

**EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT OF
PROFESSIONAL STANDARD 400:
INVESTIGATIONS OF THE FINANCIAL CONDITION OF DEFINED BENEFIT
SUPERANNUATION FUNDS**

December 2014

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation Practice Committee ("SPC") to assist Members in understanding proposed changes to Professional Standard 400 (Investigations of the Financial Condition of Defined Benefit Superannuation Funds) ("PS 400").

Proposed changes

The key proposed changes to PS 400 include changes to:

- ▶ ensure PS 400 is consistent with SPS 160 (Defined Benefit Matters) issued by APRA in relation to defined benefit funds and self insurance;
- ▶ the definition of "Vested Benefit"; and
- ▶ ensure PS 400 is consistent with the valuation of assets under Professional Standard 404 (Valuation of Superannuation Fund Assets).

The proposed changes also update the current PS 400:

- ▶ in accordance with the Policy for Developing Documents to Guide and Regulate Professional Practice; and
- ▶ for changes to the superannuation environment and actuarial practice in this area.

Interim and APRA-directed investigations

As Members would be aware, the current version of PS 400 does not apply to interim investigations of the financial condition of a fund or to an investigation undertaken at the direction of APRA.

The reason for this is that the circumstances of such investigations may vary widely, so that it is not possible to be definitive on exactly which of the PS 400 requirements are relevant for such investigations. Given the tight timeframes for such, the work would be uneconomic in the absence of the exception. Whilst the SPC's intention, in the longer term, is to either modify PS 400 or develop a Professional Standard covering such investigations, there is a view that, until this occurs, the relevant principles within PS 400 should in some way be referenced in relation to these additional types of investigations.

One possible way to address this might be to amend clause 1.1.1 and include a new clause 1.1.3 as shown overleaf:

“1.1.1 This Professional Standard applies to an initial or regular actuarial investigation (but, subject to clause 1.1.3, not an Interim Investigation or an investigation undertaken at the direction of APRA) of the financial condition of:

- (a) a Fund required under SPS 160;
- (b) a Self Managed Superannuation Fund under Division 9.5 of the SIS Regulations; and
- (c) a Public Sector Superannuation Scheme.

...

1.1.3 Where a Member is conducting an interim investigation or an investigation undertaken at the direction of APRA, the Member must consider the principles in this Professional Standard to the extent the Member considers they are relevant.”

The SPC welcomes any specific feedback from Members on this matter, including:

- (a) do Members consider that, pending the development of a relevant Professional Standard, some direction with respect to such investigations is warranted;
- (b) if so, what aspects of PS 400 would be relevant;
- (c) the optimal way in which to provide such direction; and
- (d) whether Members consider the suggested new clause above provides sufficient direction to Members as to the expectations and standards for interim investigations or whether it may lead Members to undertake more work than necessary.

Consultation

The SPC would appreciate Members' views on the proposed changes to PS 400 and the issues raised above concerning interim and APRA-directed investigations. To assist Members, both clean and marked up copies of the proposed revised PS 400 have been provided.

Comments should be sent by the **close of business on Friday, 30 January 2015** to:

Anne Peters
Director – Governance and Regulation
Actuaries Institute
Level 2, 50 Carrington Street
Sydney NSW 2000

Email: anne.peters@actuaries.asn.au

Fax: (+612) 9233 3446

END OF EXPLANATORY MEMORANDUM