The Chartered Institute of
Public Finance & Accountancy

PRAG SORP Consultation 2025

A submission by:
The Chartered Institute of Public Finance and Accountancy

17 September 2025

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at www.cipfa.org

Any questions arising from this submission should be directed to:

Iain Murray
Director of Public Financial Management
CIPFA
77 Mansell Street
London
E1 8AN
Tel: +44 (0)7880 456190
Email: iain.murray@cipfa.org

1. Background

1.1 This is a response on behalf of CIPFA to the following call for consultation: [PRAG - SORP consultation 2025]

1.2 The Pensions SORP was last updated in 2018. The FRC has since amended FRS 102 and the proposals are in line with this.

1.3 The Pensions SORP is a technical interpretation of the standard, not a cut and paste.

1.4 The LGPS does not directly apply the SORP to its accounting policies, it generally follows the IFRS-based CIPFA Code of Practice for Local Authority Accounting (the Code) and so the impact of the proposals would be limited for the LGPS.

1.5 In practice, Funds and auditors do borrow from the SORP when the Code doesn't cover a particular area.

1.6 CIPFA's response will focus on those areas that may affect the LGPS.

2. Question 1: Fair Value

2.1 Previously, FRS 102 said that, as a practical expedient for fair value measurement, the best evidence available was usually the bid-price. FRS 102 revised no longer precludes the use of mid-market pricing or other pricing conventions as a practical expedient for fair value measurements within a bid-ask spread.

2.2 The proposed SORP requires the continued use of bid pricing (as in the current SORP), as opposed to allowing individual choice, to maintain consistency and comparability in financial reporting and acknowledging that a practical expedient is not required as bid pricing is readily available.

2.3 **Do you agree with this above proposal and if not, why not?**
CIPFA agrees with the proposal. Since bid pricing was almost universally employed before, maintaining consistency is a sensible approach. The IFRS-based LGPS allows other valuation bases when market pricing is not readily available, so the impact of this proposal on the LGPS would be very limited.

2.4 When the previous SORP was issued, the use of valuations carried out by the annuity provider was permitted to assist with the transition of including annuity (insurance) policies at fair value. Experience has shown that valuations provided by annuity providers regularly do not provide the preparers and users with sufficient information (typically due to it being commercially sensitive to the insurer) to allow all of the required disclosures in relation to accounting estimates to be made.

2.5 The lack of transparency can also cause issues with the trustee's ability to have the valuation audited. As such, the proposed SORP has removed the option to use annuity provider valuations so as to ensure that there are no restrictions on the availability of information to meet the required disclosure standards and noting that most defined benefit schemes are already obtaining a valuation performed by the scheme actuary for the purposes of the financial statements and as part of the triennial actuarial valuation.

2.6 **Do you agree with this above proposal? If not, why not?**
CIPFA agrees with the proposal. In the LGPS, Annuities, should a member choose to purchase one, are treated as Additional Voluntary Contributions (AVCs) and as such are held entirely separately from the main Fund assets and Pension pot. The proposal recognises that in practice, Fund actuaries provide valuations for these anyway. So, in the interests of transparency, it is sensible to remove the option to not obtain one.

3. Question 2: Investment Risk disclosures

3.1 Since the 2018 SORP, market fluctuations (such as those arising during the Liability Driven Investment (LDI) crisis) have proved that liquidity risk can be relevant to pension schemes. As such, the proposed SORP requires liquidity risk to be included in investment risk disclosures.

3.2 The FRS 102 definition of liquidity risk focuses on settling financial liabilities, however the proposed SORP extends this to include capital commitments and potential collateral calls. It has not been extended to include liquidity risk in relation to maintaining a desired hedging target as this is a voluntary measure and trustees can elect to deviate from target if liquidity is unavailable.

3.3 **Do you agree with this above proposal? If not, why not?**
CIPFA agrees with this proposal. It is already considered good practice for Funds in the LGPS to manage their liquidity risk by projecting cash calls for relevant investments; this is already an area of Auditor focus under the "Going concern" test.

3.4 Inclusion of inflation risk was considered and it was determined that, whilst inflation risk can impact a scheme's ability to pay benefits to members in the long term, the purpose of the investment risk disclosures is to highlight the risks arising from a scheme's financial instruments and not its actuarial liabilities.

3.5 As such, inflation risk has not been included as a specific risk category however, should inflation risk be relevant to a scheme's financial instruments (for example in determining the fair value of annuity policies), this can be reported under Other risks in accordance with paragraph 3.14.8.

3.6 **Do you agree with this above proposal? If not, why not?**
CIPFA agrees with this proposal. LGPS Fund actuaries already consider inflation risk with regard to paying benefits and it is not a specific risk with Financial instruments. Since annuity policies are considered as AVCs and kept separate from the main Fund and are ringfenced to the individual member, they do not present any inherent risk to the Fund's financial standing.

4. Question 3: Sole investor pooled arrangements

4.1 The proposed SORP separates sole investor pooled arrangements from pooled arrangements open to other investors to highlight the difference in their nature.

4.2 **Do you agree with this above proposal? If not, why not?**
Such arrangements tend to be rare in the LGPS. However, CIPFA can think of no reason to object to this proposal, in the interests of transparency.

4.3 The proposed SORP has extended the sole investor pooled arrangements look through disclosures to include the fair value level disclosure (the current SORP already requires investment risk disclosures to be prepared on a look through basis). However, it has also removed the look through requirements for transaction costs and has clarified that detailed notes on each underlying asset class are not required.

4.4 The proposed disclosure requirements have been drafted to prevent a loss in transparency that occurs when a scheme's previously segregated assets are transferred into sole investor pooled arrangement wrappers. It also recognises that including detailed notes on all asset categories would be onerous and not add sufficient value, particularly when considering that fair value level and investment risks disclosures are already performed on a look through basis.

4.5 **Do you agree with this above proposal? If not, why not?**
CIPFA agrees that these proposals seem like a sensible compromise and shouldn't add unduly to reporting requirements. As above, such arrangements are rare in the LGPS.

5. Question 4: Other comments

5.1 **Do you have any other comments on the proposed amendments set out in the draft SORP?**

We understand that the proposals have limited scope to the LGPS, since those schemes are accounted for by IFRS-based standards. However, in practice Funds and auditors borrow heavily from the policies from the Pensions SORP in areas where the Local Authority Accounting Code of Practice provides insufficient coverage.

5.2 CIPFA is currently looking at how to improve Pension Fund reporting via its Better Reporting Group (BRG) and so the proposed changes to the Pensions SORP are timely with respect to that.

6. In conclusion

6.1 CIPFA is generally supportive of the proposals. Noting that they will initially have little impact on the LGPS, since LGPS Fund accounts are based on the Code.