



PROFESSIONAL STANDARD 404: VALUATION OF SUPERANNUATION FUND ASSETS

EXPLANATORY MEMORANDUM

April 2009

Introduction

On 1 March 2006, the Institute issued a Policy for Drafting Professional Standards (the "Policy") which was subsequently amended in June 2006. The Policy is designed to ensure that all Professional Standards use consistent and objective terminology such that mandatory duties and requirements for members are clearly defined and understood.

As a result, all existing Professional Standards and Guidance Notes are to be re-drafted in accordance with the Policy as either a Professional Standard or Practice Guideline.

The Superannuation and Employee Benefits Practice Committee ("SEBPC") has developed Professional Standard 404 to replace Guidance Note 463 (Valuation of Superannuation Fund Assets – November 1999) ("GN 463") in accordance with the Policy.

Professional Standard vs Practice Guidelines

Members' attention is drawn to the fact that a Professional Standard:

- ▶ details mandatory practice requirements (including the duty to exercise a discretion and a duty to properly explain an exercise of such discretion) in an area; and
- ▶ contains principles and/or directions from which it would be unprofessional to depart.

By contrast, a Practice Guideline is issued to formally capture and document generally accepted actuarial practices and technique to assist members to deliver competent Professional Services. Practice Guidelines are non-mandatory, not connected to Professional Standards and must not be used to interpret a Professional Standard.



Consultation

In November 2008, a discussion draft of the proposed standard was issued for member comment. Two submissions were received raising questions in relation to:

- ▶ the current status of AASB proposals to replace AAS 25 with provisions which are more closely aligned with International Accounting Standards (proposed in the Paper on Fair Value Accounting and the Consolidation of Subsidiaries by Superannuation Entities issued by the AASB Nov 2007); and
- ▶ the application of clause 4.1.1 in relation to valuations for AASB 119 and AAS 25 purposes (where an accounting standard requires particular bases to be used for the valuations of the Assets and the liabilities of an Entity that are not consistent, clause 4.1.1 is satisfied "to the extent possible").

SEBPC responded to both submissions and no changes to the proposed standard were considered necessary. However, a number of refinements were made to the wording of PS 404 following further consideration by the SEBPC and the Professional Standards Committee (PSC). These were not considered to be significant enough to warrant the issuing of a further Exposure Draft. One of these refinements was:

- ▶ where the Member is relying on an Audited Value of the Net Assets or of any individual Asset or accrual item, the Member will not be required to be satisfied that the "methodology and assumptions used to determine the Audited Value" are suitable for the current purpose (as this was deemed to be an overly onerous requirement in many circumstances and it was considered appropriate that the Member should be able to rely on an Audited Value).

However, while the Member is not expected to undertake a significant amount of work reviewing an Audited Value, it is still expected that the Member would need to be satisfied that the Audited Value of the Net Assets or of any individual Asset or accrual item is suitable for the current purpose. As such, Professional Standard 404 requires that if, having reviewed the financial statements and notes thereto, the Member is not satisfied with the suitability of the Audited Value of the Net Assets or of any Asset or accrual item for the current purpose, the Member must still consider using a different value for that Asset or accrual item (refer to paragraph 4.2.1).

Changes from Guidance Note 463

As noted in the Explanatory Memorandum to the Discussion Draft of the proposed standard issued in November 2008, the SEBPC has taken the view that there is a wide and general consensus within the Profession as to the principles to be adopted when a Member is required to value the assets of a superannuation entity. As a result, in developing Professional Standard 404, the aim was to:



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- ▶ reflect the standardised terminology and structure that now applies to the Institute's Professional Standards under the Policy; and
- ▶ create a professional standard focused on principles.

The major changes in Professional Standard 404 from the previous GN 463 are:

- ▶ replacement of the word "should" with the word "must". This change reflects the mandatory nature of the Professional Standard as required under the Policy; and
- ▶ the removal of explanatory examples of principles which might be seen as being more in the nature of guidance and inconsistent with a document that sets out mandatory duties as required under the Policy.

Commencement

Professional Standard 404 commences on 17 April 2009.