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2015 PENSION SORP CHANGES

WHAT DO THE CHANGES MEAN FOR YOU?

In summary:

- Implementation of a fair value hierarchy for investments.
- Disclosure requirements for scheme exposure to credit and market risks.
- Valuation of annuities.
- Exemption in Republic of Ireland for small schemes.

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FINANCIAL REPORTING COUNCIL

Background

In September 2015 the Financial Reporting Council issued a revised suite of financial reporting standards ('new' UK & Irish GAAP) to replace all FRSs, SSAPs and UITFS ('Old' UK & Irish GAAP).Two of these standards have a key impact on most pension schemes:

- FRS 100 Application of Financial Reporting Requirements; and
- FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

FRS 100 applies to financial statements that are intended to give a true and fair view of the assets, liabilities, financial position and profit and loss for a period, and thus applies to pension scheme financial statements.

FRS 102 is the main replacement for 'old' UK and Irish GAAP.

Pension schemes are within the scope of FRS 102 and Section 34 'Specialised Activities' contains a section dealing specifically with the requirements of pension scheme accounting.

FRS 100 allows for pension scheme financial statements to be prepared either in accordance with:

- FRS 102 or
- International Financial Reporting Standards as adopted by the EU (IFRS).

The revised statement of recommended practice (2015 SORP) has been published for pension schemes which prepare financial statements under FRS 102.

Effective Date

The new 2015 SORP is applicable for all scheme years commencing on or after 1 January 2015.

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FAIR VALUE HIERARCHY

Main Changes in 2015 SORP

The most fundamental changes to the 2015 SORP are (i) the implementation of a *fair value hierarchy* for investments and (ii) the introduction of disclosure requirements for a scheme's exposure to credit and market risks.

There is also a key change to accounting policies for (iii) *Annuities* held in the name of trustees. The previous SORP allowed annuities to be valued at €nil on the Statement of Net Assets whereas the revised 2015 SORP requires these to be valued at the amount of the related obligation in order to comply with FRS 102.

As with the 2007 SORP, the obligation in the form of actuarial liabilities is not to be included in the accounts but dealt with in a separate report alongside the accounts.

i) Fair Value Hierarchy

The fair value hierarchy categories in the 2015 SORP are as follows:

Category A	Category B	Category C(i)	Category C(ii)
Quoted daily price	Recent Price	Valuation technique Observable inputs	Valuation technique Non-observable

FRS 102 requires consideration of three categories of fair value; (a) to (c) above. However the 2015 SORP suggests that category (c) may be sub-divided into two parts and recommends the disclosure is given for all investments shown on the Statements of Net Assets.

ANNUITIES

ii) Investment Risk Disclosures

The SORP now requires disclosures of the nature and extent of credit and market risks arising from the scheme's financial instruments.

The fair value hierarchy and investment risk disclosures will improve the quality of the pension scheme accounts

iii) Annuities

The 2015 SORP requires annuities held in the name of trustees to be valued at the present value of the related obligation and removes the current option to value these assets at €nil. The related obligation will depend on the basis for valuation for the scheme's liabilities. In valuing these liabilities the trustees must therefore use a reasonable basis and apply this consistently year on year.

Investment Commentary

The revised SORP recommends that the material in the investment commentary should focus on the circumstances and requirements of the scheme itself, with commentary on general economic and market conditions restricted to what is necessary for an understanding of the scheme's own situation.

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Disclosure Commentary

The 2015 SORP provides helpful commentary for schemes to consider when ensuring that they are making the appropriate disclosures in respect of:

- Special Purpose Vehicles
- Longevity swaps
- Repurchase Agreements and Reverse Repurchase Agreements
- Common Investment Funds
- Multiple Benefit Structures
- Related Parties
- Employer Related Investments
- Taxation
- Subsidiaries, Associates and Joint Ventures
- PPF Assessment

FRS 102 also requires disclosure of comparative information in respect of the preceding period for all amounts presented in the current period's financial statements.

The SORP does not require disclosure of comparative information for items included in the investment reconciliation table

Small Schemes

The new SORP provides no general exemptions for small schemes applying the recommendations. However there is an exemption for schemes in the Republic of Ireland with less than 100 active and deferred members which are allowed to prepare alternative Annual Reports.

Conclusion

The 2015 SORP is a user friendly publication which is consistent with FRS 102 and will enhance the quality of information included in pension scheme financial statements.

Contact

If you have any queries in relation to what this change means for your pension scheme please don't hesitate to contact us.

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