



James Fitzpatrick CPA is Head of Pension Fund Accounts at Mercer (Ireland) Ltd. James trained and worked in public practice for 6 years. He joined Mercer as a fund accountant in 2001, and has managed various fund accounting teams until taking over as head of fund accountants in 2012.



Padraig Osborne FCA is a Partner in PwC's Assurance practice and has specialised in providing audit and other services to insurance and pension clients for almost 20 years.

Irish pensions legislation requires trustees of Irish pension schemes to make available for each scheme year the Trustee Annual Report of the scheme, including audited financial statements and the report of the external auditor (where the scheme has over 100 members). The content of the report must conform to regulations as prescribed by the Minister for Social Protection under the Pensions Act 1990 (as amended). The financial statements themselves must be prepared

Irish Pension Schemes, new SORP (Statement of Recommended Accounting Practice) - impact and challenges

James Fitzpatrick CPA and Padraig Osborne FCA highlight some of the key areas in Pension Scheme financial statements impacted by the new Pension SORP and FRS 102.

in accordance with the 'Statement of Recommended Practice, Financial Reports of Pension Schemes' (SORP), as published by the Pensions Research Accountants Group (PRAG) or IFRS.

Since the last publication of SORP (May 2007) by PRAG, pension regulations have evolved and accounting standards in Ireland and UK have tracked developments in International Financial Reporting Standards (IFRS). In 2012 and 2013, the Financial Reporting Council (FRC) issued revised financial reporting standards for application in the UK and Ireland (FRS 100 – FRS 102). 'FRS 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland' specifically addresses financial statements for Pension Schemes (paras 34.34 – 34.48) setting out required content of financial statements, valuation basis for scheme assets and treatment of liabilities. FRS 102 applies to accounting periods commencing on/ or after 1 January 2015.

The publication of FRS 102 prompted PRAG to revisit the SORP. The new SORP (SORP 2014) reflects the requirements of FRS 102 with enhanced investment disclosures in particular. The changes introduced by the SORP are not confined to investments but bring change and additional disclosure to a wide range of areas which are summarised below. The changes are effective from 1 January 2015 and the first annual Pension Scheme financial statements to be impacted will be for the year ended 31 December 2015.

i) Year one adoption of SORP & FRS 102

The term 'accounts' will disappear from Pension Scheme Trustee Annual Reports and will be replaced by 'financial statements'. Other title changes include the Net Asset Statement (Balance Sheet) which will now be called 'The Statement of Net Assets available for benefits'. Trustees of pension schemes will need to ensure their financial statements include notes explaining the impact of adoption of the new SORP and address new disclosure requirements. Comparative figures will also need to be restated!

ii) Investment valuation and disclosure requirements

There is a significant increase in the amount of disclosure about investments to be included in the financial statements:

- Investments are categorised by a 3-level **fair value hierarchy**
- Disclosure of **valuation assumptions and methods** is

FRS 102 hierarchy

- | |
|------------------------------|
| (a) Quoted price |
| (b) Recent transaction price |
| (c) Valuation technique |

- needed for category C items (valuation techniques applied)
- Information about the **type of pooled investment vehicle** (e.g. equity fund, diversified growth fund, private equity fund) is given in the notes rather than the investment report

- Disclosures must enable users to **evaluate the nature and extent of credit risk and market risk** (which includes interest rate, currency and other price risk) including objectives and policies for managing and measuring such risks. In DC schemes it is permissible to restrict this information to the default fund or the most commonly used funds.
- Controlled vehicles** (such as qualifying investment funds) do not need to be consolidated but information about their underlying assets and liabilities is required.

For many pension schemes, the most significant impact of SORP 2014 will revolve around the production of the additional investment disclosures. Trustees will need to work with both administrators and investment managers/custodians to ensure that the required information is produced in a timely manner to facilitate the preparation of the Pension Schemes Trustee Annual Report and financial statements. This will require time and effort, particularly as the devil is in the detail e.g. the 3 - level fair value hierarchy in FRS102/SORP 2014 differs to the fair value hierarchy in IFRS!

Helpfully, additional guidance to the SORP was issued in June 2015 by PRAG in association with the UK Investment Association which includes a useful guide to the anticipated fair value categories common investment holdings may fall into (see below table):

iii) Valuation of certain annuities

For both defined benefit and for relevant defined contribution schemes, pension annuities (buy-ins) purchased **in the name of Trustees** for the scheme are now to be reported within the financial statements of pension schemes at their FV (defined as the **value of the related obligation**). Such annuities policies may no longer be reported at €NIL as current practice allowed. There is some guidance on the valuation methods that may be employed in an effort to try and reduce the costs that will be required in obtaining such valuations. This requirement will present certain practical issues which will need to be considered by pension scheme trustees, annuity providers and those charged with valuing the annuities.

iv) Additional Voluntary Contributions (AVCs)

Where AVCs are documented under the trust of a scheme but are separately invested they have traditionally been included as a note to the financial statements. SORP 2014 requires such assets to be brought onto the Statement of Net Assets available for benefits (Balance Sheet).

v) Report on actuarial liabilities

An enhanced disclosure via an additional appendix to the Trustee Annual Report 'Report on Actuarial Liabilities' will now be required annually. This will set out the value of schemes actuarial liabilities and the

BY

James Fitzpatrick and Padraig Osborne

assumptions under which they were calculated (PRAG have clarified that a valuation at each period end will not be required and the valuation may be based on the most recent actuarial valuation). In the event a scheme has annuity arrangements in place, some care will need to be exercised to ensure that the relevant liabilities are also included in the Report on Actuarial Liabilities.

vi) Investments: 5% concentration

This disclosure is now a requirement under SORP 2014, previously it was addressed only by the regulations.

vii) Employer deficit contributions

SORP 2014 provides that deficit contributions where received earlier than the due date may be reflected as income in the financial statements on receipt, where the employer and trustees agree this treatment and treatment is not in conflict with the applicable schedules.

viii) Transaction costs/charges

In a move towards greater transparency SORP 2014 requires the disclosure of direct transaction costs by type and main asset class.

Summary

The new pension SORP brings a lot of change for Pension Scheme financial statements, particularly where schemes have a complex investment portfolio or annuities which will now have to be valued and brought onto the balance sheet. There is clearly a lot of work for trustees, registered administrators, actuaries, investment managers/custodians and external auditors over the coming months. The clock is ticking to ensure that 2015 Pension Scheme financial statements reflect all of these additional requirements.

Further reference material :

Statement of Recommended Practice, Financial Reports of Pension Schemes (November 2014) issued by PRAG

FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (August 2014) issued by the FRC

Practical Guidance Investment Disclosures – a joint working group of the Investment Association and Pensions Research Accountants Group (June 2015)

Occupational Pension Schemes, applying FRS 102 and SORP 2015 – PWC (June 2015)

Asset classes	Most likely FV category**	Asset classes	Most likely FV category**
Equity Quoted (traded in active markets)	a	Asset Backed Securities	c(i)/c(ii)
Exchange Traded Funds (traded in active markets)	a	OTC Derivatives	c(i)/c(ii)
Exchange Traded Derivatives (traded in active markets)	a	Equity Unquoted	c(ii)
Cash	a	Hedge Funds	c(ii)
Unquoted Pooled Funds	b/c(i)/c(ii)	Limited Partnership	c(ii)
Corporate Bond (see footnote below)	c(i)	Structured Products	c(ii)
Government Bond (see footnote below)	c(i)	Private Placements	c(ii)
Mortgage Backed Securities	c(i)	Insurance Policies	c(ii)
Contract for Differences	c(i)	Property	c(ii)
Short Term Investments	c(i)	Special Purpose Vehicles	c(ii)

****The guidance states that bonds are valued using valuation techniques under c(i) but trustees might have a preference to user market values to value some highly liquid exchange traded bonds. It may be considered appropriate to classify these instruments as category (a) instead of c(i). In any event, valuation techniques will need to be confirmed by the investment managers and disclosed in the notes to the pension scheme financial statements.**

In practice, consideration of the fair value category of the pension scheme investments will include many considerations such as the trustees' ability to exit the investment holdings and frequency of trading etc.