FINANCIAL INSTITUTIONS OFFICE,
Private Bag X238,
PRETORIA.
30 June 1976.

CIRCULAR PF 28
(To all privately administered pension funds.)

1. 0 INVESTMENT IN FIXED PROPERTY THROUGH MANAGED PENSION FUND PARTNERSHIPS.

1. 1 Pension funds are being approached by promoters of partnerships designed to enable pension funds to participate in fixed property investments on a partnership basis. The partnership agreement would normally provide for the partnership to be managed by a management company and for the partnership properties to be registered in the name of a nominee company. Pension funds are requested to ensure that the drafts of such partnership agreements are submitted to this Office for prior scrutiny in order to give this Office the opportunity to comment on any feature which it considers to be undesirable.

1. 2 This Office's scrutiny of the partnership agreement must in no way be seen as an official approval of the scheme or as detracting from the duty of the managements of pension funds to decide for themselves whether or not participation in a particular partnership will be a sound proposition.

1. 3 An investment in fixed property through a managed partnership must be shown in statement 10 of Schedule "D" and loans to such a partnership in statements 7 and/or 9, as the case may be.

1. 4 For the purpose of the 5% restriction mentioned in paragraph 1 of circular PF 23 of 28 March 1974, as amended by paragraph 4 of circular PF 25 of 12 December 1974, a managed partnership will be deemed to be a "property company", and for the purpose of the 25% limit referred to in paragraph 2 of Circular PF 23 an investment in such partnership will be deemed to be an investment in fixed property. Circular PF 23 should therefore be regarded as having been amended as follows -

1.4.1 by adding the following new subparagraph (f) to paragraph 2 :-

"(f) an investment in a managed property partnership."

/...

1.4.2 by adding the following new subparagraph (c) to paragraph 3 :-

"(c) a managed property partnership is a partnership of pension funds managed by a management company and formed for the purpose of investing the partnership funds in fixed property which is then registered in the name of a nominee company";

and

1.4.3 by inserting a new item 3A in the Annexure to the circular as follows :-

"3A <u>Investment in a managed property partnership.</u>

(a)	Amount contributed towards the purchase price of the fixed property, as shown in statement 10 of Schedule "D"	R ....
(b)	Loans to partnership, as shown in statement 7 and/or 9 of Schedule "D"	R ....
	Total	R ....

1. 5 The position in regard to agreements under which two or more pension funds invest directly in fixed property in the form of undivided shares which are registered in the names of the respective funds, remains unaltered. Such investments must continue to be shown in Statement 1 of Schedule "D".

2. 0 NATIONAL DEFENCE BONDS.

For the purpose of section 19(1)(c) of the Pension Funds Act, the National Defence Bonds to be issued by the Treasury (vide Government Notice No. 986 in Government Gazette No. 5152 of 11 June 1976) will qualify as "bonds" issued by the Government.

3. 0 APPOINTMENT OF AUDITORS AND VALUATORS.

3. 1 Attention is drawn to section 9(5) of the Pension Funds Act which provides that where the auditor is a partnership, the appointment does not lapse on account of a change in the composition of the partnership so long as at least half of the partners are persons who were partners on the date the appointment of the partnership was last approved by this Office. In other words, if <u>less</u> than half of the partners in the reconstituted partnership are persons who were partners at the time of the last approval, the partnership must again be appointed and approved. The names of all the partners must be furnished. Section 9(5) also applies to a partnership of valuators. Pension funds are urgently requested to bear that section in mind whenever they are notified of any

change in the constitution of a partnership of auditors or valuators and to apply immediately to this Office in the prescribed manner for approval of the appointment whenever a fresh appointment becomes necessary in terms of that section.

3. 2 When application is made for the approval of the appointment of a valuator, the name of the institute or faculty of which he is a member should be furnished.

4. 0 LATE RENDITION OF FINANCIAL STATEMENTS AND STATISTICS.

This Office has to send numerous reminders to pension funds every year because of their failure to submit their financial statements and statistics within the prescribed period. If a fund is unable to submit its statements and statistics before 1 July, its application for an extension of time must reach this Office timeously and must give the full reasons why the documents cannot be submitted in time. In future this Office will perforce have to adopt a less lenient attitude in this respect. (Vide regulation 26 as published under Government Notice No. R.98 in Regulation Gazette No. 58 of 26 January 1962)

5. 0 SUBMISSION OF "NIL" STATEMENTS.

If any of the prescribed statements are not applicable to a particular pension fund, the fund should merely indicate which statements do not apply and should not submit "Nil" statements.

6. 0 SIGNING OF DOCUMENTS.

6. 1 Attention is drawn to the provisions of section 20 of the Act and regulation 20 of the Regulations. Where the Act or Regulations require that a document be signed by the principal officer, that requirement is not met if some one else signs <u>on his behalf</u>. A person formally appointed by the management to act temporarily in the place of the principal officer may, however, sign in an <u>acting</u> capacity.

6. 2 Funds are requested either to type or to write the name of the signatory below every signature which is not easily legible.

7. 0 ADVANCES AGAINST MORTGAGE BONDS.

7. 1 Where the rules of a fund do not restrict a mortgage loan to a stated percentage of the value of the property mortgaged, the advance should normally not exceed 75% of the value of the property as valued by a competent valuer in the case of a reducible bond and $66^2/3$% in the case of a non-reducible bond. Where further advances or

readvances are made, the aggregate amount should not exceed the aforementioned percentages.

7.2 The management of a fund should ensure that properties which will be hypothecated to the fund are valued by competent persons. When a valuation is made, cognisance should be taken inter alia of the type of property and the state of repair, situation, the possibility of a favourable sale (when necessary), and the income potential of the property. The valuation report should be in writing and signed and dated by the valuer(s). It should state which factors were taken into consideration in the valuation and must be filed with the other bond documents to be available for inspection by inspectors of this Office. When an application for a loan is considered, the financial position and the credit record of the borrower should also be taken into account.

7.3 The management should satisfy itself by way of regular inspections that the value of every property hypothecated to the fund continues to afford adequate cover for the balance of the loan in accordance with the above requirements. This Office is of opinion that a property should be inspected at least once every three years and more often where instalment payments are in arrear. The inspection reports should be in writing, duly signed and dated and filed with the bond documents.

7.4 Improvements on fixed property serving as security for a loan must be adequately insured against fire, storm damage, etc., and the policy must be duly ceded to and kept in safe custody by the fund. The fund should ensure that the premiums are being paid regularly to the insurer.

8.0 OMISSION OF ACCRUED INTEREST FROM PRESCRIBED STATEMENTS.

Section 15(1) of the Pension Funds Act is interpreted by the accounting profession as requiring pension funds to include accrued interest on investments in their annual statements. However, as the calculation of such interest requires a good deal of work in the case of some pension funds and the aggregate amount involved is very small in relation to total income, it has been decided, after consultation with The Public Accountants' and Auditors' Board, to allow accrued interest to be omitted from the statements, provided a footnote to that effect is added to Schedule "A" (Revenue Account) and a consistent basis of accounting is adopted in this regard. The Regulations will in due course be amended accordingly.

9.0 COPIES OF FINANCIAL STATEMENTS.

Although in terms of regulation 12 of the Regulations three copies of the revenue account and the balance sheet are to

/...

be submitted to this Office annually, the third copy is no longer required and need, therefore, not be submitted. The matter will be rectified in the proposed new regulations.

10. 0 ANNUAL REPORT, 1973.

The Fifteenth Annual Report of the Registrar of Pension Funds (RP 105/1975) is now available and is obtainable from the Government Printer, Private Bag X85, Pretoria, 0001 at R1,60 (overseas R1,95) per copy, post free. Kindly note that copies of the report should not be ordered from this Office.

11. 0 CIRCULARS ISSUED BY THIS OFFICE.

11. 1 Please note that the following circulars issued by this Office have been withdrawn:-

Circular Number	Date
PF 1	June 1960
PF 4	9 January 1962
PF 9	November 1966
PF 11	July 1968
PF 13	September 1969
PF 15	March 1970
PF 16	14 May 1970
PF 17	5 May 1971
PF 18	28 September 1971
PF 19	20 January 1972

11. 2 The following circulars were issued only to insurers underwriting pension funds:-

Circular No. PF 10 dated December 1967
Circular No. PF 12 dated October 1968
Circular No. PF 14 dated October 1969.

12. 0 ACKNOWLEDGEMENT OF RECEIPT.

A copy of this circular is enclosed for the Fund's auditor. Please hand it to him and return as early as possible the attached acknowledgement of receipt, duly signed.

REGISTRAR OF PENSION FUNDS.
/MS