

SCHEDULE

Regulation 4

VALUATION OF THE ASSETS, THE FULL SCHEME LIABILITIES AND THE PROTECTED LIABILITIES IN RELATION TO A CLOSED SCHEME

PART 1

1. In this Schedule—

“contribution notice” means a notice issued under section 38 (contribution notices where avoidance of employer debt), 47 (contribution notices where non-compliance with financial support direction) or 55 (contribution notice where failure to comply with restoration order);

“financial support direction” means a direction issued under section 43 (financial support directions);

“pension credit rights” has the meaning given by section 124(1) (interpretation of Part 1) of the 1995 Act ^{M1};

“pre-6th April 1997 contract of insurance” means a contract of insurance that—

- (a) falls within the definition of a relevant contract of insurance in section 161(8) (effect of Board assuming responsibility for a scheme);
- (b) was taken out before 6th April 1997; and
- (c) the trustees or managers are, or should reasonably be aware of;

“relevant accounts” for the purposes of identifying and valuing the assets of a scheme, means audited accounts for the scheme which—

- (a) contain the information specified in Part 2 of this Schedule;
- (b) show a ^{F1}true and fair view] of—
 - (i) the financial transactions of the scheme during the period to which the accounts relate (“the accounting period”);
 - (ii) the amount and disposition of the assets at the end of the accounting period; and
 - (iii) the liabilities of the scheme, other than the liabilities to pay pensions and benefits, after the end of the accounting period;
- (c) include a report by the auditor in writing as to whether or not in his opinion the requirements of paragraphs (a) and (b) above are satisfied; and
- (d) are prepared in respect of a period ending with the effective date of the valuation;

“restoration order” has the meaning given by section 52 (restoration orders where transactions at an undervalue); and

“section 75 debt” means so much of the amount treated by section 75 of the 1995 Act ^{M2} (deficiencies in the assets) as a debt due from the employer to the trustees or managers at the applicable time.

F1 Words in Sch. para. 1 substituted (1.4.2009) by [The Pension Protection Fund \(Miscellaneous Amendments\) Regulations 2009 \(S.I. 2009/451\)](#), regs. 1, **6(2)**

Marginal Citations

M1 [1995 c.26](#). The definitions of “pension credit”, “pension credit member” and “pension credit rights” were inserted by section 84(1) of, and paragraphs 43 and 61(1) and (3) of Schedule 12 to, the [Welfare Reform and Pensions Act 1999 \(c.30\)](#).

M2 Section 75 is amended by section 271 of the Act, and is modified in its application to multi-employer schemes by the [Occupational Pension Schemes \(Employer Debt\) Regulations 2005 \(S.I. 2005/678\)](#), amended by [S.I. 2005/2224](#).

2. There shall be excluded from the value of the closed scheme's assets—
- (a) any amounts treated as a debt due to the trustees or managers which are unlikely to be recouped without disproportionate cost or unlikely to be recovered within a reasonable time; and
 - (b) an amount in respect of the value of any pre-6th April 1997 contract of insurance if—
 - (i) the trustees or managers have taken all reasonable steps to obtain information concerning that contract of insurance (whether by searching the records of the scheme or otherwise); and
 - (ii) the information they provide concerning that contract of insurance is insufficient, in the opinion of the appropriate person, to conduct a valuation.

3. Subject to paragraph 6(3) and (4), where the Regulator issues a contribution notice or a financial support direction or makes a restoration order in relation to a scheme prior to the effective date of the valuation, any amount due under such a notice, direction or order shall be regarded as an asset of the scheme.

4. Subject to paragraphs 2 and 6, in determining the value of the assets of a closed scheme for the purposes of a section 156 valuation, the appropriate person shall adopt the value given of the assets of the scheme stated in the relevant accounts and that value shall be taken to be the value of those assets at the effective date.

5.—(1) Subject to paragraph 6, in the case of protected liabilities ^{M3} the amount of a protected liability shall be the estimated cost of securing scheme benefits calculated in accordance with Schedule 7 to the Act (pension compensation provisions) to the member by means of an annuity purchased at the market rate at the effective date.

(2) Where paragraph 2(b) applies, the amount representing the value of a protected liability in respect of the benefits secured by a pre-6th April 1997 contract of insurance shall be excluded from the valuation of the scheme's protected liabilities.

Marginal Citations

M3 The term “protected liabilities” is defined in section 131(1) of the Act (protected liabilities).

6.—(1) For the purposes of a section 156 valuation, where for the purpose of giving effect to a pension sharing order or provision, arrangements are being made by the closed scheme for the transfer from it of any pension credit rights, until such time as the trustees or managers of the scheme to which the transfer is being made (“the receiving scheme”) have received assets of the full amount agreed by them as consideration for the transfer, it shall be assumed—

- (a) that the rights have not been transferred; and
- (b) that any assets transferred in respect of the transfer of those rights are assets of the scheme making the transfer and not of the receiving scheme.

(2) For the purposes of a section 156 valuation, in the case of a pre-6th April 1997 contract of insurance, the value shall be—

- (a) the amount of the liability secured where the contract of insurance falls within the definition of a relevant contract of insurance in section 161(8); or where this is not the case either—

- (b) the surrender value of the contract of insurance; or
 - (c) where it appears to the appropriate person that the surrender value of the contract of insurance does not accurately reflect the actual value at the effective date, then he shall adopt such a value as appears to him to be appropriate.
- (3) In the case of an asset to which paragraph 3 applies, the appropriate person shall adopt as the value of the asset the amount due to the closed scheme given in the notice, direction or order.
- (4) For the purposes of a section 156 valuation—
- (a) where the appropriate person, in accordance with guidance issued by the Board under section 156(3), holds the opinion that any section 75 debt falling due to the closed scheme will be recouped in the future, then he shall treat the proportion of the section 75 debt that he believes will be recovered as an asset of the scheme;
 - (b) where an amount is due under a contribution notice, a financial support direction or a restoration order, and—
 - (i) a proportion of the amount due has been recouped before the effective date; and
 - (ii) the appropriate person, in accordance with any guidance issued by the Board in accordance with section 156(3), holds the opinion that no further payments due under the notice, direction or order will be recouped by the closed scheme,the appropriate person shall adjust the value of the asset contained in the notice, direction or order to the value recouped by the trustees or managers of the closed scheme before the effective date.
 - (c) if the appropriate person—
 - (i) has been given notice; or
 - (ii) holds the opinion,that the value of any asset set out in the relevant accounts, that is not excluded from the actuarial valuation, is substantially different at the effective date from that set out in the relevant accounts, then he shall adjust the value of the asset to the market value of the asset at the effective date; or
 - (d) where the appropriate person—
 - (i) has been given notice; or
 - (ii) holds the opinion,in accordance with any guidance issued by the Board in accordance with section 156(3), that there exists an asset of the scheme which is not listed in the relevant accounts, and which is not excluded from the actuarial valuation, then he shall adopt such a value for the asset as he considers appropriate.
- (5) The appropriate person shall not make an adjustment to the value of an interest in real property unless the adjustment reflects a more recent valuation given by a chartered surveyor in accordance with any relevant practice statements and guidance issued by the Royal Institution of Chartered Surveyors^{M4} current on the date the valuation is signed.

Marginal Citations

M4 The Royal Institution of Chartered Surveyors can be contacted at RICS Contact Centre, Surveyor Court, Westwood Way, Coventry, CV4 8JE.

7. A section 156 valuation shall be verified by the Board if it is satisfied that the valuation was prepared in accordance with these Regulations and any guidance issued by the Board in accordance with section 156(3).

PART 2

Contents of Accounts Audited by the Auditor of the Scheme

1. An account of the financial additions to, withdrawals from and changes to, the value of the fund during the accounting period.

2.—(1) A statement, as at the end of the accounting period, of the assets at market value, or the trustees' or managers' estimate thereof where the market value is not readily ascertainable, and liabilities of the scheme, other than liabilities to pay pensions and benefits after the end of the accounting period—

- (a) giving, in the case of any assets which are stated as an estimate of their market value, the reason why the valuation is an estimate;
- (b) showing the distribution of the investments and other assets of the scheme between each of the following categories (where none of the investments falls within a particular category, that fact is not required to be stated), namely—
 - (i) insurance policies;
 - (ii) public sector fixed interest investments, separately showing quoted securities and unquoted securities;
 - (iii) other fixed interest investments, separately showing quoted securities and unquoted securities;
 - (iv) index-linked securities, separately showing quoted securities and unquoted securities;
 - (v) equities (including convertible shares), separately showing quoted equities and unquoted equities;
 - (vi) property (which in this paragraph means any right or interest in freehold or leasehold land or buildings);
 - (vii) unit trusts invested in property;
 - (viii) other unit trusts;
 - (ix) managed funds (other than unit trusts) invested in property;
 - (x) other managed funds (not being unit trusts);
 - (xi) loans (whether or not secured by mortgage);
 - (xii) cash deposits and cash in hand;
 - (xiii) investments and other assets not included in heads (i) to (xii) above; and
- (c) showing separately, in the case of investments in each category, investments in the United Kingdom and investments outside the United Kingdom, and in the case of cash investments mentioned in heads (vii) to (x) of sub-paragraph (b), investments where the company operating the unit trust or managed fund is, and where it is not, a company registered in the United Kingdom.

(2) Where the assets include insurance policies which are specifically allocated to the provision of benefits for, and which provide all the benefits payable under the scheme to, particular members or other persons in respect of particular members or both, those policies must be included in the statement and there must be a note of the existence of such policies but that entry need not include their market value or an estimate.

(3) Where the assets—

- (a) are invested only for the purposes of securing additional money purchase benefits derived from voluntary contributions; and

- (b) are specifically allocated to the provision of additional benefits for particular members or other persons in respect of particular members (or both),

a note that paragraphs (a) and (b) apply must be included in the statement, but that entry need not include the market value or an estimate of value of those assets.

3. Where any assets or liabilities are denominated in currencies other than sterling, a conversion of those assets into sterling and an explanation of the basis on which they have been converted.

4. Particulars of any investment (other than in UK Government securities) in which more than 5 per cent. of the total value of the net assets of the scheme is invested, and if any such investment is an insurance policy, a statement of its main characteristics.

5. Where the scheme has employer-related investments, within the meaning of section 40(2) of the 1995 Act ^{M5} (restriction on employer-related investments), a statement—

- (a) as to the percentage of the scheme's resources invested in such investments at the end of the accounting period; and
- (b) if that percentage exceeds 5 per cent., as to the percentage of the scheme's resources which are investments to which regulation 13 of the Occupational Pension Schemes (Investment) Regulations 2005 ^{M6} (investments to which restrictions do not apply) applies.

Marginal Citations

M5 Section 40 was amended by section 319(1) of, and paragraph 51 of Schedule 12 to, the Pensions Act 2004 and by [S.I. 2001/3649](#) and 2004/355.

M6 [S.I. 2005/3378](#). Regulation 12 was amended by [S.I. 2006/778](#).

6. In respect of every other amount shown in the accounts other than the amounts referred to in paragraph 7, a statement of the corresponding amount for the scheme year previous to the accounting period, except in a case where regulation 2 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 ^{M7} (requirement for trustees or managers to obtain documents) is complied with by the trustees or managers of a scheme for the first time.

Marginal Citations

M7 [S.I. 1996/1975](#); the relevant amending instruments are [S.I. 2000/833](#), 3198, 2005/2426 and 2006/467.

7. The total amount of the purchases and the total amount of the sales of investments during the accounting period.

8. A statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, the guidelines (“Financial Reports of Pension Schemes”) published by the Pensions Research Accountants Group ^{M8} or another organisation approved for this purpose by [^{F2}the Financial Reporting Council Limited], current at the end of the accounting period and, if not, an indication of where there are any material departures from those guidelines.

F2 Words in Sch. para. 8 substituted (2.7.2012) by [The Statutory Auditors \(Amendment of Companies Act 2006 and Delegation of Functions etc\) Order 2012 \(S.I. 2012/1741\)](#), art. 1(2), [Sch. para. 7](#)

Marginal Citations

M8 Copies of this guidance can be obtained from Croner CCH Group Limited, 145 London Road, Kingston-upon-Thames, Surrey, KT2 6SR.

Changes to legislation:

There are currently no known outstanding effects for the The Pension Protection Fund (Closed Schemes) Regulations 2007.