
FINANCIAL SERVICES BOARD

Rigel Park 446 Rigel Avenue South Erasmusrand Pretoria South Africa
PO Box 35655 Menlo Park Pretoria South Africa 0102
Tel (012) 428-8000 Fax (012) 347-0221 e-Mail info@fsb.co.za
Int +27 12 428-8000 Int +27 12 347-0221 Toll free 0800110443
Internet: <http://www.fsb.co.za>



Enquiries: MR R J BOTHA D. Dialling No.: 012-428 8075
Our ref: 12/12/1 Fax: 012-347-0221
Date: 6 February, 2001 e-mail: renierb@fsb.co.za

CIRCULAR PF NO. 107

(To all self-administered funds, all fund administrators, and the administering insurers of funds exempted in terms of section 2(3)(a) of the Pension Funds Act, 1956)

PENSION FUNDS ACT, 1956 : ACCOUNTING FOR INVESTMENT IN THE RECORDS AND THE FINANCIAL RETURNS

1. THE PURPOSE OF THIS CIRCULAR

All pension funds must operate procedures for recognising, measuring, disclosing and presenting information about all the financial instruments and investment property in the financial returns in such a manner as to comply with the requirements in the relevant Statements of Generally Accepted Accounting Practice issued by The South African Institute of Chartered Accountants. This Circular highlights the main requirements.

2. BACKGROUND

The prescribed financial returns promulgated by Government Notice No. R2324 on 10 December 1993 published in Government Gazette No 15312 of the same date, allowed funds the option to value assets at historical cost or fair value. (See Schedule H, item 3 note (a).) This practice is not acceptable any longer in view of financial soundness measurements in modern regulatory trends and accounting standards.

3. Full particulars appear in the relevant Statements of Generally Accepted Accounting Practice, i.e. AC 125 : Financial Instruments : Disclosure and Presentation, AC 133 : Financial Instruments : Recognition and Measurement and AC 135 : Investment Property. AC 135 is only available in exposure draft format. The proposed accounting statement is to be issued by The South African Institute of Chartered Accountants in due course. Extracts of the documents are:

3.1 Financial Instruments

3.1.1 Recognition (Acquisition)

A fund should recognise a financial asset or financial liability on its balance sheet when, and only when, it becomes a party to the contractual provisions of the instrument.

3.1.2 A fund should derecognise a financial asset or a portion of a financial asset when, and only when, the enterprise loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). A fund loses such control if it realises the rights to benefits specified in the contract, the rights expire, or the enterprise surrenders those rights.

3.1.3 On derecognition, the difference between (a) the carrying amount of an asset (or portion of an asset) transferred to another party and (b) the sum of (i) the proceeds received or receivable and (ii) any prior adjustment to reflect the fair value of that asset in equity should be included in net profit or loss for the period.

3.1.4 A fund should derecognise a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished - that is, when the obligation specified in the contract is discharged, cancelled or expires.

3.1.5 Initial Measurement

When a financial asset or financial liability is recognised initially, a fund should measure it at its cost, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability) for it. Transaction costs are included in the initial measurement of all financial assets and liabilities.

3.1.6 Subsequent Measurement

After initial recognition, a fund should measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs that it may incur on sale or other disposal.

After initial recognition, a fund should measure all financial liabilities at fair value.

A recognised gain or loss arising from a change in fair value of a financial asset or financial liability should be included in net profit or loss for the period which it arises.

3.2 Investment property

3.2.1 Definition

Investment property is property (land and building - or a part of a building - or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

(The recognition and measurement criteria applies to all investment property regardless of the legal form of the enterprise.)

3.2.2 Recognition

Investment property should be recognised as an asset when, and only when it is probable that the future economic benefits that are associated with investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

3.2.3 Initial Measurement

An investment property should be measured initially at its cost. Transaction cost should be included in initial measurement.

3.2.4 Subsequent Measurement

After initial recognition a fund should measure all of its investment property at its fair value. A gain or loss arising from a change in fair value of investment property should be included in net profit or loss for the period in which it arise.

3.2.5 Disposals

An investment property should be derecognised (eliminated from the balance sheet) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognised as income or expense in the income statement.

3.3 Fair value

3.3.1 Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction but fully defined in the Regulations in Note (a) under item 3 (Investments) in Schedule H of the annual financial statements.

3.3.2 There is a presumption that all financial instruments held by a fund are available for trading.

4. **CONSIDERATION**

The board of management is encouraged to discuss the full text of these rather technical matters with the fund's auditors and obtain their guidance and assistance.

5. **EFFECTIVE DATE**

The requirements of the above Statements of Generally Accepted Accounting Practices are applicable as from at 1 January 2001.

Kindly hand a copy of this Circular to the fund's auditor.

Yours faithfully

REGISTRAR OF PENSION FUNDS

Notes:

- 1) Circular PF No. 106 on the topic of personal account trading was issued to self-administered funds.
- 2) This Circular can also be found in the Index of Circulars (12/12/1) on the Financial Services Board Internet Site: <http://www.fsb.co.za>

Contact information/departments
Retirement Funds and Friendly Societies