



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
3/2008**

**FINANCIAL STATEMENTS
FORMAT AND DISCLOSURE REQUIREMENTS**

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Superannuation Prudential Standard 3/2008 Financial Statements Format and Disclosure Requirements

PART I – PRELIMINARY

- 1) **Title:** This Standard may be cited as *Superannuation Prudential Standard 3/2008 (Financial Statements Format and Disclosure Requirements)*.
- 2) **Authorisation:** The Bank of Papua New Guinea, (“Central Bank”) acting under Section 43 of the *Superannuation (General Provisions) Act 2000* and all other powers enabling it, determines this standard.
- 3) **Application:** All Authorised Superannuation Funds (“ASFs”) and relevant licence holders.
- 4) **Interpretations/Definitions:** In this Standard, unless the contrary intention appears:
 - a) “Act” means the *Superannuation (General Provision) Act 2000*, and Regulations, other prudential standards, licences, authorities and other instruments made under or for the purposes of that Act.
 - b) “Accounting Standards” are those standards as promulgated by the International Accounting Standards Board (IASB) and known as International Financial Reporting Standards (IFRS) previously known as International Accounting Standards (IAS) and as adopted by the Accounting Standards Board of Papua New Guinea (ASB – PNG).
 - c) “Financial Statements” means financial statements provided by the licensed trustee of an ASF on an annual basis.
 - d) “MER” means the Management Expense Ratio determined in accordance with *Superannuation Prudential Standard 2/2006 Management Expense Ratio*.
 - e) “RoR” means Rate of Return.
 - f) “OSAT” means Operating Surplus After Tax.
- 5) **Commentary:** Commentary in this Standard is included for guidance.

PART II – STATEMENT OF POLICY

- 6) **Purpose:** This Standard principally prescribes requirements in respect to the minimum reporting and disclosure requirements.
- 7) **Scope:** This Standard applies to all ASFs and relevant licence holders.
- 8) **Responsibility:** It is the responsibility of the board of directors of the licensed trustee company and relevant licence holders to comply with this Standard.

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Commentary

1. The primary purpose of an ASF is to provide benefits on the retirement of members of the ASF. In expectation of such benefits, contributions are made by, and/or on behalf of, members. Members will therefore have a particular interest in the performance of trustees and administrators in managing the resources under their control and in the ability of the plan to generate, and distribute when due, an adequate level of benefits.
2. Members are likely to be the primary users of financial reports of ASFs. Other users may include potential members and beneficiaries of the ASF, employers, trustees and plan administrators, trade unions, investors (and financial analysts and other advisers) concerned with an entity's potential obligations in respect of the plan, regulators, and other members of the community.
3. This standard addresses issues of disclosure that are supplementary to those required under IAS 26.

PART III – IMPLEMENTATION AND SPECIFIC REQUIREMENTS

9) *Financial Statements*

- a) The financial statements shall be prepared in accordance with the Act, the International Financial Reporting Standards and the prudential standards issued by the Bank of Papua New Guinea and shall include as a minimum the following:
 - i) Statement of Changes in Net Assets outlining the revenue and expenditure during the period.
 - ii) Statement of Net Assets so as to be able to determine total assets, total liabilities and the net assets of the ASF as at the balance date.
 - iii) Statement of Cash Flows so as to be able to determine the cash inflows and outflows of the ASF for the period.
 - iv) A summary of Significant Accounting Policies adopted by the ASF.
 - v) Notes to the financial statements setting out where necessary further details in respect to the financial statements as required under this standard.
- b) The financial statements shall be in English and monetary items shall be in the PNG currency.

Commentary

1. Though not required by this Standard, it is recommended that the financial statements included in general purpose financial reports be supported by a report of the trustees of the fund. That report should include comment on the investment performance and policies of the plan, highlight significant features of the operations of the fund and

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confirm that requirements of the trust deed had been complied with, or identify those requirements which had not been complied with.

2. The trustees' report should also include a formal statement as to the fairness of presentation of the financial report prepared in respect of the fund.

10) Notes to the Financial Statements

- a) The notes to the financial statements shall disclose:
 - i) The fair value of each investment held at year end.
 - ii) The change in fair value of investments attributable to each investment.
 - iii) The dates of the last independent property and investment valuations, and the name and qualifications of the valuer.
 - iv) The method adopted in determining fair value for each class of asset disclosed.
 - v) Investment expenses of the investment manager, including brokerage and commissions on purchases and sale of assets; commissions, fees and brokerage on placement of short or long term money on deposit or on treasury notes and other fixed interest ; and sub-underwriting fees.
 - vi) The remuneration paid to the auditor for auditing the financial statements and for any other services provided during the period.
 - vii) Benefits which have been requested or have become payable at the reporting date which remain unpaid at that date disclosed as a current liability in the Statement of Net Assets.
 - viii) In respect of any unallocated members funds, disclose the circumstances leading to the unallocated amount.
 - ix) The name of the trustee company.
 - x) Directors of the trustee company at the balance date and at any time during the period.
 - xi) Any trustee related entities.
 - xii) The name of the fund administrator.
 - xiii) The name of the investment manager.
 - xiv) The individual remuneration paid or payable to the directors of the trustee company in respect of their role as directors, and distinguishing per director between the following categories of remuneration:
 - (1) Salary and fees.

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- (2) Bonus.
- (3) Non-monetary benefits.
- (4) Post-employment benefits.
- xv) The number of employees of the ASF or the trustee company whose remuneration and allowances exceeds K100, 000 in bands of K50, 000.
- xvi) Details of all related party transactions with the trustee company and its directors, and any amounts receivable or payable at the balance date.
- xvii) The annual return on funds employed and the annual crediting rate.
- xviii) Details of income tax payable, deferred tax liabilities and benefits.
- xix) Details of contingent liabilities.
- xx) Details of capital commitments.
- xxi) Details of any significant events occurring after the balance date.
- xxii) Details of financial instruments and exposures in respect thereto.
- xxiii) Depreciation of property (other than investment property plant and equipment).
- xxiv) The MER for the year and the previous two years.
- xxv) Details of any exposure to derivative contracts.
- xxvi) Details of investments that exceed 5% of the net assets available for benefits.
- xxvii) Details of Changes in Members' Funds disclosing:
 - (1) How the change in net assets has been apportioned to Members' accrued benefits and reserves;
 - (2) Interest credited to or provided for crediting to members;
 - (3) Details of contributions not yet allocated to members accounts;
 - (4) Details of funds not yet allocated to members accounts; and
 - (5) Others changes in Members' Funds (the details of which are to be provided).
- xxviii) A summary of the membership of the ASF including details of active and inactive members.
- xxix) In respect of ASF's with defined benefit obligations, details of the actuarial report which shall be no older than three years in respect to members benefit, setting out the following:
 - (1) The date of the report;
 - (2) The name and qualifications of the actuary;

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- (3) A description of the significant actuarial assumptions made;
 - (4) The method used to calculate the actuarial present value of promised retirement benefits; and
 - (5) Any comments by the actuary in respect to the estimated surplus or deficit in net assets as compared to the ASF's members.
- xxx) Operating costs which includes:
- (1) Administration expenses;
 - (2) Trustee fees;
 - (3) Board fees and expenses;
 - (4) Investment Managers fees;
 - (5) Fund Administrator's fees;
 - (6) Bank of Papua New Guinea regulatory charges;
 - (7) Depreciation of property plant and equipment used by the ASF;
 - (8) Donations;
 - (9) Advertising expenditure; and
 - (10) Other operating expenses.

11) *Rate of Return on Funds Employed*

- a) The annual rate of return of the ASF as defined in this standard shall be published in the Annual Report, and referred to on this basis in all other forms of communication with members.
- b) To calculate the annual rate of return on funds employed (RoR), it is necessary to establish the operating surplus after tax (OSAT) of the ASF net of all expenses, fees and taxes, net also for this purpose of amounts credited to the accounts of members who have exited the ASF through the year. The OSAT is equal to the Change in net assets after tax less revenue from contributions plus benefit payments.
- c) OSAT is then related to the average funds employed. Funds employed are the average daily balance of total member accounts, including contributions received during the year, plus the opening level of any reserves (R) and the average balance of any unallocated member funds (U).

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d) Thus, the annual rate of return (RoR) =
$$\frac{OSAT}{\sum (B_n / 365) + R + U}$$

where: B = total daily balance of member accounts

n = each day of the accounting year, n = 1, 2,...365 (leap year 366)

12) Amount to be Credited to Individual Members

a) The total amount to be distributed to members' accounts is the operating surplus after tax (OSAT) of the ASF plus or minus any movement out of or into reserves (r), ie, [OSAT+ r]

b) To calculate the annual crediting rate (ACR) across the ASF, it is necessary to relate this amount to the average daily balance of total member accounts.

c) Thus, the annual crediting rate ACR =
$$\frac{OSAT \pm r}{\sum (B_n / 365)}$$

d) The Kina amount to be credited to a member =
$$\sum (b_n / 365) \times ACR$$

where b = the member's average daily balance over the year

e) In any formal presentation of the annual crediting rate such as the Annual Report, where the transfer to or from reserves affects the annual crediting rate by 0.5% or more, the rate before transfer will also be shown.

13) Difficulty in Meeting the Standard

a) If any ASF believes it will have difficulty in complying with this standard, it must consult with the Central Bank forthwith, in order to:

- i) seek guidance on how to comply as closely as possible, and
- ii) agree on the means by which its administrative records can be improved to enable it to comply with the Standard in future years.

14) Defined Benefit Funds

a) Section 12 does not apply to a defined benefit fund. Member entitlements are defined in legislation.

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15) *Further Requirements*

- a) Any analysis or presentation of ASF returns over time shall be on a consistent basis or, if this is not feasible because of lack of adequate past information, it shall be clearly noted that the series is not fully comparable and the source of the discontinuity explained.
- b) In the presentation of the rate of return on funds employed, or of the crediting rate, particularly in any time series, the ASF shall ensure that members have sufficient information to see the real rate after allowance for inflation. This may be done by deducting the annual CPI from the nominal rate as calculated above.
- c) The Central Bank should be consulted in the event any ASF has any uncertainty in the proper calculation of the RoR, the OSAT, the ACR or the amount to be credited to member accounts.

PART IV – ADVICE TO MEMBERS

16) *Written Statements*

- a) Section 56 (1) of the Act requires the ASF to cause to be published a written statement of the financial and management performance of the ASF.
- b) The written statement shall contain:
 - i) an abridged statement of net assets available to pay benefits; and
 - ii) an abridged statement of changes in net assets.
- c) The written statement may be published in the form of a newspaper advertisement, poster or other written or electronic format so that it can be accessed by each member.
- d) The written statement should include:
 - i) a summary of the Chairman’s commentary and the Chief Executive Officer’s commentary;
 - ii) a clear outline of the investment strategy being followed by the ASF including advice as to the risks that may arise from that strategy;
 - iii) an analysis showing how the investment results for the year were achieved; and

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- (iv) details of the major investments of the ASF and the relative importance of those investments to the ASF.
- e) The written statement shall include a summary of any changes in legislation that may affect the future activities of the fund and any changes to the instruments that govern the fund and where applicable outline the financial effects of such changes.
- f) The written statement should include:
 - i) the management expense ratio together with a concise outline of what it measures;
 - (ii) the rate of return earned by the ASF together with the benchmark return;
 - (iii) the rate of return credited to members' accounts; and
 - (iv) the amounts added to or withdrawn from any reserve accounts together with a concise outline of the purpose of those reserves.
- g) The written statement must clearly indicate how members may access further information, including obtaining a copy of the Financial Statement of the ASF.

17) *Written Summary*

- a) Section 56 (1) of the Act requires the ASF to cause to be published a written summary of the financial and management performance of the ASF together with the end-of-year balance of the member's account.
- b) A written summary shall be addressed each member individually.
- c) The written summary shall include:
 - i) a statement of the net assets available to pay benefits;
 - (ii) a statement of the total balances of members' accounts; and
 - (iii) a statement of the amount held in reserve accounts.
- d) The written summary should include:
 - i) the management expense ratio together with a concise outline of what it measures;
 - (ii) the rate of return earned by the ASF together with the benchmark return;
 - (iii) the rate of return credited to members' accounts.
- e) The written statement shall include the end-of-year balance of each member's account.

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- f) The written statement must clearly indicate how members may access further information, including obtaining a copy of the Financial Statement of the ASF.

PART V – CORRECTIVE MEASURES

18) *Remedial Measures and Sanctions*

- a) If a licence holder fails to comply with this standard, the Central Bank may impose or vary conditions on the licence to ensure compliance or, if necessary, suspend or revoke the licence. Any licence holder, which experiences difficulty in complying with the standard, should seek the assistance the Central Bank forthwith.

PART VI – EFFECTIVE DATE

- 19) *Effective Date:* The effective date of this prudential standard shall be 1 December 2008.
- 20) *Questions and enquiries:* Questions and enquiries relating to this prudential standard should be addressed to:

**The Manager,
Superannuation and Life Insurance Supervision
Department
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**L. Wilson Kamit, CBE
Governor**