

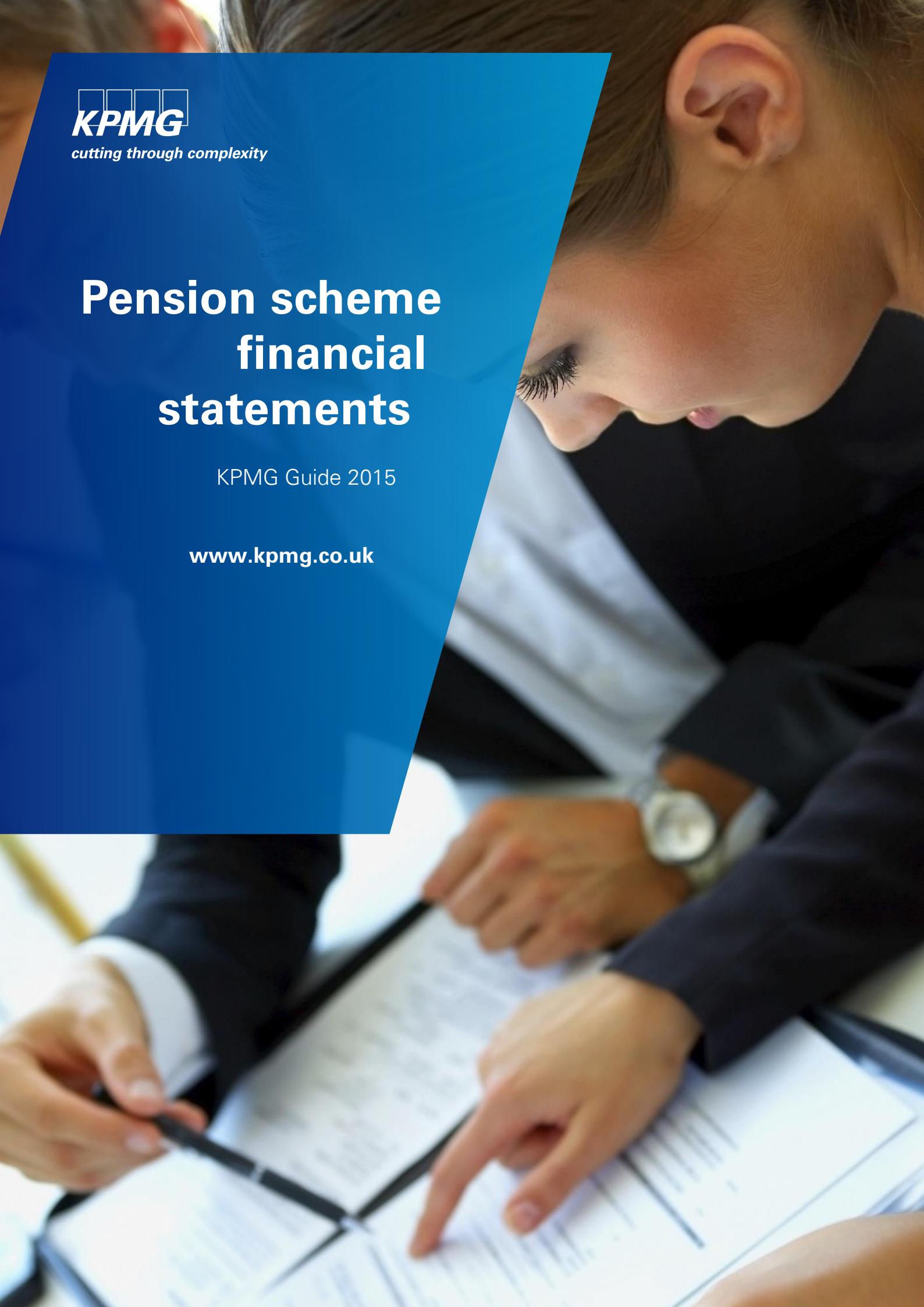


cutting through complexity

Pension scheme financial statements

KPMG Guide 2015

www.kpmg.co.uk



Contents

Introduction	i
Example Trustees' annual report and financial statements	1
Pension scheme annual report checklist	38
Additional guidance	74
Appendix: Audited Accounts Regulations	84

Introduction

KPMG Example Accounts Guide 2015

Welcome to the latest edition of KPMG's guide to pension scheme financial statements. We have comprehensively updated our guide to take account of the new accounting standard FRS 102 and the revised pension Statement of Recommended Practice (SORP) issued in November 2014.

The new requirements of FRS 102 and the revised SORP represent the biggest change to pension scheme financial reporting in 30 years and in our view are to be largely welcomed. They bring pension scheme financial reporting up-to-date with current standards and practices, more closely align financial reporting of investments with trustee investment strategy and clarify the legal content of trustee reports. But whilst there is much to regard as positive they are not perfect by any means. There will no doubt be practical issues implementing some of the required changes and debate over the usefulness of additional disclosures. However, given the purpose of pension scheme financial statements is to report on the stewardship of scheme resources by the trustees we think the direction of change is appropriate. We also believe the principles based framework set out by FRS 102 for investment reporting gives the SORP a valuable role to play in providing guidance in this key area.

To take full advantage of the revised accounting requirements current legal disclosures need to be amended. These were set in legislation in 1986 when the first SORP was published and are now no longer fit for purpose. The Department for Work and Pensions (DWP) recognises the need for change but due to a heavy legislative pension workload we do not expect to see these outdated legal disclosures brought into line with FRS 102 and the SORP until later in 2015.

We are at the start of an exciting new era of pension scheme financial reporting and the aim of this publication is to provide a practical guide to assist with the implementation of the required changes. We hope you find it useful.



Kevin Clark
Associate Partner

Summary of key changes

- FRS 102 requires annuity policies held in the name of the trustees to be reported at the value of the related obligation. They can no longer be reported at nil value as allowed by the current SORP and legislation. This requirement applies to both defined benefit and defined contribution schemes. The revised SORP takes a flexible approach to the valuation methodology to be adopted to help mitigate the costs of obtaining a valuation. It is also worth noting that scheme actuaries may not use the accounts value of the annuity policy for the purposes of the scheme funding valuation.
- New disclosures for investment valuation – FRS 102 sets out a fair value hierarchy and requires disclosure of how this has been applied in determining the fair value of financial instruments. The SORP extends this to all scheme investments. Somewhat frustratingly the fair value hierarchy used by FRS 102 is not consistent with the fair value hierarchy used by International Financial Reporting Standards (IFRS). Investment custodians and managers will therefore have to amend existing reporting to meet the requirements of FRS 102. There is further guidance being developed by a Pension Research Accountants Group (PRAG)/The Investment Association joint working party on the interpretation and application of the fair value hierarchy for pension scheme investments. It is expected to issue this guidance in Spring this year.
- New disclosures in relation to investment risks – FRS 102 requires disclosure of the nature and extent of credit and market risks in relation to financial instruments and the disclosure of risk

Introduction

management practices in relation to these risks. The SORP recommends that these disclosures are made for all scheme investments and put in the context of the trustees' investment strategy. The SORP notes that investment risks are one of a number of risks faced by pension schemes but does not recommend risk disclosures beyond those required by FRS 102, with the exception of concentration of investment risk which has been included as a SORP recommendation in the expectation of the legal disclosure requirement falling away with the update of pension accounting legislation referred to above.

- Additional disclosure of transaction costs – the revised SORP recommends disclosure of direct transaction costs by type and by main asset class reflecting an increasing trend for transparency of costs and charges. The DWP are consulting on new disclosure requirements in relation to transaction costs and charges and the SORP working party were mindful of the need to minimise the risks of overlap or confusion arising from two separate but related disclosure requirements.
- Auto-enrolment – the revised SORP recommends that pension schemes do not account for contributions deducted from employees who opt out where the employer retains the contribution and does not remit it to the scheme. This is a practical approach. Where contributions are remitted to the scheme and repaid to the employer in respect of opt-outs the revised SORP recommends the contributions and opt-out payment are recognised as income and expenditure on a 'gross' basis with no off-set.
- Actuarial liabilities – under FRS 102 enhanced disclosures are to be included in a report alongside the financial statements setting out the amount of actuarial liabilities and the methodology and assumptions used for the determination of actuarial liabilities. This can be based on the most recent scheme funding valuation. There does not need to be a valuation carried out at the scheme year end for the purposes of the annual report. Care needs to be taken where a scheme has annuity arrangements as liabilities covered by annuities will need to be included within the report. They may not have previously been included if they were matched by annuity income. Trustees will need to discuss the availability and accessibility of the required information with their actuaries.

Example annual report and financial statements

Section 2 of our Guide sets out an example annual report and financial statements. Some points to note in respect of this example are:

- The trustees' report illustrates what is required by legislation and what is included as examples of best practice reporting by including legislative disclosures in plain text and best practice examples in italics.
- The SORP provides an option to disclose sub-categories for Category C investments in the fair value hierarchy. We have adopted this approach to provide a comprehensive example of disclosures in this area.
- Further guidance on applying the fair value hierarchy to pension investments is being prepared by PRAG/The Investment Association at the time of preparing this Guide. We have assumed that pooled vehicles would be included in the hierarchy on the following basis: daily priced – Category A, weekly priced – Category B, monthly priced open funds – Category C(i), monthly priced closed funds – Category C(ii). This may be subject to change in the light of the PRAG/The Investment Association guidance.
- The SORP suggests that the derivative and investment risk disclosures could be combined. We have not sought to do this in our example but this could present opportunities to streamline disclosures in these areas.
- We have cross referenced the investment risk note to the investment strategy commentary in the trustees' report to avoid duplication of reporting.
- We have not included note disclosures for items that are typically not material to the financial statements, for example administration expenses and other debtors and creditors. This is to streamline disclosures where appropriate. However, if these items were material to a particular scheme they would need to be separately reported

Introduction

- We have not included the disclosures required by the Audited Accounts Regulations in the expectation that they will be replaced with a requirement to report in accordance with FRS 102 and the SORP as described above.

Disclosure checklist

Section 3 of our Guide contains a comprehensive disclosure checklist for the trustees' report and financial statements. It does not include the current disclosure requirements set out in the Audited Accounts Regulations as we are expecting these to be amended to come into line with FRS 102 and the revised SORP as described above. For the sake of completeness we have included these requirements in the Appendix. It is worth noting that if FRS 102 and the revised SORP are adopted early before this legislation is amended there will be a doubling up of investment disclosures as a result of including the new disclosures required by FRS 102/SORP and existing legislative disclosures.

Additional guidance

In Section 4 of our Guide, we set out additional guidance on the new disclosures and special situations, such as schemes entering the PPF assessment period.

Example Trustees' annual report and financial statements

Example trustees' annual report and financial statements

ABC Group Pension Scheme Trustees' annual report
and financial statements

Registered number 123456789X

Year ended 5 April 2016

Example trustees' annual report and financial statements

Year ended 5 April 2016

Contents

Trustees and advisers	4
Trustees' annual report	5
Statement of Trustees' responsibilities for the Financial Statements	13
Independent Auditor's report to the Trustees of the ABC Group Pension Scheme	14
Fund account	15
Statement of Net Assets (available for benefits)	16
Notes (forming part of the Financial Statements)	18
Independent Auditor's Statement about Contributions to the Trustees of the ABC Group Pension Scheme	34
Statement of Trustees' Responsibilities in respect of Contributions	35
Actuary's Certification of Schedule of Contributions	36
Report on Actuarial Liabilities (forming part of the Trustees' report)	37

Example trustees' annual report and financial statements

Year ended 5 April 2016

Trustees and advisers

Principal company

ABC Group plc
12 Grange Place
York
YE2 3ER

Participating subsidiaries

(until 10 January 2016)

DEF Ltd
5 Moors Avenue
Gloucester
GL3 5AR

(until 1 August 2015)

GHI Ltd
6 Rainbow Road
Ashford
Kent
AS1 8HY

Trustees

A Rook
B Dane
C Payne (resigned 10 March 2016)
D Singer (appointed 10 March 2016)
F Kidner (resigned 30 April 2016)
G Macdonald
F Smith (appointed 30 April 2016)

Secretary to the Trustees

E Marshall

Actuary

JK Dunn (to 7 August 2015)
Dunn and Partners

P Brown (from 7 August 2015)
Brown Consulting Ltd

Auditors

KPMG LLP

Administrator

ABC Group Pensions Administration Ltd

Investment managers

Secure Asset Management Limited (SAM) –
Defined Benefit Section
Trustworthy Asset Management Limited
(TAM) – *Defined Contribution Section*

Custodian

Honest Custody Services Ltd

Annuity provider

Sunshine Life Ltd

Investment advisor

Investment Strategies Limited

AVC providers

Smith Investments Ltd
Jones & Jones plc

Bankers

XYZ Bank plc

Solicitors

Christie & Holmes LLP

Administration office

ABC Group Pensions Administration Ltd, 23
Sun Street, London, NX9 6XX

Enquiries

Enquiries about the Scheme generally, or about an individual's entitlement to benefit, should be addressed to the Group Pensions Manager at the administration office (ABC Group Pensions Administration Ltd, 23 Sun Street, London, NX9 6XX), where a copy of the Trust Deed and Rules can be inspected.

Alternatively, enquiries may be made to:

enquiries@ABCGroupPS.co.uk

Example trustees' annual report and financial statements

Year ended 5 April 2016

Trustees' annual report

(Text in italics is not required by legislation and is provided here as suggestions of best practice)

The Trustees present their annual report on the ABC Group Pension Scheme ('the Scheme'), together with the financial statements of the Scheme for the year ended 5 April 2016.

Introduction

Constitution of the Scheme

The ABC Group Pension Scheme provides a defined benefit section governed by a Trust Deed dated 13 March 1976, as amended from time to time, and a defined contribution section introduced by an amendment to the Trust Deed dated 25 March 2002. The Trustees hold Scheme funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed.

The Scheme comprises two sections:

- *the Defined Benefit Section (DBS) which provides benefits based on a member's salary and length of service; and*
- *the Defined Contribution Section (DCS) which provides benefits based on a member's accumulated fund.*

Members of both sections are able to make Additional Voluntary Contributions ('AVCs') to secure additional benefits.

Rule changes

On 10 January 2016 changes to the Rules were agreed which:

- *amended the definition of pensionable pay to include overtime earnings;*
- *amended the Rules concerning dependants' benefits to increase benefits to those in full time further education; and*
- *clarified certain other Rules.*

Transfers

All transfer values paid to other pension schemes or credits given in respect of transfer values received from other pension schemes during the year were calculated and verified by the Scheme's Actuary or calculated in accordance with instructions prepared by him, in accordance with statutory regulations.

The Trustees have instructed the Actuary not to take account of discretionary increases in calculating cash equivalents for transfer purposes. No transfers were reduced to less than their cash equivalent value.

Recent developments

On 6 April 2015 the DBS was closed to new entrants with the exception of members transferring in on a bulk transfer from Grove Manufacturing (see page 7) and existing members of the DCS, who may transfer to the DBS on their 45th birthday. The Scheme was contracted out of the State pension arrangements until 5 April 2012 from which time it became contracted in.

Also on 6 April 2015, the employer's Southern Division was sold to XYZ plc resulting in 100 DBS active members who were employed by the Southern Division becoming deferred members of the Scheme from this date. Past service liabilities remain in the Scheme until finalisation of the transfer value expected in 2016.

Example trustees' annual report and financial statements

Year ended 5 April 2016

A subsidiary, GHI Ltd, withdrew from the Scheme on 1 August 2015. The s75 debt identified relating to the past service benefits of the 3 employees concerned amounted to £15,000. This debt was settled by the employer during the Scheme year.

On 10 January 2016, a participating subsidiary, DEF Ltd, withdrew from the Scheme. The past service benefits of the employees of DEF Ltd will remain within the Scheme as deferred benefits. However, a deficit has been identified relating to past service benefit accrual. As at the date of these financial statements, the s75 debt has not been determined by the Scheme Actuary, or an estimate been made, as legal opinion is being sought to clarify the Deed and Rules in relation to benefit accrual from 1980-1985 for these members. However, DEF Ltd have put £500,000 into an escrow account to offer security against payment of this debt.

Management of the Scheme

The Trustees who served during the year are listed on page 4.

Under the Trust Deed and Rules of the Scheme, Trustees are appointed and may be removed by ABC Group plc.

At least one third of the Trustees are nominated by Scheme members. These member nominated Trustees are elected from the active membership of the Scheme and cease to be eligible as trustees on leaving employment. Company appointed Trustees can serve until removed by the Company. Member nominated Trustees can serve for a maximum term of five years after which they must stand down and cannot stand for re-election.

During the year the Trustees met five times. All decisions are taken by simple majority with the Chairman having the casting vote.

The Trustees have established the following committees:

- *Investment committee (monthly);*
- *Audit committee (twice annually); and*
- *Administration and DC committee (quarterly).*

The Trustees have delegated the day-to-day management and operation of the Scheme's affairs to professional organisations as set out on page 4.

Financial development of the Scheme

The Financial Statements of the Scheme for the year ended 5 April 2016, as set out on pages 15 to 33 have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995. A summary of the Scheme's Financial Statements is set out in the table below.

	<i>DBS</i>	<i>DBS</i>	<i>DCS</i>	<i>DCS</i>	<i>Total</i>	<i>Total</i>
	2016	2015	2016	2015	2016	2015
	£'000	£'000	£'000	£'000	£'000	£'000
Member related income	6,733	319	166	154	6,899	473
Member related payments	(10,780)	(9,763)	(104)	(50)	(10,884)	(9,813)
Net (withdrawals)/additions from dealings with members	(4,047)	(9,444)	62	104	(3,985)	(9,340)
Net returns on investments	11,785	3,637	93	80	11,878	3,717
Net increase/(decrease) in fund	7,738	(5,807)	155	184	7,893	(5,623)
Transfer between sections	4	-	(4)	-	-	-
Net assets at start of year	73,199	79,006	645	461	73,844	79,467
Net assets at end of year	80,941	73,199	796	645	81,737	73,844

Example trustees' annual report and financial statements

Year ended 5 April 2016

DBS

During the year member income into the Scheme increased to £6.7 million compared with £0.3 million for the prior year. This increase is largely due to a group transfer in respect of members of the Grove Manufacturing Ltd Pension Scheme of £6 million. In addition, and in accordance with actuarial advice, the Employer has recommenced contributions to the DBS. Member payments remained broadly consistent year on year at £10.8 million.

The net returns on investments comprised change in market value of investments of £7.6 million (prior year: £0.5 million) and investment income of £4.5 million (prior year: £3.5 million) offset by investment management expenses of £0.4 million (prior year: £0.4 million).

The net assets of the DBS amounted to £80.9 million at 5 April 2016 (2015: £73.2 million).

DCS

Member related income amounted to £166,000 compared with £154,000 for the prior year, mainly reflecting the increase in DCS members during the year. Member payments increased in 2016 to £104,000 from £50,000. The majority of this increase was due to annuity purchases in the year of £45,000 (2015: £nil). The DCS does not pay pensions as annuities to fund pension benefits are bought in the name of the member.

Assets of the DCS are invested in pooled investment vehicles which reported a net return of £93,000 for the year compared to £80,000 for the previous year.

The net assets of the DCS amounted to £796,000 at 5 April 2016 (2015: £645,000).

Actuarial review

The Financial Statements set out on pages 15 to 33 do not take into account the liabilities to provide pension benefits which fall due after the year end. In respect of the DBS, these liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of the DBS and the level of contributions payable.

The most recent actuarial valuation was carried out at 5 April 2014. The results of this valuation confirmed that Employer contributions to the DBS should recommence from 6 April 2015 which, as mentioned above, they duly did. In consultation with the Scheme Actuary, the Employer has also agreed to pay deficit funding contributions in 2016, 2017 and 2018 of £20,000, £50,000 and £100,000 respectively to improve the short term funding position of the Scheme such that the Scheme's assets cover accrued past service liabilities. The Employer has deposited £180,000 in an escrow account, the terms of which allow the Trustees access to these funds if the Employer fails to meet the deficit funding under the recovery plan. The next valuation of the DBS is due as at 6 April 2017.

During the year, 206 members transferred into the Scheme from the Grove Manufacturing Ltd Pension Scheme. The transfer value of £6 million was sufficient to cover these members' past service liabilities and as a result the group transfer had no impact on the funding position of the Scheme.

The formal actuarial certificate required by statute to be included in this Annual Report from the Scheme Actuary appears on page 36. In addition, as required by FRS 102, the Trustees have included the Report on Actuarial Liabilities on page 37, which forms part of the Trustees' report.

Scheme Actuary

JK Dunn, the Scheme Actuary, resigned on 7 August 2015. The Trustees filled the vacancy in the office of Scheme Actuary by appointing P Brown on the same day.

As required by Regulations made under the Pensions Act 1995, JK Dunn confirmed in his notice of resignation that he knew of no circumstances connected with the resignation that significantly affected the interests of the members, prospective members or beneficiaries of the Scheme.

Membership

The membership of the Scheme at the *beginning and end of the year and changes during the year* are set out below.

Example trustees' annual report and financial statements

Year ended 5 April 2016

Active members		
	DBS	DCS
Contributory membership at start of year	445	108
Group transfer in	206	-
New entrants in year	-	63
Transfers between sections	1	-
	652	171
Leavers and exits during the year:		
■ Retirements	(21)	(1)
■ Fully commuted retirement	(1)	-
■ Death	(1)	-
■ Deferred pensioners	(152)	(32)
■ Transfers-out	(1)	-
■ Transfers between sections	-	(1)
■ Refunds	(5)	(19)
	(181)	(53)
Contributory membership at end of year	471	118

During the year, 206 new members joined the Scheme as a result of a group transfer from the Grove Manufacturing Ltd Pension Scheme following the acquisition of Grove Manufacturing by ABC Group plc.

At 5 April 2016 there were 765 (2015: 821) employees covered for life assurance benefits only, on a non-contributory basis.

Pensioners	
	DBS
In payment at start of year	2,081
New pensioners in year resulting from:	
■ Retirement of active members	21
■ Retirement of deferred members	14
■ Dependants' pensions	5
	40
Cessation of benefits	(70)
In payment at end of year	2,051

Included within pensioners are 8 (2015:8) pensioners whose pensions are paid from annuities held in the name of the Trustees. For members retiring from the DCS, the Trustees purchase annuities in the member's name therefore the DCS has no pensioner members.

Example trustees' annual report and financial statements

Year ended 5 April 2016

Deferred members		
	DBS	DCS
At start of year	700	30
New deferred pensioners	152	32
	852	62
Cessation of deferred pensions resulting from:		
■ Retirements	(14)	-
■ Full commutations	(127)	(24)
■ Transfers-out	(1)	-
	(142)	(24)
At end of year	710	38

Pension increases

Pensions in payment were increased by 2.0% effective from 1 June 2015. Pensions commencing in the 12 months preceding 1 June 2015 received an increase based on the 2% pro-rated for the length of time the pension had been in payment.

The pension increases referred to above do not apply to that element of the pensions in payment representing any Guaranteed Minimum Pensions (GMP), which the Scheme is required to provide as a consequence of contracting out of the State pension arrangements for the DBS, as these increases are provided by the State. GMP earned after April 1988 will be increased by the Scheme in line with inflation, as required by legislation, up to a maximum of 3% per annum. GMPs relate to service accrued from April 1978 to April 1997, when contracting out arrangements were changed and GMP ceased to apply. Contracting out arrangements ceased from 6 April 2016.

Deferred pensions have been increased in line with statutory requirements.

All increases were in accordance with the Trust Deed and Rules of the Scheme or legislative requirements. There were no discretionary increases awarded in the year.

Custody

Custodian services are provided by Honest Custody Services Ltd. In accordance with normal practice, the Scheme's investments are registered in the name of the custodian's own nominee company with designation for the Scheme. *The Trustees review the internal control reports produced by the custodian and regularly reconcile the custodian's records of securities and cash to the investment managers' records.*

The Trustees have implemented mandates ensuring that rights attaching to Scheme investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental issues when formulating the Scheme's investment strategy.

Investment management

The Trustees delegate the day-to-day management to professional external investment managers. The Trustees set the investment strategy for the Scheme after taking advice from the Scheme's Investment Adviser. The Trustees have put in place investment mandates with their investment managers which implement this strategy.

In accordance with s35 of the Pensions Act 1995, a Statement of Investment Principles has been prepared by the Trustees which incorporates the investment strategy. A copy of the Statement may be obtained from the Secretary to the Trustees at the Administration Office.

Investment managers are remunerated by fees based on a percentage of funds under management. There are no performance related fee arrangements.

Example trustees' annual report and financial statements

Year ended 5 April 2016

DBS

The main investment objective of the DBS 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 DBS taking into account considerations such as the strength of the Employer covenant, the long term liabilities and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles (SIP).

The current strategy is to hold broadly:

- *60% in investments that move in line with the long term liabilities of the Scheme. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds and interest rate swaps the purpose of which is to hedge against the impact of interest rate movement on long term liabilities.*
- *40% in return seeking investments comprising UK and overseas equities, equity futures, investment property, hedge funds and private equity.*
- *15% of the above in overseas currencies. To achieve this the Trustees have put in place a currency hedging strategy using forward foreign exchange rates.*

The actual allocations will vary from the above due to market price movements and intervals between rebalancing the portfolio which takes place quarterly. Actual allocations at the Scheme's year end are shown below:

	2016	2015
	%	%
LDI portfolio	63	59
Return Seeking portfolio	37	41
	100	100
Overseas Currency exposure	17	14

The Trustees invest in segregated portfolios, pooled investment vehicles and derivative contracts. The Trustees have authorised the use of derivatives by the investment managers for efficient portfolio management purposes and to reduce certain investment risks. The principal investment in derivatives is interest rate and inflation swaps in the LDI portfolio and futures in the return seeking portfolio.

The nature and disposition of the DBS investments are set out below, together with the actual allocation of investments at 5 April 2016, with pooled investment vehicles and equity derivatives analysed by underlying economic exposure:

Example trustees' annual report and financial statements

Year ended 5 April 2016

Asset Class	Segregated Funds	Pooled Investment Vehicles	Derivatives	Total	%
	£000	£000	£000	£000	
LDI:					
■ Fixed Interest and interest/inflation swaps	48,306	2,500	242	51,048	63.1
Return Seeking:					
■ Equities (UK and overseas)	20,636	3,218	358	24,212	29.9
■ Absolute Return	325	30	-	355	0.4
■ Property	4,145	503	-	4,648	6.0
■ Private Equity (PE)	-	320	-	320	0.3
■ Other	580	-	(270)	310	0.3
Total	73,992	6,571	330	80,893	100

Other than the pooled investment vehicles and OTC derivatives (swaps, options and FX contracts) all the investments described above are quoted on recognised stock exchanges. The pooled investment vehicles fixed interest and equity unit funds are priced and traded daily by the investment manager. The property fund is priced weekly. The Absolute Return and PE funds are priced monthly. Any withdrawals from the Absolute Return fund require three months' notice. The PE fund is closed and therefore not readily realisable. The Trustees regard all the investments of the DBS as readily marketable other than the PE fund.

The DBS investments, managed by Secure Asset Management Limited, achieved an annual return of 15.0% over the year to 5 April 2016 and 13.8% in the three years to 5 April 2016. This compares to the Scheme specific benchmark returns of 14.5% and 14.2% for one and three years respectively.

DCS

The investment objective of the DCS is to offer investment choice to members whilst maximising investment returns and providing an acceptable level of security. To this end, members may make a choice from the following white label investment funds, all of which are managed by Trustworthy Asset Management (TAM) Limited:

ABC Scheme Equity

ABC Scheme Bonds

ABC Scheme Cash

ABC Scheme Diversified Growth

These investment funds are in the form of unitised insurance policies with TAM Ltd. The Trustees regularly review the investment performance of the funds against appropriate benchmarks. The overall return for the DCS over the year to 5 April 2016 was 13% and for the three years to 5 April 2016 was 15%.

Example trustees' annual report and financial statements

Year ended 5 April 2016

The performances of the investment funds can be analysed as follows:

Asset Type	DCS	One-year performance	Three-year performance
	£000	%	%
ABC Scheme Equities	606	13	16
ABC Scheme Bonds	125	14	14
ABC Scheme Cash	52	1	1
ABC Scheme Diversified Growth	32	5	5
Total	815	13	15

The DCS unit funds are priced and traded daily by the investment manager. The Trustees regard the DCS investments as readily marketable.

Additional Voluntary Contributions (AVCs)

The Scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement. Such contributions attract tax relief, subject to HMRC limits, and provide increased benefits. AVCs for the DCS are invested within the DCS main fund and for the DBS separately in the form of unit-linked or with-profits contracts with Smith Investments Ltd and Jones and Jones plc.

The AVC assets held at the year end and their respective investment performances are set out below:

	Value	Investment performance	Investment performance
	£000	Over 1 year	Over 3 years
DBS			
Smith Investments Ltd	153	7	6
Jones & Jones plc	163	4	6
DCS			
Trustworthy Asset Management Limited	38	11	12

Self-investment and breach of the Statement of Investment Principles

The Statement of Investment Principles prohibits the Scheme from holding shares in ABC Group plc. Due to an oversight by Secure Asset Management Limited the Scheme purchased 20,000 shares in ABC Group plc in December 2015 for a cost of £2 million. When this error came to the Trustees' attention they instructed the investment manager to dispose of the holding as soon as practicable. At the year end the Scheme held an investment of 10,987 ABC Group plc ordinary shares amounting to 1.5% of the net assets of the Scheme. These shares were all disposed of in May 2016.

For and on behalf of the Trustees of the ABC Group Pension Scheme

A. Rook

16 September 2016

Statement of Trustees' responsibilities for the Financial Statements

The audited Financial Statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- 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 the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the Financial Statements have been prepared in accordance with the Statement of Recommended Practice, 'Financial Reports of Pension Schemes'.

The Trustees have supervised the preparation of the Financial Statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for making available each year, commonly in the form of a trustees' annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustees also have certain responsibilities in respect of contributions which are set out in the statement of Trustees' responsibilities accompanying the Trustees' summary of contributions.

The Trustees have a general responsibility for ensuring that adequate 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 appropriate internal controls.



KPMG LLP
1 Church Street
Newtown
Shire, AB1 3CD

Independent Auditor's report to the Trustees of the ABC Group Pension Scheme

We have audited the financial statements of the ABC Group Pension Scheme for the year ended 5 April 2016 set out on pages 15 to 33. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) *[including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland]*.

This report is made solely to the Scheme Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Scheme Trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme Trustees, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditor

As explained more fully in the Statement of Trustees' responsibilities set out on page 13, the Scheme Trustees are responsible for the preparation of Financial Statements which show a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 5 April 2016 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995¹

J Smith

John Smith
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

¹ Assumes Audited Accounts Regs are amended to come into line with FRS 102 and the revised SORP



Example trustees' annual report and financial statements

Year ended 5 April 2016

Fund account

for the year ended 5 April 2016					
	Notes	DBS	DCS	Total	Total
		2016	2016	2016	2015
		£'000	£'000	£'000	£'000
Contributions and benefits					
Contributions receivable	4				
employer		351	67	418	66
employee		339	83	422	400
Individual transfers in		2	16	18	7
Group transfer in	5	6,016	-	6,016	-
Other income		25	-	25	-
		6,733	166	6,899	473
Benefits payable	6	(10,685)	(45)	(10,730)	(9,629)
Payments to and on account of leavers		(33)	(47)	(80)	(106)
Other payments		(34)	(4)	(38)	(37)
Administrative expenses		(28)	(8)	(36)	(41)
		(10,780)	(104)	(10,884)	(9,813)
Net (withdrawals)/additions from dealings with members		(4,047)	62	(3,985)	(9,340)
Returns on investments					
Investment income	7	4,587	-	4,587	3,574
Change in market value of investments	16	7,585	98	7,683	536
Investment management expenses		(373)	(5)	(378)	(381)
Taxation	8	(14)	-	(14)	(12)
Net returns on investments		11,785	93	11,878	3,717
Net increase/(decrease) in the fund during the year		7,738	155	7,893	(5,623)
Transfer between sections	9	4	(4)	-	-
Net assets of the scheme at 6 April		73,199	645	73,844	79,467
Net assets of the scheme at 5 April		80,941	796	81,737	73,844

The notes on pages 18 to 33 form part of these Financial Statements.

Statement of Net Assets (available for benefits)

At 5 April 2016			
	Notes	2016	2015
		£'000	£'000
Defined Benefit Section			
Investment assets:	16		
Equities		20,636	17,411
Bonds		48,306	44,224
Property		4,145	3,294
Pooled investment vehicles	10	6,571	6,990
Derivatives	11	355	345
Longevity swap	12	3	3
Insurance policies – annuities	13	350	344
Special Purpose Vehicle	14	202	203
AVC investments	15	316	260
Cash		27	26
Other investment balances	18	407	314
		81,318	73,414
Investment liabilities:			
Derivatives	11	(25)	(13)
Other investment balances	18	(400)	(307)
Total investments		80,893	73,094
Current assets		60	105
Current liabilities		(12)	-
Total net assets of DBS		80,941	73,199
Defined Contribution Section			
Investment assets:	16		
Pooled investment vehicles	10	815	695
Current assets		7	47
Current liabilities		(26)	(97)
Total net assets of DCS		796	645
Total net assets of the Scheme at 5 April		81,737	73,844

The notes on pages 18 to 33 form part of these Financial Statements.

Example trustees' annual report and financial statements

Year ended 5 April 2016

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the DBS, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on page 37 and these Financial Statements should be read in conjunction with that Report.

Signed for and on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2016.

A Rook

B Dane

Notes (forming part of the Financial Statements)

1. Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised November 2014). This is the first year FRS 102 and the Revised SORP have applied to the Scheme's financial statements.

2. Transition to FRS 102

	6 April 2014	5 April 2015
	£'000	£'000
Net assets of the Scheme as previously stated	79,142	73,500
Effect of transition-valuation of annuity policies	325	344
Net assets of the Scheme as restated	79,467	73,844
		2015
		£'000
Net decrease in fund as previously reported		(5,642)
Effect of transition – valuation of annuity policies		19
Net decrease in fund as restated		(5,623)

Annuity policies were previously included in the Statement of Net Assets at nil value as permitted by the Audited Accounts Regulations and the previous SORP. Under FRS 102 annuity policies are reported at the value of the related obligation to pay future benefits funded by the annuity policy.

3. Accounting policies

The principal accounting policies of the Scheme are as follows:

- a) Investments
 - i. Investments are included at fair value.
 - ii. The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.
 - iii. Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.
 - iv. Unquoted securities are included at fair value estimated by the Trustees based on advice from the investment manager.
 - v. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager.
 - vi. Properties are included at open market value as at 5 April 2014 determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by George and Co Ltd, Chartered Surveyors, who have recent experience in the locations and class of the investment properties held by the Scheme.
 - vii. Annuities purchased in the name of the Trustees which fully provide the pension benefits for certain members are included in these Financial Statements at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions and

Example trustees' annual report and financial statements

Year ended 5 April 2016

methodology. Annuity valuations are provided by the Scheme Actuary. Annuities are issued by Sunshine Life Ltd.

viii. Derivatives are stated at fair value.

- Exchange traded derivatives are stated at fair value determined using market quoted prices.
- Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
- Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

ix. Repurchase and Reverse Repurchase arrangements

Under repurchase (repo) arrangements, the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.

Under reverse repurchase (reverse repo) arrangements, the Scheme does not recognise the collateral securities received as assets in its Financial Statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in the Financial Statements.

- x. Longevity swaps are valued on a fair value basis based on the expected future cash flows arising under the swap discounted using market interest rates and taking into account the risk premium inherent in the contract.
- xi. Special Purpose Vehicles are valued on a fair value basis based on expected future cashflows arising from the Vehicle discounted using market interest rates. Collateral received as security is not recognised in the Financial Statements. Receipts arising from Special Purpose Vehicles are accounted for within sale proceeds of investments.

b) Investment income

- i. Dividends from quoted securities are accounted for when the security is declared ex-div.
- ii. Rents are earned in accordance with the terms of the lease.
- iii. Interest is accrued on a daily basis.
- iv. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- v. Investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within 'Change in Market Value'.
- vi. Receipts from annuity policies held by the Trustees to fund benefits payable to Scheme members are included within investment income on an accruals basis.

c) Foreign currencies

The functional and presentational currency of the Scheme is Sterling. Balances denominated in foreign currencies are translated into Sterling at the rate ruling at the year end date. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling at the date of the transaction. Differences arising on investment balance translation are accounted for in the change in market value of investments during the year.

Example trustees' annual report and financial statements

Year ended 5 April 2016

d) Contributions

- i. Employee normal contributions are accounted for when deducted from pay, with the exception of contributions deducted from auto-enrolled members during the opt out period which are accounted for on the earlier of receipt or the expiry of the opt out period. Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due under the Schedule of Contributions.
- ii. Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.
- iii. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are being paid.
- iv. Employer s75 debt contributions are accounted for when a reasonable estimate of the amount due can be determined.

e) Payments to members

- i. Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustees of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving.
- ii. Opt outs are accounted for when the Scheme is notified of the opt out.
- iii. Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted/discharged.
- iv. Group transfers are accounted for in accordance with the terms of the transfer agreement.

f) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all the costs of administration. Direct costs are charged to the section to which they relate. Indirect costs are allocated between sections based on an allocation methodology agreed by the Trustees.

Example trustees' annual report and financial statements

Year ended 5 April 2016

4. Contributions receivable

	DBS	2016 DCS	Total
	£'000	£'000	£'000
Employer:			
Normal	285	67	352
Augmentation	5	-	5
Deficit Funding	20	-	20
s75 debt	15	-	15
Other	26	-	26
Members:			
Normal	285	67	352
Additional Voluntary Contributions	54	16	70
	690	150	840
	DBS	2015 DCS	Total
	£'000	£'000	£'000
Employer:			
Normal	-	66	66
Augmentation	-	-	-
Deficit funding	-	-	-
s75 debt	-	-	-
Other	-	-	-
Members:			
Normal	265	66	331
Additional Voluntary Contributions	54	15	69
	319	147	466

Deficit funding contributions are being paid by the Employer into the Scheme for a period of three years in accordance with a recovery plan in order to improve the Scheme's funding position. The amounts to be paid are:

2016: £20,000

2017: £50,000

2018: £100,000

Employer DC normal contributions include £50,000 (2015: £49,000) of contributions payable to the Scheme under salary sacrifice arrangements made available to certain members by the Employer.

A subsidiary, GHI Ltd, withdrew from the Scheme on 1 August 2015. The s75 deficit determined amounted to £15,000. This debt was settled by the Employer during the Scheme year.

A further s75 debt has arisen relating to the withdrawal of DEF Ltd from the Scheme. The debt cannot be reasonably estimated until the benefit accrual rights of the relevant employees have been established.

Example trustees' annual report and financial statements

Year ended 5 April 2016

5. Group transfer in

The group transfer in of £6.016 million represents the assets transferred to the Scheme in respect of members of the Grove Manufacturing Ltd Pension Scheme who transferred in on 1 February 2016. The bulk transfer comprised £6 million of investment assets and £16,000 cash.

6. Benefits payable

	DBS	2016 DCS	Total
	£'000	£'000	£'000
Pensions	10,345	-	10,345
Commutations and lump sum retirement benefits	245	-	245
Purchase of annuities	-	45	45
Lump sum death benefits	75	-	75
Taxation where lifetime or annual allowance exceeded	20	-	20
	10,685	45	10,730

	DBS	2015 DCS	Total
	£'000	£'000	£'000
Pensions	9,379	-	9,379
Commutations and lump sum retirement benefits	250	-	250
Purchase of annuities	-	-	-
Lump sum death benefits	-	-	-
Taxation where lifetime or annual allowance exceeded	-	-	-
	9,629	-	9,629

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

7. Investment income

	2016	2015
DBS	£'000	£'000
Dividends from equities	1,413	379
Income from bonds	2,850	2,865
Income from pooled investment vehicles	224	222
Net rental income	70	70
Interest on cash deposits	1	1
Annuity income	24	35
Stock lending	5	2
	4,587	3,574

Investment income shown above reflects income earned by investments within the DBS. All income earned on pooled investment units held by the DCS is accounted for within the value of those funds.

Example trustees' annual report and financial statements

Year ended 5 April 2016

Overseas investment income is stated gross of withholding taxes. Irrecoverable withholding taxes are reported under 'Taxation' in the Fund Account. Net rental income is stated after deduction of £10,000 (2015: £10,000) of property related expenses.

8. Tax

The ABC Group Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 3 (b) (iv) and Note 7 above).

9. Transfers between sections

Under the terms of the Scheme Trust Deed and Rules, members have the option to transfer into the DBS on the Scheme anniversary date following their 45th birthday.

10. Pooled Investment Vehicles (PIVs)

DBS

The DBS holdings of PIVs are analysed below:

	2016	2015
	£'000	£'000
Fixed Interest funds	2,500	2,350
Equity funds	3,218	3,833
Absolute Return fund	30	27
Property funds	503	480
Private Equity funds	320	300
	6,571	6,990

The Scheme is the sole investor in the Absolute Return Fund. The assets underlying this PIV are:

	2016	2015
	£'000	£'000
Equities	21	19
Bonds	8	7
Other	1	1
	30	27

DCS

The DCS holdings of PIVs are analysed below:

	2016	2015
	£'000	£'000
ABC Scheme Equities	606	525
ABC Scheme Bonds	125	105
ABC Scheme Cash	52	34
ABC Scheme Diversified Growth	32	31
	815	695

Example trustees' annual report and financial statements

Year ended 5 April 2016

11. Derivatives

The Trustees have authorised the use of derivatives by their investment managers as part of their investment strategy for the Scheme as explained in the Trustees' Report. Summarised details of the derivatives held at the year end are set out below:

Total derivatives				
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	£'000	£'000	£'000	£'000
Swaps	252	(10)	250	-
Futures	88	(13)	80	(8)
FX	15	(2)	15	(5)
	355	(25)	345	(13)

(i) Swaps

The Scheme had derivative contracts outstanding at the year end relating to its LDI fixed interest investment portfolio. These contracts are traded over the counter (OTC). The details are:

Nature	Nominal amount	Duration	Asset value at year end	Liability value at year end
			£	£
Interest rate swap (Pay 5% for LIBOR)	10,000,000	Expires June 16	152,000	-
Interest rate swap (Pay 3% for RPI)	5,000,000	Expires July 16	100,000	-
Interest rate swap (Pay 5% for LIBOR)	800,000	Expires Aug 16	-	(10,000)
Total 2016	15,800,000		252,000	(10,000)
Total 2015	13,600,000		250,000	-

Under the OTC interest rate swaps, the counterparties had deposited £250,000 of cash collateral at the year end. This collateral is not reported within the Scheme's net assets.

(ii) Futures

The Scheme had exchange traded overseas stock index futures outstanding at the year end relating to its return seeking overseas equity portfolio as follows:

Nature	Notional Amount	Duration	Asset value at year end	Liability value at year end
	£		£	£
Nikkei stock future bought	368,000	May 2016	88,000	-
Nikkei stock future sold	(10,000)	June 2016	-	(13,000)
Total 2016	358,000		88,000	(13,000)
Total 2015	225,000		80,000	(8,000)

iii) Forward Foreign Exchange (FX)

The Scheme had open FX contracts at the year end relating to its currency hedging strategy as follows:

Example trustees' annual report and financial statements

Year ended 5 April 2016

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end	Liability value at year end
				£	£
Forward OTC	1 month	£50	\$100	15,000	-
Forward OTC	3 months	£100	\$200	-	(2,000)
Total 2016				15,000	(2,000)
Total 2015				15,000	(5,000)

12. Longevity Swap

The counterparty to the longevity swap is Secure Asset Management Ltd. Collateral of £35 million was deposited in respect of this with Secure Asset Management. At 5 April 2016, the value of the collateral was £35.5 million which is reported within Bonds in the Scheme's Statement of Net Assets.

13. Insurance policies-annuities

The legacy annuity policies relate to benefits due for eight individuals. The Trustees no longer purchase annuities to meet Scheme liabilities. Annuities are issued by Sunshine Life Ltd and are valued by the Scheme Actuary. No collateral is held in relation to these assets.

14. Special Purpose Vehicle (SPV)

The Special Purpose Vehicle is the Scheme's interest in a Scottish Limited Partnership which owns a freehold property currently occupied by the Sponsoring Employer. Its fair value represents the present value of amounts due to the Scheme over a 25-year period. The Scheme's interest in the SPV is transferrable to another party only in very limited circumstances. Collateral, in the form of the freehold property currently in use by the Sponsoring Employer is available to the Trustees in the event the amounts due to the Scheme are not received. This collateral is valued at an amount representing 130% of the value of the SPV asset at 5 April 2016.

15. Additional Voluntary Contributions (AVCs)

DBS

The Trustees hold assets invested separately from the main DBS fund to secure additional benefits on a money purchase basis for those DBS members electing to pay AVCs. Members participating in this arrangement each receive an annual statement made up to 5 April confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2016	2015
	£'000	£'000
Smith Investments Ltd – unitised fund	153	136
Jones & Jones plc – unitised fund	163	124
	316	260

Example trustees' annual report and financial statements

Year ended 5 April 2016

DCS

DCS AVCs are invested together with the main assets of that section as disclosed below:

	2016	2015
	£'000	£'000
Main DCS investments	769	668
Members' AVC investments	38	21
Trustee (unallocated units)	8	6
	815	695

16. Investment reconciliation

a) Reconciliation of investments held at the beginning and the end of the year

DBS

	Value at 6 April 2015	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in market value	Value at 5 April 2016
	£'000	£'000	£'000	£'000	£'000
Equities	17,411	36	(5)	3,194	20,636
Bonds	44,224	387	(233)	3,928	48,306
Property	3,294	-	-	851	4,145
Pooled investment vehicles	6,990	32	(35)	(416)	6,571
Derivatives	332	5	(17)	10	330
Longevity swap	3	-	-	-	3
Insurance policies	344	-	-	6	350
Special Purpose Vehicle	203	-	-	(1)	202
AVC investments	260	50	(7)	13	316
	73,061	510	(297)	7,585	80,859
Cash deposits	26				27
Other investment balances	7				7
Net investment assets	73,094				80,893

Example trustees' annual report and financial statements

Year ended 5 April 2016

DCS

	Value at 6 April 2015	Purchases at cost	Sales proceeds	Change in market value	Value at 5 April 2016
	£'000	£'000	£'000	£'000	£'000
Pooled Investment Vehicles	695	187	(165)	98	815

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

17. Transaction costs

Included within the DBS purchases and sales are direct transaction costs of £50,000 (2015: £46,000) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

				2016	2015
	Fees	Commission	Stamp Duty	Total	Total
	£'000	£'000	£'000	£'000	£'000
Equities	1	3	1	5	7
Bonds	25	5	10	40	35
Other	2	1	2	5	4
	28	9	13	50	46
2015	23	7	16	-	46

Transaction costs are also borne by the Scheme in relation to transactions in pooled investment vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

18. Repurchase and reverse repurchase agreements

At the year end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £400,000 (2015: £307,000) and amounts receivable under reverse repurchase agreements amounted to £407,000 (2015: £314,000). At the year end £415,000 of bonds reported in Scheme assets are held by counterparties under repurchase agreements

19. Investment Fair Value Hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

Category (a) The quoted price for an identical asset in an active market.

Category (b) When quoted prices are unavailable, the price of a recent transaction for an identical asset adjusted if necessary.

Category (c) Where a quoted price is not available and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is determined by using a valuation technique which uses:

c (i) observable market data; or

c (ii) non-observable data.

For the purposes of this analysis daily priced funds have been included in (a), weekly priced funds in (b), monthly net asset values for Absolute Return funds in (c)(i) and monthly net asset values for Private Equity funds in (c)(ii).

Example trustees' annual report and financial statements

Year ended 5 April 2016

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	Category (a)	Category (b)	Category c(i)	Category c(ii)	Total
	£'000	£'000	£'000	£'000	£'000
At 5 April 2016					
DBS					
Equities	20,636	-	-	-	20,636
Bonds	-	3,200	45,106	-	48,306
Property	-	-	2,350	1,795	4,145
Pooled investment vehicles	5,718	503	30	320	6,571
Derivatives	75	-	255	-	330
Longevity swap	-	-	-	3	3
Insurance policies – annuities	-	-	-	350	350
Special Purpose Vehicle	-	-	-	202	202
AVC investments	153	-	-	163	316
Cash	27	-	-	-	27
Other investment balances	7	-	-	-	7
	26,616	3,703	47,741	2,833	80,893
DCS					
Pooled investment vehicles	815	-	-	-	815
	27,431	3,703	47,741	2,833	81,708

Example trustees' annual report and financial statements

Year ended 5 April 2016

	Category (a)	Category (b)	Category (c)i	Category (c)ii	Total
	£'000	£'000	£'000	£'000	£'000
At 5 April 2015					
DBS					
Equities	17,411	-	-	-	17,411
Bonds	-	2,600	41,624	-	44,224
Property	-	-	1,500	1,794	3,294
Pooled investment vehicles	5,850	665	26	449	6,990
Derivatives	72	-	260	-	332
Longevity swap	-	-	-	3	3
Insurance policies – annuities	-	-	-	344	344
Special Purpose Vehicle	-	-	-	203	203
AVC investments	136	-	-	124	260
Cash	26	-	-	-	26
Other investment balances	7	-	-	-	7
	23,502	3,265	43,410	2,917	73,094
DCS					
Pooled investment vehicles	695	-	-	-	695
	24,197	3,265	43,410	2,917	73,789

20. Investment risks

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

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.

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 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 interest rate risk or currency 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.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustees' Report for the DBS and DCS. The Trustees manage investment risks, including credit risk and market risk, 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 portfolios.

Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC

Example trustees' annual report and financial statements

Year ended 5 April 2016

investments as these are not considered significant in relation to the overall investments of the Scheme.

DBS

(i) Credit risk

The DBS is subject to credit risk as the Scheme invests in bonds, OTC derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

2016				
	Investment grade	Non-investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
Bonds	30,500	17,806	-	48,306
OTC Derivatives	255	-	-	255
Cash	27	-	-	27
Stock lending	7,400	-	-	7,400
Repos	9	-	-	9
PIVs	-	-	6,571	6,571
	38,191	17,806	6,571	62,568

2015				
	Investment grade	Non-investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
Bonds	31,548	12,676	-	44,224
OTC Derivatives	260	-	-	260
Cash	26	-	-	26
Stock lending	5,620	-	-	5,620
Repos	9	-	-	9
PIVs	-	-	6,990	6,990
	37,463	12,676	6,990	57,129

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Scheme also invests in high yield and emerging market bonds which are non-investment grade. The Trustees manage the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have at least investment grade credit quality. This is the position at the year end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced

Example trustees' annual report and financial statements

Year ended 5 April 2016

by collateral arrangements (see note 11 (i)). 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.

Cash is held within financial institutions which are at least investment grade credit rated.

The Scheme lends certain fixed interest and equity securities under a Trustee-approved stock lending programme. 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. At the year end, the Scheme had lent £5.4 million (2015: £3.5 million) of UK public sector securities and £2 million (2015: £2.1 million) of UK quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105% of stock lent.

Credit risk on repurchase agreements is mitigated through collateral arrangements. Included in Other Investment Balances are amounts of £407,000 (2015: £314,000) due from counterparties in relation to reverse repo transactions. £410,000 (2015: £305,000) has been received from counterparties as collateral.

The Scheme's holdings in pooled investment vehicles are unrated. 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. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	2016	2015
	£'000	£'000
Unit linked insurance contracts	800	750
Authorised unit trusts	5,150	5,165
Open ended investment companies	363	426
Shares of limited liability partnerships	258	649
	6,571	6,990

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by only investing in pooled funds which invest in at least investment grade credit rated securities.

(ii) 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 or via pooled investment vehicles. The Trustees limit overseas currency exposure through a currency hedging policy.

The Scheme's total net unhedged exposure by major currency at the year end was as follows:

	2016	2015
	£'000	£'000
Currency		
US Dollar	7,633	6,036
Japanese Yen	4,258	4,653
Other	243	275

Example trustees' annual report and financial statements

Year ended 5 April 2016

(iii) Interest rate risk

The Scheme is subject to interest rate risk on the LDI investments comprising bonds and interest rate swaps held either as segregated investments or through pooled vehicles and cash. At the year end the LDI portfolio comprised:

	2016	2015
	£'000	£'000
Direct		
Bonds	48,306	44,224
Swaps	242	250
Indirect		
Bond PIV	2,500	2,350

(iv) 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, private equity and investment properties.

The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

At the year end, the Scheme's exposure to investments subject to other price risk was:

	2016	2015
	£'000	£'000
Direct		
Equities	20,636	17,411
Equity futures	76	72
Investment properties	4,145	3,294
Indirect		
Equity PIVs	3,218	3,833
Hedge funds	30	27
PE funds	320	300

DCS

(i) Direct credit risk

The DCS is subject to direct credit risk in relation to TAM Ltd through its holding in unit linked insurance funds provided by TAM Ltd.

TAM Ltd is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustees monitor the creditworthiness of TAM Ltd by reviewing published credit ratings. TAM Ltd invests all the Scheme's funds in its own investment unit linked funds and it does not use any other investment funds or reinsurance arrangements. In the event of default by TAM Ltd, the Scheme is protected by the Financial Services Compensation Scheme.

Example trustees' annual report and financial statements

Year ended 5 April 2016

(ii) Indirect credit and market risks

The DCS is also subject to indirect credit and market risk arising from the underlying investments held in the TAM funds. The funds which have significant exposure to these risks are set out below:

2016 and 2015				
	Credit risk	Foreign exchange risk	Interest rate risk	Other price risk
ABC Scheme Equities	-	✓	-	✓
ABC Scheme Bonds	✓	✓	✓	-
ABC Scheme Cash	✓	-	✓	-
ABC Scheme Diversified Growth	✓	✓	✓	✓

The analysis of these risks set out above is at Scheme level. Member level risk exposures will depend on the funds invested in by members.

The Trustees have selected the above funds and have considered the indirect risks in the context of the investment strategy described in the Trustees' Report.

21. Related party transactions

Contributions received in respect of Trustees who are members of the Scheme have been made in accordance with the Trust Deed and Rules.

All Trustees receive an annual fee for services as Trustee of £1,000 (2015: £750).

The Scheme is administered by ABC Group Administration Ltd, an ABC Group company. Fees payable in respect of administration and processing of £21,000 (2015: £21,000) are included within administrative expenses. At the year end creditors include £7,000 (2015: £ nil) in respect of administration expenses payable to ABC Group Administration Ltd.

22. Self-investment

The Scheme holds an investment of 10,987 ABC Group plc ordinary shares at the year end, the value of which represents 1.5% of the Scheme's net assets. The maximum holding of the Scheme in ABC Group plc ordinary shares during the year was 20,000 shares which represented 1.7% of the Scheme's net assets.



KPMG LLP
1 Church Street
Newtown
Shire, AB1 3CD

Independent Auditor's Statement about Contributions to the Trustees of the ABC Group Pension Scheme

We have examined the Summary of Contributions payable under the Schedule of Contributions to the ABC Group Pension Scheme in respect of the Scheme year ended 5 April 2016 which is set out on page 35.

This statement is made solely to the Scheme's Trustees, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Scheme's Trustees those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustees, as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustees and Auditor

As explained more fully in the Statement of Trustees' responsibilities set out on page 35, the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions to the Scheme and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the Summary of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions

Statement about contributions payable under the Schedule of Contributions

In our opinion contributions for the Scheme year ended 5 April 2016 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the actuary on 10 January 2015.

J Smith

John Smith
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants



Statement of Trustees' Responsibilities in respect of Contributions

The Scheme's Trustees are responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Employer and the active members of the Scheme and the dates on or before which such contributions are to be paid. The Scheme's Trustees are also responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Schedule.

Trustees' Summary of Contributions payable under the Schedule in respect of the Scheme year ended 5 April 2016

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustees. It sets out the Employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 10 January 2015 in respect of the Scheme year ended 5 April 2016. The Scheme Auditor reports on contributions payable under the Schedule in the Auditors' Statement about Contributions.

Contributions payable under the Schedule in respect of the Scheme year		£'000s
Employer		
Normal contributions		352
Augmentation contributions		5
Deficit funding contributions		20
Other contributions		26
Member		
Normal contributions		352
Contributions payable under the Schedule (as reported on by the Scheme Auditor)		755

Reconciliation of Contributions Payable under the Schedule of Contributions to Total Contributions reported in the Financial Statements

	£'000s
Contributions payable under the Schedule (as above)	755
Contributions payable in addition to those due under the Schedule (and not reported on by the Scheme Auditor):	
s75 contribution	15
Member additional voluntary contributions	70
Total contributions reported in the Financial Statements	840

Signed on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2016

A Rook

B Dane

Actuary's Certification of Schedule of Contributions

Name of scheme: ABC Group Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the statutory funding objective can be expected to continue to be met for the period for which the Schedule is to be in force.

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 5 November 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

J K Dunn

J K Dunn

10 January 2015

Report on Actuarial Liabilities (forming part of the Trustees' report)

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. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2014. This showed that on that date:

The value of the Technical Provisions was: £70 million

The value of the assets at that date was: £65 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

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

Pension scheme annual report checklist

Pension scheme annual report checklist

This checklist is intended to cover the annual report disclosures of occupational pension schemes as required under the Pensions Act 1995, APB Bulletin 2010/2 (Revised) and FRS102, and as recommended by the Statement of Recommended Practice, 'Financial Reports of Pension Schemes' (revised November 2014).

Contents

Section A	Trustees' report
Section B	Accounts
Section C	Report on Actuarial Liabilities
Section D	Actuarial certificate and statement

This checklist does not seek to comment on or interpret the Pensions Acts 1995 and 2004 ('the Acts'), the regulations issued under the Acts, FRS 102, the recommendations of the SORP nor APB Bulletin 2010/2 (Revised). It frequently paraphrases the source documents and hence, although it seeks to be comprehensive, reference must be made to the source documents on any point of doubt or difficulty, and also to put the requirements in their proper context. Compliance with the disclosure requirements will not necessarily ensure that the financial statements give the 'true and fair view' required by the Act and the circumstances of each case, including any relevant requirements of a pension scheme's rules or trust deed, will need to be considered. The overriding requirement in all instances is that the financial statements show a 'true and fair view'.

In most instances items may be omitted where they are not material. In this respect the original text should be consulted

Unless otherwise indicated, the references to the SORP, FRSs and the relevant Regulations are given in the left hand margin of the checklist. References to the Occupational Pension Schemes (Disclosure of Information) Regulations SI 2013 No 2734 ('the Disclosure Regulations') are to Schedule 3 to those regulations and are denoted as the schedule number followed by the paragraph number. Thus 3,2 refers to paragraph 2 of Schedule 3 to the Disclosure Regulations. Where reference is made to the Regulations themselves, this is indicated by an asterisk and footnote.

This checklist does not cover the requirements of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations SI 1996 No 1975 ('the Audited Accounts Regulations'). Disclosures required by those Regulations are included in the Appendix.

References to other legislation are given in footnotes.

A Trustees' report

The Trustees' Report should include the following, summarised where appropriate:

Reference				
SORP	SI		Yes	N/A No
A1 Trustees				
3,17	(i)	The names of the Trustees of the scheme, or, where the <i>sole</i> Trustee is a company, the names of the directors of that company, during the scheme year;	<input type="checkbox"/>	<input type="checkbox"/>
3,18	(ii)	The provisions of the scheme for appointing and removing Trustees from office; or, where the <i>sole</i> Trustee is a company, the provisions in the articles of association of that company which relate to the appointment and removal from office of directors;	<input type="checkbox"/>	<input type="checkbox"/>
3,20	(iii)	Postal and electronic addresses for enquiries about the scheme.	<input type="checkbox"/>	<input type="checkbox"/>
A2 Independent advisers				
3,19	(i)	The names of the scheme's professional advisers, including the bank, custodian and others who have acted for, or were retained by, the Trustees during the year.	<input type="checkbox"/>	<input type="checkbox"/>
3,19	(ii)	Details of any changes to the advisers since the previous year.	<input type="checkbox"/>	<input type="checkbox"/>
3,31	(iii)	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 advisers).	<input type="checkbox"/>	<input type="checkbox"/>
A3 Membership statistics				
3,21		The total number of members, split into actives, deferreds and pensioners (including dependants) at any one date during the year (usually the year end).	<input type="checkbox"/>	<input type="checkbox"/>
A4 Changes in pensions and benefits				
<i>NB: The requirements set out in A4 do not apply in the case of money purchase schemes.</i>				
3,22		Details of percentage increases during the year (other than statutory ones) to:		
	(a)	pensions in payment;	<input type="checkbox"/>	<input type="checkbox"/>
	(b)	deferred pensions;	<input type="checkbox"/>	<input type="checkbox"/>
		stating whether the increases are discretionary, and if so, to what extent.	<input type="checkbox"/>	<input type="checkbox"/>
		Where there have been different increases for different individuals/groups the maximum, minimum and average percentage increases should be disclosed.	<input type="checkbox"/>	<input type="checkbox"/>
A5 Transfer values paid/received				
<i>NB: The requirements set out in A5 do not apply to wholly insured money purchase schemes. These are defined as schemes under which all the benefits provided are secured by a policy of insurance or annuity contract.</i>				
3,23(a)	(i)	Where any cash equivalents (i.e. transfer values) paid in the year were not calculated and verified in accordance with regulations under the Pension Schemes Act 1993, a statement explaining why.	<input type="checkbox"/>	<input type="checkbox"/>
3,23(b)	(ii)	Where any transfers were made at less than their cash equivalent value, the reasons why they were less.	<input type="checkbox"/>	<input type="checkbox"/>
3,23(c)	(iii)	A statement of when full values became, or are estimated to become, available.	<input type="checkbox"/>	<input type="checkbox"/>

A Trustees' report

Reference			Yes	N/A	No
SORP	SI				
3,23(d)	(iv)	Whether any discretionary benefits are included in the calculation of transfer values, and if so, the method by which the value of discretionary benefits is assessed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A6 Basis of preparation					
3,24		A statement whether the financial statements have been prepared and audited in accordance with Section 41(1) and (6) of the Pensions Act 1995.	<input type="checkbox"/>		<input type="checkbox"/>
A7 Contributions					
3,25	(i)	If the auditors' statement about contributions is negative or has been qualified, the Trustees' report should refer to this and state where the Trustees' explanation of the circumstances can be found.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,26	(ii)	If such a situation as described in (i) 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A8 Investment management					
<i>NB: The requirement set out in A8 (iii) does not apply to wholly insured schemes.</i>					
3,27	(i)	Names of the fund managers during the year and details of any delegation by the Trustees of their investment management responsibilities;	<input type="checkbox"/>		<input type="checkbox"/>
3,28	(ii)	Whether, if appropriate, the Trustees have produced a Statement of Investment Principles (SIP) in accordance with section 35 of the Act and, if so, that a copy is available on request;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,29	(iii)	A statement of the Trustees' policy on the custody of the scheme's assets;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,30(a)	(iv)	Details of any investments which were not made in accordance with the Statement of Investment Principles;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,30(b)	(v)	In respect of any such investments made in the year (or made in previous years and still held during the current year), the reasons why they were made and the action that has been, or is to be, taken (if any) to remedy the position;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,30(c)	(vi)	A review of the investment performance of the scheme's fund:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(a)	during the year being reported on;			
	(b)	during the past 3 to 5 years (including the year being reported on) including an assessment of the nature, disposition, marketability, security and valuation of the scheme's assets.			
3,30(d)	(vii)	The Trustees' policy in relation to the rights (including voting rights) attaching to the investments, and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3,30(e)	(viii)	The extent to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A9 Employer-related investment					
3.33.3		Where a scheme has employer-related investments (as defined by s40(2) of the Pensions Act 1995), (see Additional Guidance for detailed guidance on employer-related investments), disclose:			
3,32(a)	(i)	the percentage of the scheme's net assets that are invested in employer-related investments at the year end;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

A Trustees' report

Reference				
SORP	SI		Yes	N/A No
		<i>Under Regulation 12 of the Occupational Pension Schemes (Investment) Regulations 2005 SI No 3378 no more than 5% of the current market value of the total resources of a scheme may at any time be invested in employer-related investments and none of the resources of a scheme may at any time be invested in any employer-related loan. However, certain investments, which are employer-related investments by virtue of s40(2) of the Pensions Act 1995 can be disregarded for the purposes of Regulation 12 (see Additional Guidance).</i>		
3,32(b)	(ii)	if that percentage exceeds 5%, the percentage of the scheme's net assets which are investments to which the 5% restriction does not apply.	<input type="checkbox"/>	<input type="checkbox"/>
3,32(c)	(iii)	if, having taken account of any exempt investments, the percentage still exceeds 5%, the steps that the Trustees have taken or propose to take to achieve compliance with the Investment Regulations, and the timetable for such steps to be taken.	<input type="checkbox"/>	<input type="checkbox"/>
		<i>NB: The 5% restriction on self-investment does not apply to 'small schemes' as defined in Regulation 1 of the Investment Regulations (these are essentially former SSASs) or to schemes with less than 100 members. See the Regulations for details.</i>		
3,33		Where the scheme is a trust scheme which applies to earners in employments under different employers, a statement in accordance with paragraph 32 of the Disclosure Regulations or a statement:		
	(i)	listing the 100 largest investments by value held by the scheme as at the year end and stating what percentage of the scheme each investment represents,	<input type="checkbox"/>	<input type="checkbox"/>
	(ii)	identifying which of these are employer-related investments, and	<input type="checkbox"/>	<input type="checkbox"/>
	(iii)	if, at the end of the year, more than 5% of the scheme is invested in employer-related investments		
	a)	listing the employer-related investments and the name of the employer concerned,	<input type="checkbox"/>	<input type="checkbox"/>
	b)	the steps the scheme has taken or proposes to take to ensure that the percentage is reduced to 5% or less,	<input type="checkbox"/>	<input type="checkbox"/>
	(c)	the time when any proposed steps will be taken.	<input type="checkbox"/>	<input type="checkbox"/>
		<i>Note that the 2013 Disclosure Regulations state that the definition of employer-related investment for para 33 has the same meaning as under s40 of the PA1995 with the omission of the words 'or any person who is connected with or an associate of the employer' and 'or any such person'. See Additional Guidance on employer-related investments for a more detailed explanation.</i>		
A10 Statement of Trustees' responsibilities				
2.6.1		Practice Note 15 requires the Trustees to make a statement about their key responsibilities in relation to the preparation of financial statements, monitoring of contributions, keeping of books and records, and prevention and detection of fraud and maintaining appropriate internal controls.	<input type="checkbox"/>	<input type="checkbox"/>
A11 Registration number				
2.11.1		The registration number of the scheme with the Registrar of Occupational and Personal Pension Schemes should be disclosed prominently, for example on the front cover of the annual report.	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
B1 The financial statements should comprise:					
3.5.1	34.35(a)	(i) Fund account;	<input type="checkbox"/>		<input type="checkbox"/>
3.5.1	34.35(b)	(ii) Statement of Net Assets (available for benefits);	<input type="checkbox"/>		<input type="checkbox"/>
3.5.1	34.35(c)	(iii) Notes to the financial statements;	<input type="checkbox"/>		<input type="checkbox"/>
B2 Format of financial statements:					
(I) Fund account					
3.7.1	34.35(a) 34.37	The SORP lists the minimum of items to be included in the fund account, where they are material. The account headings in bold should be shown on the face of the primary statements. The non-bold items may be disclosed in the notes to the financial statements.			
		(A) Dealings with members, participating employers and others directly involved in the scheme.			
	34.37	(i) Employer contributions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(a) Normal;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(b) Augmentation;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2/3.8 .7		(c) Deficit Funding; <i>The notes to the financial statements should explain for how long deficit funding contributions are payable. For multi-employer schemes this information can be provided on an aggregated basis at scheme level. The SORP recommends that the nature of arrangements based on the payment of deficit funding contributions which are receivable by the scheme when certain triggers are met, including a reference to triggers and the amounts involved, should be disclosed in the notes to the financial statements.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2/3.8 .11		(d) s75 debts <i>Where a s75 debt has not been determined by the actuary, this should be disclosed in the notes to the financial statements and an estimate of the debt should be included. As there is no statutory timescale within which a s75 debt must be determined, where a reasonable estimate cannot be made, for example because the s75 debt has not been determined by the actuary, the SORP recommends this is disclosed in the notes to the financial statements and a statement that the debt cannot be estimated with the reasons why.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.72		(e) Other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(ii) Employee contributions:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(a) Normal;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(b) Additional voluntary contributions.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(b) Transfers in:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(a) Group transfers in from other schemes and scheme mergers;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(b) Individual transfers in from other schemes.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.8.27		Disclosure should be made of the method by which group transfers have been effected, where these have been other than by a cash receipt (e.g. transfer of securities).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(c) Other income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Claims on term assurance policies;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Any other category of income, which does not naturally fall into the above classifications, suitably described and analysed where material.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(d) Benefits paid or payable	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Pensions;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Commutation of pensions and lump sum retirement benefits;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iii) Purchase of annuities; <i>Where income is received from annuities held in the name of the Trustees in order to fund pensions paid by the scheme, the income arising from the annuity policies should be included in investment income or sale proceeds and the pensions paid to the pensioners included in pension payments. There should be no netting off of these amounts.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iv) Lump sum death benefits;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8.23		(v) Taxation; <i>Where a member's benefit entitlement exceeds the United Kingdom Inland Revenue tax limits (Lifetime Allowance or the Annual Allowance), the member is liable for taxation. This tax can be settled by the member or the Trustees may agree to settle the tax on behalf of the member in exchange for a reduction in benefit entitlement. In this scenario the SORP recommends that the payment of tax on behalf of the member is reported separately in the notes to the financial statements. From April 2015, members may use their pot to purchase an annuity or take a lump sum equal to the pot value/take income draw down benefits from the scheme (less tax at their marginal rate). Members may transfer their pot to a pension arrangement which provides income drawn down benefits.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8.21, 3.8.22		Benefits taken should be reported in the appropriate category and reported gross of any tax settled by the scheme on behalf of the member by way of deduction from the member's pot.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(e) Payments to and on account of leavers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Refunds of contributions in respect of non-vested leavers;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Refunds of contributions in respect of opt-outs;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iii) Purchase of annuities;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iv) Group transfers out to other schemes;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.8.27		(v) Individual transfers out to other schemes. Disclosure should be made of the method by which group transfers have been effected, where these have been other than by a cash payment (e.g. transfer of securities).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(f) Other payments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Premiums on term assurance policies;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Any other category of expenditure which does not naturally fall into the above classifications, suitably described and analysed where material.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(g) Administrative expenses <i>Suitable analysis of administrative expenses should be provided where material.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(h) Net additions (withdrawals) from dealings with members <i>(the sub-total of items A(a) to A(g))</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(B) Returns on investments					
3.7.2	34.37	(a) Investment income	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Dividends from equities;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Income from bonds;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iii) Income from pooled investment vehicles;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iv) Net rents from properties (any material netting-off should be separately disclosed);	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(v) Interest on cash deposits;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(vi) Income from derivatives (e.g. net swap receipts/payments);	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(vii) Annuity income;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(viii) Other – for example, from stock-lending, underwriting or SPVs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(b) Change in market value of investments <i>Change in market value of investments should include realised gains/(losses), unrealised gains/(losses) and changes in the sterling value of assets, including cash, caused by changes in exchange rates.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(c) Taxation <i>Investment income should be recognised at an amount including withholding taxes but excluding any other taxes, such as attributable tax credits not payable wholly on behalf of the recipient. Any withholding tax that is irrecoverable should be shown separately as a tax charge, together with any tax on trading activities. Irrecoverable VAT should increase the cost to which it relates.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2	34.37	(d) Investment management expenses <i>Suitable analysis of investment management expenses should be provided where material.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		(e) Net returns on investments <i>(the sub total of items B(a) to B(d))</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.7.2		(f) Net increase or (decrease) in the fund <i>The use of 'surplus' or 'deficit' should be avoided in describing the difference between inflows and outflows as their use may mislead the user into believing that the financial statements in some way may reflect an improvement or deterioration in the actuarial position during the period.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.7.2		Opening net assets of the scheme	<input type="checkbox"/>		<input type="checkbox"/>
3.7.2		Closing net assets of the scheme	<input type="checkbox"/>		<input type="checkbox"/>
3.9		(II) Statement of Net Assets (available for benefits) Items in bold must be included.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2	34.38 (a), 34.41	(a) Investment assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.11.1		(i) Equities; The SORP recommends that holdings in investment trust companies (ITCs) are classified as an equity if the holding is part of a wider equity portfolio or as a pooled investment vehicle if it is held to obtain exposure to the underlying investments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Bonds;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iii) Property;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iv) Pooled investment vehicles;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(v) Derivative contracts; (including futures, options, forward foreign exchange contracts and swaps);	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(vi) Insurance policies; (With-profits contracts, unitised with-profits contracts and annuity and deferred annuity contracts).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.20	28.15(b)	FRS 102 requires annuities (insurance policies exactly matching the amount and timing of some or all of the benefits payable under the plan) to be valued at fair value. Fair value is deemed to be the present value of the related obligations. <i>Annuity contracts purchased in the name of the member which legally discharge the Trustees from providing benefits under the scheme should not be included in the financial statements.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(vii) Other investments; If the scheme holds material categories of other investments not covered by the above, disclosure should be made taking into account the nature and size of the investments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(viii) Separately invested AVC funds;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(ix) Cash deposits; <i>Cash deposits should include fixed term deposits, certificates of deposit, floating rate notes and other cash instruments.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(x) Other investment balances. 'Other investment balances' could include:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		<ul style="list-style-type: none"> ■ Debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; ■ Other assets directly connected with investment transactions; ■ Accrued dividend entitlements and recoverable withholding tax. <p>These should be suitably analysed where material.</p>		
3.10.9		<p>Analysis of Pooled Investment Vehicles:</p> <p>For pooled investment vehicles, disclosure should be made of the type of fund, such as equity, bond, property, hedge funds, diversified growth funds, private equity funds, infrastructure funds and other.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.10.7		<p>Derivative disclosures:</p> <p>Derivative contracts should be disclosed separately under investments. Derivative investments with positive values should be included in the Statement of Net Assets as assets and those with negative values should be separately included in the Statement of Net Assets as liabilities. These balances should not be offset unless there is a legal right of offset.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.10.7		<p>In addition:</p> <ul style="list-style-type: none"> ■ An explanation should be given of the objectives and policies for holding derivatives; ■ the accounting policies should include a description of the basis of valuation for derivatives; ■ derivatives should be disclosed according to their type. The most commonly used are futures, swaps, options and forward foreign exchange contracts. Derivatives contracts should be further analysed between exchange traded and over the counter contracts; ■ the key details of the contracts in place at the end of the financial year are disclosed. This could include the types of contracts, an indication of the period covered by the contracts, the counterparties to the contracts, the nominal values or gross exposures of the contracts, the values of the contracts at the year end and whether they are assets or liabilities. The key contract details may be aggregated, for example by the terms of the contract. 	<input type="checkbox"/>	<input type="checkbox"/>
3.19.1		<p>Repurchase and Reverse Repurchase agreements:</p> <p>When a pension scheme enters a repurchase (repo) 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 as 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 interest is accrued and included in the payable amount to</p>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		recognise the higher price when 'buying back' the securities.			
3.19.2		When a pension scheme enters a reverse repo 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 recognise the cash delivered to the counterparty as a receivable in the financial statements. Where possible and material, the interest is accrued and included in the receivable amount to recognise the higher price due to be received when 'reselling' the securities. The securities received as collateral are disclosed in the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2	34.38(b)	(b) Investment Liabilities			
		(i) Derivative contracts (including futures, options, forward foreign exchange contracts and swaps)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Other investment balances (such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(c) Current assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i) Contributions due from employer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.10.11		(ii) Other current assets. <i>Cash balances and other current assets not forming part of the investment assets.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(d) Current liabilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.10.11		(i) Unpaid benefits;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) Other liabilities (such as accrued expenses). <i>Other current liabilities not forming part of the investment assets.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.6.5	2.52	<i>Note: Assets and liabilities should 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 i.e. they would survive the insolvency of the counterparty. This means that where there is no legal right of offset, as will be the case in most instances, the total asset value and the total liabilities should be disclosed separately on the face of the Statement of Net Assets.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.9.2		(e) Total net assets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Other disclosures			
		Report on Actuarial Liabilities			
3.34.7 – 3.34.8		In respect of defined benefit schemes, the SORP requires the financial statements to refer to the actuarial information at the foot of the Statement of Net Assets explaining that the long	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		term obligations to pay benefits are dealt with in the Report on Actuarial Liabilities and not in the financial statements.		
		(III) Basis of preparation		
3.6.30	3.4, 3.5	<p>(a) Compliance with FRS102 and the SORP</p> <p>A statement whether the financial statements have been prepared in accordance with FRS 102 and the SORP: Financial Reports of Pension Schemes (November 2014). In accordance with FRS102, in the event of a departure, the following disclosures should be made:</p> <p>(a) that the Trustees have concluded that the financial statements present fairly the entity's financial position;</p> <p>(b) that they have complied with the FRS except that they have departed from a particular requirement to achieve a fair presentation; and</p> <p>(c) the nature of the departure, including the treatment that the FRS 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.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.6.31	FRS 100.6	<p>Where the financial statements depart from the SORP, FRS 100 requires a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:</p> <p>(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</p> <p>(b) brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.34.8 – 3.34.9		<p>(b) Scope of financial statements</p> <p>A note to the financial statements should indicate that:</p> <p>(i) the financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Trustees;</p> <p>(ii) they do not take account of obligations to pay pensions and other benefits which fall due after the end of the scheme year.</p> <p>The explanation given should be given prominence because the disclosure is fundamental to an understanding of the financial statements and should be made at the foot of the Statement of Net Assets. For a defined benefit scheme, the note should refer the reader to the Report on Actuarial Liabilities, which does take account of the long term liabilities of the scheme.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.27.1 – 3.27.8	34.34	<p>(c) Multiple benefit structures</p> <p>Schemes with multiple benefit structures, for example hybrid schemes with defined benefit and defined contribution sections report the two sections separately within the financial statements by adopting a columnar analysis of the income and expenditure attributable to each section within the Fund Account and showing separately the net assets attributable to each section in the Statement of Net Assets. Transfers between the two sections of the scheme are dealt with as transfers between sections in the respective columns</p>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		within the Fund Account. Transfers between sections should only include funds transferring from one section to another.			
		If the scheme has multiple defined benefit sections or defined contribution sections it is not necessary to report these sections separately. They can be aggregated into one set of figures for defined benefit operations and defined contribution operations.			
3.25.2	(d) Defined contribution assets	The notes to the financial statements should disclose investments designated to members, investments allocated to members and investments not designated or allocated to members (i.e. held for the general purpose of the scheme).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.25.1		<i>Where money purchase assets are segregated and cannot be used to pay benefits for anyone other than the member and are separately identifiable to individual members they should be regarded as 'designated' or 'allocated' to members. Where money purchase assets are held on a pooled basis by the investment manager (i.e. the manager cannot identify investments by member) and the administrator keeps records of the allocation of investments by member, the investments are termed 'allocated' to members.</i>			
3.25.2		Where designation/allocation exists, a note to the financial statements should explain that money purchase assets are allocated to provide benefits to the individuals on whose behalf the contributions were paid.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.29	(e) Going concern		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.29.8		If a decision to wind up the scheme has been taken and the financial statements are prepared on a scheme cessation basis, this should be explained in the basis of preparation note together with the reasons why and the impact, if any, on the bases of valuing the scheme's assets and liabilities should be disclosed in the notes to the financial statements.			
3.31.4		Additional disclosures will be required, for example: ■ 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.			
3.31.3		The bases of valuation used should be disclosed in the accounting policies.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(IV) Accounting policies					
3.6.12 – 10.13	(a) Accounting policies				
3.6.15 10.14		When an amendment to an FRS or FRC Abstract has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:			
	(a)	the nature of the change in accounting policy:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference		Yes	N/A	No
SORP	FRS102			
	(b) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(c) the amount of the adjustment relating to periods before those presented, to the extent practicable; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:			
	(a) The nature of the change in accounting policy;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(b) The reasons why applying the new accounting policy provides reliable and more relevant information;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(c) To the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	– For the current period;			
	– For each prior period presented; and			
	– In the aggregate for periods before those presented; and			
	(d) An explanation if it is impracticable to determine the amounts to be disclosed in (c) above. Financial statements of subsequent periods need not repeat these disclosures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	The accounting policies which are judged material or critical in accounting for the transactions and net assets, should be explained in the notes. The SORP recommends certain accounting policies as set out below:	<input type="checkbox"/>		<input type="checkbox"/>
	(b) Contributions			
3.8.1	(i) Employee contributions, including AVCs, should be accounted for when deducted from members' pay.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8.2	<i>Under auto-enrolment, employers auto-enrol 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 a member 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.</i>			
	If an employee opts out before contributions are remitted to the scheme the employer returns the contribution to the employee. The SORP recommends that such contributions are not reported by the scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		of contributions for the opt out by the scheme to the employer is separately reported.		
		The SORP 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 the policy set out above.	<input type="checkbox"/>	<input type="checkbox"/>
		If a scheme provides a membership reconciliation in the Trustees' report, the SORP recommends the approach to dealing with employees who are auto-enrolled and who subsequently opt-out is disclosed in the Trustees' report, for example whether new joiners are reported net or gross of opt-outs.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.3-3.8.4	(ii)	Employer normal contributions should be accounted for on the same basis as employee contributions. <i>These contributions normally relate to accrual of benefits for current service. If they are expressed as fixed amounts they should be accounted for in the period to which they relate. Some schemes include employer deficit funding in the contribution rates based on salaries or wages, in which case they should be accounted for on the same basis as employee contributions as set out above. Where this is the case the notes to the financial statements should explain that employer normal contributions include deficit funding payments and the amount should be quantified and disclosed in the notes. Where this information cannot be easily extracted from payroll systems without disproportionate cost, this fact should be explained in the notes to the financial statements and the Trustees' Report should explain the rates paid in respect of deficit contributions and current service contribution payments.</i>	<input type="checkbox"/>	<input type="checkbox"/>
3.8.6	(iii)	Employer augmentation contributions should be accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.7	(iv)	Employer deficit funding contributions should be accounted for either on the due dates on which they are payable in accordance with the Schedule of Contributions under which they are paid, or on a receipts basis if earlier than the due dates in the Schedule with the agreement of the employer and Trustees.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.11		A Section 75 debt (payable when an employer ceases to be a participating employer and a deficit is identified) should 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 agreements with the employer as to how the s75 debt is to be treated. If the s75 debt is met by way of, for example, a guarantee it should not be recognised unless or until an asset arises from the guarantee. For contingent assets see SORP 3.36.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.8		The Trustees and employer may agree a recovery plan which is based on deficit funding contributions that are	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		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 be accounted for when they become due under the Schedule of Contributions.		
3.8.9		Where a deficit contribution is paid to a scheme through the transfer of non-cash assets, a fair value at the date of receipt should be attributed to the assets. The contribution should only be recognised if the non-cash consideration meets the asset recognition criteria set out in FRS 102 (see SORP 3.6.6-3.6.11).	<input type="checkbox"/>	<input type="checkbox"/>
3.8.13	(v)	Contributions receivable under Financial Support Directions or Contribution Notices issued by the Pensions Regulator should be accounted for in accordance with the terms of the Direction or Notice as appropriate, taking into account the Trustees' expectations of the likelihood of receiving the relevant contribution amounts from the employer.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.14	(vi)	Employer other contributions (e.g. for administration or life assurance costs) should be accounted for in accordance with the agreed arrangements.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.15	(vii)	Additional contribution categories can be added where appropriate.	<input type="checkbox"/>	<input type="checkbox"/>
	(c) Benefits and payments to leavers			
3.8.16	(i)	Benefits and payments to leavers should be accounted for in the period they fall due for payment.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.20	(ii)	Where a member has a choice about the form of their benefit, the benefit should be accounted for when the member notifies the Trustees of his/her decisions as to what form of benefit s/he will take.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.19	(iii)	Where a member has no choice about the form of benefit, the benefit should be accounted for in the period of leaving/retirement/death, being the period in which the liability to pay the benefit arises.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.21, 3.8.22	(iv)	<i>From April 2015, members may use their pension pot to purchase an annuity, to take a lump sum benefit equal to the value of the pot less tax at their marginal rate, or to take income draw down benefits from the scheme less tax at their marginal rate. If a scheme does not offer income draw down, members may transfer their pot to a pension arrangement that does provide such facilities.</i> Benefits taken under the above provisions will be reported in the appropriate benefit category, e.g. as commutations or transfer values. Benefits in these categories should be reported gross of any tax paid.	<input type="checkbox"/>	<input type="checkbox"/>
	(d) Transfers			
3.8.25	(i)	Where past service liabilities do not transfer between schemes until assets/liabilities have been transferred, transfers should be accounted for on a cash basis.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.26	(ii)	Group transfers or scheme mergers should be accounted for in accordance with the legal agreement for these	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		transactions. Where Trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer should be accounted for in accordance with the terms of the agreement.		
3.8.28	(ii)	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 SORP recommends that the difference, if material, should be disclosed either in the financial statements or the Trustees' Report.	<input type="checkbox"/>	<input type="checkbox"/>
	(e)	Expenses		
3.8.29	(i)	Expenses should be accounted for on an accruals basis.	<input type="checkbox"/>	<input type="checkbox"/>
	(f)	Investment income		
3.8.32	(i)	Dividends from quoted securities should be accounted for when the securities are quoted ex-dividend.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(ii)	Income on bond securities should be accounted for on an accruals basis. Interest purchased and sold on investment transactions should be reported through income on bond securities in the Fund Account.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(iii)	Rent should be accounted for in accordance with the terms of the lease.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(iv)	Interest on cash deposits and bonds should be accrued on a daily basis.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(v)	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 be reported as investment income and the purchase of units included as an investment purchase in the investment reconciliation table.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(vi)	Distributions by special purpose vehicles (SPVs) established for scheme funding arrangements (see SORP 3.11.7) will comprise an element of income and capital. If the split of income and capital elements of the distribution is readily obtainable the distribution will be accounted for in part within investment income and in part within sale proceeds of investments. However, if the split between income and capital is not available the SORP recommends receipts are reported as either investment income or sale proceeds with a note disclosing the approach adopted.	<input type="checkbox"/>	<input type="checkbox"/>
3.8.32	(vii)	Income arising from annuity 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 by the annuity provider. In both these circumstances the receipts arising from the annuity policies should be included in the financial statements and the pensions paid to the pensioners included in pension payments. There should be no netting off of these amounts. The receipts from the annuity provider can be apportioned to sale proceeds and investment income or reported all within investment income or sale proceeds. Disclosure of the approach	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		taken should be included in the financial statements and applied consistently from year to year.			
3.8.32		(viii) Derivatives – where the nature of the cash flow is income the net cash flow is reported as investment income. 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. Cashflows are analysed at contract level. It is not necessary to allocate cashflows arising from a contract between income and capital unless information is available to do so and the Trustees consider it appropriate in the circumstances.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(g) Taxation			
3.8.34		Pension schemes registered with HMRC are exempt from income tax and capital gains tax. FRS 102 and the SORP therefore recommend the notes to the financial statements disclose the tax status of the scheme to explain it is exempt from taxation except for certain withholding taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(h) Foreign currency translation			
3.28.1, 3.28.2	30.1-30.2	Pension schemes should determine their functional currency by reference to the currency used in dealings with members. The financial statements must include a translation of any assets and liabilities denominated in other currencies, into the scheme's functional currency. FRS 102 prescribes how to translate financial statements into a presentation currency.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.28.3, 3.28.4, 3.28.5	30.9, 30.7	Items denominated in a foreign currency should be translated at the scheme year end rate. Transactions executed in foreign currency should be recorded at the spot exchange rate at the date of the transaction. FRS102 allows an approximation to the spot rate for practical purposes, for example the use of an average rate over a given period. If exchange rates fluctuate significantly over the period, the use of an average rate is inappropriate.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Exchange gains and losses should be treated as follows:			
3.28.6	30.10	(i) FRS 102 requires foreign exchange gains and losses on monetary items to be recognised in profit and loss for the period. The SORP 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 balances would be reported within change in market value;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.28.7	30.25	(ii) 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. Therefore, foreign exchange differences reported within change in market value 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) will need to be disclosed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		(i) Valuation of investments			
3.12.1	28.15(b)	(i) Investments should be valued at their fair value at the date of the Statement of Net Assets.	<input type="checkbox"/>		<input type="checkbox"/>
3.12.2	Glossary	FRS 102 defines fair value as: 'the amount for which an asset could be exchanged, a liability settled ... between knowledgeable, willing parties in an arm's length transaction.'			
		Fair value hierarchy			
3.12.3	11.27	FRS 102 requires the use of the following hierarchy to estimate the fair value of investments:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Category (a) - The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.			
		Category (b) - When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. 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 recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.			
3.12.8		Trustees may wish to distinguish between investments whose value is determined by valuation techniques which rely significantly on observable market data (C(ii)) and those whose value is determined by valuation techniques which use non-observable market data (C(ii)).			
3.12.3	11.27	(ii) Quoted securities: fair value should be determined using a quoted price for an identical asset in an active market, usually the current bid price. Normally disclosed in Category (a).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.15		(iii) Bonds should be valued on a clean basis, i.e. excluding accrued income. Any excluded accrued income should be accounted for in investment income and 'other investment balances'. Exchange traded bonds normally disclosed in Category (a) or (b). Unquoted bonds or bonds priced using evaluated prices normally in Category C(i).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				Yes	N/A	No
SORP	FRS102					
3.12.16	11.27	(iv)	Unquoted investments should be included at a fair value estimated by the Trustees. The valuation basis should be disclosed in the financial statements. Normally in Category C(ii).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.17		(v)	Fair values for over the counter derivatives are determined using valuation techniques which depend on the type of derivative. Normally in Category C(i).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.18		(vi)	Pooled investment vehicles should be included at the closing bid price or, if single priced, at the closing single price. Private equity, infrastructure and other relatively illiquid pooled investment arrangements are normally reported at the net asset value (NAV) of the fund. The NAV should be determined by the pool 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 be given to adjusting NAV to reflect the level of discount or premium to NAV at the reporting date. Daily priced funds normally Category (a), weekly priced funds Category (b), monthly priced funds C(i) or C(ii).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.35		(vii)	Property should be valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS, 1.1, Valuation for Financial Statements, which provides that: (1) property occupied by the pension scheme, should be valued on the basis of the existing use value; (2) all other properties, other than specialised properties should be valued at market value; and (3) specialised properties should be valued at depreciated replacement cost.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.37			The SORP allows for asset valuations to be carried out at least every three years, in line with actuarial valuations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.38			Where the valuation of investment properties is not at the reporting date, for example where the rolling valuation approach is adopted, consideration should be given to the need for a fair value adjustment to the latest valuation to the reporting date using appropriate market information such as property indices. Normally in Category C(i) or C(ii).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.19		(viii)	Insurance policies Unit linked or unitised insurance policy values fluctuate directly in relation to the fair value of the asset class or classes that constitute the investments underlying the insurance policies. These policies should be valued on the same basis as pooled investment vehicles.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.20	28.15(b)		FRS 102 requires annuities, which FRS 102 defines as an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under the	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference		Yes	N/A	No
SORP	FRS102			
	plan, to be valued such that the fair value of the asset is deemed to be the present value of the related obligation.			
3.12.21	The present value of the related obligation will depend on the basis of the valuation of the scheme liabilities. Trustees should adopt a reasonable basis, such as scheme funding valuation, buy-out or the basis set out in FRS 102 for employer accounting, for valuing annuities and apply it consistently. If the valuation is carried out by the annuity provider possible bases include the actuarial method or the net premium method.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.23	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 take into account any changes between the date of the previous valuation and the reporting date which are significant to the valuation, for example, cash flows arising under the annuity, changes to the discount rate, changes to the terms of the annuity contract or significant changes to the scheme members covered by the annuity.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.24	The basis adopted should be disclosed in the financial statements. The valuation should be carried out by a suitably qualified person or organisation who should be disclosed in the financial statements. The nature of benefits covered by the annuity and any collateral arrangements in place should also be disclosed in the financial statements. Normally Category C(ii).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.26	With-profit insurance policies should 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 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 SORP recommends disclosing the name of the insurance company and the valuer of the policy. Normally Category C(ii).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.27	(ix) Longevity swaps The fair value of the longevity swap should be based on the expected future cash flows arising under the swap discounted using market interest rates. The cashflows are discounted using market-based interest rates, taking into account credit risk and liquidity premium appropriate for the circumstances. Projected variable cashflows also need to take into account current market views of longevity. <i>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</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		<p><i>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 which reflects the risk premium.</i></p> <p>Normally category C(ii).</p>		
3.12.28		<p>(x) Special Purpose Vehicles (SPVs)</p> <p>SPVs should be included at fair value. Notwithstanding the illiquid nature of these arrangements and a lack of an active market, a fair value can be determined using valuation techniques.</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.12.34		<p>These arrangements are highly illiquid and in some cases the arrangements cannot be sold on to third parties. The SORP recommends that if an SPV is highly illiquid then this is disclosed in the scheme financial statements.</p> <p>Normally category (C(ii)).</p>	<input type="checkbox"/>	<input type="checkbox"/>
3.26.3 – 3.26.6	2.10,2.15	<p>(j) Additional voluntary contributions (AVCs)</p> <p>AVCs and related investments, investment returns and benefit payments are accounted for within the pension scheme's financial statements in accordance with FRS 102 and the SORP. Where the scheme documentation requires that the AVCs must be used to provide money purchase benefits and that the AVC assets must be separately identifiable and isolated from other scheme assets and liabilities, AVC assets should be accounted for in a manner consistent with the treatment of defined contribution assets as described above.</p> <p>The notes to the pension scheme financial statements should 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).</p> <p>If 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 investments can be reported within the defined contribution section with disclosure of the amounts relating to AVCs and AVC investments.</p> <p>If the provider does not supply information as at the scheme year end, the financial statements should include the information at a date as near as practicable to the scheme year end, adjusted for cash movements in the intervening period. Similarly, where practical difficulties arise in obtaining the necessary up-to-date information within the limited period allowed for preparation of financial statements, the financial statements should use the latest available information, adjusted for subsequent cash movements, and explain the treatment adopted in the notes to the financial statements.</p>	<input type="checkbox"/>	<input type="checkbox"/>
		(V) Other disclosures		
		(a) Stock lending		

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.20.1 – 3.20.2		Where the scheme's investment custodian is authorised to release stock to a third party under a stock lending arrangement, (even if no stock lending activity has taken place in the year), the fact should be disclosed. Disclose the total value of securities out on loan together with an analysis by asset class of the securities out on loan and a description of the related types of collateral. The fair value of collateral held should be disclosed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.10.9	(b)	Repurchase and reverse repurchase agreements The SORP recommends the following additional disclosures: Balances due and payable arising under repurchase agreements and reverse repurchase agreements and amount of securities sold which are subject to repurchase contracts.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.14.1- 3.14.2	(c)	Investment Reconciliation Table The SORP recommends that the disclosure of sales and purchases of investment and of the changes in value during the period should provide a reconciliation between the opening and closing value of investments, analysed by asset class as disclosed on the face of the Statement of Net Assets as a minimum. Cash and other investment balances, such as broker balances, are not required to be included in this reconciliation. Where there are derivative receipts and payments these amounts should be described as 'purchases at cost and derivative payments' and 'sales proceeds and derivative receipts. Where purchase cost or sales proceeds include accrued income, for example on bond securities, these should be excluded from investment purchases and sales and reported through investment income in the Fund Account. <i>No comparative information is required.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.8.43 – 3.8.45	(d)	Transaction costs Transaction costs should be added to purchase costs and netted against sale proceeds, as appropriate. The total amount of direct transaction costs on all investment types (including property, derivatives contracts and the costs associated with aborted investments) should be disclosed in the notes to the financial statements under the investment 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. Indirect costs such as bid-offer spread costs and costs charged within pooled investment vehicles do not need to be disclosed but the notes to the financial statements should explain their existence.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11.27	(e)	Fair Value Hierarchy Disclosure FRS102 requires the disclosure for each class of asset an analysis of the level in the fair value hierarchy into which fair value measurements are categorised.			
	(f)	Investment risk disclosures FRS 102 requires certain disclosures in relation to risks arising from financial instruments:			

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.15.1	34.43-34.46	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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.4	34.44	For each type of credit and market risk arising from financial instruments, a retirement benefit plan shall disclose:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(a) the exposures to risk and how they arise;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(c) any changes in (a) or (b) from the previous period.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.5		FRS 102 requires these risk disclosures for financial instruments only which would exclude other investments such as investment properties. The SORP recommends that the risk disclosures required by FRS 102 are applied to all investments reported at fair value in the Statement of Net Assets including, for example, investment properties.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.6		These disclosures are required for both defined benefit and defined contribution scheme investment assets (including AVC assets), subject to materiality.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.7		The SORP recommends pension schemes disclose for significant risk exposures, the value of investment assets and liabilities subject to each risk at the reporting date (and for the comparative reporting date) or suitable alternative information.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.8 - 3.15.11		The notes to the financial statements should 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Disclosures relating to the objectives, policies and processes for managing the risks and the methods used to measure the risks should 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) sets out the asset allocation for the scheme, it may be useful to explain the investment risk management process in the context of the SIP, how investment assets are allocated in accordance with the SIP and how they are monitored for compliance with the SIP.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(g) Credit risk – additional disclosures:			
3.15.14	34.45	A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.15		The amount and nature of collateral held at the reporting date, stated at fair value, should be included in the notes to the financial statements, with an indication of the class of	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		investment included in the Statement of Net Assets to which it relates. Typical arrangements with collateral are over the counter derivatives, repurchase arrangements (repos) and stock lending.			
3.15.16	34.45	The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.17		The SORP recommends additional disclosures relating to derivatives in paragraph 3.10.8. If derivatives are held to mitigate credit risk relating to other financial instruments it would normally be appropriate to include this information with the disclosures required for derivatives.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.18	34.45	Information about the credit quality of financial assets that are neither past due nor impaired.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.19		This requires the disclosure of the credit quality of bond portfolios and other financial assets subject to credit risk. The SORP recommends as a minimum that pension schemes disclose investment grade, non-investment grade and unrated financial assets. There is no industry standard definition of investment and non-investment grade. Therefore Trustees should agree with the provider of credit quality information the basis of this classification and apply it consistently across investments and from one year to the next.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.15.20		Where a scheme has had to take possession of collateral during the year FRS 102 requires the following disclosures:			
	34.46	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 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	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(b) when the assets are not readily convertible into cash, its policies for disposing of such assets or for retaining them.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Investment risk disclosures for pooled investment vehicles:			
3.16.7		The SORP recommends the financial statements disclose the type of pooled arrangement and the Trustees' approach to managing and monitoring the associated direct credit risk.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.16.13		The SORP recommends that risk disclosures are considered at the unit of investment level. This may be units in a fund or a share of a fund such as an interest in a partnership. In this case, the Trustees make enquiries to the pooled fund manager to determine if the unit of investment is subject to change in value arising from market and credit risks and which types of market risk. The whole value of the pooled fund is then disclosed in the relevant risk analysis with an explanation of the Trustees' approach to investing in the pooled arrangement.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Particulars are required of any investment (other than UK Government Securities and pooled investment vehicles) in which more than 5% of the total value of the net assets of the scheme is invested. There is no need to adopt a 'look	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		through' approach unless the Trustees control the investment mandate of the pooled investment vehicle.		
		Where a scheme invests in a pooled investment vehicle where the Trustees have control over the investment mandate, for example where the Trustees are the sole investor, the SORP recommends that the risk disclosures required by FRS 102 as described above are disclosed on a 'look through' basis as if the scheme held the investments in the pooled arrangement directly.	<input type="checkbox"/>	<input type="checkbox"/>
3.21		<i>Sole investor pooled arrangements</i>		
		A pension scheme may be the sole investor in a pooled arrangement, for example, liability driven investment funds typically set up as a Qualifying Investment Fund (QIF).		
3.21.1	Glossary	FRS 102 does contain consolidation requirements in relation to Special Purpose Entities 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.'		
3.21.2		Where this is the case, the SORP recommends that the scheme's investment should continue to be reported as an interest in a pooled arrangement with disclosure as follows:	<input type="checkbox"/>	<input type="checkbox"/>
		■ An explanation that the scheme is the sole investor in the pooled arrangement; and	<input type="checkbox"/>	<input type="checkbox"/>
		■ A summary of the pooled arrangement's assets and liabilities at the reporting date.	<input type="checkbox"/>	<input type="checkbox"/>
3.21.3		The investment risk disclosures required by FRS 102 should be made using the look through approach for sole investor pooled arrangements.	<input type="checkbox"/>	<input type="checkbox"/>
3.10.4, 3.10.5	16.10	(h) Valuation of freehold and leasehold property		
		FRS 102 requires the following to be disclosed in relation to investment property valuations:		
		(i) the methods and significant assumptions applied in determining the fair value of investment property;	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) 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	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		investment property being valued. If there has been no such valuation, that fact shall be disclosed;			
		(iii) the existence and amounts of restrictions on the reliability of investment property or the remittance of income and proceeds of disposal; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iv) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		In relation to investment properties the SORP recommends that the notes to the financial statements should disclose the name, or employing firm, and qualification of the valuer and should disclose, where relevant, that the valuer is an employee of the scheme or participating employer(s). The date(s) and basis (or bases) of valuation should also be disclosed. Disclosure should also be made of the basis of any fair value adjustments to latest available valuations at the reporting date.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.33.3		(i) Employer-related investments Where a scheme has employer-related investments, the financial statements should include a statement:			
		(i) giving the percentage of the scheme's net assets invested in employer-related investments at the end of the scheme year;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii) if that percentage exceeds 5%, giving the percentage of the scheme's net assets which are employer-related investments of a type on which, under the Occupational Pension Schemes (Investment) Regulations 1996, there is no restriction (see Additional Guidance).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(iii) 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.33.4		The SORP recommends that where practicable the percentage of employer-related investment at the year end is disclosed, but where this is impractical, the Trustees make a reasonable estimation of the percentage of employer-related investment, if any, and disclose whether it is above or below the statutory restriction of 5%. Where it is estimated to be above 5% the Trustees should consider the disclosures required in relation to the steps to be taken to bring the level below the statutory restriction.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.33.8		<i>Note: contributions due at the year end which are subsequently received in accordance with the payment schedule/schedule of contributions are not employer-related investment. Contributions received later than required by the schedule do constitute employer-related investment (although they are exempt from counting towards the statutory restrictions for employer-related investment) and any amounts outstanding at the end of the year should be disclosed as such.</i>			
		Disclosures relating to derivatives may be presented as a separate note or included within the risk disclosures required by FRS 102 (see SORP 3.15.1 to 3.15.11). It is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				Yes	N/A	No
SORP	FRS102					
			not necessary to provide detailed comparatives for the key contract disclosures recommended above.			
3.32.1	33.1	(j)	Related party transactions 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'. The relations between parties involved in pension schemes, and the transactions between these parties, will vary from scheme to scheme, and therefore guidance (included as Additional Guidance) cannot be exhaustive. FRS 102 requires the disclosure of key management personnel compensation. FRS 102 defines compensation as follows:			
3.32.12	33.6		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.			
3.32.13	33.7		An entity shall disclose key management personnel compensation in total.			
3.32.14			This disclosure would normally relate to remuneration of Trustees for their services to the scheme, whether paid 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.			
			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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(b)	the amount of outstanding balances and:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(i)	their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(ii)	details of any guarantees given or received.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(c)	provisions for uncollectible receivables related to the amount of outstanding balances; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
3.32.18	33.9	<p>(d) the expense recognised during the period in respect of bad or doubtful debts due from related parties</p> <p>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.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.32.19	33.10	<p>An entity shall make the disclosures required by FRS 102:33.9 separately for each of the following categories:</p> <p>(a) entities with control, joint control or significant influence over the entity;</p> <p>(b) entities over which the entity has control, joint control or significant influence;</p> <p>(c) key management personnel of the entity or its parent (in the aggregate); and</p> <p>(d) other related parties</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.32.20	33.13	<p>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.</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.32.21	33.14	<p>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.</p>			
3.32.22		<p>The following are examples of transactions for which it would normally be sufficient to make disclosures on an aggregated basis:</p> <p>a) payment of employer and employee contributions – employer contributions and employee contributions are normally disclosed in aggregate in the Fund Account (or notes thereto) and further information on a disaggregated basis (such as names and contributions of each employer) is normally unnecessary;</p> <p>b) payment of fees and expenses paid to Trustees by the scheme, in aggregate, should 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 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 such disclosure as a related party transaction. However, payments for goods or services to Trustees or Scheme advisers outside the normal course of business (such as the purchase of an asset from a Trustee or adviser) would require disclosure as a related party transaction.</p>			
3.32.23		<p>Trustees may be in receipt of pension benefits through the scheme or contributions may have been paid in respect of Trustees. Provided these transactions arise solely in the individual's capacity as a beneficiary of the pension scheme and are either non-discretionary or are made on terms normally granted to members, the disclosure of individual transactions is normally unnecessary. It</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		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.			
3.32.24		Where administration costs, investment management expenses and other services such as secretarial and management support are borne directly by a participating employer and not recharged to the scheme, that fact should be disclosed as a related party transaction. In such cases, disclosure of the amounts involved is unnecessary as there is no 'cost' to the scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.22.2	(k) Common Investment Funds (CIFs)	Where a scheme participates in a CIF disclose the scheme's interest in the CIF i.e. number of units or share of fund, at the beginning or end of the scheme year and either:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(a)	include the financial statements of the CIF within the annual report; or	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(b)	provide equivalent details of the CIF's portfolio and income and state the scheme's proportionate share thereof.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.22.4		The SORP recommends that CIF financial statements are prepared in accordance with FRS 102 as if pension disclosure requirements apply and therefore contain the risk disclosures in relation to financial instruments that would be disclosed as if it were a pension scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.22.5		The SORP further recommends that where the CIF financial statements are included in the scheme's Annual Report then the scheme financial statements can cross refer to the fair value and risk disclosures in the CIF financial statements and need not include risk and fair value disclosures in its financial statements. If the scheme financial statements include equivalent details of the CIF's portfolio then they should also include the risk and fair value disclosures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		The disclosures made in the annual report, taken together, need to comply with the SORP and relevant regulations in relation to investment disclosures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	(VI) 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 but may choose to do so;			
9.9B		■ investments in subsidiaries, associates and joint ventures are reported in the scheme's Statement of Net Assets at their fair values;			
9.9(b), Glossary		■ a subsidiary shall be excluded from consolidation and included at fair value in the consolidated statement of net assets where the investment in the subsidiary is held exclusively with a view to subsequent resale.			

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		<ul style="list-style-type: none"> 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 defines that 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. 		
3.23.2		Consequently, where a subsidiary is held as part of the scheme's investment portfolio it will be reported at fair value in the scheme's Statement of Net Assets and if the scheme chooses to prepare consolidated financial statements the Trustees consider 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.	<input type="checkbox"/>	<input type="checkbox"/>
3.23.3		Where a subsidiary is not held exclusively with a view to resale, for example a trading subsidiary, it will be reported in the scheme's Statement of Net Assets at fair value, and if the scheme chooses to prepare consolidated financial statements it will consolidate the subsidiary and comply with the requirements of Section 9 of FRS 102 in relation to consolidated financial statements.	<input type="checkbox"/>	<input type="checkbox"/>
3.23.4		Where a pension scheme holds investments in a subsidiary and does not produce consolidated financial statements, the SORP recommends that a summary of the underlying net assets are disclosed, or if there are a number of subsidiaries, the aggregate net assets of the subsidiaries are disclosed.	<input type="checkbox"/>	<input type="checkbox"/>
3.23.5		FRS 102 requires the following disclosures:		
	9.27	<ul style="list-style-type: none"> whether the financial statements are consolidated or non-consolidated; 	<input type="checkbox"/>	<input type="checkbox"/>
		<ul style="list-style-type: none"> 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 FRS102:9.3 (g) as the statutory framework for pension scheme financial reporting does not require consolidation; and 	<input type="checkbox"/>	<input type="checkbox"/>
		<ul style="list-style-type: none"> if the financial statements are non-consolidated, a description of the methods used to account for the investments in subsidiaries, joint ventures and associates. 	<input type="checkbox"/>	<input type="checkbox"/>
3.23.6		<p>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.</p> <p>If the net asset values on a consolidated and non-consolidated basis are significantly different and the scheme chooses to prepare consolidated financial statements it will also have to prepare a parent Statement of Net Assets.</p>	<input type="checkbox"/>	<input type="checkbox"/>
		(l) Annuity contracts		
		Buy-ins		
3.24.1		Trustees may decide as a matter of investment policy or of administrative efficiency to purchase annuity policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, or in respect of, particular members. These annuity policies	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference					
SORP	FRS102		Yes	N/A	No
		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.			
3.24.3		Members whose benefits are funded by the purchase of such annuity policies remain members of the scheme and should be included in the scheme's membership statistics.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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 SORP recommends this is disclosed in the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		Buy-outs			
3.24.5		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. 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) should be accounted for as the 'purchase of annuities' in the Fund Account.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.24.6		The costs should be disclosed under the 'Benefits Payable' caption for immediate annuities and under the 'Payments to and on behalf of leavers' caption for deferred annuities. Members whose benefits have been secured in this way should be treated in the scheme's membership statistics as having exited the scheme.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(m) Accounting period			
3.6.17	3.11	(i) FRS 102 requires an entity to 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. Where change in presentation or classification occurs the scheme should disclose, where practicable:			
	3.12	(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.			
3.6.18	3.13	If it is impractical to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.			
3.6.16	3.14	(ii) The financial statements should show comparatives for the previous accounting period for each amount shown in the financial statements, except for the figures for total purchases and total sales of investments.			

B Accounts

Reference			Yes	N/A	No
SORP	FRS102				
		(iii) Transitional provisions			
3.3.1	35	Transition from reporting under previous UK/Irish GAAP to FRS 102 is required to be carried out in accordance with the requirements of section 35 of FRS 102. These requirements 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.2	35.12	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. To comply with FRS 102:35.12, an entity's first financial statements prepared using FRS102 shall include:			
	35.13	(a) a description of the nature of each change in accounting policy;	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(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 FRS102; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(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; and	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(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 FRS102 for the same period.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.3		The 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.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
		(n) Other information			
2.5.3		The financial statements should contain any other relevant information. This will include, where material:	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.35.2		(i) capital commitments e.g. unpaid calls on shares.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.37.2	32.2	(ii) subsequent events FRS 102 requires the amounts recognised in the financial statements to be adjusted for adjusting events whereas	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B Accounts

Reference				
SORP	FRS102		Yes	N/A No
		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.		
		Examples are given:		
3.37.3, 3.37.4		<ul style="list-style-type: none"> – of adjusting subsequent events (e.g. receipt of more up to date information on the value of investments at year end), and – of non-adjusting events (e.g. scheme mergers and major transfers occurring between the reporting date and the date of signature of the financial statements). 		
3.36.1, 3.35.1		(iii) contingencies (other than obligations to pay pensions after the scheme year end) e.g. claims against the scheme or the costs of litigation, or guarantees given or security offered by the Trustees.	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
3.36.2,3. 21.13 36.3		Disclosure should be made of the nature of a contingent asset where an inflow of economic benefit is probable at the net asset date. An estimate of the financial effect should be given where practicable.	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>
3.36.4		Recognition of a contingent asset by the Pensions Protection Fund for levy purposes 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 letters of credit, guarantees and escrow financial statements. These arrangements are not 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 annual report to understand the security of scheme funding arrangements, the SORP recommends that these arrangements are disclosed in the Trustees' Report whether or not they qualify as contingent assets for financial reporting purposes.	<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/>

C Report on Actuarial Liabilities

Reference			Yes	N/A	No
SORP	FRS102				
2.7.1	34.48	FRS 102 requires, for schemes providing defined benefits, a separate report alongside the financial statements on actuarial liabilities. This report contains 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. The SORP also recommends that the report discloses the amount of the scheme net assets at the date of the actuarial valuation.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.7.2		<i>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 performance, while the actuarial valuation is a forward-looking exercise, the aim of which is usually to assess funding levels and to recommend contribution rates. 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 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.</i>			
2.7.3		If a more recent valuation other than the scheme funding valuation is available this may be used. However, the SORP does not require an annual valuation to be prepared for the purposes of providing the FRS 102 report on liabilities.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

D Actuarial certificate and statement

Reference					
SORP	FRS102		Yes	N/A	No
2.8.1	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.		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional guidance

Additional guidance

Fair value hierarchy

FRS (11.27) requires the use of the following hierarchy to estimate the fair value of investments:

Category (a)

The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

Category (b)

When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (e.g. 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 recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

FRS 102 defines an active market as a market in which 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.

Category (a) – further guidance

Assets that would typically fall in category (a) include actively traded exchange traded securities, such as equities and certain derivatives where official prices are available from the relevant securities exchange at the 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 date (which is a normal business day) then the investment would be valued under category (b) or (c) below.

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: for 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

Category (b) assets would include exchange traded securities which are relatively illiquid, that is, there were no traded prices available on the 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 lapse 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 date and any adjustments that may be made to these policies.

Category (c) – further guidance

Category (c) as defined by FRS 102 includes a wide range of investments which use valuation techniques to determine fair value. Trustees 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)).

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, OTC derivatives and investment properties. This category is referred to as c(i).

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).

Pooled investment vehicles (PIVs)

Interests in quoted PIVs, such as exchanged traded funds (ETFs) are valued in accordance with the guidance set out above. Interests in unquoted pooled investment vehicles which are valued using prices published by the pooled investment vehicle manager should be reported at the closing bid price if both bid and offer prices are

Additional guidance

Fair value hierarchy

published or, if single priced, at the closing single price. Interests in unquoted PIVs 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 investment of the pooled arrangement.

Trustees consider the nature and characteristics of the PIV when deciding which fair value category is appropriate. For quoted PIVs, trustees have regard to the considerations set out above. For unquoted PIVs, trustees consider the ability of the scheme to transact its interest in the PIV with the pooled investment manager and the nature of the valuation provided by the manager, for example is it a price or net asset value at which the manager would trade or not. Examples of characteristics to take into account when considering this include:

- Whether the PIV is open ended or closed;
- The frequency of pricing by the pool manager, for example, daily, weekly, monthly or quarterly;
- The nature of the pricing, for example, forward pricing;
- The trading terms, for example, can the scheme trade with the manager at published prices in all circumstances or are there restrictions?;
- The trading activity in the interest held by the scheme in the PIV; and
- Redemption notice periods and any redemption or liquidity restrictions.

Once an appropriate category has been determined this is applied consistently from one year to the next. For this purpose if a pricing date occasionally falls on the scheme financial reporting date, for example, in the case of weekly priced funds, it should not result in a change of classification from that used in prior years.

Investment Risk

Definitions of risk types

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 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.

Direct and indirect risks for Pooled Investment Vehicles (PIVs)

Where a pension scheme invests in a PIV it obtains direct exposure to the credit and market risks arising from the PIV and indirect exposure to the credit and market risks arising from the underlying investments of the PIV.

Where trustees invest in a pooled investment vehicle to obtain exposure to the underlying investments, an alternative 'look through' approach to disclosure of the indirect market and credit risks is available.

Additional guidance

Investment Risk

Direct market risks

Pension schemes can have direct market risk arising from their holdings in PIVs, for example currency risk arises if the interest in the pooled vehicle, such as a unitised fund, is priced in a currency other than sterling.

Indirect market risks

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

For example a pension scheme that invests in overseas securities via a pooled arrangement whose units are priced in sterling has no direct foreign exchange risk. However, the underlying portfolio does have foreign exchange risks to which the scheme is exposed.

Trustees make enquiries to determine if there are underlying market risks and the total value of the pooled fund is included in the appropriate risk disclosure analysis.

Direct credit risk

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 pool 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.

The nature of direct credit risk of pooled investment vehicles will generally depend on the 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 pool will have differing degrees of protection from insolvency of the pool 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.

The SORP recommends the financial statements disclose the type of pooled arrangement and the trustees' approach to managing and monitoring the associated direct credit risk.

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.

Trustees 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

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. If there is an exposure, the whole of the value of the PIV is disclosed in the indirect credit risk analysis.

Concentration of investment risk

Concentration of investment risk is not required to be disclosed by FRS 102. However, it is an important aspect of investment risk management and therefore the SORP recommends the disclosure of any individual investment that represents more than 5% of the net assets of the scheme. This recommended disclosure does not apply to holdings of PIVs or gilts. For the purposes of this recommended disclosure there is no need to 'look through' PIVs to determine the holdings of underlying securities unless the trustees control the investment mandate of the PIV (see SORP 3.16.13).

Related Party Disclosures

The related parties of pension schemes

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; and

Additional guidance

Related Party Disclosures

- 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).

In considering each possible related party relationship, an entity shall assess the substance of the relationship and not merely the legal form.

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)

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.

- In the context of pension schemes key management personnel are normally the trustees or trustee directors where the trustee is a corporate entity. Pension managers, investment managers, custodians and administrators are not normally considered to be key management personnel since they are directed and controlled by the trustees.
- 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.
- The related parties of pension schemes therefore fall into two broad categories:
 - a) employer-related; and
 - b) trustee-related.

Employer-related parties

Each participating employer should be considered a related party. Employer-related parties also include companies and businesses controlled by, or under the same control as, the sponsoring 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.

The SORP 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

- Trustee-related parties include:
 - a) trustees and their close families;
 - b) key management (that is the directors) of a corporate trustee and their close families;
 - c) entities controlled by, and associates and joint ventures of, the scheme itself;
 - d) companies and businesses controlled by the trustees or their close families;
 - e) companies and businesses controlled by the key management of a corporate trustee, or their close families;
 - f) other pension schemes that have a majority of trustees in common with the scheme.

Additional guidance

Related Party Disclosures

Related party transactions

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

The following examples are given to illustrate transactions which, if material, would require disclosure in the financial statements of pension schemes as a related party transaction under FRS 102:

- 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) provisions or write-offs made by the scheme against amounts due from or to related parties; and
- e) 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.

Employer-related investments

The Pensions Act 1995, s40, deals with employer-related investments.

Restriction on employer-related investments:

- (1) The trustees or managers of an occupational pension scheme must secure that the scheme complies with any prescribed restrictions with respect to the proportion of its resources that may at any time be invested in, or in any description of, employer-related investments.
- (2) In this section 'employer-related investments' means:
 - (a) shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer,
 - (b) land which is occupied or used by, or subject to a lease in favour of, the employer or any such person,
 - (c) property (other than land) which is used for the purposes of any business carried on by the employer or any such person,
 - (d) loans to the employer or any such person, and
 - (e) other prescribed investments,
- (2A) In the definition of 'employer-related investments' in subsection (2) 'securities' means:
 - (a) shares,
 - (b) instruments creating or acknowledging indebtedness,
 - (c) instruments giving entitlements to investments,
 - (d) certificates representing securities.
- (2B) Subsection (2A) must be read with:
 - (a) section 22 of the Financial Services and Markets Act 2000,
 - (b) any relevant order made under that section, and
 - (c) Schedule 2 to that Act.
- (3) To the extent (if any) that sums due and payable by a person to the trustees or managers of an occupational pension scheme remain unpaid:
 - (a) they shall be regarded for the purposes of this section as loans made to that person by the trustees or managers, and
 - (b) resources of the scheme shall be regarded as invested accordingly.

Where the scheme is a trust scheme that applies to earners in employment under different employers, 'employer-related investments' has the same meaning as in subsection (2) but as if the following words in subsection (2) were omitted, in paragraph (a) 'or by any person who is connected with, or an associate of, the employer' and 'or any such person' where they occur. This is clearly an easement for multi-employer schemes because of the near impossibility of being able to establish this information.

For the purposes of section 40(2)(e) of the 1995 Act the following are also prescribed as employer-related investments (as set out in SI 2005 No 3378 Regulation 11)

- (a) the proportion attributable to the scheme's resources (whether directly or through any intervening collective investment scheme) of any investments which have been made by the operator of any

Additional guidance

Employer-related investments

- collective investment scheme, and which would have been employer-related investments if they had been made by the scheme;
- (b) any guarantee of, or security given to secure, obligations of the employer or of any person who is connected with, or an associate of, the employer and for the purposes of section 40 of the 1995 Act and these Regulations a guarantee or security given by the trustees or managers shall be regarded as an investment of resources of the scheme equal to the amount of the obligations guaranteed or secured;
 - (c) any loan arrangement entered into with any person whereby the trustees' or managers' right to or expectation of repayment depends on the employer's actions or situation unless it was not the trustees' or managers' purpose in entering into the arrangement to provide financial assistance to the employer;
 - (d) where any of a scheme's resources are invested in a policy of insurance the terms of which permit the premiums or other consideration for the rights acquired under the policy, or any monies otherwise credited to or for the benefit of the trustees or managers or the members, to be invested in a fund created only for the purposes of that policy, the proportion of the scheme's resources invested in that policy which is the same proportion as B is of A where A represents all the assets of the insurer held in the fund, and B represents that part of A which would, if invested by the scheme, be employer-related investments; and
 - (e) where any of a scheme's resources are invested in an insurance policy (not being resources invested in a fund created only for the purposes of that policy) the terms of which permit the trustees or managers or the employer to direct that some or all of the premiums or other consideration for the rights acquired under the policy, or any monies otherwise credited to or for the benefit of the trustees or managers or the members, are invested in employer-related investments, any investments made by the insurer from those premiums or other consideration or monies, which would have been employer-related investments if they had been made by the scheme.

Multiple benefit structures

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.

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).

In considering the approach to disclosing financial information in relation to multiple benefit structures, the trustees 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 recommendations are set out below.

Hybrid

The SORP recommends a columnar analysis of the income and expenditure attributable to defined benefit and defined contribution arrangements within the Fund Account and separate reporting of the net assets attributable to defined benefit and defined contribution arrangements in the Statement of Net Assets. 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 only include funds transferring from one section to another.

If the scheme has multiple defined benefit sections or defined contribution sections it is not necessary to report these sections separately. They can be aggregated into one set of figures for defined benefit operations and defined contribution operations. An example of hybrid presentations is set out in the example accounts section of this publication.

Ringfenced defined benefit sections

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

Additional guidance

Multiple benefit structures

to each section as if it were a separate scheme. Therefore trustees should consider the most appropriate approach to meeting this requirement.

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

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.

Pension Protection Fund

The Pension Protection Fund was established under the Pensions Act 2004 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

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 s143 of the Pensions Act 2004. 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.

This 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 their valuation. These financial statements should be prepared in accordance with the requirements of FRS 102 and the recommendations of the SORP, including its recommendations 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.

Ongoing obligation to obtain audited financial statements during assessment period

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.

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 section 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 note their existence.

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 note their existence.

Multi-employer schemes and segregation

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.

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

Additional guidance

Pension Protection Fund

transactions and net assets of the segregated parts of the scheme for accounting periods after the relevant date.

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

Once the Board's decision in respect of schemes transferring into the PPF becomes binding, the 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 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.

Where the assets of the scheme are held by means of a common investment fund, 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.

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 Board effectively becoming the policy holder, replacing the trustees.

Financial statements at the transfer date

Where a scheme transfers to the PPF at the end of the PPF assessment period, it is recommended that trustees 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 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 obtaining 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.

It is 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 Benefit Payments as part of Dealings with Members.

It is also recommended that the notes to the financial statements separately disclose the investment assets (analysed by investment class as recommended in the SORP for statement of net asset 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.

Schemes in winding up and similar situations

In a scheme cessation the trustees consider, and if thought appropriate modify, the bases on which scheme assets are valued. The primary considerations will be the intended time scale and processes for winding up/discontinuance and, as a general rule, the values placed on assets should be consistent with those which may reasonably be expected to be achieved in an orderly winding up with appropriate allowance for the costs of realisation. 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 in SORP 3.12.5. However, in some cases an adjustment should be considered with the objective of valuing investments at net realisable value;
- unquoted securities should be valued at the trustees' estimate of net realisable value;
- illiquid pooled arrangements such as private equity funds should 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;
- 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.

Additional guidance

Schemes in winding up and similar situations

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

The bases of valuation used should be disclosed in the accounting policies.

Certain additional disclosures 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.

Under United Kingdom current regulations, schemes with less than two members are exempt from preparing accounts but trust law requires trustees to demonstrate how they have discharged their trust. The SORP therefore recommends that as a matter of good practice trustees 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 and all scheme assets finally disbursed in accordance with the scheme rules and relevant regulations. These final financial statements should be prepared on an accruals basis where appropriate, showing assets (for example cash at bank) and current liabilities (such as benefits and fees payable) which total zero net assets.

Appendix: Audited Accounts Regulations

Appendix: Audited Accounts Regulations

The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996

Schedule

Contents of Accounts Audited by the Auditor of the Scheme

Regulations 3

- 1 An account of the financial additions to, withdrawals from and changes in value of the fund of the scheme during the scheme year to which the accounts relate.
- 2
 - (1) A statement, as at the end of the scheme year to which the accounts relate, of the assets at market value, or trustees' or managers' estimate thereof where market value is not readily ascertainable and liabilities of the scheme, other than liabilities to pay pensions and benefits after the end of that scheme year:
 - a) giving, in the case of any assets which are stated at an estimate of their market value, the reason why the valuation is an estimate;
 - b) showing the distribution of the investments and other assets of the scheme between each of the following categories (where none of the investments falls within a particular category, that fact is not required to be stated), namely:
 - (i) insurance policies;
 - (ii) public sector fixed interest investments and separately showing quoted securities and unquoted securities;
 - (iii) other fixed interest investments and separately showing quoted securities and unquoted securities;
 - (iv) index-linked securities and separately showing quoted securities and unquoted securities;
 - (v) equities (including convertible shares) and separately showing quoted equities and unquoted equities;
 - (vi) property (which in this paragraph means any right or interest in freehold or leasehold land or buildings);
 - (vii) unit trusts invested in property;
 - (viii) other unit trusts;
 - (ix) managed funds (other than unit trusts) invested in property;
 - (x) other managed funds (not being unit trusts);
 - (xi) loans (whether or not secured by mortgages);
 - (xii) cash deposits and cash in hand;
 - (xiii) investments and other assets not included in heads (i) to (xii) above; and
 - c) showing separately, in the case of investments in each category, investments in the United Kingdom and investments outside the United Kingdom, and in the case of investments mentioned in heads (vii) to (x) of sub-paragraph (b) investments where the company operating the unit trust or managed funds is, and investments where it is not, a company registered in the United Kingdom.
 - (2) Where the assets include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, particular members or other persons in respect of particular members or both, those policies must be included in the statement and there must be a note of the existence of such policies but that entry need not include their market value or an estimate.
 - (3) Where the assets:

Appendix: Audited Accounts Regulations

Regulations 3

- (a) are invested only for the purposes of securing additional money purchase benefits derived from voluntary contributions; and
 - (b) are specifically allocated to the provision of additional benefits for particular members or other persons in respect of particular members (or both),
a note that paragraphs (a) and (b) apply must be included in the statement, but that entry need not include the market value or an estimate of value of those assets.
- 3 Where any assets or liabilities are denominated in currencies other than sterling, a translation of those assets into sterling and an explanation of the basis on which they have been translated.
- 4 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.
- 5 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, 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.

The provision (above) is subject to modification.

5A

- (1) Where the scheme is a trust scheme that applies to earners in employments under different employers, a statement in accordance with paragraph 5 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 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.
 - (2) In sub-paragraph (1) 'employer-related investments' has the meaning as in section 40(2) of the Pensions Act 1995 but as if the following words were omitted from subsection (2):
 - (a) in paragraph (a) 'or by any person who is connected with, or an associate of, the employer'; and
 - (b) 'or any such person' in each place where they occur.
- 6 In respect of every amount shown in the accounts other than the amounts referred to in paragraph 7, a statement of the corresponding amount for the scheme year previous to the one to which the accounts relate, except in a case where regulation 2 is complied with by trustees or managers of a scheme for the first time.
- 7 The total amount of the purchases and the total amount of the sales of investments during the scheme year to which the accounts relate.
- 8 A statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, the guidelines ('Financial Reports of Pension Schemes') published by the Pensions Research Accountants Group or another organisation approved for this purpose by the Financial Reporting Council Limited, 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 those guidelines.

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