*Contingencies*

.39 If a surplus apportionment scheme has been submitted to the Registrar, but has not yet been approved at the end of the reporting period, the relevant contingent assets and liabilities are disclosed. These could include:

- Contingent asset – surplus improperly utilised receivable;
- Contingent liability – employer surplus account (participating employer);
- Contingent liability – benefits to former members.



# TRANSFERS

## Introduction

.01 Transfers to and from other funds are the controlled movement of membership between retirement funds prior to the normal retirement date of the members concerned.

## Recognition and measurement

.02 Transfers to and from other funds are recognised on the basis set out below.

.03 Section 14 transfers to and from a fund are recognised on the date of approval of the scheme or arrangement of transfer of business by the FSB, as contained in the section 14(1)(e) approval certificate obtained from the Registrar.

.04 Section 13A(5) transfers are recognised on the earlier of receipt of the written notice of transfer (Recognition of Transfer) or receipt of the actual transfer value.

.05 Section 13A(5) transfers and section 14 transfers are measured at the values as per the section 14 application or the value of the transfer at effective date of transfer adjusted for investment return or late payment interest as guided by the application.

## Presentation and disclosure

### Statement of net assets and funds

.06 Transfers receivable and transfers payable in terms of sections 13A(5) and 14 of the PFA are disclosed under current assets and current liabilities, respectively, in the statement of net assets and funds.

.07 These amounts relate only to the portion of transfers to other funds and transfers from other funds which have not been received from the transferor fund or paid to the transferee fund, following the receipt of the transfer approval from the Registrar. The transfer amounts due are adjusted by the investment return, as arranged in the transfer application.

### Statement of changes in net assets and funds

.08 Transfers from other funds and transfers to other funds are disclosed as separate line items under transfers and benefits in the statement of changes in net assets and funds.

.09 The transfer amounts, inclusive of investment return, enhances or reduces the members' individual accounts.

### Notes to the financial statements

.10 The following categories of transfers to or from other funds are disclosed in the notes to the financial statements:

- Section 14 transfers;
- Section 15B transfers; and
- Individual transfers.

.11 For each scheme or arrangement of transfer, the following is disclosed in the notes:

- The effective date of the transfer – for a section 14 or section 15B transfer this would be the effective date, as contained in the transfer application made to the Registrar;

- The number of members transferred in or out – this must reflect the actual number of members transferred to or from the retirement fund. This number could differ from the number of members contained in the original transfer application, due to exits from the transferor fund between the effective date and date of approval of the transfer. The number should therefore be reconciled for any movement in the numbers between the date when the application was lodged and the date when the transfer approval was granted. It should be reconciled to either the section 14 or section 15B application or to the recognition of transfer for an individual transfer. The number of members disclosed must agree with the actual number of members transferred, as per the reconciliation retained by both funds in terms of Circular No. PF 120 – *Section 14 of the Pension Fund Act (Act 24 Of 1956) Amalgamation And Transfers*;
- A reconciliation of the transfers receivable/payable as reflected in the statement of net assets and funds from the beginning to the end of the reporting period, showing separately:
  - Transfers approved during the period – corresponding either to the application or the reconciliation where a movement occurred between the effective date and the approval date of the application, for section 14 or section 15B transfers;
  - Returns on transfers paid or received, as guided by the transfer application; and
  - Assets transferred during the period – in the form of cash or investments transferred; and
- The total of transfers applied for but not yet approved by the Registrar. Where an application for transfer in terms of section 14 of the PFA has been lodged but not yet approved at the end of the reporting period, the transfers should not be accrued, but should be disclosed separately in the notes to the financial statements. The value disclosed is the best estimate of the transfer value at the date of preparing the financial statements and should correspond to the amount in the section 14 transfer application, adjusted by the relevant investment return.

.12 The same disclosure is required for transfers to and from the fund. Where there are more than ten transfers to other funds or more than ten transfers from other funds, only a combined total is disclosed in the notes to the financial statements. The financial statements should indicate that details of such transfers to/from other funds are available for inspection at the registered address of the retirement fund.

*Transfers from other funds or to other funds - section 15B transfers*

.13 Surplus transferred to and from other funds, in terms of section 15B, is disclosed in this note. Transfers are disclosed per information supplied by the transferor fund.

.14 The effective date of the transfer and the number of members per the original section 15B that was approved are disclosed.

.15 A reconciliation of the transfer from the beginning of the period to the end of the period is provided, as follows:

- At the beginning of the period – the transfer of surplus receivable or transfers payable at the beginning of the reporting period, reflected on the statement of net assets and liabilities under current assets and current liabilities respectively;
- Transfers approved – the amount recognised as income or benefits during the reporting period in the statement of changes in net assets and funds. The amount should agree to the transfer approved in the section 15B application. In the event of valid differences, these adjustments are made in the column for assets transferred;
- Return on transfers – the net investment return allocated to surplus transfers from or to other funds, as guided by the approved surplus apportionment scheme;
- Assets transferred – the actual cash received or paid or assets transferred during the reporting period, to be deducted from transfer amounts due;



- At the end of the period – the transfer of surplus receivable or payable at the end of the reporting period reflected on the statement of net assets and liabilities under current assets or current liabilities respectively.

.16 Transfers that have been applied for but not yet approved at the end of the reporting period are disclosed in a separate column. This is merely enhanced disclosure and does not affect the accounting of the fund.

.17 Transfers approved, return on transfers, and any adjustments are added together to agree to the line item transfers to or from other funds, in the form of a reconciliation to the statement of changes in net assets and funds.

# ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

## Introduction

.01 Accounts receivable and accounts payable balances consist of accounts such as prepaid expenses or accrual for expenses not yet paid at year-end, e.g. audit fees.

## Recognition and measurement

.02 Transactions and events relating to accounts receivable and payable should be recognised in the financial statements when they have demonstrated the following:

- it meets the definition of an asset or liability of the fund;
- it is probable that a future economic benefit associated with the transaction or event will flow to or from the fund; and
- it can be measured in monetary terms with reliability.

.03 Accounts receivable are financial assets measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment.

.04 Accounts payable are financial liabilities measured initially at fair value, net of transaction costs that are directly attributable to the liability and subsequently measured at amortised cost using the effective interest rate method.

## Presentation and disclosure

### Statement of net assets and funds

.05 Accounts receivable and accounts payable are disclosed as separate line items on the face of the statement of net assets and funds, under current assets and current liabilities respectively.

### Notes to the financial statements

.06 A detailed list of items making up the accounts receivable and accounts payable balances is disclosed in the notes. This list can include items such as the current portion of the housing loans and the liability of the employer surplus account.



# PROPERTY, PLANT AND EQUIPMENT

## Introduction

### Objective

.01 The objective of this chapter is to provide guidance to retirement funds in accounting for property, plant and equipment in terms of recognition and measurement. The principal issues are the determination of their carrying amounts, depreciation charges, impairment losses to be recognised and the related income and expenses to be recognised in relation to them.

.02 Property, plant and equipment are tangible items that are held for use in the supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

### Scope

.03 This chapter shall be applied in accounting for property, plant and equipment except when another chapter requires or permits a different accounting treatment. The section on investment properties within the chapter on investments should also be considered. If a retirement fund is in the process of constructing or developing a property for future use as an investment property, but the property does not yet satisfy the definition of an investment property, the accounting treatment would be in terms of this chapter.

## Recognition and measurement

### Recognition and initial measurement

.04 An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost. The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying amount of the item.

.05 The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

### Measurement after recognition

.06 After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

.07 The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal.

.08 Revaluations in the case of retirement funds normally take place on an annual basis. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

.09 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Accumulated depreciation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to determine its depreciated replacement cost.
- Accumulated depreciation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.
- The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

.10 If any item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which the asset belongs shall be revalued. A class of property, plant and equipment is a grouping of assets of a similar nature and use. The following are examples of separate classes:

- Land;
- Land and buildings;
- Motor vehicles;
- Furniture and fixtures; and
- Office equipment.

.11 The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates. However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date.

.12 If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly in funds and reserves under the heading of revaluation surplus. However, the increase shall be recognised in the statement of changes in net assets and funds to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of changes in net assets and funds.

.13 If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in the statement of changes in net assets and funds. However, the decrease shall be debited directly in funds and reserves under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

.14 The revaluation surplus included in funds and reserves in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognised. This may involve transferring the whole of the surplus when the asset is retired or disposed of. However, some of the surplus may be transferred as the asset is used by a retirement fund. In such a case, the amount of the surplus transferred would be the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost. Transfers from revaluation surplus to retained earnings are not made through the statement of changes in net assets and funds.

**Depreciation**

.15 The depreciation charge for each period shall be recognised in the statement of changes in net assets and funds under administration expenses. (Refer to the chapter on administration expenses.)



**Impairment**

.16 An impairment loss shall be recognised immediately in the statement of changes in net assets and funds as an adjustment to fair value. (Refer to the chapter on impairment.)

.17 After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value(if any), on a systematic basis over its remaining useful life.

**Derecognition**

.18 The carrying value of an item of property, plant and equipment shall be derecognised on disposal or when no future economic benefits are expected from its use or disposal. All profits or losses on derecognition are recognised in the statement of changes to net assets and funds under net investment income.

## Presentation and disclosure

.19 The financial statements shall disclose, for each class of property, plant and equipment:

- the measurement bases used for determining the gross carrying amount;
- the depreciation methods used;
- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions;
  - depreciation; and
  - other changes.

.20 In the case of revaluations of property, the following should be disclosed:

- the effective date of the revaluation;
- whether an independent valuer was involved;
- the methods and significant assumptions applied in estimating the items fair values; and
- the extent to which items' fair values were determined directly by reference to observable prices in an active market or to recent market transactions on arm's length terms or were estimated using other valuation techniques.

.21 The revaluation reserve on property, plant and equipment relates to the revaluation of owner-occupied buildings for retirement funds. On disposal of owner-occupied property, the relevant amount in the revaluation reserve account is transferred to the accumulated funds or defined reserve accounts. Where losses have reduced the revaluation reserve to nil, the remaining losses are included in the statement of changes in net assets and funds for the period.

# IMPAIRMENT

## Introduction

.01 The carrying amounts of the fund's assets are reviewed on an annual basis to determine whether there is any indication of impairment, other than of a temporary nature. If any such indication exists, the assets' recoverable amounts are estimated.

## Recognition and measurement

**Financial assets carried at amortised cost**

.02 The fund assesses at each statement of net assets and funds date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

.03 Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the fund about the following events:

- significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

.04 The fund first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the fund determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

.05 Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of changes in net assets and funds. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the fund may measure impairment on the basis of an instrument's fair value using an observable market price

.06 For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the fund's grading process that considers asset type, industry, geographical location, past-due status and other relevant



factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the issuer's ability to pay all amounts due under the contractual terms of the debt instrument being evaluated.

.07 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed in the statement of changes in net assets and funds.

**Impairment of other non-financial assets**

.08 Assets that have an indefinite useful life, for example land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

**Impairment of loans and receivables**

.09 A provision for impairment of loans and receivables is established when there is objective evidence that the fund will not be able to collect all amounts due according to their original terms.

## Presentation and disclosure

**Statement of net assets and funds**

.10 There is no specific line item in this statement, as impairment affects the value of the asset and, thus, it will be reflected in the line item relating to the asset where impairment has occurred.

**Statement of changes in net assets and funds**

.11 The impairment loss is recognised in the revaluation reserve to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

**Notes to the financial statements**

.12 Asset impairment is included in the notes of the assets that are impaired.

# PROVISIONS, CONTINGENT LIABILITIES, AND CONTINGENT ASSETS

## Introduction

.01 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
- accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier. Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions. Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

**Relationship between provisions and contingent liabilities**

.02 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, the term 'contingent' is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the retirement fund. In addition, the term 'contingent liability' is used for liabilities that do not meet the recognition criteria.

.03 This chapter distinguishes between provisions and contingent liabilities, as defined.

.04 This chapter is applicable for all provisions, contingent liabilities and contingent assets, except:

- those resulting from executory contracts, except where the contract is onerous; and
- those covered by another chapter.

.05 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This chapter does not apply to executory contracts unless they are onerous.

.06 Where another chapter deals with a specific type of provision, contingent liability or contingent asset, a retirement fund applies that chapter instead of this chapter.

.07 Some amounts treated as provisions may relate to the recognition of income. This chapter does not address the recognition of income.

.08 Other chapters specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this chapter. Accordingly, this chapter neither prohibits nor requires capitalisation of the costs recognised when a provision is made.

## Recognition

**Provisions**

.09 A provision shall be recognised when:

- a retirement fund has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.



.10 If these conditions are not met, no provision shall be recognised.

*Present obligation*

.11 In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the statement of net assets and funds date.

.12 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a law suit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, a retirement fund determines whether a present obligation exists at the statement of net assets and funds date by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the statement of net assets and funds date. On the basis of such evidence:

- where it is more likely than not that a present obligation exists at the statement of net assets and funds date, the retirement fund recognises a provision (if the recognition criteria are met); and
- where it is more likely that no present obligation exists at the statement of net assets and funds date, the retirement fund discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

*Past event*

.13 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the retirement fund has no realistic alternative to settling the obligation created by the event. This is the case only:

- where the settlement of the obligation can be enforced by law; or
- in the case of a constructive obligation, where the event (which may be an action of the retirement fund) creates valid expectations in other parties that the retirement fund will discharge the obligation.

.14 Financial statements deal with the financial position of a retirement fund at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in a retirement fund's statement of net assets and funds are those that exist at the statement of net assets and funds date.

.15 It is only those obligations arising from past events existing independently of a retirement fund's future actions (i.e. the future conduct of its business) that are recognised as provisions. In contrast, because of commercial pressures or legal requirements, a retirement fund may intend or need to carry out expenditure to operate in a particular way in the future. Because the retirement fund can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.

.16 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed. The obligation might even be to the public at large. An obligation always involves a commitment to another party. It therefore follows that a decision of the Board of Trustees does not give rise to a constructive obligation at the statement of net assets and funds date unless the decision has been communicated before the statement of net assets and funds date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the retirement fund will discharge its responsibilities.

.17 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the retirement fund gives rise to a constructive obligation.

.18 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. Such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

*Probable outflow of resources embodying economic benefits*

.19 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this chapter, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not. (The interpretation of 'probable' in this chapter as 'more likely than not' does not necessarily apply in other chapters.)

.20 Where it is not probable that a present obligation exists, a retirement fund discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote.

.21 Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

*Reliable estimate of the obligation*

.22 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the statement of net assets and funds. Except in extremely rare cases, a retirement fund will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.

.23 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability.

**Contingent liabilities**

.24 A retirement fund shall not recognise a contingent liability in the statement of net assets and funds. A contingent liability is disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

.25 Where a retirement fund is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The retirement fund recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

.26 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

**Contingent assets**

.27 A retirement fund shall not recognise a contingent asset in the statement of net assets and funds.



.28 Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the retirement fund. An example is a claim that a retirement fund is pursuing through legal processes, where the outcome is uncertain.

.29 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.

.30 A contingent asset is disclosed where an inflow of economic benefits is probable.

.31 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, a retirement fund discloses the contingent asset.

## Measurement

**Best estimate**

.32 The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the statement of net assets and funds date.

.33 The best estimate of the expenditure required to settle the present obligation is the amount that a retirement fund would rationally pay to settle the obligation at the statement of net assets and funds date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the statement of net assets and funds date. However, the estimate of the amount that a retirement fund would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the statement of net assets and funds date.

.34 The estimates of outcome and financial effect are determined by the judgement of the Board of Trustees of the retirement fund, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the statement of net assets and funds date.

.35 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by these items' associated probabilities. The name for this statistical method of estimation is 'expected value'.

.36 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the retirement fund considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount.

**Risks and uncertainties**

.37 The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

.38 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

**Present value**

.39 Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.

.40 Because of the time value of money, provisions relating to cash outflows that arise soon after the statement of net assets and funds date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

.41 The discount rate (or rates) shall reflect current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

**Future events**

.42 Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

.43 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

**Expected disposal of assets**

.44 Gains from the expected disposal of assets shall not be taken into account in measuring a provision.

.45 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, a retirement fund recognises gains on expected disposals of assets at the time specified by the chapter dealing with the assets concerned.

**Reimbursements**

.46 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the retirement fund settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

.47 In the statement of changes in net assets and funds, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.

.48 Sometimes, a retirement fund is able to look to another party to pay part or all of the expenditure required to settle a provision. The other party may either reimburse amounts paid by the retirement fund or pay the amounts directly.

.49 In most cases the retirement fund will remain liable for the whole of the amount in question, which means that the retirement fund would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the retirement fund settles the liability.

.50 In some cases, the retirement fund will not be liable for the costs in question if the third party fails to pay. In such a case the retirement fund has no liability for those costs and they are not included in the provision.



.51 As noted in paragraph .31 of this chapter, an obligation for which a retirement fund is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

**Changes in provisions**

.52 Provisions shall be reviewed at each statement of net assets and funds date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.

**Use of provisions**

.53 A provision shall be used only for expenditures for which the provision was originally recognised.

.54 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

## Application of the recognition and measurement rules

**Future operating losses**

.55 Provisions shall not be recognised for future operating losses.

.56 Future operating losses do not meet the definition of a liability and the general recognition criteria set out for provisions.

.57 An expectation of future operating losses is an indication that certain assets of the operation may be impaired. A retirement fund tests these assets for impairment.

**Onerous contracts**

.58 If a retirement fund has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

.59 Many contracts can be cancelled without paying compensation to the other party, and therefore there is no obligation in these cases. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this chapter and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this chapter.

.60 This chapter defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

.61 Before a separate provision for an onerous contract is established, a retirement fund recognises any impairment loss that has occurred on assets dedicated to that contract.

## Tables and decision tree

.62 The tables and decision tree set out below summarise the main requirements of this chapter.

**Provisions and contingent liabilities**

| Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the retirement fund: | | |
|---|---|---|
| There is a present obligation that probably requires an outflow of resources | There is a possible obligation or a present obligation that may, but probably will not, | There is a possible obligation or a present obligation where the likelihood of an outflow of |

| | require an outflow of resources | resources is remote |
|---|---|---|
| A provision is recognised | No provision is recognised | No provision is recognised |
| Disclosures are required relating to the provision | Disclosures are required relating to the contingent liability | No disclosure is required |
| A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability. | | |

**Contingent assets**

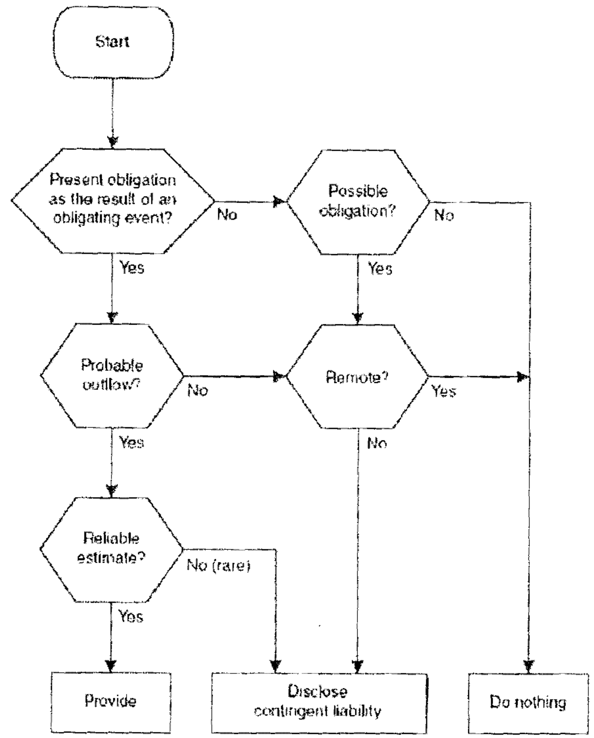
| Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the retirement fund: | | |
|---|---|---|
| The inflow of economic benefits is virtually certain | The inflow of economic benefits is probable, but not virtually certain | The inflow is not probable |
| The asset is recognised | No asset is recognised | No asset is recognised |
| | Disclosures are required | No disclosure is required |

**Reimbursements**

| Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party. | | |
|---|---|---|
| The retirement fund has no obligation for the part of the expenditure to be reimbursed by the other party | The obligation for the amount expected to be reimbursed remains with the retirement fund and it is virtually certain that reimbursement will be received if the retirement fund settles the provision | The obligation for the amount expected to be reimbursed remains with the retirement fund and the reimbursement is not virtually certain if the retirement fund settles the provision |
| The retirement fund has no liability for the amount to be reimbursed | The reimbursement is recognised as a separate asset in the statement of net assets and funds and may be offset against the expense in the statement of changes in net assets and funds. The amount recognised for the expected reimbursement does not exceed the liability | The expected reimbursement is not recognised as an asset |
| No disclosure is required | The reimbursement is disclosed together with the amount recognised for the reimbursement | The expected reimbursement is disclosed |



**Decision tree**




Note: in rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the statement of net assets and funds date.

## Presentation and disclosure

**Statement of net assets and funds**

.63 Provisions are disclosed as a separate line item under non-current liabilities.

**Statement of changes in net assets and funds**

.64 The expense corresponding with the provision, i.e. the relevant expense item that the provision is raised for, will be disclosed under the appropriate expense item.

**Notes to the financial statements**

.65 The note disclosure for provisions includes the individual line items that make up the balance at the end of the reporting period. A reconciliation should be included of the opening balance of such provisions to the closing balance, taking cognisance of the payments made and new provisions raised.



# CONTRIBUTIONS

## Introduction

.01 In terms of section 13A(3) of PFA, any contributions due in terms of the rules of a retirement fund by the member and/or the participating employer have to be paid over to the fund or insurer, as appropriate, within seven days after the end of the month for which such contribution is payable..

.02 Information on the contribution frequency (monthly or otherwise), contribution rates, and whether the employer and/or the members contribute is contained in the rules of the fund.

.03 In accordance with section 13A(7) of the PFA and 33, a retirement fund is to charge interest at a rate prescribed by the Minister by notice in the Gazette on any contributions that are not transmitted into a retirement fund's bank account (in full or in part) within the prescribed period.

## Recognition and measurement

**Contributions received and accrued**

.04 Contributions are measured at the fair value of the consideration received or receivable.

.05 Contributions are accrued and recognised as income in accordance with the actuarial recommendations, and the rules of the retirement fund. Contributions received are apportioned between retirement funding and funding for risk expenses. The apportionment is governed by the rules of the fund and actuarial recommendations. Voluntary contributions are, however, recognised when they are received for annual payments or accrued where monthly recurring payments are made. Any contributions outstanding at the end of the reporting period are recognised as a current asset – contributions receivable.

.06 Any contributions received in advance at the end of the reporting period are recognised as a current liability – accounts payable.

.07 Contributions received and accrued only include cash payments from the employer and not contributions funded from reserve or surplus accounts. These contributions include:

- Member contributions (contributions received and accrued and additional voluntary contributions);
- Employer contributions (contributions received and accrued and additional voluntary contributions); and
- Additional contributions in respect of actuarial shortfall as per the valuator's report.

.08 The employer is required to pay in full to the fund any contribution deducted from the members' remuneration and any contribution for which the employer is liable to pay in terms of the fund rules

**Contributions transferred from reserve accounts**

.09 Contributions transferred from reserve accounts include any contributions that are funded from the reserve accounts of the fund. This caters for any contribution holiday before surplus apportionment. After surplus apportionment has been approved, a contribution holiday will be funded from the employer surplus account.

**Contributions transferred from surplus accounts**

.10 Contributions transferred from surplus accounts include any contributions that are funded from the surplus accounts. This relates to any contribution holiday after surplus apportionment has been approved and the corresponding utilisation of the employer surplus account and the member surplus account has been approved.

**Interest charged on late payment of contributions**

.11 Compound interest (compounded daily) on late payments or unpaid amounts and values shall be calculated for the period from the first day of the month following the expiration of the period in respect of which the relevant amounts or values are payable or transferable until the date of receipt by the fund.

.12 Interest at a rate as prescribed from time to time by the Minister by notice in the *Gazette* shall be payable on:

- the amount of any contribution transmitted into a fund's bank account later than seven days after the end of the period for which such a contribution is payable;
- the amount of any contribution received:
  - by a fund that has been forwarded directly to the fund in such a manner as to have the fund receive the contribution later than seven days after the end of that month; or
  - in the case of a fund where, in operating as a fund, its assets consist exclusively of one or more policies of insurance with an insurer carrying on long-term insurance business as contemplated in the Long-term Insurance Act, 1998, forwarded to the insurer concerned in such manner as to have the insurer receive the contribution later than seven days after the end of that month; and
- the value of any benefit, or right to any benefit, not transferred by the first fund to the other fund before the expiration of 60 days of the date of such person's written request to do so.

## Presentation and disclosure

**Statement of net assets and funds**

.13 The total amount of contributions receivable at the end of the year is disclosed. Contributions receivable are disclosed separately under current assets. This does not apply to underwritten funds that have opted to recognise contributions on the cash basis. Contributions received in advance must be disclosed under accounts payable and specified in the detailed note on the nature of accounts payable.

**Statement of changes in net assets and funds**

.14 Contributions are disclosed in the following line items:

- Contributions received and accrued
- Contributions transferred from reserve accounts
- Contributions transferred from surplus accounts

*Contributions received and accrued*

.15 The total amount received and accrued during the current reporting period is disclosed within the respective columns for members' individual accounts/accumulated funds and reserve accounts. The reserve account column will be used where the rules of the fund provide that a certain portion of the employer's contribution is allocated to a reserve account. This is applicable, for example, where the risk portion of the contributions paid by the employer is allocated to a risk reserve account.

.16 Contributions received and accrued only include cash payments from the employer and not contributions funded from reserve or surplus accounts.



*Contributions transferred from reserve accounts*

.17 This line item includes any contributions that are funded from the reserve accounts of the fund. Therefore, the amount of the contributions will be negative in the reserve account column and positive in the accumulated funds' column. This line caters for any contribution holiday before surplus apportionment. After surplus apportionment has been approved, a contribution holiday will be funded from the employer surplus account. Any contribution holiday taken after the surplus apportionment date but before the surplus scheme has been approved must be repaid to the fund (contravention of section 15A(3)) and the fund rate of return should be added to the contributions due to the fund. The contributions should be disclosed separately in the note to the financial statements as contributions in respect of contribution holiday.

*Contributions transferred from surplus accounts*

.18 This line item will show any contributions that are funded from the surplus accounts. This relates to any contribution holiday after surplus apportionment has been approved and the corresponding utilisation of the employer surplus account and the member surplus account has been approved.

**Notes to the financial statements**

.19 Each category of contributions is disclosed in the notes as follows:

- Member contributions (showing separately: contributions received and accrued and additional voluntary contributions);
- Employer contributions (showing separately: contributions received and accrued and additional voluntary contributions); and
- Additional contributions in respect of actuarial shortfall as per the valuator's report.

.20 In respect of each category of contributions above, a reconciliation of the net amount of contributions due to/by the fund from the beginning to the end of the reporting period is disclosed in the notes, showing contributions towards retirement plus contributions towards reinsurance and expenses, less contributions received during the period.

.21 The amount charged as interest on late payment of contributions is disclosed as a separate line within the net investment income note. Any interest on late payment of contributions outstanding at the end of the reporting period is disclosed as accrued income under the accounts receivable note.

# BENEFITS

## Introduction

**Benefits paid**

.01 The benefit payments to members are determined in accordance with the rules of the fund and the PFA.

**Pensioners**

.02 There are three different scenarios which can give rise to annuities. Each of the scenarios has different accounting treatment, which is detailed in the table below.

| Benefit | Transfer | Investment decision |
|---|---|---|
| Annuity purchased at retirement in terms of the rules of the fund in the name of the member. | Annuity purchased after retirement in the name of the member. | Annuity purchased before or after retirement in the name of the fund. |
| Circular PF100 sets out the conditions and circumstances for a fund to be released of all obligations towards a member on his or her retirement (i.e. full and final settlement of the liability). | This will constitute a transfer of business and section 14 of the PFA must be complied with. | This constitutes an investment decision of the fund. The pensioner liability still exists within the fund and therefore the assets should still be reflected as an investment of the fund. |
| **Statement of changes in net assets and funds** | **Statement of changes in net assets and funds** | **Statement of changes in net assets and funds** |
| Benefits and transfers out | Benefits and transfers out | Income from investments if the cash flows through the fund bank account.<br><br>Adjustment to the fair value of investments.<br><br>Benefits and transfers out if the cash flows through the fund bank account. |
| The purchase of the policy of insurance constitutes the payment of a benefit under benefits awarded. Benefits awarded in the notes to the financial statements require the payment for the policy of insurance in the name of the member. | The purchase of the policy of insurance constitutes a transfer under transfers out. The financial statements require the payment for the policy of insurance to be shown under section 14 transfers of the PFA in the revenue account transfers out.<br><br>The transfer should only be recognised in terms of the chapter on transfers. | In the notes to the financial statements under investment income the annuities received should be disclosed as a separate line item called policy income purchased policies if the cash flows through the fund bank account.<br><br>The adjustment to fair value should be reflected in the revenue account under adjustment to fair value of investments combined together with the fair value adjustments of other investments but separately maintained in the general ledger.<br><br>The payment of pensions constitutes the payment of a benefit under benefits awarded. Benefits awarded in the notes to the financial statements require the payment of pensions to be shown under pensions paid if the cash flows through the fund bank account. |
| **Statement of net assets and funds** | **Statement of net assets and funds** | **Statement of net assets and funds** |
| No additional disclosure apart from the cash flows, as the policy of insurance is in the name of the individual member and is his or her property.<br><br>No further reference needs to be made.<br><br>Note that all the requirements in Circular PF100 must be met for the arrangement not to fall within the ambit of section 14 of the PFA. | No additional disclosure apart from the cash flows, if the transaction has been settled in terms of section 14 of the PFA.<br><br>However, if the transaction has not been settled at year-end it should be reflected as a transfer outstanding under accounts payable. The liability should only be provided for if the FSB approval for the section 14 transfer has been obtained. In the event of the section 14 transfer being applied for but not yet approved at year-end a contingent liability note reflecting the values and the number of pensioners transferring should be made.<br><br>No further reference needs to be made.<br>Note that all the requirements of section 14 of the PFA must be met. | The policy of insurance should be reflected as an investment under investments. In the notes to the financial statements the policy of insurance should be shown as a separate line item under investments.<br><br>In the financial statements the accounting policy should state that policies of insurance are accounted for at fair value. |



**Reinsurance proceeds**

.03 A fund may, if the rules permit, reinsure the benefits with an insurance company or be self-insured.

.04 When a reinsured benefit becomes payable, reinsurance proceeds are received in the fund from the insurance company or, in the case of a self-insurance scheme, from the fund itself. The reinsurance proceed is then paid out with the members' normal benefit.

## Recognition and measurement

**Benefits payable/due and monthly pensions**

.05 Benefits payable and pensions should be measured in terms of the rules of the fund.

**Benefits and monthly pensions**

.06 Benefit payments and monthly pension payments are recognised as an expense when they are due and payable in terms of the rules of the fund. Any benefits not paid at the end of the reporting period are recognised as a current liability – benefits payable/due.

**Pensioner annuities in the name of the fund (the asset is addressed as part of investments)**

.07 The payment of pensions constitutes the payment of a benefit under benefits awarded. The note disclosure for benefits awarded requires the payment of pensions to be shown under pensions paid.

**Reinsurance proceeds**

.08 Reinsurance proceeds are measured at the fair value of the consideration received or receivable.

.09 Reinsurance proceeds are accrued and recognised as income at the same time as the recognition of the related claim.

## Presentation and disclosure

**Statement of net assets and funds**

.10 Benefits payable are disclosed in the statement of net assets and funds as a separate line item.

.11 Unclaimed benefits are disclosed as a separate line item under non-current liabilities.

**Statement of changes in net assets and funds**

.12 Benefits are disclosed as a separate line item on the statement of changes in net assets and funds.

.13 Net investment income allocated to unclaimed benefits is disclosed as a separate line item in the statement of changes in net assets and funds.

**Notes to the financial statements**

.14 Benefit payments are recognised as an expense in the statement of changes in net assets and funds when they are due and payable in terms of the rules of the retirement fund. A reconciliation of the benefits payable to members from the beginning to the end of the period is included in the notes, analysed as follows:

- Monthly pensions;
- Lump sums on retirement (showing separately: full benefits and pensions commuted);
- Lump sums before retirement (showing separately: disability benefits, death benefits, withdrawal benefits, and retrenchment benefits);
- Minimum benefit payments in terms of section 15;
- Defaults on housing loan facilities while still a member of the retirement fund; and
- Any other relevant benefits paid by the fund.

.15 Benefits payable are disclosed in the notes to the financial statements as 'benefits – current members' and 'benefits in terms of surplus apportionment'.

.16 In respect of each category of benefits above, a reconciliation of benefits payable from the beginning to the end of the reporting period is disclosed, showing separately: benefits for the current period plus investment return (usually late payment interest) allocated to such benefits after the effective date of exit by the member, less benefits paid during the period and benefits transferred to unclaimed benefits, to reflect the net amount of benefits due by the fund. This note combines the value disclosed in the statement of changes in net assets and funds, as well as the value of the benefits paid (via the bank account of the fund) and the net amount per category of benefits, which remained unpaid at the year-end of the fund.

.17 A reconciliation of benefits payable in terms of surplus apportionment from the beginning to end of the period is disclosed in the notes to the financial statements, analysed between:



- Enhancements to pensioners, which are not within the fund; and
- Enhancements to former members.

.18 In respect of each category of benefit listed above, a reconciliation of the balance at the beginning of the period to the end of the period is disclosed, showing separately the surplus allocated during the current period in terms of the surplus apportionment scheme approved by the Registrar plus investment return allocated, less payments made and transfers to unclaimed benefits.

.19 When benefits payable become unclaimed during the reporting period, these benefits are transferred to unclaimed benefits, and are shown separately under non-current liabilities in the statement of net assets and funds. The definition of unclaimed benefits is provided in the rules of each retirement fund or established by historic practice adopted by the fund.

.20 A reconciliation of the benefits unclaimed from the beginning to the end of the period is disclosed, indicating separately:

- The total amount of unclaimed benefits at the beginning of the period;
- Any additional unclaimed benefits transferred from benefits payable;
- The investment return allocated to unclaimed benefits (which is disclosed as a separate line item in the statement of changes in net assets and funds and must agree with the investment policy, as disclosed in the trustees report);
- Details of certain expenses incurred, which are borne directly by the unclaimed beneficiaries (including tracing expenses and administration expenses);
- The amount of benefits previously unclaimed that has been paid during the current period; and
- The total amount of unclaimed benefits at the end of the period.

# INVESTMENT INCOME

## Recognition and measurement

**Dividends**

.01 Dividend income is recognised in the statement of changes in net assets and funds when the right to receive payment is established – this is the last date to trade for equity securities. For financial assets designated at fair value through the statement of changes in net assets and funds, the dividend income forms part of the fair value adjustment.

**Interest**

.02 Interest income in respect of financial assets held at amortised cost is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

**Rentals**

.03 Rental income is accounted for in the statement of changes in net assets and funds on a straight-line basis over the period of the rental agreement, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Property expenses shall be recognised in the statement of changes in net assets and funds under net investment income.

**Collective investment schemes' distribution**

.04 Distributions from collective investment schemes are recognised when the right to receive payment is established.

**Income from policies with insurance companies**

.05 Income from investment policies with insurance companies is included in the adjustment to the movement of the financial asset.

**Interest on late payment of contributions, surplus improperly utilised and/or loans and receivables**

.06 Interest on late payment of contributions, surplus improperly utilised and/or loans and receivables is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

**Adjustment to fair value**

.07 Gains or losses arising from changes in the fair value of 'financial assets at fair value through the statement of changes in net assets and funds' are presented in the statement of changes in net assets and funds in the period in which they arise.

**Expenses incurred in managing investments**

.08 Expenses in respect of the management of investments are recognised as the service is rendered.

**Interest paid on borrowings**

.09 Interest expense is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

## Presentation and disclosure

**Statement of changes in net assets and funds**

.10 Rental income on investment property is reflected in the net investment income note. Adjustments to fair value are recognised in the statement of changes in net assets and funds under net investment income.

.11 The following should be noted regarding net investment income:

- 'Collective investment schemes' distribution' refers to the income earned on collective investment schemes.



- Income from insurance policies is not segregated into the underlying income earned from the underlying assets. It is aggregated and allocated to this line item.
- Adjustment to fair value will include revaluations and devaluations, as well as the vested and non-vested portion of a non-market-related insurance policy, provided the definition of an asset is met.

# ADMINISTRATION EXPENSES

## Introduction

.01 Administration expenses are disclosed in detail within the template set of financial statements.

.02 General administration expenses that are attributable to unclaimed benefits and collectible from the unclaimed beneficiaries are credited against administration expenses and debited against unclaimed benefits, as provided for in the rules of the fund These expenses usually comprise claim administration fees and tracing expenses.

.03 Any expenses related to the surplus apportionment exercise will be included in administration expenses but may then be allocated against any contingency reserves created for this purpose.

## Recognition and measurement

.05 An expense should be recognised and measured in terms of the applicable chapter of the regulatory reporting requirements. If a specific chapter does not apply to the expense, then the expense should be recognised and measured in terms of the chapter on reporting concepts.

.06 Expenses incurred in the administration of retirement funds are recognised in the statement of changes in net assets and funds in the reporting period to which they relate.

.07 In the event that an expense has not yet been paid at the end of the reporting period the liability will be reflected in the accounts payable note. If an expense has been paid in advance or has been overpaid, the asset will be disclosed in the accounts receivable note.

.08 An expense should be recognised if:

- it is probable that any future economic benefit associated with the item will flow to or from the retirement fund; and
- the item has a cost or value that can be measured with reliability.

### Depreciation of property, plant and equipment

.09 Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

.10 A retirement fund allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part.

.11 A significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge.

.12 To the extent that a retirement fund depreciates separately some parts of an item of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts of the item that are individually not significant. If a retirement fund has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern and/or useful life of its parts.

.13 A retirement fund may choose to depreciate separately the parts of an item that do not have a cost that is significant in relation to the total cost of the item.



### Depreciable amount and depreciation period

.14 The depreciable amount of an asset shall be allocated on a systematic basis over its useful life.

.15 The residual value and the useful life of an asset shall be reviewed at least at each financial year-end and, if expectations differ from previous estimates, the change(s) shall be accounted for prospectively as a change in an accounting estimate.

.16 Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset's residual value does not exceed its carrying amount. Repair and maintenance of an asset do not negate the need to depreciate it.

.17 The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

.18 The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

.19 Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production.

.20 The future economic benefits embodied in an asset are consumed by a retirement fund principally through the asset's use. However, other factors, such as technical or commercial obsolescence and wear and tear while an asset remains idle, often result in the diminution of the economic benefits that might have been obtained from the asset. Consequently, all the following factors are considered in determining the useful life of an asset:

- expected usage of the asset. (Usage is assessed by reference to the asset's expected capacity or physical output.);
- expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle;
- technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and
- legal or similar limits on the use of the asset, such as the expiry dates of related leases.

.21 The useful life of an asset is defined in terms of the asset's expected utility to the retirement fund. The asset management policy of the retirement fund may involve the disposal of assets after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of the asset is a matter of judgement based on the experience of the retirement fund with similar assets.

.22 Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of the building.

.23 If the cost of land includes the costs of site dismantlement, removal and restoration, that portion of the land asset is depreciated over the period of benefits obtained by incurring those costs. In some cases, the land itself may have a limited useful life, in which case it is depreciated in a manner that reflects the benefits to be derived from it.

**Depreciation method**

.24 The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the retirement fund.

.25 The depreciation method applied to an asset shall be reviewed at least at each financial year-end and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with IAS 8.

.26 A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method, and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge made of the basis of the expected use or output. The retirement fund selects the method that most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits.

## Presentation and disclosure

**Statement of changes in net assets and funds**

.27 On the statement of changes in net assets and funds, administration expenses are deducted from fund income, together with other fund expenses, to arrive at net income before transfers and benefits.

**Notes to the financial statements**

.28 Disclosure is made in the notes, showing separately, but not confined to:

- Actuarial fees;
- Administration fees;
- Audit fees – audit services, expenses, other;
- Consulting fees;
- Depreciation – at cost;
- Depreciation – at revaluation;
- Fidelity insurance;
- Levies;
- Office expenses;
- Operating lease payments;
- Penalties;
- Principal officer expenses;
- Staff expenses;
- Secretarial fees;
- Trustee fees and remuneration; and
- Other expenses (specify if material).

.30 Any payment made to the principal officer in relation to services rendered to the retirement fund is disclosed in a separate note, showing:



- Fees as trustee;
- Remuneration – for example, travel allowance, salary, entertainment allowance;
- Allowances – for example, meeting allowances;
- Contributions to retirement fund;
- Bonus; and
- Other payments – for example, expenses incurred relating to the rendering of services as a principal officer.

.31 Any payment made to members of staff in relation to services rendered for the retirement fund is disclosed separately in a note, showing:

- Remuneration (such as travel allowance, salary, entertainment allowance);
- Contributions to retirement fund;
- Training expenses; and
- Other payments (such as other expenses relating to services rendered not included above).

.32 Any payment made to members of the Board of Trustees in relation to services rendered to the retirement fund is disclosed separately in a note, showing:

- Remuneration (such as travel allowance, salary, entertainment allowance, contributions to retirement fund);
- Meeting allowances;
- Expenses (such as expenses incurred relating to the rendering of services as members of the Board of Trustees);
- Other payments (such as expenses incurred relating to the rendering of services as a principal officer); and
- Other payments (such as other expenses relating to services rendered not included above).

.33 If administration expenses and surplus apportionment (including expenses incurred prior to the surplus apportionment scheme being approved) are to be allocated to a reserve account or to the member or employer surplus account, the expense line will also appear in the respective reserve or surplus note. Care should be taken to debit any expenses related to surplus apportionment exercises to the relevant reserve.

# OPERATING LEASES

## Introduction

.01 This chapter applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This chapter does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

.02 This chapter shall not be applied as the basis of measurement for property held by lessees that is accounted for as investment property.

.03 In terms of Circular PF 21 issued by the FSB, pension fund borrowings are limited strictly to temporary loans for bridging unforeseen cash shortages or for taking advantage of attractive investment opportunities. This is in keeping with section 10 of the PFA. Retirement funds therefore do not hold finance leases and finance leases are not discussed in this chapter. (An operating lease does not transfer substantially all the risks and rewards incidental to ownership. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.)

## Recognition and measurement

.04 For operating leases, lease payments (excluding costs for services such as insurance and maintenance) shall be recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit, even if the payments are not on that basis.

.05 Straight-line recognition means that the payments over the lease term are to be aggregated and divided by the lease term in months, in order to arrive at the monthly expense.

.06 The cumulative difference between the amounts recognised in the statement of changes in net assets and funds and the cash flows is recognised on the statement of net assets and funds.

.07 It should be noted that recognition of rental expenses and income respectively on the basis of the cash flows in the lease agreement is not considered to be "*another systematic basis, more representative of the time pattern of the user's benefit*". The time pattern of the user's benefit is only affected by factors which impact on the physical usage of the property.

.08 In the past cash flows were considered to be an appropriate basis for recognition as it was considered that the increased cash flows arose as a result of the increased benefits arising from the leased asset. Retirement funds therefore selected a method other than the straight-line method.

.09 The straight-line method results in an equal impact in the statement of changes in net assets and funds in each reporting period irrespective of the fact that cash flows differ.

.10 An estimate of contingent rentals payable/receivable under an operating lease is not included in the total lease payment/lease income to be recognised on a straight-line basis over the lease term.

### Sale and leaseback transactions

.11 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package.

.12 Because the sale and leaseback transaction results in an operating lease, the transaction is established at fair value, and any profit or loss shall be recognised immediately.



.13 If the sale price is below fair value, any profit or loss shall be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it shall be deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value shall be deferred and amortised over the period for which the asset is expected to be used.

.14 If the leaseback is an operating lease, and the lease payments and the sale price are at fair value, there has in effect been a normal sale transaction and any profit or loss is recognised immediately.

.15 For operating leases, if the fair value at the time of a sale and leaseback transaction is less than the carrying amount of the asset, a loss equal to the amount of the difference between the carrying amount and fair value shall be recognised immediately.

# ACCOUNTING POLICIES, CHANGES IN ACCOUNTING ESTIMATES AND ERRORS

## Introduction

.01 Prior period adjustments may arise as a result of changes in accounting policies or errors.

.02 A statement is made in financial statements in the accounting policies section that the principal accounting policies used by the fund are, except as detailed in the appropriate note, consistent with those of the previous period.

.03 If any accounting policies have changed during the period or any errors relating to the prior period have been identified, a reference to the prior period note will also be made.

## Recognition and measurement

.04 Retirement funds apply adjustments arising from changes in accounting policies and errors prospectively. The adjustment relating to a change in the accounting policy or error is therefore recognised in the current and future periods affected by the change.

## Presentation and disclosure

**Statement of changes in net assets and funds**

.05 Prior period adjustments are reflected under the appropriate column immediately after the opening balance of accumulated funds and reserves. The adjustment may be a credit or a debit amount.

.06 The line item for prior period adjustments should not be used for actuarial adjustments to reserves, but only for accounting adjustments.

**Notes to the financial statements**

.07 For a change in an accounting policy the fund should disclose:

- The title of the standard or interpretation;
- The nature of the change in accounting policy;
- The amount of the adjustment for each financial statement line item affected; and
- If the change was voluntary, reasons why applying the new accounting policy provides reliable and more relevant information.

.08 For an error the fund should disclose:

- The nature of the error; and
- The amount of the correction for each financial statement line item affected.

.09 Financial statements of subsequent periods need not repeat these disclosures.

.10 If the prior period adjustment is to be allocated to a reserve account or to a surplus account (the member or employer surplus account), the adjustment line will also appear in the respective reserve or surplus note.



# RELATED PARTIES

## Introduction

.01 A related-party relationship could have an effect on the net assets and results of a retirement fund. Related parties may enter into transactions that unrelated parties would not. Also, transactions between related parties might not be subject to the same terms and conditions or may not be made at the same amounts as those between unrelated parties.

.02 The net assets and results of a retirement fund may be affected by a related-party relationship even if related-party transactions do not occur. The mere existence of the relationship may be sufficient to affect the transactions of the retirement fund with other parties.

.03 For these reasons, knowledge of related-party transactions, outstanding balances and relationships may affect assessments of the retirement fund's operations by users of financial statements, including assessments of the risks and opportunities facing the retirement fund.

.04 A retirement fund and another party are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party. Members of the key management personnel of the retirement fund or close family members of these people are also related parties.

.09 Related-party transactions in the context of a retirement fund mean a transfer of resources or obligations between a retirement fund and its related parties, regardless of whether or not a price is charged.

**Surplus apportionment**

.10 The following transactions and balances may be related-party transactions and should be disclosed accordingly:

- Surplus improperly utilised;
- Surplus improperly utilised receivable;
- Employer surplus account; and
- Employer surplus apportionment.

## Recognition and measurement and presentation and disclosure

.11 In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form.

.12 To enable users of financial statements to form a view about the effects of related-party relationships on a retirement fund, it is appropriate to disclose the related-party relationship where control exists, irrespective of whether there have been transactions between the related parties.

.13 If there have been transactions between related parties, the retirement fund shall disclose the nature of the related-party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements, including:

- The amount of the transactions;
- The amount of outstanding balances;
- Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement. (The retirement fund may make disclosure that related-party transactions were made on terms equivalent to those that prevail in arm's length transactions only if such terms can be substantiated.);
- Details of any guarantees given or received;
- Provisions for doubtful debts related to the amount of outstanding balances; and
- The expense recognised during the period in respect of bad or doubtful debts due from related parties.

.14 The disclosures required shall be made separately for each entity with control or significant influence over the retirement fund.

.15 Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary for an understanding of the effects of related-party transactions on the financial statements of the retirement fund.