

EXPLANATORY MEMORANDUM TO PROFESSIONAL STANDARD 101 INVESTMENT PERFORMANCE MEASUREMENT AND PRESENTATION

March 2020

1. About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Professional Standard 101 Taskforce to assist Members in understanding the revised Professional Standard 101 – Investment Performance Measurement and Presentation.

2. Purpose of Standard

The purpose of PS 101 is to specify requirements for actuaries providing advice concerning the measurement and presentation of investment performance. It is acknowledged that investment performance is used for a range of purposes in several different practice areas, so requirements will vary depending on the use and/or practice area.

3. Reason for Change

The previous version of PS 101 was issued in 1997. A number of market developments have necessitated a review, including the development and use of the Global Investment Performance Standards (GIPS), new disclosure standards for financial products and the wide range of uses for performance measurement. Given the previous version of PS 101 was issued many years ago, all sections of PS 101 have been substantially rewritten.

This version of PS 101 also incorporates additional conformance changes to align with the Institute's new Code (effective 31 March 2020).

4. Objective of the Standard

It is expected that compliance with this Standard will result in investment performance disclosure which is of a high standard, is impartial and "fit for purpose".

The Standard has been formulated so that compliance will also lead to the following outcomes:

- (a) Different actuaries will arrive at materially similar results for the same purpose using the same data.
- (b) Disclosure of investment performance will be accompanied with appropriate information that clarifies the nature of the investment performance measurement, including the purposes for which the work is being carried out and whether the Standard is being followed.
- (c) Actuaries are able to tailor the investment performance measurement to the requirements of the circumstances involved.
- (d) Actuaries are able to provide returns required by legislation even if the actuary believes such returns may be misleading.

5. Structure of the Standard

Following the introductory sections and overview, Section 4 covers key inputs to the calculation of investment performance such as valuations and tax – these issues apply to performance measurement in all practice areas.

Section 5 then presents requirements related to the main uses of performance measurement and performance comparison. These are particularly relevant to the investments practice, but also relate to other practice areas.

Section 6 addresses specific uses in superannuation such as valuations, calculation of personal rates of return and certain disclosure requirements.

Section 7 includes a short description of how performance relates to general and life insurance and then some requirements on the main uses of performance measurement in insurance including comparison of actual versus expected performance in valuations, and profit and loss reporting.

6. Feedback on Exposure Draft

The Exposure Draft with an accompanying Explanatory Memorandum was released for member consultations on 20 December 2018.

Two pieces of written feedback were received from individual Members by the Taskforce but, given the potential impact of the Standard on every Practice Area, the Taskforce and the PSC decided that further input should be sought from each Practice Committee. Feedback was received from the Superannuation Practice Committee, the Life Insurance and Wealth Management Practice Committee, the Superannuation Projections and Disclosure Sub-Committee and other Members associated with these Committees. In general, there was support from the Practice Committees for the Exposure Draft but some changes were suggested.

The main points raised in the feedback were as follows:

- a) Include commentary on the inclusion of a reasonable accrual of performance fees in most uses of investment performance measurement;
- b) Soften the language around considering longer term investment performance to reflect that there are some valid uses for the comparison of short term investment performance;
- c) Add a requirement for an explicit statement as to the inclusion or otherwise of franking credits in a benchmark used for comparison;
- d) Make the requirement to compare investment portfolios with similar levels of risk, less prescriptive;
- e) Clarify the use of asset-weighted versus time-weighted investment performance measurement for certain purposes.

- f) Allow the use of investment performance measurement that is other than 'net of investment fees and tax' where it is more appropriate for the purpose (and when this different performance measurement is disclosed), as well as the existing exception when there is a legal requirement to do so.

These suggestions were incorporated into the final version of Professional Standard 101.

7. Commencement date

The commencement date of this Professional Standard is 31 March 2020.

END OF EXPLANATORY MEMORANDUM