Policy on Valuation of Securities

Maldives Retirement Pension Scheme

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1. DOCUMENT CONTROL

1.1. Document Information

Information	
Policy Number	MRPS/POL-2013/03
Policy Name	Policy on Valuation of Securities
Board Approved Date	30 April 2023
Policy Effective Date	01 May 2023

1.2. Document History

Version	Date	Main Changes
1.0	14 January 2013	Original publication
2.0	27 June 2016	• Revision to applicable accounting standards, inclusion of dividends, income and liabilities. • Revision to equity investments.
3.0	13 December 2017	Measuring shariah instruments on an accrual basis, to be effective from January 2018.
4.0	01 May 2023	Differentiating the valuation principles for IFRS compliant reporting and unit price valuations, to be effective from the financial year 2023.

2. BACKGROUND

2.1. The characteristics in defined contribution investment choice of Maldives Retirement Pension Scheme (MRPS) require daily valuations to properly value contributions to, withdrawals from and transfers between the funds of the scheme.

2.2. A clear set of guidelines establishes a fair mechanism for the valuation of securities and deposits to be consistently used, to be fair to all stakeholders for such investment funds. This recognises generally held industry standard views on the correct valuation of scheme assets, including but not limited to securities and income that has accrued but not yet been received, and the recognition and valuation of accruing and actual liabilities.

2.3. Given the particular circumstances in the Maldives, notably the lack of liquidity of listed securities and the absence of secondary markets for treasury instruments, it is considered important to establish additional valuation principles.

3. ACCOUNTING STANDARD AND IMPLICATION ON AUDIT

3.1. MRPS generally aims to follow International Financial Reporting Standards (IFRS) in valuing the assets and liabilities of constituent funds of MRPS if the application of the relevant standard presents a true and fair view.

3.2. In cases where application of IFRS results in distorted presentation of economic reality and in the absence of alternative valuation framework issued by the market regulator, Pension Office shall use alternative valuation methods so as to present a true and fair view of the affairs of the various funds under MRPS.

3.3. In certain cases, the valuation method used by Pension Office may result in audit issues and audit qualifications as a result of divergence in opinion and any such matter shall be fully disclosed.

4. VALUATIONS BY THE PENSION OFFICE

The methods used for all valuations determined by the Pension Office are to be recorded and made available to the Board and to the Investment Committee on request.

5. VALUATION PRINCIPLES

5.1. In preparing the financial statements of the MRPS the following valuation principles shall be observed in accordance with the applicable IFRS in order to present a true and fair view.

5.2. The purpose for unit pricing is to ensure that the unit holders are treated equitably. Hence, alternative valuation principles are applied where necessary.

5.3. Any differences between unit prices and the corresponding assets and liabilities in the financial statements shall be reconciled.

5.4. The fair value of a financial instrument at initial recognition normally is the transaction price (i.e. the fair value of the consideration given or received).

5.5. Subsequent to initial recognition, the financial instruments are measured using the following principles.

5.5.1. **Equities**

Equities shall be valued based on fair value principles. The fair value may not be the observable market price of the equity. The fair value shall be determined by the Pension Office based on valuation method in accordance with IFRS. In cases where observable market prices are unreliable or outdated and unrepresentative of the fundamental value of the equity in question. The concept of materiality shall be applied when making the fair value adjustment.

5.5.2. **Bonds**

Bonds shall be valued at amortised cost.

5.5.3. **Treasury Bills and Fixed Deposits**

Treasury Bills and Fixed Deposits shall be valued at amortised cost.

5.5.4. **Shariah Compliant Instruments**

Sukuk and short term Shariah instruments shall be valued at amortised cost.

5.5.5. **Receivables**

5.5.5.1. Income from Bonds, Treasury Bills and Fixed Deposits shall be accrued based on effective interest rate.

5.5.5.2. Income from Sukuk and short term Shariah instruments shall be valued on accrual basis at rate in accordance with the terms of the Sukuk and short term Shariah instruments.

5.5.5.3. Contribution Income shall be valued on accrual basis in IFRS compliant reporting. However, the Unit Pricing valuations shall be based on cash basis as and when the units are allocated.

5.5.5.4. Dividends, in IFRS compliant reporting, shall be recognized on accrual basis when the fund's right to receive the dividend is established. However, the Unit Pricing valuations shall be based on cash basis.

5.5.6. **Liabilities**

Expenses shall be recognized based on accrual concept when it is probable that future outflows shall take place and that it can be measured reliably.

6. MEASURING SHARIAH INSTRUMENTS ON ACCRUAL BASIS

The income recognition for Sukuk and Short term Shariah instruments shall be on accrual basis. A methodology shall be established by the Management to measure the accrued income and receivables in accordance with the valuation principles.

7. REVIEW AND ASSESSMENT

The Policy shall be reviewed at least biennially. Further, it shall be assessed regularly to ensure that it remains relevant, current and compliant with all applicable laws, regulations and standards.

8. EFFECTIVE DATE

The amendments to this Policy, together with Annexure 1 have been endorsed by the Board of Directors of the Maldives Pension Pension Administration Office on 30 April 2023 and made it effective from 01 May 2023 to be applicable from the financial year 2023.

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Annexure 1

IFRS 9 Gap Analysis and Implementation

Maldives Retirement Pension Scheme

1. Objective

The objective of IFRS 9 (Financial Instruments) is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.

2. Classification and Measurement of Financial Assets

Categories	Determined by
Amortised Cost *[IFRS 9.4.1.1-2]*	● Business model whose objective is to hold financial assets to collect contractual cash flows. ● The contractual cash flow characteristics of the financial asset which meets "Solely Payments of Principal and Interest" (SPPI) test.
Fair Value Through Other Comprehensive Income (FVTOCI) *[IFRS 9.4.1.2A]*	● Business model whose objective is to hold financial assets to collect contractual cash flows and for sale. ● The contractual cash flow characteristics of the financial asset which meets SPPI test.
Fair Value Through Profit and Loss (FVPL) *[IFRS 9.4.1.4]*	● Other financial assets that do not meet the conditions for amortised cost or FVTOCI including derivatives and equity instruments. ● In addition, an entity has the option at initial recognition to irrecoverably designate a financial asset as at FVPL.

2.1. Business Model Assessment

2.1.1. A business model refers to how an entity manages its financial assets in order to generate cash flows. It is determined at a level that reflects how groups of financial assets are managed rather than at an instrument level. IFRS 9 identifies three types of business models:

2.1.1.1. "Hold to collect";

2.1.1.2. "Hold to collect and Sell";

2.1.1.3. "Other".

2.1.2. The business model of MRPS is determined as "hold to collect" by how it manages the financial assets and its objectives.

2.1.3. The financial assets held within the funds are managed to realise cash flows by collecting contractual payments over the financial assets' life time. The relevant and objective evidence assessed to determine the Business Model is as follows:

2.1.3.1. **Strategic objective** of the Pension Office is to maximise return on investment by increasing the investment in growth assets and diversifying the investment portfolio.

2.1.3.2. **Investment objective** of the individual funds are as follows:

2.1.3.2.1. **Investment Fund:** Generally grows in line with the Maldivian economy and at a rate higher than domestic inflation.

2.1.3.2.2. **Shariah Fund:** To achieve positive returns through investing in Shariah compliant assets.

2.1.3.2.3. **Conservative Fund:** To preserve capital and achieve investment returns comparable to those available from bank deposits.

2.1.3.2.4. **Shariah Conservative Fund:** To achieve positive returns with minimum risk to capital through investing in Shariah compliant assets.

2.1.4. Cash flows from past sales of debt instruments were collected upon maturity of the instruments and current debt instruments are held till maturity to collect cash flows from investments.

2.1.5. Equity instruments are held to earn dividend income and management has no intention to sell the equity instruments as of date.

2.1.6. Strategic Asset Allocation (SAA) of MRPS prescribes the exposure limits of Financial Assets in order to reduce the risks while maximising the returns considering the outcome to the Members of the Fund.

2.1.7. The Financial Assets included in this assessment are:

2.1.7.1. **Debt Instruments:** Treasury Bills, Treasury Bonds, Bank Deposits, Corporate Bonds, Sukuk and Other Receivables.

2.1.7.2. **Equity Instruments:** Shares.

2.1.8. The Financial Liabilities included in this assessment are:

2.1.8.1. **Debt Instruments:** Other Payables.

2.2. Contractual Cash Flows Assessment

2.2.1. This assessment is conducted using SPPI criterion assessment, i.e. whether the contractual terms of the financial assets give rise, on specified dates, to cash flows that are "solely payments of principal and interest".

2.2.2. A financial asset that does not meet the SPPI criterion is measured at FVTOCI, which includes equity instruments.

2.2.3. Solely payments of principal and interest (SPPI) assessment;

2.2.3.1. Principal is the fair value of the financial asset at initial recognition.

2.2.3.2. Interest is the return within a basic lending arrangement and typically consists of consideration for the time value of money, and credit risk. It may also include consideration for other basic lending risks such as liquidity risk as well as a profit margin.

2.2.4. The debt instruments held by Fund meets the SPPI whilst equity instruments do not meet the assessment since the terms of an equity instrument are not capable of giving rise to solely payments of principal and interest.

2.3. Changes to Classification and Measurement of Financial Assets

2.3.1. The following table shows the changes brought to the classification of financial assets by adopting IFRS 9 from IAS 39.

Financial Asset	IAS 39		IFRS 9	
	Classification	**Measurement**	**Classification**	**Measurement**
Treasury Bills	Held to Maturity	Amortised Cost	Amortised Cost	Amortised Cost
Treasury Bonds	Held to Maturity	Amortised Cost	Amortised Cost	Amortised Cost
Bank Deposits	Loans and Receivables	Amortised Cost	Amortised Cost	Amortised Cost
Corporate Bonds	Available for Sale	Amortised Cost	Amortised Cost	Amortised Cost
Sukuk	Held to Maturity	Amortised Cost	Amortised Cost	Amortised Cost
Shares	Available for Sale	FVTOCI	FVTOCI	FVTOCI

2.3.2. Although the classification has been changed to the categories in IFRS 9 the measurement of the financial assets remains the same, hence there are no financial impacts to the measurement.

2.4. Initial Measurement

The fair value of a financial instrument at initial recognition is normally the transaction price. However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument.

2.5. Subsequent Measurement

2.5.1. After initial recognition, an entity shall measure a financial asset in accordance with classifications outlined in 2.3.1 (Classification and Measurement table of Financial Assets).

2.5.1.1. **Amortised cost of a financial asset or financial liability:** The amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount. For financial assets, an adjustment should be made for any loss allowance.

2.5.1.2. **Fair value through other comprehensive income:** IFRS defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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