Actuaries Institute.

PROFESSIONAL STANDARD 404
VALUATION OF SUPERANNUATION FUND ASSETS
October 2024

Contents

1. Introduction

1.1. Application

1.1.1. This Professional Standard applies to a Member who, in conjunction with a corresponding valuation of the liabilities of an Entity under another Professional Standard issued by the Institute, is required to value the Assets of an Entity.

This Professional Standard also applies to Members who support another Member in providing advice under the Professional Standard, as relevant to their contribution to the Services.

1.1.2. A Member who provides advice under this Professional Standard in the circumstances described in clause 1.1.1:

a. must be an Eligible Actuary; and

b. must exercise independent professional judgement and give impartial advice.

Members supporting the Member providing advice under the Professional Standard are not required to be an Eligible Actuary. However, this Professional Standard applies to Members who support another Member in providing advice under the Professional Standard, to the extent relevant to their contribution to the Services.

1.1.3. All work performed under this Professional Standard, whether by the Member providing advice or by a Member supporting the Member providing advice, is designated as an Applicable Service. As such, Members' attention is directed towards Practice Guideline 1 (General Actuarial Practice) which applies to Applicable Services. In the case of a Member supporting the Member providing advice, Practice Guideline 1 applies as relevant to their contribution to the Services.

1.2. Classification

1.2.1. This Professional Standard has been prepared in accordance with the Institute's Policy for Developing Professional Practice Documents, as varied from time to time. It must be applied in the context of the Code.

1.2.2. This Professional Standard is binding on Members, in respect of all work covered by the Professional Standard.

1.2.3. Non-compliance with this Professional Standard by a Member engaged in work covered by the Professional Standard may constitute Misconduct and may lead to penalties under the Disciplinary Scheme.

1.2.4. This Professional Standard in itself defines the requirements of the Institute in respect of all work covered by the Professional Standard. If a Member believes that the Professional Standard is ambiguous or for some other reason wishes to seek clarification of it, that Member may consult the Institute's Professional Practice Committee for guidance as to the interpretation of the Professional Standard. Apart from legislation or regulatory standards, no other document, advice or consultation (including Practice Guidelines of the Institute) can be taken to modify or interpret the requirements of this Professional Standard.

1.2.5. Members who find that they cannot carry out the work in a manner that complies with this Professional Standard must decline to carry out the work, or terminate their agreement to do so.

1.2.6. This Professional Standard does not constitute legal advice. Any interpretation or commentary within this Professional Standard regarding specific legislative or regulatory requirements reflects the expectations of the Institute but does not guarantee compliance under applicable legislation or regulations. Members should seek clarification from the relevant regulator and/or seek legal advice in the event they are unsure or require guidance regarding their legal or regulatory obligations.

1.3. Background

1.3.1. Actuarial investigations of Entities are required by legislation. Actuarial investigations may also be necessary to fulfil the requirements of the trust deed or other legal documentation of an Entity. In addition, the regulator or other stakeholders of an Entity (such as the trustee, sponsoring employer, board of directors or management) may request that an actuarial investigation be conducted.

1.3.2. When performing an actuarial investigation or providing other actuarial advice in respect of an Entity, it may be necessary for the Member to value the Assets of the Entity.

1.4. Purpose

The purpose of this Professional Standard is to set out the principles that must be applied by a Member who, in conjunction with a corresponding valuation of the liabilities of an Entity under another Professional Standard issued by the Institute, is required to place a value on the Assets of an Entity.

1.5. Previous versions

1.5.1. The Institute first issued guidance in relation to the valuation of Assets of an Entity in October 1999 (Guidance Note 463 – Valuation of Superannuation Fund Assets). An amended version of that guidance was issued in November 1999.

1.5.2. This Professional Standard was first issued in April 2009 and replaced Guidance Note 463. The standard was then updated in December 2010 to reflect changes to the Code of Professional Conduct.

1.5.3. In June 2017 it was updated to reflect changes resulting from the replacement of AAS 25 with AASB 1056, in particular the use of Fair Value of assets under AASB 1056 compared to the use of Net Market Value under AAS 25.

1.5.4. In March 2020 it was updated to incorporate additional conformance changes to align with the Institute's new Code (effective 31 March 2020).

1.5.5. Changes were made from 1 October 2024 in line with the revised Policy for Developing Professional Practice Documents adopted by Council in September 2024.

1.6. Legislation

1.6.1. The Member must be familiar with any legislation applicable to the particular type of work covered by this Professional Standard which, depending on the nature of the work, may include legislation such as relevant provisions of the Act, the Income Tax Assessment Act 1936 (Cth), the Income Tax Assessment Act 1997 (Cth) and associated regulations.

1.6.2. The Member must also be familiar with any relevant accounting and auditing standards (including international standards) to the extent that they are applicable to the particular type of work covered by this Professional Standard.

1.6.3. If there is a conflict between this Professional Standard and any applicable legislation, the legislation takes precedence. In this context, legislation includes regulations, prudential standards, subordinate standards, rules issued by government authorities and standards issued by professional bodies which have the force of law.

1.6.4. A reference to legislation or a legislative provision in this Professional Standard includes any statutory modification, or substitution of that legislation or legislative provision and any subordinate legislation issued under that legislation or legislative provision. Similarly, a reference to a Professional Standard includes any modification or replacement of such.

2. Commencement Date

This Professional Standard applies to any relevant valuation on or after 1 October 2024

3. Definitions

3.1. In this Professional Standard:

'AASB 1056' means the Australian Accounting Standards Board's accounting standard AASB 1056 (Superannuation Entities).

'AASB 13' means the Australian Accounting Standards Board's accounting standard AASB 13 (Fair Value Measurement).

'Act' means the Superannuation Industry (Supervision) Act 1993 (Cth).

'Approved Auditor' means an auditor who is an "approved auditor" (as defined in section 10 of the Act), for the purposes of the Act.

'Asset' means an investment owned by the Entity from which future economic benefits are expected to flow to the Entity.

'Audited Value' means, in respect of some or all of the Entity's Assets, the value that has been placed on those Assets and in respect of which an unqualified audit opinion has been issued by an Approved Auditor.

'Code' means the Code of Conduct of the Institute.

'Dependent Assets' means Assets whose value for the purposes of the valuation depends wholly or partly on the ongoing viability and/or profitability of one or more stakeholders and may include Assets which are not considered to be In-house Assets.

'Disciplinary Scheme' means the document of that name prepared by the Institute setting out the rules and procedures governing professional discipline of a Member, as amended from time to time.

'Effective Date' means the date of the valuation of the Assets of the Entity.

'Eligible Actuary' means:

a. a Fellow or Accredited Member of the Institute; or

b. a Member who is eligible to act in an actuarial capacity pursuant to a requirement under legislation.

'**Entity**' has the same meaning as "superannuation entity" under section 10 of the Act.

'Fair Value' is as defined under AASB 13, which is consistent with the requirements of AASB 1056. Under AASB 13 Fair Value means the amount which could be expected to be received from the disposal of an Asset in an orderly market <u>before</u> deducting the Transaction Costs expected to be incurred in disposal of the Asset if it were to actually occur.

'In-house Assets' has the same meaning as set out in section 71 of the Act.

'**Intended User'** means any legal or natural persons (generally including the Client) whom

a. the Member intends to use the output of the Services, or

b. at the time the Member performs the Services, the Member ought reasonably to expect will use the output of the Services.

'Material' means relevant to a decision of an Intended User of the Services (clause 4 addresses 'Materiality' for the purpose of this Standard). For this purpose, 'Material' does not have the same meaning as in Australian accounting standards.

'Net Assets' means the Assets that are available to meet the liabilities being valued, after making appropriate adjustments for any accrual items such as receivables, payables and other provisions.

'Report' means a document prepared by a Member under this Professional Standard.

'Specialist Professional' means any person who is qualified by education, training or experience to provide advice on the value of one or more of the Assets of the Entity.

'Superannuation Fund' has the same meaning as set out in section 10 of the Act. '

'**Transaction Costs**' has the same meaning as set out in Appendix A of AASB 13.

'To disclose' means to include information within a written communication, such as a Report where one is prepared.

'To record' means to include information within working papers or other documentation, but this information does not need to be included in a Report.

3.2. A word that is derived from a defined word has a corresponding meaning.

3.3. Other capitalised terms used in this Professional Standard have the same meaning as set out in the Code.

4. Materiality

4.1. The Member must take Materiality into account when performing work under this Professional Standard.

4.2. Determining whether something is Material or not, or determining the threshold of Materiality, will always be a matter requiring the exercise of the Member's professional judgement. When exercising this judgement, the Member must:

a. assess Materiality from the point of view of the Intended User(s), recognising the purpose of the Services. Thus, a matter required to be considered under this Professional Standard, or an omission, understatement, or overstatement, is Material if the Member expects it to affect significantly either the Intended User's decision-making or the Intended User's reasonable expectations; and

b. consider the Services and the subject of those Services.

In setting a threshold of Materiality, a Member must consider any requirements advised by the Client, an auditor retained by the Client or a relevant regulator. Where those requirements result in the exclusion of a matter which would otherwise be included, the Member must disclose the reason for the exclusion, and its nature and extent.

4.3. If the Member has formed the opinion that a matter required to be considered is not Material, then the Member must record that the matter is not Material and provide reasons for forming that opinion but does not have to further consider that matter.

4.4. The Member must assess whether any omissions, understatements, or overstatements are Material. If the effect of these in aggregate is Material, the Member must disclose this in any Report to which it is relevant.

5. Principles for the Valuation of Assets

5.1. Purpose of the valuation

5.1.1. The Member must consider the purpose of the Asset valuation when selecting a valuation methodology. The bases used for the valuation of the Net Assets and the liabilities of the Entity must be consistent to the extent possible.

5.1.2. Where the value of the Net Assets used by the Member is Materially different from the Fair Value of the Net Assets, the Member must provide:

a. clear reasons for using a different value of the Net Assets;

b. an explanation of the valuation methodology and any assumptions used by the Member to derive the different value of the Net Assets used; and

c. an estimate of the impact of using the different value of the Net Assets.

5.1.3. For example, where an asset value is required in relation to a fund which is being wound up, it may be appropriate to allow for Transaction Costs on the assets. In this circumstance, that the fund is being wound up would be noted, as well as the source of information for the Transaction Costs, how assets were adjusted and the impact of allowing for the Transaction Costs on the Net Asset value.

5.2. Valuation approach

5.2.1. The Member may rely on an Audited Value of the Net Assets or of any individual Asset or accrual item as at the same date and use that Audited Value for the current purpose. If, having reviewed the financial statements and notes thereto, the Member is not satisfied with the suitability of the Audited Value of any Asset or accrual item for the current purpose, the Member must consider using a different value for that Asset or accrual item, otherwise any report or advice issued by the Member must be appropriately and prominently qualified.

5.2.2. Where the Member uses a value for the Net Assets or any individual Asset or accrual item that is Materially different from an Audited Value as at the same date, the Member must give clear reasons for the difference in value, including an explanation of the methodology and any assumptions used by the Member to derive a different value for the Net Assets or individual Asset or accrual item. In deriving a different value for the Net Assets or any individual Asset or accrual item, the Member must consider whether it is appropriate to obtain the advice of one or more Specialist Professionals.

5.2.3. Where an Audited Value is not available as at the same date, the Member must be satisfied that the value placed on the Net Assets or any individual Asset or accrual item is reasonable for the current purpose. If the Member is not so satisfied, any report or advice issued by the Member must be appropriately and prominently qualified. In deriving a value to place on the Net Assets or any individual Asset or accrual item, the Member must consider whether it is appropriate to obtain the advice of one or more Specialist Professionals.

5.2.4. In assessing an unaudited value for any individual Asset or accrual item, the Member:

a. may rely on an unaudited value of that Asset or accrual item if the Member is satisfied that the valuation is based on data and methodologies that are consistent with those used to determine a previously Audited Value (for example, where the valuation is based on unit pricing methodologies that have been consistently applied since the most recent audit of that Asset);

b. must consider any available advice from a Specialist Professional. The reasons for any departures from advice given by a Specialist Professional must be explained in any report or advice issued by the Member; and

c. must, if advice from a Specialist Professional is not already available, consider whether it is appropriate to obtain such advice.

5.2.5. Where the Member is not relying on an Audited Value of the Net Assets, the Member must give special consideration to a number of specific items and the valuation methodology applied, including:

a. future income tax benefits, including the generation of future taxable income to utilise the tax benefits as well as future changes to tax legislation and tax rates;

b. capital gains tax provisions;

c. Dependent Assets, including the extent to which such Assets should be excluded or discounted in value;

d. unquoted securities (such as direct property holdings, some unlisted shares or private equity investments, and certain “over-the-counter” derivative contracts), including the method used to value the securities (for example, based on the Member’s best estimate of future cash flows and a separate risk-adjusted rate for each Asset so valued);

e. illiquid Assets;

f. Transaction Costs, (including whether they would be allowed for in the Net Asset if an Audited Value were available);

g. Assets that have been valued with the assistance of a Specialist Professional;

h. insurance policies;

i. derivatives; and

j. significant individual Assets.

5.3. Materiality

5.3.1. The Member must not adopt an approximate approach to the value of any individual Asset unless such an approach will not have a Material impact on the total value of the Net Assets.

5.3.2. The Member must take due note of any Material events of which he or she is aware that impact on the valuation placed on any Assets, which events occur after the effective date of the valuation of the Net Assets and before the date of signing any report or advice issued by the Member. The Member must also include, in any report or advice issued by him or her, a disclosure regarding any such events and what (if any) allowance has been made for the impact of these events.

5.4. Impact of legislation

Where any particular Assets may breach, or are otherwise inconsistent with, any relevant legislation (for example, certain In-house Assets, geared investments, loans to members or assets purchased from members), the Member must consider:

a. the likelihood of a forced sale of such Assets for compliance purposes;

b. the impact of a forced sale on the value of such Assets; and

c. the impact on the total value of the Net Assets of continued non-compliance with the relevant legislation.

5.5. Disclosure

The Member must disclose so much of the following as is relevant within any report or advice issued by him or her that utilises a valuation of Net Assets, as well as any additional information that is Material in the circumstances:

a. where the Member is relying on audited Asset information - the Audited Value of the Assets (or Net Assets); the effective date of the audit; any Material qualifications identified in the audit report that impact on the value of the Assets; and any other qualifications the Member regards as being appropriate to disclose in the circumstances;

b. where audited Asset information is not available or is not being relied upon - the Member’s own estimate of the Fair Value of the Assets (or Net Assets); a brief description of the method used; the source of the data used; and any opinion that has been relied upon. The Member must state that such a valuation has not been audited;

c. where a value other than the Fair Value of the Assets (or Net Assets), either estimated or audited, is used - the reasons for using a different value; the extent of any deviation from the Fair Value of the Assets (or Net Assets); and an estimate of the impact of using the different value of the Assets (or Net Assets) on the results of the actuarial investigation;

d. a brief description of any special valuation methodology applied in relation to particular Assets, such as those listed in clause 5.2 above;

e. a breakdown of the Net Assets into asset classes that the Member considers to be Material for the purposes of the valuation; and

f. any special considerations used in the valuation of the Net Assets, such as any Assets that fail to comply with any relevant legislation, any mismatching reserves and any unusual Transaction Costs.

END OF PROFESSIONAL STANDARD 404