Example trustees' annual report and financial statements

KPMG Guide 2018

(October 2018)

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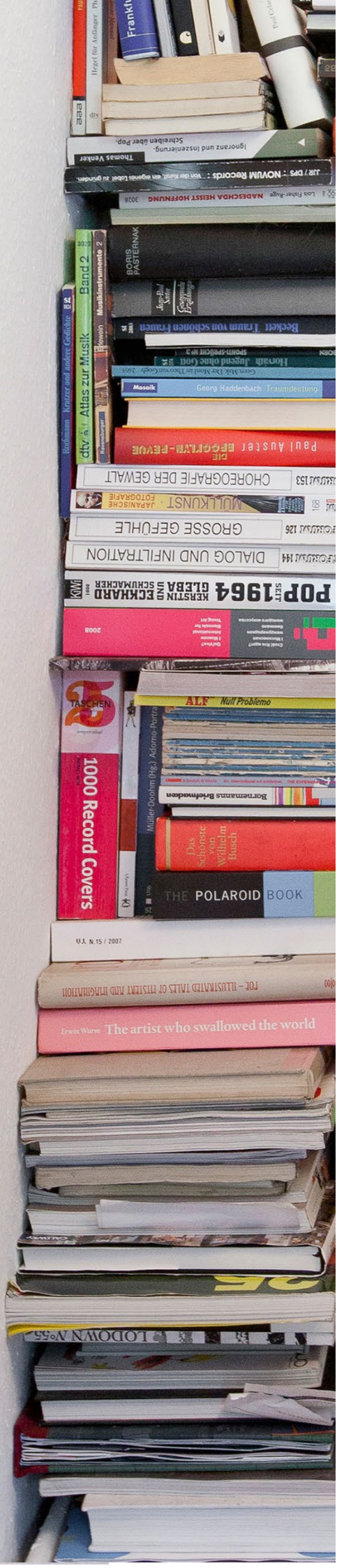

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KPMG Example Accounts Guide 2018

Introduction

Welcome to the 2018 edition of KPMG's guide to pension scheme financial statements. We have updated our guide to take account of the recent changes to FRS 102 and the SORP.

Following the significant amendments introduced by FRS 102 and the 2014 edition of the SORP, the 2018 SORP takes account of amendments to FRS 102 since its inception, amendments to legislation and various mostly minor clarifications. These include moving the fair value hierarchy to disclosure on a level 1, 2, 3 basis. Guidance initially prepared by a Pensions Research Accountants Group/Investment Association joint working party looking at practical aspects around investment disclosures is also included. There have not been significant developments in the industry which impact on scheme accounting in the SORP.

The aim of this publication is to provide a practical guide to assist with pension scheme financial reporting. We hope you find it useful.

Nadia Dabbagh-Hobrow

Partner

Head of Pensions Assurance

Section 1: Key changes to the SORP

Key changes to the SORP include, in summary:

— A requirement for comparative disclosure, analysed between DB and DC, for the fund account in hybrid schemes. This may be on the face of the fund account or in a prominent note.

— Fair value disclosure of investments is required in accordance with the 1, 2, 3 hierarchy.

— Amendments to require that Pooled Investment Vehicles fall within the scope of the concentration of investment notes, as required by Regulations.

— Clarification that it is for CIF trustees to determine whether their CIF falls within the definition of a financial institution, in which case additional disclosures are required by FRS 102.

— Clarification that disclosures may be required even if there is no material uncertainty in relation to going concern to ensure that the accounts give a true and fair view.

— Clarification that FRS 102's disclosure requirement relating to identification of financial statements apply to pension schemes.

— Clarification that the small entity reporting regime under FRS102 does not apply to pension schemes.

Section 2: Example trustees' annual report and financial statements

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

— The trustees' report illustrates what is required by legislation and what is included as examples of best practice reporting by including legislative disclosures in plain text and best practice examples in italics.

— The SORP suggests that the derivative and investment risk disclosures could be combined. We have not sought to do this in our example but this could present opportunities to streamline disclosures in these areas.

— We have cross referenced the investment risk note to the investment strategy commentary in the trustees' report to avoid duplication of reporting

— We have not included note disclosures for items that are typically not material to the financial statements, for example administration expenses and other debtors and creditors. This is to streamline disclosures where appropriate. However, if these items were material to a particular scheme they would need to be separately reported.

— We have also updated the Chair's Statement to reflect recent regulatory requirements and included the latest versions of the Audit Report, Auditor's Statement and Statement of Trustees' Responsibilities in line with the 2017 update of PN15.

Section 3: Pension Scheme Annual Report checklist

Section 3 of our Guide contains a comprehensive disclosure checklist for the trustees' report and financial statements.

Section 4: Future of pension scheme financial reporting

This part of our publication is not intended to be a comprehensive set of example accounts. Instead we have taken the opportunity to take stock of how the changes introduced by FRS 102 have been adopted and to introduce our thoughts on reporting moving forward into the future. This part of the guide explores permitted flexibilities, building on pension disclosures we have seen emerging combined with best practice in general financial reporting, whilst seeking to make the content of the financial statements more relevant to trustee investment strategy. We have done this by:

— Adopting a format for the notes to the financial statements that groups disclosures by common area, for example, all information about contributions is contained in one note covering accounting policies, numerical analysis and SORP disclosures.

— Disclosing investment market risks by reference to trustee strategic portfolio allocations at a summary level.

— Distinguishing the disclosure of investment market risks from investment credit risks on the basis that market risks relate to fair value and cash flow exposures whereas credit risk relates to security of investments.

We have prepared this section to stimulate discussion and debate which we hope will eventually lead to further improvements in pension scheme financial reporting. However, if you did want to adopt some or all of the disclosures therein we believe they meet the requirements of FRS 102 and the SORP.

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Section 1:
Key changes to the SORP

Since the 2014 SORP was published the FRC have made a number of amendments to FRS 102 arising from implementation experience and the FRCs first triennial review. There have also been changes to relevant pension legislation, mainly the withdrawal of detailed investment disclosure requirements.

This section sets out the significant amendments.

The Annual Report

This section of the SORP has been updated for relevant legislative changes, mainly in relation to the requirement to prepare a statutory Chair's Statement for qualifying defined contribution arrangements and the removal of the requirement for an auditor's statement on contributions for schemes with more than 20 participating employers.

Statement of Recommended Practice

Scope and purpose

Master trusts have been included in the list of types of pension schemes covered by the SORP.

The application of the SORP has been amended for the amendment to FRS 100 which applies SORPs where the SORP states it is applicable.

Accounting principles, policies and presentation

The approach to disclosure of comparative information has been clarified such that comparative disclosure of columnar analysis in the Fund Account between DB and DC for hybrid schemes is required either on the face of the Fund Account or, if that is impractical, prominently in the notes.

Valuation of assets and liabilities

This section of the SORP has been updated for amendments to FRS 102 in relation to fair value disclosure. The disclosure of asset and liability fair value determination has been updated to reflect the 1, 2, 3 hierarchy, rather than a), b), c), in line with the amendments to FRS 102.
The requirements are based on joint guidance issued by the Investment Association and PRAG in May 2016. In practice most schemes have been reporting based on the level 1, 2, 3 hierarchy for two years so this amendment is not expected to result in any significant changes to pension scheme financial reporting.

Concentration of investment risk

An amendment has been made to the SORP to remove an inconsistency between the 2015 SORP and the Audited Accounts Regulations in relation to concentration of risk disclosure for holdings of pooled investment vehicles. This disclosure is required by the Regulations.

Common investment funds

During the development of the 2018 SORP, there was discussion as to whether or not common investment funds (CIFs) met the definition of financial institutions under FRS 102. Ultimately it is possible that they could meet the definition and therefore the SORP has been amended so that the trustees of a CIF must decide whether or not their CIF meets the definition. If the CIF is determined to be a financial institution, the relevant disclosures for financial instruments under FRS 102 (such as liquidity and sensitivity analyses) are required together with the SORP's recommended investment disclosures for pension schemes. If the trustees determine that the CIF is not a financial institution, the 2018 SORP recommends they follow the financial instrument disclosures required for pension schemes under FRS 102 and the SORPs recommended investment disclosures (the current practice).

In addition, the revised SORP requires that where CIF accounts are attached to the scheme annual report, fair value or investment risk disclosures in the scheme accounts should include disclosure at share of CIF level, for example, share of units held.

Going concern

Revisions to the SORP clarify that disclosures may still be required even if there is no material uncertainty in relation to going concern in order for the accounts to give a true and fair view.

The requirements have been updated to provide clarification of appropriate going concern disclosures in the possible different scenarios a scheme may experience in a Pension Protection Fund assessment period.

Identification of the financial statements

A further requirement of the 2018 SORP is disclosure identifying the financial statements in compliance with FRS 102's requirements. These requirements are applicable to pension schemes and the SORP provides relevant guidance.

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Section 2:
Example trustees' annual report and financial statements

October 2018

ABC Group Pension Scheme Trustees' annual report and financial statements

Registered number 123456789X

Year ended 5 April 2019

Contents

Trustees and advisers

Principal company

ABC Group plc
12 Grange Place
York YE2 3ER

Participating subsidiaries

(until 10 January 2019)
DEF Ltd
5 Moors Avenue
Gloucester GL3 5AR

(until 1 August 2018)
GHI Ltd
5 Rainbow Road
Ashford
Kent AS1 8HY

Trustees

A Rook
B Dane
C Payne (resigned 10 March 2019)
D Singer (appointed 10 March 2019)
F Kidner (resigned 30 April 2019)
G Macdonald
F Smith (appointed 30 April 2019)

Secretary to the Trustees

E Marshall

Actuary

JK Dunn (to 7 August 2018)
Dunn and Partners

P Brown (from 7 August 2018)
Brown Consulting Ltd

Auditors

KPMG LLP

Administrator

ABC Group Pensions Administration Ltd

Investment managers

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

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

Custodian

Honest Custody Services Ltd

Annuity provider

Sunshine Life Ltd

Investment adviser

Investment Strategies Limited

AVC providers

Smith Investments Ltd
Jones & Jones plc

Bankers

XYZ Bank plc

Solicitors

Christie & Holmes LLP

Administration office

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

Enquiries

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

Trustees' annual report

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

The Trustees present their annual report on the ABC Group Pension Scheme ('the Scheme'), together with the financial statements of the Scheme for the year ended 5 April 2019.

Introduction

Constitution of the Scheme

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

The Scheme comprises two sections:

— The Defined Benefit Section (DBS) which provides benefits based on a member's salary and length of service; and

— The Defined Contribution Section (DCS) which provides benefits based on a member's accumulated fund.

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

Rule changes

On 10 January 2019 changes to the Rules were agreed which:

— Amended the definition of pensionable pay to include overtime earnings;

— Amended the Rules concerning dependants' benefits to increase benefits to those in full time further education; and

— Clarified certain other Rules.

Transfers

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

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

Recent developments

On 6 April 2018 the DBS was closed to new entrants with the exception of members transferring in on a bulk transfer from Grove Manufacturing (see page 13) and existing members of the DCS, who may transfer to the DBS on their 45th birthday. The Scheme was contracted out of the State pension arrangements until 5 April 2012 from which time it became contracted in.

In addition, on 6 April 2018, the Employer's Southern Division was sold to XYZ plc resulting in 100 DBS active members, who were employed by the Southern Division, becoming deferred members of the Scheme from this date. Past service liabilities remain in the Scheme until finalisation of the transfer value expected in 2019.

A subsidiary, GHI Ltd, withdrew from the Scheme on 1 August 2018. The s75 debt identified relating to the past service benefits of the 3 employees concerned amounted to £15,000. This debt was settled by GHI Ltd during the Scheme year.

On 10 January 2019, a participating subsidiary, DEF Ltd, withdrew from the Scheme. The past service benefits of the employees of DEF Ltd will remain within the Scheme as deferred benefits. However, a deficit has been identified relating to past service benefit accrual. As at the date of these financial statements, the s75 debt has not been determined by the Scheme Actuary, or an estimate been made, as legal opinion is being sought to clarify the Deed and Rules in relation to benefit accrual from 1980 – 1985 for these members. However, DEF Ltd have put £500,000 into an escrow account to offer security against payment of this debt.

Management of the Scheme

The Trustees who served during the year are listed on page 9.

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

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

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

The Trustees have established the following committees:

— *Investment committee (monthly);*

— *Audit committee (twice annually); and*

— *Administration and DC committee (quarterly).*

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

Financial development of the Scheme

The Financial Statements of the Scheme for the year ended 5 April 2019, as set out on pages 28 to 46, have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995. A summary of the Scheme's Financial Statements is set out in the table below.

	DBS	DBS	DCS	DCS	Total	Total
	2019	*2018*	*2019*	*2018*	*2019*	*2018*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Member related income	*6,733*	*320*	*166*	*153*	*6,899*	*473*
Member related payments	*(10,780)*	*(9,740)*	*(104)*	*(73)*	*(10,884)*	*(9,813)*
Net (withdrawals)/additions from dealings with members	*(4,047)*	*(9,420)*	*62*	*80*	*(3,985)*	*(9,340)*
Net returns on investments	*11,785*	*3,697*	*93*	*20*	*11,878*	*3,717*

	DBS	DBS	DCS	DCS	Total	Total
	2019	*2018*	*2019*	*2018*	*2019*	*2018*
Net increase/(decrease) in fund	*7,738*	*(5,723)*	*155*	*100*	*7,893*	*(5,623)*
Transfer between sections	*4*	*2*	*(4)*	*(2)*	*-*	*-*
Net assets at start of year	*73,199*	*78,920*	*645*	*547*	*73,844*	*79,467*
Net assets at end of year	*80,941*	*73,199*	*796*	*645*	*81,737*	*73,844*

DBS

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

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

The net assets of the DBS amounted to £80.9 million at 5 April 2019 (2018:£73.2 million).

DCS

Member related income amounted to £166,000 compared with £153,000 for the prior year, mainly reflecting the increase in DCS members during the year. Member payments increased in 2019 to £104,000 from £73,000. The majority of this increase was due to annuity purchases in the year of £45,000 (2018: £nil). The DCS does not pay pensions as annuities to fund pension benefits are bought in the name of the member.

Assets of the DCS are invested in pooled investment vehicles which reported a net return of £93,000 for the year compared to £20,000 for the previous year.

The net assets of the DCS amounted to £796,000 at 5 April 2019 (2018: £645,000).

Actuarial review

The Financial Statements set out on pages 28 to 46 do not take account of the liabilities to provide pension benefits which fall due after the year end. In respect of the DBS, these liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of such liabilities every three years. This valuation considers the funding position of the DBS and the level of contributions payable. The most recent actuarial valuation was carried out at 5 April 2017. The results of this valuation confirmed that Employer contributions to the DBS should recommence from 6 April 2018 which, as mentioned above, they duly did. In consultation with the Scheme Actuary, the Employer has also agreed to pay deficit funding contributions in 2019, 2020 and 2021 of £20,000, £50,000 and £100,000 respectively to improve the short term funding position of the Scheme such that the Scheme's assets cover accrued past service liabilities. The Employer has deposited £180,000 in an escrow account, the terms of which allow the Trustees access to these funds if the Employer fails to meet the deficit funding under the recovery plan. The next valuation of the DBS is due as at 6 April 2020.

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

The formal actuarial certificate required by statute to be included in this Annual Report from the Scheme Actuary appears on page 50 In addition, as required by FRS 102, the Trustees have included the Report on Actuarial Liabilities on page 51, which forms part of the Trustees' report.

Scheme Actuary

JK Dunn, the Scheme Actuary, resigned on 7 August 2018. The Trustees filled the vacancy in the office of Scheme Actuary by appointing P Brown on the same day.

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

Membership

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

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

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

At 5 April 2019 there were 765 (2018: 821) employees covered for life assurance benefits only, on a non-contributory basis.

Pensioners	DBS
In payment at start of year	*2,081*
New pensioners in year resulting from:	
— *Retirement of active members*	*21*
— *Retirement of deferred members*	*14*

— *Dependants' pensions*	*5*
	40
Cessation of benefits	*(70)*
In payment at end of year	*2,051*

Included within pensioners are 8 (2018:8) pensioners whose pensions are paid from annuities held in the name of the Trustees. For members retiring from the DCS, the Trustees purchase annuities in the member's name therefore the DCS has no pensioner members.

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

Pension increases

Pensions in payment were increased by 2.0% effective from 1 June 2018. Pensions commencing in the 12 months preceding 1 June 2018 received an increase based on the 2.0%, pro-rated for the length of time the pension had been in payment.

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

Deferred pensions have been increased in line with statutory requirements.

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

Custody

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

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

Investment management

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

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

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

DBS

The main investment objective of the DBS is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the Trust Deed and Rules as they fall due.

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

The current strategy is to hold broadly:

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

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

	2019	2018
	%	%
LDI portfolio	63	59
Return Seeking portfolio	37	41
	100	100
Overseas Currency exposure	17	14

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

The nature and disposition of the DBS investments are set out below, together with the actual allocation of investments at 5 April 2019, with pooled investment vehicles and equity derivatives analysed by underlying economic exposure:

Asset Class	Segregated Funds	Pooled Investment Vehicles	Derivatives	Total	%
	£000	£000	£000	£000	
LDI:					
— Fixed interest and interest/inflation swaps	48,306	2,500	242	51,048	63.1
Return Seeking:					
— Equities (UK and overseas)	20,636	3,218	358	24,212	29.9
— Absolute Return	325	30	-	355	0.4
— Property	4,145	503	-	4,648	5.8
— Private Equity (PE)	-	320	-	320	0.4
— Other	580	-	(270)	310	0.4
Total	73,992	6,571	330	80,893	100

The Trustees regard all the investments of the DBS as readily marketable, other than the PE fund.

The DBS investments, managed by Secure Asset Management Limited, achieved an annual return of 15.0% over the year to 5 April 2019 and 13.8% in the three years to 5 April 2019. This compares to the Scheme specific benchmark returns of 14.5% and 14.2% for one and three years respectively.

DCS

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

— *ABC Scheme Equity*

— *ABC Scheme Bonds*

— *ABC Scheme Cash*

— *ABC Scheme Diversified Growth*

These investment funds are in the form of unitised insurance policies with TAM Ltd. The Trustees regularly review the investment performance of the funds against appropriate benchmarks. The overall return for the DCS over the year to 5 April 2019 was 13% and for the three years to 5 April 2019 was 15%.

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

Asset Type	*Value*	*Investment performance*	*Investment performance*
	£000	*Over 1 year %*	*Over 3 years %*
ABC UK Equity Tracker Pension Fund	*606*	*13*	*16*
ABC Corporate Bond Pension Fund	*125*	*14*	*14*
ABC Cash Deposit & Treasury Pension Fund	*52*	*1*	*1*
ABC Diversified Growth Pension Fund	*32*	*5*	*5*
Total	*815*	*13*	*15*

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

Additional Voluntary Contributions (AVCs)

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

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

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

Self-investment and breach of the Statement of Investment Principles

The Statement of Investment Principles prohibits the Scheme from holding shares in ABC Group plc. Due to an oversight by Secure Asset Management Limited the Scheme purchased 20,000 shares in ABC Group plc in December 2018 for a cost of £2 million. When this error came to the Trustees' attention they instructed the investment manager to dispose of the holding as soon as practicable. At the year end the Scheme held an investment of 10,987 ABC Group plc ordinary shares amounting to 1.5% of the net assets of the Scheme. These shares were all disposed of in May 2019.

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

A. Rook

16 September 2019

The ABC Group Pension Scheme (the 'Scheme') Chairman's Statement

Introduction

This statement has been prepared by the Trustees of the Scheme in accordance with regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations ("the Administration Regulations") 1996 (as amended) and covers the 2019 scheme year (the 'scheme year'). It describes how the Trustees have met the statutory governance standards in relation to:

— The default arrangements.

— Requirements for processing financial transactions.

— Assessment of charges and transaction costs.

— The requirement for trustee knowledge and understanding.

Default arrangements

The following funds are the Scheme's 'default arrangement' for the purposes of the Administration Regulations:

ABC Cash Deposit & Treasury Pension Fund

ABC UK Equity Tracker Pension Fund

ABC Corporate Bond Pension Fund

The Scheme's latest Statement of Investment Principles ('SIP') governs the Trustees' decisions about investments including the aims, objectives and policies for the Scheme's default arrangements. In particular it covers the Trustees' policy on risk, return and ethical investing and how default arrangements are intended to ensure that assets are invested in the best interests of the members. A copy of the SIP is available at *www.ABCPensions.co.uk/scheme info*.

Review

The Trustees undertake a review each quarter of the performance of the lifestyle arrangements and all the funds available under the wider fund range. Performance of each fund is compared not just against its benchmarks but also more importantly against its objectives. For example:

— The TAM Diversified Growth Pension Fund is compared against its objective of delivering growth ahead of price inflation and general salary growth.

— The TAM Corporate Bond Pension Fund is compared against its objective to match the real price of annuities, so that members have some protection in the amount of income that can be secured by purchasing an annuity.

The Trustees periodically, and on no less than a three yearly cycle, review the appropriateness of the default arrangements. They will undertake an earlier review if there are any significant changes in investment policy or member demographics.

In light of the new pension flexibilities and also the Occupational Pension Schemes (Charges and Governance) Regulations 2015, the Trustees reviewed the appropriateness of the existing investment options offered to Scheme members during early 2018. As a result of the review, no changes were deemed necessary to the investment options offered.

During the Scheme year the Trustees also assessed the ways in which members have been accessing their benefits, in terms of annuity, cash or transfers out to alternative providers. This has

included when and how benefits are being accessed, to help the Trustees to understand what member support is needed in the lead up to retirement. Based on these ongoing reviews and analysis, the Trustees are comfortable that the current default arrangements are the most appropriate strategy for Scheme members. However, they will continue to monitor and assess the continuing suitability of the default arrangements, as the Trustees anticipate that member behaviour could change over time.

Aims, objectives and policies relating to the Scheme's main default arrangement

During the Scheme year, members who did not make an active decision regarding their investment upon joining the Scheme were placed into the "Getting ready to purchase an annuity" lifestyle strategy. Details are set out in the SIP document referred to above, with key points noted below.

During the growth phase (up to five years before the member's selected retirement date) the member is invested in a UK Equity Tracker fund which has a long-term target to exceed price inflation and general salary growth, which is represented by the Consumer Price Index + 2% p.a.

Over a five year period prior to the member's selected retirement date, the member's assets are gradually switched to 75% in the long-dated corporate bond fund and 25% in the cash fund. The bond fund is expected to broadly match the real price of annuities, giving some protection in the amount of secured income for members who purchase an annuity. The cash fund provides protection against changes in short-term capital values.

Recent analysis has shown that many Scheme members are still electing to establish an annuity at retirement. However, two additional lifestyle options are available for members to select if they do not wish to purchase an annuity. These invest in the same funds as the main default arrangement up to five years from the member's selected retirement date, but then invest in different funds appropriate for the benefits being targeted:

— 'Drawdown Lifestyle': the majority of the members' assets remain in the same fund as in the "growth" phase of the "Getting ready to purchase an annuity" lifestyle strategy, but a 25% allocation to a cash fund is introduced over the 5 years before the member's selected retirement date. The aim is to strike a balance between continuing to grow and protecting the value of members' savings, to help prepare them to draw down their savings in retirement.
— 'Cash Lifestyle': the majority of the members' assets remain in the same fund as in the "growth" phase of the "Getting ready to purchase an annuity" lifestyle strategy, but over the five years before the member's selected retirement date the member's assets are automatically switched into a cash fund which aims to protect the member's savings, for those intending to take their entire savings as cash.

Aims, objectives and policies relating to the Scheme's other arrangements

The Scheme also offers a range of investment options outside of the default investment strategy. These funds are alternative options for individuals who may wish to create their own investment portfolio with no lifestyle profile. The funds are as follows:

ABC Diversified Growth Pension Fund

This fund invests in two diversified growth funds. These two funds invest in a diversified portfolio of equities, bonds, alternative assets and cash, targeting a similar return to equities, but with significantly shallower drawdowns.

ABC UK Equity Tracker Pension Fund

This fund invests in company shares. The returns will be more volatile and less secure than from government bonds. To compensate for extra risk, investors expect higher investment returns from this asset class.

ABC Corporate Bond Pension Fund

This fund aims to perform broadly in-line with annuity prices although returns are expected to be lower than for equities over the long term.

ABC Cash Deposit & Treasury Pension Fund

This fund provides short-term capital protection but may not keep pace with price and salary inflation.

Requirements for processing financial transactions

Service Level Agreements

During the Scheme year, the Trustees, as part of ongoing monitoring, have reviewed the existing service agreement with its third party administrator. The agreement contains service levels setting out the required accuracy and turnaround times of all core financial transactions. As part of the review, the Trustees requested improvements to the reporting by the administrator to the Trustees and is now receiving more comprehensive analysis. It is agreed that throughout the Scheme year there were no reportable issues.

Monitoring

The Trustees regularly monitor the administrator's compliance with the required service levels in respect of core financial transactions. These include the investment of contributions, fund switches, and transfers into and out of the Scheme.

During the Scheme year, the Trustees ensured that such core financial transactions were processed promptly and accurately by:

— Monitoring administrator service levels outlined in quarterly reports from the Scheme's administrator against those required by its service level agreement;
— Monitoring the end to end process for the investment of monthly contribution payments;
— Carrying out sampling of certain transactions which enabled the Trustee to review their promptness and accuracy; and
— Carrying out an external audit of particular transaction types to check appropriate controls were applied.

These checks demonstrated that the administrator was operating good procedures and controls, and acting within the agreed Scheme administration service level agreement.

During the Scheme year the Trustees also began an evaluation of the Scheme's administrator which focused on specific areas, namely:

— Scheme design;
— Investment options and member costs;
— Default structures;
— Governance;
— Communications and Engagement;
— Administration and Systems; and
— Future Proofing and wider savings.

Following the review, the Trustees have begun the process of discussing the findings with the administrator to encourage further continuous improvement for the members.

Accuracy of record keeping and data security

During the Scheme year, work was undertaken to greater understand the security and systems in place at the Scheme administrator. This included audits by both the Company and the Scheme auditors, and assessed a number of areas, including operational process for investments/ disinvestments, data and systems security, and the general quality and availability of Scheme management information. A number of areas were identified for follow up and these are captured in the Trustees' business plan and/or risk register.

The Trustees, having considered these reports, have concluded that the Scheme's core financial transactions have been processed promptly and accurately during the Scheme year which is covered by this statement.

Assessment of member-borne charges and transaction costs

In accordance with regulation 25(1)(a) of the Occupational Pension Schemes (Scheme Administration) Regulations 1996, the Trustees calculated the charges and the transaction costs, borne by members of the Scheme between 6 April 2018 and 5 April 2019 (the end of the Scheme year and also the end of the Scheme's first charges year).

(For these purposes 'charges' means Scheme administration charges excluding transaction costs, costs relating to certain court orders, charges relating to pension sharing under the Welfare Reform and Pensions Act 1999, winding up costs, or costs solely associated with the provision of death benefits. Transaction costs are those incurred as a result of buying, selling, lending or borrowing investments).

During this period the total charges and transaction costs applied to the default arrangements ranged from 0.24% to 0.68%. Full details are set out in the table below. Within these totals, the ratio of charges to transaction costs is broadly 1:3.

Level of member-borne charges and transaction costs

The Total Expense Ratio (the total of charges and transaction costs) currently applicable to the Scheme's default arrangement and broader fund range as follows:

Fund	TER
ABC Diversified Growth Pension Fund	0.68%
ABC UK Equity Tracker Pension Fund	0.24%
ABC Corporate Bond Pension Fund	0.25%
ABC Cash Deposit and Treasury Pension Fund	0.30%

The cumulative effect over time of the application of these charges and transaction costs on the value of a members accrued rights to money purchase benefits is illustrated below:

Projected pension pot in today's money *										
	Fund choice									
	Default fund		ABC Diversified Growth Pension Fund		ABC UK Equity Tracker Pension Fund		ABC Corporate Bond Pension Fund		ABC Cash Deposit and Treasury Pension Fund	
Year	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted	Before charges	After all charges + costs deducted
1	10000	9961	10000	9932	10000	9976	10000	9975	10000	9970
3	10404	10285	10404	10196	10609	10535	10506	10429	10201	10110
5	10824	10621	10824	10470	11255	11128	11038	10907	10406	10253
10	11951	11524	11951	11206	13048	12773	12489	12209	10937	10623
15	13195	12520	13195	12019	15126	14680	14130	13681	11495	11012
20	14568	13621	14568	12916	17535	16890	15987	15348	12081	11421
25	16084	14835	16084	13906	20328	19453	18087	17233	12697	11850
30	17758	16176	17758	15000	23566	22330	20464	19367	13345	12301
35	19607	17657	19607	16207	27319	25774	23153	21780	14026	12776
40	21674	19292	21647	17540	31670	29767	26196	24511	14741	13275

*Data included in the above is estimated and is for illustrative purposes only.

The illustration above assumes that no further contributions or benefit withdrawals are made and average returns for each fund are as follows:

Fund	
Default Fund	2
ABC Diversified Growth Pension Fund	2
ABC UK Equity Tracker Pension Fund	3
ABC Corporate Bond Pension Fund	2.5
ABC Cash Deposit and Treasure Pension Fund	1

Expenses charged are as noted above.

Value for members assessment

The Trustees, with the support of their advisers, undertook a review in January 2019 in respect of the Scheme year to assess whether the Scheme represents good value for its members. The Trustees have concluded that the Scheme's overall benefits, including AVC arrangements, do represent good value for the costs and charges deducted from member's accounts, for the reasons noted below:

— The Scheme achieved the Pensions Quality Mark in 2017. This means that the Scheme has been independently assessed against a number of key criteria and rated as a high quality pension scheme.

— Member surveys issued via the benefits platform on a regular basis show feedback to be positive when it comes to pension benefits.

— The Company continues to provide a generous contribution structure which provides contribution levels over and above the automatic enrolment minimums.

— The quality of communications provided on a regular basis continues to raise standards in this area, and provides members with a good understanding of their pension benefits and options throughout the pensions lifecycle.

— Members have access to some of the new retirement flexibilities on a basis in keeping with those available from other similar schemes.

— Member borne costs remain below the charge cap and a comparison, undertaken during the Scheme year, shows that they remain competitive when compared to typical levels of charges in the pensions market and when considered in the context of the range and quality of services and benefits associated with membership of the Scheme. That said, the Trustees continue to strive to improve the member experience and reduce costs.

During the Scheme year the following improvements have been made:

— The Trustees introduced new DB and DC sub-committees of the Trustee board to allow for a more robust approach when assessing value;
— The Trustees undertook a review of the Scheme administrator against its peers which provided a comparison in a number of key areas;
— The Trustees are now in receipt of improved management information from the administrator;
— The Scheme website has been updated to reflect legislative change; and
— Work has been undertaken with the Scheme administrator to raise improvements and controls to information/data security for members.

The Value for Member assessment undertaken by the Trustees measured seven key elements of a DC scheme aligned to the TPR's DC Code of Practice and guidance on DC schemes. It included the use of a detailed scoring mechanism to determine the outcomes. Outcomes were documented and benchmarked against the progress made from previous Scheme years, with any areas for improvement captured in the Trustees' remit for the year ahead. The assessment process is re-considered each year following discussions amongst the Trustees and their advisers.

Trustee knowledge and understanding (TKU)

Trustee training

During the Scheme year, the Trustees took ongoing action to maintain and develop the knowledge and understanding of each Trustee. Personal training records are maintained which are passed to the Scheme Secretary to be held centrally.

In addition to regular informal training slots during Trustee board and sub-committee meetings, the Trustees also took part in an annual Trustee training day which focused on broader risks, legislative updates and current key themes in the pensions industry, and was provided by the Trustees' external advisers.

The Trustees' approach to meeting the TKU requirements during the Scheme year included:

— Regular training sessions within the quarterly Trustee meetings, which included the opportunity for discussion with advisers, to enable the Trustees to learn about and discuss current legislative and regulatory requirements;
— Attendance at external seminars and accredited training sessions;
— Circulating to each Trustee on a quarterly basis hot topics and general update papers from its advisers about matters relevant to the Scheme;
— Considering their training needs and planning a formal Trustee training day created by the Scheme's advisers following consultation with the Trustees, which focused on:
  - Governance & Technical Matters – The legal implications of new DC requirements, update on the new DC code and what this means for the ABC Trustee Board Committee
  - Investment & Market Insight – Latest thinking in a post 'retirement freedoms' world, market insight and how this is relevant to ABC
  - Audit Focus – The limitations of financial audit, relevant insight and how audit can help the Trustees improve overall financial governance
  - Communications and member engagement – Engagement through relevance and understanding, segmentation, behavioural science, learnings styles, technology and longer term planning around communications
— All of the Trustees held the TPR trustee toolkit certificate at the Scheme year end.

Evaluation of the Trustees

Following the Pensions Regulator discussion paper on 21st Century Trustees, the Trustees made a

decision to undertake an independent evaluation of their effectiveness. The main aspect of the effectiveness review was to assess the knowledge, behavioural and team dynamic amongst the existing Trustee group. The findings of the assessment will be documented, including an overview of the continuous improvement plan which has been put in place by the Trustees.

Trustee experience and skills

The Trustees collectively have a wealth of knowledge and expertise across a number of areas. Each member of the Board has different skills which provide for an overall strong composition, enabling the Trustees to address the following areas:

— Legal: understanding of legal obligations and also entitlements as regards the Trustees, trust law duties and contractual commitments, enabling the Trustees to challenge third parties (including the Company and advisers);
— Legislation: considerable experience in reviewing and debating new legislation, understanding the impact on the membership, enabling the Trustees to comply with their legal obligations and to challenge the Company, advisers and third party administrators on the application of new legislation released by formal bodies;
— Information and Data Security: practical experience and understanding of IT and security issues of the Company (including outside the Trustee role), enabling the Trustees to question third party suppliers to the Trustees about how they operate adequate security controls in order to protect Scheme data and members' personal information;
— Strategy and restructuring: experience of adopting a methodical approach to business strategy (including outside the Trustee role), enabling the Trustees to set appropriate business plans and consider how to monitor and develop the Trustees' relationship with the Company and third parties such as the Scheme administrator;
— Funding and transactions: experience (including outside the Trustee role) of liaising with investment managers and advisers on expectations and actual experience of changes to funding, covenant and asset values including understanding the impact for members, the Company and Trustees;
— Customer Services and Transformation: experience of dealing with the customer viewpoint, encouraging the Trustees to consider service standards and the member experience in terms of what members value and how they receive Trustees' communications, and to challenge all third parties on continuous improvement and development of supporting materials and protocols;
— Member insights: looking at all Trustees' decisions from a member perspective, enabling the Trustees to consider the impact of their decision on members and to challenge existing processes, procedures and communication channels to meet member needs.

In addition, the Trustees receive advice on investment, legal and other matters from professional advisers.

For these reasons, the Trustees believe that their combined knowledge and understanding, together with the advice which is available to them, enables them to properly exercise their functions as Trustees of the Scheme.

Signed on behalf of the Trustees

A Rook

Chair of the Trustees

Statement of Trustees' Responsibilities for the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

(i) show a true and fair view of the financial transactions of the scheme during the scheme year and of the amount and disposition at the end of the scheme year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year; and

(ii) contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice *Financial Reports of Pension Schemes.*

The Trustees have supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. They are also responsible for:

— Assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;

— Using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and

— Making available each year, commonly in the form of a trustees' annual report, information about the Scheme prescribed by pensions legislation, which they should ensure is consistent with the financial statements it accompanies.

The Trustees also have certain responsibilities in respect of contributions which are set out in the Statement of Trustees' Responsibilities accompanying the Trustees' Summary of Contributions.

The Trustees are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities.

KPMG LLP
1 Church Street Newtown Shire, AB1 3CD

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

Opinion

We have audited the financial statements of the ABC Group Pension Scheme ("the Scheme") for the year ended 5 April 2019 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

— Show a true and fair view of the financial transactions of the Scheme during the Scheme year ended 5 April 2019 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year;

— Have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— Contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Trustees are responsible for the other information, which comprises the Trustees' report (including the Report on Actuarial Liabilities and the Summary of Contributions), the Chair's Statement and the Actuarial Certification of the Schedule of Contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustees' responsibilities

As explained more fully in their statement set out on page 25, the Scheme Trustees are responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free

from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

J Smith

John Smith

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 New Street, Newtown

17 September 2019

Fund Account

For the year ended 5 April 2019							
	Notes	DBS	DCS	Total	*DBS*	*DCS*	*Total*
		2019	2019	2019	*2018*	*2018*	*2018*
		£'000	£'000	£'000	*£'000*	*£'000*	*£'000*
Contributions and benefits							
Contributions receivable:	4						
employer		351	67	418	-	*66*	*66*
employee		339	83	422	*319*	*81*	*400*
Individual transfers in		2	16	18	*1*	*6*	*7*
Group transfer in	5	6,016	-	6,016	-	-	-
Other income		25	-	25	-	-	-
		6,733	166	6,899	*320*	*153*	*473*
Benefits payable	6	(10,685)	(45)	(10,730)	*(9,629)*	-	*(9,629)*
Payments to and on account of leavers		(33)	(47)	(80)	*(52)*	*(54)*	*(106)*
Other payments		(34)	(4)	(38)	*(30)*	*(7)*	*(37)*
Administrative expenses		(28)	(8)	(36)	*(29)*	*(12)*	*(41)*
		(10,780)	(104)	(10,884)	*(9,740)*	*(73)*	*(9,813)*
Net (withdrawals)/additions from dealings with members		(4,047)	62	(3,985)	*(9,420)*	*80*	*(9,340)*
Returns on investments							
Investment income	7	4,587	-	4,587	*3,574*	-	*3,574*
Change in market value of investments	16	7,585	98	7,683	*510*	*26*	*536*
Investment management expenses		(373)	(5)	(378)	*(375)*	*(6)*	*(381)*
Taxation	8	(14)	-	(14)	*(12)*	-	*(12)*
Net returns on investments		11,785	93	11,878	*3,697*	*20*	*3,717*
Net increase/(decrease) in the fund during the year		7,738	155	7,893	*(5,723)*	*100*	*(5,623)*
Transfer between sections	9	4	(4)	-	*2*	*(2)*	-
Net assets of the Scheme at 6 April		73,199	645	73,844	*78,920*	*547*	*79,467*
Net assets of the Scheme at 5 April		80,941	796	81,737	*73,199*	*645*	*73,844*

The notes on pages 31 to 46 form part of these Financial Statements.

Statement of Net Assets (available for benefits)

At 5 April 2019	Notes	2019	*2018*
		£'000	*£'000*
Defined Benefit Section			
Investment assets:	16		
Equities		20,636	*17,411*
Bonds		48,306	*44,224*
Property		4,145	*3,294*
Pooled investment vehicles	10	6,571	*6,990*
Derivatives	11	355	*345*
Longevity swap	12	3	*3*
Insurance policies – annuities	13	350	*344*
Special Purpose Vehicle	14	202	*203*
AVC investments	15	316	*260*
Cash		27	*26*
Other investment balances	18	407	*314*
		81,318	*73,414*
Investment liabilities:			
Derivatives	11	(25)	*(13)*
Other investment balances	18	(400)	*(307)*
Total investments		80,893	*73,094*
Current assets		60	*105*
Current liabilities		(12)	-
Total net assets of DBS		80,941	*73,199*
Defined Contribution Section			
Investment assets:	16		
Pooled investment vehicles	10	815	*695*
Current assets		7	*47*
Current liabilities		(26)	*(97)*
Total net assets of DCS		796	*645*
Total net assets of the Scheme at 5 April		81,737	*73,844*

The notes on pages 31 to 46 form part of these Financial Statements.

The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the DBS, which does take account of such obligations, is dealt with in the Report on Actuarial Liabilities included on page 51 and these Financial Statements should be read in conjunction with that Report.

Signed for and on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2019.

A Rook

B Dane

Notes (forming part of the Financial Statements)

1. Basis of preparation

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland, and the guidance set out in the Statement of Recommended Practice (Revised 2018). The Scheme Trustees have taken advantage of the option to adopt the amendments to FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland Triennial Review 2017, incremental Improvements and Clarification issued December 2017, and the SORP (revised 2018), early for these financial statements.

2. Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustees' Report.

3. Accounting policies

The principal accounting policies of the Scheme are as follows:

a) Investments

i. Investments are included at fair value.

ii. The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.

iii. Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.

iv. Unquoted securities are included at fair value estimated by the Trustees based on advice from the investment manager.

v. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager.

vi. Properties are included at open market value as at 5 April 2017 determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by George and Co Ltd, Chartered Surveyors, who have relevant professional qualifications and recent experience in the locations and class of the investment properties held by the Scheme.

vii. Annuities purchased in the name of the Trustees which fully provide the pension benefits for certain members are included in these Financial Statements at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions and methodology. Annuity valuations are provided by the Scheme Actuary. Annuities are issued by Sunshine Life Ltd.

viii. Derivatives are stated at fair value.

- Exchange traded derivatives are stated at fair value determined using market quoted prices.
- Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
- Over the counter (OTC) derivatives are stated at fair value using pricing models and relevant market data as at the year end date.
- Forward foreign exchange contracts are valued by determining the gain or loss that

would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

- All gains and losses arising on derivative contracts are reported within 'Change in Market Value'.
- Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

ix. Repurchase and Reverse Repurchase arrangements

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

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

x. Longevity swaps are valued on a fair value basis based on the expected future cash flows arising under the swap discounted using market interest rates and taking into account the risk premium inherent in the contract.

xi. Special Purpose Vehicles are valued on a fair value basis based on expected future cashflows arising from the Vehicle discounted using market interest rates. Collateral received as security is not recognised in the Financial Statements. Receipts arising from Special Purpose Vehicles are accounted for within sale proceeds of investments.

b) Investment income

i. Dividends from quoted securities are accounted for when the security is declared ex-div.

ii. Rents are earned in accordance with the terms of the lease.

iii. Interest is accrued on a daily basis.

iv. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

v. Investment income arising from the underlying investments of the pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within 'Change in Market Value'.

vi. Receipts from annuity policies held by the Trustees to fund benefits payable to Scheme members are included within investment income on an accruals basis.

c) Foreign currencies

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

d) Contributions

i. Employee normal contributions are accounted for when deducted from pay, with the exception of contributions deducted from auto-enrolled members during the opt out period which are accounted for on the earlier of receipt or the expiry of the opt out period. Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due under the Schedule of Contributions.

ii. Employer augmentation contributions are accounted for in accordance with the agreement under which they are being paid.

iii. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are being paid.

iv. Employer s75 debt contributions are accounted for when a reasonable estimate of the amount due can be determined.

e) Payments to members

i. Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustees of his decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Benefits taken are reported gross of any tax settled by the scheme on behalf of the member.

ii. Opt outs are accounted for when the Scheme is notified of the opt out.

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

iv. Group transfers are accounted for in accordance with the terms of the transfer agreement.

f) Expenses.

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

4. Contributions receivable

	DBS	DCS	Total
		2019	
	£'000	£'000	£'000
Employer:			
Normal	285	67	352
Augmentation	5	-	5
Deficit Funding	20	-	20
s75 debt	15	-	15
Other	26	-	26
Members:			
Normal	285	67	352
Additional Voluntary Contributions	54	16	70
	690	150	840

	DBS	DCS	Total
		2018	
	£'000	£'000	£'000
Employer:			
Normal	-	66	66
Augmentation	-	-	-
Deficit funding	-	-	-
s75 debt	-	-	-
Other	-	-	-

	DBS	DCS	Total
		2018	
	£'000	£'000	£'000
Members:			
Normal	265	66	331
Additional Voluntary Contributions	54	15	69
	319	147	466

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

2019: £20,000

2020: £50,000

2021: £100,000

Employer DC normal contributions include £50,000 (2018: £49,000) of contributions payable to the Scheme under salary sacrifice arrangements made available to certain members by the Employer.

A subsidiary, GHI Ltd, withdrew from the Scheme on 1 August 2018. The s75 deficit determined amounted to £15,000. This debt was settled by GHI Ltd during the Scheme year.

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

5. Group transfer in

The group transfer in of £6.016 million represents the assets transferred to the Scheme in respect of members of the Grove Manufacturing Ltd Pension Scheme who transferred in on 1 February 2019. The bulk transfer comprised £6 million of investment assets and £16,000 cash.

6. Benefits payable

	DBS	DCS	Total
		2019	
	£'000	£'000	£'000
Pensions	10,345	-	10,345
Commutations and lump sum retirement benefits	245	-	245
Purchase of annuities	-	45	45
Lump sum death benefits	75	-	75
Taxation where lifetime or annual allowance exceeded	20	-	20
	10,685	45	10,730

	DBS	DCS	Total
		2018	
	£'000	£'000	£'000
Pensions	9,379	-	9,379
Commutations and lump sum retirement benefits	250	-	250

	DBS	DCS	Total
		2018	
	£'000	£'000	£'000
Purchase of annuities	-	-	-
Lump sum death benefits	-	-	-
Taxation where lifetime or annual allowance exceeded	-	-	-
	9,629	-	9,629

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

7. Investment income

	2019	2018
DBS	**£'000**	**£'000**
Dividends from equities	1,413	379
Income from bonds	2,850	2,865
Income from pooled investment vehicles	224	222
Net rental income	70	70
Interest on cash deposits	1	1
Annuity income	24	35
Stock lending	5	2
	4,587	3,574

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

Overseas investment income is stated gross of withholding taxes. Irrecoverable withholding taxes are reported under 'Taxation' in the Fund Account. Net rental income is stated after deduction of £10,000 (2018: £10,000) of property related expenses.

8. Tax

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

9. Transfers between sections

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

10. Pooled Investment Vehicles (PIVs)

DBS

The DBS holdings of PIVs are analysed below:

	2019	2018
DBS	**£'000**	**£'000**
Fixed Interest funds	2,500	2,350
Equity funds	3,218	3,833
Absolute Return fund	30	27
Property funds	503	480
Private Equity funds	320	300
	6,571	6,990

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

	2019	2018
	£'000	**£'000**
Equities	21	19
Bonds	8	7
Other	1	1
	30	27

DCS

The DCS holdings of PIVs are analysed below:

	2019	2018
	£'000	**£'000**
ABC Scheme Equities	606	525
ABC Scheme Bonds	125	105
ABC Scheme Cash	52	34
ABC Scheme Diversified Growth	32	31
	815	695

11. Derivatives

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

Total derivatives				
	2019		2018	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps	252	(10)	250	-
Futures	88	(13)	80	(8)
FX	15	(2)	15	(5)
	355	(25)	345	(13)

i. Swaps

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

Nature	Nominal amount	Duration	Asset value at year end	Liability value at year end
	£		£	£
Interest rate swap (Pay 5% for LIBOR)	10,000,000	Expires June 19	152,000	-
Interest rate swap (Pay 3% for RPI)	5,000,000	Expires July 19	100,000	-
Interest rate swap (Pay 5% for LIBOR)	800,000	Expires Aug 19	-	(10,000)
Total 2019	15,800,000		252,000	(10,000)
Total 2018	13,600,000		250,000	-

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

ii. Futures

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

Nature	Notional Amount	Duration	Asset value at year end	Liability value at year end
	£		£	£
Nikkei stock future bought	368,000	May 2019	88,000	-
Nikkei stock future sold	(10,000)	June 2019	-	(13,000)
Total 2019	358,000		88,000	(13,000)
Total 2018	225,000		80,000	(8,000)

iii. Forward Foreign Exchange (FX)

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

Contract	Settlement date	Currency bought	Currency sold	Asset value at year end	Liability value at year end
				£	£
Forward OTC	One month	£50	$100	15,000	-
Forward OTC	Three months	£100	$200	-	(2,000)
Total 2019				15,000	(2,000)
Total 2018				15,000	(5,000)

12. Longevity Swap

The counterparty to the longevity swap is Secure Asset Management Ltd. Collateral of £35 million was deposited in respect of this with Secure Asset Management. At 5 April 2019, the value of the collateral was £35.5 million which is reported within Bonds in the Scheme's Statement of Net Assets.

13. Insurance policies – annuities

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

14. Special Purpose Vehicle (SPV)

The Special Purpose Vehicle is the Scheme's interest in a Scottish Limited Partnership which owns a freehold property currently occupied by the Sponsoring Employer. Its fair value represents the present value of amounts due to the Scheme over a 25 year period. The Scheme's interest in the SPV is transferrable to another party only in very limited circumstances. Collateral, in the form of the freehold property currently in use by the Sponsoring Employer is available to the Trustees in the event the amounts due to the Scheme are not received. This collateral is valued at an amount representing 130% of the value of the SPV asset at 5 April 2019.

15. Additional Voluntary Contributions (AVCs)

DBS

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

	2019	2018
	£'000	£'000
Smith Investments Ltd – unitised fund	153	136
Jones & Jones plc – unitised fund	163	124
	316	260

DCS

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

	2019	2018
	£'000	£'000
Main DCS investments	769	668
Members' AVC investments	38	21
Trustees' (unallocated units)	8	6
	815	695

16. Investment reconciliation

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

DBS

	Value at 6 April 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 5 April 2019
	£'000	£'000	£'000	£'000	£'000
Equities	17,411	36	(5)	3,194	20,636
Bonds	44,224	387	(233)	3,928	48,306
Property	3,294	-	-	851	4,145
Pooled investment vehicles	6,990	32	(35)	(416)	6,571
Derivatives	332	5	(17)	10	330
Longevity swap	3	-	-	-	3
Insurance policies	344	-	-	6	350
Special Purpose Vehicle	203	-	-	(1)	202
AVC investments	260	50	(7)	13	316
	73,061	510	(297)	7,585	80,859
Cash deposits	26				27
Other investment balances	7				7
Net investment assets	73,094				80,893

DCS

	Value at 6 April 2018	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Change in market value	Value at 5 April 2019
	£'000	£'000	£'000	£'000	£'000
Pooled investment vehicles	695	187	(165)	98	815

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

17. Transaction costs

Included within the DBS purchases and sales are direct transaction costs of £50,000 (2018: £46,000) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

				2019	2018
	Fees	Commission	Stamp Duty	Total	Total
	£'000	£'000	£'000	£'000	£'000
Equities	1	3	1	5	7
Bonds	25	5	10	40	35
Other	2	1	2	5	4
2019	28	9	13	50	46
2018	23	7	16	-	46

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

18. Repurchase and reverse repurchase agreements

At the year end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £400,000 (2018: £307,000) and amounts receivable under reverse repurchase agreements amounted to £407,000 (2018: £314,000). At the year end £415,000 of bonds reported in Scheme assets are held by counterparties under repurchase agreements

19. Investment Fair Value Hierarchy

The fair value of financial instruments has been disclosed using the following hierarchy.

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement.

The Scheme's investment assets and liabilities fall within the above hierarchy categories as follows:

	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
At 5 April 2019				
DBS				
Equities	20,636	-	-	20,636
Bonds	-	48,306	-	48,306
Property	-	2,350	1,795	4,145
Pooled investment vehicles	1,718	4,533	320	6,571
Derivatives	75	255	-	330
Longevity swap	-	-	3	3

	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
Insurance policies – annuities	-	-	350	350
Special Purpose Vehicle	-	-	202	202
AVC investments	153	-	163	316
Cash	27	-	-	27
Other investment balances	7	-	-	7
	22,616	55,444	2,833	80,893
DCS				
Pooled investment vehicles	815	-	-	815
	23,431	55,444	2,833	81,708

	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
At 5 April 2018				
DBS				
Equities	17,411	-	-	17,411
Bonds	-	44,224	-	44,224
Property	-	1,500	1,794	3,294
Pooled investment vehicles	1,850	4,691	449	6,990
Derivatives	72	260	-	332
Longevity swap	-	-	3	3
Insurance policies – annuities	-	-	344	344
Special Purpose Vehicle	-	-	203	203
AVC investments	136	-	124	260
Cash	26	-	-	26
Other investment balances	7	-	-	7
	19,502	50,675	2,917	73,094
DCS				
Pooled investment vehicles	695	-	-	695
	20,197	50,675	2,917	73,789

20. Investment risks

Investment risks

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

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

— Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

— Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

— Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy described in the Trustees' Report for the DBS and DCS. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolios.

Further information on the Trustees' approach to risk management and the Scheme's exposures to credit and market risks are set out below. This does not include annuity insurance policies or AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

DBS

i. Credit risk

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

Analysis of direct credit risk

2019	Investment grade £'000	Non-investment grade £'000	Unrated £'000	Total £'000
Bonds	30,500	17,806	-	48,306
OTC Derivatives	255	-	-	255
Special Purpose Vehicle	-	-	202	202
Cash	27	-	-	27
Stock lending	7,400	-	-	7,400
Repos	9	-	-	7
PIVs	-	-	6,571	6,571
	38,191	17,806	6,773	62,768

2018	Investment grade £'000	Non-investment grade £'000	Unrated £'000	Total £'000
Bonds	31,548	12,676	-	44,224
OTC Derivatives	260	-	-	260
Special Purpose Vehicle	-	-	203	203
Cash	26	-	-	26
Stock lending	5,620	-	-	5,620
Repos	9	-	-	7

2018				
	Investment grade	Non-investment grade	Unrated	Total
	£'000	£'000	£'000	£'000
PIVs	-	-	6,990	6,990
	37,463	12,676	7,193	57,330

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

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 11 (i)). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

Collateral arrangements around the Special Purpose Vehicle are disclosed in note 14. Cash is held within financial institutions which are at least investment grade credit rated.

The Scheme lends certain fixed interest and equity securities under a Trustee-approved stock lending programme. The Trustees manage the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. At the year end, the Scheme had lent £5.4 million (2018: £3.5 million) of UK public sector securities and £2 million (2018: £2.1 million) of UK quoted securities and held collateral in the form of cash and fixed interest securities with a value of 105% of stock lent.

Credit risk on repurchase agreements is mitigated through collateral arrangements. Included in 'Other Investment Balances' are amounts of £407,000 (2018: £314,000) due from counterparties in relation to reverse repo transactions. £410,000 (2018: £305,000) has been received from counterparties as collateral.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled managers.

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

	2019	2018
	£'000	£'000
Unit linked insurance contracts	800	750
Authorised unit trusts	5,150	5,165
Open ended investment companies	363	426
Shares of limited liability partnerships	258	649
	6,571	6,990

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

ii. Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustees limit overseas currency exposure through a currency hedging policy.

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

	2019	2018
	£'000	£'000
Currency		
US Dollar	7,633	6,036
Japanese Yen	4,258	4,653
Other	243	275

iii. Interest rate risk

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

	2019	2018
	£'000	£'000
Direct		
Bonds	48,306	44,224
Swaps	242	250
Indirect		
Other	2,500	2,350

iv. Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, private equity and investment properties.

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

v. Concentration of investment

Scheme investment include the following which represent more than 5% of the total value of the net assets of the Scheme:

	2019 £'000	2018 £'000
PIV: Equity funds	3,218	3,833
Representing (percentage of total net assets)	4%	5.2%

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

	2019	2018
	£'000	£'000
Direct		
Equities	20,636	17,411
Equity futures	75	72
Investment properties	4,145	3,294
Indirect		
Equity PIVs	3,218	3,833
Hedge funds	30	27
PE funds	320	300

DCS

i. Direct credit risk

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

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

ii. Indirect credit and market risks

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

2019 and 2018				
	Credit risk	Foreign exchange risk	Interest rate risk	Other price risk
ABC Scheme Equities	-	✓	-	✓
ABC Scheme Bonds	✓	✓	✓	-
ABC Scheme Cash	✓	-	✓	-
ABC Scheme Diversified Growth	✓	✓	✓	✓

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

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

21. Related party transactions

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

All Trustees receive an annual fee for services as Trustee of £1,000 (2018: £750).

The Scheme is administered by ABC Group Administration Ltd, an ABC Group company. Fees payable in respect of administration and processing of £21,000 (2018: £21,000) are included within administrative expenses. At the year end creditors include £7,000 (2018: £ nil) in respect of administration expenses payable to ABC Group Administration Ltd.

22. Self-investment

The Scheme holds an investment of 10,987 ABC Group plc ordinary shares at the year end, the value of which represents 1.5% of the Scheme's net assets. The maximum holding of the Scheme in ABC Group plc ordinary shares during the year was 20,000 shares which represented 1.7% of the Scheme's net assets. These shares were all disposed of in May 2019.

KPMG LLP
1 Church Street Newtown Shire, AB1 3CD

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

Statement about contributions

We have examined the Summary of Contributions payable under the Schedule of Contributions to the ABC Group Pension Scheme in respect of the Scheme year ended 5 April 2019 which is set out on page 49.

In our opinion contributions for the Scheme year ended 5 April 2019 as reported in the Summary of Contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Actuary on 10 January 2018.

Scope of work on statement about contributions

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

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities set out on page 49 the Scheme's Trustees are responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustees are also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

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

The purpose of our work and to whom we owe our responsibilities

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

J Smith

John Smith

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

1 New Street, Newtown

17 September 2019

Statement of Trustees' Responsibilities in respect of Contributions

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

Trustees' Summary of Contributions payable under the Schedule in respect of the Scheme year ended 5 April 2019

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustees. It sets out the Employer and member contributions payable to the Scheme under the Schedule of Contributions certified by the actuary on 10 January 2018 in respect of the Scheme year ended 5 April 2019. The Scheme Auditor reports on contributions payable under the Schedule in the Auditor's Statement about Contributions.

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

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

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

Signed on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2019

A Rook

B Dane

Actuary's Certification of Schedule of Contributions

Name of scheme: ABC Group Pension Scheme

Adequacy of rates of contributions

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

Adherence to Statement of Funding Principles

2. I hereby certify that, in my opinion, this Schedule of Contributions is consistent with the Statement of Funding Principles dated 5 November 2017.

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

J K Dunn

J K Dunn

10 January 2018

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

Under Section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions. The technical provisions represent the present value of the benefits members are entitled to based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustees and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 5 April 2017. This showed that on that date:

The value of the Technical Provisions was: £70 million. The value of the assets at that date was: £65 million.

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

Method

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

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 0.5% per annum.

Future Retail Price inflation: term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

Future Consumer Price inflation: term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.9% per annum.

Pension increases: derived from the term dependent rates for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules.

Pay increases: general pay increases of 1.5% per annum above the term dependent rates for the future retail price inflation (NB not a significant assumption if few active members).

Mortality: for the period in retirement, standard tables S1PMA with a scaling factor of 98% for male active members, 103% for male deferred members and 99% for male pensioner members and S1PFA with a scaling factor of 103% for female active members, 107% for female deferred members and 111% for female pensioner members.

KPMG

Section 3:
Pension scheme annual report disclosure checklist

Pension scheme annual report checklist

This checklist is intended to cover the annual report disclosures of occupational pension schemes as required under the Pensions Act 1995 and FRS102, and as recommended by the Statement of Recommended Practice, 'Financial Reports of Pension Schemes' (revised June 2018).

Contents

This checklist does not seek to comment on or interpret the Pensions Acts 1995 and 2004 ('the Acts'), the regulations issued under the Acts, FRS 102 or the recommendations of the SORP. It frequently paraphrases the source documents and hence, although it seeks to be comprehensive, reference must be made to the source documents on any point of doubt or difficulty, and also to put the requirements in their proper context. Compliance with the disclosure requirements will not necessarily ensure that the financial statements give the 'true and fair view' required by the Act and the circumstances of each case, including any relevant requirements of a pension scheme's rules or trust deed, will need to be considered. The overriding requirement in all instances is that the financial statements show a 'true and fair view'.

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

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

References to other legislation are given in footnotes.

A Trustees' report

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

Reference					
SORP	**SI**		**Yes**	**n/a**	**No**
		A1 Trustees			
	3,17	(i) The names of the Trustees of the scheme, or, where the *sole* Trustee is a company, the names of the directors of that company, during the scheme year;	☐		☐
	3,18	(ii) The provisions of the scheme for appointing and removing Trustees from office; or, where the *sole* Trustee is a company, the provisions in the articles of association of that company which relate to the appointment and removal from office of directors;	☐		☐
	3,20	(iii) Postal and electronic addresses for enquiries about the scheme.	☐		☐
		A2 Independent advisers			
	3,19	(i) The names of the scheme's professional advisers, including the bank, custodian and others who have acted for, or were retained by the Trustees during the year.	☐		☐
	3,19	(ii) Details of any changes to the advisers since the previous year.	☐	☐	☐
	3,31	(iii) A copy of any statement made on the resignation or removal of the auditor or actuary and made in accordance with regulations made under section 47(6) of the 1995 Act (professional advisers).	☐	☐	☐
		A3 Membership statistics			
	3,21	The total number of members, split into actives, deferreds and pensioners (including dependants) at any one date during the year (usually the year end).	☐		☐
		A4 Changes in pensions and benefits			
		NB: The requirements set out in A4 do not apply in the case of money purchase schemes.			
	3,22	Details of percentage increases during the year (other than statutory ones) to:			
		(a) Pensions in payment;	☐	☐	☐
		(b) Deferred pensions;	☐	☐	☐
		Stating whether the increases are discretionary, and if so, to what extent.	☐	☐	☐
		Where there have been different increases for different individuals/groups the maximum, minimum and average percentage increases should be disclosed.	☐	☐	☐
		A5 Transfer values paid/received			
		NB: The requirements set out in A5 do not apply to wholly insured money purchase schemes. These are defined as schemes under which all the benefits provided are secured by a policy of insurance or annuity contract.			
	3,23(a)	(i) Where any cash equivalents (i.e. transfer values) paid in the year were not calculated and verified in accordance with regulations under the Pension Schemes Act 1993, a statement explaining why.	☐	☐	☐
	3,23(b)	(ii) Where any transfers were made at less than their cash equivalent value, the reasons why they were less.	☐	☐	☐

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

Reference					
SORP	**SI**		**Yes**	**n/a**	**No**
	3,32(a)	(i) The percentage of the scheme's net assets that are invested in employer-related investments at the year end; *Under Regulation 12 of the Occupational Pension Schemes (Investment) Regulations 2005 SI No 3378 no more than 5% of the current market value of the total resources of a scheme may at any time be invested in employer-related investments and none of the resources of a scheme may at any time be invested in any employer-related loan. However, certain investments, which are employer-related investments by virtue of s40(2) of the Pensions Act 1995 can be disregarded for the purposes of Regulation 12 (see Additional Guidance).*	☐	☐	☐
	3,32(b)	(ii) If that percentage exceeds 5%, the percentage of the scheme's net assets which are investments to which the 5% restriction does not apply;	☐	☐	☐
	3,32(c)	(iii) If, having taken account of any exempt investments, the percentage still exceeds 5%, the steps that the Trustees have taken or propose to take to achieve compliance with the Investment Regulations, and the timetable for such steps to be taken; *NB: The 5% restriction on self-investment does not apply to 'small schemes' as defined in Regulation 1 of the Investment Regulations (these are essentially former SSASs) or to schemes with less than 100 members. See the Regulations for details.*	☐	☐	☐
	3,33	Where the scheme is a trust scheme which applies to earners in employments under different employers, a statement in accordance with paragraph 32 of the Disclosure Regulations or a statement:			
		(i) Listing the 100 largest investments by value held by the scheme as at the year end and stating what percentage of the scheme each investment represents;	☐	☐	☐
		(ii) Identifying which of these are employer-related investments; and	☐	☐	☐
		(iii) If, at the end of the year, more than 5% of the scheme is invested in employer-related investments;			
		(a) Listing the employer-related investments and the name of the employer concerned;	☐	☐	☐
		(b) The steps the scheme has taken or proposes to take to ensure that the percentage is reduced to 5% or less;	☐	☐	☐
		(c) The time when any proposed steps will be taken.	☐	☐	☐
		Note that the 2013 Disclosure Regulations state that the definition of employer-related investment for para 33 has the same meaning as under s40 of the PA1995 with the omission of the words 'or any person who is connected with or an associate of the employer' and 'or any such person'. See Additional Guidance on employer-related investments for a more detailed explanation.			
		A10 Statement of Trustees' responsibilities			
2.6.1		Revised Practice Note 15 includes an illustrative statement of trustees' responsibilities about their key responsibilities in relation to the preparation of financial statements, including going concern considerations.	☐		☐

Reference					
SORP	SI		Yes	n/a	No
		A11 Relevant defined contribution schemes: Annual chair statement			
	Reg 23*	The Administration Regulations (as amended by the Charges and Governance Regulations 2015*) require that trustees of relevant schemes prepare an annual chair's statement within seven months of the scheme year end.;	☐	☐	☐
		* Refers to the Administration Regulations as amended by the Occupational Pension Schemes (Charges and Governance) Regulations 2015 SI 2015 No. 879 and the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018 SI 2018 No. 233.			
	Reg 1(2)*	Relevant schemes are defined in the Regulations* as occupational pension schemes which provide money purchase benefits other than:			
		(a) An executive pension scheme (where an executive scheme is a scheme relation to which a company is the only employer and the sole trustee and the members are either current or former directors of the company and include at least one third of the current directors);			
		(b) A relevant small scheme (where a relevant small scheme means a scheme with fewer than 12 members, where			
		(a) all members are trustees and either:			
		(i) any decision made by the trustees is by unanimous agreement of the trustees who are members of the scheme; or			
		(ii) the scheme has an independent trustee and is registered with TPR; or			
		(b) all members are directors of a company which is sole trustee and either:			
		(i) as any decision made by the trustee is by unanimous agreement of the directors who are members of the scheme; or			
		(ii) the scheme has an independent director registered with TPR.)			
		(c) A scheme which does not fall within paragraph 1 of Schedule 1 to the 2013 Disclosure Regulations (Description of schemes);			
		(d) A public service pension scheme which either falls within Regulation 4(2) of the 2013 Disclosure Regulations or is a public service scheme within the meaning of the 2004 Pensions Act; or			
		(e) A scheme which provides no money purchase benefits other than benefits which are attributable to additional voluntary contributions.			
		The annual chair's statement must contain the following:			
	Reg 23(1)(a)*	(a) In relation to the default arrangement:			
		(i) the latest statement of principles prepared in accordance with the Investment Regulations 2005;	☐	☐	☐
		(ii) details of any review undertaken during the scheme year;	☐	☐	☐
		(iii) an explanation of any changes resulting from such a review; and	☐	☐	☐
		(iv) where no review was undertaken during the year, the date of the last review.	☐	☐	☐
	Reg 23((1)(b)*	(b) A description of how the trustees have ensured that core financial transactions have been processed promptly and accurately.	☐	☐	☐

Reference						
SORP	**SI**			**Yes**	**n/a**	**No**
	Reg 25(1)(a)*	(c)	In relation to the charges and transaction costs which the trustees are required to calculate under the Regulations*:			
	Reg 23(1)(c)*		(i) state the level of charges and transaction costs applicable to each default arrangement during the scheme year;	☐	☐	☐
	Reg 23(1)(c)*		(ii) state the levels of charges and transaction costs applicable to each fund which members are able to select and in which assets relating to members are invested during the scheme year;	☐	☐	☐
	Reg 23(1)(c)*		(iii) indicate any information about transaction costs which the trustees have been unable to obtain and explain what steps are being taken to obtain that information in the future;	☐	☐	☐
	Reg 23(1)(c)* Reg 25(1)(b)*		(iv) explain the trustees' assessment of the extent to which the charges and transaction costs represent good value for members.	☐	☐	☐
	Reg 23(1)(ca)*		In relation to the charges and transaction costs which trustees or managers are required to calculate in accordance with Regulation 25(1)(a) of these Regulations, an illustrative example of the cumulative effect over time of the application of those charges and costs on the value of a member's accrued rights to money purchase benefits.			
	Reg 23 (1)(d)*	(d)	A description of how the requirements of sections 247 and 248 of the Pensions Act 2004 (requirements for knowledge and understanding) have been met during the scheme year and an explanation how the combined knowledge of the trustees, together with the advice which is available to them, enables them properly to exercise their functions as trustees of the scheme.	☐	☐	☐
	Reg 23(1)(e)*	(e)	The statement must be signed on behalf of the trustees by the chair.	☐	☐	☐
	Reg 26*	(f)	For multi-employer schemes only, the statement must include additional information.			
			(i) The statement must describe how the requirement for the majority of trustees and chair to be non-affiliated have been met.	☐	☐	☐
			(ii) Where a trustee who is non-affiliated was appointed during the year, the statement must provide details of how the requirement (open and transparent process) was met.	☐	☐	☐
			(iii) Details of the arrangements in place to meet the requirements to represent the views of the members to the trustees.	☐	☐	☐
	Reg 23 (1A)*		*NB: In complying with the requirements imposed by paragraph (1)(c)(i), (ii) and (ca), the trustees or managers must have regard to guidance prepared from time to time by the Secretary of State.*	☐	☐	☐

...

B Accounts

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
		B1 The financial statements should comprise:			
3.5.1	34.35(a)	(I) Fund Account;	☐		☐
3.5.1	34.35(b)	(II) Statement of Net Assets (available for benefits);	☐		☐
3.5.1	34.35(c)	(III) Notes to the financial statements;	☐		☐
		B2 Format of financial statements:			
		(I) Fund Account	☐		☐
3.7.1	34.35(a) 34.37	The SORP lists the minimum of items to be included in the Fund Account, where they are material. The account headings in blue should be shown on the face of the primary statements. The non-blue items may be disclosed in the notes to the financial statements. (A) Dealings with members, participating employers and others directly involved in the scheme.			
	34.37	(a)(i) Employer contributions	☐	☐	☐
3.7.2		(a) Normal;	☐	☐	☐
3.7.2		(b) Augmentation;	☐	☐	☐
3.7.2/ 3.8.8		(c) Deficit Funding; *The notes to the financial statements should explain for how long deficit funding contributions are payable. For multi-employer schemes this information can be provided on an aggregated basis at scheme level. The SORP recommends that the nature of arrangements based on the payment of deficit funding contributions which are receivable by the scheme when certain triggers are met, including a reference to those triggers and the amounts involved, should be disclosed in the notes to the financial statements.*	☐	☐	☐
3.7.2/ 3.8.12		(d) s75 debts; *Where a s75 debt has not yet been determined by the actuary, this should be disclosed in the notes to the financial statements and an estimate of the debt should be included. As there is no statutory timescale within which a s75 debt must be determined, where a reasonable estimate cannot be made, for example because the s75 debt has not been determined by the actuary, the SORP recommends this is disclosed in the notes to the financial statements and a statement that the debt cannot be estimated with the reasons why.*	☐	☐	☐
3.7.2		(e) Other.	☐	☐	☐
3.7.2	34.37	(a)(ii) Employee contributions:	☐	☐	☐
3.7.2		(a) Normal;	☐	☐	☐
3.7.2		(b) Additional voluntary contributions.	☐	☐	☐
3.7.2	34.37	(b) Transfers in:	☐	☐	☐
		(a) Group transfers in from other schemes and scheme mergers;	☐	☐	☐

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

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

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
			statements in some way reflect an improvement or deterioration in the actuarial position during the period.			
3.7.2			Opening net assets of the scheme	☐		☐
3.7.2			Closing net assets of the scheme	☐		☐
3.9		(II)	Statement of Net Assets (available for benefits) Items in blue must be included.	☐		☐
3.9.2	34.38(a), 34.41		(a) Investment assets	☐	☐	☐
3.11.1			(i) Equities; The SORP recommends that holdings in investment trust companies (ITCs) are classified as an equity if the holding is part of a wider equity portfolio or as a pooled investment vehicle if it is held to obtain exposure to the underlying investments.	☐	☐	☐
			(ii) Bonds;	☐	☐	☐
			(iii) Property;	☐	☐	☐
			(iv) Pooled investment vehicles;	☐	☐	☐
			(v) Derivative contracts; (Including futures, options, forward foreign exchange contracts and swaps);	☐	☐	☐
			(vi) Insurance policies; (With-profits contracts, unitised with-profits contracts and annuity and deferred annuity contracts).	☐	☐	☐
3.12.17	28.15(b)		FRS 102 requires annuities (insurance policies exactly matching the amount and timing of some or all of the benefits payable under the plan) to be valued at fair value. Fair value is deemed to be the present value of the related obligations. *Annuity contracts purchased in the name of the member which legally discharge the Trustees from providing benefits under the scheme should not be included in the financial statements.*	☐	☐	☐
3.9.2			(vii) Other investments;	☐	☐	☐
			If the scheme holds material categories of other investments not covered by the above, disclosure should be made taking into account the nature and size of the investments.	☐	☐	☐
3.9.2			(viii) Separately invested AVC funds;	☐	☐	☐
3.9.2			(ix) Cash deposits; *Cash deposits should include fixed term deposits, certificates of deposit, floating rate notes and other cash instruments.*	☐	☐	☐
3.9.2			(x) Other investment balances. 'Other investment balances' could include: — Debtors in respect of investment transactions where these form part of the net assets available for investment within the investment portfolio; — Other assets directly connected with investment transactions;	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
		— Accrued dividend entitlements and recoverable withholding tax.			
		These should be suitably analysed where material.			
3.10.8		Analysis of pooled investment vehicles:	☐	☐	☐
		For pooled investment vehicles, disclosure should be made of the type of fund, such as equity, bond, property, hedge funds, diversified growth funds, private equity funds, infrastructure funds and other.			
3.10.6		Derivative disclosures:	☐	☐	☐
		Derivative contracts should be disclosed separately under 'investments'. Derivative investments with positive values should be included in the Statement of Net Assets as assets and those with negative values should be separately included in the Statement of Net Assets as liabilities. These balances should not be offset unless there is a legal right of offset.			
3.10.6		In addition:			
		— An explanation should be given of the objectives and policies for holding derivatives;	☐	☐	☐
		— The accounting policies should include a description of the basis of valuation for derivatives;	☐	☐	☐
		— Derivatives should be disclosed according to their type. The most commonly used are futures, swaps, options and forward foreign exchange contracts. Derivatives contracts should be further analysed between exchange traded and over the counter contracts;	☐	☐	☐
		— The key details of the contracts in place at the end of the financial year are disclosed. This could include the types of contracts, an indication of the period covered by the contracts, the counterparties to the contracts, the nominal values or gross exposures of the contracts, the values of the contracts at the year end and whether they are assets or liabilities. The key contract details may be aggregated, for example by the terms of the contract.	☐	☐	☐
3.19.1		Repurchase and Reverse Repurchase agreements:			
		When a pension scheme enters a repurchase (repo) transaction, the scheme continues recognising and valuing the securities that are delivered out as collateral, and disclosing them in the notes to the financial statements as the scheme retains substantially all the risks and rewards of the ownership of the securities. The cash received is recognised as an asset, the obligation to pay it back is recognised as a payable amount. Where possible and material the interest is accrued and included in the payable amount to recognise the higher price when 'buying back' the securities.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.19.2			When a pension scheme enters a reverse repo transaction, the scheme does not recognise the securities received as collateral in its financial statements as the scheme does not have the economic benefits. The scheme does recognise the cash delivered to the counterparty as a receivable in the financial statements. Where possible and material, the interest is accrued and included in the receivable amount to recognise the higher price due to be received when 'reselling' the securities. The securities received as collateral are disclosed in the financial statements.	☐	☐	☐
3.9.2	34.38(b)	(b)	Investment liabilities			
			(i) Derivative contracts (Including futures, options, forward foreign exchange contracts and swaps).	☐	☐	☐
			(ii) Other investment balances (Such as creditors in respect of investment transactions and other liabilities directly connected with investment transactions).	☐	☐	☐
3.9.2		(c)	Current assets	☐	☐	☐
			(i) Contributions due from employer	☐	☐	☐
3.10.10			(ii) Other current assets. *Cash balances and other current assets not forming part of the investment assets.*	☐	☐	☐
3.9.2		(d)	Current liabilities	☐	☐	☐
3.10.10			(i) Unpaid benefits;	☐	☐	☐
			(ii) Other liabilities (such as accrued expenses). *Other current liabilities not forming part of the investment assets.*	☐	☐	☐
3.6.5	2.52		*Note: Assets and liabilities should not be offset unless there is a legally enforceable right to set off the assets and liabilities and the scheme intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously i.e. they would survive the insolvency of the counterparty. This means that where there is no legal right of offset, as will be the case in most instances, the total asset and the total liability value should be disclosed separately on the face of the Statement of Net Assets.*	☐	☐	☐
3.9.2		(e)	Total net assets	☐	☐	☐
			Other disclosures			
			Report on Actuarial Liabilities			
3.34.7 – 3.34.8			In respect of defined benefit schemes, the SORP requires the financial statements to refer to the actuarial information at the foot of the Statement of Net Assets explaining that the long term obligations to pay benefits are dealt with in the Report on Actuarial Liabilities and not in the financial statements.	☐	☐	☐

Reference				Yes	n/a	No
SORP	**FRS102**					
		(III) Basis of preparation				
3.6.30	3.3, 3.4, 3.5 SI 1996/ 1975: 3A (6)	(a)	Compliance with FRS102 and the SORP A statement whether the financial statements have been prepared in accordance with FRS 102 and the SORP: Financial Reports of Pension Schemes (June 2018). In accordance with FRS102, in the event of a departure, the following disclosures should be made:	☐		☐
			(a) that the Trustees have concluded that the financial statements present fairly the entity's financial position;	☐	☐	☐
			(b) that they have complied with the FRS except that they have departed from a particular requirement to achieve a fair presentation; and	☐	☐	☐
			(c) the nature of the departure, including the treatment that the FRS would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements, and the treatment adopted.			
3.6.31	FRS 100:6		Where the financial statements depart from the SORP, FRS 100 requires a brief description of how the financial statements depart from the recommended practice set out in the SORP, which shall include:	☐	☐	☐
			(a) For any treatment that is not in accordance with the SORP, the reasons why the treatment adopted is judged more appropriate to the entity's particular circumstances; and			
			(b) Brief details of any disclosures recommended by the SORP that have not been provided, and the reasons why they have not been provided.			
3.34.8 – 3.34.9		(b)	Scope of financial statements A note to the financial statements should indicate that:			
			(i) The financial statements summarise the transactions of the scheme and deal with the net assets at the disposal of the Trustees;	☐		☐
			(ii) They do not take account of obligations to pay pensions and other benefits which fall due after the end of the scheme year. The explanation given should be given prominence because the disclosure is fundamental to an understanding of the financial statements and should be made at the foot of the Statement of Net Assets. For a defined benefit scheme, the note should refer the reader to the Report on Actuarial Liabilities, which does take account of the long term liabilities of the scheme.	☐		☐
3.27.1 – 3.27.8	34.34	(c)	Multiple benefit structures Schemes with multiple benefit structures, for example hybrid schemes with defined benefit and defined contribution sections, report the two sections separately within the financial statements by adopting a columnar analysis of the income and expenditure attributable to each section within the Fund Account and showing separately the net assets attributable to each section in the Statement of Net Assets. Where disclosure of comparatives is impractical in the primary statements, comparatives are disclosed prominently in the notes. Transfers between the two sections of the scheme are dealt with as transfers between sections in the respective columns within the Fund Account. Transfers between sections should only include funds transferring from one section to another.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
			If the scheme has multiple defined benefit sections or defined contribution sections it is not necessary to report these sections separately. They can be aggregated into one set of figures for defined benefit operations and one set of figures for defined contribution operations.			
3.25.2		(d)	Defined contribution assets	☐	☐	☐
			The notes to the financial statements should disclose investments designated to members, investments allocated to members and investments not designated or allocated to members (i.e. held for the general purpose of the scheme).			
3.25.1			*Where money purchase assets are segregated and cannot be used to pay benefits for anyone other than the member and are separately identifiable to individual members they should be regarded as 'designated' or 'allocated' to members. Where money purchase assets are held on a pooled basis by the investment manager (i.e. the manager cannot identify investments by member) and the administrator keeps records of the allocation of investments by member, the investments are termed 'allocated' to members.*			
3.25.2			Where designation/allocation exists, a note to the financial statements should explain that money purchase assets are allocated to provide benefits to the individuals on whose behalf the contributions were paid.	☐	☐	☐
3.25.9		(e)	Going concern	☐	☐	☐
			If a decision to wind up the scheme has been taken and the financial statements are prepared on a scheme cessation basis, this should be explained in the basis of preparation note together with the reasons why and the impact, if any, on the bases of valuing the scheme's assets and liabilities should be disclosed in the notes to the financial statements.			
3.31.4			Additional disclosures will be required, for example: — The resultant change in investment policy; — Claims and contingent assets; — The extent and accounting treatment of unpaid contributions; — An explanation of the role of any independent Trustee appointed; — Any temporary embargo on benefit payments; and — Likely timescales for winding up, to the extent these can be assessed.			
3.31.3			The bases of valuation used should be disclosed in the accounting policies.	☐	☐	☐
3.31.3 3.38.1 – 3.38.3		(IV)	Identification of the financial statements			
			FRS 102 requires the disclosure of the following information in relation to identification of the financial statements:			
			An entity shall disclose the following in the notes: a) The legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office); and b) A description of the nature of the entity's operations and its principal activities, unless this is disclosed in the business review (or similar statement) accompanying the financial statements. (FRS 102 3.24)			
			In respect of FRS 102 3.24 (b) the trustees' report will normally provide the required disclosures and where this is the case there will be no need for further disclosures in the notes to the financial statements.			

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
		In respect of FRS 102 3.24(a) this SORP recommends the following disclosures are made to satisfy the above requirements: — Legal form – disclose that the scheme is established as a trust; — Country of incorporation – a trust is not incorporated and therefore this is not directly applicable instead this SORP recommends disclosure of the legal jurisdiction under which the trust is established, e.g. English, Scottish or Irish law; and — Address of its registered office (or principal place of business, if different from the registered office) – a scheme does not have a registered office and its operations are typically outsourced to a number of different organisations with different locations so it is not straightforward to identify a principal place of business. However, trustees are required to disclose the postal and electronic address for enquiries about the scheme in the trustees' report under Schedule 3 of the Disclosure Regulations and a cross reference to that disclosure.			
3.6.12 – 3.6.15	10.13 10.14	(V) Accounting policies	☐	☐	☐
		(a) Accounting policies			
		When an amendment to an FRS or FRC Abstract has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:	☐	☐	☐
		(a) The nature of the change in accounting policy;	☐	☐	☐
		(b) For the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected;			
		(c) The amount of the adjustment relating to periods before those presented, to the extent practicable; and			
		(d) An explanation if it is impracticable to determine the amounts to be disclosed in (b) or (c) above.			
		Financial statements of subsequent periods need not repeat these disclosures.			
		When a voluntary change in accounting policy has an effect on the current period or any prior period, an entity shall disclose the following:			
		(a) The nature of the change in accounting policy;	☐	☐	☐
		(b) The reasons why applying the new accounting policy. provides reliable and more relevant information;	☐	☐	☐
		(c) To the extent practicable, the amount of the adjustment for each financial statement line item affected, shown separately:	☐	☐	☐
		- For the current period;			
		- For each prior period presented; and			
		In the aggregate for periods before those presented; and			
		(d) An explanation if it is impracticable to determine the amounts to be disclosed in (c) above.	☐	☐	☐
		Financial statements of subsequent periods need not repeat these disclosures.			
		The accounting policies which are judged material or critical in accounting for the transactions and net assets, should be explained in the notes. The SORP recommends certain accounting policies as set out below:	☐		☐
		(b) Contributions			
3.8.1		(i) Employee contributions, including AVCs, should be accounted for when deducted from members' pay.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.8.2			*Under auto-enrolment, employers auto-enrol eligible employees into the pension scheme. The employees can then opt out of the scheme if they wish within one month of being auto-enrolled. The employer has to remit the first three months' contributions deducted from a member who is auto-enrolled within 22 days (for electronic remittance) or 19 days (for manual remittance) of the third month following the month in which the employee is auto-enrolled.*			
			If an employee opts out before contributions are remitted to the scheme the employer returns the contribution to the employee. The SORP recommends that such contributions are not reported by the scheme.	☐	☐	☐
			If the employee opts out after the employer remits contributions to the scheme, then the scheme refunds the contributions to the employer who returns the contributions to the employee. In this case the contributions are reported by the scheme and the refund of contributions for the opt out by the scheme to the employer is separately reported.	☐	☐	☐
			The SORP recommends that employee contributions retained by the employer under auto-enrolment legislation are recognised when the employee opt-out period has expired and the employee has not notified their intention to opt out. Thereafter they are recognised in accordance with the policy set out above.	☐	☐	☐
			If a scheme provides a membership reconciliation in the Trustees' report, the SORP recommends the approach to dealing with employees who are auto-enrolled and who subsequently opt out is disclosed in the Trustees' report, for example, whether new joiners are reported net or gross of opt-outs.	☐	☐	☐
3.8.4-3.8.5		(ii)	Employer normal contributions should be accounted for on the same basis as employee contributions. *These contributions normally relate to accrual of benefits for current service. If they are expressed as fixed amounts they should be accounted for in the period to which they relate. Some schemes include employer deficit funding in the contribution rates based on salaries or wages, in which case they should be accounted for on the same basis as employee contributions as set out above. Where this is the case the notes to the financial statements should explain that employer normal contributions include deficit funding payments and the amount should be quantified and disclosed in the notes. Where this information cannot be easily extracted from payroll systems without disproportionate cost, this fact should be explained in the notes to the financial statements and the Trustees' Report should explain the rates paid in respect of deficit contributions and current service contribution payments.*	☐	☐	☐
3.8.7		(iii)	Employer augmentation contributions should be accounted for in accordance with the agreement under which they are paid, or in the absence of an agreement, on a cash basis.	☐	☐	☐
3.8.8		(iv)	Employer deficit funding contributions should be accounted for either on the due dates on which they are payable in accordance with the Schedule of Contributions under which they are paid, or on a receipts basis if earlier than the due dates in the Schedule with the agreement of the employer and Trustees.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.8.12			A Section 75 debt (payable when an employer ceases to be a participating employer and a deficit is identified) should be accounted for when a reasonable estimate of the amount due can be determined. In assessing this estimate the Trustees consider the amount determined by the scheme actuary and agreements with the employer as to how the s75 debt is to be treated. If the s75 debt is met by way of, for example, a guarantee it should not be recognised unless or until an asset arises from the guarantee. For contingent assets see SORP 3.36.	☐	☐	☐
3.8.9			The Trustees and employer may agree a recovery plan which is based on deficit funding contributions that are receivable by the scheme when certain triggers are met, for example the payment of a dividend by the employer or the profitability of the employer. Such arrangements and associated triggers are normally set out in the Schedule of Contributions/actuarial valuation/funding proposal and the related deficit funding contributions should be accounted for when they become due under the Schedule of Contributions.	☐	☐	☐
3.8.10			Where a deficit contribution is paid to a scheme through the transfer of non-cash assets, a fair value at the date of receipt should be attributed to the assets. The contribution should only be recognised if the non-cash consideration meets the asset recognition criteria set out in FRS 102 (see SORP 3.6.6-3.6.11).	☐	☐	☐
3.8.14		(v)	Contributions receivable under Financial Support Directions or Contribution Notices issued by The Pensions Regulator should be accounted for in accordance with the terms of the Direction or Notice as appropriate, taking into account the Trustees' expectations of the likelihood of receiving the relevant contribution amounts from the employer.	☐	☐	☐
3.8.15		(vi)	Employer other contributions (e.g. for administration or life assurance costs) should be accounted for in accordance with the agreed arrangements.	☐	☐	☐
3.8.16		(vii)	Additional contribution categories can be added where appropriate.	☐	☐	☐
	(c)	Benefits and payments to leavers				
3.8.17		(i)	Benefits and payments to leavers should be accounted for in the period they fall due for payment.	☐	☐	☐
3.8.21		(ii)	Where a member has a choice about the form of their benefit, the benefit should be accounted for when the member notifies the Trustees of his/her decision as to what form of benefit s/he will take.	☐	☐	☐
3.8.20		(iii)	Where a member has no choice about the form of benefit, the benefit should be accounted for in the period of leaving/retirement/death, being the period in which the liability to pay the benefit arises.	☐	☐	☐
3.8.20		(iv)	Where significant benefits are pending member decisions at the year end, for example, bulk exercises, the SORP recommends this is disclosed in the notes to the financial statements with an indication of the amounts involved, if known at the time, together with an explanation that they will be accounted for when the member decisions have been received. Where the member has no choice (for example, is only entitled to a refund, or single cash sum on retirement), accounting entries should be made based on the date of leaving or retirement, which is when the liability to pay the benefit arises.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.8.22, 3.8.23		(v) *From April 2015, members may use their pension pot to purchase an annuity, to take a lump sum benefit equal to the value of the pot less tax at their marginal rate, or to take income draw down benefits from the scheme less tax at their marginal rate. If a scheme does not offer income draw down, members may transfer their pot to a pension arrangement that does provide such facilities.*			
		Benefits taken under the above provisions will be reported in the appropriate benefit category, e.g. as commutations or transfer values. Benefits in these categories should be reported gross of any tax paid.	☐	☐	☐
		(d) Transfers			
3.8.26		(i) Where past service liabilities do not transfer between schemes until assets/liabilities have been transferred, transfers should be accounted for on a cash basis.	☐	☐	☐
3.8.27		(ii) Group transfers or scheme mergers should be accounted for in accordance with the legal agreement for these transactions. Where Trustees have agreed to accept past service liabilities in advance of the transfer of funds, the transfer should be accounted for in accordance with the terms of the agreement.	☐	☐	☐
3.8.30		(ii) If the basis adopted for accruals of group transfers is different from that used in the report on membership statistics included in the Trustees' report, the SORP recommends that the difference, if material, should be disclosed either in the financial statements or the Trustees' Report.	☐	☐	☐
		(e) Expenses			
3.8.31		(i) Expenses should be accounted for on an accruals basis.	☐	☐	☐
3.8.39	29.20	(ii) FRS 102 requires expenses to exclude recoverable VAT (FRS 102).	☐	☐	☐
		(f) Investment income			
3.8.34		(i) Dividends from quoted securities should be accounted for when the securities are quoted ex-dividend.	☐	☐	☐
3.8.34		(ii) Income on bond securities should be accounted for on an accruals basis. Interest purchased and sold on investment transactions should be reported through income on bond securities in the Fund Account.	☐	☐	☐
3.8.34		(iii) Rent should be accounted for in accordance with the terms of the lease.	☐	☐	☐
3.8.34		(iv) Interest on cash deposits and bonds should be accrued on a daily basis.	☐	☐	☐
3.8.34		(v) Investment income arising within pooled investment vehicles which is rolled up in the investment fund and reflected in the value of the units is not separately reported in the scheme's financial statements. Where income is distributed and immediately reinvested to purchase more units it should be reported as investment income and the purchase of units included as an investment purchase in the investment reconciliation table.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.8.34		(vi)	Distributions by special purpose vehicles (SPVs) established for scheme funding arrangements (see SORP 3.11.7) will comprise an element of income and capital. If the split of income and capital elements of the distribution is readily obtainable the distribution will be accounted for in part within investment income and in part within sale proceeds of investments. However, if the split between income and capital is not available the SORP recommends receipts are reported as either investment income or sale proceeds with a note disclosing the approach adopted.	☐	☐	☐
3.8.34		(vii)	Income arising from annuity policies held by the Trustees of a scheme may be paid to the Trustees in order to fund the pension paid by the scheme to the pensioner(s) or it may be paid directly to the pensioner by the annuity provider. In both these circumstances the receipts arising from the annuity policies should be included in the financial statements and the pensions paid to the pensioners included in pension payments. There should be no netting off of these amounts. The receipts from the annuity provider can be apportioned to sale proceeds and investment income or reported all within investment income or sale proceeds. Disclosure of the approach taken should be included in the financial statements and applied consistently from year to year.	☐	☐	☐
3.8.34		(viii)	Derivatives – Where the nature of the cash flow is income the net cash flow is reported as investment income. Where the nature of the cash flow is related to an asset or liability the net cash flow is reported within change in market value. Cash flows are analysed at contract level. It is not necessary to allocate cash flows arising from a contract between income and capital unless information is available to do so and the Trustees consider it appropriate in the circumstances.	☐	☐	☐
3.8.36	29.25	(g)	Taxation			
			Pension schemes registered with HMRC are exempt from income tax and capital gains tax. FRS 102 and the SORP therefore recommend the notes to the financial statements disclose the tax status of the scheme to explain it is exempt from taxation except for certain withholding taxes	☐	☐	☐
		(h)	Foreign currency translation			
3.28.1, 3.28.2	30.2		Pension schemes should determine their functional currency by reference to the currency used in dealings with members. The financial statements must include a translation of any assets and liabilities denominated in other currencies, into the scheme's functional currency. FRS 102 prescribes how to translate financial statements into a presentation currency.	☐	☐	☐
3.28.3, 3.28.4, 3.28.5	30.9, 30.7		Items denominated in a foreign currency should be translated at the scheme year end rate. Transactions executed in foreign currency should be recorded at the spot exchange rate at the date of the transaction. FRS102 allows an approximation to the spot rate for practical purposes, for example the use of an average rate over a given period. If exchange rates fluctuate significantly over the period, the use of an average rate is inappropriate.	☐	☐	☐
			Exchange gains and losses should be treated as follows:			

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.28.6	30.10	(i)	FRS 102 requires foreign exchange gains and losses on monetary items to be recognised in profit and loss for the period. The SORP recommends that foreign exchange gains and losses arising from investment activities are reported within the Fund Account within the account caption most relevant to the transaction which gave rise to the gain or loss. For example, foreign exchange gains or losses arising on foreign currency investments and cash balances would be reported within change in market value;	☐	☐	☐
3.28.7	30.25	(ii)	FRS 102 requires the disclosure of the amount of foreign exchange differences recognised in profit or loss during the period, except for those arising on financial instruments measured at fair value through profit or loss. Therefore, foreign exchange differences reported within change in market value which arise on financial instruments (such as securities, cash and other investment balances) are not required to be disclosed. Foreign exchange gains and losses arising on investments that are not financial instruments (for example, investment properties) will need to be disclosed.	☐	☐	☐
		(i)	Valuation of investments			
3.11.11	28.15(b)	(i)	Investments should be valued at their fair value at the date of the Statement of Net Assets.			
3.11.12	Glossary		FRS 102 defines fair value as: 'the amount for which an asset could be exchanged, a liability settled … between knowledgeable, willing parties in an arm's length transaction.'			
			Fair value hierarchy (FVH)			
3.12.1	2A.1	(ii)	Quoted securities: fair value should be determined using a quoted price for an identical asset in an active market, usually the current bid price. Normally disclosed in Level 1.	☐	☐	☐
3.12.12		(iii)	Bonds should be valued on a clean basis, i.e. excluding accrued income. Any excluded accrued income should be accounted for in 'investment income' and 'other investment balances'. Exchange traded bonds: normally disclosed in Level 1 or 2. Unquoted bonds or bonds priced using evaluated prices: normally in Level 2.	☐	☐	☐
3.12.13	2A.1	(iv)	Unquoted investments should be included at a fair value estimated by the Trustees. The valuation basis should be disclosed in the financial statements. Normally in Level 3.	☐	☐	☐
3.12.14		(v)	Fair values for over the counter derivatives are determined using valuation techniques which depend on the type of derivative. Normally in Level 2.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.12.15		(vi)	Pooled investment vehicles should be included at the closing bid price or, if single priced, at the closing single price. Private equity, infrastructure and other relatively illiquid pooled investment arrangements are normally reported at the net asset value (NAV) of the fund. The NAV should be determined by the pool manager by applying fair value principles to the underlying investments of the pooled arrangement. There may be circumstances where the NAV is not appropriate as a measure of fair value, for example if the Trustees have decided to sell the pooled arrangement in a secondary market. There may be a discount or premium to NAV in a secondary market depending on the circumstances of the pooled arrangement. Therefore if there is a commitment to dispose of the pooled arrangement consideration should be given to adjusting the NAV to reflect the level of discount or premium to the NAV at the reporting date. Exchange traded funds may be Level 1, non-exchange traded funds which are open (i.e. the scheme can buy and sell into and out of the fund without significant restrictions) and are daily, weekly and monthly priced would normally be Level 2. Non-exchange traded funds which are closed (i.e. the scheme cannot sell out of the fund) and are monthly or quarterly priced would normally be Level 3.	☐	☐	☐
3.12.32		(vii)	Property should be valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS, 1.1, Valuation for Financial Statements, which provides that: (1) Property occupied by the pension scheme, should be valued on the basis of the existing use value; (2) All other properties, other than specialised properties should be valued at market value; and (3) Specialised properties should be valued at depreciated replacement cost.	☐	☐	☐
3.12.34			The SORP allows for asset valuations to be carried out at least every three years, in line with actuarial valuations.			
3.12.35			Where the valuation of investment properties is not at the reporting date, for example where the rolling valuation approach is adopted, consideration should be given to the need for a fair value adjustment to the latest valuation to the reporting date using appropriate market information such as property indices. Normally in Level 2 or 3.			

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.12.16		(viii) Insurance policies Unit linked or unitised insurance policy values fluctuate directly in relation to the fair value of the asset class or classes that constitute the investments underlying the insurance policies. These policies should be valued on the same basis as pooled investment vehicles.			
3.12.17	28.15(b)	FRS 102 requires annuities, which FRS 102 defines as an insurance policy that exactly matches the amount and timing of some or all of the benefits payable under the plan, to be valued such that the fair value of the asset is deemed to be the present value of the related obligation.			
3.12.18		The present value of the related obligation will depend on the basis of the valuation of the scheme liabilities. Trustees should adopt a reasonable basis, such as scheme funding valuation, buy-out or the basis set out in FRS 102 for employer accounting, for valuing annuities and apply it consistently. If the valuation is carried out by the annuity provider possible bases include the actuarial method or the net premium method.	☐	☐	☐
3.12.20		If a scheme is using a valuation approach that is linked to a periodic full valuation of scheme liabilities, for example, the scheme funding valuation, it may be more cost effective to adopt a roll-forward approach to the valuation of annuities for reporting dates that fall in between full valuations. A roll-forward of annuity value should take into account any changes between the date of the previous valuation and the reporting date which are significant to the valuation, for example, cash flows arising under the annuity, changes to the discount rate, changes to the terms of the annuity contract or significant changes to the scheme members covered by the annuity.	☐	☐	☐
3.12.21		The basis adopted should be disclosed in the financial statements. The valuation should be carried out by a suitably qualified person or organisation who should be disclosed in the financial statements. The nature of benefits covered by the annuity and any collateral arrangements in place should also be disclosed in the financial statements. Normally Level 3.	☐	☐	☐
3.12.23		With-profit insurance policies should be reported at an estimate of their fair value which will normally be the on-going value of the policy based on the cumulative reversionary bonuses declared and the current terminal bonus. If there is a commitment to redeem the policy then surrender value should be used. Under FRS 102, which requires fair value to be determined on an 'exit' value rather than an 'entry value' the use of an actuarial value or premium value is not appropriate. The SORP recommends disclosing the name of the insurance company and the valuer of the policy. Normally Level 3.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.12.24		(ix) Longevity swaps The fair value of the longevity swap should be based on the expected future cash flows arising under the swap discounted using market interest rates. The cash flows are discounted using market based interest rates, taking into account credit risk and liquidity premium appropriate for the circumstances. Projected variable cashflows also need to take into account current market views of longevity. *At inception a longevity swap is normally valued at nil, since no consideration passes between the scheme and the counterparty. In order to achieve a nil value at inception where the swap contract includes cash flows from the scheme to the counterparty in respect of expenses, fees and margins, the variable (receivable) leg of the swap is discounted using a rate which reflects the risk premium.* Normally Level 3.	☐	☐	☐
		(x) Special Purpose Vehicles (SPVs)			
3.12.25		SPVs should be included at fair value. Notwithstanding the illiquid nature of these arrangements and a lack of an active market, a fair value can be determined using valuation techniques.	☐	☐	☐
3.12.31		These arrangements are highly illiquid and in some cases the arrangements cannot be sold on to third parties. The SORP recommends that if an SPV is highly illiquid then this is disclosed in the scheme financial statements. Normally Level 3.			
		(j) Additional voluntary contributions (AVCs)			
3.26.3 – 3.26.6	2.10,2.15	AVCs and related investments, investment returns and benefit payments are accounted for within the pension scheme's financial statements in accordance with FRS 102 and the SORP. Where the scheme documentation requires that the AVCs must be used to provide money purchase benefits and that the AVC assets must be separately identifiable and isolated from other scheme assets and liabilities, AVC assets should be accounted for in a manner consistent with the treatment of defined contribution assets as described above.	☐	☐	☐
		The notes to the pension scheme financial statements should include an explanation of the type of AVC arrangement and state how the AVCs are invested (for example as an integral part of the scheme's assets or with third parties and, in the latter case, the institution and type of fund).	☐	☐	☐
		If AVC assets are held within a scheme's defined contribution investments, for example in a hybrid scheme where defined benefit members can invest AVCs in the defined contribution investment arrangements, the AVCs and related investments can be reported within the defined contribution section with disclosure of the amounts relating to AVCs and AVC investments.	☐	☐	☐
		If the provider does not supply information as at the scheme year end, the financial statements should include the information at a date as near as practicable to the scheme year end, adjusted for cash movements in the intervening period. Similarly, where practical difficulties arise in obtaining the necessary up to date information within the limited period allowed for preparation of financial statements, the financial statements should use the latest available information, adjusted for subsequent cash movements, and explain the treatment adopted in the notes to the financial statements.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
		(VI) Other disclosures			
		(a) Stock lending			
3.20.1 – 3.20.2		Where the scheme's investment custodian is authorised to release stock to a third party under a stock lending arrangement, (even if no stock lending activity has taken place in the year), the fact should be disclosed. Disclose the total value of securities out on loan together with an analysis by asset class of the securities out on loan and a description of the related types of collateral. The fair value of collateral held should be disclosed.	☐	☐	☐
3.10.8		(b) Repurchase and reverse repurchase agreements			
		The SORP recommends the following additional disclosures: Balances due and payable arising under repurchase agreements and reverse repurchase agreements and amount of securities sold which are subject to repurchase contracts.	☐	☐	☐
		(c) Investment Reconciliation Table			
3.14.1– 3.14.2	SI 1996/ 1975 3A (5)	The SORP and the Audited Accounts Regs require the disclosure of sales and purchases of investment. The SORP recommends that this information together with the changes in value during the period should provide a reconciliation between the opening and closing value of investments, analysed by asset class as disclosed on the face of the Statement of Net Assets as a minimum. Cash and other investment balances, such as broker balances, are not required to be included in this reconciliation. Where there are derivative receipts and payments these amounts should be described as 'purchases at cost and derivative payments' and 'sales proceeds and derivative receipts. Where purchase cost or sales proceeds include accrued income, for example on bond securities, these should be excluded from investment purchases and sales and reported through investment income in the Fund Account. *No comparative information is required.*	☐	☐	☐
		(d) Transaction costs			
3.8.45 – 3.8.47	12.7,16.5	Transaction costs should be added to purchase costs and netted against sale proceeds, as appropriate. The total amount of direct transaction costs on all investment types (including property, derivatives contracts and the costs associated with aborted investments) should be disclosed in the notes to the financial statements under the investment reconciliation table. Direct transaction costs should be analysed for each significant asset class disclosed in the investment reconciliation table. The analysis should include disclosure of the amount of each type of direct transaction cost. Explanations should be given to enable users of the financial statements to understand the nature of transaction costs and how they arise for different types of investment. Indirect costs such as bid-offer spread costs and costs charged within pooled investment vehicles do not need to be disclosed but the notes to the financial statements should explain their existence.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
	34.42	(e)	Fair Value Hierarchy Disclosure	☐	☐	☐
			FRS102 requires the disclosure, for each class of asset, of an analysis of the level in the following hierarchy into which fair value measurements are categorised. *Level 1*: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date. *Level 2*: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly. *Level 3*: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.			
		(f)	Investment risk disclosures			
			FRS 102 requires certain disclosures in relation to risks arising from financial instruments:			
3.15.1	34.43		A retirement benefit plan shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk and market risk arising from financial instruments to which the retirement benefit plan is exposed at the end of the reporting period.	☐	☐	☐
3.15.4	34.44		For each type of credit and market risk arising from financial instruments, a retirement benefit plan shall disclose:			
			(a) The exposures to risk and how they arise;	☐	☐	☐
			(b) Its objectives, policies and processes for managing the risk and the methods used to measure the risk; and	☐	☐	☐
			(c) Any changes in (a) or (b) from the previous period.	☐	☐	☐
3.15.5			FRS 102 requires these risk disclosures for financial instruments only, which would exclude other investments such as investment properties. The SORP recommends that the risk disclosures required by FRS 102 are applied to all investments reported at fair value in the Statement of Net Assets including, for example, investment properties.	☐	☐	☐
3.15.6			These disclosures are required for both defined benefit and defined contribution scheme investment assets (including AVC assets), subject to materiality.	☐	☐	☐
3.15.7			The SORP recommends pension schemes disclose for significant risk exposures, the value of investment assets and liabilities subject to each risk at the reporting date (and for the comparative reporting date) or suitable alternative information.	☐	☐	☐
3.15.8 - 3.15.11			The notes to the financial statements should explain how the risks arise in the context of the scheme's investment strategy. For example, foreign exchange risk arises where the Trustees have chosen to diversify the investment portfolio into securities priced in foreign currencies. Credit risk will arise in bond portfolios which could be part of a liability driven investment strategy.	☐	☐	☐
			Disclosures relating to the objectives, policies and processes for managing the risks and the methods used to measure the risks should explain how the Trustees	☐	☐	☐

Reference					
SORP	FRS102		Yes	n/a	No
		set their investment strategy, how this is translated into investment guidelines and limits for investment managers and an explanation of the Trustees' approach to monitoring investment risks through management information. For example, where the Statement of Investment Principles (SIP) sets out the asset allocation for the scheme, it may be useful to explain the investment risk management process in the context of the SIP, how investment assets are allocated in accordance with the SIP and how they are monitored for compliance with the SIP.			
		(g) Credit risk – Additional disclosures:			
3.15.14	34.45	A description of collateral held as security and of other credit enhancements, and the extent to which these mitigate credit risk.	☐	☐	☐
3.15.15		The amount and nature of collateral held at the reporting date, stated at fair value, should be included in the notes to the financial statements, with an indication of the class of investment included in the Statement of Net Assets to which it relates. Typical arrangements with collateral are over the counter derivatives, repurchase arrangements (repos) and stock lending.	☐	☐	☐
3.15.16	34.45	The amount by which any related credit derivatives or similar instruments mitigate that maximum exposure to credit risk.	☐	☐	☐
3.15.17		The SORP recommends additional disclosures relating to derivatives in paragraph 3.10.8. If derivatives are held to mitigate credit risk relating to other financial instruments, it would normally be appropriate to include this information with the disclosures required for derivatives.	☐	☐	☐
3.15.18	34.45	Information about the credit quality of financial assets that are neither past due nor impaired.	☐	☐	☐
3.15.19		The above requires the disclosure of the credit quality of bond portfolios and other financial assets subject to credit risk. The SORP recommends as a minimum that pension schemes disclose investment grade, non-investment grade and unrated financial assets. There is no industry standard definition of investment and non-investment grade. Therefore Trustees should agree with the provider of credit quality information the basis of this classification and apply it consistently across investments and from one year to the next.	☐	☐	☐
3.15.20		Where a scheme has had to take possession of collateral during the year FRS 102 requires the following disclosures:			
	34.46	When a retirement benefit plan obtains financial or non-financial assets during the period by taking possession of collateral it holds as security or calling on other credit enhancements (such as guarantees), and such assets meet the recognition criteria in other sections, a retirement benefit plan shall disclose:			
		(a) The nature and carrying amount of the assets obtained; and	☐	☐	☐
		(b) When the assets are not readily convertible into cash, its policies for disposing of such assets or for retaining them.	☐	☐	☐
		Investment risk disclosures for pooled investment vehicles:			

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.16.7		The SORP recommends the financial statements disclose the type of pooled arrangement and the Trustees' approach to managing and monitoring the associated direct credit risk.	☐	☐	☐
		The SORP recommends that risk disclosures are considered at the unit of investment level. This may be units in a fund or a share of a fund such as an interest in a partnership. In this case, the Trustees make enquiries to the pooled fund manager to determine if the unit of investment is subject to change in value arising from market and credit risks and which types of market risk. The whole value of the pooled fund is then disclosed in the relevant risk analysis with an explanation of the Trustees' approach to investing in the pooled arrangement.	☐	☐	☐
3.17.1	SI 1996/1975: 3A (2)	Particulars are required of any investment (other than UK Government Securities) in which more than 5% of the total value of the net assets of the scheme is invested. There is no need to adopt a 'look through' approach unless the Trustees control the investment mandate of the pooled investment vehicle.	☐	☐	☐
3.16.13		Where a scheme invests in a pooled investment vehicle where the Trustees have control over the investment mandate, for example, where the Trustees are the sole investor, the SORP recommends that the risk disclosures required by FRS 102 as described above are disclosed on a 'look through' basis as if the scheme held the investments in the pooled arrangement directly.	☐	☐	☐
		Sole investor pooled arrangements			
3.21 3.21.1		A pension scheme may be the sole investor in a pooled arrangement, for example, liability driven investment funds typically set up as a Qualifying Investment Fund (QIF).			
3.21.2	Glossary	FRS 102 does contain consolidation requirements in relation to Special Purpose Entities and it is arguably the case that sole investor funds would be consolidated under these requirements. However, FRS 102 requires investments held exclusively with a view to subsequent resale to be reported at fair value and not consolidated. FRS 102 defines 'held exclusively with a view to subsequent resale' in its Glossary and this definition includes interests held as part of an investment portfolio, which is in turn defined in FRS 102's Glossary as: 'an interest is held as part of an investment portfolio if its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as media through which the investor carries out business. A basket of investments is indirectly held if an investment fund holds a single investment in a second investment fund which, in turn, holds a basket of investments.'			
3.21.3		Where this is the case, the SORP recommends that the scheme's investment should continue to be reported as an interest in a pooled arrangement with disclosure as follows:	☐	☐	☐
		— An explanation that the scheme is the sole investor in the pooled arrangement; and	☐	☐	☐
		— A summary of the pooled arrangement's assets and liabilities at the reporting date.	☐	☐	☐

Reference						
SORP	**FRS102**			**Yes**	**n/a**	**No**
3.21.4			The investment risk disclosures required by FRS 102 should be made using the "look through" approach for sole investor pooled arrangements.	☐	☐	☐
3.10.4, 3.10.5	16.10	(h)	Valuation of freehold and leasehold property			
			FRS 102 requires the following to be disclosed in relation to investment property valuations:			
			(i) The methods and significant assumptions applied in determining the fair value of investment property;	☐	☐	☐
			(ii) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and class of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;	☐	☐	☐
			(iii) The existence and amounts of restrictions on the reliability of investment property or the remittance of income and proceeds of disposal; and	☐	☐	☐
			(iv) Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.	☐	☐	☐
			In relation to investment properties the SORP recommends that the notes to the financial statements should disclose the name, or employing firm, and qualification of the valuer and should disclose, where relevant, that the valuer is an employee of the scheme or participating employer(s). The date(s) and basis (or bases) of valuation should also be disclosed. Disclosure should also be made of the basis of any fair value adjustments to latest available valuations at the reporting date.	☐	☐	☐
		(i)	Employer-related investments			
3.33.3	SI 1996/1975: 3A (3)		Where a scheme has employer-related investments, the financial statements should include a statement:			
			(i) Giving the percentage of the scheme's net assets invested in employer-related investments at the end of the scheme year;	☐	☐	☐
			(ii) If that percentage exceeds 5%, giving the percentage of the scheme's net assets which are employer-related investments of a type on which, under the Occupational Pension Schemes (Investment) Regulations 2005, there is no restriction (see Additional Guidance).	☐	☐	☐
			(iii) Where employer-related investments exceed the statutory restrictions, the steps the Trustees or managers of the scheme have taken, or propose to take, to secure that the scheme complies with the restrictions and the time when any proposed steps will be taken.	☐	☐	☐
3.33.4			The SORP recommends that, where practical, the percentage of employer-related investment at the year end is disclosed, but where this is impractical, the Trustees make a reasonable estimation of the percentage of employer-related investment, if any, and disclose whether it is above or below the statutory restriction of 5%. Where it is estimated to be above 5% the Trustees should consider the disclosures required in relation to the steps to be taken to bring the level below the statutory restriction.	☐	☐	☐

Reference						
SORP	FRS102			Yes	n/a	No
3.33.5	SI 1996/1975: 3A (4); SI 2013/2734 Sch 3, Part 5 33(1)		The Regulations provide an alternative disclosure option for schemes with members from different employers (this approach applies to both direct and indirect investments): — list the largest 100 investments by value held by the scheme at the year-end stating what percentage of the resources of the scheme each investment represents; — identify which of the investments listed above are employer related investment; and — if more than 5% of the resources of the scheme are invested in employer related investments in relation to any one employer, disclose the employer related investments, the name of the employer, the steps the scheme has taken or proposes to take to reduce the percentage to 5% or less and the time when proposed steps will be taken.	☐	☐	☐
3.33.8			*Note: Contributions due at the year end which are subsequently received in accordance with the payment schedule/schedule of contributions are not employer-related investment. Contributions received later than required by the schedule do constitute employer-related investment (although they are exempt from counting towards the statutory restrictions for employer-related investment) and any amounts outstanding at the end of the year should be disclosed as such.*			
			Disclosures relating to derivatives may be presented as a separate note or included within the risk disclosures required by FRS 102 (see SORP 3.15.1 to 3.15.11). It is not necessary to provide detailed comparatives for the key contract disclosures recommended above.	☐	☐	☐
3.32.1	33.1	(j)	Related party transactions FRS 102 requires 'An entity to include in its financial statements the disclosures necessary to draw attention to the possibility that its financial position and profit or loss have been affected by the existence of related parties and by transactions and outstanding balances with such parties'. The relations between parties involved in pension schemes, and the transactions between these parties, will vary from scheme to scheme.			
3.32.12	33.6		FRS 102 requires the disclosure of key management personnel compensation. FRS 102 defines compensation as follows: "Compensation includes all employee benefits (as defined in Section 28 Employee Benefits) including those in the form of share-based payments (see Section 26 Share-based Payment). Employee benefits include all forms of consideration paid, payable or provided by the entity, or on behalf of the entity (e.g. by its parent or by a shareholder), in exchange for services rendered to the entity. It also includes such consideration paid on behalf of a parent of the entity in respect of goods or services provided to the entity."			
3.32.13	33.7		An entity shall disclose key management personnel compensation in total.			

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.32.14		This disclosure would normally relate to remuneration of Trustees for their services to the scheme, whether paid by the scheme or by another entity such as the employer. It would not normally apply to remuneration of scheme management for example the pension manager, since the pension manager would not normally be considered key management personnel.			
3.32.17	33.9	FRS 102 requires the following disclosures in relation to related party transactions: If an entity has related party transactions, it shall disclose the nature of the related party relationship as well as information about the transactions, outstanding balances and commitments necessary for an understanding of the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to the requirements to disclose key management personnel compensation. At a minimum, disclosures shall include:			
		(a) The amount of the transactions.	☐	☐	☐
		(b) The amount of outstanding balances and:	☐	☐	☐
		(i) Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and	☐	☐	☐
		(ii) Details of any guarantees given or received.	☐	☐	☐
		(c) Provisions for uncollectible receivables related to the amount of outstanding balances; and	☐	☐	☐
		(d) The expense recognised during the period in respect of bad or doubtful debts due from related parties.	☐	☐	☐
3.32.18	33.9	Such transactions could include purchases, sales, or transfers of goods or services, leases, guarantees and settlements by the entity on behalf of the related party or vice versa.			
3.32.18	33.10	An entity shall make the disclosures required by FRS 102:33.9 separately for each of the following categories:			
		(a) Entities with control, joint control or significant influence over the entity;	☐	☐	☐
		(b) Entities over which the entity has control, joint control or significant influence;	☐	☐	☐
		(c) Key management personnel of the entity or its parent (in the aggregate); and	☐	☐	☐
		(d) Other related parties.			
3.32.18	33.13	An entity shall not state that related party transactions were made on terms equivalent to those that prevail in arm's length transactions unless such terms can be substantiated.	☐	☐	☐
3.32.19	33.14	An entity may disclose items of a similar nature in the aggregate except when separate disclosure is necessary for an understanding of the effects of related party transactions on the financial statements of the entity.			

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.32.20		The following are examples of transactions for which it would normally be sufficient to make disclosures on an aggregated basis:			
		(a) Payment of employer and employee contributions – Employer contributions and employee contributions are normally disclosed in aggregate in the Fund Account (or notes thereto) and further information on a disaggregated basis (such as names and contributions of each employer) is normally unnecessary;	☐	☐	☐
		(b) Payment of fees and expenses paid to Trustees by the scheme, in aggregate, should be separately disclosed. Where Trustees are paid by the employer and this is not recharged to the Scheme, the amount paid to the Trustees in aggregate should be disclosed in the notes to the financial statements. Where Trustees are paid employees of the sponsoring employer and carry out Trustee duties in company time, this does not require such disclosure as a related party transaction. However, payments for goods or services to Trustees or Scheme advisers outside the normal course of business (such as the purchase of an asset from a Trustee or adviser) would require disclosure as a related party transaction.	☐	☐	☐
3.32.21		Trustees may be in receipt of pension benefits through the scheme or contributions may have been paid in respect of Trustees. Provided these transactions arise solely in the individual's capacity as a beneficiary of the pension scheme and are either non-discretionary or are made on terms normally granted to members, the disclosure of individual transactions is normally unnecessary. It would normally be sufficient to disclose the status of the Trustee as a person in respect of whom contributions have been paid or as a person in receipt of benefits.	☐	☐	☐
3.32.22		Where administration costs, investment management expenses and other services such as secretarial and management support are borne directly by a participating employer and not recharged to the scheme, that fact should be disclosed as a related party transaction. In such cases, disclosure of the amounts involved is unnecessary as there is no 'cost' to the scheme.	☐	☐	☐
		(k) Common Investment Funds (CIFs)			
3.22.2		Where a scheme participates in a CIF disclose the scheme's interest in the CIF i.e. number of units or share of fund, at the beginning or end of the scheme year and either:	☐	☐	☐
		(a) Include the financial statements of the CIF within the annual report; or	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
		(b) Provide equivalent details of the CIF's portfolio and income and state the scheme's proportionate share thereof.	☐	☐	☐
3.22.4		The CIF's financial statements will show a true and fair View under UK/Irish GAAP and will therefore be prepared in accordance with FRS 102. The CIF will value its investments at fair value in accordance with FRS 102's fair value methodology. The CIF trustees decide whether the CIF is a Financial Institution as set out in the Glossary to FRS 102. If they decide it is the CIF follows the financial instrument disclosures set out in FRS 102 for Financial Institutions and this SORP recommends it also follows the additional investment disclosures recommended by this SORP for pension schemes. If they decide it is not a Financial Institution this SORP recommends that the CIF financial statements are prepared in accordance with FRS 102 and this SORP as if pension investment disclosure requirements apply and therefore contain the fair value hierarchy and risk disclosures in relation to investments that would be disclosed as if it were a pension scheme.	☐	☐	☐
3.22.5		The SORP further recommends that where the CIF financial statements are included in the scheme's Annual Report then the scheme financial statements disclose the fair value and risk disclosures at the share of CIF level, for example, units in the CIF. If the scheme financial statements include equivalent details of the CIF's portfolio then they should also include the related risk and fair value disclosures.	☐	☐	☐
		The disclosures made in the annual report, taken together, need to comply with the SORP and relevant regulations in relation to investment disclosures.	☐	☐	☐
		(l) Subsidiaries, associates and joint ventures	☐	☐	☐
3.23.1		If a pension scheme has subsidiaries, joint ventures or associates it needs to consider its approach to these in its financial statements. FRS 102 has the following requirements that need to be taken into account:			
	9.2,9.3	— Pension schemes are not required to prepare consolidated financial statements under FRS 102 but may choose to do so;			
	34.36	— Investments in subsidiaries, associates and joint ventures are reported in the scheme's Statement of Net Assets at their fair values;			
	9.9(b), 9.9C	— A subsidiary shall be excluded from consolidation and included at fair value in the consolidated statement of net assets where the investment in the subsidiary is held exclusively with a view to subsequent resale.	☐	☐	☐
	Glossary	— FRS 102's definition of held exclusively with a view to subsequent resale includes an interest which is held as part of an investment portfolio. FRS 102 defines that an interest is held as part of an investment portfolio if its value to the investor is through fair value as part of a directly or indirectly held basket of investments rather than as a medium through which the investor carries out business.	☐	☐	☐

Reference					
SORP	FRS102		Yes	n/a	No
3.23.2		Consequently, where a subsidiary is held as part of the scheme's investment portfolio it will be reported at fair value in the scheme's Statement of Net Assets and if the scheme chooses to prepare consolidated financial statements the Trustees consider whether the subsidiary falls to be consolidated or reported at fair value under FRS 102 as described above in the consolidated Statement of Net Assets.	☐	☐	☐
	Glossary	Where a subsidiary is not held exclusively with a view to resale, for Example, a trading subsidiary, it will be reported in the scheme's Statement of Net Assets at fair value, and if the scheme chooses to prepare consolidated financial statements it will consolidate the subsidiary and comply with the requirements of Section 9 of FRS 102 in relation to consolidated financial statements.	☐	☐	☐
3.23.4		Where a pension scheme holds investments in a subsidiary and does not produce consolidated financial statements, the SORP recommends that a summary of the underlying net assets is disclosed, or if there are a number of subsidiaries, the aggregate net assets of the subsidiaries are disclosed.	☐	☐	☐
3.23.5		FRS 102 requires the following disclosures:			
	9.27	— Whether the financial statements are consolidated or non-consolidated;	☐	☐	☐
		— If the financial statements are non-consolidated the basis under FRS 102 by which the scheme is exempt from preparing consolidated financial statements. This will normally be FRS 102:9.3 (g) as the statutory framework for pension scheme financial reporting does not require consolidation; and	☐	☐	☐
		— If the financial statements are non-consolidated, a description of the methods used to account for the investments in subsidiaries, joint ventures and associates.	☐	☐	☐
3.23.6		For consolidated subsidiaries where there is goodwill, for example in trading subsidiaries, differences may arise between the parent and consolidated Statement of Net Assets because under FRS 102 goodwill cannot be revalued and has to be amortised whereas shares in subsidiaries at fair value will include revalued goodwill.	☐	☐	☐
		If the net asset values on a consolidated and non-consolidated basis are significantly different and the scheme chooses to prepare consolidated financial statements it will also have to prepare a parent Statement of Net Assets:			
		(m) Annuity contracts			
		Buy-ins			
3.24.1		Trustees may decide as a matter of investment policy or of administrative efficiency to purchase annuity policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, or in respect of, particular members. These annuity policies are usually in the name of the Trustees, and remain assets of the scheme. These transactions are generally referred to as 'buy-ins'. This is because the Trustees are not legally discharged of the corresponding liabilities.	☐	☐	☐
3.24.3		Members whose benefits are funded by the purchase of such annuity policies remain members of the scheme and should be included in the scheme's membership statistics.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.24.4		Bulk buy-ins often have 'true-up' arrangements under which the final terms of the contract are agreed, normally taking into account a data cleanse exercise. If a true-up is in progress at the reporting date, the SORP recommends this is disclosed in the financial statements.	☐	☐	☐
		Buy-outs			
3.24.5		Trustees may purchase insurance policies in the name of individual beneficiaries, or may assign existing policies in the Trustees' name into the names of individual beneficiaries. These transactions are generally referred to as 'buy-outs'. The Trustees' intention is generally to secure the benefits to those beneficiaries and to secure a legal discharge for the Trustees of the corresponding liabilities. The policies in these circumstances are not, or cease to be, assets of the scheme and cannot be included in the scheme's Statement of Net Assets. The purchase cost of such policies (or the disposal on assignment to members of such policies previously valued in the scheme's Statement of Net Assets) should be accounted for as the 'purchase of annuities' in the Fund Account.	☐	☐	☐
3.24.6		The costs should be disclosed under the 'Benefits Payable' caption for immediate annuities and under the 'Payments to and on behalf of leavers' caption for deferred annuities. Members whose benefits have been secured in this way should be treated in the scheme's membership statistics as having exited the scheme.	☐	☐	☐
		(n) Accounting periods			
3.6.17	3.11	(i) FRS 102 requires an entity to retain the presentation and classification of items in the financial statements from one period to the next unless there is a change in accounting standards, a change in the entity's operations or a review of its financial statements such that another presentation or classification would be more appropriate. Where change in presentation or classification occurs the scheme should disclose, where practicable:	☐	☐	☐
	3.12	(a) The nature of the reclassification;	☐	☐	☐
		(b) The amount of each item or class of items that is reclassified; and	☐	☐	☐
		(c) The reason for the reclassification.	☐	☐	☐
3.6.18	3.13	If it is impractical to reclassify comparative amounts, an entity shall disclose why reclassification was not practicable.	☐	☐	☐
3.6.16	3.14	(ii) The financial statements should show comparatives for the previous accounting period for each amount shown in the financial statements, unless otherwise stated in FRS 102 and the SORP.	☐	☐	☐
		(iii) Transitional provisions			
3.3.1	35	Transition from reporting under previous UK/Irish GAAP to FRS 102 is required to be carried out in accordance with the requirements of section 35 of FRS 102. These requirements require the first set of financial statements that are prepared in accordance with FRS 102 to be prepared on the basis that FRS 102 always applied to the current and previous accounting periods. There is therefore no need to account for changes in asset recognition or valuation arising on transition to FRS 102 as a prior year adjustment. Full comparatives in accordance with FRS 102's disclosure requirements are required for the comparative period.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.3.2		FRS 102 requires the following disclosures in relation to the transition:			
	35.12	An entity shall explain how the transition from its previous financial reporting framework to this FRS affected its reported financial position and financial performance. To comply with FRS 102:35.12, an entity's first financial statements prepared using FRS102 shall include:			
	35.13	(a) A description of the nature of each change in accounting policy;	☐	☐	☐
		(b) Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with this FRS for both of the following dates:			
		(i) The date of transition to FRS102; and	☐	☐	☐
		(ii) The end of the latest period presented in the entity's most recent annual financial statements determined in accordance with its previous financial reporting framework.	☐	☐	☐
		(c) A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity's most recent annual financial statements to its profit or loss determined in accordance with FRS102 for the same period.	☐	☐	☐
3.3.3		The SORP recommends that the disclosures required by FRS 102 above are satisfied by disclosing a reconciliation between the scheme net assets at the transition date and at the end of the comparative period and the net increase/decrease in the fund during the comparative period as previously stated under UK/Irish GAAP and as stated under FRS 102. The transition date is the opening date of the comparative period.	☐	☐	☐
		(o) Other information			
2.5.3		The financial statements should contain any other relevant information. This will include, where material:	☐	☐	☐
3.35.2		(i) Capital commitments e.g. unpaid calls on shares.	☐	☐	☐
3.37.2	32.2	(ii) Subsequent events FRS 102 requires the amounts recognised in the financial statements to be adjusted for adjusting events whereas non-adjusting events are not adjusted for but are disclosed, including the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made. Examples are given:	☐	☐	☐
3.37.3, 3.37.4		— Of adjusting subsequent events (e.g. receipt of more up to date information on the value of investments at year end), and — Of non-adjusting events (e.g. scheme mergers and major transfers occurring between the reporting date and the date of signature of the financial statements).			
3.36.1, 3.35.1		(iii) Contingencies (other than obligations to pay pensions after the scheme year end) e.g. claims against the scheme or the costs of litigation, or guarantees given or security offered by the Trustees.	☐	☐	☐

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
3.36.2, 3.36.3	21.13	Disclosure should be made of the nature of a contingent asset where an inflow of economic benefit is probable at the net asset date. An estimate of the financial effect should be given where practicable.	☐	☐	☐
3.36.4		Recognition of a contingent asset by the Pensions Protection Fund for levy purposes does not necessarily mean that the asset should be included in the scheme's financial statements.			
3.36.5		Trustees may have arrangements in place with the employer which provide certainty that the employer can make further deficit funding contributions to the scheme in certain circumstances by making the assets available via a secure arrangement. These arrangements may be in a number of forms including letters of credit, guarantees and escrow financial statements. These arrangements are not disclosed as contingent assets in the financial statements until such time as they represent probable inflows to the scheme. Since this information is generally useful to readers of the annual report to understand the security of scheme funding arrangements, the SORP recommends that these arrangements are disclosed in the Trustees' Report whether or not they qualify as contingent assets for financial reporting purposes.	☐	☐	☐

C Report on actuarial liabilities

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
2.7.1	34.48	For schemes providing defined benefits, FRS 102 requires a separate report alongside the financial statements on actuarial liabilities. This report contains the latest available valuation of actuarial liabilities and the assumptions and methodology used to calculate them. This will normally be based on the latest available scheme funding valuation and the information contained in the related Summary Funding Statement and Statement of Funding Principles in the United Kingdom. The SORP also recommends that the report discloses the amount of the scheme net assets at the date of the actuarial valuation.	☐	☐	☐
2.7.2		*The actuarial valuation and the preparation of annual financial statements are discrete exercises. They serve two different purposes. The financial statements are essentially a matter of record of past performance, while the actuarial valuation is a forward-looking exercise, the aim of which is usually to assess funding levels and to recommend contribution rates. The timings of the exercises are different. The actuarial valuation is not required to be carried out annually but rather at least every three years and the effective date of the valuation will not necessarily coincide with the accounting date. The actuarial view of the timing and incidence of scheme liabilities is shaped by the assessment of probabilities of future outcomes using actuarial techniques.*			
2.7.3		If a more recent valuation other than the scheme funding valuation is available this may be used. However, the SORP does not require an annual valuation to be prepared for the purposes of providing the FRS 102 report on liabilities.			

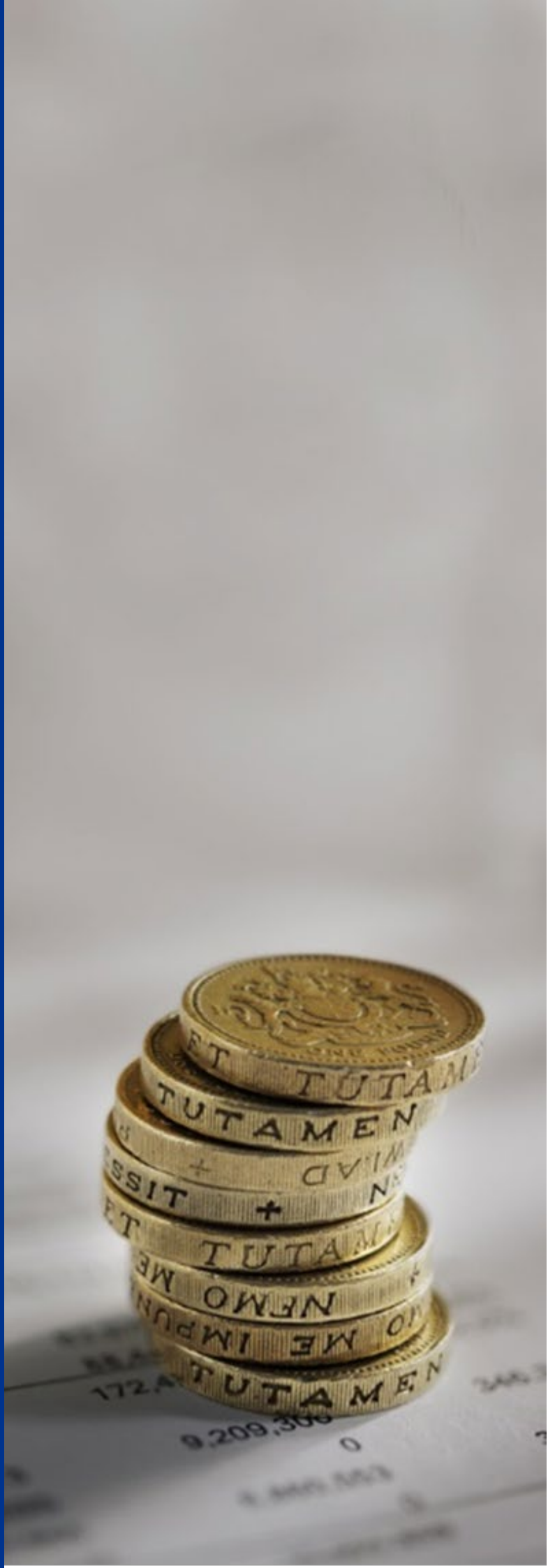
D Actuarial certificate and statement

Reference					
SORP	**FRS102**		**Yes**	**n/a**	**No**
2.8.1		In the United Kingdom the latest available certificate of the adequacy of the contribution rate is required to be included in the Annual Report under the Disclosure Regulations. The certification of the Schedule of Contributions certifies that the contribution rates are adequate for the purpose of securing that the statutory funding objective can be expected to be met. The certificate is prepared in a format that in the United Kingdom is prescribed by regulations.	☐	☐	☐

KPMG

Section 4:

Pension scheme financial reporting - a way forward?



October 2018

Pension scheme financial reporting - A way forward

ABC Pension scheme

Fund account

	Notes	Total 2019 £'000	Total 2018 £'000
Contributions receivable:	4		
employer		6,786	66
employee		70	400
Individual transfers in		18	7
Other income		25	-
		6,899	473
Benefits payable	5	(10,730)	(9,629)
Payments to and on account of leavers		(80)	(106)
Other payments		(38)	(37)
Administrative expenses		(36)	(41)
		(10,884)	(9,813)
Net (withdrawals) from dealings with members		(3,985)	(9,340)
Investment income	6	4,587	3,574
Change in market value of investments	8.4	7,683	536
Investment management expenses		(378)	(381)
Taxation	7	(14)	(12)
Net return on investments		11,878	3,717
Net increase/(decrease) in the fund during the year		7,893	(5,623)
Net assets of the scheme at 6 April		73,844	79,467
Net assets of the scheme at 5 April		81,737	73,844

Statement of Net Assets (available for benefits)

At 5 April 2019	Notes	2019	2018
		£'000	£'000
Investment assets:	8.5		
Equities		20,636	17,411
Bonds		48,306	44,224
Property		4,700	3,844
Pooled investment vehicles	8.5	7,386	7,685
Derivatives	8.6	355	345
AVC investments	8.9	316	260
Cash		27	26
Other investment balances	8.8	407	314
		82,133	74,109
Investment liabilities:			
Derivatives	8.6	(25)	(13)
Other investment balances	8.8	(400)	(307)
Total investments		81,708	73,789
Current assets		67	152
Current liabilities		(38)	(97)
Total net assets of the Scheme at 5 April		81,737	73,844

The notes on pages 95 to 105 form part of these Financial Statements.

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

Signed for and on behalf of the Trustees of the ABC Group Pension Scheme on 16 September 2019.

A Rook

B Dane

Notes (Forming part of the financial statements)

1 Basis of preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 – the Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (revised 2018).

2 Identification of the financial statements

The Scheme is established as a trust under English law. The address for enquiries to the Scheme is included in the Trustees Report.

3 Core Accounting policies

i. The accounts are prepared on an accruals basis.

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

4 Contributions receivable

The Scheme closed to future accrual from 6 April 2018 and normal contributions have therefore ceased. Deficit funding contributions are being paid by the Employer into the Scheme for a period of three years in accordance with a recovery plan in order to improve the Scheme's funding position. The amounts to be paid are: 2019: £6,786,000; 2020: £5,800,000; 2021: £5,800,000.

Accounting policies:

i. Employee normal contributions are accounted for when deducted from pay, with the exception of contributions deducted from auto-enrolled members during the opt out period which are accounted for on the earlier of receipt or the expiry of the opt out period. Employer normal contributions which are expressed as a rate of salary are accounted for on the same basis as employees' contributions, otherwise they are accounted for in the period they are due under the Schedule of Contributions.

ii. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are being paid.

	2019	2018
	£'000	£'000
Employer:		
Normal	-	66
Deficit Funding	6,786	-
Members:		
Normal	-	331
Additional Voluntary Contributions	70	69
	6,856	466

Employer normal contributions include £nil (2018: £49,000) of contributions payable to the Scheme under salary sacrifice arrangements made available to certain members by the Employer.

Current assets include £50,000 (2018: £40,000) of contributions due from the Employer.

5 Benefits payable

Benefits payable comprise benefits due to Scheme members and their dependents under the Deed and Rules of the Scheme. These comprise mainly monthly pensions and lump sums on retirement. Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme settling their tax liability.

Accounting policies:

i. Benefits are accounted for in the period in which they fall due for payment. Where there is a choice, benefits are accounted for in the period in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Benefits taken are reported gross of any tax settled by the scheme on behalf of the member.

ii. Opt outs are accounted for when the Scheme is notified of the opt out.

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

Benefits payable comprise:

	2019	2018
	£'000	£'000
Pensions	10,345	9,379
Commutations and lump sum retirement benefits	245	250
Purchase of annuities	45	-
Lump sum death benefits	75	-
Taxation where lifetime or annual allowance exceeded	20	-
	10,730	9,629

Current liabilities include £25,000 (2018: £35,000) in respect of benefits payable to members.

6 Investment income

Investment income comprises mainly dividends from equities and interest on bonds held directly by the Scheme. Investment income arising from the underlying investments of pooled investment vehicles is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within 'Change in Market Value'. Investment income includes interest bought and sold on bond transactions.

Accounting policies:

i. Dividends from quoted securities are accounted for when the security is declared ex-div.

ii. Rents are earned in accordance with the terms of the lease.

iii. Interest is accrued on a daily basis.

iv. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.

Investment income receivable comprises:

	2019	2018
	£'000	£'000
Dividends from equities	1,413	379
Income from bonds	3,074	3,087
Net rental income	99	107
Interest on cash deposits	1	1
	4,587	**3,574**

Net rental income is stated after deduction of £10,000 (2018: £10,000) of property related expenses.

7 Tax

The ABC Group Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate (see Note 6(iv) above).

8 Investments

8.1 Strategy

The main investment objective of the Scheme is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due.

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

The current strategy is to hold broadly:

— 60% in investments that move in line with the long term liabilities of the Scheme. This is referred to as Liability Driven Investment (LDI) and comprises UK and overseas government and corporate bonds and interest rate swaps the purpose of which is to hedge against the impact of interest rate movement on long term liabilities.

— 40% in return seeking investments comprising UK and overseas equities, equity futures, investment property, hedge funds and private equity.

— 15% of the above in overseas currencies. To achieve this the Trustees have put in place a currency hedging strategy using forward foreign exchange rates.

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

	2019	2018
	%	%
LDI portfolio	63	64
Return Seeking portfolio	37	36
	100	100
Overseas Currency exposure	17	14

The Trustees have authorised the use of derivatives by their investment managers for efficient portfolio management purposes as part of their investment strategy for the Scheme.

8.2 Investment risks

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

Market risk: this comprises currency risk, interest rate risk and other price risk.

— Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

— Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

— Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Scheme has exposure to these risks because of the investments it makes to implement its investment strategy. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolios.

Further information on the Trustees' approach to risk management and the Scheme's exposures to market and credit risks are set out below. This does not include AVC investments, as these are not considered significant in relation to the overall investments of the Scheme.

a. Market risk

A summary of Scheme market risk exposures by strategic asset allocations is set out below:

	2019	2018	Market risk		
	£'000	£'000	Interest rate risk	Other price risk	Foreign exchange risk
LDI portfolio	51,173	46,929	●	●	●
Return seeking portfolio	30,219	26,600	●	●	●
Total investments	81,392	73,529			

Significant exposure	●	**Some exposure**	●	**No exposure**	●

i. Interest rate risk

Interest rate risk arises principally in relation to the LDI Portfolio. The LDI Portfolio comprises investments whose value changes with interest rates changes and is intended to match changes in member liabilities.

ii. Other price risk

Other price risk arises principally in relation to the Scheme's Return Seeking Portfolio. The Scheme

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

iii. Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets. The Trustees limit overseas currency exposure through a currency hedging policy. At the year-end, the unhedged proportion of Scheme net assets held in currencies other than Sterling was 15% (2018: 10%).

b. Credit risk

The Scheme is subject to credit risk as the Scheme invests in bonds, OTC derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risk arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

2019	Investment grade £'000	Non-investment grade £'000	Unrated £'000	Total £'000
Bonds	30,500	17,806	-	48,306
OTC Derivatives	255	-	-	255
Cash	27	-	-	27
PIVs	-	-	7,386	7,386
	30,782	**17,806**	**7,386**	**55,974**

2018	Investment grade £'000	Non-investment grade £'000	Unrated £'000	Total £'000
Bonds	31,548	12,676	-	44,224
OTC Derivatives	260	-	-	260
Cash	26	-	-	26
PIVs	-	-	7,685	7,685
	31,834	**12,676**	**7,685**	**52,195**

Credit risk arising on bonds held directly or through pooled investment vehicles is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 8.7 (i)). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

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

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled managers. An

analysis of pooled investment vehicles by type and legal nature is given in note 8.6.

c. Concentration of investment

Scheme investments include the following which represent more than 5% of the total value of the net assets of the Scheme:

	2019	2018
	£'000	£'000
Equity funds	3,824	4,358
Representing (of total net assets)	4%	5.2%

8.3 Investment Fair Value Hierarchy

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

Level 1: the unadjusted quoted price in an active market for identical assets or liabilities which the entity can access at the measurement date;

Level 2: inputs other than quoted prices included within Level 1 which are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly;

Level 3: inputs which are unobservable (i.e. for which market data is unavailable) for the asset or liability.

A fair value measurement is categorised in its entirety on the basis of the lowest level input which is significant to the fair value measurement in its entirety.

Investment Fair Value accounting policies:

The approach to fair value determination in accordance with the above hierarchy for the main investment types is:

i. The majority of listed investments are stated at the bid price at the date of the Statement of Net Assets.

ii. Fixed interest securities are stated at their clean prices. Accrued income is accounted for within investment income.

iii. Unquoted securities are included at fair value estimated by the Trustees based on advice from the investment manager.

iv. Pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price where there are no bid/offer spreads as provided by the investment manager.

v. Properties are included at open market value as at 5 April 2016 determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Statement contained therein. The properties have been valued by George and Co Ltd, Chartered Surveyors, who have recent experience in the locations and class of the investment properties held by the Scheme.

vi. Exchange traded derivatives are valued using market quoted prices.

vii. Over the counter (OTC) derivatives are valued using pricing models and relevant market data as at the year-end date.

The Scheme's investment assets and liabilities fall within the above hierarchy categories as follows:

	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
At 5 April 2019				
Equities	20,636	-	-	20,636
Bonds	-	48,306	-	48,306
Property	-	2,350	2,350	4,700
Pooled investment vehicles	2,533	4,533	320	7,386
Derivatives	75	255	-	330
AVC investments	153	-	163	316
Cash	27	-	-	27
Other investment balances	7	-	-	7
	23,431	55,444	2,833	81,708

	Level (1)	Level (2)	Level (3)	Total
	£'000	£'000	£'000	£'000
At 5 April 2018				
Equities	17,411	-	-	17,411
Bonds	-	44,224	-	44,224
Property	-	1,500	2,344	3,844
Pooled investment vehicles	2,545	4,691	449	7,685
Derivatives	72	260	-	332
AVC investments	136	-	124	260
Cash	26	-	-	26
Other investment balances	7	-	-	7
	20,197	50,675	2,917	73,789

8.4 Investment reconciliation

Reconciliation of investments held at the beginning and the end of the year.

	Value at 6 April 2018	Purchases at cost and derivative payments	Sales proceeds derivative and receipts	Change in market value	Value at 5 April 2019
	£'000	£'000	£'000	£'000	£'000
Equities	17,411	36	(5)	3,194	20,636
Bonds	44,224	387	(233)	3,928	48,306
Property	3,844	-	-	856	4,700

	Value at 6 April 2018	Purchases at cost and derivative payments	Sales proceeds derivative and receipts	Change in market value	Value at 5 April 2019
Pooled investment vehicles	7,685	219	(200)	(318)	7,386
Derivatives	332	5	(17)	10	330
AVC investments	260	50	(7)	13	316
	73,756	697	(462)	7,683	81,674
Cash deposits	26				27
Other investment balances	7				7
Net investment assets	73,789				81,708

Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.

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

8.5 Pooled Investment Vehicles (PIVs)

Scheme holdings of PIVs comprise:

	2019	2018
	£'000	£'000
Fixed Interest funds	2,625	2,455
Equity funds	3,824	4,358
Absolute Return fund	30	27
Property funds	503	480
Private Equity funds	320	300
Cash funds	52	34
Diversified Growth funds	32	31
	7,386	7,685

The Scheme is the sole investor in the Absolute Return fund. The assets underlying this PIV comprise:

	2019	2018
	£'000	£'000
Equities	21	19
Bonds	8	7
Other	1	1
	30	27

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

	2019	2018
	£'000	£'000
Unit linked insurance contracts	800	750
Authorised unit trusts	5,965	5,860
Open ended investment companies	363	426
Shares of limited liability partnerships	258	649
	7,386	7,685

8.6 Derivatives

Derivatives held at the year-end comprise:

Total derivatives				
	2019		2018	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Swaps – LDI portfolio	252	(10)	250	-
Futures – Return Seeking portfolio	88	(13)	80	(8)
FX – Return Seeking portfolio	15	(2)	15	(5)
	355	(25)	345	(13)

i. Swaps

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

Nature	Nominal amount	Duration	Asset value at year end	Liability value at year end
	£		£	£
Interest rate swap (Pay 5% for LIBOR)	10,000,000	Expires June 19	152,000	-
Interest rate swap (Pay 3% for RPI)	5,000,000	Expires July 19	100,000	-
Interest rate swap (Pay 5% for LIBOR)	800,000	Expires Aug 19	-	(10,000)
Total 2019	15,800,000		252,000	(10,000)
Total 2018	13,600,000		250,000	-

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

ii. Futures

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

Nature	Notional Amount	Duration	Asset value at year end	Liability value at year end
	£		£	£
Nikkei stock future bought	368,000	May 2018	88,000	-
Nikkei stock future sold	(10,000)	June 2018	-	(13,000)
Total 2019	**358,000**		**88,000**	**(13,000)**
Total 2018	225,000		80,000	(8,000)

iii. Forward Foreign Exchange (FX)

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

Contract	Settlement date	Currency bought	Currency sold	Asset value at year-end	Liability value at year-end
				£	£
Forward OTC	One month	£50	$100	15,000	-
Forward OTC	Three months	£100	$200	-	(2,000)
Total 2019				**15,000**	**(2,000)**
Total 2018				15,000	(5,000)

8.7 Transaction costs

Included within the purchases and sales are direct transaction costs of £50,000 (2018: £46,000) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

				2019	2018
	Fees	Commission	Stamp Duty	Total	Total
	£'000	£'000	£'000	£'000	£'000
Equities	25	3	1	29	27
Bonds	1	5	10	16	15
Other	2	1	2	5	4
Total 2019	**28**	**9**	**13**	**50**	**46**
Total 2018	23	7	16	-	46

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

8.8 Repurchase and reverse repurchase agreements

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

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

At the year-end, within other investment assets and liabilities, amounts payable under repurchase agreements amounted to £400,000 (2018: £307,000) and amounts receivable under reverse

repurchase agreements amounted to £407,000 (2018:£314,000). At the year-end £415,000 of bonds reported in Scheme assets are held by counterparties under repurchase agreements.

8.9 Additional Voluntary Contributions (AVCs)

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

	2019	2018
	£'000	£'000
Smith Investments Ltd – Unitised fund	153	136
Jones & Jones plc – Unitised fund	163	124
	316	260

9 Related party transactions

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

All Trustees receive an annual fee for services as Trustee of £1,000 (2018: £750).

The Scheme is administered by ABC Group Administration Ltd, an ABC Group company. Fees payable in respect of administration and processing of £21,000 (2018: £21,000) are included within administrative expenses. At the year-end creditors include £7,000 (2018: £ nil) in respect of administration expenses payable to ABC Group Administration Ltd.

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