



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
5/2004**

Accounting by Authorised Superannuation Funds

Background

Financial statements of authorised superannuation funds (ASFs) are required to be prepared in compliance with generally accepted accounting practice in PNG, which includes compliance with International Accounting Standards (IAS).

IAS of particular relevance to superannuation funds are:

IAS 26 : Accounting and Reporting by Retirement Benefit Plans

IAS 39 : Financial Instruments

IAS 40 : Investment Property

This proposed Prudential Standard supplements existing GAAP by requiring some additional disclosures in the financial statements of ASFs, and providing further guidance on the application of accounting policies for investments by ASFs.

The requirements of the existing GAAP particularly relevant to superannuation plans is summarised in the attached appendix.

Disclosures in the financial statements of authorised superannuation funds

- The Financial Statements of an Authorised Superannuation Fund shall include:
 - a statement of net assets and notes thereto
 - a statement of changes in net assets and notes thereto
- The statement of net assets shall disclose separately:
 - the assets of the fund, showing separately investments and other classes of assets
 - the liabilities of the fund, showing separately each class of liability but excluding the liability for accrued benefits
 - net assets available to pay benefits
 - vested benefits
 - surplus/deficiency of assets available for use by the fund
 - reserves of the fund
- By way of note, disclose

- any benefits that have been guaranteed, the identity of the guarantor, the nature of the guarantee and any changes from the prior period
 - the method adopted in determining fair value for each class of asset disclosed
 - for defined benefit and hybrid funds, the liability for accrued benefits and the date as at which the liability was measured
- Assets and liabilities should be presented broadly in order of their liquidity and the aggregate amount of total assets and total liabilities must be disclosed on the face of the statement of net assets
- The statement of changes in net assets shall disclose separately:
 - the amounts contributed by employers
 - the amounts contributed by members
 - transfers received from other superannuation funds
 - investment revenue, showing separately its individual components, including changes in fair value of each category of investments
 - changes in the fair value of assets other than investments
 - proceeds from insurance policies
 - other income
 - direct investment expenses
 - fund expenses
 - benefits expense
 - transfers made to other superannuation funds
 - income tax expense
- By way of note, disclose:
 - separately, the change in fair value of investments attributable to each category of investment
 - the rates or other basis of contribution by employers and members and changes from the prior period
 - the remuneration paid to the auditor for auditing the financial statements and for any other services provided during the period
- Where relevant or material, additional line items, sub-headings and sub-totals should be included either on the face of the primary statements or in the notes
- Benefits which have been requested or have become payable at the reporting date which remain unpaid at that date should be reflected as a current liability
- In respect of any reserves maintained, disclose
 - the purpose of each reserve
 - details of the amount and nature of transfers to/from each reserve
 - a summary of the funds reserving strategy
- The financial report must disclose
 - the name of the trustee company
 - directors of the trustee company at balance date and at any time during the period
 - any trustee related entities

- where applicable, the employer sponsor or promoter of the fund
- the name of the fund administrator company
- the name of the investment manager company
- the aggregate remuneration paid or payable to the trustee company and the individual remuneration paid or payable to the directors of the trustee company in respect of their role as directors
- the number of employees of the fund or the trustee company whose remuneration exceeds K100,000 in bands of K10,000.
- the aggregate fees paid to the fund administration company
- the aggregate fees paid to the investment management company
- all transactions with the trustee company and its directors, and any amounts receivable or payable at the balance date

- The financial report must disclose the following in accordance with the guidelines issued by the PNG Superannuation Association:
 - the management expense ratio for the fund
 - the investment return ratio for the fund

Bases of accounting for investments by authorised superannuation funds

- The investments of an authorised superannuation fund shall be measured at fair value as at the balance date
- Changes in fair value of a funds investments since the beginning of the reporting period shall be included as a component of revenue for the period
- Unquoted investments must be valued by an independent professional valuer at least every three years
- Property investments must be valued by an independent professional valuer at least every three years
- The date of the last independent professional valuation, and the name and qualifications of the valuer, must be disclosed in the financial report

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Appendix

Summary of existing GAAP

IAS 26: Accounting and Reporting by Retirement Benefit Plans

- This is applicable to all financial reporting by retirement benefits plans, which includes accumulation superannuation funds
- In respect of accumulation funds, requires:
 - a statement of net assets available for benefits, disclosing
 - assets at the end of the period suitably classified
 - the basis of valuation of assets
 - details of any single investment exceeding either 5% of the net assets or 5% of any class of security
 - details of any investment in the employer (if applicable)
 - liabilities other than the actuarial present value of promised retirement benefits
 - a statement of changes in net assets available for benefits, disclosing
 - employer contributions
 - employee contributions
 - investment income such as interest and dividends
 - other income
 - benefits paid or payable (analysed as appropriate)
 - administrative expenses
 - other expenses
 - taxes on income
 - profit and loss on disposal of investments and changes in value of investments
 - transfers from and to other plans
 - a summary of significant accounting policies
 - a description of the plan and effect of any changes in the plan during the period
 - a description of the funding policy
- All investments to be carried at fair value (market value for marketable securities) unless an estimate of fair value is not possible
- In respect of accumulation funds, also recommends:
 - a description of significant activities for the period, any changes to the plan and its membership and terms and conditions
 - statements reporting on the transactions and investment performance for the period and the financial position of the plan at period end

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Appendix

Summary of existing GAAP

- a description of investment policies
- There are further disclosure requirements for defined benefit funds

IAS 39: Financial Instruments

- Financial instruments includes investments in quoted shares, unquoted shares, debentures and fixed interest securities
- Investments should be classified between trading investments, available for sale investments, and held to maturity investments.
- Trading investments and available for sale investments are required to be measured at fair value
- Held to maturity investments are measured at amortised cost using the effective yield method
- There is a exemption for unlisted equity investments (which can be carried at cost less impairment) where the fair value cannot be reliably determined, but this is presumed to be only in exceptional cases
- In virtually all cases, market value is the fair value. Where an active market, use the current bid price. Where there is no active market, you should use a generally accepted valuation method
- All movements in the fair value of trading investments should go to the income statement
- Enterprises have a once off choice to take movements in the fair value of available for sale investments to the income statement or equity
- For unlisted securities, there is no requirement to have them independently valued and no minimum period between valuations, but assumptions and methods should be disclosed.

IAS 40: Investment Property

- Investment property (property held for rental income and/or capital appreciation purposes) should either be:
 - carried at fair value with no depreciation, or
 - carried at depreciated cost in accordance with IAS 16
- The best evidence of fair value is the property's market value on a highest and best use basis.
- Changes in market value are taken to the income statement.
- The use of external independent valuers is recommended but not required
- The standard does not prescribe a minimum period between valuations. However, management are required to maintain their investment property at fair value at each reporting date, and in practice this would appear to require an annual assessment.