assets to the PPF, but the CIF operator will want to ensure fair treatment of all unit holders, and, in particular, that continuing unit holders do not suffer any loss as a result. In other cases, it may be necessary for the scheme to take the proceeds of the CIF units as cash, which will then be transferred to the PPF.

3.30.12 Where the trustees hold annuity policies in the scheme's name, and have been receiving the income arising from those policies, the PPF will make arrangements to re-direct that income into the PPF. These policies are assets of the scheme which transfer into PPF ownership in the same way as any other assets, with the PPF Board effectively becoming the policy holder, replacing the trustees.

Financial statements at the transfer date

3.30.13 Where a scheme transfers to the PPF at the end of the PPF assessment period, ~~it is recommended that~~the trustees shall review the risks associated with this final transfer of assets to the PPF and only proceed to prepare, and obtain an audit of, financial statements which comply with the~~is~~ SORP where the trustees conclude, and the PPF agree, that this is a proportionate response to the risks identified.

In the case of segregated schemes, trustees should ~~consider~~ obtain~~ing~~ audited financial statements showing the transfer of the net assets of the segregated part(s) to the PPF, in order to gain assurance that trustees have retained the appropriate portion of the scheme's assets to support the part of the scheme continuing with solvent employers.

3.30.14 It is required ~~recommended~~ that the transfer of the net assets of the scheme to the PPF be disclosed as a separate line item in the Fund Account, not amalgamated with Benefits paid or payable or Transfers or Payments to and on account of leavers. ~~as part of Dealings with Members.~~

3.30.15 It is also required ~~recommended~~ that the notes to the financial statements separately disclose the investment assets (analysed by investment class as ~~recommended~~ required in the~~is~~ SORP for Statement of ~~n~~Net ~~A~~assets available for benefits ~~statement~~ disclosure purposes), current assets and current liabilities of the scheme which transferred to the PPF at the transfer date in accordance with the ~~Transfer~~ Notice.

3.31 Schemes winding up and similar situations

3.31.1 In a scheme cessation, the trustees consider ~~,~~ and, if thought appropriate,~~e~~ modify~~,~~ the bases on which scheme assets are valued. The primary considerations will be the intended time scale and processes for winding up/discontinuance and, as a general rule, the values placed on assets ~~should~~shall 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. In any event, however, compliance with the requirements of FRS 102 and the SORP, as to asset values, is required.

Some considerations in relation to the main types of scheme investment are:

- quoted readily realisable investments will normally continue to be valued on a bid basis as ~~recommended~~ required in paragraphs 3.11~~2~~.4~~3~~ and 3.11~~2~~.5~~4~~. However, in some cases, an adjustment ~~should~~shall be considered with the objective of valuing investments at net realisable value;
- unquoted securities ~~should~~shall be valued at the trustees' estimate of net realisable value;
- illiquid pooled arrangements, such as private equity funds, ~~should~~shall be valued at the expected realisable value, for example, disposal in a secondary market would typically be at a discount to the net asset value;
- insurance policies will need to be valued using a method appropriate to the circumstances of the scheme; in many cases, this will be the surrender value where the policies are expected to be surrendered or the value obtainable through disposal in a secondary market. However, if policies are to be assigned to members, no change to valuation is required;
- for other less liquid assets, such as property, the net realisable value may be a distressed value under a forced sale; and
- recoverability of any contributions due to the scheme is also relevant where the employer is in difficulty, in administration or is insolvent.

3.31.2 Early redemption penalties and sale costs ~~should~~shall also be taken into account.

3.31.3 The bases of valuation used ~~should~~shall be disclosed in the accounting policy informationi~~es~~.

3.31.4 Certain additional disclosures shall ~~should~~ may 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; and
- likely timescales for winding up, to the extent these can be assessed.

3.31.5 Under UK ~~United Kingdom current~~ regulations, schemes with less than two members (in the Republic of Ireland ~~schemes with less than one hundred active and deferred~~there is no exemption) ~~members~~ are exempt from preparing accounts, but trust law requires trustees to demonstrate how they have discharged their trust obligations. ~~Theis SORP therefore recommends that, a~~

~~As a matter of good practice, T~~trustees should, therefore, prepare final winding up financial statements, even when the scheme membership has declined below this limit during the scheme year as a result of winding up activities. Trustees are therefore able to demonstrate that all members' benefits have been secured, all liabilities have been settled and all scheme assets finally disbursed in accordance with the scheme rules and relevant regulations.

These final financial statements shall ~~should~~ be prepared ~~on an accruals basis~~in accordance with the requirements of FRS 102 and the SORP.~~ where appropriate,~~ Once all of the ~~showing~~ assets are zero and all of the liabilities are zero in the Closing Statement of net assets available for benefits (and with no contingent assets or contingent liabilities) then these shall be classified as the final financial statements. ~~assets (for example cash at bank) and current liabilities (such as benefits and fees payable) which total zero net assets.~~

The treatment for schemes in the Republic of Ireland is dealt with in Appendix 5.

3.32 Related party transactions

The need for disclosure

3.32.1 FRS 102 requires “An entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties” **(FRS 102:33.1)**.

The relations between parties involved in pension schemes, and the transactions between these parties, will vary from scheme to scheme, and therefore the following ~~guidance~~ cannot be exhaustive.

The related parties of pension schemes

3.32.2 **FRS 102 states that:**

(a) a person or a close member of that person’s family is related to a reporting entity if that person:

- **(i) has control or joint control over the reporting entity;**
- **(ii) has significant influence over the reporting entity; or**
- **(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity:**

(b) an entity is related to a reporting entity if any of the following conditions apply:

- **(i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);**
- **(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);**
- **(iii) both entities are joint ventures of the same third party;**
- **(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;**
- **(v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;**
- **(vi) the entity is controlled or jointly controlled by a person identified in (a); or**
- **(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity);~~.~~**
- **(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity. (FRS 102:33.2.**

3.32.3 In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form**. (FRS 102:33.3)**

3.32.4 **FRS 102** states that the following are not related parties:

- **two entities simply because they have a director or other member of key management personnel in common or because a member of key management personnel of one entity has significant influence over the other entity; and**
- **customer, supplier, franchisor, distributor or general agent with whom an entity transacts a significant volume of business, merely by virtue of the resulting economic dependence. (FRS 102:33.4**

3.32.5 FRS 102 defines key management personnel as follows:

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity. (FRS 102:33.6)

3.32.6 In the context of pension schemes, key management personnel are normally the trustees, or trustee directors in the case of a corporate trustee.

In some instances, key management personnel services may be provided by a corporate entity, for example a trustee company, which will fall to be a related party.

Pension managers, scheme secretariat, investment managers, custodians, ~~and~~ administrators and other service organisations and service providers are not normally considered to be key management personnel since they are directed and controlled by the trustees.

3.32.7 If persons other than trustees have the same powers as trustees within a scheme's governance arrangements, for example they sit on committees side by side with the same rights as trustees, they are key management personnel.

3.32.8 The related parties of pension schemes therefore fall into two broad categories:

(a) employer-related; and

(b) trustee-related.

Employer-related parties

3.32.9 Each sponsoring/principal and participating employer is deemed~~should be considered~~ to be a related party. Employer-related parties also include companies and businesses controlled by, or under the same control as, the sponsoring/principal/participating employer. A director of an employer would not be a related party of a pension scheme unless they were in a position to control or exert significant influence over both the pension scheme and the employer.

3.32.10 The~~is~~ SORP requires ~~recommends~~ that related parties ~~should~~ also 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.

Trustee-related parties

3.32.11 Trustee-related parties include:

(a) individual trustees and their close ~~families~~family members;

(b) corporate trustee companies (including sole corporate trustee companies);

(c) trustee directors of a corporate trustee company (and their close family members where such directors are individuals);

~~(a) key management (that is the directors) of a corporate trustee and their close families;~~

~~(b)~~(d) entities controlled by, and associates and joint ventures of, the scheme itself (for example, sole investor funds);

~~(c)~~(e) companies and businesses controlled by the trustees (and~~or~~ their close famil~~ies~~y members for individual trustees/trustee directors);

(f) companies and businesses controlled by the key management of a corporate trustee company~~, or their close families~~; and~~or~~

~~(d)~~(g) other pension schemes that have a majority of trustees (or trustee directors) in common with the scheme. This includes other pension schemes where a corporate trustee is the sole corporate trustee.

Disclosure of key management personnel compensation

3.32.12 FRS 102 requires the disclosure of key management personnel compensation. FRS 102 defines compensation as follows:

Compensation includes all employee benefits (as defined in Section 28 Employee Benefits) including those in the form of share-based payments (see Section 26 Share-based Payment). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (e.g. by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity. (FRS 102:33.6)

3.32.13 An entity shall disclose key management personnel compensation in total. **(FRS 102:33.7)**

3.32.14 This disclosure ~~would normally~~ relates to remuneration of key management personnel (see paragraph 3.32.6) - so, for example, trustees or trustee directors or a corporate trustee for their services to the scheme, whether paid or payable by the scheme or by another entity such as the employer. ~~It would not normally apply to remuneration of scheme management, for example, the pension manager, since the pension manager would not normally be considered key management personnel.~~

Related party transactions

3.32.15 A related party transaction is defined as: **a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged. (FRS 102:Glossary)**

3.32.16 The following examples are given to illustrate transactions which~~, if material,~~ would require disclosure in the financial statements of a pension scheme~~s~~ as a related party transaction under FRS 102 and the SORP:

(a) 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;

(b) 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;

(c) the provision by a related party (such as the employer) of a guarantee to a third party in relation to a liability or obligation of the pension scheme;

(d) the provision by a related party (such as the employer) of a loan to the pension scheme;

(e) provisions or write-offs made by the pension scheme against amounts due from or to related parties;

(f) the payment of pension scheme expenses by a related party (such as the employer);

(g) contributions paid to a pension scheme by an employer; and

~~(f)~~(h) 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, trustee services provided by individual trustees and trustee directors and non-trustee services provided by a scheme's independent or sole corporate trustee.

Disclosure of transactions and balances

3.32.17 FRS 102 requires the following disclosures in relation to related party transactions:

If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. At a minimum, disclosures shall include:

(a) the amount of the transactions;

(b) the amount of outstanding balances and commitments, and:

(i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and

(ii) details of any guarantees given or received.

(c) provisions for uncollectible receivables related to the amount of outstanding balances; and

(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties

~~3.33.18~~ **Such transactions could include purchases, sales, or transfers of goods or services, leases, guarantees and settlements by the entity on behalf of the related party or vice versa. (FRS 102:33.9)**

Formatted ... [1]

3.32.18 **An entity shall make the disclosures required by paragraph 33.9 separately for each of the following categories:**

Formatted ... [2]

(a) entities with control, joint control or significant influence over the entity;

(b) entities over which the entity has control, joint control or significant influence;

(c) key management personnel of the entity or its parent (in the aggregate);

(d) entities that provide key management personnel services to the entity; and

(e) other related parties. (FRS 102:33.10)

An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated. (FRS 102:33.13)

3.32.19 **An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity. (FRS 102:33.14)**

Formatted ... [3]

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

(a) payment of employer and employee contributions – employer contributions and employee contributions are each ~~normally~~ disclosed in aggregate in the Fund Account (and ~~or~~ notes thereto) and further information on a disaggregated basis (such as names and contributions of each employer) is ~~normally~~ unnecessary;

(b) payment of fees and expenses paid to trustees (see paragraph 3.32.6) by the scheme, in aggregate, ~~should~~shall be separately disclosed. Where trustees are paid by the employer and this is not recharged to the scheme, the amount paid to the trustees in aggregate ~~should~~shall be disclosed in the notes to the financial statements. Where trustees are paid employees of the ~~sponsoring~~ employer and carry out trustee duties in company time, this does not require disclosure as a related party transaction. However, payments for goods or services to trustees or scheme advisers outside of the normal course of business (such as the purchase of an asset from a trustee or adviser) ~~would~~ requires disclosure as a related party transaction.

3.32.21 Trustees may be in receipt of pension benefits through the scheme or contributions may have been paid in respect of trustees. Provided that these transactions arise solely in the ~~individual's~~individual's capacity as a beneficiary of the pension scheme and are either non-discretionary or are made on terms normally granted to members, the disclosure of individual transactions is normally unnecessary. It would ~~normally~~ be sufficient to disclose the status of the trustee as a person in respect of whom contributions have been paid or as a person in receipt of benefits.

3.32.22 Where administrative ~~on~~ expenses ~~costs~~, investment management expenses or ~~and~~ other services, such as secretarial and management support, are borne directly by an ~~participating~~ employer and not recharged to the scheme, that fact ~~should~~shall 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.

3.32.23 Where administrative expenses, investment management expenses or other services are paid for or provided by an employer and subsequently recharged to the scheme, that fact shall be disclosed as a related party transaction. The amounts recharged by the employer during the year and any amounts due to the employer at the year~~-~~ end require~~s~~ disclosure.

3.33 Employer related investments

3.33.1 In the UK, ~~United Kingdom~~ employer related investments are required to be disclosed in the Annual Report by the Disclosure ~~of Information~~ Regulations. The Audited Accounts Regulations also requires the financial statements to contain particulars of any employer related investments.

3.33.2 The definition of employer related investments is set out in the Investment Regulations and is widely drawn. They include securities issued by the employer, loans to the employer and any investment property occupied by the employer. They also include investments in the employer made indirectly through pooled investment vehicles.

3.33.3 The Disclosure ~~of Information~~ Regulations requires the following disclosures:

- a statement as to the percentage of the scheme's resources (net assets) invested in employer related investments at the end of the year;
- if that percentage exceeds 5%, the percentage of the scheme's resources (net assets) that are employer related investments but which do not count towards the statutory restrictions (as set out in Section 40(1) of the ~~Pension Act~~ 1995 Act) on employer related investments. These reliefs from counting towards the statutory restrictions are set out in Regulation 13 of the Investment Regulations; and
- where employer related investments exceed the statutory restrictions, the steps the trustees or managers of the scheme have taken, or propose to take, to secure that the scheme complies with that section and the time when any proposed steps will be taken.

3.33.4 Trustees therefore have to determine the extent of employer related investments at the year-end in relation to direct investments and investments made through pooled investment vehicles.

This may ~~can~~ present practical challenges for some types of pooled arrangement ~~vehicle~~, and may be onerous where a scheme has many pooled arrangements. The disclosures required by legislation as described above do not require the actual percentage of scheme investments to be disclosed. The Disclosure Regulations refer to a statement "as to" the percentage, whilst the Audited Accounts Regulations refers to "particulars".

The~~is~~ SORP requires ~~recommends~~ that, where practicable, the percentage of employer related investment at the year-end is disclosed.~~,~~ However, ~~but~~ where this is impracticable, the trustees shall make a reasonable estimation of the percentage of employer related investments, if any, and disclose the basis of such estimation and whether it is above or below the statutory restriction of 5%. Where it is estimated to be above 5%, the trustees ~~should~~shall consider the disclosures required in relation to the steps to be taken to bring the level below the statutory restriction.

3.33.5 The Disclosure ~~of Information~~ Regulations provide an alternative disclosure option for schemes with members from different employers (this approach applies to both direct and indirect investments):

- list the largest 100 investments by value held by the scheme at the year-end stating what percentage of the resources (net assets) of the scheme each investment represents;
- identify which of the investments listed above are employer related investment; and
- if more than 5% of the resources (net assets) of the scheme are invested in employer related investments in relation to any one employer, disclose the employer related investments, the name of the employer, the steps the scheme has taken or proposes to take to reduce the percentage to 5% or less and the time when proposed steps will be taken.

3.33.6 The statutory restrictions on employer related investments are set out in the Investment Regulations and include a limit of 5% of scheme resources for investments and no loans to employers. For multi-employer schemes that meet the conditions set out in Regulation 16 of the Investment Regulations, this limit applies to each section as if it were a separate scheme. In addition, the total employer related investments for all employers is restricted to 20% of total scheme resources.

3.33.7 In the Republic of Ireland, details of any self investment of the assets of the scheme at any time during the scheme year is required to~~must~~ be disclosed, unless the assets of the scheme are wholly invested in managed funds.

Contributions

3.33.8 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, Trust Deed and Rules or recommendations from the actuary and which are remitted after the scheme year-end in accordance with those terms, do not constitute an employer-related investment.

Any contributions that remain outstanding after the due date ~~as set out in the Schedule~~ do constitute an employer-related investment as from the due date. They are, however, exempt from counting towards the statutory restrictions for employer-related investments but shall be ~~are~~ included in the disclosures made in respect of employer~~-~~ related investments.

3.33.9 In the Republic of Ireland, Section 58A of the Irish 1990 Act provides that self investment arises when employee contributions (for defined benefit and defined contribution schemes) and employer contributions (for defined contribution schemes) are not paid over to the scheme within 21 days of the end of the month in which the contribution was deducted from the member's salary, or the end of the month to which they relate.

In respect of employer contributions due for a defined benefit scheme, no self investment arises when contributions are paid in line with the timings noted by the Actuary, or stated in the scheme Rules, or otherwise within 30 days or less of the scheme year-end. The notes to the financial statements ~~should~~shall refer to whether contributions due for the year have or have not been paid over within 30 days of the year-end date and also disclose instances of self investment during the scheme year. Additionally, if contributions are not received within 30 days of the scheme year-end, the statement in the audit report ~~should~~shall be modified to note this.

3.34 Report on actuarial liabilities

3.34.1 The UK ~~United Kingdom~~ Audited Accounts Regulations (~~Audited Accounts~~ Regulation~~s~~ 3(b)) and the Republic of Ireland Disclosure Regulations require pension scheme financial statements to show a true and fair view of the liabilities of the scheme other than the liabilities to pay pensions and benefits after the end of the scheme year.

FRS 102 does not require pension scheme financial statements to include the liability in relation to the promised retirement benefits:

A defined benefit plan is not required to recognise a liability in relation to the promised retirement benefits. (FRS 102:34.47)

3.34.2 FRS 102 does require the following disclosure in relation to actuarial liabilities:

A defined benefit plan shall disclose, in a report alongside the financial statements, information regarding the actuarial present value of promised retirement benefits including:

(a) a statement of the actuarial present value of promised retirement benefits, based on the most recent valuation of the scheme;

(b) the date of the most recent valuation of the scheme; and

(c) the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits. (FRS 102:34.48)

3.34.3 The~~is~~ SORP requires ~~recommends~~ that the above information is disclosed within the Annual Report as part of the Trustees' Report giving it due prominence and that the disclosure is based on:

- the most recent scheme funding valuation required under ~~s.~~Section 224 of the ~~Pensions Act~~ 2004 Act for UK ~~United Kingdom~~ schemes and the Actuarial Valuation prepared under Section 56 of the Irish 1990 Act for schemes in the Republic of Ireland; or
- a more recent valuation prepared for other purposes but on a consistent basis to the scheme funding valuation if available, but the~~is~~ SORP does not require an annual valuation to be performed; or
- a valuation that complies with the technical actuarial standards issued by the FRC which give assurance on the quality of the work.

3.34.4 The~~is~~ SORP also requires ~~recommends~~ the net assets of the scheme at the date of the valuation are also disclosed in this report if the valuation date is different from the reporting date of the financial statements.

3.34.5 In the UK, ~~United Kingdom~~ the information on the actuarial present value of promised retirement benefits is included in the Summary Funding Statement that is required to be prepared following the scheme funding valuation.

3.34.6 The information on the significant actuarial assumptions and the method used to calculate the actuarial present value of promised retirement benefits is included in the Statement of Funding Principles which is produced as part of the scheme funding valuation.

3.34.7 The Disclosure ~~of Information~~ Regulations require the Annual Report to contain a copy of the appropriate certificate by the actuary under ~~s~~Section 227 of the 2004 Act about the adequacy of the contributions payable towards the scheme. (Disclosure of Information Regulations, Schedule 3, Part 2, 6).

3.34.8 The~~is~~ SORP requires ~~recommends~~ that the financial statements ~~should~~shall 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~~shall be given prominence, because the disclosure is fundamental to an understanding of the financial statements and ~~should~~shall be made at the foot of the Statement of Net Assets available for benefits.

3.34.9 In the UK~~United Kingdom~~, for a defined benefit scheme, the explanation ~~note should~~shall refer the reader of the financial statements to the Report on Actuarial Liabilities, which does take account of the long-term liabilities of the scheme. In the Republic of Ireland, the explanation ~~note should~~shall refer the reader of the financial statements to the Report on Actuarial Liabilities, the Actuarial Funding Certificate, the Actuarial Funding Certificate Funding Standard Reserve Certificate and the actuary's Annual Statement.

3.34.10 For multi-employer schemes with financially ring-fenced sections, actuarial liabilities are normally determined for each section. In this case, the above information may be disclosed on an aggregate basis or by section.

3.34.11 If the scheme holds annuities in the name of the trustees, the benefits covered by the annuity ~~should~~shall be included in the statement of the actuarial value of promised retirement benefits.

3.35 Contingent liabilities and contractual commitments

3.35.1 Under FRS 102, a contingent liability is defined as either a possible but uncertain obligation or a present obligation that is not probable and/or cannot be reliably determined **(FRS 102: Glossary)**. Unless the possibility of settling the contingent liability is remote, or it is not material, disclosure ~~should~~shall be made in the notes to the financial statements of the estimated financial effect and an indication of the uncertainties relating to the amount or timing and any possible reimbursement **(FRS 102:21.15)**, for example claims against the scheme or the costs of litigation.

3.35.2 There are situations where the trustees may identify a contingent liability with respect to historical benefits, for example as a result of a judicial case (such as in the case of guaranteed minimum pensions) or arising from a review of the application of the scheme rules.

The specifics of the situation shall be considered against the FRS 102 definition of a contingent liability with respect to any possible but uncertain back payments, or probable back payments for which an estimate cannot be reliably determined.

Formatted: Indent: Left: 0.7 cm, No bullets or numbering

3.35.~~2~~3 The~~is~~ SORP requires ~~also recommends~~ that, 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, or to fund pooled investment vehicles, the nature and amount of the commitment ~~should~~shall be disclosed in the notes to the financial statements.

3.36 Contingent assets

3.36.1 FRS 102 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 of the entity. (FRS 102:Glossary)**~~.~~

3.36.2 Under FRS 102, a contingent asset ~~should~~shall not be recognised as an asset in the financial statements. However, it ~~should~~shall be disclosed where the inflow of economic benefits is probable. When the flow of future economic benefits to the scheme is virtually certain, then the asset is no longer contingent and is recognised in the financial statements **(FRS 102:21.13)**.

3.36.3 A contingent asset ~~should~~shall be disclosed in the notes to the financial statements when an inflow of economic benefit is probable. In such circumstances, disclosure ~~should~~shall be made of the nature of the contingent asset at the net asset date and, where practicable, an estimate of its financial effect.

3.36.4 Where a contingent 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 financial statements.

3.36.5 Trustees may have arrangements 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, for example, letters of credit, guarantees and escrow accounts. These arrangements shall ~~are~~ not be disclosed as contingent assets in the financial statements until such time as they represent probable inflows to the scheme. Since this information is generally useful to readers of the A~~a~~nnual R~~r~~eport to understand the security of scheme funding arrangements, the~~is~~ SORP requires ~~recommends~~ that these arrangements are disclosed in the Trustees' Report whether or not they qualify as contingent assets for financial reporting purposes.

3.37 Subsequent events

3.37.1 FRS 102 defines subsequent events as:

Those events, favourable and unfavourable, that occur between the end of the reporting period and the date the financial statements are authorised for issue. There are two types of events:

(a) those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the end of the reporting period); and

(b) those that are indicative of conditions that arose after the end of the reporting period (non-adjusting events after the end of the reporting period). (FRS 102:32.2)

3.37.2 FRS 102 requires the amounts recognised in the financial statements to be adjusted for adjusting events, whereas non-adjusting events are not adjusted for but are disclosed, including the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made.

3.37.3 Examples of adjusting events include receipt of more up to date information on the value of investments at the year-~~-~~end, for example~~,~~ private equity funds often provide statements at the reporting date which are based on underlying valuations, typically three to six months prior to the reporting date.

3.37.4 Examples of non-adjusting events include scheme mergers and major transfers in and out, for example ~~bulk~~ buy-outs and significant changes to investment strategy that have been implemented between the reporting date and date of signing the financial statements and which are significant to the investment risk disclosures required by FRS 102 (see SORP section 3.1~~4~~5).

3.38 Identification of the financial statements

3.38.1 FRS 102 requires the disclosure of the following information in relation to identification of the financial statements:

An entity shall disclose the following in the notes:

(a) The legal form of the entity, its country of incorporation and the address of its registered office (~~or~~ and principal place of business, if different from the registered office); and

(b) A description of the nature of the entity's operations and its principal activities, unless this is disclosed in the business review (or similar statement) accompanying the financial statements. (FRS 102:3.24)

~~3.38.2~~ ~~In respect of FRS 102 3.24(b) the trustees' report will normally provide the required disclosures and where this is the case there will be no need for further disclosures in the notes to the financial statements.~~

3.38.~~2~~3 ~~In respect of FRS 102 3.24(a)~~ ~~t~~The~~is~~ SORP requires ~~recommends~~ the following disclosures are made in the notes to the financial statements to satisfy the above requirements:

- Legal form – disclose that the scheme is an occupational pension scheme established as a trust;
- Country of incorporation – a trust is not incorporated and therefore this is not directly applicable; instead the~~is~~ SORP requires ~~recommends~~ disclosure of the legal jurisdiction under which the trust is established, e.g. English, Scottish or Irish law;~~ and~~
- Address of its registered office (~~or~~ and principal place of business, if different from the registered/main office) – a scheme does not have a registered office and its operations are typically outsourced to a number of different organisations with different locations, so it is not straightforward to identify a principal place of business. In the case of a sole corporate trustee company its registered address shall be given or, in the case of individual trustees, the scheme's main office, is required to be disclosed; and~~.~~ ~~However, trustees are required to disclose the postal and electronic address for enquiries about the scheme in the trustees' report under the Disclosure Regulations and a cross reference to that disclosure.~~
- The nature of the scheme, i.e. defined benefit, defined contribution, hybrid; and the status of each section, open, closed to new members/future accrual etc.

3.39 Prior period restatements and reclassifications

This section has been added to the SORP to provide focus and clarity where prior period restatements and/or reclassifications are required.

3.39.1 FRS 102 defines prior period errors as:

Omissions from, and misstatements in, an entity's financial statements for one or more periods arising from a failure to use, or misuse of~~r~~, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements. (FRS 102:10.19)

To the extent practicable, an entity shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its discovery by:

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented. (FRS 102: 10.21)

~~(a)~~

3.39.2 **An entity shall disclose the following about material prior period errors:**

(a) the nature of the prior period error;

(b) for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected;

(c) to the extent practicable, the amount of the correction at the beginning of the earliest prior

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: No bullets or numbering

period presented; and

(d) an explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above.

Financial statements of subsequent periods need not repeat these disclosures. (FRS 102:10.23)

3.39.3 Presentation and classification of items in the financial statements shall remain consistent one period to the next. FRS 102 allows reclassifications where it is apparent that another presentation or classification would be more appropriate. (FRS 102:3.11)

When a reclassification takes place, the comparative amounts shall be reclassified unless it is impracticable to do so (in which case the reason why it is impracticable shall be disclosed).

When comparative amounts are reclassified the following disclosures are required:

(a) the nature of the reclassification;

(b) the amount of each item or class of items that is reclassified; and

(c) the reason for the reclassification (FRS 102:3.12)

For consistency with the treatment of prior period errors, the SORP only requires reclassification of comparative amounts when the reclassification is material.

3.40~~39~~ Approval of financial statements

3.40~~39~~.1 The date of approval of the financial statements by the trustees ~~should~~shall be disclosed as required by FRS 102:32.9 either on the face of the Statement of Net Assets available for benefits or in a note to the financial statements.

In the UK, ~~United Kingdom~~ this approval ~~should~~shall be indicated by the signature of at least one trustee (or director of a corporate trustee~~s~~).

In the Republic of Ireland approval ~~should~~shall be indicated by the signature of two trustees (or directors of a corporate trustee) or if there is only one trustee by that trustee.

The required form of such approval is given in Appendix 1.

APPENDIX 1 – ILLUSTRATIVE FINANCIAL STATEMENTS

Introduction

The illustrative financial statements will assist you in preparing financial statements, by illustrating the required disclosures and presentation requirements under FRS 102 and the 2025 SORP. The 2025 SORP is required to be adopted for periods commencing on or after 1 January 2026, but may be adopted earlier. This appendix does not directly form part of the SORP (in Section 3).

PRAG Pension Scheme is a fictitious hybrid (defined benefit (DB) and defined contribution (DC)) occupational pension scheme.

The illustrative financial statements have been prepared to show the formats and disclosures that are required for a pension scheme of its size and complexity. Whilst values (£) have been included, this is solely for presentation and completeness purposes.

Information

References to source material are given in the left-hand margin.

Commentary to clarify the requirements is, where appropriate, shown with grey shading.

The intention is not to show all conceivable disclosures and these illustrative financial statements should not, therefore, be used as a definitive checklist. The disclosures are not necessarily applicable for all occupational pension schemes.

In particular, these illustrative financial statements do **not** cover:

- Consolidated financial statements (SORP 3.23)
- Local authority pension schemes which are required to prepare their financial statements in accordance with the Code of Practice on Local Authority Accounting which is largely based on IFRS
- Changes in accounting policies and correction of prior period material errors (SORP 3.5.12-15 and 3.39)
- Departures from FRS 102
- Non-cash contributions (SORP 3.7.10)
- Unapproved schemes (which need to account for tax under FRS 102 chapter 29)
- Schemes with tangible fixed assets (refer to FRS 102 chapter 17)
- Common investment funds (SORP 3.22)
- Ring-fenced DB sections (SORP 3.27)
- Schemes in PPF assessment or winding up, or otherwise prepared on a basis other than going concern (SORP 3.29, 30, 31)
- Presentation in a currency other than functional currency
- All requirements specific to schemes in the Republic of Ireland

The auditors' report on the financial statements shall be included within the Annual Report (and placed immediately before the financial statements) in the exact style and format and content as the auditors shall, at their sole discretion, require.

Abbreviations

FRS 102:34.27	=	Financial Reporting Standard 102 (September 2024), 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland', paragraph number. This includes Periodic Review Amendments (March 2024)
SORP 3.11.4	=	Financial Reports of Pension Schemes, A Statement of Recommended Practice (2025), paragraph number
AAR 3A(2)	=	The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975), schedule number, paragraph number

PRAG PENSION SCHEME
Fund Account

For the year ended 31 December 20X6

All amounts in tables are in £ thousands unless otherwise stated

It is an explicit requirement of FRS 102 3.23 to show the presentation currency and level of rounding if any. It could also be dealt with by specifying in column headings of each table in the primary statements and notes to the financial statements.

Any prior year restatements/adjustments (SORP 3.5.12-15 and 3.39) shall be clearly marked in column headings (with a note to fully explain the background and details); this is also the case for the Statement of net asset available for benefits.

Schemes which are entirely DB or DC will only need two columns of figures: current and comparative. Schemes which have both DB and DC sections are required to distinguish between DB and DC elements where material (FRS 102:34.34/SORP 3.27.2). The SORP requires presentation of comparatives in the notes when it is impractical in the primary statements. The recognised and preferred approach is to present six columns in the primary statements and the notes, so users are presented with comparatives (in the true sense) when reading the financial statements.

Further items in relation to scheme transactions and balances shall be included on the face of the Fund account and Statement of net assets available for benefits if considered to be significant (quantitatively and/or qualitatively) to the scheme's affairs; SORP 3.4.3 and 3.6.3 and 3.8.3.

SORP 3.4.1, 2 and 3.6.2			**20X6**			**20X5**		
		Note	**DB**	**DC**	**Total**	**DB**	**DC**	**Total**
	Contributions and other income							
FRS 102:34.37 (a)	Employer contributions	4	**11,217**	**400**	**11,617**	1,551	240	1,791
FRS 102:34.37 (b)	Employee contributions	4	**602**	**200**	**802**	385	136	521
	Total contributions		**11,819**	**600**	**12,419**	1,936	376	2,312
FRS 102:34.37 (j)	Transfers in	5	**114**	**714**	**828**	-	57	57
FRS 102:34.37 (d)	Other income	6	**18**	**-**	**18**	11	-	11
			11,951	**1,314**	**13,265**	1,947	433	2,380
	Benefits and other outgoings							
FRS 102:34.37 (e), SORP 3.6.1	Benefits paid or payable	7	**1,031**	**67**	**1,098**	790	-	790
SORP 3.4.3	Transfers out	8	**15**	**32**	**47**	457	-	457
FRS 102:34.37 (k)	Payments to and on account of leavers	9	**23**	**-**	**23**	13	-	13
FRS 102:34.37 (g)	Other payments	10	**79**	**-**	**79**	86	-	86
FRS 102:34.37 (f)	Administrative expenses	11	**180**	**-**	**180**	198	-	198
			1,328	**99**	**1,427**	1,544	-	1,544
SORP 3.6.2	**Net additions from dealings with members**		**10,623**	**1,215**	**11,838**	403	433	836
	Returns on investments							
FRS 102:34.37 (c)	Investment income	12	**1,483**	**-**	**1,483**	1,208	-	1,208
SORP 3.6.2	Investment expense	12	**(55)**	**-**	**(55)**	(14)	-	(14)
FRS 102:34.37 (h)	Taxation on income	13	**(27)**	**-**	**(27)**	(34)	-	(34)
	Investment management expenses	14	**(56)**	**2**	**(54)**	(47)	2	(45)
FRS 102:34.37 (i)	Change in market value of investments	16	**2,641**	**283**	**2,924**	(6,072)	(135)	(6,207)
SORP 3.6.2	**Net returns on investments**		**3,986**	**285**	**4,271**	(4,959)	(133)	(5,092)
SORP 3.6.2	**Net increase / (decrease) in the fund**		**14,609**	**1,500**	**16,109**	(4,556)	300	(4,256)
SORP 3.27.4	Transfers between sections	15	**34**	**(34)**	**-**	-	-	-
SORP 3.6.2	**Opening net assets available for benefits**		**24,853**	**695**	**25,548**	29,409	395	29,804
SORP 3.6.2	**Closing net assets available for benefits**		**39,496**	**2,161**	**41,657**	24,853	695	25,548

The notes on pages x to x form part of these financial statements.

PRAG PENSION SCHEME
Statement of Net Assets available for benefits

As at 31 December 20X6

All amounts in tables are in £ thousands unless otherwise stated

SORP 3.4.1, 2		20X6			20X5		
SORP 3.8.2, 3	**Note**	**DB**	**DC**	**Total**	**DB**	**DC**	**Total**
Investment assets	16						
Equities	16	**8,067**	**-**	**8,067**	5,722	-	5,722
Bonds	16	**6,436**	**-**	**6,436**	5,022	-	5,022
Property	17	**1,010**	**-**	**1,010**	995	-	995
Pooled investment vehicles	18	**4,996**	**2,146**	**7,142**	3,780	680	4,460
Sole investor funds	19	**1,053**	**-**	**1,053**	993	-	993
Special purpose vehicles	20	**9,300**	**-**	**9,300**	-	-	-
Derivatives	21	**450**	**-**	**450**	397	-	397
Insurance policies	22	**7,069**	**-**	**7,069**	6,850	-	6,850
Amounts receivable under reverse repurchase agreements	23	**124**	**-**	**124**	-	-	-
AVC investments	24	**65**	**-**	**65**	49	-	49
Cash deposits	25	**92**	**-**	**92**	17	-	17
Other investment balances	25	**779**	**-**	**779**	1,025	-	1,025
		39,441	**2,146**	**41,587**	24,850	680	25,530
Investment liabilities	16						
Derivatives	21	**(240)**	**-**	**(240)**	(235)	-	(235)
Amounts payable under repurchase agreements	23	**(225)**	**-**	**(225)**	-	-	-
Obligations due with respect to short sold bonds	23	**(32)**	**-**	**(32)**	-	-	-
Other investment balances	25	**(63)**	**-**	**(63)**	(254)	-	(254)
		(560)	**-**	**(560)**	(489)	-	(489)
Total net investments	16	**38,881**	**2,146**	**41,027**	24,361	680	25,041
Current assets	32	**871**	**20**	**891**	727	15	742
Current liabilities	33	**(256)**	**(5)**	**(261)**	(235)	-	(235)
Net current assets		**615**	**15**	**630**	492	15	507
Net assets available for benefits		**39,496**	**2,161**	**41,657**	24,853	695	25,548

SORP 3.34.8, 9

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits 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 takes into account such obligations for the defined benefit section, is dealt with in the report on actuarial liabilities on pages x to x of the Trustees' Report and these financial statements should be read in conjunction with that report.

The final sentence shall not be included for schemes which are DC only.

The notes on pages x to x form part of these financial statements.

SORP 3.40.1

The financial statements on pages x to x were approved by the Trustees and signed on their behalf by:

Or “The financial statements on pages x to x were approved by the Trustee (Pension Trustee Limited) and signed on its behalf by:” if a sole corporate trustee.

AN Jones (Trustee/Trustee Director as the case may be)
Date

For a United Kingdom scheme the SORP allows sign-off by at least one trustee or trustee director. Two signatures are required for Republic of Ireland schemes.

PRAG PENSION SCHEME
Notes to the financial statements

For the year ended 31 December 20X6

All amounts in tables are in £ thousands unless otherwise stated

The order in which notes are presented shall follow FRS 102 8.5 (i.e. statement of compliance with FRS 102, summary of material accounting policy information, information about line items on the face of the financial statements in the order in which they appear, then any other disclosures).

1. Identification of the financial statements

FRS 102:3.24
SORP 3.38.1

PRAG Pension Scheme (the "Scheme") is an occupational pension scheme established as a trust under English law.

The Scheme has two sections: a defined benefit (DB) section and a defined contribution (DC) section. The DB section is closed to new members. Both sections are open to future accrual.

The address for enquiries to the Scheme is 82 Capital Road, London EC1V 1TP.

SORP 3.7.37

The Scheme is a registered pension scheme under Chapter 2, Part 4 of the Finance Act 2004. This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

AAR 3A(6)
FRS 102:3.3
SORP 3.5.24, 3.5.25(a)

2. Basis of preparation of the financial statements

SORP 3.23.5
SORP 3.5.30
SORP 3.5.2

The individual financial statements of the Scheme have been prepared on the accruals basis of accounting and in accordance with (a) The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, (b) Financial Reporting Standard (FRS) 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102"), and (c) Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised TBC 2025) (the "SORP").

FRS 102:1.18
SORP 3.2.1

In TBC 2025, a revised SORP was issued which is applicable to accounting periods commencing on or after 1 January 2026. The Trustees have adopted the revised SORP for the first time in these financial statements. The adoption of the revised SORP has had no material impact on these financial statements. However, it has required certain additions to or amendments of disclosures in the financial statements.

If the adoption of the revised SORP has had a material impact on the financial statements, the qualitative and quantitative nature of the impact shall be disclosed and the wording above amended appropriately. The above wording is only required in year one of adoption of the revised SORP.

FRS 102:3.8A
SORP 3.29

The financial statements have been prepared on a going concern basis of accounting. The Trustees have a reasonable expectation that the Scheme has adequate resources to continue in operational existence for at least 12 months from the date of approval of the financial statements, when considering the magnitude and liquidity of its investment portfolio. The Trustees have also considered the Scheme's funding level, strength of employer covenant and known information about the future when making this assessment.

When a scheme has a material uncertainty around going concern, this and the reasons for such uncertainty shall be disclosed (SORP 3.29).

When a scheme is not considered to be a going concern (SORP 3.29), then the following shall replace the above wording:

"The financial statements have been prepared on a basis of accounting other than going concern. On [day] [month] 20XX, the Trustees formally triggered the wind-up of the Scheme and, as such, the Scheme is no longer a going concern. No adjustments were necessary as a result of the change in the basis of accounting."

SORP 3.5.25(b)

3. Summary of material accounting policy information

FRS 102:8.5 and 10.7

The material accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Treatment of subsidiary undertakings

This section is only relevant for schemes with subsidiary undertakings (including sole investor pooled arrangements). If the scheme elects to prepare consolidated financial statements, the heading shall be changed to 'Basis of consolidation' and the policies amended to reflect the guidance in SORP 3.23. Subsidiaries (including any sole investor pooled arrangements) which are held as part of an investment portfolio are not permitted to be consolidated under FRS 102:9.9(b) and FRS 102:9.9(c).

The following disclosures are not required if there are no subsidiary undertakings.

SORP 3.23.5

In accordance with FRS 102, the Trustees are not required to prepare consolidated financial statements and have chosen not to do so.

SORP 3.23.4, 5

Subsidiary undertakings are included at fair value within investment assets, and a summary of the undertakings' net assets is provided as a note to the financial statements.

(b) Currency

SORP 3.28.1, 8
FRS 102:30.2

The Scheme's functional currency and presentational currency is pounds sterling (GBP).

SORP 3.28.2

The SORP requires that pension schemes determine their functional currency by reference to the currency used in their dealings with members.

FRS 102:30.9, 7
SORP 3.28.3, 4

Assets and liabilities held in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

SORP 3.28.6

Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

(c) Contributions

SORP 3.7.1, 2, 4, 6

Normal and additional voluntary contributions (except for single premium additional voluntary contributions), both from employers and employees, are generally accounted for on an accruals basis in the payroll period to which they relate. In the case of employee contributions, this is when deducted from pay.

However, contributions in respect of employees in the first 30 days following auto-enrolment are accounted for when their right to opt out has expired, unless remitted to the Scheme earlier. All contributions payable under salary sacrifice arrangements are classified as employer contributions.

Single premium additional voluntary contributions are accounted for when paid.

SORP 3.7.7

Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid or, in the absence of such an agreement, when received.

SORP 3.7.8, 9,10,11

Employers' deficit funding contributions are accounted for on the due dates set out in the schedule of contributions, or on receipt, if earlier, with the agreement of the employer and the Trustees.

SORP 3.7.12

Employers' contributions to fund expenses and levies payable by the Scheme are accounted for on the due dates set out in the schedule of contributions.

SORP 3.7.13, 14

Employers' contributions in respect of debts under Section 75 of the Pensions Act 1995 are accounted for when paid or when determined by the actuary whichever is the earlier. Debts are recognised in full with provisions for recoverability and the time value of money.

SORP 3.7.15

All other contributions received are accounted for in accordance with the agreement under which they are payable or, in the absence of such an agreement, when they are received.

SORP 3.7.10

Where contributions are received other than in cash, the assets received are accounted for at fair value on the date of receipt or date of entitlement if earlier.

	(d) Transfers in from and out to other schemes
SORP 3.7.27-32	Transfer values represent the capital sums either receivable in respect of members from other pension schemes of previous employers or payable to the pension schemes of new employers or to other pension arrangements for members who have left the Scheme. They are accounted for on an accruals basis on the date the trustees of the receiving scheme accept the liability. In the case of individual transfers, this is normally when the payment of the transfer value is made. In the case of group transfers, this is the date of transfer as stipulated in the transfer legal agreement.
	(e) Benefits and payments to and on account of leavers
SORP 3.7.20	Pensions in payment, including pensions funded by annuity insurance contracts and amounts paid under income draw-down arrangements, are accounted for in the period to which they relate.
SORP 3.7.20, 22	Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.
SORP 3.7.22	Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate. Refunds and opt-outs are accounted for when the Trustees are notified of the member's decision to leave the Scheme.
SORP 3.7.26	Where the Trustees are required to settle tax liabilities on behalf of a member, with a consequent reduction in that member's benefits receivable from the Scheme, this is shown separately within benefits.
	(f) Administrative expenses and other payments
SORP 3.7.33	Administrative expenses and premiums on term insurance policies are accounted for on an accruals basis gross of irrecoverable Value Added Tax.
	(g) Investment income and expense
SORP 3.7.36	Income from equities and any pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend or, in the case of unquoted instruments, when the dividend is declared.
SORP 3.7.36	Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds.
SORP 3.7.36	Property rental income is accounted for as earned under the terms of the lease. Property expenses are accounted for on an accruals basis.
SORP 3.7.36	Distributions from pooled investment vehicles, sole investor funds and special purpose vehicles containing elements of both income and return of capital are not apportioned between investment income and sales proceeds, rather fully accounted for within investment income. SORP 3.7.36 allows alternative treatments: Distributions which contain both income and return of capital may also be reported as sales proceeds within the investment reconciliation table or appropriately apportioned between income and sales proceeds. The above accounting policy shall be amended if an alternative treatment is adopted.
SORP 3.7.36	Income from special purpose vehicles is accounted for in investment income on the due date set out in the partnership or other agreement between the Scheme and the special purpose vehicle as outlined in note 20.
SORP 3.7.36	Net receipts or payments under swap contracts and longevity swaps, representing the difference between the swapped cash flows, are included in investment income or expense, as appropriate, on a cash basis.
SORP 3.7.36	Income arising from annuity insurance policies is included in investment income on an accruals basis. SORP 3.7.36 allows an alternative treatment: Receipts from annuity contracts may also be reported as sales proceeds within the investment reconciliation table. The above accounting policy shall be amended if the alternative treatment is adopted.
SORP 3.13.2, 3.7.36	Interest income on reverse repurchase agreements and interest expense on repurchase agreements is accounted for on an accruals basis, in line with the terms of the respective contracts.
SORP 3.7.36	Interest on cash deposits is accounted for on an accruals basis.
SORP 3.5.2	Other investment income, including stock lending, and investment expense are accounted for on an accruals basis.

SORP 3.7.40	Investment income includes, as a component, withholding taxes. Recoverable withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.
SORP 3.7.33	Investment management expenses and any rebates are accounted for on an accruals basis gross of irrecoverable Value Added Tax and shown separately within investment returns, or included in the unit movement or price movement of the invested asset.
SORP 3.7.47,48	Investment transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees.
SORP 3.6.2 **SORP 3.7.36**	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 and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value of investments also includes such income.
	(h) Valuation and classification of investments
FRS 102:28.15(b) **SORP 3.11.3**	Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.
SORP 3.11,12	Where quoted or other unit prices are not available, the Trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.
SORP 3.11	The methods of determining fair value for the principal classes of investments are: • Equities, bonds and certain pooled investment vehicles which are traded on an active market are valued at the quoted price, which is normally the bid price. • Unitised pooled investment vehicles, including sole investor funds, which are not traded on an active market, but where the fund manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days, are valued at the last price provided by the manager at or before the year-end. • The value of other equities, bonds and pooled investment vehicles (including those held as AVC investments) which are unquoted or not actively traded on a quoted market is estimated by the Trustees. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value, unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
SORP 3.11.32 - 36	• Properties are valued annually by independent valuers who have recent experience of the locations and types of properties held by the Scheme, taking account, amongst other things, of the current estimate of rental values and market yields.
SORP 3.11.15	• Exchange traded futures are valued at the difference between exchange settlement prices and inception prices. • Forward foreign currency exchange contracts are valued at 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. • Swaps are valued at the net present value of future cash flows arising therefrom. • Over the counter options are valued by the investment manager using generally accepted pricing models, where inputs are based on market data at the year-end date.
SORP 3.11.18 - 23	• Annuity insurance policies are valued by the Scheme actuary at the amount of the net present value of the related obligation, determined using the most recent Scheme funding valuation assumptions updated for market conditions at the reporting date. SORP 3.11.19 allows for certain different bases to be adopted. Where the Trustees determine that the annuity policies are not material and elect not to record their fair value in the financial statements, then the following policy shall be disclosed. "The Trustees hold annuity insurance policies which are assets of the Trustees however, as the value is not material, the Trustees have determined that the fair value of such policies will not be included in the financial statements." •

SORP 3.11.25

- Longevity swap insurance policies are valued by the Scheme actuary at the net present value of future cash flows arising from the fixed premium and floating claims legs of the policy determined using discounted cash flow models and market data, as defined by the policy agreements, at the reporting date.

SORP 3.11.24

- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

There shall not be a specific accounting policy for AVC investments if they are of a type covered by an existing policy.

SORP 3.11.26 - 32

- Investments in partnership arrangements which are designed to produce cash flows which may vary with future events are valued at the present value of expected cash flows determined using a Monte Carlo simulation of a range of possible outcomes.

SORP 3.18, 3.19

- The Scheme continues to recognise and value assets delivered out under repurchase contracts to reflect its ongoing interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the value of the repurchase obligation.
- Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Scheme assets. Where bonds received as collateral under the reverse repurchase agreements have been resold (short sold bonds) an obligation to return the bond to the respective owner is recognised at the fair value of the associated bond.

SORP 3.20

The Scheme continues to recognise assets delivered out under stock lending arrangements to reflect its ongoing interest in those securities. Collateral received in respect of stock lending arrangements is disclosed but not recognised as a Scheme asset.

SORP 3.11.13

Accrued interest is excluded from the market value of bonds but is included in investment income receivable.

FRS 102:8.6 and 8.7

(i) Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

- Critical judgements in applying the accounting policies

Assessing whether the Scheme controls PRAG ABC LP (note 20) requires judgement. The Trustees have taken advice that the investment in the limited partnership is structured in such a way that the Trustees do not control PRAG ABC LP. The agreement does not permit the Trustees to set the annual budget and financial plan, appoint and remove senior executives or set operating procedures and responsibilities. As such, the partnership interest has been included in the financial statements as a financial asset and has not been consolidated.

For most schemes there will be very few, if any, critical accounting judgements made in applying the accounting policies. However, where any judgements included in the other accounting policies and notes to the financial statements are considered to be critical or require additional prominence, trustees shall include them in a separate note to bring them to the attention of the readers of the financial statements.

- Key accounting estimates and assumptions

The Trustees make estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. For the Scheme, the Trustees believe the only estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year relate to the valuation of the Scheme's investments and, in particular, those classified in Level 2 and Level 3 of the fair-value hierarchy. Explanation of the key assumptions underpinning the valuation of investments is included within (h) above and within notes 17, 20, 22, 28 and 29.

For schemes that hold only straightforward (Level 1) investments there may not be any estimates that have a significant risk of causing a material adjustment to the asset and liability values, in which case the above disclosure will not be relevant.

SORP 3.6.2

4. Contributions

		20X6			20X5		
		DB	DC	Total	DB	DC	Total
	Employer contributions						
SORP 3.7.4	Normal	**1,737**	**400**	**2,137**	1,351	240	1,591
SORP 3.7.7	Augmentations	**95**	**-**	**95**	-	-	-
SORP 3.7.8-11	Deficit funding	**200**	**-**	**200**	200	-	200
SORP 3.7.12	Expenses funding	**170**	**-**	**170**	-	-	-
SORP 3.7.12	PPF levy funding	**10**	**-**	**10**	-	-	-
SORP 3.7.13	Section 75 debts	**5**	**-**	**5**	-	-	-
SORP 3.7.17	Other – funding for investment in PRAG ABC LP	**9,000**	**-**	**9,000**	-	-	-
		11,217	**400**	**11,617**	1,551	240	1,791
	Employee contributions						
SORP 3.7.1-3	Normal	**582**	**200**	**782**	360	136	496
SORP 3.7.1-3	Additional voluntary contributions	**20**	**-**	**20**	25	-	25
		602	**200**	**802**	385	136	521
	Total	**11,819**	**600**	**12,419**	1,936	376	2,312

SORP 3.7.17 Other categories of contributions shall be added as appropriate. Terms used shall be consistent with other references to contributions in other parts of the annual report.

SORP 3.7.6 Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

SORP 3.7.7 Augmentation contributions comprise a series of single payments to augment the benefits of certain individual members.

SORP 3.7.8, 5, 11 Deficit funding contributions of £200k per annum are being paid by the Employer to the DB section of the Scheme for a period of five years in accordance with the recovery plan dated 24 March 20X5 in order to improve the Scheme's funding position. In addition, employer normal contributions include approximately £500k (20X5: £400k) in relation to deficit funding as this makes up 5% of the average 16% employer contribution rate.

SORP 3.7.8 The information shall reflect the latest schedule of contributions if this has been revised after the year-end.

Where deficit contributions are accounted for in advance of the due dates this shall be explained.

If the Scheme has multiple employers paying different levels of deficit contributions, or an irregular pattern of future payments, information about future deficit contributions shall be presented as a table showing amounts falling due in various future periods (e.g. within 1 year, 1-2 years, 2-5 years, 5-10 years, more than 10 years).

SORP 3.7.9 In addition, the Employer is committed to pay additional deficit funding contributions if a sale of PRAG Retail Limited is achieved before 31 December 20Y2. In the event of such a sale, the Scheme will receive 25% of the sale proceeds subject to a maximum of the Scheme's deficit on a scheme specific funding basis at 31 December prior to the sale.

SORP 3.7.12 Administrative expenses funding is paid by the employer to meet the costs of Scheme administration and the Pension Protection Fund (PPF) and other levies.

SORP 3.7.13, 14 A participating employer, PRAG Contracts Limited, withdrew from the Scheme on 1 September 20X6. The Section 75 debt was determined by the Scheme actuary at £5k. This debt was settled in cash by the employer during the year.

SORP 3.7.17 Other contributions of £9,000k comprise the funds to purchase the partnership interest in PRAG ABC LP (see note 20).

SORP 3.6.2

5. Transfers in

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
SORP 3.7.29 Group transfers in from other schemes	**70**	**-**	**70**	-	-	-
SORP 3.7.28 Individual transfers in from other schemes	**44**	**714**	**758**	-	57	57
	114	**714**	**828**	-	57	57

SORP 3.7.31 The group transfers in was in respect of the inclusion of PRAG Retail Limited which became a participating employer during the year. The transfer was settled by a stock transfer of £65k equities and cash of £5k.

SORP 3.6.2

6. Other income

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
Claims on term insurance policies	**18**	**-**	**18**	11	-	11

Any other types of member-related other income shall be appropriately analysed.

SORP 3.6.2

7. Benefits paid or payable

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
SORP 3.7.20 Pensions	**690**	**-**	**690**	640	-	640
SORP 3.7.20 Commutation of pensions and lump sum retirement benefits	**291**	**30**	**321**	55	-	55
SORP 3.24.8 Purchase of annuities on retirement	**-**	**25**	**25**	23	-	23
SORP 3.7.22 Lump sum death benefits	**10**	**-**	**10**	71	-	71
SORP 3.7.20, 23 Benefits taken under income drawdown arrangements	**38**	**12**	**50**	-	-	-
SORP 3.7.26 Taxation where annual allowance is exceeded	**2**	**-**	**2**	1	-	1
	1,031	**67**	**1,098**	790	-	790

SORP 3.6.2

8. Transfers out

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
SORP 3.7.29 Group transfers out to Contracts Retirement Plan	**-**	**-**	**-**	428	-	428
SORP 3.7.28 Individual transfers out to other schemes	**15**	**32**	**47**	29	-	29
	15	**32**	**47**	457	-	457

SORP 3.7.29 The group transfer out in 20X5 related to members in the PRAG Contracts division transferred to the Contracts Retirement Plan. The transfer value was settled in cash.

FRS 102:5.9 Additional line items and disclosures are required when such presentation is relevant to an understanding of the Scheme's financial performance. This will include very large transfers out which significantly change the size or nature of the Scheme.

SORP 3.6.2

9. Payments to and on account of leavers

		20X6			20X5	
	DB	DC	Total	DB	DC	Total
SORP 3.7.2 Refund of contributions	**13**	**-**	**13**	13	-	13
SORP 3.24.8 Purchase of annuities to match preserved benefits	**10**	**-**	**10**	-	-	-
	23	**-**	**23**	13	-	13

Any other types of related payments shall be appropriately analysed.

SORP 3.6.2

10. Other payments

		20X6			20X5	
	DB	DC	Total	DB	DC	Total
Premiums on term insurance policies	**79**	**-**	**79**	86	-	86

Any other types of member-related other payments shall be appropriately analysed.

SORP 3.6.2
SORP 3.7.33

11. Administrative expenses

		20X6			20X5	
	DB	DC	Total	DB	DC	Total
Administration and processing	**86**	**-**	**86**	130	-	130
Actuarial fees	**22**	**-**	**22**	5	-	5
Scheme levies (including PPF levy)	**32**	**-**	**32**	22	-	22
Legal fees	**16**	**-**	**16**	10	-	10
Audit fees	**15**	**-**	**15**	14	-	14
Covenant advisor fees	**4**	**-**	**4**	10	-	10
SORP 3.32.14 FRS 102:33.7 Trustee fees and expenses	**3**	**-**	**3**	2	-	2
Other professional fees	**2**	**-**	**2**	5	-	5
	180	**-**	**180**	198	-	198

SORP 3.6.2

The SORP requires that administrative expenses shall be disclosed with 'suitable analysis'. The above analysis and its order is considered suitable (as a minimum) for this scheme.

SORP 3.32

Certain elements of the administration and management of the Scheme are provided by the Principal Employer. The direct costs of employees involved in such administration and management are not recharged to the Scheme.

The Scheme bears all other costs of administration. All administrative expenses are paid from the DB section assets.

SORP 3.6.2, 3.7.34, 3.7.36

12. Investment income and expense

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Investment income:						
Dividends from equities	**434**	**-**	**434**	401	-	401
Income from bonds	**260**	**-**	**260**	247	-	247
Rents from properties	**80**	**-**	**80**	75	-	75
Income from pooled investment vehicles	**102**	**-**	**102**	98	-	98
Income from sole investor funds	**50**	**-**	**50**	31	-	31
Income from special purpose vehicles	**135**	**-**	**135**	-	-	-
Net receipts from swaps	**15**	**-**	**15**	-	-	-
Net receipts from longevity swaps	**3**	**-**	**3**	2	-	2
Annuity income	**345**	**-**	**345**	328	-	328
Interest income on reverse repurchase agreements	**22**	**-**	**22**	-	-	-
Interest on cash deposits	**15**	**-**	**15**	10	-	10
Stock lending commission	**9**	**-**	**9**	4	-	4
Other investment income	**13**	**-**	**13**	12	-	12
	1,483	**-**	**1,483**	1,208	-	1,208
Investment expense:						
Property related expenses	**(11)**	**-**	**(11)**	(10)	-	(10)
Net payments from swaps	**-**	**-**	**-**	(4)	-	(4)
Interest expense on repurchase agreements	**(44)**	**-**	**(44)**	-	-	-
	(55)	**-**	**(55)**	(14)	-	(14)

SORP 3.6.2

13. Taxation on income

The taxation charge within investment returns represents irrecoverable withholding tax arising on certain classes of investment income.

SORP 3.6.2
SORP 3.7.33

14. Investment management expenses

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Administration and management	**40**	**(2)**	**38**	33	(2)	31
Custody fees	**3**	**-**	**3**	3	-	3
Investment advisor fees	**10**	**-**	**10**	7	-	7
Performance measurement fees	**2**	**-**	**2**	2	-	2
Other advisory fees	**1**	**-**	**1**	2	-	2
	56	**(2)**	**54**	47	(2)	45

SORP 3.6.2

The SORP requires investment management expenses shall be disclosed with 'suitable analysis'. The above analysis and its order is considered suitable (as a minimum) for this scheme.

SORP 3.7.36

The negative value for investment management charges for the DC section reflects a rebate to the Scheme of charges levied by investment managers.

SORP 3.25.3
3.27.4

15. Transfers between sections

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
Self-annuitisation	**34**	**(34)**	**-**	-	-	-

SORP 3.25.3

Self-annuitisation is a transfer from the DC section to the DB section when a DC member retiring elects to take a pension from the Scheme at conversion rates set annually by the Trustees, rather than requesting an annuity under the open market option. This approach is also used for spouses' pensions arising from DC deaths-in-service.

Another common reason for transfers between sections is employer share of refunds. When a member entitled to a short service refund leaves, their DC funds are disinvested and an amount equivalent to employee contributions only is refunded. The balance could be transferred to the DB section for general use by the trustees although, in this example, such contributions are retained in the DC section.

AAR 3A(5)
SORP 3.13.1

16. Reconciliation of net investments

	Opening value	Purchases at cost and derivative and repurchase payments	Sales proceeds and derivative and repurchase receipts	Change in market value	Closing value
Defined benefit section					
Equities	5,722	6,710	(5,120)	755	**8,067**
Bonds	5,022	4,415	(3,855)	854	**6,436**
Property	995	400	(450)	65	**1,010**
Pooled investment vehicles	3,780	2,356	(1,301)	161	**4,996**
Sole investor funds	993	-	-	60	**1,053**
Special purpose vehicles	-	9,000	-	300	**9,300**
Derivatives - net	162	276	(450)	222	**210**
Insurance policies	6,850	-	-	219	**7,069**
Amounts receivable under reverse repurchase agreements	-	135	(11)	-	**124**
Amounts payable under repurchase agreements	-	17	(242)	-	**(225)**
AVC investments	49	20	(8)	4	**65**
	23,573	**23,329**	**(11,437)**	**2,640**	**38,105**
Cash deposits	17			3	**92**
Obligations due with respect to short sold bonds	-			(2)	**(32)**
Other investment balances - assets	1,025			**-**	**779**
Other investment balances - liabilities	(254)			**-**	**(63)**
Total DB net investments	**24,361**			**2,641**	**38,881**
Defined contribution section					
Pooled investment vehicles	**680**	**1,518**	**(335)**	**283**	**2,146**

SORP 3.13.1

Headings in the table above: 'and derivative and repurchase payments' and 'and derivative and repurchase receipts' shall be removed if the Scheme had no derivatives/repurchase agreements during the period covered by the reconciliation. The table shall be analysed by the asset classes shown on the face of the Statement of Net Assets available for benefits as a minimum, and in the same order.

SORP 3.13.3

The purchases at cost and derivative and repurchase payments and sales proceeds and derivative and repurchase receipts, each detailed in the above reconciliation table, are aligned to the Scheme's investment strategy.

If there are significant changes in the investment portfolio in the year, then this shall be explained here; or by cross reference to note 29 where the investment strategy is required to be disclosed.

SORP 3.13.3

During the year, the Scheme received a £9,000k contribution (see note 4) to fund the purchase of the partnership interest in PRAG ABC LP (see note 22), which is included in the financial statements as an investment in a special purpose vehicle.

SORP 3.17.9

Included within derivative receipts and payments are receipts and payments totalling £250k and (£310k), respectively, which relate to the settlement of forward foreign exchange contracts.

SORP 3.13.4

Included within the defined contribution section purchase costs and sales proceeds of pooled investment vehicles are member switches amounting to £300k.

SORP 3.7.36

If the accounting policy is to include (a) annuity income and/or (b) distributions made from certain types of pooled investment vehicles / sole investor funds and/or (c) distributions made from special purpose vehicles - as sale proceeds, the SORP requires disclosure in note 16 for each category of the amount of the said income or distributions included as sale proceeds.

SORP 3.7.47, 48

Direct transaction costs of £97k (20X5: £77k) are included in the cost of purchases and deducted from sales proceeds.

SORP 3.7.49

In addition to the direct transaction costs disclosed above, indirect costs are incurred, for example through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect transaction costs.

SORP 3.9.4, 5

17. Property

		20X6			20X5		
		DB	DC	Total	DB	DC	Total
SORP 3.9.5	UK freehold property	**720**	**-**	**720**	625	-	625
	Overseas long leasehold property	**290**	**-**	**290**	370	-	370
		1,010	**-**	**1,010**	995	-	995

FRS 102:16.10 (c), (d)
SORP 3.9.4

The Scheme holds a number of warehouse units in prime locations. There are no legal restrictions on the realisability of these properties or on remittance of income or disposal proceeds, although the Trustees recognise that 3 to 6 months would be necessary to achieve a disposal on favourable terms. One property is currently vacant and is being prepared for sale. In each other property the tenant is responsible for repairs and maintenance and has provided a bond to cover dilapidations at the end of the lease.

FRS 102:16.10 (a),
(b) SORP 3.9.5

The properties are stated at open market value determined by S Veyor, FRICS of Valuer & Co, a member firm of the Royal Institution of Chartered Surveyors, who is independent of the Trustees and of the Employer. Valuations were performed as at 31 December each year in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS 1.1 'Valuation for Financial Statements'. The principal assumptions on which the valuations were based were rental income from current tenants, the remaining term of current leases and market rents by area for the locations in which the properties were based.

SORP 3.28.7

Included within the change in market value for properties is a gain of £25k (20X5: loss of £18k) relating to retranslation of overseas properties where the value is determined in a local currency.

Foreign exchange gains and losses arising on investment property must be disclosed separately, unlike foreign exchange gains and losses on financial instruments which are included in change in market value of investments and not required to be reported separately.

Where investments in property are held through subsidiary undertakings, reference shall be made to SORP 3.23 for the accounting and disclosure requirements.

SORP 3.9.8

18. Pooled investment vehicles

	20X6			20X5		
By underlying asset class	**DB**	**DC**	**Total**	**DB**	**DC**	**Total**
Equities	**2,687**	**1,097**	**3,784**	2,875	382	3,257
Bonds	**645**	**980**	**1,625**	318	220	538
Diversified growth	**509**	**22**	**531**	-	10	10
Fund of hedge funds	**380**	**-**	**380**	325	-	325
Private equity	**305**	**-**	**305**	202	-	202
Property	**34**	**-**	**34**	60	-	60
Liability driven investments	**436**	**-**	**436**	-	-	-
Cash and cash equivalents	**-**	**47**	**47**	-	68	68
	4,996	**2,146**	**7,142**	3,780	680	4,460

The underlying asset classes disclosed in this note shall align to the scheme's investment portfolio.

SORP 3.21.3

19. Sole investor funds

The Scheme invests in the Shredders ABC Fund of which it is the sole investor and a related party. A breakdown of the underlying investment classes held within the fund is as follows:

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Bonds	**998**	**-**	**998**	879	-	879
Liquidity pooled investment funds	**379**	**-**	**379**	337	-	337
Swaps						
- assets	**29**	**-**	**29**	17	-	17
- liabilities	**(340)**	**-**	**(340)**	(243)	-	(243)
Repurchase agreements	**(62)**	**-**	**(62)**	(30)	-	(30)
Reverse repurchase agreements	**28**	**-**	**28**	15	-	15
Cash and cash equivalents	**21**	**-**	**21**	18	-	18
	1,053	**-**	**1,053**	993	-	993

SORP 3.8.2, 3.9.8, 3.10.7

20. Special purpose vehicles

On 1 July 20X6, the Trustees agreed to invest in PRAG ABC LP, a Scottish limited partnership in which the other partners are companies in the PRAG group. The partnership holds a bond issued by PRAG Inc with a face value of £10 million which is secured on the trade receivables of this company. The bond agreement requires, as secured collateral under the arrangement, that the aggregate value of trade receivables, less than 60-days old, to be a minimum of at least 4 times the bond value. At 31 December 20X6, the collateral amounted to 6.8 times the bond value.

. The bond pays interest at a coupon rate of 3% pa subject to an annual inflation adjustment each July based on the Retail Prices Index for the previous December. The bond is due for redemption in 20Z6, twenty years after issue. The Scheme received an additional contribution (note 4) from the employer of £9 million to enable this investment to take place.

The purchase cost of the partnership interest was £9 million. This entitles the Scheme to receive 90% of the interest received by the partnership for the term of the bond. At the end of the bond term, the partnership will be dissolved, and the Scheme will receive a final distribution equal to the Scheme deficit, if any, ,calculated on a scheme funding basis by the Scheme actuary, subject to a maximum of £10 million at that time.

SORP 3.11.26 - 29

The Trustees commissioned Smith & Jones LLP to perform a valuation, for financial statements purposes, of the partnership interest at inception and at each year-end. The valuation is based on the net present value of the coupon receipts, discounted as for bonds of similar standing, and uses a stochastic model to estimate the likely final receipt by modelling probabilities of different deficits in twenty years' time using Scheme funding assumptions, discounted on the same basis as the coupon receipts. Smith & Jones concluded that, on inception, the fair value of the Scheme's partnership interest was equivalent to its purchase cost. At 31 December 20X6, the fair value was reassessed as £9,300k, of which approximately 70% is attributable to the coupon receipts and 30% to the final distribution.

FRS 102:8.7 requires disclosure of key assumptions concerning the future and key sources of estimation uncertainty which have a significant risk of causing a material adjustment to the carrying amount of an asset or liability. With this in mind, further disclosure may be necessary of the discount rate and key assumptions, with consideration of whether the inclusion of a sensitivity analysis would be appropriate if assumption volatility could have a material impact on the carrying amount.

SORP 3.11.31

The Trustees have taken advice that the investment is structured in such a way that it does not constitute an employer-related investment. However, the involvement of PRAG group companies in the partnership results in this investment being classed as a related party. In the event of an insolvency of PRAG Inc or any of the Scheme's employers, or other default events specified in the partnership agreement, the Scheme is entitled to receive the full value of the bond. The Trustees have a legal right to dispose of the partnership interest, but it is noted that there is unlikely to be a third-party purchaser in view of the employer's ability to affect the value of the partnership interest by changing the level of Scheme funding over the life of the partnership. However, in view of the security of the cash flows over the partnership life, the Trustees consider that the partnership interest meets the definition of a financial asset under FRS 102.

SORP 3.9.6, 7 3.10.4, 6 and 3.17

21. Derivatives

DB section only	**20X6**			**20X5**		
	Assets	**Liabilities**	**Total**	**Assets**	**Liabilities**	**Total**
Futures (exchange traded)	**58**	**(68)**	**(10)**	158	(65)	93
Forward foreign currency (OTC*)	**42**	**(25)**	**17**	40	(50)	(10)
Swaps (exchange cleared)	**223**	**(125)**	**98**	98	(50)	48
Options (OTC*)	**127**	**(22)**	**105**	101	(70)	31
	450	**(240)**	**210**	397	(235)	162

* Over-the-counter

SORP 3.9.6

Objectives and policies for holding derivatives

The Trustees have authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

- Futures: Where cash is held for short-term liquidity, the Trustees have entered into index-based contracts of equivalent economic value to avoid being 'out-of-the-market'.
- Forward foreign currency: The Trustees invest in overseas markets and assets denominated in foreign currency in order to construct a suitably diversified investment portfolio. Bearing in mind the Trustees' obligation to settle benefits in sterling, the Trustees have agreed a maximum net exposure to foreign currencies of 15% of net DB investments and have entered into forward foreign currency contracts to achieve this.
- Swaps: The Trustees aim to match the liability-driven element of the investment portfolio with the Scheme's long term liabilities, particularly in relation to the sensitivities to interest rate movements. Due to the lack of available long-dated bonds the Trustees hold interest-rate and inflation swaps to extend the duration and match more closely with the Scheme's liability profile.
- Options: Equity option contracts have been entered into in order to allow the Scheme to benefit from potentially greater returns from equities whilst minimising the risk of loss through adverse market movements.

Outstanding derivative financial instruments at the year-end are summarised as follows:

FRS 102:3.14

It is not required to give detailed contract information for the prior year-end, unless it is relevant to an understanding of the current period's financial statements.

Futures	Nominal value	Fair value	
		Assets	Liabilities
Equities	1,000	58	-
Gilts	2,500	-	(68)
		58	**(68)**

SORP 3.14.15

Included within cash deposits is £25k (20X5: £12k) in respect of initial margins pledged to counterparties. Cash collateral pledged to and received from counterparties for variation margins on open futures contracts is included in amounts due to and from brokers in other investment balances.

Forward foreign currency	Nominal value	Fair value	
		Assets	Liabilities
Sell USD for GBP	1,000	42	-
Sell EUR for GBP	800	-	(12)
Others	750	-	(13)
		42	**(25)**

The nominal value represents the sterling value of the foreign currency amount of the contract translated at the year-end spot rate.

Swaps	Notional principal	Fair value	
		Assets	Liabilities
Interest rate	2,890	223	-
Inflation	1,750	-	(125)
		223	**(125)**

The notional principal of the swap is the amount used to determine the swapped receipts and payments.

SORP 3.14.15

Bond collateral with a value of £163k (20X5: £37k) is held for the unrealised gain on swaps. This is held in an allocated account with the counterparties' custodians and is not included within the Scheme's assets. Cash collateral pledged to and received from counterparties for variation margins on open swap contracts is included in amounts due to and from brokers in other investment balances.

If the above balances are material, disclose also the principal assumptions adopted in applying valuation techniques in accordance with SORP 3.12.24-26.

Options	Notional principal	Fair value	
		Assets	Liabilities
Purchased call - equities	595	127	-
Written put - equities	175	-	(22)
		127	**(22)**

The notional principal represents the value of the underlying stock protected by the option contracts.

SORP 3.14.15

Collateral of £104k (20X5: £34k) is held for the unrealised gain on options, comprising bonds and cash. This is held in an allocated account with the counterparties' custodians and is not included within the Scheme's assets.

If the above balances are material, disclose also the principal assumptions adopted in applying valuation techniques in accordance with SORP 3.12.24-26.

SORP 3.24

22. Insurance policies

The Trustees hold insurance policies with EFG Life plc and other companies which provide annuity income (note 12) to cover pensions for certain members. The Trustees also hold a longevity insurance policy with LMN Insurance plc.

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Buy-in annuity policy	**7,007**	-	**7,007**	6,794	-	6,794
Individual annuity policies	**6**	-	**6**	7	-	7
Longevity insurance policy	**56**	-	**56**	49	-	49
	7,069	-	**7,069**	6,850	-	6,850

SORP 3.11.22
AAR 3A(2)

The Trustees hold an insurance policy, referred to as the buy-in annuity policy, with EFG Life plc which secures the pensions payable to specified beneficiaries totalling 19 pensioners and 4 beneficiaries (20X5: 19 pensioners and 4 beneficiaries). This policy has been valued by the Scheme actuary, as disclosed in the accounting policy information, using the basis for assumptions set out in the most recent statement of funding principles, updated for market conditions at the reporting date. As 31 December 20X6, the key assumptions used in the valuation are set out below:

- Post retirement discount rate (as single equivalent rates) – 4.4% (20X5: 4.4%).
- Retail Price Index – 3.55% (20X5: 3.5%).
- Pension increases – RPI capped in accordance with the Scheme rules.
- Mortality – 104% SAPS S3PxA CMI 2022, 1.5% per annum long term projected rate of improvement.

SORP 3.11.22

The Trustees also hold legacy individual annuity policies which were purchased on the retirement of specific members. These policies have been valued using the same method and assumptions as the buy-in annuity policy.

SORP 3.11.25

In 20X4, the Scheme entered into a longevity insurance contract covering a proportion of pensions in payment (approximately 50% of pensions in payment at inception). LMN Insurance plc acts as insurer with ReInsure Inc. acting as reinsurer. The policy features three separately identifiable cash flow legs:

- Fixed Premium – monthly amount paid by the Scheme as set out in an agreed fixed series of cash flows which approximated to expected monthly pensions in payment for the selected covered individuals taking into account expected mortality rates.
- Floating Claim – monthly amounts received by the Scheme which approximates (on the same basis as the Fixed Premium) the monthly pensions of the selected covered individuals who are still in receipt of a pension from the Scheme.
- Reinsurance Fee – monthly amount paid by the Scheme being a percentage of the Fixed Premium.

While there are three separate cash flows, a single monthly settlement is made for the net amount. Monthly net cash settlements are recognised in investment income in note 12.

The valuation of the longevity insurance policy is performed by the Scheme actuary. The policy is recognised as having a fair value based on the net present values of the fixed premium and floating claim legs, which represents the difference in value of pensions paid for changes in longevity (which offset to nil on inception). The reinsurance fee is not capitalised, but rather included within investment income.

Further disclosure of key assumptions used in the valuation is required if the estimates are material to the financial statements.

The longevity insurance contract requires collateral to be provided equal to the net present value of all three legs, including 100% of the net present value of the reinsurance fee. As at 31 December 20X6, the Scheme had pledged bonds with the value of £1,500k (20X5: £1,000k).

SORP 3.18, 19

23. Repurchase and reverse repurchase agreements and short sold bonds

In order to manage the Scheme's economic exposure to interest rates and inflation and to assist with the efficient hedging of interest rate and inflation risk, the Trustees have put in place a liability hedging programme using repurchase agreements and reverse repurchase agreements. Repurchase agreements are instruments comprising the sale of investment assets (bonds) with an agreement to repurchase them at a specified later date and at a fixed price. Reverse repurchase agreements are instruments comprising the purchase of investment assets (bonds) with an agreement to resell them at a specified later date and at a fixed price. The Scheme receives cash consideration on the sale of investment assets (bonds) and pays interest on the amount received. The Scheme pays cash consideration on the purchase of investment assets (bonds) and receives interest on the amount paid.

		20X6			20X5		
		DB	DC	Total	DB	DC	Total
SORP 3.18	Amounts receivable under reverse repurchase agreements	**124**	**-**	**124**	-	-	-
SORP 3.18	Amounts payable under repurchase agreements	**(225)**	**-**	**(225)**	-	-	-
SORP 3.19	Obligations due with respect to short sold bonds	**(32)**	**-**	**(32)**	-	-	-

SORP 3.9.8 Bonds with a fair value of £229k (20X5: nil) have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements. In addition, the Scheme has pledged collateral in the form of bonds and cash in relation to these repurchase agreements to the value of £8k (20X5: nil)

Bonds with a fair value of £130k (20X5: nil) received as collateral in respect of reverse repurchase agreements are not recognised in the financial statements. In addition, the Scheme has received collateral in the form of bonds and cash in relation to these reverse repurchase agreements to the value of £3k (20X5: nil) which are not recognised in the financial statements. Cash delivered to the counterparties is recognised as amounts receivable in the table above.

Bonds with a fair value of £32k received as collateral under the reverse repurchase agreements have been resold and the obligation to return the asset to the respective owner has been included as obligations due with respect to short sold bonds.

SORP 3.26

24. Additional voluntary contribution (AVC) investments

SORP 3.26.4 The Scheme has AVC arrangements whereby individuals in the DB section were able to pay additional contributions which were invested in with-profits policies on a defined contribution basis. This arrangement was withdrawn in 20X4 but individuals contributing at the time are allowed to continue contributing until they leave employment in the PRAG group.

SORP 3.26.5 Members of the DC section are allowed to pay contributions at a higher rate than required in the Scheme rules. These contributions are co-invested with other DC assets and are not separately distinguishable.

AVC assets shown in the financial statements relate solely to the DB AVC arrangements.

SORP 3.26.7

	20X6	20X5
Countryside Building Society (principally cash)	**23**	19
Provincial Assurance Limited:		
- with profits insurance policies	**16**	13
- unit linked insurance policies	**26**	17
	65	49

SORP 3.8.2

25. Cash deposits and other investment balances

	20X6			20X5		
	DB	DC	Total	DB	DC	Total
SORP 3.8.2 Cash deposits – sterling	**85**	**-**	**85**	15	-	15
Cash deposits – foreign currency	**7**	**-**	**7**	2	-	2
Total cash deposits	**92**	**-**	**92**	17	-	17
SORP 3.9.6 Amounts due from brokers	**741**	**-**	**741**	1,007	-	1,007
SORP 3.11.13 Accrued investment income	**32**	**-**	**32**	13	-	13
SORP 3.18.2 Accrued interest income	**6**	**-**	**6**	5	-	5
Total other investment assets	**779**	**-**	**779**	1,025	-	1,025
SORP 3.9.6 Amounts due to brokers	**(61)**	**-**	**(61)**	(254)	-	(254)
SORP 3.18.1 Accrued interest expense	**(2)**	**-**	**(2)**	-	-	-
Total other investment liabilities	**(63)**	**-**	**(63)**	(254)	-	(254)

Additional line items within other investment balances shall be added where they are specific to the Scheme.

SORP 3.20

26. Stock lending

The stock lending programme lends certain equity and bond investments to approved borrowers. At 31 December 20X6, the fair value of quoted equities and bonds on loan were £235k (20X5: £179k) and £67k (20X5: £65k), respectively, in exchange for which the custodian held collateral worth £320k (20X5: £250k). The collateral consists of eligible securities and letters of credit.

SORP 3.20.1

If stock lending has been authorised, this fact shall be disclosed even if no activity has taken place in the year.

SORP 3.25

27. Defined contribution assets

Defined contribution section investments held by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager, XYZ Insurance Company, holds the investment units on a pooled basis for the Trustees. The Scheme administrator allocates investment units to members. The Trustees may hold investment units, representing the value of employer contributions that have been retained by the Scheme that relate to members who have left the Scheme prior to vesting.

Defined contribution investment assets are (a) allocated to members by the administrator and (b) not allocated or designated to members (and therefore available to the Trustees to apply as specified in the Scheme rules), as follows:

SORP 3.25.2

	20X6	20X5
Allocated to members	**2,132**	668
Not allocated or designated to members	**14**	12
	2,146	680

Defined contribution assets (including those available to the Trustees in the table above) are not part of a common pool of assets available to meet defined benefit liabilities.

The SORP defines DC assets as (i) 'allocated to members', (ii) 'designated to members' or (iii) 'not designated or allocated to members'.

'Allocated' assets are held on a pooled basis by the investment manager and the administrator keeps records of the allocation of investments to members, whereas 'Designated' assets are held by the investment manager solely for the benefit of the named members.

Preparers of financial statements shall ensure that they are aware of how DC assets are being held, so that such assets can be identified correctly within the financial statements.

SORP 3.12.1

28. Fair value hierarchy

The fair value of investments has been determined using the following fair value hierarchy:

- Level 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 Inputs other than the quoted prices included within Level 1 that are observable (i.e. developed using market data for the asset or liability, either directly or indirectly).
- Level 3 Inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

The Scheme's investment assets and liabilities have been included at fair value within these categories as follows:

SORP 3.12.2
3.21.5

	20X6			
	Level 1	Level 2	Level 3	Total
Defined benefit section				
Equities	7,765	-	302	8,067
Bonds	-	6,436	-	6,436
Property	-	-	1,010	1,010
Pooled investment vehicles (by underlying asset class):				
• Equities	-	2,687	-	2,687
• Bonds	-	645	-	645
• Diversified growth	-	509	-	509
• Fund of hedge funds	-	162	218	380
• Private equity	-	-	305	305
• Property	-	-	34	34
• Liability driven investments	-	436	-	436
Sole investor funds (by underlying investment classes):				
• Bonds	-	998	-	998
• Liquidity funds	-	379	-	379
• Derivatives - net	-	(311)	-	(311)
• Repurchase agreements	-	(62)	-	(62)
• Reverse repurchase agreements	-	28	-	28
• Cash and cash equivalents	21	-	-	21
Special purpose vehicles	-	-	9,300	9,300
Derivatives - net	(10)	98	122	210
Insurance policies	-	-	7,069	7,069
Repurchase agreements	-	(225)	-	(225)
Reverse repurchase agreements	-	124	-	124
Obligations due with respect to short sold bonds	-	(32)	-	(32)
AVC investments	-	49	16	65
Cash deposits	92	-	-	92
Other investment balances - net	716	-	-	716
	8,563	11,942	18,376	38,881
Defined contribution section				
Pooled investment vehicles (by underlying asset class):				
• Equities	-	2,077	-	2,077
• Diversified growth	-	22	-	22
• Cash and cash equivalents	-	47	-	47
	-	2,146	-	2,146
Total investments	8,563	14,088	18,376	41,027

	20X5			
	Level 1	Level 2	Level 3	Total
Defined benefit section				
Equities	5,556	-	166	5,722
Bonds	-	5,022	-	5,022
Property	-	-	995	995
Pooled investment vehicles (by underlying asset class):				
• Equities	-	2,875	-	2,875
• Bonds	-	318	-	318
• Diversified growth	-	-	-	-
• Fund of hedge funds	-	130	195	325
• Private equity	-	-	202	202
• Property	-	-	60	60
• Liability driven investments	-	-	-	-
Sole investor funds (by underlying investment classes):				
• Bonds	-	879	-	879
• Liquidity funds	-	337	-	337
• Derivatives - net	-	(226)	-	(226)
• Repurchase agreements	-	(30)	-	(30)
• Reverse repurchase agreements	-	15	-	15
• Cash and cash equivalents	18	-	-	18
Special purpose vehicles	-	-	-	-
Derivatives - net	93	48	21	162
Insurance policies	-	-	6,850	6,850
Repurchase agreements	-	-	-	-
Reverse repurchase agreements	-	-	-	-
Obligations due with respect to short sold bonds	-	-	-	-
AVC investments	-	49	16	49
Cash deposits	17	-	-	17
Other investment balances - net	771	-	-	771
	6,455	9,404	8,502	24,361
Defined contribution section				
Pooled investment vehicles (by underlying asset class):				
• Equities	-	602	-	602
• Diversified growth	-	10	-	10
• Cash and cash equivalents	-	68	-	68
	-	680	-	680
Total investments	6,455	10,084	8,502	25,041

SORP 3.12.25 Property is valued in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards. Private equity is valued in accordance with the International Venture Capital Association's guidelines. The Scheme's investments in special purpose vehicle PRAG ABC LP and insurance policies are valued using modelled cashflows; further detail on the valuation methods and assumptions used can be found in notes 20 and 22.

Other investments reported under Level 3 are included at fair value based on values estimated by the underlying fund managers using accepted valuation methodologies and use of market information in the absence of observable market data.

SORP 3.12.25 It is generally sufficient to refer to the accepted valuation methodologies and use of market information to satisfy the requirement to disclose the assumptions applied in determining fair value. For example, for private equity investments referring to the International Venture Capital Association's guidelines is sufficient.

For other investments, such as special purpose vehicles, where the assumptions may be Scheme specific, additional disclosure of assumptions (e.g. discount rate, illiquidity of the investment, assumptions relating to future cash flows etc.) and valuation methods shall be included.

Further, where Level 3 investments are significant (both quantitatively and/or qualitatively) to the financial statements, a sensitivity analysis of the key assumptions shall be disclosed.

SORP 3.12.5 & 3.12.8 These SORP paragraphs provide specific information relating to Bond asset levelling.

SORP 3.14, 3.15

29. Investment risks

Types of risk relating to investments

SORP 3.14.1 FRS 102 and the SORP require the disclosure of information in relation to certain investment risks to which the Scheme is exposed as at the end of the reporting period.

SORP 3.14.2 **Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

SORP 3.14.3 **Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign currency exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

SORP 3.14.4 **Liquidity risk:** this is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

SORP 3.14.10 The Trustees determine their investment strategy after taking advice from a professional investment advisor. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustees manage investment risks within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

Geopolitical and economic issues (such as movements in the rates of inflation, interest rates and foreign currencies) can have a significant effect on domestic and global economies, which also impacts financial markets. The Trustees, in conjunction with their advisors, monitor the situation closely and determine any actions that are considered to be necessary. This includes monitoring the Scheme’s investment portfolio and the covenant of the Employers. The extent of the impact on the valuation of the Scheme’s investment portfolio, including financial performance, will depend on future developments in financial markets and the overall economy, all of which are uncertain and cannot be predicted. This could result in a material increase or decrease in the market value of the Scheme’s investment assets and investment liabilities.

SORP 3.14.8, 3.15.1, 3.21.5

The following table summarises the extent to which the various classes of investments are affected by credit and market risks. Information on liquidity risk is provided separately.

	Credit risk	Market risk			20X6	20X5
		Currency	Interest rate	Other price		
Defined benefit section						
Equities	L	M	L	H	**8,067**	5,722
Bonds	H	M	H	L	**6,436**	5,022
Property	L	M	M	H	**1,010**	995
Pooled investment vehicles:						
Direct	H	M	L	M	**4,996**	3,780
Indirect:						
• Equities	L	M	L	H	**2,687**	2,875
• Bonds	H	M	H	L	**645**	318
• Diversified growth	M	M	M	H	**509**	-
• Fund of hedge funds	M	M	M	H	**380**	325
• Private equity	L	M	L	H	**305**	202
• Property	M	M	M	H	**34**	60
• Liability driven investments	H	L	H	M	**436**	-
Sole investor funds:						
Direct	H	L	L	L	**1,053**	993
Indirect:						
• Bonds	H	M	H	L	**998**	879
• Liquidity funds	H	L	M	L	**379**	337
• Derivatives - net	M	M	M	M	**(311)**	(226)
• Repurchase agreements	M	L	H	L	**(62)**	(30)
• Reverse repurchase agreements	M	L	H	L	**28**	15
• Cash and cash equivalents	H	M	M	L	**21**	18
Special purpose vehicles	H	L	H	L	**9,300**	-
Derivatives - net	M	M	M	M	**210**	162
Insurance policies	H	L	H	H	**7,069**	6,850
Repurchase agreements	M	L	H	L	**(225)**	-
Reverse repurchase agreements	M	L	H	L	**124**	-
AVC investments	H	L	L	H	**65**	49
Cash deposits	H	M	M	L	**92**	17
Obligations with respect to short sold bonds	M	L	H	L	**(32)**	-
Other investment balances - net	H	M	M	L	**716**	771
Total DB section investments					**38,881**	24,361
Defined contribution section						
Pooled investment vehicles:						
Direct	H	M	M	M	**2,146**	680
Indirect:						
• Equities	L	M	L	H	**2,077**	602
• Diversified growth	M	M	M	H	**22**	10
• Cash and cash equivalents	H	L	M	L	**47**	68
Total DC section investments					**2,146**	680

In the above table, the risk noted affects the asset class:

H - High/Significantly **M -** Medium/Partially **L -** Low/Hardly/Not at all

SORP 3.4.6

Further information on the Trustees' overall approach to risk management, credit, market and liquidity risk is set out below. This does not include AVC investments as these are not considered material in relation to the overall investments of the Scheme.

Defined benefit (DB) section

SORP 3.14.9

Investment strategy

The overall investment objective of the defined benefit section (DB Section) is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the trust deed and rules as they fall due.

The Trustees set the investment strategy for the DB Section, after obtaining appropriate advice, taking into account considerations such as the strength of the employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in the Scheme's Statement of Investment Principles ('SIP').

The current strategy (excluding annuity insurance policies and AVC investments) is to hold (though a segregated investment portfolio and pooled investment vehicles):

- 40% in return-seeking investments comprising UK and overseas equities, equity futures and options, investment property, hedge funds, diversified growth funds and private equity.
- 60% in investments that move in line with the long term liabilities of the Scheme. This is referred to as LDI and comprises UK and overseas government and corporate bonds, swaps and repurchase agreements, the purpose of which is to hedge against the impact of inflation and interest rate movements on long term liabilities.
- no more than 15% of the above in overseas currencies. To achieve this, the Trustees have put in place a currency hedging strategy using forward foreign exchange contracts.

Trustees shall set out, in appropriate detail, the investment strategy of the DB section of the Scheme and explain any significant changes to the strategy during the course of the year (and any significant changes executed up to the date of approval of the financial statements).

SORP 3.14.8, 9

Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, over-the-counter (OTC) and exchange cleared derivatives, and insurance policies, has cash balances, enters into repurchase agreements and undertakes stock lending activities. The Scheme also invests in pooled investment vehicles (including sole investor funds) and is, therefore, directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

	DB investments exposed to credit risk	20X6	20X5
	Bonds	**6,436**	5,022
	Pooled investment vehicles:		
SORP 3.15.1	Direct and indirect risk	**2,004**	703
	Direct risk only	**2,992**	3,077
	Sole investor funds:		
SORP 3.21.5	Direct and indirect risk	**1,053**	993
	Direct risk only	**-**	-
	Special purpose vehicles	**9,300**	-
	Derivatives - assets	**450**	397
	Derivatives - liabilities	**(240)**	(235)
	Insurance policies	**7,069**	6,850
	Repurchase agreements	**(225)**	-
	Reverse repurchase agreements	**124**	-
	AVC investments	**65**	49
	Cash deposits	**92**	17
	Obligations with respect to short sold bonds	**(32)**	-
	Other investment balances - net	**716**	771
		29,804	17,644

SORP 3.14.5

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated.

SORP 3.14.20 The Trustees consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch or rated at Baa3 or higher by Moody's.

SORP 3.14.5, 15 Credit risk arises within special purpose vehicles in respect of PRAG ABC LP which invests in an unrated bond which is ultimately secured on trade receivables of the employer's parent. Credit risk is reduced by monitoring collateral levels which, as explained in note 20, are significantly higher than the value at risk.

Credit risk arising on derivatives depends on whether the derivative is exchange traded, OTC or exchange cleared. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. Exchange cleared derivative contracts are OTC contracts that have been guaranteed by a central counterparty. The credit risk for exchange cleared swaps is reduced by the clearing process and collateral arrangements (see note 21). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts, but all counterparties are required to be at least investment grade.

Credit risk arises on insurance policies, with the risk that the insurer defaults on its cashflow obligations. This risk is reduced for the longevity insurance contract by collateral arrangements as disclosed in note 22. No such collateral arrangements exist for the annuity policies.

Credit risk on repurchase agreements is mitigated through collateral arrangements as disclosed in note 23.

Cash deposits are held within financial institutions which are at least investment grade credit rated.

The Trustees manage the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. This is summarised in note 26.

SORP 3.15.7 Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustees carry out due diligence checks on the appointment of new pooled investment managers and, on an ongoing basis, monitor any changes to the operating environment of the pooled manager.

A summary of pooled investment vehicle by type of arrangement is as follows:

Legal nature of the pooled arrangements	**20X6**	**20X5**
Unit linked insurance contracts	**199**	329
Authorised unit trusts	**3,337**	1,576
Open ended investment companies	**741**	1,288
Limited liability partnerships	**719**	587
	4,996	3,780
Sole investor - authorised fund	**1,053**	993
	6,049	4,773

SORP 3.15.10 Indirect credit risk arises in relation to underlying bond, repurchase agreements and derivative investments held in the bond, diversified growth, fund of hedge funds, liability driven investment and sole investor pooled funds. This risk is mitigated by only investing in funds which hold at least investment grade credit rated investments and the posting of collateral where appropriate.

SORP 3.14.5 The information about exposures to and mitigation of credit risk above applied at both the current and previous year-end.

SORP 3.14.8, 9 **Currency risk**

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Trustees have set a benchmark limit to overseas currency exposure of 15% of the total portfolio value which is achieved through a currency hedging policy utilising forward foreign currency contracts (see note 21).

SORP 3.14.5

The net currency exposure at the current and previous year-ends was:

	Direct exposure	Indirect exposure	Hedging	20X6 Net exposure after hedging	20X5 Net exposure after hedging
Pounds sterling (GBP)	**33,541**	**(3,059)**	**3,000**	**33,482**	20,911
Euros (EUR)	**2,128**	**433**	**(800)**	**1,761**	1,400
US dollars (USD)	**975**	**2,100**	**(1,000)**	**2,075**	1,818
Japanese Yen (JPY)	**440**		**(400)**	**40**	42
Other currencies	**1,797**	**526**	**(800)**	**1,523**	190
Total	**38,881**	**-**	**-**	**38,881**	24,361
Unhedged foreign currency exposure				**13.9%**	14.2%

SORP 3.14.8 allows currency exposures to be reported gross or net of hedging arrangements. Net reporting has been used in this example (hence comparatives provided for net exposures) but a reconciliation from gross has been provided to illustrate the financial impact of the narrative comments above.
Alternatively, a currency exposure table could be presented just showing currencies other than the functional currency, in which case the totals for the 'indirect exposure' and 'hedging' columns would not be zero.

SORP 3.14.5, 8, 9

Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, liability driven investments (LDI), interest rate swaps and repurchase agreements (either as segregated investments or through pooled investment vehicles), the special purpose vehicle and cash deposits. These investments are part of the Trustees' LDI strategy. The Trustees have set a benchmark for total investment in LDI investments of 60% of the total investment portfolio (excluding annuity insurance policies). Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year-end the portfolio represented 59% (20X5: 57%) of the total investment portfolio, including the related other investment balances. The value of the special purpose vehicles and insurance policies also fluctuate with changes in interest rates.

A table, similar to that provided for credit risk exposures, could be provided to illustrate the values subject to this type of interest rate risk.

SORP 3.14.5, 8, 9

Other price risk

Other price risk arises principally in relation to the Scheme's return-seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, diversified growth funds, private equity and property. The Scheme has set a target asset allocation of 40% of investments being held in return-seeking investments. At the year-end, the portfolio represented 41% (20X5: 43%) of the total investment portfolio.

Other price risk also arises in relation to the Scheme's insurance policies and inflation rate swaps, the valuation for which will fluctuate based on current and predicted future inflation rates. This risk exposure is intentional as part of the Trustees' liability hedging strategy.

A table, similar to that provided for credit risk exposures, could be provided to illustrate the values subject to this type of other price risk.

The Scheme manages the exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

SORP 3.14.5, 8, 9

Liquidity risk

The DB Section is exposed to liquidity risk with respect to its ability to meet long-term member benefit obligations, derivative liabilities (note 21), amounts payable under repurchase agreements (note 23), investment liabilities (note 25), current liabilities (note 33) and capital commitments (note 35).

SORP 3.14.8 In addition, as part of the Trustees' liability driven investment strategy, certain investments attract the potential for collateral calls and additional funding to meet hedging targets, such as derivatives and through the sole investor fund, if the value of bonds falls. The Trustees consider the sensitivity of such market movements on the Scheme's ability to fund such calls and commitments prior to investment and reassess the Scheme's ongoing ability to fund them on a periodic basis.

The Trustees review and monitor, on a regular basis, with the assistance of their advisors, the Scheme's cashflow management and liquidity.

At 31 December 20X6, the Scheme has a significant level of highly liquid assets, such as through directly held equities (£8,067k), bonds (£6,436k) and cash deposits (£92k) which can be readily realised when required. In addition, the Scheme has a deficit recovery plan in place with the Principal Employer. Pooled investment vehicles are subject to specific redemption notice periods, a summary of which is set out below.

As a result, the Trustees have a reasonable expectation that the Scheme has sufficient liquid assets to meet its obligations when they fall due.

SORP 3.15.14 Pooled investment vehicles, including sole investor funds, are subject to specific redemption notice periods as follows:

Pooled arrangement notice periods	20X6	20X5
1 day	**1,442**	1,374
2 < 7 days	**1,890**	1,819
8 < 30 days	**1,298**	310
31 < 90 days	**27**	15
> 90 days	**1,392**	1,255
	6,049	4,773

SORP 3.14.7

Defined contribution (DC) section

SORP 3.14.9

Investment strategy

The Trustees' overall objective of the DC section is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth which, together with new contributions from members and the employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The SIP outlines the investment objectives and strategy for the DC assets of the Scheme.

SORP 3.14.11 The investment funds offered to members are white label funds provided by XYZ Insurance Company. These are funds specifically created for the Scheme which are invested in other funds available through XYZ Insurance Company's platform, but with more beneficial pricing arrangements. The default fund is a global equity fund and, at the year-end, accounts for £2,012k (20X5: £595k) of the DC section investments. Members who are invested in the default fund will automatically de-risk near their normal retirement date, via switches to a bond fund at pre-determined intervals.

Trustees shall set out, in appropriate detail, the investment strategy of the DC section of the Scheme and explain any significant changes to the strategy during the course of the year (and any significant changes executed up to the date of approval of the financial statements).

SORP 3.14.5, 8, 9

Credit risk

The Scheme is subject to direct credit risk in relation to XYZ Insurance Company through its holding in unit linked insurance funds (which are their legal nature) provided by Shredders.

XYZ Insurance Company is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustees monitor the creditworthiness of XYZ Insurance Company by reviewing published credit ratings. XYZ Insurance Company invests all the Scheme's funds in its own investment unit linked funds and it does not use other investment funds or reinsurance arrangements. In the event of default by XYZ Insurance Company, members may be entitled to limited compensation from the Financial Services Compensation Scheme.

The Scheme is also subject to indirect credit risk arising from the underlying investments held in the white label funds. Member level risk exposures will be dependent on the funds invested in by members. At the year-end, the diversified growth and cash funds were exposed to underlying credit risk. Bond funds are available to members, which also attract credit risk, however there is no investment in this fund type at the year-end (20X5: nil).

The Trustees only invest in funds where the financial instruments and all counterparties are at least investment grade (as defined in the defined benefit section credit risk disclosures).

SORP 3.14.5, 8, 9

Currency risk

The Scheme is subject to indirect currency risk because some of the underlying pooled fund investments are held in overseas markets. The default global equity fund aims to maintain a 50% currency hedge; as such the unhedged position in the default fund at the year-end amounts to £1,006k (20X5: £287k). The remaining indirect currency exposures in the residual equity and diversified growth funds are unhedged.

SORP 3.14.5, 8, 9

Interest rate risk

The Scheme has limited exposure to indirect interest rate risk. The only funds currently invested in that have underlying investments exposed to interest rate risk are the diversified growth funds, which partially invest in corporate bonds, and cash funds. There is no interest rate risk in the default global equity fund.

SORP 3.14.5, 8, 9

Other price risk

The Scheme is subject to other price risk arising from the underlying equity (listed and private) financial instruments and investment properties held in the equity and diversified growth funds. 100% (20X5: 100%) of the default global equity fund is exposed to other price risk.

SORP 3.15.14

Liquidity risk

All of the Scheme's investments are traded either daily or weekly and there are no financial liabilities (other than current liabilities reported in note 33). As such, the Scheme is not exposed to any substantial liquidity risk.

SORP 3.16
AAR 3A(2)

30. Concentration of investments

Investments accounting for more than 5% of the net assets of the Scheme were**:**

	20X6		20X5	
	Value	**%**	**Value**	**%**
Defined benefit investments				
PRAG ABC LP	**9,300**	**22.3**	-	-
UK Treasury Gilt 2.5% 20Z9	**2,190**	**5.3**	1,742	6.8
East Parade North American Equity Fund	**2,100**	**5.0**	1,650	6.5
Defined contribution investments				
Lifestyle Growth Fund	**2,077**	**5.0**	602	2.4

The Audited Accounts Regulations provide an exemption for UK Gilts which can be taken. The illustration has not taken the exemption, for transparency, as the list will rarely be a long list. The narrative shall explain clearly if investments which exceed 5% have been omitted from this disclosure, taking advantage of the exemptions allowed by the Audited Accounts Regulations.

SORP 3.33

31. Employer-related investments

There were no direct employer-related investments at 31 December 20X6 (20X5: nil).

The Trustees recognise that indirect investment in PRAG Inc, the employer's parent company, is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers, the Trustees estimate that, at 31 December 20X6, any indirect exposure to shares in PRAG Inc was 0.3% (20X5: 0.3%) of the net assets of the Scheme.

The requirement is to disclose the percentage of the Scheme's resources invested in employer-related investments at the end of the year (with comparatives).
Further disclosures are required if the percentage exceeds 5% or investments are in contravention of section 40(1) of the Pensions Act 1995.

Schemes which have different employers may adopt alternative disclosures which include listing the 100 largest investments by value and the percentage each represents, identifying which of these are employer-related, and providing further details if the total exceeds 5%.

Late contributions at the year-end (with comparatives) normally constitute employer-related investments and therefore shall be included in the above disclosures.

However, contributions due at the year-end which were not overdue at the year-end do not constitute employer-related investments, even if they were subsequently paid late.

SORP 3.9.10

32. Current assets

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Contributions due in respect of:						
• Employers	**180**	**5**	**185**	207	4	211
• Employees	**60**	**3**	**63**	52	2	54
Cash balances	**625**	**12**	**637**	464	9	473
Amounts due from DC section	**5**	**-**	**5**	-	-	-
Other debtors	**1**	**-**	**1**	4	-	4
	871	**20**	**891**	727	15	742

Contributions due as listed above were received subsequent to the year-end in accordance with the Schedule of Contributions.

Included in DC cash balances is £10k (20X5: £8k) which is not allocated to members. All other DC current assets are allocated to members.

Additional line items shall be added where they are specific to the Scheme.

SORP 3.9.10

33. Current liabilities

	20X6			20X5		
	DB	**DC**	**Total**	**DB**	**DC**	**Total**
Unpaid benefits	**156**	**-**	**156**	116	-	116
Tax deducted from pensions	**91**	**-**	**91**	82	-	82
Accrued administrative expenses	**4**	**-**	**4**	12	-	12
Accrued investment management expenses	**3**	**-**	**3**	1	-	1
Amounts due to Employer	**2**	**-**	**2**	6	-	6
Amounts due to DB section	**-**	**5**	**5**	-	-	-
Other creditors	**-**	**-**	**-**	18	-	18
	256	**5**	**261**	235	-	235

SORP 3.7.21

Disclosure of significant benefits, pending a member decision, is required, with an indication of the amount (if known at the time), together with an explanation that they will be accounted for when the member decision has been received.

Additional line items shall be added where they are specific to the Scheme.

SORP 3.32

34. Related party transactions

Related party transactions and balances comprise:

SORP 3.32.18

Key management personnel

SORP 3.32.20(a), 21

- Contributions (note 4) and contributions receivable (note 32) include amounts in respect of 2 Trustees and pensions paid (note 7) in respect of 2 Trustees (20X5: Contributions 2, Pensions 2). All Trustee benefits have been accrued on normal terms granted to members of the Scheme.

SORP 3.32.21

- In addition, pensions were paid in respect of 2 spouses of Trustees (20X5: 1) who had accrued benefits under the Scheme in their own right.

Additional disclosure may be required if contributions, pensions, etc. were discretionary or were made on terms not normally granted to members.

SORP 3.32.20(b)

- Fees and expenses of £3k (20X5: £2k) were paid to certain Trustees who were not in current employment of the PRAG group (note 11).

Note that only a total is required, not by individual trustee.

A total is required to also be disclosed (with comparatives) if the amounts are paid by the employer and not recharged to the scheme; unless the amounts paid to individuals are not distinguishable from other remuneration as an employee, such as where trustee duties are performed in company time without a specific salary adjustment.

SORP 3.32.18

Employer and other related parties

- The employer provided certain administrative services including the provision of the Secretary of the Trustees without recharge to the Scheme (years 20X6 and 20X5).
- The employer pays certain Scheme administrative expenses and subsequently recharges them to the Scheme. During the year, £138k (20X5: £176k) of the administrative expenses reported in note 11 were recharged from the employer, with £2k due to the employer at the year-end (20X5: £6k) as reported in note 33.
- The Scheme has an interest in and has received income from PRAG ABC LP, a Scottish limited partnership where the other partners are companies in the Employer's group. See notes 12 and 20.

Except as noted above and disclosed elsewhere in the financial statements, there were no other related party transactions requiring disclosure.

SORP 3.35.1

35. Commitments

SORP 3.35.3

At 31 December 20X6, the defined benefit section of the Scheme had undrawn capital commitments as follows:

	20X6		20X5	
Pooled investment vehicle	**Total Commitment**	**Undrawn Commitment**	**Total Commitment**	**Undrawn Commitment**
Shredders Private Equity Fund II	**200**	**25**	200	100
East Parade Private Equity Fund V	**100**	**-**	100	15
		25		115

At 31 December 20X6, the defined contribution section of the Scheme had no capital commitments (20X5: nil).

SORP 3.35.1

36. Contingencies

SORP 3.35.2

During 20X6, as part of a review of the Scheme's rules, the Trustees became aware that the Scheme's benefits need to be updated to extend the Barber equalisation period from April 1994 to December 1995. A reliable estimate of the impact on past pensions is not yet available and therefore an accrual has not been included in the financial statements.

In October 2018, the High Court determined that members' Guarantee Minimum Pension ('GMP') benefits must be recalculated and equalised between men and women. In November 2020, the High Court issued a further determination clarifying that pension schemes will also need to revisit the value of individual transfer payments made as part of this GMP equalisation exercise. The Trustees are working with the Scheme's administrator and advisers to assess the full impact of the above determinations. As required by the rulings, any benefit adjustments due to GMP equalisation will be backdated and interest provided on the backdated amounts. It is not possible, at present, to estimate the value, or timing, of any such adjustments. Amounts due in respect of backdated payments will be accounted for in the year that they are determined.

In the opinion of the Trustees, the Scheme had no other contingent liabilities at 31 December 20X6 (20X5: nil).

Note that liabilities to pay pensions after the end of the scheme year are not contingent liabilities under FRS 102 - they are actual liabilities which are specifically excluded from the financial statements.

SORP 3.37

37. Subsequent events

There were no subsequent events requiring disclosure in the financial statements.

This is a quantitative and/or qualitative assessment made up to the date of approval of the financial statements.

APPENDIX 2 – ILLUSTRATIVE ANNUAL REPORT

Introduction

The disclosures that follow have been provided as an illustration of how, inter alia, the regulatory disclosure requirements as detailed in Appendices 3 and 4 should be met. This appendix does not directly form part of the SORP (in Section 3).

It is not an exhaustive example and Trustees shall use their judgement as to the extent of further disclosures they wish to make.

Reference is also made to the principles set out in Section 2, which shall be followed when preparing the Annual Report.

Abbreviations

FRS 102:34.27	Financial Reporting Standard 102 (September 2024), 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland', paragraph number This includes Periodic Review Amendments (March 2024).
SORP 3.11.4	Financial Reports of Pension Schemes, A Statement of Recommended Practice (2025), section and paragraph number
DR 3 Sch 8	The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), schedule number, paragraph number
AAR Sch 3A	The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 (SI 1996/1975), schedule number, paragraph number
AdmR 23	The Occupational Pension Schemes (Scheme Administration) Regulations 1996, paragraph number
PA yyyy s123	Pensions Act 1995/2004, section number
PN15	Practice Note 15 (Revised) The Audit of Occupational Pension Schemes in the United Kingdom, published by the Financial Reporting Council in November 2017

Cover Page

The annual report shall include a cover page which includes the full name of the scheme, the period covered by the report and the scheme registration number.

For example:

PRAG Pension Scheme

Report and Financial Statements

Year ended 31 December 20X6

Scheme registration number: xxx

PRAG PENSION SCHEME
Trustees and advisors

DR 3 Sch 17	**Trustees**	Employer appointed: AN Jones (Chairman) JJ Doe (a) (*) MR Smith (*) JS Bloggs Member nominated: BC Williams (appointed 1 July 20X6) (p) ET Brown (d) (*) NJ Baker (retired 1 July 20X6) (p) (a) Active member of the Scheme (d) Deferred member of the Scheme (p) Pensioner member of the Scheme (*) Also a member of the investment committee If a scheme only has corporate trustees, the names of directors of corporate trustees are required to be disclosed. Changes between the end of the scheme year up to the approval of the annual report shall also be disclosed. Disclosure of membership of committees is voluntary.
DR 3 Sch 19	**Secretary to the Trustees**	AB Cere
DR 3 Sch 19	**Scheme administrator**	PS Admin Limited
DR 3 Sch 19	**Actuary**	A Smith FIA (until 6 August 20X6) J Edwards FIA (from 6 August 20X6) Smith & Jones LLP
DR 3 Sch 19	**Independent auditors**	Sandgate LLP
DR 3 Sch 19	**Legal advisors**	Cane, Able & Co LLP
DR 3 Sch 19	**Investment advisor**	Spires Holmes LLP
DR 3 Sch 27	**DB Investment managers**	Shredders Investments Limited East Parade Investments Limited
DR 3 Sch 27	**DC Investment manager**	XYZ Insurance Company
DR 3 Sch 19	**Investment custodian**	Franks Limited

DR 3 Sch 19	**Insurers**	LMN Insurance plc EFG Life plc
DR 3 Sch 19	**AVC managers**	Provincialwide Assurance Limited Countryside Building Society
DR 3 Sch 19	**Property manager**	Plaster & Co Limited
DR 3 Sch 19	**Property valuers**	Valuer & Co
DR 3 Sch 19	**Credit advisors (employer covenant)**	BRS Limited
DR 3 Sch 19	**Bankers**	Southwark Bank plc
	Principal and participating employers	PRAG Company Limited (Principal) PRAG Finance Limited PRAG Retail Limited (from 1 September 20X6) PRAG Contracts Limited (until 1 September 20X6)
DR 3 Sch 20	**Name and address for enquiries**	NH Evans, Pensions manager PRAG Pension Scheme, 82 Capital Road, London EC1V 1TP member.enquiries@prag-pensch.co.uk. Additional information relating to the Scheme can also be found on the Scheme website at www.prag-pensch.co.uk. A postal and electronic address is required. The electronic address could be an email address or a website if it has the facility for asking questions.
		References to DR 3 shall include the names of the professional advisors and other persons who have acted for or who have been retained by the trustees during the year. Indication is required for changes to the information in this section since the previous year and any changes through to the date of approval of the trustees' report.

PRAG PENSION SCHEME
Trustees' report

For the year ended 31 December 20X6

The Trustees of the PRAG Pension Scheme (the 'Scheme') present their report for the year ended 31 December 20X6.

Scheme constitution and management

FRS 102 3.24

The Scheme is an occupational pension scheme set up under trust to provide retirement benefits for certain groups of employees of PRAG Company Limited and its subsidiaries. It is governed by the Third Definitive Trust Deed dated 12 March 19X6 and subsequent amendments. The Scheme is a hybrid pension scheme. The defined benefit section is closed to new members. The defined contribution section was opened in 20X4 and is used for auto-enrolment purposes. The assets of the Scheme are held by the Trustees and are entirely separate from the principal employer.

DR 3 Sch 18

The Scheme rules contain provisions for appointment and removal of Trustees. The Scheme ordinarily has six Trustees, four of whom are appointed by the employer and two nominated by the Scheme's members. In anticipation of the retirement of Mr NJ Baker, nominations were sought from the membership for a replacement Trustee and an additional member-nominated Trustee. Only one nomination was received and, having satisfied the remaining Trustees that she had suitable experience, Miss BC Williams was appointed from 1 July 20X6.

If the scheme has a corporate trustee, give details about provisions in the company's articles of association which relate to the appointment and removal of trustee directors.

DR 3 Sch 31
(if an auditor or actuary resigns or is removed)

During the year, Mr A Smith retired from Smith & Jones LLP and resigned his position as Scheme Actuary. In his statement on leaving office, he noted no circumstances connected with his resignation which, in his opinion, significantly affected the interests of the members or the prospective members of, or beneficiaries under, the Scheme. His colleague Mr J Edwards was appointed as Scheme Actuary in his place.

If there are matters disclosed by the outgoing auditor or actuary, this Statement is required to be reproduced.

Financial developments and financial statements

DR 3 Sch 24

The financial statements included in this report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under section 41(1) and (6) of that Act.

The statement of compliance shall be amended if, for example, the financial statements are not prepared and audited within 7 months of the end of the Scheme year.

The financial statements of the Scheme (which have been prepared on the going concern basis of accounting) are set out on pages x to x, to which reference is made.

If the financial statements are prepared on a basis of accounting other than going concern, this shall be disclosed here. The most common example will be in the case of the wind up of the scheme.

For example, the disclosure will be:

As a result of the proposed wind up of the Scheme, the going concern basis of accounting is no longer appropriate and the Trustees have adopted a basis of accounting other than going concern. No adjustments were necessary as a result of the change in the basis of accounting.

DR 3 Sch 21

Membership and benefits

Schemes are required to disclose the number of members (analysed between active, deferred and pensioners) and beneficiaries (e.g. spouse and dependant pensioners) at one date during the year.

This is usually presented as a reconciliation of movements as it is helpful in understanding the impact of membership changes on the financial statements.

There is no requirement to analyse between DB and DC members, but many schemes would find it helpful to do so and would be considered to be best practice.

The change in membership numbers during the year is as follows:

	Active members	Deferred members	Pensioners	Beneficiaries	Total
At the start of the year	643	241	119	20	**1,023**
New members joining	113	-	-	-	**113**
Members retiring	(12)	(2)	14	-	**-**
Members leaving prior to pension age	(37)	37	-	-	**-**
Members leaving with refunds	(2)	-	-	-	**(2)**
Deaths	(2)	-	(5)	-	**(7)**
New spouse and dependent pensions	-	-	-	5	**5**
Cessation of dependent pensions	-	-	-	(2)	**(2)**
At the end of the year	**703**	**276**	**128**	**23**	**1,130**

SORP 3.24.3

Included within the above are:

- 19 (20X5:19) pensioners and 4 (20X5: 4) beneficiaries whose benefits are provided by the buy-in annuity insurance policy and 7 (20X5: 7) pensioners and 1 (20X5: 1) beneficiary whose benefits are provided by individual annuities.
- 120 (20X5: 35) active and 8 (20X5: nil) deferred members who are members of the DC section.

SORP 3.7.3

New members joining are stated net of auto-enrolment opt-outs where contributions were never remitted to the Scheme.

SORP 3.7.19, 32

Information presented in the membership section shall be consistent with the accruals treatment adopted in the financial statements. Significant differences (e.g. arising on group transfers) shall be explained.

DR 3 Sch 22

Pension increases

This section is not required for schemes which are money purchase only.

The Trust Deed and Rules makes provision for increases in pensions in payment and deferred pensions. The increases applied depend on when the benefits were accrued and under which legacy pension scheme. The table on the following page summarises the most recent increases applied.

None of the increases was discretionary.

Effective date	Minimum (%)	Maximum (%)	Average (%)
Pensions in payment			
1 April 20X6	0	5.0	3.6
1 April 20X5	0	5.0	2.8
1 April 20X4	0	2.5	2.1
Deferred pensions			
1 April 20X6	2.4	5.0	3.5
1 April 20X5	1.6	5.0	2.4
1 April 20X4	0.4	2.5	1.9

Disclosing the two increases before the year-end shows the effect of pension increases on the reported pensions figures in the financial statements. By reporting a subsequent increase (if known), the reader is not confused by information about their own most recent increase which may be inconsistent with increases disclosed. The minimum disclosure requirement is to provide information about increases applied in the year only. A single increase rate will suffice if all members received the same increase (subject only to reductions if the pension has been in payment for less than a year at the time of increase).

DR 3 Sch 23

Transfer values

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

This disclosure is not required for money purchase schemes which are wholly-insured. More extensive disclosure requirements apply if the example statement above is not true for the whole period - for example, where the scheme is applying a reduction to transfer values during periods of deficit, the note shall explain why the reduction is being applied, and when full values became (or expected to become) available.

DR 3 Sch 34
SORP 2.12

Annual statement regarding governance

The Trustees are required to prepare an annual statement regarding governance of the DC section in accordance with The Occupational Pension Schemes (Scheme Administration) Regulations 1996. This statement can found in Appendix I to the annual report and forms part of the Trustees' Report.

The Occupational Pension Schemes (Scheme Administration) Regulations 1996, regulation 23, require the Trustees of certain schemes to include an annual statement regarding governance in the annual report. This is a requirement for schemes which are wholly or partly money purchase (other than schemes which only have money purchase benefits arising from AVCs). There are also limited exemptions for public sector and some very small schemes, see the Admin Regulations.
The Trustees may include the statement in the body of the Trustees' Report rather than an appendix.

FRS 102 34.48
SORP 2.8

Actuarial liabilities

SORP 3.34.2

This section is not required for schemes which are money purchase only.

FRS 102 34.47
SORP 3.34.1

As required by Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

PA 2004 s222

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustees and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

SORP 3.34.3

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 December 20X4.

The SORP allows a choice of valuations to be used, with the expectation that it would not normally be necessary to commission a valuation solely for this report. Options are:

- The most recent scheme funding valuation under Section 224 of the 2004 Act;
- A more recent valuation (such as annual funding update) on a consistent basis with the above, if available; or
- Another valuation that complies with technical actuarial standards issued by the FRC.

SORP 2.8,
SORP 3.34.2, 4

Valuation date: 31 December	20X4	20X1
Value of technical provisions	£32.0m	£30.0m
Value of assets available to meet technical provisions	£24.0m	£25.0m
as a percentage of technical provisions	75%	83%

SORP 3.34.10

For schemes with ring-fenced DB sections (e.g. multi-employer schemes) this information can be presented by section or on an aggregated basis.

SORP 3.34.11

The values of assets and technical provisions shall include the value of benefits covered by annuity insurance contracts.

SORP 3.34.4

If the valuation date differs from the reporting date of the financial statements, the SORP requires that the net assets of the scheme at the valuation date are also disclosed.

SORP 3.34.6

The value of technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

SORP 3.34.6

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Credit Method.

SORP 3.34.6

Significant actuarial assumptions

This information will usually come from the Summary Funding Statement (SFS). The SFS is prepared for a different purpose and contains much additional information, so should not be reproduced verbatim in the annual report.

Discount interest rate: Term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 0.5% per annum.

Future Retail Price inflation: Term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

Future Consumer Price inflation: Term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.9% per annum.

Pension increases: Derived from the term dependent rates for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Pay increases: General pay increases of 1.5% per annum above the term dependent rates for the future retail price inflation (NB not a significant assumption if few active members).

Mortality: For the period in retirement, standard tables S1PMA with a scaling factor of 98% for male active members; 103% for male deferred members and 99% for male pensioner members; and S1PFA with a scaling factor of 103% for female active members, 107% for female deferred members and 111% for female pensioner members.

Recovery plan

A recovery plan was agreed between the Trustees and the employer on 24 March 20X5. Under the recovery plan, it was agreed that the employer would increase contributions for active DB members from 15% to 16% and pay additional deficit contributions of £200,000 per annum (in monthly instalments) for five years from 1 April 20X5. On the basis of conditions prevailing at that date, the Scheme funding deficit was expected to be eliminated by 1 April 20X10.

SORP 3.34.7
DR 3 Sch 6

These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 24 March 20X5. A copy of the certificate is included on page x of this annual report.

SORP 2.9.1

Where a certificate of the adequacy of the schedule of contributions is prepared by the scheme actuary a copy of this certificate is included in the annual report. For the avoidance of doubt, the 'latest available' is that available as at the date of approval of the Annual Report.

DR 3 Sch 25, 26
PN15.251

If contributions required by the schedule of contributions were not paid in accordance with the schedule's requirements such that the auditors' statement is negative or qualified, the Trustees shall give an account of the reasons why and how the situation has been or is likely to be resolved. If an equivalent situation was not resolved in the prior year, this disclosure shall also cover the actual or likely resolution of the prior year contribution failure. These matters shall be disclosed in the Trustees' report, or by means of a direct reference therein to the Summary of contributions.

Next actuarial valuation

The next triennial valuation will be performed as at 31 December 20X7.

Investment management

Investment strategy and principles

The Trustees are responsible for determining the Scheme's investment strategy.

The following disclosures in this section only apply to schemes to which Section 35 of the 1995 Pensions Act applies (most schemes with 100 or more members). The Occupational Pension Schemes (Investment) Regulations 2005 paragraph 6 contains a full list of exemptions.

This section shall include the strategy and principles for both DB and DC sections (if applicable).

SORP 2.5.4, 2.5.5

Set out below is the investment strategy of each of (a) the defined benefit section and (b) the defined contribution section of the Scheme.

SORP 2.5.8, 3.14

Trustees shall set out, in appropriate detail, the investment strategy of each section of the Scheme and explain any significant changes to the strategies during the course of the year (and any changes executed up to the date of approval of the Trustees' Report). The investment performance section below shall be aligned to the strategy articulated in this section.

Investment risk disclosures are set out in note 29 to the financial statements.

DR 3 Sch 28

In accordance with Section 35 of the Pensions Act 1995, the Trustees have agreed a statement of investment principles ('SIP'). This was last revised in June 20X5 following completion of the most recent actuarial valuation.

DR 3 Sch 28

A copy of the SIP can be found on the Scheme website (www.prag-pensch.co.uk/sip) and may be obtained from the contact for enquiries on page x.

DR 3 Sch 30.1 (a, b)

Give details of any departures from the SIP as at the year-end date, including the reasons why and explaining what action, if any, it is proposed to take or has already been taken to remedy the position.

DR 3 Sch 27

Management and custody of investments

The Trustees have delegated management of investments to professional investment managers which are listed on page x. These managers, which are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objectives and policies set out in the SIP are followed.

DR 3 Sch 30.1 (d)

The investment management agreements put in place by the Trustees specify how rights attaching to the Scheme's segregated investments are acted upon. This includes active voting participation and a requirement to consider environmental, social and governance (ESG) and ethical factors when making investment decisions. The Trustees have less influence over the underlying investments within pooled investment vehicles held by the Scheme but review the managers' policies and statements of compliance in respect of these matters.

DR 3 Sch 29

The Trustees have appointed Franks Limited to keep custody of the Scheme's investments, other than:

- Pooled investment vehicles, where the fund manager makes its own arrangements for custody of underlying investments;
- Direct property, where title deeds are held by the Scheme's legal advisors; and
- Additional Voluntary Contributions and other investments which are in the form of insurance policies, where the master policy documents are held by the Trustees.

This statement is not required for a wholly-insured scheme, defined as a scheme under which all the benefits provided are secured by a policy or policies of insurance or annuity contract(s).

DR 3 Sch 30.1 (d)

Financially material considerations and non-financial matters taken into account in the selection, retention and realisation of investments

Give details of the Trustees' policy with respect to financially material considerations and non-financial matters taken into account in the selection, retention and realisation of investments as detailed in the SIP.

DR 3 Sch 30.1 (d)

The Trustees' policy relating to rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of investments

Give details of the Trustees' policy relating to rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of investments as detailed in the SIP.

DR 3 Sch 30.1 (d)

The Trustees' policy in relation to arrangements with investment managers

Give details of the Trustees' policy relating to setting out the following matters or explaining the reasons why any of the following are not set out:

- how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' policies;
- how that arrangement incentivises the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;
- how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies;
- how the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and
- the duration of the arrangement with the asset manager.

DR 3 Sch 30.1 (ca, f)
SORP 2.5.9

Investment policy implementation

The Trustees are required to produce an Implementation Statement (prepared under The Occupational Pension Schemes (Scheme Administration) Regulations 1996, The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 1996, and guidance published by the Pensions Regulator) to confirm how, amongst other things, they have implemented the SIP. This statement can found in Appendix II to the annual report and forms part of the Trustees' Report.

The Trustees may include the Implementation Statement in the body of the Trustees' Report rather than an appendix.

DR 3 Sch 34A
SORP 2.13

Climate change governance reporting

The Trustees have prepared a climate change governance reporting statement as required by The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. The 20X6 statement can be found at the following website address: www.prag-pensch.co.uk/CCGR.

Where the Trustees are required to publish a report on a website in accordance with regulation 6(1)(b) of The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (climate change and reporting publication requirements), the exact website address where the report for the year has been published is required to be provided.

DR 3 Sch 30.1 (c)
SORP 2.5.5

Investment performance

Performance of the Scheme's investments over short and longer periods is summarised as follows:

Annualised return over	1 year (%)	3 years (%)	5 years (%)	Allocation (%)
Return seeking assets	**9.3**	**11.1**	**6.3**	**60.0**
Benchmark	8.4	10.5	6.2	
Performance target	9.0	11.0	6.8	
Liability driven assets	**1.2**	**2.4**	**2.2**	**34.8**
Benchmark	1.2	2.5	2.1	
DB total assets	**7.5**	**9.1**	**N/A**	**5.2**
Benchmark	7.4	8.9	N/A	
DC default fund (Global Equity)	**7.6**	**9.2**	**N/A**	**5.1**
Benchmark	7.5	9.0	N/A	
Scheme total	**6.2**	**7.4**	**4.7**	**100.0**
Benchmark	6.0	7.2	4.9	

The minimum requirement is to disclose information about investment performance (based on the scheme's specific investment strategy) over the year and (for schemes that have existed for at least 3 years) over a longer period of between 3 and 5 years ended with the Scheme year-end. This requirement is for the Scheme as a whole, so a change in strategy or investment managers should not prevent the calculation of performance measures of this nature.

SORP 2.5.5

For defined contribution arrangements disclosure of investment performance by fund should also be disclosed as this could be more relevant to members.

For example, Trustees should consider disclosure of investment performance for individual defined contribution funds that exceed 5% of net assets or the investment performance for the default defined contribution fund if this includes the majority of members to make the disclosure meaningful for the reader.

DR 3 Sch 30.1 (c)

The Trustees have considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. Further details about investments are given in the notes to the financial statements.

DR 3 Sch 32, 33
SORP 3.33
AAR Sch 3A 3

Employer-related investments

Details of employer-related investments are given in note 31 to the financial statements.

The requirements for disclosing employer-related investments currently appear in the SORP, the Audited Accounts Regulations (both of which set financial statements content requirements) and the Disclosure Regulations (which covers the content of the remainder of the annual report). As the disclosures therefore fall within the scope of the audit, it is preferable to make full disclosures in the financial statements and provide a cross-reference from the Trustees' Report to cover the Disclosure Regulations requirement.

SORP 2.6

Statement of Trustees' responsibilities

The Trustees' responsibilities in respect of the financial statements

AAR Sch 2
PA 1995 s41

The financial statements, which are prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), are the responsibility of the Trustees. Pension scheme regulations require, and the Trustees are responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

ISA (UK) 210.6

In discharging these responsibilities, the Trustees are responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis, and for ensuring that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the scheme will continue as a going concern.

DR 12

The Trustees are also responsible for making available certain other information about the scheme in the form of an annual report.

AdmR 12
PA 2004 s249A

The Trustees have a general responsibility for ensuring that accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

The Trustees are also responsible for the maintenance and integrity of the www.prag-pensch.co.uk website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

> This paragraph is provided where the annual report is to be published electronically. The responsibilities shall be amended where the Trustees use another party's website (e.g. employer or third party administrator). Trustees retain the responsibility for ensuring that information communicated to members through a third party website complies with applicable law.

The Trustees' responsibilities in respect of contributions

> Responsibilities in respect of contributions differ in law for DC only schemes compared with schemes which include DB benefits.

PA 1995 s87 (DC)
PA 2004 s227 (DB)

The Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the scheme and the dates on or before which such contributions are to be paid.

AdmR 12

The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the scheme in accordance with the schedule of contributions.

PA 1995 s88 (DC)
PA 2004 s228 (DB)

Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

DR 3 Sch 20

Further information

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact listed on page x.

Approval

The Trustees' Report on pages x to x was approved by the Trustees and signed on their behalf by:

Or “The Trustees’ Report on pages x to x was approved by the Trustee (Pension Trustee Limited) and signed its behalf by:” if a sole corporate trustee.

AN Jones (Trustee/Trustee Director as the case may be)

Date:

For United Kingdom schemes there is no specific requirement as to how many trustees should sign. The decision should be based on the Trustees' own practice. Two signatures are required for Republic of Ireland schemes.

PRAG PENSION SCHEME
Summary of contributions

For the year ended 31 December 20X6

All amounts in £ thousands unless otherwise stated

The summary of contributions shall not be presented as part of the Trustees' Report, but a separate section within the annual report; with the related independent auditors' statement about contributions (in the exact style and format and content as the auditors shall, at their sole discretion, require) placed either immediately before or immediately after the summary of contributions.

The Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable to the Scheme by or on behalf of employers and the active members of the scheme and the dates on or before which such contributions are to be paid.

PN 15.228
SORP 2.7

During the year ended 31 December 20X6, the contributions payable to the Scheme under the schedule of contributions dated 24 March 20X5 were as follows:

	DB			DC		
	Employers	**Employees**	**Total**	**Employers**	**Employees**	**Total**
Contributions required by the schedule of contributions						
Normal	1,737	582	2,319	400	200	600
Deficit funding	200	-	200	-	-	-
Expenses funding	180	-	180	-	-	-
Total contributions required by the schedule of contributions (as reported on by the Scheme Auditors)	2,117	582	2,699	400	200	600
Other contributions						
Augmentations	95	-	95	-	-	-
Section 75 debt	5	-	5	-	-	-
Additional voluntary contributions	-	20	20	-	-	-
Other contributions - funding for investment in PRAG ABC LP	9,000	-	9,000	-	-	-
Total	**11,217**	**602**	**11,819**	**400**	**200**	**600**

DR 3 Sch 25, 26
PN15.251

If contributions required by the schedule of contributions were not paid in accordance with the schedule's requirements such that the auditors' statement is negative or qualified, the Trustees shall give an account of the reasons why and how the situation has been or is likely to be resolved. If an equivalent situation was not resolved in the prior year, this disclosure shall also cover the actual or likely resolution of the prior year contribution failure. These matters shall also be disclosed in the Trustees' report, or by means of a direct reference therein to the Summary of contributions.

PN15.252, 253

Additional information shall be added to ensure that the scope and measurement criteria of the summary is clear. For example:

- a scheme with multiple concurrent schedules in force (such as an industry-wide scheme) may benefit from a list of applicable schedules;
- a scheme which has no schedule in place for part of the year; or
- a scheme where new sections or classes of members occurred not specified by the schedule (such as schemes being used for auto-enrolment for the first time before a schedule is revised, or contributions from a scheme merger under the schedule of a predecessor scheme.

This summary is prepared solely for the purpose of reconciling the contributions required by the schedule (and therefore subject to the auditors' statement) to the contributions recognised in the financial statements. Comparative figures are not required.

Approved by the Trustees and signed on their behalf by:

Or “Approved by the Trustee (Pension Trustee Limited) and signed its behalf by:” if a sole corporate trustee.

AN Jones (Trustee/Trustee Director as the case may be)

Date:

For a United Kingdom scheme the SORP allows sign-off by at least one trustee or trustee director. Two signatures are required for Republic of Ireland schemes.

APPENDIX 3 – ANNUAL REPORT DISCLOSURE REQUIREMENTS IN THE UK

This appendix sets out the content of the Annual Report required by UK legislation and other UK requirements. It does not cover the audit reports or the ~~trustee~~ statement of trustee responsibilities in relation to the financial statements and statement on contributions. This appendix does not directly form part of the SORP (in Section 3).

The text in the appendix is cross-referenced ~~in the margin~~ to FRS 102 and the ~~Occupational Pension Schemes (Disclosure of Information) Regulations 2013~~Disclosure Regulations, for example "Sch 3(1)" refers to paragraph 1 of Schedule 3 to the Disclosure Regulations.

~~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 required disclosures have been set out in the context of a Trustees' Report that comprises separate sections for:

- Scheme management;
- Investment management;
- ~~Compliance matters; and~~
- The Report of ~~a~~Actuarial liabilities; and
- Actuarial certificates.

Scheme management

FRS 102 3.24(b) The nature of operations and principal activities.

Particulars of the management of the scheme including:

- ***Sch. 3(17)*** names of the trustees (or directors, if the scheme has only corporate trustees) who served during the scheme year; and
- ***Sch. 3(18)*** the provisions of the scheme in relation to the appointment of trustees and their removal from office and, in the case of a scheme where none of the trustees is an individual, the provisions in the articles of association of each trustee that relate to the appointment and removal from office of any directors.

SCHEME ADVISERS

Sch. 3(19) 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 auditor;
- the investment manager(s);
- the legal advisor;
- the administrator of the scheme benefits;
- the custodians of the scheme assets;
- the banker(s); and
- the secretary to the trustees.

CHANGES IN AND OTHER MATTERS RELATING TO SCHEME ADVISERS

Sch. 3(31) A copy of any statement made on the resignation or removal of the auditor or actuary and made in accordance with regulations made under Section 47(6) of the 1995 Act (professional advisors).

SCHEME AUDIT

Sch. 3(24) & Sch. 3(5) A statement ~~confirming that~~as to whether the accounts have been prepared and audited in accordance with regulations made under S~~s~~ection~~s~~ 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); and

Sch. 3(25) & (26) Where the auditor's statement made in accordance with regulations made under S~~s~~ection 41(1)(a) and (2)(b) of the 1995 Act (about contributions payable to the scheme) is negative or qualified, an account of the reasons why and a statement as to how the situation has been or is likely to be resolved (and, similarly, if such a situation in respect of a previous scheme year was not resolved in a previous year, a statement as to how it has been or is likely to be resolved).

SCHEME MEMBERSHIP

Sch. 3(21) The number of beneficiaries, active, deferred and pensioner members as at any one date during the year.

PENSION INCREASES

Sch. 3(22) Except in the case of a defined contribution scheme other than a collective money purchase scheme, the percentage increases or decreases made (otherwise than in accordance with a legislative requirement) during the year (or, if there have been different increases or decreases for different individuals or groups of individuals, the maximum, minimum and average percentage increases or decreases) to:

(a) pensions that were payable; and

(b) deferred pensions

with a statement whether the increases or decreases were to any extent discretionary.

TRANSFERS AT LESS THAN CASH EQUIVALENT

Sch. 3(23) Except in the case of a defined contribution scheme that is a wholly insured scheme, the following information:

- where any cash equivalents ~~or guaranteed cash equivalents~~ (within the meaning of Chapter 1 of Part 4~~Z~~A or Chapter 2 of Part 4A of the 1993 Pensions Act) paid during the year were not calculated and verified in the manner prescribed by regulations made under ~~sections~~ Sections 97 or 101~~I~~ of the 1993 Act (calculation of cash equivalents), as the case may be, a statement explaining why;
- where any of the cash equivalents ~~or guaranteed cash equivalents~~ paid during the year were less than the amount for which ~~section~~ Section 94~~(1)~~ of the 1993 Act (right to cash equivalent) provides, a statement to that effect together with information as to why they were less;
- a statement of when full values became, or are likely to become, available (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.); and
- 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.

CONTACT FOR FURTHER INFORMATION

Sch. 3(20) The postal and electronic address to which enquiries about the scheme generally or about an individual's entitlement to benefit should be sent.

Investment management

INVESTMENT MANAGERS

Sch. 3(27) The names of those who have managed the scheme's investments during the year, and the extent

Formatted: Font: Bold

of delegation of this function by the trustees.

INVESTMENT PRINCIPLES

Sch. 3(28) A statement as to whether the trustees have produced a Statement of Investment Principles as required by ~~section~~ Section 35 of the ~~Pensions Act~~ 1995 Act (investment principles) and that a copy is available on request (unless the scheme is exempt from such a requirement by virtue of the regulations made under that section).

Where the scheme is one to which ~~s~~Section 35 of the 1995 Act applies:

Sch. 3(30.1)(d) ***~~& (e)~~*** The policies specified in the following paragraph of regulation 2 of the Occupational Pension Schemes (Investment) Regulations 2005 (statement of investment principles) ("the Investment Regulations"): paragraph (3)(b)(vi) and (vii), paragraph (3)(c) and paragraph (3)(d). This refers to:

- Financially material considerations and ~~T~~the extent (if at all) to which ~~social, environmental or ethical considerations~~non-financial matters are taken into account in the selection, retention and realisation of investments;~~.~~
- ~~t~~The Trustees' policy ~~(if any)~~ relating to rights (including voting rights) attaching to the investments and undertaking engagement activities in respect of investments; and
- The Trustees' policy in relation to arrangements with any asset manager, setting out the following matters or explaining the reasons why any of the following are not set out –

  (i) how the arrangement with the asset manager incentivises the asset manager to align its investment strategy and decisions with the trustees' policies;

  (ii) how that arrangement incentives the asset manager to make decisions based on assessments about medium to long-term financial and non-financial performance of an issuer of debt or equity and to engage with issuers of debt or equity in order to improve their performance in the medium to long-term;

  (iii) how the method (and time horizon) of the evaluation of the asset manager's performance and the remuneration for asset management services are in line with the trustees' policies;

  (iv) how the trustees monitor portfolio turnover costs incurred by the asset manager, and how they define and monitor targeted portfolio turnover or turnover range; and

  (v) the duration of the arrangement with the asset manager.

REVIEW OF INVESTMENT PERFORMANCE

Sch. 3(30.1)(c) Where the scheme is one to which ~~s~~Section 35 of the 1995 Act applies, the investment report contains a review of the performance of the scheme's investment performance during the year (and except where the scheme has existed for less than three scheme years, during a period of not less than three and not more than five scheme years ending with the year) including an assessment of the nature, disposition, marketability, security and valuation of the scheme's assets.

DEPARTURES FROM INVESTMENT PRINCIPLES

Sch. 3(30.1)(a) & (b) In those cases where the trustees are required to maintain a Statement of Investment Principles by ~~s~~Section 35 of the ~~Pensions Act~~ 1995 Act, the investment report should contain a statement by the trustees or the fund manager of any investments made for the scheme during the year that were not made in accordance with the Statement of Investment Principles, a statement by the trustees or the fund manager giving the reasons why and explaining 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~~ investments made in previous years, if the investments involved continue to be held at the scheme year-end and remain not in accordance with the Statement of Investment Principles in place at the scheme year-end.

CUSTODIAL ARRANGEMENTS

Sch. 3(29) 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).

EMPLOYER-RELATED INVESTMENTS

Sch. 3(32) Except where the scheme is a trust scheme that applies to earners in employments under different employers, where the scheme has employer-related investments, as defined by ~~s~~Section 40(2) of the 1995 Act, a statement:

- as to the percentage of the scheme's resources invested in such investments at the end of the year;
- if that percentage exceeds 5%, as to the percentage of the scheme's resources that are investments to which regulation 13 of the Occupational Pension Schemes (Investment) Regulations 2005 (investments to which restrictions do not apply) applies; and
- if any resources of the scheme are invested in contravention of subsection (1) of ~~s~~Section 40 of the 1995 Act:
  (i) as to the steps the trustees or managers of the scheme have taken or propose to take to secure that the scheme complies with that section; and
  (ii) as to the time when any proposed steps will be taken.

Sch. 3(33) Where the scheme is a trust scheme that applies to earners in employment under different employers, the above statement must be provided or a statement:

- listing the 100 largest investments by value held by the scheme as at the year-end and stating
- what percentage of the resources of the scheme each such investment represents;
- identifying which of these investments are employer-related investments; and
- if, as at the year-end, more than 5% of the resources of the scheme are invested in employer- related investments in contravention of ~~s~~Section 40 of the 1995 Act in relation to a particular employer –
  (i) listing the employer-related investments and the name of the employer concerned;
  (ii) as to the steps the scheme has taken or proposes to take to ensure that the percentage is reduced to 5% or less; and
  (iii) as to the time when any proposed steps will be taken.

IMPLEMENTATION STATEMENT

Sch. 3(30.1)(ca) Where the scheme is one to which Section 35 of the 1995 Act applies a statement which must –

(a) set out how, and the extent to which, in the opinion of the trustees, the policy required under regulation 2(3)(c) of The Occupational Pension Schemes (Investment) Regulations 2005 has been followed during the year, and

(b) describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year

Sch. 3(30.1)(f) Where the scheme is a relevant scheme within the meaning of The Occupational Pension Schemes (Administration) Regulations 1996, a statement which must –

(i) set out how, and the extent to which, in the opinion of the trustees, the statement of investment principles required under Section 35 of the 1995 Act has been followed during the year,

(ii) describe any review of the statement of investment principles undertaken during the year in accordance with regulation 2(1) of the Investment Regulations and any other review of how the statement of investment principles has been met,

(iii) explain any change made to the statement of investment principles during the year and the reason for the change, and

(iv) where no such review was undertaken during the year in accordance with regulation 2(1) of the Investment Regulations, give the date of the last review.

(v) describe the voting behaviour by, or on behalf of, trustees (including the most significant votes cast by trustees or on their behalf) during the year and state any use of the services of a proxy voter during that year.

~~Chair's Statement~~ANNUAL STATEMENT REGARDING GOVERNANCE

Sch. 3(34) Where the scheme is a relevant scheme within the meaning of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, the statement which the trustees or managers are required to prepare by regulation 23 of those Regulations (annual statement regarding governance).

Formatted: Font: 9 pt

CLIMATE CHANGE GOVERNANCE REPORTING

Sch. 3(34A) Where the trustees are required to publish a report on a website in accordance with regulation 6(1)(b) of The Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 (climate change reporting and publication requirements), the website address where the report for the year has been published.

~~Compliance matters~~

~~The paragraphs below set out the disclosures that could normally be included in the compliance statement.~~

The report on actuarial liabilities

(FRS 102 34.48) A defined benefit plan shall disclose, in a report alongside the financial statements, information regarding the actuarial present value of promised retirement benefits including:

(a) a statement of the actuarial present value of promised retirement benefits, based on the most recent valuation of the scheme;

(b) the date of the most recent valuation of the scheme; and

(c) the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.

Actuarial certificates

Sch. 3(6) If Part 3 of the 2004 Act applies, a copy of the certificate by the actuary under ~~s~~Section 227 of the 2004 Act (Schedules of Contributions) about the adequacy of the contributions payable to the scheme.

APPENDIX 4 – NOTE ON LEGAL REQUIREMENTS IN THE UK

This appendix notes certain legal requirement in the UK. This appendix does not directly form part of the SORP (in Section 3).

Section 41 of the ~~Pensions Act~~ 1995 Act 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 accounts; and
- the auditor's statement about contributions under the scheme.

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

Regulation 2 requires that the trustees or managers of an occupational pension scheme (other than those to whom the requirement of ~~s~~Section 47(1)(a) of the ~~Pensions Act~~ 1995 Act to appoint an auditor does not apply) shall obtain, not more than seven months after the end of each scheme year, audited accounts 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.

The requirement to obtain an auditor's statement about contributions does not apply in relation to a scheme for a scheme year in which, on the first day of that scheme year, the scheme has at least 20 participating employers.

Regulation 2 also provides that the requirement to obtain audited accounts does not apply to earmarked schemes. An earmarked scheme is an occupational pension scheme under which all the benefits, other than death benefits, are defined contribution 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. However, the requirements to obtain an auditor's statement about contributions (subject to the 20 employee exemption mentioned above) under the scheme and to produce an Annual Report do apply. The trustees, on receiving a request from persons specified in ~~s~~Section 41(4) of the ~~Pensions Act~~ 1995 Act (including members and spouses of members), shall:

- make available a copy of the most recent accounts published in relation to the insurance companies (whether as part of a group of companies or otherwise) with which they hold earmarked policies of insurance or annuity contracts in relation to that person; and
- make that information available to the person who requested it within a reasonable time of receiving the request.

The trustees shall also provide each member, within 12 months of the end of each scheme year, with a statement detailing the amount of contributions credited to the member during that scheme year.

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 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.

Regulation 3 ~~and 3 A~~ provides that the audited accounts shall (a) contain certain information (see Regulation 3A below~~appendix 6below~~) and (b) ~~shall~~ show a true and fair view of (i) the financial transactions of the scheme during the scheme year (ii) ~~and of~~ the amount and disposition of the assets at the end of the scheme year, and (iii) 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 accounts to include a report by ~~97~~ the auditor indicating whether, in the auditor's opinion, the accounts contain the required information and show a true and fair view.

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~~ in all material respects been paid at least 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. If there is no schedule in place during the whole or part of the scheme year, the auditor's statement must state whether or not, in his opinion, contributions payable to the scheme during the year have been paid in accordance with the scheme rules, or contracts under which they were payable, and, where appropriate, with the recommendation of the actuary.

Regulation 3A audited accounts disclosures

(1) The information specified for the purposes of regulation 3(a) is as follows. *(see above)*~~:~~

(2) Particulars of any investment (other than in UK Government securities) in which more than 5 per cent of the total value of the net assets of the scheme is invested and, if any such investment is an insurance policy, a statement of its main characteristics.

(3) Except in relation to a trust scheme that applies to earners in employments under different employers, where the scheme has employer-related investments within the meaning of Section 40(2) of the Pensions Act 1995 (restriction on employer-related investments), a statement:

(a) as to the percentage of the scheme's resources invested in such investments at the end of the scheme year; and

(b) if that percentage exceeds 5 per cent., as to the percentage of the scheme's resources which are investments to which regulation 13 of the Occupational Pension Schemes (Investment) Regulations 2005 (investments to which restrictions do not apply) applies.

(4) Where the scheme is a trust scheme that applies to earners in employments under different employers, a statement in accordance with paragraph (3) or a statement–

(a) listing the 100 largest investments by value held by the scheme at the end of the scheme year and stating what percentage of the resources of the scheme each such investment represents;

(b) identifying which of the investments mentioned in sub-paragraph (a) are employer-related investments;

(c) if, as at the end of the scheme year, more than 5 per cent of the resources of the scheme are invested in employer-related investments in contravention of Section 40(1) of the Pensions Act 1995, listing the employer-related investments and the employer concerned.

(5) The total amount of the purchases and the total amount of the sales of investments during the scheme year to which the accounts relate.

(6) A statement whether the accounts have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes current at the end of the scheme year to which the accounts relate and, if not, an indication of where there are any material departures from this framework.

Schemes required to obtain audited accounts

Regulations 3(1)(a) to (o) of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) set out a number of categories of schemes to which the requirement of ~~s~~Section 47(1)(a) of the ~~Pensions Act~~ 1995 Act to appoint an auditor does not apply and which are therefore not required to produce audited accounts under the regulations.

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

The categories of schemes exempted include, among others, the following schemes:

- Occupational pension schemes which (within the meaning of the relevant tax legislation) provide "relevant benefits" and on or after 6 April 2006 are not "registered schemes" unless there are 100 or more members;

- Occupational pension schemes provided for, or under an enactment (including a local Act), and guaranteed by a Minister of the Crown or other public authority;

Formatted: Font: Italic

Formatted: Font: Italic

Formatted: Indent: Left: 0 cm, Hanging: 0.7 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, … + Start at: 1 + Alignment: Left + Aligned at: 1.93 cm + Indent at: 2.63 cm, Tab stops: 2.63 cm, Left

- Unfunded occupational pension schemes;
- Occupational pension schemes with less than 2 members; and
- Occupational pension schemes with a superannuation fund such as is mentioned in ~~s~~Section 615(6) of the Income & Corporation Taxes Act 1988, unless there are 100 or more members.

~~Both defined contribution and defined benefit~~A scheme~~s~~ which meet~~s~~ the following criteria:

- the scheme must have less than 12 members;
- all members must be trustees (or trustee directors); and either
- the provisions of the scheme provide that all decisions which fall 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.

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715) and the Audited Accounts Regulations were amended by The Occupational Pension Schemes (Administration and Audited Accounts) (Amendment) Regulations 2005 (SI 2005/2426) which introduced the requirement for an audit for certain schemes with 100 or more members.

Disclosure requirements

The ~~Occupational Pension Schemes (~~Disclosure ~~of Information)~~ Regulations ~~2013 (SI2013/2734) (the Disclosure Regulations)~~ impose disclosure requirements. The relevant regulations are set out below.

Regulation 12 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 appropriate audited accounts or auditor's statement for the scheme year
- a copy of the latest certificate of the actuary relating to the Schedule of Contributions as to the adequacy of the contributions payable to the scheme; and
- further information specified in Schedule 3 part 5 to the Disclosure Regulations, which applies to the scheme.

Regulation 12 also sets out the terms on which copies of the document are made available and to whom they should be made available. Such persons are members, prospective members, spouses and civil partners, beneficiaries and trade unions recognised for collective bargaining purposes.

Schedule 3 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 ~~s~~Section 35 of the 1995 Act. The requirements are summarised in Appendix 3 of this document.

APPENDIX 5 – ANNUAL REPORT DISCLOSURE AND LEGAL REQUIREMENTS IN THE REPUBLIC OF IRELAND

This appendix sets out the additional content of the Annual Report required by the legislation in the Republic of Ireland. This appendix does not directly form part of the SORP (in Section 3).

The text in the appendix is cross referenced in the margin to The Pensions Act 1990 for the Republic of Ireland and T~~t~~he Occupational Pension Schemes (Disclosure of Information) Regulations 2006 (as amended) (referred to below as the Disclosure Regulations).

Introduction

S55(1); a7(1), (2) & (3); a5

In respect of each scheme year, trustees of a scheme must prepare or have prepared an annual report. The report must be prepared as soon as reasonably practicable, but in any event it must be available not later than 9 months after the scheme year-end.

Article 5 and Schedule A of the Irish Disclosure Regulations provide that the audited accounts shall include the information specified in Schedule A which is applicable and material to the relevant scheme.

(a) Schedule A of the Disclosure Regulations states the following: The financial statements can exclude the following items from the assets and liabilities of the scheme at the end of the scheme year:

  (i) Insurance policies which have been purchased which fully match the pension obligations of the scheme in respect of specific members or other persons and for this purpose a Section 53B policy (policy or contract of assurance the form of which has been certified by the Board under Section 53B of The Pensions Act (1990)) shall be capable of matching a pension obligation;

  (ii) Liabilities to pay ~~pensions~~ benefits in the future; and

  (iii) Additional voluntary contributions, if any, under the scheme which are separately invested.

Where additional voluntary contributions are separately invested in the form of a defined contribution scheme they should be disclosed separately from the main assets of the scheme but accounted for within the accounts of the scheme and notes thereto.

The notes thereto should, other than in the case of a scheme the resources of which are invested wholly in managed funds, include a statement of the distribution of the investments of the scheme detailing, where appropriate, particulars of any self- investment of the resources of the scheme at any time during the scheme year or concentration of investment in excess of 5 per cent of the resources of the scheme at the scheme year-end.

Where Section 53B policies have been purchased, the notes to the accounts shall include a statement of the value of the pensions obligations of the scheme which are matched by Section 53B policies and, where there has been a reduction in payments under any Section 53B policies held by the scheme, a statement detailing particulars of that reduction.

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

Audit opinion

Article 5 (paragraph 4) details that the auditor's report on the accounts is required to state whether, in the opinion of the auditor, the requirements of Schedule A are satisfied, the accounts show a true and fair view of the financial transactions of the relevant 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 in the opinion of the auditor, the contributions payable to the scheme during the scheme year, have been received by the trustees within 30 days of the end of the scheme year and that, in their opinion, such contributions have been paid in accordance with the rules of the relevant scheme, and, if appropriate, with the recommendations of the scheme actuary. If the auditor's report is qualified, reasons for the qualification must be given.

~~Exemptions from audit~~

~~Article 8 of the Disclosure Regulations contains exemptions for certain schemes. Small schemes (those which had less than 100 members entitled to but not receiving retirement benefit) shall, in place of the full requirements for audited accounts and reports, have the option of issuing an alternative Annual Report, which must be prepared by a qualified auditor or, where some or all of the benefits are secured under contracts of assurance with one or more life assurance companies, by a person designated by that company/ies. This important exemption for schemes applies to 'small schemes', as defined by the regulations. The recommendations of the SORP do not apply to alternative Annual Reports. However, the principles applied in valuing investments should be in line with the recommendations of the SORP.~~

The trustees may select the scheme year period. If the scheme year selected by the trustees is altered, then with the approval of the Authority, a report prepared for a period other than a year, not exceeding 23 months, shall be regarded as an annual report for these purposes.

Where the scheme is in operation for part only of the year selected, then a report prepared for a period including that part of the year and not exceeding 23 months shall be regarded as an annual report for these purposes.

a7(1)	If a scheme becomes a frozen scheme after 1 January 1997 the requirements apply. ~~Alternative arrangements may apply in the case of~~ ~~**small DC Schemes**~~ ~~and small~~ ~~**DB Schemes (Small Schemes)**.~~
S55(2)	This requirement does not apply to death benefit only schemes, ~~one member arrangements,~~ **Small Schemes** in winding up which comply with a16(3)(b), and to **Small Schemes** which are also frozen schemes.
S64G(a)	The **Registered Administrator must prepare** on behalf of the trustees **a report** in the prescribed form **and deliver** it **to the trustees not less than one month prior to the date** by which **the trustees are required** by regulations under the Act **to make the** annual **report available**

Content			**Applicable section**
a7(5)	(a)	a copy of the audited accounts in respect of the scheme year;	**Financial Statements**
	(b)	a copy of the auditor's report on the accounts. If the report is qualified, the trustees should state whether the matter is resolved;	**Auditor's ~~'~~ Report**
	(c)	where appropriate, a copy of the latest actuarial funding certificate and funding standard reserve certificate;	**DB Appendices-** AFC & FRSC
	(d)	details of the measures proposed in any funding proposal which relate to the scheme year in question (the entirety of the funding proposal need not be disclosed);	**DB** Actuarial Position
	(e)	where appropriate, a copy of the valuation report prepared for a DC Scheme in relation to that scheme year prepared in accordance with Article 6(b);	**DC** Value of Liabilities
S55(3)	(f)	in the case of a DB Scheme or a DC Scheme within the meaning of Section 41(2)(a) of the Act (i.e. it is paying	**DB Appendices**

		benefits directly from the scheme, instead of purchasing annuities), the intervaluation statement required under Section 55 of the Act; and	Actuarial Statement
	(g)	the information as set out overleaf:	
P1 Sch B	1.	The names of all persons who were trustees of the scheme during the scheme year, the trustees acting at the date the report is signed and where the trustee is a company, the name of its directors during the year and at the date of signing.	**Trustees & Other Information**
P1 Sch B	2.	The list of participating employers at the end of the scheme year.	
P2 Sch B	3.	The name of each actuary, auditor, solicitor, bank, investment manager, custodian, depositary and administrator acting for or retained by the trustees during the scheme year and (where different) at the date the annual report is signed, with an indication of any changes since the previous scheme year, except where these requirements are complied with for the first time.	
P2A Sch B	4.	The name of each person appointed by the trustees to carry out a key function, including any service provider to which a key function is, or was, outsourced in respect of the scheme during the scheme year.	
P3 Sch B	5.	The name or title and the address of the person to whom enquiries about the scheme generally or about an individual's entitlement to benefits should be sent.	**Scheme management**
P4 Sch B	6.	Where any changes have been made since the previous scheme year in the basic information about the scheme, a statement that a change has been made and that the members concerned have been notified in accordance with Article 11. There is no requirement to detail the specific changes.	**Changes to the Scheme**
P5 Sch B	7.	The following information must be provided as at a date chosen by the trustees in the scheme year. (a) the number of members in reckonable service, (b) the number of persons in receipt of benefits under the (c) scheme, (d) the number of members whose relevant employment has ceased but who remain entitled to benefits under the scheme, (e) the number of members in relevant employment where the only benefit payable under the scheme in respect of those members is in respect of death prior to normal pensionable age. However, the information under (b) and (c) does not have to include any member or person where an insurance policy has been purchased in respect of their benefits, which fully match the pension obligations of the scheme, and the policy has not been included in the annual accounts. Any material	**Membership Movements**

	change from the previous scheme year numbers under (a), (b) and (c) should be explained.	
P6(a) Sch B	8. A statement of increases made during the scheme year to: (i) pensions in the course of payment, and/or (ii) benefits payable following termination of a member's service in relevant employment. The percentage increase or, (except in an unfunded scheme) if there have been different increases for different individuals or groups of individuals, the average percentage increase of such increases, or the range of increases within these groups, should be stated. The facility to detail a range of increases allows the trustees to present this information in a meaningful fashion. The statement should, in either case, detail~~:~~ whether the increases were to any extent discretionary and, if so, to what extent. ~~whether the increases were to any extent discretionary and, if so, to what extent.~~ ~~whether the increases were to any extent discretionary and, if so, to what extent.~~ If no increases were made this must be stated.	**Pension Increases**
P6(b) Sch B	9. If there were any pensions or pension increases being paid by or at the request of the trustees for which the scheme would not have a liability should it wind up a statement of this fact is required. This would include, for example, the situation where the trustees were acting as a paying agent for the employer. If such pensions or pension increases were paid, the statement should specify whether the persons concerned have been notified of this fact in writing by, or at the request of, the trustees. If there were no such pensions or pension increases, no statement is required.	**Pension Increases**
P7 Sch B	10. A review by the trustees of the financial development of the scheme during the scheme year, as shown by the audited accounts, and a statement explaining the latest actuarial funding certificate and funding standard reserve certificate. Where a funding proposal has been submitted to the Authority this must be explained.	**Financial Developments & DB** Actuarial Position
P8 Sch B	11. The names of the organisations or persons who have been responsible for the management of the scheme's investments during the year and the extent of any delegation of this function by the trustees.	**Trustees & Other Information**
P9 Sch B	12. A statement whether or not the scheme is meeting the costs of any investment manager and, if it is, the basis on which the investment manager is being paid.	**Inv Mngt Fees**
P10 Sch B	13. An investment report containing: (a) a statement, by the trustees or the investment manager, of the investment policies pursued during the scheme year and any material changes in these policies over this period (b) a review of the investment performance of the scheme's fund during the scheme year and the nature,	**Appendices Inv Report(s) & Financial Statements**

	disposition, marketability, security and valuation of the scheme's assets (c) the latest statement of investment policy principles (not applicable to small schemes) The investment report should be consistent with the audited accounts.	
P11 Sch B	14. A statement that the right of members to select or approve the selection of trustees to the scheme is set out in T~~t~~he Occupational Pension Schemes (Member Participation in the Selection of Persons for Appointment as Trustees) (No. 3) Regulations 1996, (SI 1996/376) where a scheme is a relevant scheme as defined in those regulations. A relevant scheme in that context is one established under trust– (a) having not less than 50 members who qualify to vote; or (b) being a directly invested scheme having not less than 12 members; or (c) being an external scheme where less than 20% of the members are external members.	**The Trustees**
P1~~3~~5 Sch B	15. A Statement confirming that the trustees and, if applicable the administrator have access to guidelines, guidance notes, and codes of practice issued by the Pensions Authority in accordance with Section 10 of the Act.~~:~~ ~~The trustee Handbook produced by the Authority; and The Guidance Notes issued by the Authority from time to time~~	**Scheme management**
P12 Sch B	16. A statement as to whether the trustees have received training as required by 59AA of the Act inserted by Section 28 Welfare and Pensions Act 2008. Section 59AA requires trustees to receive appropriate training in relation to the Act, any regulations under the Act and any other law relevant to the scheme, the duties and responsibilities of trustees generally and such other matters as may be prescribed. They must receive training within six months of being appointed a trustee and at least every two years thereafter. Trustees who are appointed as trustees before the commencement of ~~s~~Section 59AA must first undergo training within two years of the commencement of ~~s~~Section 59AA and at least every two years thereafter.	
P12 Sch B	17. A statement of any costs and expenses incurred in relation to trustee training in the scheme year which have been met out of the assets of the scheme.	
P13 Sch B	18. Where the accounts of the scheme for the scheme year refer to a significant post year-end item, a statement by the trustees in relation to that item. A decision to wind up the scheme, a scheme merger, or bulk transfer out after the scheme year-~~ ~~end would, for example, constitute a significant post year-end item.	**Subsequent Events**
P14 Sch B	19. A statement that the scheme has been registered with the Authority and the registration number.	**Scheme management**
~~**P15 Sch B**~~	~~20. A statement as to whether or not the trustees and,~~	~~**Scheme management**~~

Formatted: Indent: Left: 0.63 cm, No bullets or numbering

	~~if applicable, the administrator have access to–~~ (a) ~~the Trustee Handbook produced by the Authority, and~~ (b) ~~the Guidance Notes issued by the Authority from time to time.~~	
P16 Sch B	~~21.~~20. A statement by the trustees that they have appropriate procedures in place to ensure that contributions payable during the scheme year (a) have been received by the trustees either in accordance with s58A of the Act where applicable and otherwise within 30 days of the end of the scheme year, and (b) have been paid in accordance with the rules of the scheme and if appropriate, with the recommendations of the actuary.	**Contributions**
P17 Sch B	~~22.~~21. A statement concerning the condition of the scheme, in particular the financial, technical and other risks associated with the scheme and the nature and distribution of those risks, unless already disclosed in the explanatory booklet given to members about the scheme.	**Statement of Risks**
P18 Sch B	~~23.~~22. A statement explaining the procedures in place to comply with trustees' obligations regarding the internal resolution of disputes (as set out in the regulations made under Section 55 of the Financial Services and Pensions Ombudsman Act 2017 (No.22 of 2017)~~article 5 of the Pensions Ombudsman Regulations, 2003 (S.I. No. 397 of 2003)~~. This statement is not obligatory in the annual report if the trustees have already disclosed this information elsewhere, e.g. with the member's benefit statement or explanatory booklet. The trustees may therefore choose which document they wish to disclose this detail in.	**Internal Dispute Resolution (IDR)**
P22 Sch B	~~24.~~23. An investment report containing a statement by each individual investment manager acting for the relevant scheme providing- (a) a summary of the investments managed by him and, other than in relation to resources invested in policies of insurance, their value at the end of a scheme year (b) the investment policies pursued during the scheme year on behalf of the relevant scheme and any material changes during the scheme year (c) a review of the performance of the relevant scheme's funds managed by them during the scheme year	**Investments**
P23 Sch B	~~25.~~24. A statement as to whether the scheme is a **DB Scheme** or a **DC Scheme** for the purposes of the Act.	**Scheme management**
P24 Sch B	~~26.~~25. Where on the last day of the year to which the annual report relates the actuary is valuing all or any pensions in payment under the scheme on the basis of securing pensions in payment by the purchase of ~~s~~*Section 53B policies*, a statement in the form set out in Schedule N to the 2006 Regulations	**DB Appendices** Sovereign Annuities

P25 Sch B	~~27.~~26. A statement substantially in the form of statement M of the Irish disclosure regulations which may only be modified if the trustees are of the reasonable opinion that any part of the statement could not apply to the scheme or that the modifications will better explain the nature and effect of the matters referred to in the statement.	**DB Statement of Risks**
P20 Sch B	~~28.~~27. A statement of material transactions which have occurred at any time during the scheme year with related parties (within the meaning of Financial Reporting Standard ~~8~~102, 'Related Party Disclosures'), irrespective of whether a price was charged.	**Related Party Disclosures**
Signing		
a7(6)	The annual report is to be signed and dated by two trustees on behalf of the trustees, or ~~if there is only one trustee by that trustee~~in the case of a sole trustee which is a corporate body, by two directors of that body.	**Trustee report, & Financial Statements**
~~**Availability**~~		
a7(4) &	A copy of the latest annual report must be made available by the trustees to relevant persons not later than 9 months after the end of the scheme year (or such later date as may be approved by the Authority) and shall be publicly disclosed. The trustees must inform members then in relevant employment of the availability of the annual report, not later than 4 weeks after the 9 month period referred to. This could be achieved by an announcement in staff circulars or on staff notice boards, etc.	**Notice of Availability**
9(1)	This document must be provided free of charge on request to members, prospective members, their spouses and other scheme beneficiaries (or their representative) not later than 4 weeks after the request is made, and must be given automatically to any authorised trade union which represents the members not later than 9 months after the end of the scheme year.	**Notice of Availability**

APPENDIX 6~~7~~ – INDICATIVE LEVELS FOR COMMON INVESTMENT TYPES

The table below provides an indication of the level in the fair value hierarchy into which the sample list of asset classes ~~instruments~~ would typically fall. The assignment is illustrative and, in making the fair value category assignment, trustees shall take into account all relevant and current information on the asset held ~~security~~. This includes areas such as suspension of trading, corporate announcements and wider economic conditions. Where the asset ~~security~~ is market traded, trustees shall also consider whether it is actively traded or thinly traded, its trading history and associated trading patterns on a continuous basis, not just at the period end date. This appendix does not directly form part of the SORP (in Section 3).

Asset classes	Indicative Level
Equity Quoted (traded in active markets)	1
Equity Unquoted	3
Corporate Bond (see below)	2
Government Bond (see below)	2
Asset Backed Securities	2/3
Mortgage Backed Securities	2/3
Exchange Traded Funds (traded in active markets)	1
Unquoted Pooled Funds	2/3
Hedge Funds	2/3
Limited Partnership	3
Exchange Traded Derivatives (traded in active markets)	1
Over The Counter Derivatives	2/3
Contract for Differences	2
Structured Products	3
Private Placements	3
Insurance Policies	3
Property	3
Special Purpose Vehicles	3
Cash Deposits	1
Short Term Investments	2
Collateral and M~~m~~argin B~~b~~alances (depending on form of collateral)	1/2
Repurchase~~o~~ and R~~r~~everse Repurchase Agreements~~repo~~	2
Short S~~s~~old B~~b~~onds	2

In general, bonds are valued using valuation techniques and therefore fall into level 2. However, trustees may prefer to use market quotations to value some highly liquid exchange traded bonds. Consequently, it may be considered appropriate to classify these instruments in level 1 instead of level 2. In all cases, the valuation methods shall be disclosed in detail in the notes to the financial statements.

AVC investments shall be categorised in line with the type of investments held (e.g. with profits funds in line with insurance policies (level 3) and unit linked pooled funds in line with the pooled investment vehicle guidance (level 2)).

BASIS FOR CONCLUSIONS

BACKGROUND

The SORP was last reviewed and updated in June 2018.

Since that time, the FRC has made a number of amendments to FRS 102 arising from, inter alia, the FRC's second periodic review.

There have also been a number of industry developments which impact on pension scheme financial reporting; for example in pension scheme investment strategies.

In addition, there have been changes to pensions legislation and regulations.

Therefore, the updates to the SORP have been to apply the changes required to be consistent with the current version of FRS 102 and also current pension legislation and regulations, alongside updates to reflect current pension scheme developments.

Extensive consultation has also taken place across stakeholder groups as to any proposed changes to the SORP, and a number of suggestions were received for amendments, additional clarifications and illustrative examples. These have been incorporated in the revision, where considered appropriate.

All parties, including the FRC, are thanked for their engagement in the process of updating the SORP.

INTRODUCTION

This Basis for Conclusions accompanies, but is not part of, the *Statement of Recommended Practice, Financial Reports of Pension Schemes 2025* and summarises the main matters considered in developing (as to either retaining paragraphs, amending them, providing additional clarity, or deleting them) the SORP.

The Basis for Conclusions is organised into two parts:

(a) Part A covers general issues relating to the development of the SORP and overarching matters affecting the whole SORP.
(b) Part B covers specific technical matters organised by section (where significant changes have been made).

Part A – Development and overarching issues

A.1 The formal review of the SORP was triggered by amendments made by the FRC to FRS 102 arising from, inter alia, the FRC's second periodic review. The amendments to FRS 102 have required numerous wording changes throughout section 3. Where the substance of the standard has changed and this has resulted in a significant change to the SORP, this has been covered in more detail in Part B.

A.2 The annual report is subject to various regulatory requirements as summarised in section 2.4. Section 2 and the appendices have been updated to incorporate the latest regulatory requirements.

A.3 The previous SORP was issued in 2018. Since then, the pensions industry, in particular scheme investment strategies and types of investments held, have developed and, as such, the SORP has been updated to respond to such developments in the market.

A.4 The effective date of 1 January 2026 has been set to align with the effective date of the FRS 102 Periodic Review Amendments.

A.5 Section 3.1.9 to 3.1.12 refers to Small Entities (having been repositioned from Section 2). Consideration was given as to whether the guidance should be amended. It was reconfirmed that it is not considered that the Small Entities regime set out by FRS 102 is applicable or relevant to pension scheme financial reporting. However, additional reference has been made to paragraph 3.4.6 with regards to the extent of required disclosures.

A.6 The language used in the SORP has been aligned to be consistent with that used in FRS 102, and the definitions provided in section 1.4 are aligned with the FRC's definitions. The SORP requires the financial statements to be written in plain English (section 2.3) and for disclosures to be scheme specific to ensure the understandability of the financial statements.

A.7 The SORP does not require the inclusion of a scheme's long term actuarial liabilities. This is consistent with FRS 102 34.47, which states that a defined benefit plan is not required to recognise a liability in relation to the promised retirement benefits.

A.8 The appendices to the SORP have been updated to reflect the changes to FRS 102 and the SORP since the 2018 SORP was issued, in addition to reflect changes to pensions legislation and regulations, and developments in the pensions industry. The appendices are summarised as follows:

- Appendix 1 - Illustrative Financial Statements - These have been updated since the 2018 SORP to expand the illustrative disclosures and to include cross references to source material such as FRS 102, the SORP, etc. so as to aid users in determining the source of the required disclosure.
- Appendix 2 - Illustrative Annual Report - This is a new appendix that provides an illustration of how the regulatory disclosure requirements as detailed in Appendices 3 and 4 should be met. It is not an exhaustive example and Trustees shall use their judgement as to the extent of further disclosures they wish to make.
- Appendices 3 to 5 - Disclosure regulations - These appendices set out the legal disclosure requirements in respect of the annual reports for pension schemes and the legal framework. Appendices 3 and 4 detail UK requirements and Appendix 5 Republic of Ireland requirements.
- Appendix 6 - Indicative levels for common investment types - This appendix is an aid to assist financial statement preparers in determining appropriate fair value levels for different asset types in the fair value hierarchy disclosures in the notes to the financial statements. These are indicative only and preparers should ensure that they fully consider other factors which could result in a different fair value level being appropriate.

Part B – Technical issues by section

B1 ***Transitional provisions***

B1.1 The section has been deleted on the grounds that the length of time since FRS 102 first became effective for pension schemes has been sufficient that all schemes should have transitioned, and this section is no longer relevant.

B2 **Section 3.4 *Form and content of pension scheme financial statements***

B2.1 The financial statements are to be standalone. The SORP has removed the ability (which was little used) to reference to outside the financial statements (for example, to the Trustees' Report) for disclosures required to be included in the financial statements, to ensure that they remain standalone should they be published separate to the annual report and to reduce the risk of disclosures being incorrectly considered part of the financial statements when they are not.

B3 **Section 3.6 *Fund Account - content and format***

B3.1 The SORP has been updated to clarify that if group transfers in or out are material, whether quantitively and/or qualitatively, they shall be reported on the face of the Fund Account. This is to reflect their non-routine nature in line with paragraph 3.4.3.

B3.2 Transfers out have been brought on to the face of the Fund Account where previously included within Payments to and on account of leavers. This provides a consistent level of disclosure with transfers in (which were already on the face of the Fund Account). Transfers out are often the only balance within Payments to and on account of leavers and, as such, having them on the face of the Fund Account provides a greater level of transparency.

B3.3 Investment income on the face of the Fund Account had been split into investment income and investment expense, to provide greater transparency and ensure that netting off does not arise

B3.4 Returns on investments have been reordered to keep Fund Account notes and Statement of Net Assets available for benefit notes in a logical order.

B4 **Section 3.7 *Fund Account - accounting policies and disclosures***

B4.1 FRS 102 Section 23 has been updated to *Revenue from Contracts with Customers* and has adopted a 5 step recognition model. The requirements of FRS 102 Section 23 have been considered and it has been determined that it does not have a general application to pension schemes. Under FRS 102's definitions, whilst contributions and other forms of income are classified as revenue, not only does FRS 102 disapply Section 23 to investment income, scheme income typically does not meet the definition of *with Customers* (**Customer: A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration (FRS 102:Glossary)**) as scheme members are not contracting with the scheme to obtain goods or services.

Expenses and Pension Protection Fund (PPF) levy

B4.2 Contributions guidance has been updated to include expense related contributions as a common type of contribution. The basis for the accounting policy is consistent with other types of contributions, the most common being led by the requirements of the Schedule of Contributions but also acknowledging that, in some instances, they may be being paid outside the scope of the Schedule.

Investment income

B4.3 Investment income guidance has been updated to provide greater clarity on types of income that could legitimately be treated as either investment income or sale proceeds. It has been determined that it would be inappropriate to stipulate which accounting method Trustees shall adopt as both are valid, however additional disclosure requirements are considered necessary when choosing the sale proceeds policy to clearly distinguish sale proceeds that are the likes of annuity/longevity swap income and SPV/LP distributions (which can be classed as the return of capital) from genuine disposals/sales of investments.

Investment transaction costs

B4.4 The extent of the disclosure requirements for direct transaction costs has been reduced to reflect the level of disclosure required should they have been reported as a separate expense in the Fund Account.

Use of surplus

B4.6 Guidance has been added to address disclosure requirements for common practices in place where a scheme is in surplus. Quantification of expenses or contributions funded by use of a surplus was not deemed necessary, keeping the financial statements transactional, but that disclosure of the arrangement in place would benefit the reader's understanding of the scheme. For example, should an employer cease to pay employer contributions in order to utilise a surplus the amount of forgone contributions is somewhat irrelevant to the reader as long as they can see that the employer has not simply stopped funding the scheme.

B5 Section 3.8 *Statement of net assets available for benefits - content and format*

B5.1 In addition to including types of investments that have become increasingly common since the 2018 SORP, it has been determined that sole investor funds shall be reported separately to pooled investment vehicles that are open to other investors on the face of the Statement of Net Assets available for benefits due to the different nature and level of Trustee control of the vehicles.

B5.2 The category *Other investments* has been removed to avoid confusion with *Other investment balances*. The asset categories that previously would typically fall within *Other investments* were SPV's and longevity swaps. In the 2025 SORP, SPVs are reportable on the face of the Statement of Net Assets available for benefits (in line with paragraph 3.4.3) and longevity swaps fall under *Insurance policies*.

B5.3 In determining the updates to the structure of the Statement of Net Assets available for benefits, consideration was given as to whether pooled investment vehicles should be reported against their underlying asset category but it was determined that the pooled investment vehicle note alongside the extended fair value level and investment risk disclosures provided sufficient disclosure of exposure to the asset classes invested in and so to require all schemes to structure the statement in such a manner is unnecessary. It was also determined that reporting pooled investment vehicles by asset class could be impractical for diversified funds and a columnar approach could make the statement difficult to read in hybrid and sectionalised schemes. It is noted that the SORP does not preclude a scheme from reporting in this manner if the Trustees wish to do so.

B5.4 In determining the updates to the structure of the Statement of Net Assets available for benefits consideration was given to whether the structure of the statement should reflect a scheme's investment strategy, for example splitting between matching and return-seeking, but it was determined that, whilst this may be suitable for certain defined benefit schemes, it is less useful for defined contribution schemes and less practical for hybrid schemes and so to require all schemes to structure the statement in such manner is impractical. It is noted that the SORP does not preclude a scheme from reporting in this manner if the Trustees wish to do so.

B6 Section 3.9 *Statement of net assets available for benefits – disclosures*

Derivatives

B6.1 Disclosures required for derivatives have been reduced to remove unnecessary information that detracts from the key information needed to understand the nature of the contracts and material risks. This is a reduction in the disclosure requirements of the current SORP, not a disapplication of the requirements of FRS 102. The removal of the duration of contracts was considered and agreed that if duration was deemed to be a material disclosure it would fall under liquidity risk and therefore is not required in the standard derivative disclosures.

B7 Section 3.11 *Fair value methodology*

B7.1 Previously, FRS 102 said that, as a practical expedient for fair value measurement, the best evidence available was usually the bid-price. FRS 102 revised no longer precludes the use of mid-market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread. The SORP requires the continued use of bid pricing (as in the current SORP) as opposed to allowing individual choice to maintain consistency and comparability in financial reporting and acknowledging that a practical expedient is not required as bid pricing is readily available.

Insurance policies - annuities

B7.2 When the previous SORP was issued, the use of valuations carried out by the annuity provider was permitted to assist with the transition of including annuity policies at fair value. Experience has shown that valuations provided by annuity providers regularly do not provide the preparers and users with sufficient information (typically due to it being commercially sensitive to the insurer) to allow all of the required disclosures in relation to accounting estimates to be made. The lack of transparency can also cause issues with the Trustees' ability to have the valuation audited. As such, the SORP has now removed the option to use annuity provider valuations so as to ensure that there are no restrictions on the availability of information to meet the required disclosure standards and noting that most defined benefit schemes will already be obtaining a valuation performed by the scheme actuary as part of the triennial valuation.

B7.3 Disclosure requirements have been expanded upon to clarify what is needed to meet the requirements of disclosures for material accounting estimates.

Insurance policies - longevity swaps

B7.4 The SORP now reports longevity swaps under *Insurance policies* (previously included in *Other investments*). In certain situations, where the swap is an index-based swap, it may be possible to report a longevity swap as a *Derivative*, however where the swap tracks actual scheme mortality it does not meet the definition of a derivative (as to be classed as a derivative a non-financial variable, i.e. mortality, cannot be specific to a party to the contract). As such, to increase consistency in the industry, the SORP requires all longevity swaps to be reported under Insurance policies. This is also consistent with the interpretation under IFRS 17 *Insurance contracts*.

B7.5 Guidance has been expanded to prompt Trustees to ensure a full understanding of all aspects of the contract and its different legs is obtained in order to determine whether or not they shall be included at fair value or recognised as an expense in the Fund Account.

B8 Section 3.12 *Disclosure of fair value determination*

Pooled fund categorisation

B8.1 Guidance has been provided on the approach to be taken when determining the fair value level of pooled funds that are accessed through a platform provider. It has been determined that this shall be completed at the platform provider level rather than the underlying fund it may be exposed to, on the basis that the frequency of trading (being the main fair value level driver for pooled funds) is set at the platform level and not the underlying pooled fund.

B8.2 The SORP now requires the level of detail of the fair value hierarchy table to reflect the pooled investment asset category note. This is to provide greater insight into the nature of the pooled funds.

B9 Section 3.13 *Investment reconciliation table*

B9.1 Guidance on the structure of the reconciliation table has been updated to include repurchase and reverse repurchase agreements within the main body of the table and obligations due with respect to short sold bonds are reported alongside cash deposits (for which disclosure of the sales and purchases during the year is not required). This is on the basis that a repurchase/reverse repurchase agreement is a liability/asset that is recognised at fair value when taking out a contract with a third party whilst there is no asset/liability to be reported at fair value on taking out a contract for a borrowed bond only when the borrowed bond is sold on does a liability reported at fair value arise.

B9.2 The SORP requires new disclosures in relation to purchases and sales to aid readers to understand the movements being reported. The new disclosures highlight where transactions are due to a change in strategy, whether Trustees or member driven (as opposed to business as usual trading).

B10 Section 3.14 *Investment risk disclosures*

B10.1 Since the 2018 SORP, market fluctuations (such as those arising during the Liability Driven Investment (LDI) crisis) have proved that liquidity risk can be relevant to pension schemes. As such, the SORP now requires *Liquidity risk* to be included in investment risk disclosures. The FRS 102 definition of liquidity risk focuses on settling financial liabilities, however the SORP extends this to include capital commitments and potential collateral calls. It has not been extended to include liquidity risk in relation to maintaining a desired hedging target as this is a voluntary measure and trustees can elect to deviate from target if liquidity is unavailable.

B10.2 Inclusion of inflation risk was considered and it was determined that, whilst inflation risk can impact a scheme's ability to pay benefits to members in the long term, the purpose of the investment risk disclosures is to highlight the risks arising from a scheme's financial instruments and not its actuarial liabilities. As such, inflation risk has not been included as a specific risk category, however, should inflation risk be relevant to a scheme's financial instruments (for example in determining the fair value of annuity policies), this can be reported under *Other risks* in accordance with paragraph 3.14.8.

B11 Section 3.15 *Investment risk disclosures for pooled investment vehicles*

B11.1 Specific scenarios of how liquidity risk can arise in pooled investments vehicles and subsequent appropriate disclosures have been provided to assist preparers of the financial statements. Liquidity demands and restrictions are relevant to readers to understand the nature of the pooled investment vehicles and the risks associated with them.

B12 Section 3.17 *Accounting for derivatives*

B12.1 Guidance for the valuation of exchange traded futures has been provided as the fair value guidance provided in paragraph 3.11.15 only covers over the counter derivatives.

B12.2 The method for reporting forward foreign exchange contract settlements (net or gross) has been left open. This is in order to allow preparers of the financial statements to utilise the reporting data provided by the investment managers, avoiding any onerous process on the preparer having to net down or gross up the investment managers reporting.

B12.3 The SORP guidance on accounting for re-hypothecation has been updated to align fully with FRS 102 and provide greater explanation of different re-hypothecation scenarios.

B13 Section 3.18 *Accounting for repurchase agreements and reverse repurchase agreements*

B13.1 Clarification that accrued interest on repurchase and reverse repurchase agreements shall be included in *Other investment balances* where outstanding at the year-end rather than adjusting the fair value of the agreements. This is consistent with the treatment of bonds, which are also reported on a "clean" basis.

B13.2 As with *Accounting for derivatives*, additional guidance has been provided on accounting for collateral and re-hypothecation.

B13.3 It is not an uncommon practice for repurchase or reverse repurchase agreements to be rolled at the end of the agreed term rather than settled. This means that a new contract can, effectively, be taken out without any further exchange of assets. The reconciliation table is primarily designed to allow readers to understand a scheme's cash flow and, as such, reporting notional purchase costs and sale proceeds is not required. However, for ease in preparing the financial statements, if the investment manager reporting includes notional settlement and subsequent re-opening values, the SORP does not preclude the preparer from including them.

B14 Section 3.19 *Accounting for short sold bonds*

B14.1 Guidance has been provided on accounting for short sold bonds to respond to the increase in the use of such transactions.

B15 Section 3.21 *Sole investor pooled arrangements*

B15.1 As noted in B5.1, sole investor pooled arrangements have been separated from pooled arrangements open to other investors to highlight the difference in their nature.

B15.2 The disclosure requirements have been amended to prevent a loss in transparency that occurs when a scheme's previously segregated assets are transferred into sole investor pooled arrangement wrappers. , It also recognises that including detailed notes on all asset categories would be onerous and not add sufficient value, particularly when considering that fair value level and investment risks disclosures are already performed on a look through basis.

B16 Section 3.24 *Annuity (insurance) contracts*

B16.1 In relation to the disposal of assets in an in-specie transfer, consideration was given to whether the sale proceeds should be reported based on an independently sourced market value of the assets on transfer (whether sourced from the investment manager that previously managed the assets or direct from the market) or at the amount of consideration for the purchase of the annuity policy attributed to the assets by the insurer. On the premise that sale proceeds are the amount an asset is realised for regardless of their fair value, it was determined that the appropriate value is the amount of consideration for the annuity policy attributed to the assets by the insurer.

B16.2 In relation to the conversion of a buy-in policy to a buy-out policy, consideration was given as to whether the sale proceeds should be reported based on the fair value of the annuity policy at the time of conversion or at proxy value. The SORP applies FRS 102 in the context of a pension scheme and, from an accounting perspective, it was determined that fair value of the annuity policy at the time of conversion was the appropriate valuation to use. To use the "roll-forward" approach in the same manner as a scheme will do in between actuarial valuation years provides an already established and efficient method to obtaining the fair value and is no more costly than what would have been required for the previous year.

B17 Section 3.29 *Going concern*

B17.1 FRS 102 now requires a disclosure with regard to going concern and the information used and significant judgements made by Trustees in making their assessment. Illustrative disclosures have been provided to help guide financial statement preparers through the new disclosure requirements.

B17.2 In response to feedback from stakeholders, additional guidance has been provided on some common scenarios where a scheme is still considered to be a going concern, but there are material uncertainties related to events or conditions that may cast doubt upon a scheme's ability to continue as a going concern. It recognises that there is a difference between a formal decision to wind up a scheme and making a strategic decision to discharge member obligations. Accordingly, a decision to move to buy-out member liabilities does not automatically result in a scheme no longer being a going concern. It was determined that further additional guidance could not be given, due to the various unique scenarios any scheme entering these types of decisions could encounter.

B17.3 In response to feedback from stakeholders, additional guidance has been provided on going concern specifically in relation to master trusts, including distinguishing between material uncertainties and not being a going concern.

B18 Section 3.32 *Related party transactions*

B18.1 In response to feedback from stakeholders, this section has been updated to provide more comprehensive examples of related parties and related party transactions.

B19 Section 3.35 *Contingent liabilities and contractual commitments*

B19.1 This section has been updated to acknowledge that contingent liabilities can arise with respect to benefits as a result of judicial cases (for example in the case of guaranteed minimum pensions) and reviews of scheme rules. It was determined not to include further additional detailed guidance on specific current judicial cases impacting pension schemes due to the various unique scenarios any scheme impacted by these cases may have, instead a reminder of the application of FRS 102 has been issued.