

POLICY PROPOSAL: PROVISIONING FOR DOUBTFUL DEBTS & UNFUNDED LIABILITIES

PROVISIONING FOR DOUBTFUL DEBTS

Purpose: - This policy is to ensure that

- (i) Superannuation Funds regularly evaluate loans and advances and their recoverability
- (ii) That timely and appropriate provisions account in order to accurately reflect the condition of the balance sheets of superannuation funds
- (iii) To ensure a consistent treatment of loans and advances by all Funds

It is also intended to promote well-reasoned, effective work out plans for problem assets and effective internal controls to manage the level of such assets.

Definition: Non – Performing Loan – means that an asset is no longer generating income. For the purposes of this policy, the entire outstanding balance of an asset is considered “non – performing” when

- a) Any portion of the principal or interest is due and unpaid for 90 days or more or
- b) Interest or principal payments for 90 days or more have been capitalised, refinanced, or rolled over into a new loan

Recommended Policy:

Suspension of Interest:

- a) Transfer to Non Accrual Status: A loan or advance is to be placed on a non-accrual basis if it is reasonable to conclude
 - (i) That there has been a deterioration in the financial condition of the entity of which the loan or advance was issued to.
 - (ii) Payment in full of both principal and interest is not expected within a further 90 days
 - (iii) It is non performing unless it is well secured through contractual arrangement and in the process of collection and
 - (iv) In the case of dealings with the State, contractual arrangements have relevant approvals including Section 60 & 61 of the Public Finances Management Act
- b) All interest which is accrued but is uncollected 90 days beyond due date and still carried on the books shall be written off
- c) Interest which has been taken into income and capitalised by increasing the principal amount of the loan or overdraft shall be reversed and written off from the time the loan is or should have been placed in non - accrual status.

Classification of Principal amounts in arrears

- a) Any asset or loan which is past due 90 days or more but less than 180 days shall be classified as “**Substandard**” at a minimum
- b) Any asset or loan which is past due 180 days or more but less than 365 days shall be classified as “**doubtful**”
- c) Any asset or loan which is past due 360 days shall be classified as “**Loss**”

Provisioning requirements

The following minimum provisioning requirements are to be maintained

- i) For loans graded “substandard” 25%

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|------|-----------------------------|------|
| ii) | For Loans graded “doubtful” | 50% |
| iii) | For loans graded “loss” | 100% |

Source Assistance: Prudential Standard 2/2003 Asset Classification & Provisioning
Central Bank

UNFUNDED LIABILITIES

Purpose: - This policy is to ensure that

- (i) Superannuation Funds regularly evaluate any unfunded liability and possible recoverability
- (ii) To ensure a consistent treatment of unfunded liabilities by all Funds
- (iii) To ensure adequate public disclosure

Definition: Any amount owed by the State in regards to an Employer share or Assistance Package that remains unpaid.

Recommended Policy

- a) **Unfunded State Share:** The amount of any unfunded state share unrecovered must be stated in the accounts. The Accounts and any published information to Members should have as a minimum a statement stating.

‘The XXXX (Fund) has an unfunded liability of Kxxx. In view of the significance of the amount, we draw this to your attention.’

- b) **Assistance Package:** The amount of any assistance Package by the State that remains owing must be stated in the accounts. The Accounts and any published information to Members should have as a minimum a statement stating.

‘The XXXX (Fund) is supported by an Assistance Package by the State of Kxxx.’

Rod Mitchell