Pension scheme example financial statements guide 2015

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Introduction

KPMG example financial statements 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.

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.

Garrett O'Neill
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. 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 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.

- 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.
- 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 financial statements

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

- The trustees' report has not been included in this example as Irish legislative disclosures remain unchanged.
- 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 which would be 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. This is to streamline disclosures where appropriate. However, if these items were material to a particular scheme they would need to be separately reported

Additional guidance

In Section 3 of our Guide, we set out additional guidance on the new disclosures and special situations.

Example financial statements

Contents

Fund account

for the year ended 31 December 2015	Notes	DBS	DCS	Total	Total
		2015	2015	2015	2014
		€'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	5,200		5,200	4,050
Change in market value of investments	16	7,585	98	7,683	536
Investment management expenses		(373)	-	(373)	(381)
Taxation	8	(14)	-	(14)	(12)
Net returns on investments		12,398	98	12,496	4,193
Pension levy	8	(613)	(5)	(618)	(476)
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 I January		73,199	645	73,844	79,467
Net assets of the scheme at 31 December		80,941	796	81,737	73,844

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

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Statement of Net Assets (available for benefits)

At 31 December 2015	Notes	2015	2014
		€'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	21	**60**	105
Current liabilities	21	**(12)**	-
Total net assets of DBS		**80,941**	73,199
Defined Contribution Section			
Investment assets:	16		
Pooled investment vehicles	10	**815**	695
Current assets	21	**7**	47
Current liabilities	21	**(26)**	(97)
Total net assets of DCS		**796**	645
Total net assets of the Scheme at 31 December		**81,737**	73,844

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

Example financial statements

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 2015.

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

	31 December 2013	31 December 2014
	€'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

	2014
	€'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 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 31 December 2015 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.

3. Accounting policies (continued)

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 Actuarial Valuation Report assumptions and 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.

3. Accounting policies (continued)

c) Foreign currencies

The functional and presentational currency of the Scheme is the Euro. Balances denominated in foreign currencies are translated into Euro 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.

d) Contributions

i. Employee normal contributions are accounted for when deducted from pay.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.

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 Funding Proposal under which they are being paid.

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. Individual transfers in or out are accounted for when paid or received which is normally when member liability is accepted/discharged.

iii. 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.

g) Pension levy

The pension levy is accounted for as it falls due

4. Contributions receivable

	DBS	2015 DCS	Total
	€'000	**€'000**	**€'000**
Employer:			
Normal	**285**	**67**	**352**
Augmentation	**5**	**-**	**5**
Deficit Funding	**35**	**-**	**35**
Other	**26**	**-**	**26**
Members:			
Normal	**285**	**67**	**352**
Additional Voluntary Contributions	**54**	**16**	**70**
	690	**150**	**840**

	DBS	2014 DCS	Total
	€'000	**€'000**	**€'000**
Employer:			
Normal	-	66	66
Augmentation	-	-	-
Deficit funding	-	-	-
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 the Funding Proposal 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.

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 2015. The bulk transfer comprised €6 million of investment assets and €16,000 cash.

6. Benefits payable

	2015 DBS	2015 DCS	2015 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 on retirement benefits	**20**	**-**	**20**
	10,685	**45**	**10,730**

	2014 DBS	2014 DCS	2014 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 on retirement benefits	-	-	-
	9,629	-	9,629

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

7. Investment income

	2015	2014
DBS	€'000	€'000
Dividends from equities	2,**206**	855
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
	5,200	**4,050**

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.

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

Section 774 of the Taxes Consolidation Act 1997 and as such its assets are allowed to accumulate free of income and capital gains taxes with the exception of an annual levy introduced in The Finance (No. 2) Act 2011. This introduced a four-year annual levy of 0.6% on the value of assets of private pension funds. The Finance (No. 2) Act 2013 which was signed into law on 18 December 2013 increased the levy in 2014 to 0.75% and introduced a pension levy at a rate of 0.15% in 2015. In addition, tax relief is given on employer and member contributions to the Scheme and certain lump sum payments to members can be paid free of tax. 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:

	2015	2014
	€'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:

	2015	2014
	€'000	**€'000**
Equities	**21**	19
Bonds	**8**	7
Other	**1**	1
	30	27

DCS

The DCS holdings of PIVs are analysed below:

	2015	2014
	€'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

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	2015		2014	
	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 17	152,000	-
Interest rate swap (Pay 3% for RPI)	5,000,000	Expires July 17	100,000	-
Interest rate swap (Pay 5% for LIBOR)	800,000	Expires Aug 17	-	(10,000)
Total 2015	15,800,000		252,000	(10,000)
Total 2014	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 2015	358,000	88,000	(13,000)
Total 2014	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:

11 Derivatives (continued)

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 2015				15,000	(2,000)
Total 2014				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 31 December 2015, 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 Irish 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 benefit statement confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments are as follows:

	2015	2014
	€'000	€'000
West Ltd – unitised fund	**153**	136
South plc– unitised fund	**163**	124
	316	260

15 Additional Voluntary Contributions (AVCs) (continued)

DCS

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

	2015	2014
	€'000	€'000
Main DCS investments	**769**	668
Members' AVC investments	**38**	21
Trustee (unallocated/undesignated units)	**8**	6
	815	695

Investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment managers hold the investment units on a pooled basis for the Trustees. The Scheme administrator allocates the investment units to members. The Trustees may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

16. Investment reconciliation

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

DBS

	Value at 1 January 2015	Purchases at cost and derivative payments	Sales Proceeds and derivative receipts	Change in market value	Value at 31 December 2015
	€'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**

16 Investment reconciliation (continued)

DCS

	Value at I January 2015	Purchases at cost	Sales proceeds	Change in market value	Value at 31 December 2015
	€'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:

				2015	2014
	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.

19 Investment Fair Value Hierarchy (continued)

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).

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 31 December 2015					
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**

19 Investment Fair Value Hierarchy (continued)

	Category (a)	Category (b)	Category (c)i	Category (c)ii	Total
	€'000	€'000	€'000	€'000	€'000
At 31 December 2014					
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.

20 Investment risks (continued)

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 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

2015	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**

2014	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.

20 Investment risks (continued)

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 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 Irish public sector securities and €2 million (2015: €2.1 million) of US/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:

	2015	2014
	€'000	**€'000**
Unit linked insurance contracts	**800**	750
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.

20 Investment risks (continued)

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

	2015	2014
	€'000	€'000
Currency		
US Dollar	**7,633**	6,036
Japanese Yen	**4,258**	4,653
Other	**243**	275

(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:

	2015	2014
	€'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.

20 Investment risks (continued)

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

	2015	2014
	€'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 Central Bank of Ireland 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. **(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. Current Assets and Liabilities

	DBS	2015 DCS	Total
	€'000	**€'000**	**€'000**
Current Assets			
Contributions due	**60**	**7**	**67**
Current Liabilities			
Accrued expenses	**(12)**	**-**	**(12)**
Benefits Due		**(26)**	**(26)**
Total current liabilities	**48**	**(19)**	**29**
	DBS	**2014 DCS**	**Total**
	€'000	**€'000**	**€'000**
Current Assets			
Contributions due	105	47	152
Current Liabilities	-	-	-
Benefits Due	-	(97)	(97)
Total current asset/(Liabilities)	105	(50)	55

The DCS current asset are all designated to members while the DCS current liabilities include liabilities of €2,000 which are not designated to the members.

22. 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.

23. 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.

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

As a defined contribution scheme, all assets are held in respect of the liabilities for members' benefits expected to arise in the future with the exception of those assets that are not designated to members which are ultimately due back to the employers. The liabilities have been valued using the applicable market value of the corresponding assets at the year-end date. The current and future liabilities of the Scheme as at 31 December 2014 can be summarised as follows:

	Designated to members	Not designated to members	Total
	€'000	**€'000**	**€'000**
Current Liabilities	**24**	**2**	**10,345**
Future Liabilities	**790**	**6**	**796**

Current liabilities are liabilities that have been identified as payable at the year-end date.
Future liabilities are all liabilities that become payable after the year end date and represent the value of the net assets of the Scheme at the year end.

Signed for and on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2015.

A Rook

B Dane

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

Fair value hierarchy

pooled investment vehicle manager should be reported at the closing bid price if both bid and offer prices are published or, if single priced, at the closing single price. Interests in unquoted 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 euro 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

Occupational Pension Schemes (Investment) (Amendment) Regulations, 2006 to 2010 deals with employer-related investments.

Restriction on employer-related investments:

Self-investment", in relation to a scheme, means investment of all or part of the resources of the scheme in the employer or, as appropriate, the employer group and for this purpose "investment"
shall be deemed to include investment in—

(I) property, other than land or buildings, which is used for the purpose of any business carried on by;

(II) loans to;

(III) moneys due to the scheme held by; the employer or, as appropriate, the employer group;

(IV) shares or other securities issued by a person in the employer group, who is a body corporate,

but shall not include —

(V) investment in a cash deposit with any person in the employer group who is an authorised deposit taking institution; or

(VI) investment in

(A) an insurance policy or contract of assurance issued by a person in the employer group who is the holder of an authorisation within the meaning of article 2 of the European Communities (Life Assurance) Framework Regulations, 1994 (S.I. No. 360 of 1994);

(B) a segregated fund or a managed fund or other collective investment fund, managed by a person in the employer group who is the holder of an authorisation issued by the Central Bank and Financial Services Authority of Ireland pursuant to the Investment Intermediaries Act, 1995 (No.11 of 1995); the European Communities Markets in Financial Instruments Regulations, 2007 (S.I. No. 60 of 2007) or any other appropriate authorisation;

(C) a unit trust scheme authorised by the Central Bank and Financial Services Authority of Ireland under the Unit Trusts Act, 1990 (No. 37 of 1990) and managed by a person in the employer group;

(D) an investment company authorised by the Central Bank and Financial Services Authority of Ireland under Part XIII of the Companies Act,1990 (No. 33 of 1990);

Employer-related investments

(E) a collective investment scheme authorised by the Central Bank and Financial Services Authority of Ireland under the European Communities(Undertakings for Collective Investment in Transferable Securities) Regulations, 2003 (S.I.No. 211 of 2003) as amended, consolidated or substituted from time to time;

(F) an undertaking for collective investment in transferable securities authorised by a competent authority in another member state of the European Communities in accordance with Council Directive 85/611/EEC as amended, consolidated or substituted from time to time; or

(G) bonds issued by the Government of any Member State, provided that

"investment" shall be deemed to include the proportion attributable to the resources of the scheme (whether directly or through any intervening fund) of any investment in the employer group —

(*aa*) by the manager of a segregated fund or a managed fund or other collective investment fund or by a unit trust scheme, an investment company or a collective investment scheme or

(*bb*) which is comprised in an investment fund to which an insurance policy or contract of assurance falling within Class III or Class VII of the classes of insurance specified in Annex I to the European Communities (Life Assurance) Framework Regulations

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.

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:

Additional guidance

Schemes in winding up and similar situations

- 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.

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 Irish current regulations, schemes with less than 100 active and deferred 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 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: Note on Irish Legal Requirements

Appendix: Note on Irish legal Requirements

This appendix, which does not form part of the Statement of Recommended Practice, provides information on legal requirements in the Republic of Ireland relating to the disclosure of financial and other information by pension schemes. The body of this document also provides reference to the requirements in the Republic of Ireland.

Section 54 of the Pensions Act, 1990 ('the Irish 1990 Act') provides that the Minister may make regulations relative to information to be furnished by the trustees of the scheme to members of schemes and others and penalties for failure to meet these requirements.

Requirements to obtain audited financial statements

The relevant regulations are as follows: Section 56 of the Irish 1990 Act sets out the requirements for certain schemes to prepare audited financial statements, actuarial valuations and liability valuation reports with exemptions for certain types of schemes (unfunded schemes, death benefit only schemes, one member arrangements, small schemes in wind up and small schemes which are frozen (members no long longer accruing benefits since 1 January 1997)). See below for definition of a small scheme.

The Occupational Pension Schemes (Disclosure of Information) Regulations, 2006 (as amended) (SI 2006/301) ("the Irish Disclosure Regulations") set out requirements in relation to the disclosure of financial and other information for pension schemes. Under the Disclosure Regulations, trustees of schemes are responsible, subject to exemptions referred to below, for preparing annual accounts and the auditor is responsible for auditing the annual accounts. The Disclosure Requirements require that audited accounts and the auditor's report on the accounts shall be made available by the trustees of the scheme, not later than nine months after the end of the scheme year to which it relates or such later date as may be approved by the Irish Pensions Authority, to persons specified in the Disclosure Regulations.

Requirement to prepare the Annual Report and required communications

Article 7 of the Disclosure Regulations provides for the preparation of an Annual Report of the scheme as soon as reasonably practicable after the end of the scheme year. The Article also sets out the terms on which copies are to be made available and to whom they should be made available. A copy of the Annual Report, signed and dated by the trustees (or one trustee if there is only one trustee), must be made available by the trustee(s) not later than nine months after the scheme year to which it relates, or such later date as may be approved by the Board. The Annual Report must contain the following:

- A copy of the audited accounts;
- A copy of the auditor's report on the accounts and where the auditor's report is qualified, a statement by the trustees of whether the matter has been resolved;
- A copy of the latest Actuarial Funding Certificate, Funding Standard Reserve Certificate, the Annual Statement from the actuary, details of measures proposed in any funding proposal which relate to the scheme year (as applicable);
- A copy of the Valuation Report for Defined Contribution schemes; and
- Further information as specified in Schedule B.

Article 9 of the Irish Disclosure Regulations details when the reports should be made available by the trustees to relevant persons (members/prospective members of the scheme and their spouses, persons within the application of the scheme of the scheme qualifying or prospectively qualifying for its benefits or an authorised trade union). A copy of the report shall be furnished free of charge to an authorised trade union no later than nine months from the scheme year-end (or such later date as may be approved by the Board) and on request to any relevant persons within four weeks of the request being made.

Appendix: Note on Irish legal Requirements

Disclosure requirements

Article 5 and Schedule A of the Irish Disclosure Regulations provide that the audited accounts shall include the information specified in Schedule A which is applicable and material to the relevant scheme.

a) Schedule A of the Disclosure Regulations states the following:

The financial statements can exclude the following items from the assets and liabilities of the scheme at the end of the scheme year:

i. Insurance policies which have been purchased which fully match the pension obligations of the scheme in respect of specific members or other persons and for this purpose a Section 53B policy (policy or contract of assurance the form of which has been certified by the Board under Section 53B of The Pensions Act (1990)) shall be capable of matching a pension obligation;

II. Liabilities to pay pensions in the future; and

III. Additional voluntary contributions, if any, under the scheme which are separately invested.

Where additional voluntary contributions are separately invested in the form of a defined contribution scheme they should be disclosed separately from the main assets of the scheme but accounted for within the accounts of the scheme and notes thereto.

The notes thereto should, other than in the case of a scheme the resources of which are invested wholly in managed funds, include a statement of the distribution of the investments of the scheme detailing, where appropriate, particulars of any self investment of the resources of the scheme at any time during the scheme year or concentration of investment in excess of 5 per cent of the resources of the scheme at the scheme year-end.

Where Section 53B policies have been purchased, the notes to the accounts shall include a statement of the value of the pensions obligations of the scheme which are matched by Section 53B policies and, where there has been a reduction in payments under any Section 53B policies held by the scheme, a statement detailing particulars of that reduction.

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

c) Schedule B of the Disclosure Regulations details information which is to accompany the audited accounts including actuarial information. The Schedule requires specific items of information including an investment report.

d) Schedule M of the Disclosure Regulations details prescribed wording of a Risk Statement for defined benefit schemes to be included in the audited accounts or to accompany the audited accounts.

e) Schedule N of the Disclosure Regulations details wording to be included in the audited accounts or to accompany the audited accounts when on the last day of the scheme year the actuary is valuing all or any pensions in payment under the scheme on the basis of securing pensions in payment by the purchasing of Section 53B policies.

Appendix: Note on Irish legal Requirements

Audit opinion

Article 5 (paragraph 4) details that the auditor's report on the accounts is required to state whether, in the opinion of the auditor, the requirements of Schedule A are satisfied, the accounts show a true and fair view of the financial transactions of the scheme for the scheme year and of the amount and disposition of the assets and liabilities (other than liabilities to pay pensions and other benefits in the future) at the end of the scheme year. In addition, the auditor's report shall state that in the opinion of the auditor, the contributions payable to the scheme during the year, have been received by the trustees within 30 days of the end of the scheme year and that, in their opinion, such contributions have been paid in accordance with the rules of the scheme, and, if appropriate, with the recommendations of the scheme actuary. If the auditor's report is qualified, reasons for the qualification must be given.

Valuation reports

Article 6 of the Disclosure Regulations sets out requirements in relation to the preparation and timing of Valuation Reports. Actuarial Valuation report guidelines are detailed for defined benefit schemes and Liability Valuation Report guidelines are detailed for defined contribution schemes.

Exemptions from audit

Article 8 of the Disclosure Regulations contains exemptions for certain schemes. Small schemes (those which had less than 100 members entitled to but not receiving retirement benefit) shall, in place of the full requirements for audited accounts and reports, have the option of issuing an alternative Annual Report, which must be prepared by a qualified auditor or, where some or all of the benefits are secured under contracts of assurance with one or more life assurance companies, by a person designated by that company/ies. This important exemption for schemes applies to 'small schemes', as defined by the regulations. The recommendations of the SORP do not apply to alternative Annual Reports. However, the principles applied in valuing investments should be in line with the recommendations of the SORP.

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