

IPEC-ICAZ WORKSHOP - ACCOUNTING AND REPORTING MATTERS FOR PENSIONS INDUSTRY



S.I. 280 of 2020 and Circular 26 of 2020

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Presentation Outline



Motivation for S.I. 280 of 2020

Requirements of S.I. 280

Emerging Issues on Forex Business

Basis for Circular 26 of 2020

Key IFRS Reporting Issues - Regulatory Perspective

Motivation for S.I. 280 of 2020



Employers Paying Salaries in Forex

Pension Arise from Contracts of Employment

Applications from employers to register funds and GLA denominated in foreign currency

- Threat of externalisation of risk

Restoration of Confidence in Insurance and Pensions

Currency Hedging – stability of forex

Ease of projecting replacement ratios retirement-adequacy of benefits

Requirements of S.I. 280 of 2020



Payment of contributions by funds whose employers are authorised to trade in forex

- Embassies, NGOs, DFIs, Exporting companies
- Holders of free funds

Mandatory investment of forex-denominated contributions in matching assets

- Forex denominated investment instruments

Payment of Benefits in the currency in which contributions are made

- Writing of forex business for travel related policies, exports and imports
- insurance of national strategic assets
- Claims to be settled in forex

Emerging Issues on Forex Business



Major forms of forex business in Pensions

- Contributions from Embassies, NGOs, transport, mining and tourism sectors
- Rental income and disposal of properties - largely USD market
- Interest and dividends from forex-denominated investments
- GLA premiums

Investment of Forex Inflows

- 74% of inflows sitting as nostro balances
- 26% is invested in property and money market instruments
- Opportunity cost of not investing contributions
- Limited forex-denominated instruments - need to create instruments - PAs

Emerging Issues.....



Ring-fencing of forex business

- Combination of forex and ZW\$ contributions from same employer
- Not all participating employers in umbrella funds contributing in forex
- Need to guard against forex contributors subsidising fund's expenses
- Introduced sub-account 3 in Guidance Paper to deal with equity within the fund
- Additional disclosure on forex business - addendum to returns
- Interest and dividends from forex-denominated investments

Reporting of All Forex Business

- Rental income or dividends from pooled property companies not fully disclosed
- Limited disclosure on forex proceeds from disposal of properties



Circular 26 of 2020



Basis for Circular 26 of 2020



Hyperinflation characteristics as declared by PAAB

Circular 26 of 2020 requires full adoption of IFRS standards including IAS 29

Numerous Benefits of Adoption of IFRS standards to different users of finstats

Policymakers and regulators - ease of identifying adequacy of pensions
Inform social security interventions in cases of pension gap

Fund and Members of the Fund - more meaningful financial results
Ease to assess adequacy of contributions- retirement planning

Basis for Circular 26 of 2020....



S.I. 91 of 2021 reviewed reporting templates to provide for market valuation of assets

Valuation of assets already being done annually

Valuation of liabilities at least annually as a requirement of Guidance Paper

Availability of Training support from ICAZ

Professional Guidance being given by ICAZ

Key Reporting Issues - Regulatory Perspective



Valuation of Investment Property

- Valuation dilemma: -
 - ✓ Unlisted pooled property investments vehicles and direct holdings
 - ✓ Inflation - valuations being done in USD and converted to ZWL
 - ✓ Opaque sales and challenges in discount factor for long-dated paper
- Use of prior periods USD valuations - making valuations static
- Valuation inconsistencies - property values more volatile than equities

Proposed Guidance

- Valuations in both USD and ZW\$ for ease of adjusting ZW\$ values using an inflation index as opposed to exchange rate
- Professional independent valuations - clarity on approach, method and assumptions
- Internal valuation policies to be submitted to IPEC

Key Reporting Issues....



Valuation of Suspended Counters

- Mixed valuation approaches in Q4/2020 returns and Q1/2021:-
 - ✓ price on suspension date
 - ✓ price on other exchanges converted at interbank

Proposed Guidance

- Use of SECZ Guidance - Directive No. SS 28/04/21 effective 31/12/20:-
 - ✓ Old Mutual Limited and PPC shares to be valued using JSE closing prices for the day
 - ✓ JSE share prices to be converted to ZW\$ at the prevailing RBZ Foreign Exchange Auction Rate
 - ✓ ZSE share prices to remain reference prices for valuation purposes - no OTC trading
- No inflation index to be applied on values

Key Reporting Issues....



Valuation of Private Equity

- Mixed valuation methods
- Non-disclosure of valuation methods and assumptions
- Opaqueness on private equity - failed investments

Proposed Guidance

- disclosure on valuation methodology and assumptions for each investment
- Acknowledges ICAZ Guidance - to issue joint guidance with SECZ/RBZ

Accounting of Forex Transactions



Pension Contributions

Forex-denominated rental income or dividends from pooled property investment vehicles

Forex proceeds from disposal of assets

Disclosure of total forex-denominated assets and liabilities

Use of spot rate vs interbank rates

IPEC recommend interbank rate notwithstanding issues of exchangeability on the interbank market

Reporting of Liabilities



Observed Mischief

- Huge discrepancies in liabilities reported in finstats and valuation reports
- Audited financials with no split for the sub-accounts
- Disregard of Guidance Paper on Currency Reforms

Recommended Guidance

- Ensure consistency between liabilities in finstats and actuarial valuations
- Variances to be noted and explained



Thank you

