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# *Illustrative annual report and financial statements*

Occupational pension  
scheme applying FRS 102  
and SORP 2015

Version 1 - June 2015

## ***I***

The annual report that follows includes the financial statements of Typipens Pension Scheme, a United Kingdom Occupational Pension Scheme.

These illustrative financial statements show the principal requirements of FRS 102 (including the new SORP) and include disclosures relating to the transition to FRS 102 from previous UK GAAP. FRS 102 must be adopted for periods commencing on or after 1 January 2015 but may be adopted earlier.

Typipens Pension Scheme is a fictitious pension scheme. The annual report has been prepared for illustrative purposes only and shows the disclosures and formats that might be expected for a pension scheme of its size and complexity.

These financial statements also include voluntary disclosures that illustrate certain aspects of disclosure under FRS 102.

### ***Guidance and information***

References to source material are given in the left-hand margin.

*Commentary to clarify the requirements or to add PwC views is shown with pink shading.*

The intention is not to show all conceivable disclosures and this annual report should not, therefore, be used as a checklist. The suggested disclosures are not necessarily applicable for all occupational pension schemes.

In particular, this illustrative report does not cover:

- Consolidated financial statements
- Changes in accounting policies (other than from first time adoption of FRS 102) and correction of prior period material errors (SORP 3.6.12-15)
- Departures from FRS 102
- Non-cash contributions (SORP 3.8.9)
- Unapproved schemes (which need to account for tax under FRS 102 chapter 29)
- Schemes with tangible fixed assets (refer to FRS 102 chapter 17)
- Common investment funds (SORP 3.22)
- Sole investor pooled investment vehicles (SORP 3.21)
- Longevity swaps (SORP 3.12.27)
- Ring-fenced DB sections (SORP 3.27)
- Schemes in PPF assessment or winding up, or otherwise prepared on a basis other than going concern (SORP 3.29, 30, 31)
- Presentation in a currency other than functional currency
- All requirements specific to schemes in the Republic of Ireland

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## **Abbreviations**

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<b>FRS 102:34.27</b>	=	Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland”, paragraph number
<b>SORP 3.11.4</b>	=	Financial Reports of Pension Schemes, A Statement of Recommended Practice, paragraph number. Note that this document is described as “(2015)” on its cover and “(revised 25 November 2014)” inside.
<b>DR 3 Sch 8</b>	=	The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734), schedule number, paragraph number
<b>AAR Sch 15</b>	=	The Occupational Pension Schemes (Requirement to obtain audited accounts and a statement from the auditor) Regulations 1996 (SI 1996/1975). Note that these regulations are expected to be repealed or revised later in 2015
<b>AdmR 23</b>	=	The Occupational Pension Schemes (Scheme Administration) Regulations 1996, paragraph
<b>InvR 12</b>	=	The Occupational Pension Schemes (Investment) Regulations 2005, paragraph
<b>PA yyyy s123</b>	=	Pensions Act 1995/2004, section number
<b>TPR Code 13.78</b>	=	The Pension Regulator’s code of practice number, paragraph
<b>DV</b>	=	Disclosure voluntary. Disclosure is encouraged but not required and therefore represents best practice.

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# Typipens Pension Scheme

Illustrative annual report and financial statements for the year ended 31 December 20X5

Pension scheme registry number 123 456 789

*SORP 2.11 recommends that the registered number be disclosed prominently, for example on the front cover of the annual report.*

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## Trustees and advisers

DR 3 Sch 17

### Trustees

#### Employer nominated

JD Bailey (Chairman)  
AC Hyde (a)\*  
MR Smith\*  
JG Tritton\*

#### Member nominated

ET Brown (appointed 1 July 20X5) (p)  
SJ Harris (d)\*  
N Ashridge (retired 1 July 20X5) (p)

(a) Active member of the scheme

(d) Deferred member of the scheme

(p) Pensioner member of the scheme

\* also a member of the investment committee

*If a scheme only has corporate trustees, the names of directors of corporate trustees must be disclosed.*

*The strict requirement is to disclose trustees during the scheme year.*

*Disclosure of membership of committees is voluntary.*

DV

### Secretary

TP Renshaw  
82 Capital Road, London EC1V 1TP

DR 3 Sch 19

### Scheme administrator

PAD Limited

DR 3 Sch 19

### Actuary

J Edwards FIA  
Smith & Jones LLP

DR 3 Sch 19

### Independent auditors

PricewaterhouseCoopers LLP

DR 3 Sch 19

### Legal advisers

Cane, Able & Co LLP

DR 3 Sch 19

### Investment adviser

Spires Holmes LLP

DR 3 Sch 27

### Investment managers

Shredders Investments Limited  
East Parade Investments Limited

DR 3 Sch 19

### Investment custodians

Franks Limited

DR 3 Sch 19

### AVC manager

Provincialwide Assurance

DR 3 Sch 19

### Property managers

Plaster & Co

DR 3 Sch 19

### Property valuers

Valuer & Co

DR 3 Sch 19

### Credit advisers (employer covenant)

BRS Limited

DR 3 Sch 19

### Bankers

Southwark Bank plc

DV

### Principal and participating employers

Typico Company Limited (Principal)  
Typico Finance Limited  
Typico.com Limited

*DR requires disclosure of the name and address (postal and electronic) of every person who employs a member of the scheme, but this disclosure does not have to be given in the annual report.*

DR 3 Sch 20

**Name and address for enquiries**

NH Evans, Pensions manager  
Typipens Pension Scheme, 82 Capital Road, London  
EC1V 1TP

[member.enquiries@typipens-pensch.co.uk](mailto:member.enquiries@typipens-pensch.co.uk)

*A postal and electronic address is required. The electronic address could be an email address or a website if it has the facility for asking questions.*

*References to DR 3 Sch 19 should include “the names of the professional advisers and of such banks, custodians and other persons who have acted for or who have been retained by the trustees during the year.”*

*Indication must be given for changes to the information in this section since the previous year.*

*[DV] Changes between the end of the scheme year up to the approval of the annual report would also normally be disclosed.*

## Chairman's review for the year ended 31 December 20X5

*There is no requirement for all schemes to produce a chairman's statement. There is a requirement for DC schemes to include a statement about governance which is signed by the chairman (see later section, page 12 onwards) but in view of the quite detailed nature of its content, we encourage schemes wishing to include a traditional high-level summary in a chairman's statement to do this separately. We have used the heading "Chairman's review" in this example to ensure that the two statements signed by the chairman are suitably differentiated.*

DV

20X5 has been another challenging year for the Trustees, and this review sets out my summary of the main events having an impact on the Scheme.

This year, the main legislative and regulatory challenges have been focused on defined contribution arrangements. We have reviewed the scheme rules and our governance arrangements to ensure that the DC section of the Scheme complies fully with the new requirements and provides a greater degree of flexibility to members approaching retirement. New regulations impose a charge cap on DC investments which are used in the default arrangement and our Statement regarding DC governance included within the annual report shows how we have addressed this and other new requirements.

However, we have not neglected the DB section of the Scheme, and have concluded negotiations with the employer which were begun last year to put in place a special purpose vehicle to provide increased security for future funding through a partnership arrangement, which has added a further £9 million to the DB section's asset base.

This is the first year that the financial statements included in the annual report have had to comply with Financial Reporting Standard 102 and the new SORP. Changes to accounting policies on adoption of the new SORP have resulted in a small increase in reported net assets compared with last year, but the main impact has been an increased level of disclosure about our investments and the financial risks associated with them.

Finally, Norman Ashridge retired from the Trustee board this year, after ten years' service as a trustee. Over this time we have benefitted greatly from his knowledge and insight, for which many thanks and best wishes for a long and happy retirement.

JD Bailey  
Chairman

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## Trustees' report

### for the year ended 31 December 20X5

DV The Trustees of the Typipens Pension Scheme (the "Scheme") present their annual report for the year ended 31 December 20X5.

#### Scheme constitution and management

DV The Scheme is an occupational pension scheme set up under trust to provide retirement benefits for certain groups of employees of Typico Limited and its subsidiaries. It is governed by the Third Definitive Trust Deed dated 12 March 20X2 and subsequent amendments.

DV During the year, deeds of amendment were executed to bring about the following changes:

- Extending the definition of spouse to ensure equal treatment for spouses in same-sex couples; and
- Enabling the provision of more flexible benefit arrangements for DC members following the changes introduced in the 20X4 Finance Act.

DV Responsibility for setting the strategy and for managing the Scheme rests with the Trustees. The persons who acted as Trustees during the year are listed on page 1. The Trustees meet quarterly and decisions are passed on a simple majority of those voting.

DV The Trustees have also set up an investment committee comprising 4 Trustees which has delegated authority to make decisions concerning investments within its terms of reference and to make recommendations to the full trustee board on other matters. The investment committee also meets quarterly.

DR 3 Sch 18 The Scheme rules contain provisions for appointment and removal of Trustees. The scheme ordinarily has six Trustees, three of whom are nominated by the employer and three by the scheme's members. In anticipation of the retirement of Mr N Ashbridge, nominations were sought from the membership for a replacement Trustee and an additional member-nominated Trustee. Only one nomination was received and, having satisfied the remaining Trustees that she had suitable experience, Miss ET Brown was appointed from 1 July 20X5. Miss JG Tritton remained as an additional employer-nominated Trustee to fill the remaining vacancy until the next member nomination exercise is performed, no later than 20X8.

DR 3 Sch 18 *If the scheme has a corporate trustee, give details about provisions in the company's articles of association which relate to the appointment and removal of trustee directors.*

DV The trustees' attendance at meetings of the Trustee board and relevant committees is summarised below. Where a trustee was not entitled to attend all of the meetings in the year, the maximum number of meetings is given in brackets:

Trustee	Trustee board 4 meetings	Investment committee 4 meetings
JD Bailey	4	N/A
AC Hyde	4	4
MR Smith	4	4
JG Tritton	4	3
ET Brown	2 (of 2)	N/A
SJ Harris	4	4
N Ashridge	1 (of 2)	N/A

DV *Schemes with DC benefits are required to provide information about how the Trustees have addressed the Trustee Knowledge & Understanding requirements of Pensions Act 2004 as part of the statement about DC governance illustrated on page 13. DB only schemes may wish to provide similar comments here, but are not required to do so.*

- DV Trustees who are employed within the Typico group are not paid additionally by the Scheme for their services as Trustees. Retired Trustees are paid a fee and reimbursed for expenses incurred in performance with their duties, in accordance with the Trustees' agreed policy.
- DV The Trustees have agreed a business plan to support their governance arrangements. This includes periodic review of registers of risks and conflicts to ensure that appropriate internal controls are put in place and remain effective.
- DV The Trustees have appointed professional advisers and other organisations to support them in delivering the Scheme's objectives. These individuals and organisations are listed on page 1. The Trustees have written agreements in place with each of them.
- DR 3 Sch 31 (if an auditor or actuary resigns or is removed) During the year, Mr A Smith retired from Smith & Jones and resigned his position as Scheme Actuary. In his statement on leaving office, he noted no circumstances connected with his resignation which, in his opinion, significantly affected the interests of the members or the prospective members of, or beneficiaries under, the Scheme. His colleague Mr J Edwards was appointed as Scheme Actuary in his place.

*If there are matters disclosed by the outgoing auditor or actuary, this statement must be reproduced. Otherwise, repeating a "no matters" statement is voluntary. This information could alternatively be given as a footnote on the trustees and advisers page.*

## Financial developments and financial statements

- DR 3 Sch 24 The financial statements included in this annual report are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

*The statement of compliance should be amended if for example the financial statements are not audited within 7 months of the end of the Scheme year.*

- DV Significant developments affecting the financial position of the Scheme during the year include:
- Investment in a special purpose vehicle funded by a £9 million additional contribution; and
  - A group transfer of £70,000 from former schemes of Typico.com employees.

## Membership and benefits

- DR 3 Sch 21 *Schemes must disclose the number of members (analysed between active, deferred and pensioners) and beneficiaries (e.g. spouse and dependant pensioners) at one date during the year. This is usually presented as a reconciliation of movements as it is helpful in understanding the impact of membership changes on the financial statements. Where a reconciliation is provided, "adjustments" relating to member status changes processed during the year to reflect late notification of prior year status changes should be shown under the appropriate heading in the table (e.g. members retiring). There is no requirement to analyse between DB and DC members but many schemes would find it helpful to do so.*

The change in membership during the year is as follows:

	Active members	Deferred members	Pensioners	Beneficiaries	Total
At the start of the year	643	241	119	20	<b>1,023</b>
New members joining	113	-	-	-	<b>113</b>
Members retiring	(12)	(2)	14	-	-
Members leaving prior to pension age	(37)	37	-	-	-
Members leaving with refunds	(2)	-	-	-	<b>(2)</b>
Deaths	(2)	-	(5)	-	<b>(7)</b>
New spouse and dependant pensions	-	-	-	5	<b>5</b>
Cessation of dependant pensions	-	-	-	(2)	<b>(2)</b>
<b>At the end of the year</b>	<b>703</b>	<b>276</b>	<b>128</b>	<b>23</b>	<b>1,130</b>

Included within the above are:

SORP 3.24.3

- 7 (20X4: 7) pensioner and 2 (20X4: 1) beneficiaries whose benefits are provided by annuities.
- 120 (20X4: 35) active and 8 (20X4: nil) deferred members who are members of the DC section.

SORP 3.8.17, 28

*Information presented in this section should be consistent with the accruals treatment adopted in the financial statements. Significant differences (e.g. arising on group transfers) should be explained.*

SORP 3.8.2 (if a reconciliation is presented)

New members joining are stated net of auto-enrolment opt-outs where contributions were never remitted to the Scheme.

DR 3 Sch 22

### Pension increases

*This section is not required for schemes which are money purchase only.*

The Trust Deed and Rules makes provision for increases in pensions in payment and deferred pensions. The increases applied depend on when the benefits were accrued and under which legacy pension scheme. The table below summarises the most recent increases applied. None of the increases was discretionary.

Effective date	Minimum	Maximum	Average
<b>Pensions in payment</b>			
1 April 20X4	0%	5%	<b>3.6%</b>
1 April 20X5	0%	5%	<b>2.8%</b>
1 April 20X6	0%	2.5%	<b>2.4%</b>
<b>Deferred pensions</b>			
1 April 20X4	2.4%	5%	<b>3.8%</b>
1 April 20X5	1.6%	5%	<b>3.1%</b>
1 April 20X6	0.4%	2.5%	<b>2.1%</b>

*Disclosing the two increases before the year end shows the effect of pension increases on the reported pensions figures in the financial statements. By reporting a subsequent increase (if known), the reader is not confused by information about his own most recent increase which may be inconsistent with increases disclosed. The minimum disclosure requirement is to provide information about increases applied in the year only. A single increase rate will suffice if all members received the same increase (subject only to reductions if the pension has been in payment for less than a year at the time of increase).*

DR 3 Sch 23

### Transfer values

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and do not include discretionary benefits.

*This disclosure is not required for money purchase schemes which are wholly-insured. More extensive disclosure requirements apply if the example statement above is not true for the whole period – for example, where the scheme is applying a reduction to transfer values during periods of deficit, the note should explain why the reduction is being applied, and when full values became (or expected to become) available.*

FRS 102 34.48  
SORP 3.34.2

### Actuarial liabilities

*This section is not required for schemes which are money purchase only.*

FRS 102 34.47  
SORP 3.34.1

As required by Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustees and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

SORP 3.34.3

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 December 20X2. An update valuation was performed on 31 December 20X4.

*The SORP allows a choice of valuations to be used, with the expectation that it would not normally be necessary to commission a valuation solely for this report. Options are:*

- *The most recent scheme funding valuation under section 224 of the Pensions Act 2004;*
- *A more recent valuation (such as annual funding update) on a consistent basis with the above, if available; or*
- *Another valuation that complies with technical actuarial standards issued by FRC.*

SORP 2.7,  
SORP 3.34.4, 5

Valuation date: 31 December ...	20X4	20X2
Value of technical provisions	£32.0m	£30.0m
Value of assets available to meet technical provisions	£24.0m	£25.0m
as a percentage of technical provisions	75%	83%

DV

Although there are no current plans to discontinue the scheme and buy-out liabilities with an insurance company, the Trustees also consider the level of funding relative to the estimated costs of such a buy-out (known as “solvency liabilities”) and equivalent information on this basis is provided below:

Valuation date: 31 December ...	20X4	20X2
Value of solvency liabilities	£48.0m	£45.0m
Value of assets available to meet solvency liabilities	£24.0m	£25.0m
as a percentage of solvency liabilities	50%	55%

SORP 3.34.10,

*For schemes with ring-fenced DB sections (e.g. multi-employer schemes) this information can be presented by section or on an aggregated basis.*

SORP 3.34.11

*The values of assets and technical provisions should include the value of benefits covered by annuity contracts.*

SORP 3.34.6

The value of technical provisions is based on Pensionable Service to the valuation date and assumptions about various factors that will influence the scheme in the future, such as the levels of investment returns and pay increases, when members will retire and how long members will live. The method and significant actuarial assumptions used in the calculations are as follows:

SORP 3.34.6

### Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

SORP 3.34.6

### Significant actuarial assumptions

*This information will usually come from the Summary Funding Statement (SFS). The SFS is prepared for a different purpose and contains much additional information, so should not be reproduced verbatim in the annual report.*

**Discount interest rate:** term dependent rates set by reference to the fixed interest gilt curve (as derived from Bank of England data) at the valuation date plus an addition of 0.5% per annum.

**Future Retail Price inflation:** term dependent rates derived from the Bank of England fixed interest and index-linked gilt curves at the valuation date.

**Future Consumer Price inflation:** term dependent rates derived from the assumption for future retail price inflation less an adjustment equal to 0.9% per annum.

**Pension increases:** derived from the term dependent rates for future consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme’s rules.

**Pay increases:** general pay increases of 1.5% per annum above the term dependent rates for the future retail price inflation (NB not a significant assumption if few active members).

**Mortality:** for the period in retirement, standard tables S1PMA with a scaling factor of 98% for male active members; 103% for male deferred members and 99% for male pensioner members; and S1PFA with a scaling factor of 103% for female active members, 107% for female deferred members and 111% for female pensioner members.

### Recovery plan

DV A recovery plan was agreed between the Trustees and the employer on 24 March 20X4. Under the recovery plan, it was agreed that the company would increase contributions for active DB members from 15% to 16% and pay additional deficit contributions of £200,000 per annum (in monthly instalments) for five years from 1 April 20X4. On the basis of conditions prevailing at that date, the Scheme funding deficit was expected to be eliminated by 1 April 20X9.

SORP 3.34.7 These arrangements were formalised in a schedule of contributions which the Scheme Actuary certified on 24 March 20X4. A copy of his certificate is included on page 46 of this annual report.

DV In addition to the Statutory Funding Objective, the Trustees have set a secondary funding objective targeting self-sufficiency on a winding up basis over 10 years. The Employer has indicated willingness to continue funding the Scheme at a similar rate following the conclusion of the agreed recovery plan provided that business performance and viability is not undermined by this.

### Next actuarial valuation

DV The next triennial valuation is being performed as at 31 December 20X5. The Trustees expect to review draft results in September 20X6 and to agree a revised recovery plan within the statutory timescale by 31 March 20X7.

## Investment management

### Investment strategy and principles

DV The Trustees are responsible for determining the Scheme's investment strategy.

*The following disclosures in this section only apply to schemes to which section 35 of the Pensions Act 1995 applies (most schemes with 100 or more members). InvR 6 contains a full list of exemptions.*

DR 3 Sch 28 In accordance with section 35 of the Pensions Act 1995, the Trustees have agreed a statement of investment principles ("SIP"). This was last revised in 20X4 and is expected to be updated following the completion of the actuarial valuation currently in progress.

DR 3 Sch 28 A copy of the SIP may be obtained from the contact for enquiries on page 2.

DR 3 Sch 30 (a, b)

*Give details of any departures from the SIP, including the reasons why and explaining what action, if any, it is proposed to take or has already been taken to remedy the position. This should include prior year departures which had not been resolved in the previous year.*

DV The Trustees' investment strategy considers the Scheme's investments in the following groupings:

- **Return-seeking assets:** Predominantly equities, diversified funds and properties, where the objective is to achieve growth within the constraints of the risk profile set by the Trustees.
- **Liability-driven assets:** Predominantly bonds, LDI funds and swaps, where the objective is to secure fixed or inflation-adjusted cash flows in future, and where the investments are generally expected to be held to maturity.
- **Money purchase assets:** As these are chosen by individual DC members, the Trustees focus primarily on the suitability of the range of investments offered.

## Management and custody of investments

DR 3 Sch 27

The Trustees have delegated management of investments to professional investment managers which are listed on page 1. These managers, which are regulated by the Financial Conduct Authority in the United Kingdom, manage the investments within the restrictions set out in investment management agreements which are designed to ensure that the objectives and policies set out in the SIP are followed.

DR 3 Sch 30 (d, e)

The mandates put in place by the Trustees specify how rights attaching to the Scheme's segregated investments are acted upon. This includes active voting participation and a requirement to consider social, ethical and environmental factors when making investment decisions. The Trustees have less influence over the underlying investments within pooled investment vehicles held by the Scheme but review the managers' policies and statements of compliance in respect of these matters.

DR 3 Sch 29

The Trustees have appointed Franks Limited to keep custody of the Scheme's investments, other than:

- Pooled investment vehicles, where the manager makes its own arrangements for custody of underlying investments;
- Direct property, where title deeds are held by the Scheme's legal advisers; and
- Additional Voluntary Contributions and other investments which are in the form of insurance policies, where the master policy documents are held by the Trustees.

*This statement is not required for a wholly-insured scheme, defined as a scheme under which all the benefits provided are secured by a policy or policies of insurance or annuity contract(s).*

## Investment performance

DV

The Trustees assess the performance of the Scheme's investments in the following groupings consistent with the overall strategy:

- **Return-seeking assets** are assessed by reference to benchmarks and performance targets set and agreed with each manager.
- **Liability-driven assets** are compared with benchmarks but the Trustees' main concern is security of cash flows and therefore growth in these assets (which is normally linked to growth in Scheme liabilities, or vice versa) is less relevant.
- **Money purchase assets:** As these are chosen by individual DC members, the Trustees receive information about performance against benchmarks. Performance information is provided to members as part of the annual package of information.

DV

The Trustees receive reports from their investment advisers monthly showing actual performance by manager and fund. Investment managers present to the investment committee once or twice (for return-seeking managers) each year, to report on compliance with their agreements and to be questioned by the investment committee members. DC members are provided with an annual summary of the performance of their investment choices and monthly performance information is available in DC fund fact sheets which are available on request.

DR 3 Sch 30(c)

Performance of the Scheme's investments over short and longer periods is summarised as follows:

Annualised return over	1 year	3 years	5 years	Allocation
<b>Return-seeking assets</b>	<b>9.3%</b>	<b>11.1%</b>	<b>6.3%</b>	<b>60%</b>
Benchmark	8.4%	10.5%	6.2%	
Performance target	9.0%	11.0%	6.8%	
<b>Liability-driven assets</b>	<b>1.2%</b>	<b>2.4%</b>	<b>2.2%</b>	<b>38%</b>
Benchmark	1.2%	2.5%	2.1%	
<b>Money purchase assets</b>	<b>7.5%</b>	<b>9.1%</b>	<b>5.1%</b>	<b>2%</b>
Benchmark	7.4%	8.9%	4.8%	
<b>Scheme total</b>	<b>6.2%</b>	<b>7.4%</b>	<b>4.7%</b>	<b>100%</b>
Benchmark	6.0%	7.2%	4.9%	

DR 3 Sch 30(c)

*The minimum requirement is to disclose information about investment performance over the year and (for schemes that have existed for at least 3 years) over a longer period of between 3 and 5 years ending with the Scheme year end. This requirement is for the Scheme as a whole so a change in strategy or investment managers should not prevent the calculation of performance measures of this nature.*

DV

The principal economic factors which have affected the benchmarks against which performance is compared were as follows:

- Economic growth in continental Europe remained slow and uncertainties about Greece's position in the Eurozone led to a lack of investment and lower equity prices in that sector.
- However, strong growth in the United Kingdom, the United States and some emerging market economies enabled overall equity returns to remain satisfactory.
- Our active equity managers placed greater weightings on technology and service companies which have performed better than the FTSE 100 index as a whole, resulting in a degree of outperformance.
- Yields of high quality government bonds, such as in the United Kingdom, fell as the gap between these and Eurozone government and many corporate bonds widened.
- Property remained a buoyant sector.

*PwC comment: This is background information only. The focus should be on matters relevant to specific classes of investments, and comments about the general economic environment should be kept relatively brief to avoid detracting from the key communications about the Trustees' decisions and how they have impacted the Scheme and its members.*

DR 3 Sch 30(c)

The Trustees have considered the nature, disposition, marketability, security and valuation of the Scheme's investments and consider them to be appropriate relative to the reasons for holding each class of investment. More details about investments are given in the notes to the financial statements.

### **Employer-related investments**

DR 3 Sch 32, 33

Details of employer-related investments are given in note 30 to the financial statements.

*The requirements for disclosing employer-related investments currently appear in the SORP, the Audited Accounts Regulations (both of which set financial statements content requirements) and the Disclosure Regulations (which covers the content of the remainder of the annual report). As the disclosures therefore fall within the scope of the audit, it is preferable to make full disclosures in the financial statements and cross-refer from the Trustees' Report to cover the Disclosure Regulations requirement.*

SORP 2.6

## **Statement of Trustees' responsibilities**

### **Trustees' responsibilities in respect of the financial statements**

AAR 2  
PA 1995 s41

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustees. Pension scheme regulations require the Trustees to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996.

ISA (UK&amp;I) 210.6

The Trustees are responsible for supervising the preparation of the financial statements and for agreeing suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

DR 12

The Trustees are also responsible for making available certain other information about the Scheme in the form of an annual report.

AdmR 12  
PA 2004 s249A

The Trustees also have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

ISA (UK&I) 720 Appx

The Trustees are also responsible for the maintenance and integrity of the [name of site] website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

*This paragraph is recommended where the annual report is to be published electronically. If it is not included in these circumstances, the auditors' report will need to make reference to responsibilities with regard to electronic publication.*

### Trustees' responsibilities in respect of contributions

*Responsibilities in respect of contributions differ in law for DC only schemes compared with schemes which include DB benefits. The audit team will provide a suitable example wording if necessary.*

PA 1995 s87 (DC)  
PA 2004 s227 (DB)

The Trustees are responsible under pensions legislation for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

AdmR 12  
TPR Code 03 (DB), 05 (DC)

The Trustees are also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for adopting risk-based processes to monitor whether contributions that fall due to be paid are paid into the Scheme in accordance with the schedule of contributions.

PA 1995 s88 (DC)  
PA 2004 s228 (DB)

Where breaches of the schedule occur, the Trustees are required by the Pensions Acts 1995 and 2004 to consider making reports to the Pensions Regulator and to members.

### Further information

DR 3 Sch 20

Requests for additional information about the Scheme generally, or queries relating to members' own benefits, should be made to the contact listed on page 2.

### Approval

The Trustees' Report was approved by the Trustees on [date] and signed on their behalf by:

*For United Kingdom schemes there is no specific requirement as to how many trustees should sign. The decision should be based on the Trustees' own practice.*

JD Bailey

ET Brown



## Statement regarding DC governance For the year ended 31 December 20X5

*This is a requirement for schemes which are wholly or partly money purchase (other than schemes which only have money purchase benefits arising from AVCs) from the Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879) which take effect from 6 April 2015. There are also limited exemptions for public sector and some very small schemes, see the Regulations.*

*The statement is only required to cover the period from 6 April 2015. Where the first statement would cover a period of less than three months, it may be omitted provided that the full period from 6 April 2015 is covered by an equivalent statement in the following year's annual report.*

*This example covers the requirements of the regulations and also the recommendations of the Pension Regulator's guidance arising from Code of Practice 13.*

*Schemes which are not required to prepare a governance statement may voluntarily disclose some of the information below, if relevant to readers. Schemes which have DB and DC sections need to make it clear whether the statements included relate only to DC sections or to the scheme as a whole.*

AdmR 23  
DR 3 Sch 34

The Occupational Pension Schemes (Scheme Administration) Regulations 1996 ("the Administration Regulations") require the Trustees to include an annual statement regarding governance in the annual report.

AdmR 23(1)(a)

### Default arrangement

InvR 2A

Members of the DC section of the Scheme who do not make an explicit choice regarding the investment of their funds use the Typipens Lifestyle Fund as a default arrangement.

The objective of this fund is to provide investment growth by investing in return seeking assets in a diversified portfolio with a moderate risk profile, with a gradual switching of assets over the five years before the members expected retirement date, towards a final position of 25% cash and 75% gilts. The lifestyle fund itself invests in a series of funds managed by Shredders Limited and external managers, which meet the requirements for social, environmental and ethical considerations set out as an appendix to the Trustees' statement of investment principles. The funds are managed passively and expect to return within 0.1% of the relevant benchmark indices for each class of assets included.

By investing in this manner, the Trustees expect to deliver growth over the member's lifetime within the Scheme without excessive risk taking, with an increased focus in the final five years of reducing volatility to enable members approaching retirement to make financial plans for the period after retirement. The Trustees consider this approach to be in the best interests of relevant members and relevant beneficiaries.

The principles noted above relating to the default arrangement were last reviewed by the Trustees in June 20X4 and are due to be reviewed every three years thereafter.

AdmR 23(1)(b)

### Processing scheme transactions

The Trustees have a specific duty to secure that core financial transactions (including the investment of contributions, transfer of member assets into and out of the Scheme, transfers between different investments within the Scheme and payments to and in respect of members) relating to the DC section are processed promptly and accurately.

These transactions are undertaken on the Trustees behalf by the Scheme administrator, PAD Limited, and its investment manager Shredders Investments Limited. The Trustees have reviewed the processes and controls implemented by those organisations and consider them to be suitably designed to achieve these objectives. The Trustees have also agreed service levels and reporting of performance against those service levels. In addition, the Trustees have commissioned an outsourced internal audit function to perform additional testing to support their assessment of whether the controls are operating effectively.

In the light of the above, the Trustees consider that the requirements for processing core financial transactions specified in the Administration Regulations have been met.

AdmR 23(1)(c)

### Transaction costs

The Administration Regulations require the Trustees to make an assessment of charges and transactions costs borne by DC section members and the extent to which those charges and costs represent good value for money for members.

The default arrangement attracts a total management charge of 0.5% of assets under management for all members. This is lower than the maximum allowed of 0.75% and the Trustees are satisfied that they have negotiated a good deal for members taking account of the expected growth in the size of the DC section with the advent of auto-enrolment.

The Trustees also make available a range of 15 alternative funds which may be chosen by members as an alternative to the default arrangement. These funds attract annual charges of between 0.45% and 1.2%, and the level of charges for each fund is set out in the “Choice of Funds” booklet which is available on request. These funds allow members to take a more tailored approach to managing their own pension investments. The rates agreed incorporate a discount of between 0.05% and 0.2% compared with the equivalent charges made by the same investment manager to retail investors, and therefore also represent good value for money.

AdmR 23(1)(d)

### Trustees’ knowledge and understanding

Sections 247 and 248 of the Pensions Act 2004 set out the requirement for Trustees to have appropriate knowledge and understanding of the law relating to pensions and trusts, the funding of occupational pension schemes, investment of Scheme assets and other matters to enable them to exercise their functions as trustees properly. This requirement is underpinned by guidance in the Pension Regulator’s Code of Practice 07. The comments in this section relate to the Trustees as a body in dealing with the whole scheme and are not restricted to the DC section.

The Trustees have put in place arrangements for ensuring that they take personal responsibility for keeping themselves up-to-date with relevant developments and carry out a self-assessment of training needs. The Secretary to the Trustees reviews the self-assessments and arranges for training to be made available to individual Trustees or to the whole trustee body as appropriate. In addition, the Trustees receive advice from professional advisors, and the relevant skills and experience of those advisors is a key criterion when evaluating advisor performance or selecting new advisors.

All of the existing Trustees have completed the Pension Regulator’s Trustee Toolkit and new Trustees are required to complete this within six months of taking up office.

Taking account of actions taken individually and as a trustee body, and the professional advice available to them, the Trustees consider that they are enabled properly to exercise their functions as Trustees.

AdmR 26

*Additional content is required for schemes in which some or all of the employers are not connected and the scheme is not operated as separate sections with separate trustees representing the unconnected employers. This definition covers master trusts but may encompass other schemes, for example where a participating employer is sold to an independent group but members remain within the scheme. In brief, the additional requirements are:*

- *How have the requirements for the chair and majority of trustees to be non-affiliated to companies providing administration or investment services to the Scheme been met?*
- *How were the requirements to appoint non-affiliated trustees through an open and transparent appointment process met? and*
- *Details of arrangements in place to meet the requirement for representation of the views of members to the trustees.*

TPR Code 13

**DC Scheme governance**

*This section is not strictly required by law but TPR guidance now expects that trustees of schemes within the scope of TPR Code 13 will publish such a statement. In addition to the content indicated below, trustees of master trusts should also indicate whether they have obtained independent assurance as set out in the ICAEW Master Trust supplement to AAF 02/07 (being ICAEW Technical release TECH 07/14).*

As Trustees of the Typipens Pension Scheme we have reviewed and assessed that our systems, processes and controls across key governance functions are consistent with those set out in The Pensions Regulator's:

- Code of Practice 13: Governance and administration of occupational defined contribution trust-based schemes
- Regulatory guidance for defined contribution schemes.

These are underpinned by the DC quality features.

Based on our assessment [and subject to the explanations set out below] we believe that we have adopted the standards of practice set out in the DC code and DC regulatory guidance. These help demonstrate the presence of DC quality features, which we believe will help deliver better outcomes for members at retirement.

Where we adopt a different approach to that set out in the DC code and DC regulatory guidance we explain why below.

*This might include how trustees comply with the law (for features in the code) or implement good practice (for features in the regulatory guidance). Delete this paragraph if it is not relevant.*

Where we do not have systems and processes in place to demonstrate particular features, we explain why below.

*This might include why a feature is not present, any action plans in place to implement an absent feature and the expected timescales. Delete this paragraph if it is not relevant.*

Where we are seeking to achieve or maintain 'best practice' level, we explain this below.

*This might include any action plans in place to improve existing features to a 'best practice' level and priorities for the trustees for the upcoming scheme year. Delete paragraph 5 if it is not relevant.*

*The level of detail provided in the explanations is at the discretion of trustees. However, the statement should provide a meaningful level of detail to enable a scheme member or (potential) sponsoring employer to evaluate the scheme and the extent to which it exhibits the features.*

The Statement regarding DC governance

was approved by the Trustees on [date] and signed on their behalf by:

JD Bailey  
Chairman

*The Regulations require that the statement be signed by the Chairman specifically.*

AdmR 23(1)(e)

## Independent auditors' report

*The wording of the independent auditors' report (and statement about contributions) is updated from time to time and needs to reflect specific aspects of the financial statements and the annual report in which they are published. Wording to be used for a specific scheme will be supplied by the auditors.*

### Independent auditors' report to the Trustees of the Typipens Pension Scheme

#### Report on the financial statements

##### Our opinion

In our opinion, Typipens Pension Scheme's financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 December 20X5, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

##### What we have audited

Typipens Pension Scheme's financial statements comprise:

- the statement of net assets available for benefits as at 31 December 20X5;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the annual report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

*The above paragraph is only required if information required to be included in the financial statements is presented outside the financial statements, i.e. elsewhere in the annual report.*

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In applying the financial reporting framework, the Trustees have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### Responsibilities for the financial statements and the audit

##### Our responsibilities and those of the Trustees

As explained more fully in the statement of Trustees' responsibilities, the Trustees are responsible for the preparation of the financial statements and being satisfied that they show a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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This report, including the opinion, has been prepared for and only for the Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Trustees; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Trustees' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**PricewaterhouseCoopers LLP**

Chartered Accountants and Statutory Auditors

[City]

Date

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## Fund account for the year ended 31 December 20X5

All amounts in tables are in £ thousands unless otherwise stated

*It is an explicit requirement of FRS 102 3.2.3 to show the presentation currency and level of rounding if any. It could also be dealt with by specifying in column headings of each table in the primary statements and notes to the financial statements.*

*For first-time FRS 102 adoption there is no need to put “restated” over the prior period columns provided that both years are presented on the same basis and the changes since the previously published financial statements are explained in the notes. Restatements in subsequent years should be clearly marked in column headings.*

	Note	20X5			20X4		
		DB	DC	Total	DB	DC	Total
AAR Sch 1, SORP 3.5.1,2							
FRS 102 34.37 (a)		11,217	400	11,617	1,551	240	1,791
FRS 102 34.37 (b)		602	200	802	385	136	521
		<b>11,819</b>	<b>600</b>	<b>12,419</b>	<b>1,936</b>	<b>376</b>	<b>2,312</b>
FRS 102 34.37 (j)	4	114	714	828	-	57	57
FRS 102 34.37 (d)	5	18	-	18	11	-	11
		<b>11,951</b>	<b>1,314</b>	<b>13,265</b>	<b>1,947</b>	<b>433</b>	<b>2,380</b>
FRS 102 34.37 (e)							
	7	1,031	67	1,098	790	-	790
	8	23	-	23	13	-	13
FRS 102 34.37 (j)	9	15	32	47	44	-	44
FRS 102 34.37 (g)	10	79	-	79	86	-	86
FRS 102 34.37 (f)	11	180	-	180	198	-	198
		<b>1,328</b>	<b>99</b>	<b>1,427</b>	<b>1,131</b>	<b>-</b>	<b>1,131</b>
SORP 3.7.2							
		<b>10,623</b>	<b>1,215</b>	<b>11,838</b>	<b>816</b>	<b>433</b>	<b>1,249</b>
FRS 102 34.37 (c)	12	1,428	-	1,428	1,194	-	1,194
FRS 102 34.37 (i)	13	3,027	283	3,310	(6,513)	(135)	(6,648)
	14	(56)	2	(54)	(47)	2	(45)
FRS 102 34.37 (h)	15	(27)	-	(27)	(34)	-	(34)
		<b>4,372</b>	<b>285</b>	<b>4,657</b>	<b>(5,400)</b>	<b>(133)</b>	<b>(5,533)</b>
SORP 3.7.2							
SORP 3.7.2							
		<b>14,995</b>	<b>1,500</b>	<b>16,495</b>	<b>(4,584)</b>	<b>300</b>	<b>(4,284)</b>
		<b>24,027</b>	<b>695</b>	<b>24,722</b>	<b>28,611</b>	<b>395</b>	<b>29,006</b>
SORP 3.27.4	17	29	(29)	-	-	-	-
		<b>39,051</b>	<b>2,166</b>	<b>41,217</b>	<b>24,027</b>	<b>695</b>	<b>24,722</b>

DV

The notes on pages 19 to 43 form part of these financial statements.

*Schemes which are entirely DB or DC will only need two columns of figures: current and comparative. Schemes which have both DB and DC sections must distinguish between DB and DC elements where material (FRS 102 34.34/ SORP 3.27.2). This can be done by using six columns in primary statements and notes (as in these illustrated financial statements) or by using 2 column primary statements and providing separate notes showing DB, DC and total for each material figure. Remember that not all financial statement lines would ordinarily have a note and it may be necessary to introduce additional notes to make this distinction if the six-column format is not used.*

*Most schemes should be able to accommodate six-columns of figures provided that figures are presented with a suitable degree of rounding (e.g. £'000 or to nearest £0.1m depending on the size of the scheme). Alternatively, landscape presentation in the financial statements could be considered.*

## Statement of net assets available for benefits as at 31 December 20X5

All amounts in tables are in £ thousands unless otherwise stated

SORP 3.5.1.2  
SORP 3.9.2

	Note	20X5			20X4		
		DB	DC	Total	DB	DC	Total
<b>Investment assets</b>							
Equities		11,067	-	11,067	9,122	-	9,122
Bonds		10,436	-	10,436	8,422	-	8,422
Property	18	1,010	-	1,010	995	-	995
Pooled investment vehicles	19	4,996	2,146	7,142	3,780	680	4,460
Derivatives	20	450	-	450	397	-	397
Insurance policies	21	69	-	69	50	-	50
Other investments	22	9,300	-	9,300	-	-	-
AVC investments	23	65	-	65	49	-	49
Cash	24	92	-	92	17	-	17
Other investment balances	24	977	-	977	1,025	-	1,025
		<b>38,462</b>	<b>2,146</b>	<b>40,608</b>	<b>23,857</b>	<b>680</b>	<b>24,537</b>
<b>Investment liabilities</b>							
Derivatives	20	(240)	-	(240)	(235)	-	(235)
Other investment balances	24	(261)	-	(261)	(254)	-	(254)
		<b>(501)</b>	<b>-</b>	<b>(501)</b>	<b>(489)</b>	<b>-</b>	<b>(489)</b>
<b>Total net investments</b>	13	<b>37,961</b>	<b>2,146</b>	<b>40,107</b>	<b>23,368</b>	<b>680</b>	<b>24,048</b>
<b>Current assets</b>	32	<b>1,351</b>	<b>20</b>	<b>1,371</b>	<b>894</b>	<b>15</b>	<b>909</b>
<b>Current liabilities</b>	33	<b>(261)</b>	<b>-</b>	<b>(261)</b>	<b>(235)</b>	<b>-</b>	<b>(235)</b>
<b>Net assets available for benefits</b>		<b>39,051</b>	<b>2,166</b>	<b>41,217</b>	<b>24,027</b>	<b>695</b>	<b>24,722</b>

SORP 3.8.16,  
SORP 3.34.8, 9

The financial statements summarise the transactions of the Scheme and deal with the net assets available for benefits at the disposal of the Trustees. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations for the defined benefit section, is dealt with in the report on Actuarial Liabilities on pages 6 to 8 of the Annual Report and these financial statements should be read in conjunction with this report.

*The final sentence is not needed for schemes which are DC only*

DV

The notes of pages 19 to 43 form part of these financial statements.

SORP 3.38.1

These financial statements were approved by the Trustees on [date] and signed on their behalf by:

*For a United Kingdom scheme the SORP allows sign-off by at least one trustee or trustee director. Two signatures are required for Republic of Ireland schemes.*

JD Bailey

ET Brown

# Notes to the financial statements

## for the year ended 31 December 20X5

All amounts in tables are in £ thousands unless otherwise stated

*The order in which notes are presented should follow FRS 102 8.5 (i.e. statement of compliance with FRS 102, summary of significant accounting policies, information about line items on the face of the financial statements in the order in which they appear, then any other disclosures).*

FRS 102: 3.24

### 1 General information

Typipens Pension Scheme (the “Scheme”) is an occupational pension scheme established under trust. Prior to 1 July 20X5 it was known as the Typipens Group Retirement Benefits and Life Assurance Scheme.

*Any change of name since the end of the previous reporting period should be noted here (FRS 102 3.23(a)) and not repeated in every reference to the scheme name such as in page headings.*

The Scheme was established to provide retirement benefits to certain groups of employees within the Typico group. The address of the Scheme’s principal office is 82 Capital Road, London, EC1V 1TP.

The Scheme has a defined benefit (“DB”) section which is no longer open to new members but existing members continue to accrue benefits, and a defined contribution (“DC”) section which is open to new members and is used as an auto-enrolment scheme by the employers.

SORP 3.8.34

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004 This means that contributions by employers and employees are normally eligible for tax relief, and income and capital gains earned by the Scheme receive preferential tax treatment.

AAR Sch 8  
FRS 102: 3.3  
SORP 3.6.26(a)

### 2 Statement of compliance

SORP 3.23.5  
SORP 3.6.30

The individual financial statements of Typipens Pension Scheme have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council (“FRS 102”) and the guidance set out in the Statement of Recommended Practice “Financial Reports of Pension Schemes” (Revised November 2014) (“the SORP”).

SORP 3.6.26(b)

### 3 Summary of significant accounting policies

FRS 102 10.7

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

SORP 3.3

The Scheme has adopted FRS 102 in these financial statements for the first time. Details of the transition to FRS 102 are disclosed in note 37.

#### (a) Treatment of subsidiary undertakings

*This section is only relevant for schemes with subsidiary undertakings (including controlled pooled investment vehicles). If the Scheme elects to prepare consolidated accounts, the heading should be changed to “Basis of consolidation” and the policies amended to reflect the guidance in SORP 3.23. Subsidiaries (including any sole-investor pooled investment vehicles or qualifying investment funds) which are held as part of an investment portfolio are not permitted to be consolidated under FRS 102.*



SORP 3.23.5 In accordance with FRS 102, the Trustees are not required to prepare consolidated financial statements and have chosen not to do so.

SORP 3.23.4, 5 Subsidiary undertakings are included at fair value within investment assets, and a summary of the undertakings' net assets is provided as a note to the financial statements.

### **(b) Currency**

SORP 3.28.1  
FRS 102.30.2 The Scheme's functional currency and presentational currency is pounds sterling (GBP).

SORP 3.28.2 *The SORP recommends that pension schemes determine their functional currency by reference to the currency used in its dealings with members.*

FRS 102.30.9, 7  
SORP 3.28.3, 4  
AAR Sch 3 Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction.

SORP 3.28.6 Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

### **(c) Contributions**

SORP 3.8.1-3 Normal and additional voluntary contributions, both from members and employers, are generally accounted for on an accruals basis in the payroll period to which they relate. In the case of member contributions this is when deducted from pay.

However, contributions in respect of members in the first 30 days following auto-enrolment are accounted for when their right to opt-out has expired, unless remitted to the Scheme earlier. All contributions payable under salary sacrifice arrangements are classified as employer contributions.

SORP 3.8.6 Employers' augmentation contributions are accounted for in accordance with the agreement under which they are paid, or in the absence of such an agreement, when received.

SORP 3.8.4, 7 Employers' deficit funding contributions are accounted for on the due dates set out in the schedule of contributions, or on receipt if earlier, with the agreement of the employer and the Trustees.

SORP 3.8.11, 12 Employers' contributions in respect of Section 75 debts are accounted for when paid or when determined by the actuary whichever is the earlier. Debts are recognised in full with provisions for recoverability and the time value of money.

SORP 3.8.14 Other contributions made by the employer to reimburse costs and levies payable by the Trustees are accounted for on the same basis as the corresponding expense.

SORP 3.8.9 Where contributions are paid other than in cash, the assets received are accounted for at fair value on the date of receipt or date of entitlement if earlier.

### **(d) Transfers from and to other plans**

SORP 3.8.24-26 Transfer values represent the capital sums either receivable in respect of members from other pension plans of previous employers or payable to the pension plans of new employers for members who have left the Scheme. They are accounted for on an accruals basis on the date the trustees of the receiving plan accept the liability. In the case of individual transfers, this is normally when the payment of the transfer value is made.

**(e) Benefits and payments to and on account of leavers**

- SORP 3.8.18 Pensions in payment, including pensions funded by annuity contracts and amounts paid under income draw-down arrangements, are accounted for in the period to which they relate.
- SORP 3.8.18, 20 Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.
- SORP 3.8.19 Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate. Refunds and opt-outs are accounted for when the Trustees are notified of the member's decision to leave the Scheme.
- SORP 3.8.23 Where the Trustees agree or are required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Scheme, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within Benefits.

**(f) Administrative and other expenses**

- SORP 3.8.29 Administrative expenses and premiums on term insurance policies are accounted for on an accruals basis.

**(g) Investment income and expenditure**

- SORP 3.8.32 Income from equities and any pooled investment vehicles which distribute income, is accounted for on an accruals basis on the date stocks are quoted ex-dividend, or in the case of unquoted instruments, when the dividend is declared.
- SORP 3.14.2, 3.8.32 Income from bonds is accounted for on an accruals basis and includes income bought and sold on purchases and sales of bonds. Other interest on cash and short term deposits and income from other investments are accounted for on an accruals basis.
- SORP 3.8.32 Rental income is accounted for as earned under the terms of the lease.
- SORP 3.7.2 Receipts or payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income.
- SORP 3.8.32 Investment income includes withholding taxes. Withholding tax is accrued on the same basis as investment income. Where withholding tax is not recoverable, this is shown as a separate expense within investment returns.
- SORP 3.8.32 Income arising from annuity policies is included in investment income.  
*SORP allows alternative treatments: Receipts from annuity contracts may also be reported as sales proceeds within the investment reconciliation table, or apportioned between income and sales proceeds.*
- SORP 3.7.2 The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and unrealised changes in market value. In the case of pooled investment vehicles which are accumulation funds, where income is reinvested within the fund without issue of further units, change in market value also includes such income.
- SORP 3.8.32
- SORP 3.8.43,44 Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Other investment management expenses are accounted for on an accruals basis and shown separately within investment returns.

**(h) Valuation and classification of investments**FRS 102.28.15(b)  
SORP 3.12.1

Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing single price, single dealing price or most recent transaction price is used.

SORP 3.12, 13

Where quoted or other unit prices are not available, the Trustees adopt valuation techniques appropriate to the class of investment. Details of the valuation techniques and principal assumptions are given in the notes to the financial statements where used.

SORP 3.12

The methods of determining fair value for the principal classes of investments are:

- Equities, bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Unitised pooled investment vehicles which are not traded on an active market but where the manager is able to demonstrate that they are priced daily, weekly or at each month end, and are actually traded on substantially all pricing days are included at the last price provided by the manager at or before the year end.
- The value of other equities, bonds and pooled investment vehicles which are unquoted or not actively traded on a quoted market is estimated by the Trustees. Where the value of a pooled investment vehicle is primarily driven by the fair value of its underlying assets, the net asset value advised by the fund manager is normally considered a suitable approximation to fair value unless there are restrictions or other factors which prevent realisation at that value, in which case adjustment is made.
- Properties are valued annually by independent valuers who have recent experience of the locations and types of properties held by the Scheme, taking account, amongst other things, of the current estimate of rental values and market yields.
- Exchange traded futures are valued at the difference between exchange settlement prices and inception prices.
- Swaps are valued at the net present value of future cash flows arising therefrom.
- Over the counter options are valued by the investment manager using generally accepted pricing models such as Black Scholes, where inputs are based on market data at the year end date.
- Forward exchange contracts are valued at the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Annuity policies are valued by the Scheme Actuary at the amount of the related obligation, determined using the most recent Scheme Funding valuation assumptions updated for market conditions at the reporting date.

*SORP 3.12.21 allows for different bases to be adopted.*

SORP 3.12.20-24

SORP 3.12.26

- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

*There does not need to be a specific policy for AVC investments if they are of a type covered by an existing policy.*

- Unitised insurance policies are valued on the same basis as pooled investment vehicles with similar characteristics.

- SORP 3.12.28
- Investments in partnership arrangements which are designed to produce cash flows which may vary with future events are included at the present value of expected cash flows determined using a Monte Carlo simulation of a range of possible outcomes.

SORP 3.12.15 Accrued interest is excluded from the market value of bonds but is included in investment income receivable.

#### (i) Other investments arrangements

SORP 3.19, 3.20 The Scheme continues to recognise assets delivered out under repurchase contracts and stock-lending arrangements to reflect its ongoing interest in those securities. Cash received from repurchase contracts is recognised as an investment asset, and an investment liability is recognised for the value of the repurchase obligation. Collateral received in respect of stock-lending arrangements is disclosed but not recognised as a Scheme asset.

Cash delivered under reverse repurchase contracts is recognised as an investment receivable in the financial statements. Securities received in exchange are disclosed as collateral supporting this receivable but not included as Scheme assets.

## 4 Contributions

SORP 3.7.2, 3.8.1

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
<b>Employer contributions</b>						
Normal	1,737	400	2,137	1,401	240	1,641
Deficit funding	200	-	200	150	-	150
Augmentation	95	-	95	-	-	-
Section 75 debt	5	-	5	-	-	-
Other	9,180	-	9,180	-	-	-
	<b>11,217</b>	<b>400</b>	<b>11,617</b>	<b>1,551</b>	<b>240</b>	<b>1,791</b>
<b>Employee contributions</b>						
Normal	582	200	782	360	136	496
Additional voluntary contributions	20	-	20	25	-	25
	<b>602</b>	<b>200</b>	<b>802</b>	<b>385</b>	<b>136</b>	<b>521</b>
<b>Total</b>	<b>11,819</b>	<b>600</b>	<b>12,419</b>	<b>1,936</b>	<b>376</b>	<b>2,312</b>

SORP 3.8.14

*Other categories of contributions may be added. Terms used should be consistent with other references to contributions in other parts of the annual report, such as the summary of contributions.*

SORP 3.8.5  
DV: Quantify (Current and prior)

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to certain members by the Employer.

SORP 3.8.7

Deficit funding contributions of £200,000 per annum are being paid by the Employer to the DB section of the Scheme for a period of five years in accordance with the recovery plan dated 24 March 20X4 in order to improve the Scheme's funding position. In addition, employer normal contributions include approximately £500,000 (20X4: £400,000) in relation to deficit funding as this makes up 5% of the average 16% employer contribution rate.

SORP 3.8.4, 10

SORP 3.8.7

*The information should reflect the latest schedule of contributions if this has been revised after the year end.*

*Where deficit contributions are accounted for in advance of the due dates this should be explained in the notes to the financial statements.*

DV

*If the Scheme has multiple employers paying different levels of deficit contributions, or an irregular pattern of future payments, information about future deficit contributions may be better presented as a table showing amounts falling due in various future periods (e.g. within 1 year, 1-2 years, 2-5 years, 5-10 years, more than 10 years).*

SORP 3.8.8

In addition, the Employer is committed to pay additional deficit funding contributions if a sale of Typico.com is achieved before 31 December 20X9. In the event of such a sale, the Scheme will receive 25% of the sale proceeds subject to a maximum of the Scheme's deficit on a scheme specific funding basis at 31 December prior to the sale.

SORP 3.8.11, 12

A participating employer Typico Contracts Limited withdrew from the Scheme on 1 September 20X5. The section 75 debt was determined by the Actuary at £5,000. This debt was settled in cash by the employer during the year.

SORP 3.8.14

Other contributions comprise £9 million to fund the purchase of the partnership interest in Typipens ABC LP (see note 22) and £180,000 to meet the costs of Scheme administration and the Pension Protection Fund and other levies.

## 5 Transfers from other plans

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Group transfers in from other plans	70	-	70	-	-	-
Individual transfers in from other plans	44	714	758	-	57	57
	114	714	828	-	57	57

SORP 3.8.27

The group transfer in was in respect of the inclusion of Typico.com Limited which became a participating employer during the year. The transfer was settled by a stock transfer of £65,000 equities and cash of £5,000.

## 6 Other income

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Claims on term insurance policies	18	-	18	11	-	11

## 7 Benefits

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Pensions	690	-	690	640	-	640
Commutation of pensions and lump sum retirement benefits	291	30	321	55	-	55
Purchase of annuities on retirement	-	25	25	24	-	24
Lump sum death benefits	10	-	10	71	-	71
Benefits taken under income drawdown arrangements	-	12	12	-	-	-
Taxation where lifetime or annual allowance exceeded	40	-	40	-	-	-
	1,031	67	1,098	790	-	790

SORP 3.24.6

SORP 3.8.21

SORP 3.8.23

SORP 3.8.23

Taxation arising on benefits paid or payable is in respect of members whose benefits have exceeded the lifetime or annual allowance and who elected to take lower benefits from the Scheme in exchange for the Scheme's settling their tax liability.

## 8 Payments to and on account of leavers

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Refund of contributions in respect of:						
non-vested leavers	5	-	5	3	-	3
opt-outs	8	-	8	10	-	10
Purchase of annuities to match preserved benefits	10	-	10	-	-	-
<b>Total</b>	<b>23</b>	<b>-</b>	<b>23</b>	<b>13</b>	<b>-</b>	<b>13</b>

SORP 3.8.2

SORP 3.24.6

## 9 Transfers to other plans

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Group transfers out to other plans	-	-	-	15	-	15
Individual transfers out to other plans	15	32	47	29	-	29
<b>Total</b>	<b>15</b>	<b>32</b>	<b>47</b>	<b>44</b>	<b>-</b>	<b>44</b>

SORP 3.8.27

The group transfer out in 20X4 related to members in the XYZ division transferred to the XYZ Retirement Plan. The transfer value was settled in cash.

## 10 Other payments

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Premiums on term insurance policies	79	-	79	86	-	86

## 11 Administrative expenses

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Administration and processing	90	-	90	140	-	140
PPF levy	42	-	42	22	-	22
Actuarial fees	22	-	22	5	-	5
Audit fees	15	-	15	14	-	14
Trustee fees	3	-	3	2	-	2
Other professional fees	8	-	8	15	-	15
<b>Total</b>	<b>180</b>	<b>-</b>	<b>180</b>	<b>198</b>	<b>-</b>	<b>198</b>

SORP 3.32.13  
FRS 102 33.7

*The SORP requires that administration expenses be disclosed with "suitable analysis". The headings in the table above are therefore not prescriptive.*

SORP 3.32.34

The administration and management of the Scheme is provided by the Principal Employer. The direct costs of employees involved in administration and management are not recharged to the Scheme.

The Scheme bears all other costs of administration. Direct costs are charged to the section to which they relate. All indirect costs are met by the DB section based on an allocation methodology agreed by the Trustees, reflecting the agreement with the Employer that all such costs are covered by additional contributions.

## 12 Investment income

SORP 3.7.2, 3.8.32

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Dividends from equities	590	-	590	501	-	501
Income from bonds	350	-	350	395	-	395
Net rents from properties	74	-	74	73	-	73
Income from pooled investment vehicles	202	-	202	169	-	169
Net receipts/(payments) from swaps	(5)	-	(5)	-	-	-
Annuity income	3	-	3	-	-	-
Income from other investments	135	-	135	-	-	-
Interest on cash deposits	40	-	40	30	-	30
Stock lending commission	9	-	9	4	-	4
Other investment income	30	-	30	22	-	22
	<b>1,428</b>	<b>-</b>	<b>1,428</b>	<b>1,194</b>	<b>-</b>	<b>1,194</b>

SORP 3.7.2

Net rents from properties is stated after deducting £10,000 (20X4: £10,000) of property related expenses.

## 13 Reconciliation of net investments

AAR Sch 7  
SORP 3.14.1

	Opening value	Purchases and derivative payments	Sales proceeds and derivative receipts	Change in market value	Closing value
<b>Defined benefit section</b>					
Equities	9,122	6,212	(5,320)	1,053	<b>11,067</b>
Bonds	8,422	4,865	(4,005)	1,154	<b>10,436</b>
Property	995	400	(450)	65	<b>1,010</b>
Pooled investment vehicles	3,780	1,009	-	207	<b>4,996</b>
Derivatives	162	276	(453)	225	<b>210</b>
Insurance policies	50	-	-	19	<b>69</b>
Other investments	-	9,000	-	300	<b>9,300</b>
AVC investments	49	24	(12)	4	<b>65</b>
	22,580	21,786	(10,240)	3,027	<b>37,153</b>
Cash	17				<b>92</b>
Other investment balances	771				<b>716</b>
<b>Total DB net investments</b>	<b>23,368</b>				<b>37,961</b>
<b>Defined contribution section</b>					
Pooled investment vehicles	680	1,218	(35)	283	<b>2,146</b>

SORP 3.6.16,  
AAR Sch 6

*Comparative figures for purchases and sales figures are not required.*

SORP 3.14.1

*Headings "and derivative payments/ receipts" can be removed if the Scheme has had no derivatives during the period covered by the reconciliation. The table should be analysed by the asset classes shown on the face of the Statement of Net Assets as a minimum, preferably in the same order.*

## 14 Investment management expenses

SORP 3.7.2

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Administration, management and custody	13	-	13	11	-	11
Management	30	(2)	28	22	(2)	20
Custody	10	-	10	10	-	10
Performance measurement	2	-	2	2	-	2
Other advisory fees	1	-	1	2	-	2
	<b>56</b>	<b>(2)</b>	<b>54</b>	<b>47</b>	<b>(2)</b>	<b>45</b>

SORP 3.7.2

*The SORP requires investment management expenses to be analysed with suitable analysis where material. The headings in the table above are therefore not prescriptive.*

The negative value for investment management charges for the DC section reflects a rebate to the Scheme of charges levied by investment managers.

## 15 Taxes on investment income

SORP 3.7.2

The taxation charge within investment returns represents irrecoverable withholding tax arising on certain classes of investment income.

## 16 Investment transaction costs

SORP 3.8.43

Transaction costs are included in the cost of purchases and deducted from sales proceeds in the reconciliation in note 13. Direct transaction costs incurred are analysed as follows:

SORP 3.8.44

DB section	20X5			20X4	
	Equities	Bonds	Other	Total	Total
<b>Fees</b>	<b>30</b>	<b>6</b>	<b>20</b>	<b>56</b>	36
<b>Commissions</b>	<b>12</b>	<b>3</b>	<b>3</b>	<b>18</b>	12
<b>Taxes</b>	<b>14</b>	<b>-</b>	<b>9</b>	<b>9</b>	29
<b>20X5 total</b>	<b>56</b>	<b>9</b>	<b>32</b>	<b>97</b>	
20X4 total	42	8	27		77

SORP 3.8.45

In addition to the direct transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on pooled investment vehicles and charges made within those vehicles. It has not been possible for the Trustees to quantify such indirect transaction costs.

## 17 Transfers between sections

SORP 3.25.3, 3.27.4

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Self annuitisation	29	(29)	-	-	-	-

SORP 3.25.3

Self-annuitisation is a transfer from the DC section to the DB section when a DC member retiring elects to take a pension from the Scheme at conversion rates set annually by the Trustees, rather than requesting an annuity under the open market option. This approach is also used for spouses' pensions arising from DC deaths-in-service.



*Another common reason for transfers between schemes is employer share of refunds. When a member entitled to a short service refund leaves, his DC funds are disinvested and an amount equivalent to employee contributions only is refunded. The balance could be transferred to the DB section for general use by the trustees, although in this example, such contributions are retained in the DC section.*

SORP 3.10.4-5

## 18 Property

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
UK freehold property	720	-	720	625	-	625
Overseas long leasehold property	290	-	290	370	-	370
	<b>1,010</b>	<b>-</b>	<b>1,010</b>	<b>995</b>	<b>-</b>	<b>995</b>

FRS 102.16.10 (c), (d)  
SORP 3.10.4

The Scheme holds a number of warehouse units in prime locations. There are no legal restrictions on the realisability of these properties or on remittance of income or disposal proceeds, although the Trustees recognise that 3-6 months would be necessary to achieve a disposal on favourable terms. One property is currently vacant and is being prepared for sale. In each other property the tenant is responsible for repairs and maintenance and has provided a bond to cover dilapidations at the end of the lease.

SORP 3.10.5

The properties are stated at open market value determined by S Veyor, FRICS of Valuer & Co, a member firm of the Royal Institution of Chartered Surveyors, which is independent of the Trustees and of the Employer. Valuations were performed as at 31 December each year in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards UK PS 1.1 "Valuation for Financial Statements". The principal assumptions on which the valuations were based were rental income from current tenants, the remaining term of current leases and market rents by area for the locations in which the properties were based.

SORP 3.28.7

Included within change in market value for properties is a gain of £25,000 (20X4: loss of £18,000) relating to retranslation of overseas properties where the value is determined in a local currency.

*Foreign exchange gains and losses arising on investment property need to be disclosed separately (unlike FX gains and losses on financial instruments which are included in CIMV and not reported separately).*

SORP 3.23.4

Investments in property are held through subsidiary undertakings which have not been consolidated in accordance with the Scheme's accounting policies. These undertakings have no other material assets or liabilities other than the properties included above.

SORP 3.10.9, 3.11.2

## 19 Pooled investment vehicles

By type	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Equity	3,123	22	3,145	2,875	10	2,885
Bond	645	-	645	318	-	318
Diversified growth	509	2,077	2,586	-	602	602
Fund of hedge funds	380	-	380	325	-	325
Private equity	305	-	305	202	-	202
Property	34	-	34	60	-	60
Cash	-	47	47	-	68	68
	<b>4,996</b>	<b>2,146</b>	<b>7,142</b>	<b>3,780</b>	<b>680</b>	<b>4,460</b>

SORP 3.10.7-8  
3.11.4-6 and 3.18

## 20 Derivatives

DB section only	20X5			20X4		
	Assets	Liabilities	Total	Assets	Liabilities	Total
<b>Exchange traded</b>						
Futures	58	(68)	(10)	158	(65)	93
<b>Over-the-counter contracts</b>						
Forward foreign currency	42	(22)	20	40	(50)	(10)
Swaps	223	(123)	100	98	(50)	48
Options	127	(27)	100	101	(70)	31
	<b>450</b>	<b>(240)</b>	<b>210</b>	<b>397</b>	<b>(235)</b>	<b>162</b>

SORP 3.10.7

### Objectives and policies for holding derivatives

The Trustees have authorised the use of derivative financial instruments by their investment managers as part of their investment strategy as follows:

- **Futures:** Where cash is held for short-term liquidity, the Trustees have entered into index-based contracts of equivalent economic value to avoid being “out-of-the-market”.
- **Forward foreign currency:** The Trustees invest in overseas markets and assets denominated in foreign currency in order to construct a suitably diversified investment portfolio. Bearing in mind the Trustees’ obligation to settle benefits in sterling, the Trustees have agreed a maximum net exposure to foreign currencies of 15% of net DB investments and have entered into forward foreign currency contracts to achieve this.
- **Swaps:** The Trustees aim to match the liability-driven element of the investment portfolio with the Scheme’s long term liabilities, particularly in relation to their sensitivities to interest rate movements. Due to the lack of available long-dated bonds the Trustees hold interest-rate and inflation swaps to extend the duration and match more closely with the Scheme’s liability profile.
- **Options:** Equity option contracts have been entered into in order to allow the Scheme to benefit from potentially greater returns from equities whilst minimising the risk of loss through adverse market movements.

Outstanding derivative financial instruments at the year end are summarised as follows:

*It is not necessary to give detailed contract information for prior year end unless it is relevant to an understanding of the current period's financial statements.*

FRS 102 3.14

### Futures

Type	Expires within	Nominal value	Fair value	
			Asset	Liability
UK FTSE equity	1 month	1,000	58	-
UK <10 year gilt	6 months	2,500	-	(68)
			<b>58</b>	<b>(68)</b>

Included within cash balances is a liability of £8,000 (20X4: asset of £91,000) in respect of initial and variation margins arising on open futures contracts at the year end.

**Forward foreign currency**

Type	Expires within	Nominal value	Fair value	
			Asset	Liability
Sell USD for GBP (4 contracts)	1 month	1,000	42	-
Sell EUR for GBP (3 contracts)	3 months	800	-	(12)
Others (6 contracts)	6 months	1,200	-	(10)
			42	(22)

The nominal value represents the sterling value of the foreign currency amount of the contract translated at the year end spot rate.

**Swaps**

Type	Expires within	Notional principal	Fair value	
			Asset	Liability
<b>Interest rate swaps</b>				
Pay fixed for variable (6 month LIBOR)	10-20 years	2,600	218	-
Pay variable (12 month LIBOR) for fixed	20-30 years	290	5	-
			223	-
<b>Inflation swaps: Pay fixed for RPI</b>	10-20 years	1,750	-	(123)
			223	(123)

SORP 3.15.15

The notional principal of the swap is the amount used to determine the swapped receipts and payments. Collateral of £101,000 (20X4: £52,000) is held for the unrealised gain on swaps, comprising gilts and cash. This is held in an allocated account with the counterparties' custodians and is not included within Scheme assets.

*If material, disclose also the principal assumptions adopted in applying valuation techniques.*

**Options**

Type	Expires within	Notional principal	Fair value	
			Asset	Liability
Purchased call – UK equities	1 month	420	127	-
Purchased call – European equities	3 months	175	-	(27)
			127	(27)

SORP 3.15.15

The notional principal represents the value of the underlying stock protected by the option contracts. Collateral of £104,000 (20X4: £34,000) is held for the unrealised gain on swaps, comprising gilts and cash. This is held in an allocated account with the counterparties' custodians and is not included within Scheme assets.

*If material, disclose also the principal assumptions adopted in applying valuation techniques.*

SORP 3.24

**21 Insurance policies**

The Trustees hold insurance policies with XYZ Insurance plc and other companies which provide annuity income to cover pensions for certain members.

*If material, disclose also the principal assumptions adopted in applying valuation techniques.*

SORP 3.9.2, 3.10.9  
SPVs 3.11.7

## 22 Other investments

On 1 July 20X5 the Trustees agreed to invest in Typipens ABC LP, a Scottish limited partnership in which the other partners are companies in the Typico group. The partnership holds a bond issued by Typico Inc with a face value of £10 million which is secured on the trade receivables of this company. The bond agreement requires a minimum of 4 times the bond value of trade receivables less than 60 days to be charged under the security arrangement, and at 31 December 20X5 the collateral amounted to 6.8 times the bond value. The bond pays interest at a coupon rate of 3% subject to an annual inflation adjustment each July based on the Retail Prices index for the previous December. The bond is due for redemption in 20Z5, twenty years after issue. The Scheme received an additional contribution from the employer of £9 million to enable this investment to take place.

The purchase cost of the partnership interest was £9 million. This entitles the Scheme to receive 90% of the interest received by the partnership for the term of the bond. At the end of the bond term, the partnership will be dissolved, and the Scheme will receive a final distribution of the Scheme's deficit, calculated on a scheme funding basis by the Scheme Actuary, subject to a maximum of £10 million.

SORP 3.12.28

The Trustees commissioned Smith & Jones LLP to perform a valuation for financial statements purposes of the partnership interest at inception and at each year end. The valuation is based on the net present value of the coupon receipts, discounted as for bonds of similar standing, and uses a stochastic model to estimate the likely final receipt by modelling probabilities of different deficits in twenty years' time using Scheme funding assumptions, discounted on the same basis as the coupon receipts. Smith & Jones concluded that on inception, the fair value of the Scheme's partnership interest was equivalent to its purchase cost. At 31 December 20X5, the fair value was reassessed as £9.3 million, of which approximately 70% is attributable to the coupon receipts and 30% to the final distribution.

SORP 3.12.34

The Trustees have taken advice that the investment is structured in such a way that it does not constitute an employer-related investment. However, the involvement of Typico group companies in the partnership results in this investment being classed as a related party. In the event of an insolvency of Typico Inc or any of the Scheme's employers, or other default events specified in the partnership agreement, the Scheme is entitled to receive the full value of the bond. The Trustees have a legal right to dispose of the partnership interest but it is noted that there is unlikely to be a third party purchaser in view of the employer's ability to affect the value of the partnership interest by changing the level of Scheme funding over the life of the partnership. However, in view of the security of the cash flows over the partnership life the Trustees consider that the partnership interest meets the definition of a financial asset under FRS 102.

SORP 3.26

## 23 Additional voluntary contribution (AVC) investments

SORP 3.26.4

The Scheme made AVC arrangements whereby individuals in the DB section were able to pay additional contributions which were invested in with-profits policies on a defined contribution basis. This arrangement was withdrawn in 20X1 but individuals contributing at the time were allowed to continue contributing until they left employment in the Typico group.

SORP 3.26.5

Members of the DC section are allowed to pay contributions at a higher rate than required in the Scheme rules. These contributions are co-invested with other DC assets and are not separately distinguishable.

AVC assets shown in the financial statements relate solely to the DB AVC arrangement.

SORP 3.9.2

**24 Cash and other net investment balances**

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Cash – sterling	85	-	85	17	-	17
Cash – foreign currency	7	-	7	-	-	-
	<b>92</b>	-	<b>92</b>	17	-	17
Amounts due from brokers	887	-	887	958	-	958
Accrued investment income	90	-	90	67	-	67
	<b>977</b>	-	<b>977</b>	1,025	-	1,025
Amounts due to brokers	(251)	-	(251)	(254)	-	(254)
Repurchase contracts	(10)	-	(10)	-	-	-
	<b>(261)</b>	-	<b>(261)</b>	(254)	-	(254)
	<b>808</b>	-	<b>808</b>	788	-	788

Bonds of £11,000 (20X4 nil) have been sold subject to repurchase contracts and therefore continue to be recognised in the financial statements. Collateral of £10,000 (20X4: nil) has been pledged in respect of the liability under the repurchase contract. This is in the form of cash held in a segregated account with the Scheme's custodian.

SORP 3.20

**25 Stock lending**

SORP 3.20.2

The stock lending programme lends certain equity and bonds investments to approved borrowers. At the year end the value of quoted equities and bonds on loan were £235,000 (20X4: £179,000) and £67,000 (20X4: £65,000) respectively, in exchange for which the custodian held collateral worth £320,000 (20X4: £250,000). The collateral consists of eligible securities and letters of credit.

SORP 3.20.1

*If stock lending has been authorised, this fact should be disclosed even if no activity has taken place.*

SORP 3.25

**26 Defined contribution assets**

Defined contribution section investments purchased by the Scheme are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustees. The Scheme administrator allocates investment units to members. The Trustees may hold investment units representing the value of employer contributions that have been retained by the Scheme that relate to members leaving the Scheme prior to vesting.

Defined contribution investment assets are allocated to members and not allocated to members, and therefore available to the Trustees to apply as specified in the Scheme rules, as follows:

SORP

	20X5	20X4
Allocated to members	2,132	668
Not allocated to members	14	12
	<b>2,146</b>	<b>680</b>

SORP 3.25.2

Defined contribution assets (including those allocated to the Trustees in the table above) are not part of a common pool of assets available to meet defined benefit liabilities.

SORP 3.13

## 27 Fair value of investments

The fair value of investments has been determined using the following hierarchy

Where there is a quoted price for an identical asset in an active market at the reporting date. ➔ Category (a)

Where such quoted prices are unavailable, the price of a recent transaction for an identical asset, adjusted if necessary. ➔ Category (b)

Where quoted prices are not available and recent transactions of an identical asset on their own are either unavailable or not a good estimate of fair value and therefore valuation techniques are employed using:

- Observable market data ➔ Category (c)(i)
- Non-observable data ➔ Category (c)(ii)

*Analysis between categories (c) (i) and (ii) is optional.*

Pooled investment vehicles which are traded regularly are generally included in category (b). Where the absence of regular trading or the unsuitability of recent transaction prices as a proxy for fair value applies, valuation techniques are adopted and the vehicles are included in category (c)(i) or (c)(ii) as appropriate.

The Scheme's investment assets and liabilities have been included at fair value within these categories as follows:

Category	(a)	(b)	(c)(i)	(c)(ii)	20X5 Total
<b>Defined benefit section</b>					
<b>Investment assets</b>					
Equities	10,765	-	-	302	11,067
Bonds	6,122	-	4,314	-	10,436
Property	-	-	720	290	1,010
Pooled investment vehicles	-	4,097	376	523	4,996
Derivatives	58	-	223	169	450
Insurance policies	-	-	-	69	69
Other investments	-	-	-	9,300	9,300
AVC investments	-	-	-	65	65
Cash	92	-	-	-	92
Other investment balances	977	-	-	-	977
	<b>18,014</b>	<b>4,097</b>	<b>5,633</b>	<b>10,718</b>	<b>38,462</b>
<b>Investment liabilities</b>					
Derivatives	(68)	-	(123)	(49)	(240)
Other investment balances	(261)	-	-	-	(261)
	<b>(329)</b>	<b>-</b>	<b>(123)</b>	<b>(49)</b>	<b>(501)</b>
	<b>17,685</b>	<b>4,097</b>	<b>5,510</b>	<b>10,669</b>	<b>37,961</b>
<b>Defined contribution section</b>					
<b>Investment assets</b>					
Pooled investment vehicles	-	2,146	-	-	2,146
<b>Total investments</b>	<b>17,685</b>	<b>6,243</b>	<b>5,510</b>	<b>10,669</b>	<b>40,107</b>

Analysis for the prior period end is as follows:

Category	(a)	(b)	(c)(i)	(c)(ii)	20X4 Total
<b>Defined benefit section</b>					
<b>Investment assets</b>					
Equities	8,956	-	-	166	9,122
Bonds	5,675	-	2,747	-	8,422
Property	-	-	625	370	995
Pooled investment vehicles	-	3,120	-	660	3,780
Derivatives	158	-	98	141	397
Insurance policies	-	-	-	50	50
Other investments	-	-	-	-	-
AVC investments	-	-	-	49	49
Cash	17	-	-	-	17
Other investment balances	1,025	-	-	-	1,025
	15,831	3,120	3,470	1,436	23,857
<b>Investment liabilities</b>					
Derivatives	(65)	-	(50)	(120)	(235)
Other investment balances	(254)	-	-	-	(254)
	(319)	-	(50)	(120)	(489)
	15,512	3,120	3,420	1,316	23,368
<b>Defined contribution section</b>					
<b>Investment assets</b>					
Pooled investment vehicles	-	680	-	-	680
<b>Total investments</b>	15,512	3,800	3,420	1,316	24,048

SORP 3.15, 3.16

## 28 Investment risks

### Types of risk relating to investments

FRS 102 requires the disclosure of information in relation to certain investment risks.

**Credit risk:** this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

**Market risk:** this comprises currency risk, interest rate risk and other price risk.

- **Currency risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- **Interest rate risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- **Other price risk:** this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustees determine their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustees manage investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustees by regular reviews of the investment portfolio.

## SORP 3.15.7

The following table summarises the extent to which the various classes of investments are affected by financial risks:

	Credit risk	Market risk			20X5 Value	20X4 Value
		Currency	Interest rate	Other price		
<b>Defined benefit section</b>						
Equities	○	●	○	●	11,067	9,122
Bonds	●	●	●	○	10,436	8,422
Property	●	●	○	●	1,010	995
Pooled investment vehicles						
Direct	●	●	●	●		
Indirect	●	●	●	●	4,996	3,780
Derivatives	●	●	●	●	210	162
Insurance policies	●	○	●	●	69	50
Other investments	●	○	●	○	9,300	-
AVC investments	●	○	○	●	65	49
Cash deposits and other net investment assets	●	●	○	○	808	788
<b>Total DB section investments</b>					<b>37,961</b>	<b>23,368</b>
<b>Defined contribution section</b>						
Pooled investment vehicles	●	●	●	●	2,146	680

In the above table, the risk noted affects the asset class [●] significantly, [●] partially or [○] hardly/ not at all.

*This is a PwC suggested format. Preparers are at liberty to adopt different formats as long as the overall objectives of FRS 102 in respect of financial instrument risk disclosures are achieved.*

Further information on the Trustees' approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

### Defined benefit section

#### Investment strategy

The investment objective of the defined benefit section (DB Section) is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet, together with future contributions, the benefits of the DB Section payable under the trust deed and rules as they fall due.

The Trustees set the investment strategy for the DB Section taking into account considerations such as the strength of the employer covenant, the long term liabilities of the DB Section and the funding agreed with the Employer. The investment strategy is set out in its Statement of Investment Principles ("SIP").

The current strategy is to hold:

- 40% in return seeking investments comprising UK and overseas equities, equities futures, investment property, hedge funds and private equity.
- 60% in investments that move in line with the long term liabilities of the Scheme. This is referred to as LDI and comprises UK and overseas government and corporate bonds and interest rate swaps, the purpose of which is to hedge against the impact interest rate movement on long term liabilities.
- no more than 15% of the above in overseas currencies. To achieve this, the Trustees have put in place a currency hedging strategy using forward foreign exchange rates.



### Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, over-the-counter (“OTC”) derivatives, has cash balances, undertakes stock lending activities and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is also indirectly exposed to credit risks arising on some of the financial instruments held by the pooled investment vehicles.

A summary of exposures to credit risk is given in the following table, the notes below which explain how this risk is managed and mitigated for the different classes:

<b>DB investments exposed to credit risk</b>	<b>20X5</b>	<b>20X4</b>
Bonds	<b>10,436</b>	8,422
Property let to tenants	<b>880</b>	800
Pooled investment vehicles		
Bond funds (direct and indirect risk)	<b>645</b>	318
Other funds (direct risk only)	<b>4,351</b>	3,462
Derivatives - assets	<b>450</b>	397
- liabilities	<b>(240)</b>	(235)
Insurance policies	<b>69</b>	50
Other investments	<b>9,300</b>	-
AVC investments	<b>65</b>	49
Cash and other net investment assets	<b>808</b>	788
	<b>26,764</b>	14,051

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated.

SORP 3.15.19

The Trustees consider financial instruments or counterparties to be of investment grade if they are rated at BBB- or higher by Standard & Poor's or Fitch, or rated at Baa3 or higher by Moody's.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see note 20). Credit risk also arises on forward foreign currency contracts. There are no collateral arrangements for these contracts but all counterparties are required to be at least investment grade.

Cash is held within financial institutions which are at least investment grade credit rated

The Trustees manage the credit risk arising from stock lending activities by restricting the amount of overall stock that may be lent, only lending to approved borrowers who are rated investment grade, limiting the amount that can be lent to any one borrower and putting in place collateral arrangements. This is summarised in note 25.

Credit risk on repurchase agreements is mitigated through collateral arrangements as disclosed in note 24.

SORP 3.16.7

Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustees carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the operating environment of the pooled manager. Pooled investment arrangements used by the Scheme comprise unit linked insurance contracts and authorised unit trusts.

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicle. This risk is mitigated by only investing in funds which hold at least investment grade credit rated investments.

Credit risk also arises within other investments in respect of Typipens ABC LP which invests in an unrated bond which is ultimately secured on trade receivables of the employer's parent. Credit risk is reduced by monitoring collateral levels which, as explained in note 22, are significantly higher than the value at risk.

The information about exposures to and mitigation of credit risk above applied at both the current and previous year end.

### Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Trustees have set a benchmark limit to overseas currency exposure of 15% of the total portfolio value which is achieved through a currency hedging policy utilising forward foreign currency contracts (see note 20). The net currency exposure at the current and previous year-ends was:

	Direct exposure	Indirect exposure	Hedging	20X5 Net exposure after hedging	20X4 Net exposure after hedging
Pounds sterling (GBP)	32,621	(3,059)	3,000	32,562	19,918
Euros (EUR)	2,128	433	(800)	1,761	1,400
US dollars (USD)	975	2,100	(1,000)	2,075	1,818
Japanese Yen (JPY)	440	-	(400)	40	42
Other currencies	1,797	526	(800)	1,523	190
<b>Total</b>	<b>37,961</b>	<b>-</b>	<b>-</b>	<b>37,961</b>	<b>23,368</b>
<i>Unhedged foreign currency exposure</i>				14.2%	14.8%

*SORP 3.15.7 allows currency exposures to be reported gross or net of hedging arrangements. Net reporting has been used in this example (hence comparatives provided for net exposures) but a reconciliation from gross has been provided to illustrate the financial impact of the narrative comments above.*

*Alternatively, a currency exposure table could be presented just showing currencies other than the functional currency, in which case the totals for the "indirect exposure" and "hedging" columns would not be zero.*

### Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds and interest rate swaps (either as segregated investments or through pooled vehicles), and cash. The Trustees have set a benchmark for total investment in bonds and interest rate swaps of 40% of the total investment portfolio, as part of their LDI investment strategy. Under this strategy, if interest rates fall, the value of LDI investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, the LDI investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate. At the year-end the LDI portfolio represented 60% of the total investment portfolio (20X4: 57%).

*A table, similar to that provided for credit risk exposures on page 36, could be provided to illustrate the values subject to this type of risk.*

### Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes directly held equities, equities held in pooled vehicles, equity futures, hedge funds, private equity and investment properties. The Scheme has set a target asset allocation of 40% of investments being held in return seeking investments. At the year-end the LDI portfolio represented 40% of the total investment portfolio (20X4: 43%).

*A table, similar to that provided for credit risk exposures on page 36, could be provided to illustrate the values subject to this type of risk.*

The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

SORP 3.15.6

### Defined contribution section

#### Investment strategy

The Trustees' objective is to make available to members of the Scheme an appropriate range of investment options designed to generate income and capital growth, which together with new contributions from members and their employer, will provide a retirement amount with which the member can purchase a pension annuity (or other type of retirement product). The SIP outlines the investment objectives and strategy for the Defined Contribution assets of the Scheme.

The investment funds offered to members are white label funds provided by XYZ Insurance Company. These are funds specifically created for this Scheme which are invested in other funds available through XYZ Insurance Company's platform but with more beneficial pricing arrangements. Four such funds are available as follows:

- Equity
- Bonds
- Cash
- Diversified Growth

The Trustees have an investment management agreement in place with Shredders Investments Limited ("Shredders") that sets out guidelines for the underlying investments held by the funds. The day to day management of the underlying investments of the funds is the responsibility of Shredders, including the direct management of credit and market risks.

The Trustees monitor the underlying risks by quarterly investment reviews with Shredders.

The risks disclosed here relate to the DC Section's investments as a whole. Members are able to choose their own investments from the range of funds offered by the Trustees and therefore may face a different profile of risks from their individual choices compared with the Section as a whole.

#### Credit risk

The Defined Contribution Section (DC Section) is subject to direct credit risk in relation to Shredders through its holding in unit linked insurance funds provided by Shredders.

Shredders is regulated by the Financial Conduct Authority and maintains separate funds for its policy holders. The Trustees monitor the creditworthiness of Shredders by reviewing published credit ratings. Shredders invests all the Scheme's funds in its own investment unit linked funds and it does not use other investment funds or reinsurance arrangements. In the event of default by Shredders members may be entitled to limited compensation from the Financial Services Compensation Scheme.

The DC Section is also subject to indirect credit and market risk arising from the underlying investments held in the white label funds. Member level risk exposures will be dependent on the funds invested in by members.

At the year-end the Bond, Cash and Diversified Growth funds were exposed to underlying credit risk.

The Trustees only invest in funds where the financial instruments and all counterparties are at least investment grade.

### Market risk

The Scheme's DC Section is subject to indirect foreign exchange, interest rate and other price risk arising from the underlying financial instruments held in the funds managed by Shredders.

Fund	Exposed to ➡	Currency risk	Interest rate risk	Other price risk
Equity funds		✓	-	✓
Bond funds		✓	✓	-
Cash funds		✓	✓	-
Diversified growth fund		✓	✓	✓

SORP 3.17  
AAR Sch 4

## 29 Concentration of investments

Investments accounting for more than 5% of the net assets of the Scheme were:

	20X5		20X4	
	Value	%	Value	%
<b>Defined benefit investments</b>				
Typipens ABC LP	9,300	22.56%	**	**
UK Treasury Gilt 2.5% 2026	2,190	5.31%	1,742	7.05%
Shredders North American Equity Fund*	2,100	5.09%	1,650	6.67%
<b>Defined contribution investments</b>				
Typipens Lifestyle Growth Fund*	2,077	5.04%	**	**
	<b>15,667</b>	<b>38.00%</b>	3,392	13.72%

\* These investments are pooled investment vehicles which have multiple underlying assets none of which exceeds 5% of the net assets of the Scheme.

\*\* Not disclosed as the value was below 5% last year.

*SORP allows that the disclosure need not include pooled investment vehicles or gilts. The Audited Accounts Regulations only provide the exemption for UK Gilts. PwC view is that full disclosure of all 5% investments is preferable for transparency, as the list will rarely be a long list. The narrative should explain clearly if investments which exceed 5% have been omitted from this disclosure, taking advantage of the exemptions allowed by the SORP or the Audited Accounts Regulations as appropriate.*

SORP 3.33

## 30 Employer-related investments

DR 3 Sch 32  
AAR Sch 5

There were no direct employer-related investments during the year. The Trustees recognise that indirect investment in Typico Inc, the employer's parent company, is possible through holdings in pooled investment vehicles. Based on information provided by the investment managers the Trustees believe that any indirect exposure to shares in Typico Inc has not exceeded 0.1% of the Scheme's assets at any time during the year.

*The basic requirement is to disclose the percentage of the Scheme's resources invested in employer-related investments at the end of the year. If the above disclosure is not made on an "at any time during the year" basis, comparatives should be provided.*

*Further disclosures are required if the percentage exceeds 5% or investments are in contravention of section 40(1) of the Pensions Act 1995.*

DR 3 Sch 33  
AAR Sch 5A

*Schemes which have "different employers" may adopt alternative disclosures which include listing the 100 largest investments by value and the percentage each represents, identifying which of these are employer-related, and providing further details if the total exceeds 5%.*

SORP 3.33.8

*Remember that late contributions normally constitute employer-related investments and therefore should be included in the above disclosures (either opening and closing, or "at any time during the year"). However, contributions due at the year end which were subsequently paid on time do not constitute employer-related investments.*

### 31 Additional analysis of investments

SORP 3.10.6

*This note remains a requirement until the Regulations specified below are repealed or substantially modified. Although this was expected to be the case when the SORP was drafted it was not expected to happen until after the 2015 General Election.*

The Occupational Pension Schemes (Requirement to obtain audited accounts and a statement from the auditor) Regulations 1996 requires additional analysis of the Scheme's investments, which is set out in the following table:

	20X5			20X4			
	UK	Overseas	Total	UK	Overseas	Total	
AAR Sch 2(1)(c)	<b>DB section</b>						-
AAR Sch 2(1)(b)(v)	<b>Equities</b>						
	Quoted	7,713	2,841	10,554	6,553	1,928	8,481
	Unquoted	392	121	513	534	107	641
		<b>8,105</b>	<b>2,962</b>	<b>11,067</b>	7,087	2,035	9,122
	<b>Bonds (quoted)</b>						
AAR Sch 2(1)(b) (ii)	Fixed interest public sector	5,330	1,288	6,618	4,720	811	5,531
AAR Sch 2(1)(b) (iii)	Fixed interest other	1,581	-	1,581	1,166	-	1,166
AAR Sch 2(1)(b) (iv)	Index-linked public sector	2,237	-	2,237	1,725	-	1,725
		<b>9,148</b>	<b>1,288</b>	<b>10,436</b>	7,611	811	8,422
AAR Sch 2(1)(b)(vi)	<b>Property</b>						
	Freehold	720	-	720	625	-	625
	Long leasehold	-	290	290	-	370	370
		<b>720</b>	<b>290</b>	<b>1,010</b>	625	370	995
AAR Sch 2(1)(b)(vii) – (x)	<b>Pooled investment vehicles</b> (analysed by location of company operating the vehicle)						
	Unit trusts – property	34	-	34	60	-	60
	Unit trusts – other	3,233	800	4,033	2,298	750	3,048
	Unitised insurance policies – other	400	-	400	200	-	200
	Fund of hedge funds	529	-	529	472	-	472
		<b>4,196</b>	<b>800</b>	<b>4,996</b>	3,030	750	3,780
	<b>Derivatives</b>						
	Analysed further in note 20						
	Derivative assets	450	-	450	397	-	397
	Derivative liabilities	(240)	-	(240)	(235)	-	(235)
		<b>210</b>	<b>--</b>	<b>210</b>	162	--	162
AAR Sch 2(1)(b)(i)	<b>Insurance policies</b>						
	Annuity contracts	69	-	69	50	-	50

	20X5			20X4		
	UK	Overseas	Total	UK	Overseas	Total
AAR Sch 2(1)(c)	<b>Other investments</b>					
	Partnership interest (note 22)					
	9,300	-	9,300	-	-	-
AAR Sch 2(1)(b)(i)	<b>AVC investments</b>					
	With-profits insurance policies					
	65	-	65	49	-	49
	<b>Other investment balances</b>					
AAR Sch 2(1)(b)(xii)	Cash deposits					
	92		92	17		17
	Investment assets					
	977		977	1,025		1,025
	Investment liabilities					
	(261)		(261)	(254)		(254)
AAR Sch 2(1)(b)(xiii)	<b>Total DB net investments</b>					
	32,621	5,340	37,961	19,402	3,966	23,368
	<b>DC section</b>					
	<b>Pooled investment vehicles</b> (analysed by location of company operating the vehicle)					
	Unitised insurance policies					
As above	2,146	-	2,146	680	-	680
	<b>Total DC net investments</b>					
	2,146	-	2,146	680	-	680

*Additional disclosures if necessary (i.e. if not covered by other notes):*

AAR Sch 2(1)(a)

*If the market value of any assets is not readily ascertainable, the reason why the valuation is an estimate.*

AAR Sch 2(2), (3)

*Where insurance policies (e.g. annuities) or AVCs are included at nil as permitted by the Regulations (although not material to the Scheme as a whole as otherwise they would need to be included at fair value in accordance with FRS 102) there must be a note of the existence of such policies but that entry need not include their market value or an estimate.*

## 32 Current assets

SORP 3.10.11

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Contributions due in respect of:						
Employers	180	5	185	207	4	211
Employees	60	3	63	52	2	54
Other debtors	496	-	496	200	-	200
Cash balances	615	12	627	435	9	444
	1,351	20	1,371	894	15	909

SORP 3.33.8

All contributions due to the Scheme at 31 December 20X5 and 31 December 20X4 relate to December 20X5 and December 20X4 respectively and were paid in full to the Scheme in accordance with the Schedule of Contributions, and therefore do not count as employer-related investments.

Included in DC bank balances is £12,000 (20X4: £8,000) which is not allocated to members. All other DC current assets are allocated to members.

SORP 3.10.11

**33 Current liabilities**

	20X5			20X4		
	DB	DC	Total	DB	DC	Total
Unpaid benefits	164	-	164	117	-	117
Tax deducted from pensions	91	-	91	82	-	82
Accrued expenses	6	-	6	18	-	18
Other creditors	-	-	-	18	-	18
	<b>261</b>	<b>-</b>	<b>261</b>	<b>235</b>	<b>-</b>	<b>235</b>

SORP 3.32

**34 Related party transactions**

Related party transactions and balances comprise:

SORP 3.32.22(a), 23

- Contributions (note 4) and contributions receivable (note 32) including amounts in respect of 2 Trustees and pensions paid (note 7) in respect of 2 Trustees (20X4: Contributions 2, Pensions 2).
- In addition, pensions were paid in respect of 2 spouses of Trustees (20X4: 1) who had accrued benefits under the Scheme in their own right.

SORP 3.32.24

- The employer provided some administrative services including the provision of the Secretary of the Trustees without recharge to the Scheme (years 20X5 and 20X4) – see note 11.

SORP 3.32.22 (b)

- Fees and expenses of £3,000 (20X4: £2,000) were paid to certain Trustees who were not in current employment of the Typico group – see note 11.

*Note that only a total is required, not by individual trustee. A total must also be disclosed if the amounts are paid by the employer and not recharged to the scheme, unless the amounts paid to individuals are not distinguishable from other remuneration as an employee, such as where trustee duties are performed in company time without a specific salary adjustment.*

- The Scheme has an interest in and has received income from Typipens ABC LP, a Scottish limited partnership where the other partners are companies in the Employer's group. See notes 12 and 22.

**35 Contingencies and commitments**

SORP 3.35.1

In the opinion of the Trustees, the Scheme had no contingent liabilities at 31 December 20X5 (20X4: nil).

*Note that liabilities to pay pensions after the end of the scheme year are not contingent liabilities under FRS 102 – they are actual liabilities which are specifically excluded from the financial statements. Examples of contingent liabilities include claims against the scheme or the costs of litigation.*

SORP 3.35.2

At 31 December 20X5 the Scheme had undrawn commitments to fund a private equity vehicle amounting to £200,000 (20X4: £300,000).

SORP 3.37

**36 Subsequent events**

There were no subsequent events requiring disclosure in the financial statements.

### 37 Transition to FRS 102

SORP 3.3.1, 3  
FRS 102 35

This is the first year that the Scheme has presented financial statements under FRS 102 and the SORP. The last financial statements under existing UK GAAP and the previous SORP (revised May 2007) were for the year ended 31 December 20X4. The date of transition to FRS 102 was 1 January 20X4.

SORP 3.3.2(a)

In applying FRS 102, the accounting policy for the valuation of annuity policies has been changed to include annuity policies in the financial statements at the value of the related obligation to pay future benefits funded by the policy. Under the previous SORP, such policies were included in the financial statements at nil.

The impact of this change has been:

SORP 3.3.2(b)

	1 January 20X4	31 December 20X4
Net assets of the Scheme as previously reported	28,964	24,672
Effect of transition – valuation of annuity policies	42	50
<b>Net assets of the Scheme as restated</b>	<b>29,006</b>	<b>24,722</b>

SORP 3.3.2(c)

	20X4
Net decrease in the fund as previously reported	(4,292)
Effect of transition – valuation of annuity policies	8
<b>Net decrease in the fund as restated</b>	<b>(4,284)</b>



## Independent auditors' statement about contributions

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### Independent auditors' statement about contributions to the Trustees of the Typipens Pension Scheme

#### Statement about contributions

##### Our opinion

In our opinion, the contributions required by the schedule of contributions for the Scheme year ended 31 December 20X5 as reported in Typipens Pension Scheme's summary of contributions have in all material respects been paid in accordance with the schedule of contributions certified by the Scheme actuary on 24 March 20X4.

##### What we have examined

Typipens Pension Scheme's summary of contributions for the Scheme year ended 31 December 20X5 is set out on the following page.

#### Responsibilities for the statement about contributions

##### Our responsibilities and those of the Trustees

As explained more fully in the statement of Trustees' responsibilities, the Scheme's Trustees are responsible for preparing, and from time to time reviewing and if necessary revising, a schedule of contributions and for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a statement about contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the Trustees as a body in accordance with section 41 of the Pensions Act 1995 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### What an examination of the summary of contributions involves

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have, in all material respects, been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the schedule of contributions and the timing of those payments.

We test and examine information, using sampling and other techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

##### PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

[City]

Date

## Summary of contributions for the year ended 31 December 20X5

All amounts in £ thousands unless otherwise stated

During the year ended 31 December 20X5, the contributions payable to the Scheme were as follows:

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	DB			DC		
	Employers	Employees	Total	Employers	Employees	Total
<b>Contributions required by the schedule of contributions</b>						
Normal contributions	1,737	582	<b>2,319</b>	400	200	<b>600</b>
Deficit funding	95	-	<b>95</b>	-	-	-
Other contributions – administrative expenses	180	-	<b>180</b>	-	-	-
	2,012	582	<b>2,594</b>	400	200	<b>600</b>
<b>Other contributions</b>						
Augmentations	200	-	<b>200</b>	-	-	-
Section 75 debt	5	-	<b>5</b>	-	-	-
Additional voluntary contributions	-	20	<b>20</b>	-	-	-
Other contributions – funding for investment in Typipens ABC LP	9,000	-	<b>9,000</b>	-	-	-
<b>Total</b>	<b>11,217</b>	<b>602</b>	<b>11,819</b>	<b>400</b>	<b>200</b>	<b>600</b>

DR 3 Sch 25, 26

*If contributions required by the schedule were not paid in accordance with the schedule's requirements such that the auditors' statement is negative or qualified, the Trustees must give an account of the reasons why and how the situation has been or is likely to be resolved. If an equivalent situation was not resolved in the prior year, this disclosure must also cover the actual or likely resolution of the prior year contribution failure. [DV] Disclosures may also be given for lesser failures which have not resulted in a negative or qualified auditors' statement.*

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*Consider adding additional information to ensure that the scope and measurement criteria of the auditors' statement are clear. For example:*

- a scheme with multiple concurrent schedules in force (such as an industry-wide scheme) may benefit from a list of applicable schedules;*
- a scheme which has no schedule in place for part of the year; or*
- a scheme where new sections or classes of members occurred not specified by the schedule (such as schemes being used for auto-enrolment for the first time before a schedule is revised, or contributions from a scheme merger under the schedule of a predecessor scheme).*

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*This summary is prepared solely for the purpose of reconciling the contributions required by the schedule (and therefore subject to the auditors' statement on the previous page) to the contributions recognised in the financial statements. Comparative figures are not required.*

Approved by the Trustees on (date) and signed on their behalf by:

JD Bailey

ET Brown

## Actuarial certificate

### about the adequacy of the contributions payable towards the Scheme

DR 3 Sch 6

Name of Scheme	<b>Typipens Pension Scheme</b>
Effective date of valuation	<b>31 December 20X2</b>

#### Adequacy of rates of contributions

PA 2004 s227

I hereby certify that, in my opinion, the rates of contribution shown in the Schedule of Contributions dated 24 March 20X4 are such that the Statutory Funding Objective can be expected to be met by the end of the period specified in the recovery plan dated 24 March 20X4.

#### Adherence to Statement of Funding Principles

I hereby certify that, in my opinion, the Schedule of Contributions dated 24 March 20X4 is consistent with the Statement of Funding Principles dated 24 March 20X4.

The certification of the adequacy of rates of contribution for the purpose of securing that the Statutory Funding Objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were wound up.

Signature .....

Date 24 March 20X4

Name .....

Qualification: Fellow of the  
Institute of Actuaries

*This certificate is only required where Part 3 of Pensions Act 2004 applies, i.e. most schemes which are not wholly money purchase.*

*Note that the technical provisions certificate is no longer required to be included in the annual report. This is now dealt with in the report on actuarial liabilities.*

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