



“An inclusive, secure and growing retirement benefits sector”

REGULATORY CHANGES ON VALUATION AND REPORTING OF FINANCIAL ASSETS IN DEBT INSTRUMENTS

23 February 2024

Serena Hotel

ORDER OF PRESENTATION

- 1** **Mandate of Retirement Benefits Authority**
- 2** **Context of Policy Shift**
- 3** **Amendment – Valuation of financial assets**
- 4** **Amendment – Minimum Disclosures Requirements**
- 5** **Implication & Conclusion**

MANDATE AND INDUSTRY SYNOPSIS

REGULATE

PROTECT

DEVELOP

ADVISE

IMPLEMENT

Pension Assets



1.7 Trillion

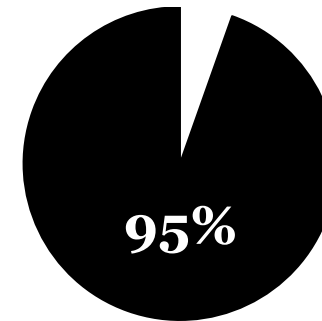
June 2023

**Registered
Schemes**



1.031

**Defined
Contribution**



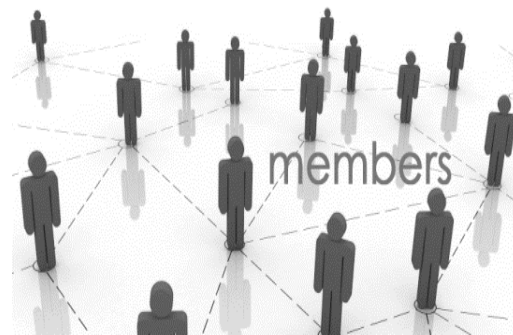
Trustees



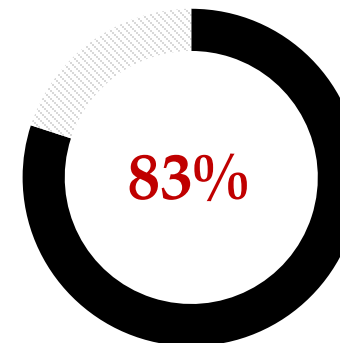
**Over
6,000**

**Administrator - 31
Managers - 32
Custodian - 14**

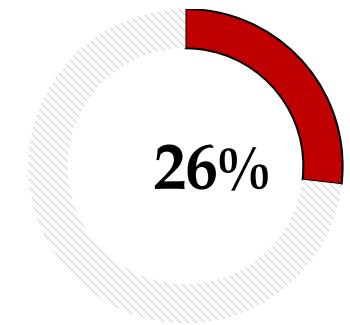
Service Providers



**Active Members:
4.49 million**



Informal Sector



**Pension
Coverage**

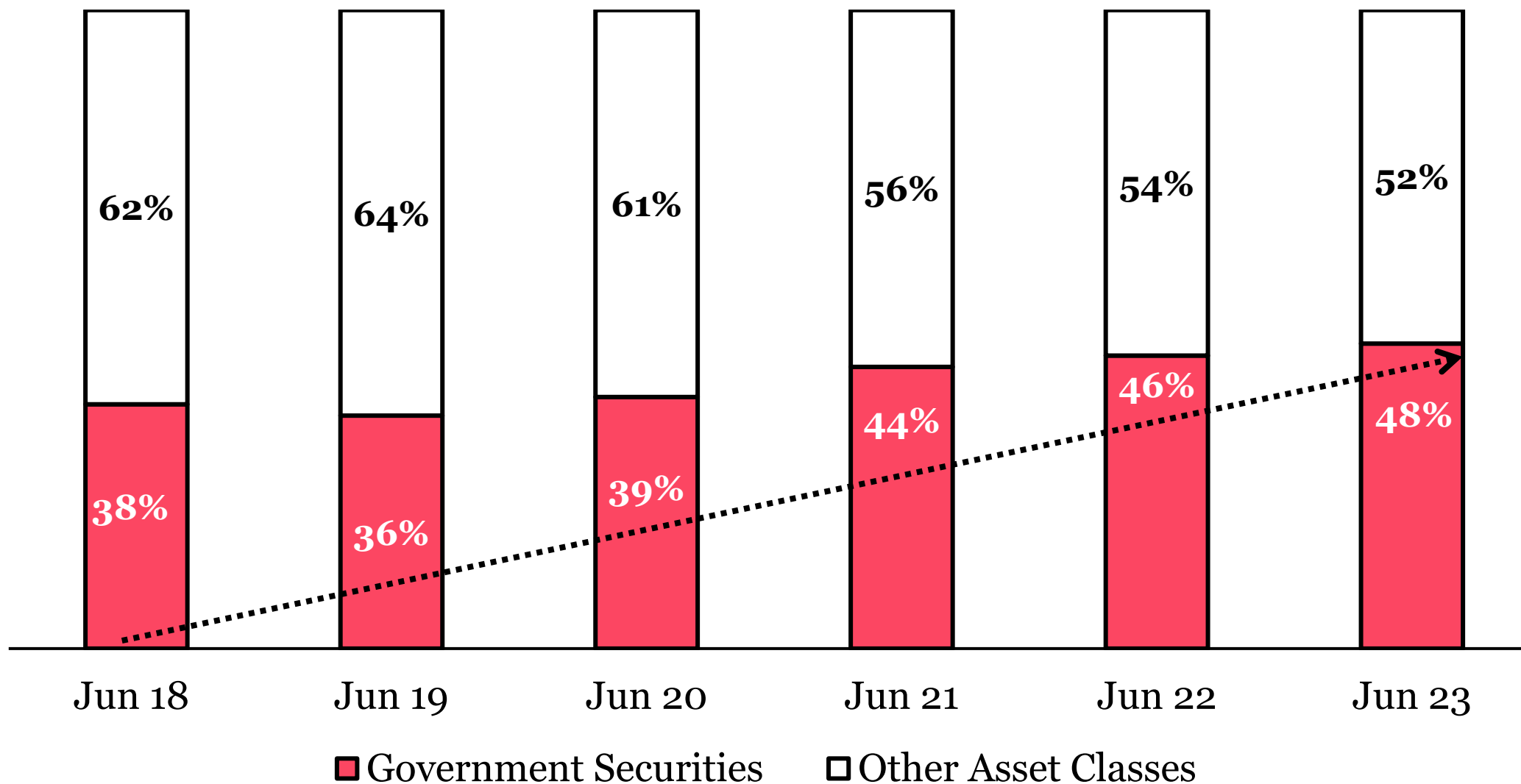
POLICY CONTEXT : ASSETS UNDER MANAGEMENT

The largest component of retirement benefits schemes' assets is allocated to government securities

	Assets Category	Jun 18	Jun 19	Jun 20	Jun 21	Jun 22	Jun 23
		Kshs. (Bn)	Kshs. (Bn)	Kshs. (Bn)	Kshs. (Bn)	Kshs. (Bn)	Kshs. (Bn)
1	Government Securities	349.15	394.19	459.68	652.11	695.51	814.26
2	Quoted Equities	159.07	210.17	201.51	249.79	206.13	174.05
3	Immovable Property	178.42	226.72	229.91	247.35	239.22	246.31
4	Guaranteed Funds	129.58	142.97	167.45	247.52	284.51	326.99
5	Listed Corporate Bonds	46.95	41.99	40.28	2.9	7.4	7.54
6	Fixed Deposits	24.57	32.88	36.39	37.07	36.42	67.68
7	Offshore	6.96	12.77	13.13	16.73	15.24	23.13
8	Cash	12.93	12.95	12.72	17.91	20.66	22.62
9	Unlisted Equities	3.95	4.06	3.79	3.4	4.38	5.08
10	Private Equity	0.22	0.322	0.86	2.5	3.4	5.37
11	REITS	0.84	1.03	0.71	0.14	0.27	10.64
12	Commercial Paper, Non-listed bonds by Private companies	0	0.062	0.06	0.02	0.02	0.03
13	Any Other Assets	0	0	0	0.73	2	-
	TOTAL	912.64	1,080.11	1,166.49	1,478.17	1,515.16	1,703.69

RETIREMENT BENEFITS INDUSTRY ASSET DISTRIBUTION - TREND

There has been a steady increase in the overall allocation to government securities asset class



POLICY CONTEXT : FINANCIAL ASSETS IN DEBT INVESTMENTS

The requirement to value debt instrument investments based on market value has resulted in reporting and allocation of unrealized gains or losses. This approach, affected by interest rate volatility, may reduce the perceived appeal of reported returns on government securities, even where a scheme intention is to hold them to maturity.

1. Valuation Method

- Financial assets in debt investments are valued using the fair value method, reflecting their current market worth based on prevailing market conditions.
- Volatility in interest rates have a direct impact on the value of government securities

2. Implications of Valuation

- The process of valuation results in paper or unrealized gains and losses, which are recorded but not realized unless investments are sold before maturity
- Reported returns based on fair value may cause government securities to appear unattractive
- Holding debt investments to maturity ensures a secured return derived primarily from coupon payments.

3. Impact on Member Benefits

- Retiring or ceding members' benefits may be affected by paper/unrealized gains or losses from the scheme's debt portfolio due to valuation requirements.

Institute legislative changes to permit retirement benefit schemes to value investments in debt instruments based on their objectives and ensure that any unrealized gains or losses resulting from this valuation are not distributed to members.

AMENDMENTS :

- 1. Valuation of financial assets on fair value approach (for assets available for sale) or amortized cost approach (for assets held to maturity).**
 - Legal Notice No. 18 of 2024 – Regulations may be cited as the Retirement Benefits (Managers and Custodians) (Amendment) Regulations, 2023
- 2. As part of the minimum disclosure in the financial statements, trustees are required to disclose that any unrealized gains and losses resulting from the valuation of financial assets using the fair value approach shall not form part of the distributable income.**
 - Legal Notice No. 19 of 2024 – Regulations may be cited as the Retirement Benefits (Income Drawdown Funds) (Amendment) Regulations, 2023
 - Legal Notice No. 20 of 2024 – Regulations may be cited as the Retirement Benefits (Individual Retirement Benefits Schemes) (Amendment) Regulations, 2023
 - Legal Notice No. 21 of 2024 – Regulations may be cited as the Retirement Benefits (Occupational Retirement Benefits Schemes) (Amendment) Regulations, 2023
 - Legal Notice No. 22 of 2024 – Regulations may be cited as the Retirement Benefits (Umbrella Retirement Benefits Schemes) (Amendment) Regulations, 2023

Legal Notice 18 of 2024: Retirement Benefits (Managers and Custodians) (Amendment) Regulations, 2023

AMENDMENT LN. 18 of 2024

1. These Regulations may be cited as the Retirement Benefits (Managers and Custodians) (Amendment) Regulations, 2023.

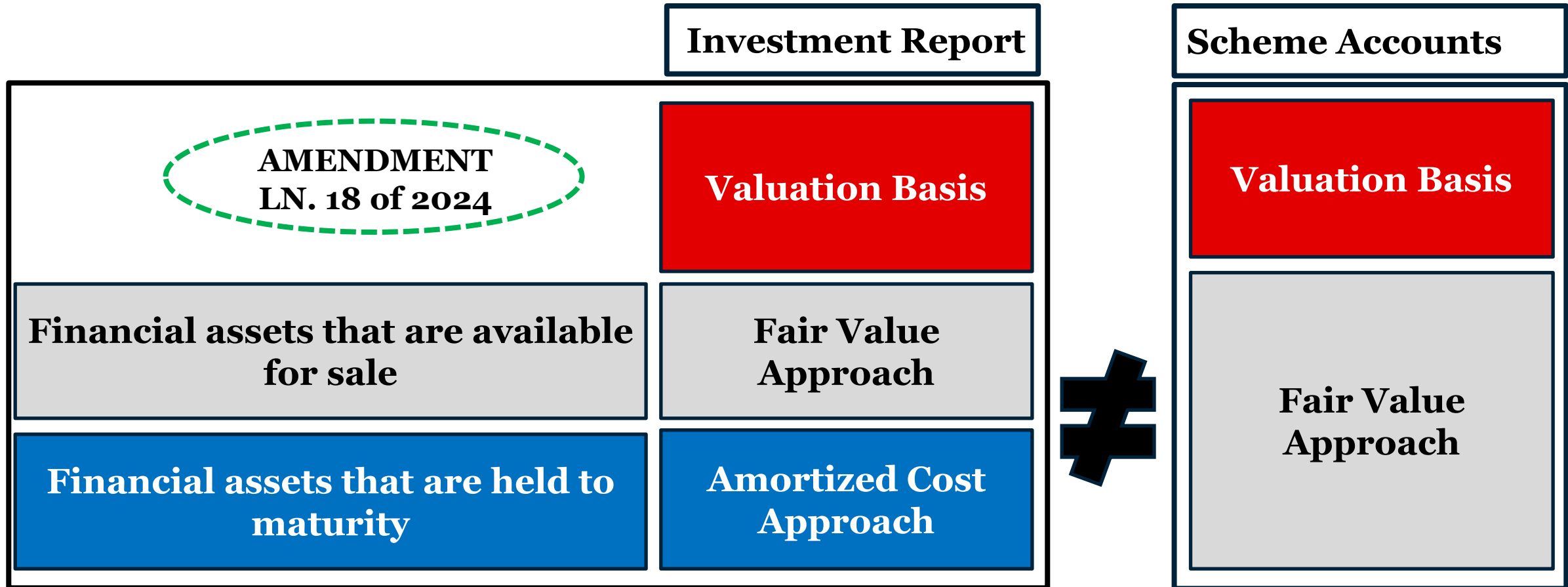
2. Regulation 5 of the Retirement Benefits (Managers and Custodians) Regulations, 2000, is amended by deleting the proviso to paragraph (2)(e)(i) and substituting therefor the following new proviso—

Provided that the investment report shall provide—

- (a) with respect to financial assets that are available for sale, a one-year and three-year time-weighted performance figure calculated using a fair value approach; and
- (b) with respect to financial assets intended to be held to maturity, a performance figure based on an amortized cost approach.

Made on the 21st December, 2023.

REPORTING INVESTMENT REPORT VS. SCHEME ACCOUNTS



The amendment to the valuation methodology will result in variation in value of debt instrument in the investment report and the scheme financial statement

MINIMUM DISCLOSURE REQUIREMENT

Amendment to Minimum Disclosure Requirement: Scheme Financial Statement

“unrealised gains and losses arising from the valuation of financial assets using the fair value approach shall not form part of the distributable income”

Retirement Benefits Regulations	Regulation	Legal Notice
Retirement Benefits (Income Drawdown Funds) (Amendment) Regulations, 2023	16, 28	No. 19 of 2024
Retirement Benefits (Individual Retirement Benefits Schemes) (Amendment) Regulations, 2023	28	No. 20 of 2024
Retirement Benefits (Occupational Retirement Benefits Schemes) (Amendment) Regulations, 2023	36	No. 21 of 2024
Retirement Benefits (Umbrella Retirement Benefits Schemes) (Amendment) Regulations, 2023	42	No. 22 of 2024

Implication of amendments

Investment Reports to Trustees

The reporting of financial assets at fair value or using the amortized approach will only be done for reporting purposes to the Trustees by the fund manager of the scheme

Preparation of Financial Statements

The retirement benefits scheme investments will be reported on a fair value basis, as specified in IAS 26: Accounting and Reporting by Retirement Benefit Plans.

Unrealized Gains(Losses) of change in fair value of debt instruments

Unrealized gains or losses arising from changes in fair value asset valuation shall be disclosed in the statement of changes in net assets available for benefits in accordance with IAS 26 : Accounting and Reporting by Retirement Benefit Plans.

Disclosure to Members

Trustees to disclose to members that any unrealized gains (losses) from fair value changes in debt instruments to be excluded from determination of net return declared and credited to members accounts.

Thank you



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