1 March, 2006

NATIONAL PENSION COMMISSION

REGULATION
ON VALUATION OF PENSION FUND ASSETS

REGULATION ON VALUATION OF PENSION FUND ASSETS

1.0 INTRODUCTION

1.1 This regulation seeks to standardize the procedures to be adopted in the valuation of Pension Fund Asset portfolios by Pension Fund Administrators (PFAs).This shall include the method and manner in which PFAs calculate the value of net assets under management and the value of an accounting unit for the equitable pricing of interest of each individual contributor to a pension fund. It also includes the methodology for calculating the rate of return to the PFA.

1.2 The price of interests in a pension fund, must be calculated according to the Net Asset Value (NAV) of the relevant pension fund, and must be determined on a regular basis as detailed herein.

1.3 NAV is defined as the summation of the value of Pension Fund Assets minus allowable expenses as given in Schedule I.

1.4 Valuation of Pension Fund Assets must be in accordance with the regulations issued by the National Pension Commission (Commission).

1.5 Valuation of Pension Fund Assets must be audited by firms of Chartered Accountants approved by the Commission, once in every year or as otherwise determined by the Commission.

1.6 Where a material error $(\geq 0.5\%)$ is observed in all computations herein, the PFA shall immediately effect necessary corrections and revert to the Commission, stating the nature and effect of the error, as well as the corrective measures taken.

2.0 RESPONSIBILITY FOR VALUATION

2.1 The PFA shall be responsible for determining the fair value of the Pension Fund Assets under its management.

2.2 The valuation of Pension Fund Assets shall be done by personnel and by a department, independent of the investment management function of the PFA.

2.3 Fair value is an amount that an investment could be bought or sold in a current transaction between willing parties, provided the transaction is done in an open and transparent platform.

2.4 Recognised open and transparent platform shall include the floor of a Securities Exchange registered by the Securities and Exchange Commission (SEC), or a Money Market Electronic Platform open to the public and approved by Central Bank of Nigeria (CBN) or Money Market Association of Nigeria.

2.5 At all times, the PFA must assign value to the assets held in the Pension Fund Assets under its management, and provide justification of the values so assigned.

2.6 The PFA shall maintain all records and information used in computing the valuation of Pension Fund Assets, and shall make them available to the Commission on demand.

2.7 Valuation of Pension Fund Assets must be based on actual positive or negative events, not on expected or planned accomplishment and/or performance.

3.0 TIMING AND FREQUENCY OF VALUATION

3.1 The PFA shall conduct daily valuation of the Pension Fund Assets under its management.

3.2 The PFA shall calculate the Net Asset Value (NAV) and the value of an Accounting Unit of the Pension Fund Assets and report to the Commission.

3.3 The value of Pension Fund Assets, the NAV and the Accounting Unit of a Pension Fund Assets, shall be determined each working day for the previous day, based on asset market value information available at 6.00 p.m. local time of the previous working day.

3.4 Real estate and unquoted investments held in the portfolio of CPFAs that would make daily valuation impracticable, shall be valued at appropriate times to be agreed with the Commission, provided that such timing shall not be later than one year.

4.0 VALUATION

4.1 The value of certificates of deposit and bankers acceptances, shall be the price at which they were traded on a Money Market Electronic Platform open to the public and approved by the Central Bank of Nigeria (CBN) or Money Market Association of Nigeria.

4.2 The value of quoted securities traded in Nigeria shall be determined by ascertaining the market value of such securities.

4.3 For quoted securities, only market prices resulting from trading on a registered Securities Exchange shall be used to establish the value of quoted securities.

4.4 The value of quoted securities shall be the last price at which the securities were traded, under normal market conditions, on the floor of a registered Securities Exchange.

4.5 If a certain security is not traded on the Valuation Date, its fair value shall continue to be the last transacted price on the floor of a registered Securities Exchange.

4.6 In the event that a fair value of securities cannot be determined with respect to Section 4.2, 4.3 and 4.4 of this Regulation, the PFA shall apply the following methodology;

(a) Open-end investment funds shall be valued at the net asset value per participation unit;

(b) Closed-end investment funds shall be valued at the net asset value per share;

(c) Securities issued or guaranteed by the Central Bank of Nigeria, the Federal/State Government of Nigeria, that are sold at a discount, shall be valued at their amortized value;

(d) Securities issued or guaranteed by the Central Bank of Nigeria, the Federal/State Government of Nigeria, that have periodic interest payments, shall be valued at face value plus any accrued but unpaid interest;

(e) Debt securities issued by Companies, that are sold at a discount and have a maturity of one year or less, shall be valued according to their amortized value;

(f) Debt securities issued that have periodic interest payments shall be valued using the principal plus any accrued and unpaid interest;

(g) Equity securities issued by corporate entities or banks, shall be valued at cost or the amount that the Pension Fund could reasonably expect to receive upon a prompt sale in the ordinary course of business, whichever is lower, with appropriate provision made for any resulting diminution in value; and

(h) Mortgage/Asset-backed securities shall be valued according the face value plus accrued and unpaid interest.

4.7 In the event that debt securities held by the pension fund are subject to a significant risk of non-payment, delay in payment or payment in smaller amount, the PFA shall value such debt securities at the lower of cost or net realizable value, with appropriate provision made for any resulting diminution in value.

4.8 Securities held by a CPFA, which are denominated in a foreign currency, should be valued in Naira at the exchange rate of the Central Bank of Nigeria at close of business on the valuation date.

4.9 Unquoted investments held by a CPFA are to be valued on fair value basis.

4.10 Real Estate investments held in the portfolios of CPFAs will be required to have a full valuation done by valuation companies to be approved by the Commission.

4.11 All cash balances must be identified and treated as capital assets of the fund for the purpose of valuation.

4.12 Asset-Based fees shall be accrued daily upon portfolio valuation, while the actual charge shall be effected against the fund within five (5) working days of the month end.

4.13 Valuation of Pension Fund Assets for periodic accounting purposes must be done on business days.

4.14 Shares of companies in liquidation or in merger process or on technical suspension, from a registered Securities Exchange, shall continue to be valued at their suspended values, until such a time as the merger or acquisition is consummated or the technical suspension is lifted.

5.0 CALCULATION OF ACCOUNTING UNIT VALUE OF PENSION FUND ASSETS

5.1 Each Accounting Unit of Pension Fund Assets shall have a nominal value of N1.00 (one naira only).

5.2 The value of an accounting unit on the first Valuation Date following the payment of the first contribution to the Pension Fund shall be N1.00 (one naira only).

5.3 Total number of Accounting Units on the first valuation date shall be the total amount of contribution divided by the nominal value of N1.00 (one naira only).

5.4 Subsequent to the first valuation date, total number of Accounting Units shall be the existing units, plus additional units created, minus units redeemed.

5.5 The value of an Accounting Unit of Pension Fund Assets equals the Net Assets Value calculated pursuant to Schedule 1 of this Regulation, divided by the total number of Accounting Units on individual accounts being administered by the PFA.

5.6 The number of Accounting Units to be credited into a contributor's Retirement Savings Account (RSA), on any day, shall be the amount contributed divided by the value of the Accounting Unit computed for the previous day.

5.7 The value of an Accounting Unit shall be calculated to two decimal places.

5.8 All purchases or redemption of Accounting Units in individual accounts shall, similarly, be rounded to two decimal places.

6.0 CALCULATION OF THE RATE OF RETURN ON PENSION FUND PORTFOLIO

6.1 The rate of return will be calculated for 36, 24, or 12 months, and then be converted into an equivalent annual rate of return, expressed as a percentage up to two decimal places.

6.2. The Calculated Rate of Return over a 36-month period, converted in equivalent annual rate of return, is equal to the cube root of the value of the accounting unit at the end of the period for which it is calculated, divided by the value of the accounting unit as at the beginning of the 36 months, less one and expressed as percentage.

$$Annual\ Rate\ of\ Return = \left[\left(\sqrt[3]{\frac{current\ value\ of\ the\ accounting\ unit}{value\ of\ the\ accounting\ unit\ at\ the\ beginning\ of\ the\ 36\ months}}\right) - 1\right] * 100$$

6.3 The Calculated Rate of Return over a 24-month period, converted in equivalent annual rate of return, is equal to the square root of value of the accounting unit at the end of the period for which it is calculated, divided by the value of the accounting unit at the beginning of 24 months, less one and expressed as percentage:

$$Annual\ Rate\ of\ Return = \left[\left(\sqrt[2]{\frac{current\ value\ of\ the\ accounting\ unit}{value\ of\ the\ accounting\ unit\ at\ the\ beginning\ of\ the\ 24\ months}}\right) - 1\right] * 100$$

6.4 The Calculated Rate of Return over a 12-month period, which at the same time is the annual rate of return, is equal to the value of the accounting unit at the end of the period, divided by the value of the accounting unit at the beginning of the 12 months, less one and expressed in percentage:

$$Annual\ Rate\ of\ Return = \left[\left(\frac{current\ value\ of\ the\ accounting\ unit}{value\ of\ the\ accounting\ unit\ at\ the\ beginning\ of\ the\ 12\ months}\right) - 1\right] * 100$$

7.0 REPORTING REQUIREMENTS

7.1 The PFA shall make full disclosure of all valuation reports and forward these to the Commission, on a daily basis.

7.2 Daily reports shall be submitted to the Commission on or before 5 pm daily.

8.0 REVIEWS

8.1 These regulations are subject to regular reviews by the Commission.

SCHEDULE I

COMPUTATION OF NET ASSET VALUE OF THE PENSION FUND ASSETS

The Net Asset Value (NAV) of Pension Fund Assets shall be computed as follows:

1. Total Market Value of securities based on the NSE daily official list as at the date of valuation
2. Un-invested cash
3. Un-distributed income to date less allowable expenses (administrative fees payable to PFAs and asset based fees)
4. Total value of money market instruments
5. Brokerage commission
6. Stamp Duties
7. SEC Fees
8. NSE Fees
9. CSCS Fees
10. VAT
11. Accrued allowable expenses

NAV = summation of (1 – 4) minus (5 – 11)

Value of Accounting Unit = NAV divided by total number of Accounting Units in individual RSAs being administered by the PFA