



Unitisation, Governance and Control Cycles

Jules Gribble

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APRA/ASIC Guide (Nov 2005)

- Positive step forward
- ‘Good’ vs ‘Best’ practice
- Avoids policy prescription
- Emphasis:
 - Governance – lightning rod
 - Risk management
 - Documentation
- Working document

APRA/ASIC Guide - Principles

- Best estimate at time is OK
- Recognises unitisation not precise
- Clarity
 - Forward UP's
 - Spreads
- Specific focus on value (vs UP)
- Depends on implementation
 - Key is attitude not rules



Underlying Principles

- Value
- Equity
- Independence - Individual investors
- Best estimate - At the time
- Group - Accept impact of joining
- Practical & robust – Stress resilient



Example – Buy/Sell Spreads

- Argument: Cover investor t/a costs
 - Realistic estimate
- Not having is inequitable
 - First in, last out, no market movement
- Other investment transactions
- Group principle
- Immaterial
 - Market timing poor practice
 - Long term investment horizon



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Governance

Who is in Charge

- Game at higher level - transparency
- Trustees
 - Not ...
 - Fiduciary duties
- Policy governance
 - Separation of roles
 - Implementation – delegation
 - Managing – reporting, accountability



Functional Chain

- Product development
- Marketing, disclosure
- Investment policy and Fund Manager
- Asset custody and valuation
- Investor administration and processing
- Investor reporting, performance
- ***Determination of unit prices***
- Taxation policies
- Error detection and management
- IT systems and support
- Accounting and financial reporting



Determining Unit Pricing

- UP system and methodology
- Input parameters to UP system
- Underlying investor transaction data
- Fund manager data and processes
- Policies and procedures
- Performance review/comparison
- Sign-offs and accountabilities
- UP use by admin systems
- Error fixes

Governance Aspects

- Board - risk tolerances
- Risk management
- Compliance
- Internal Audit
- External Audit
- External expert review
- CGO = Chief Governance Officer ...

Practical Implementation

- People and culture
- Policy clarity
- Systems and procedure
- Control and monitor
- Errors – which issues are key
- Regular independent reviews



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Unit Pricing Errors



Errors Will Happen

- Read the paper – reporting issue?
- The world is not a riskless place
- $P[\text{'error'}: 1 \text{ calc, 1 period}] = 1 \text{ in a million}$
- Number calcs per period = 10,000
- Period = Day
- $P[\text{at least 1 'error' in longer period}]$
 - 1 month (20 workdays) = 18%
 - 1 year (230 workdays) = 90%

Error Fixes

- Cap the symptoms
- Identify to the problem
- Quarantine historic data
- Validate historic data
- Compute individual value differences
 - Varying subgroup impacts – clawback?
- Attribute
- Communicate



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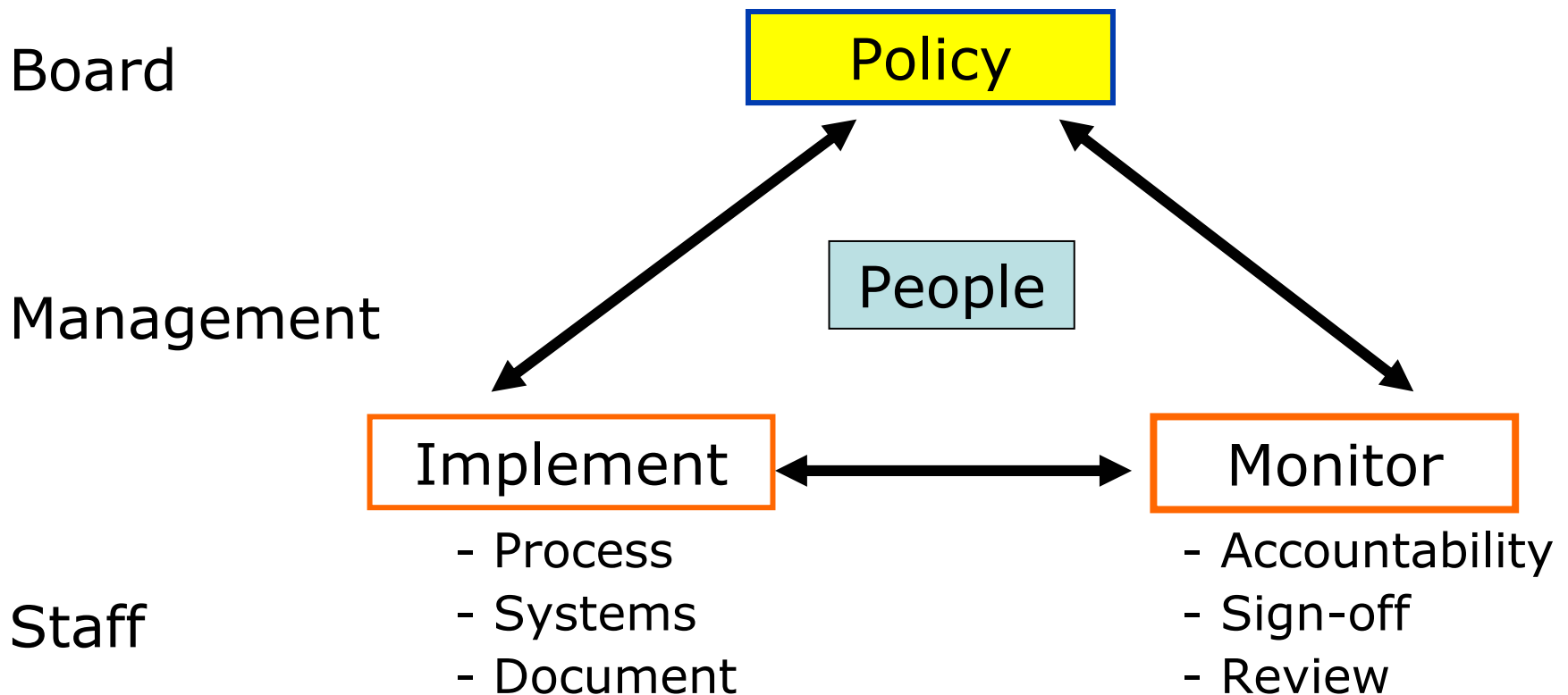
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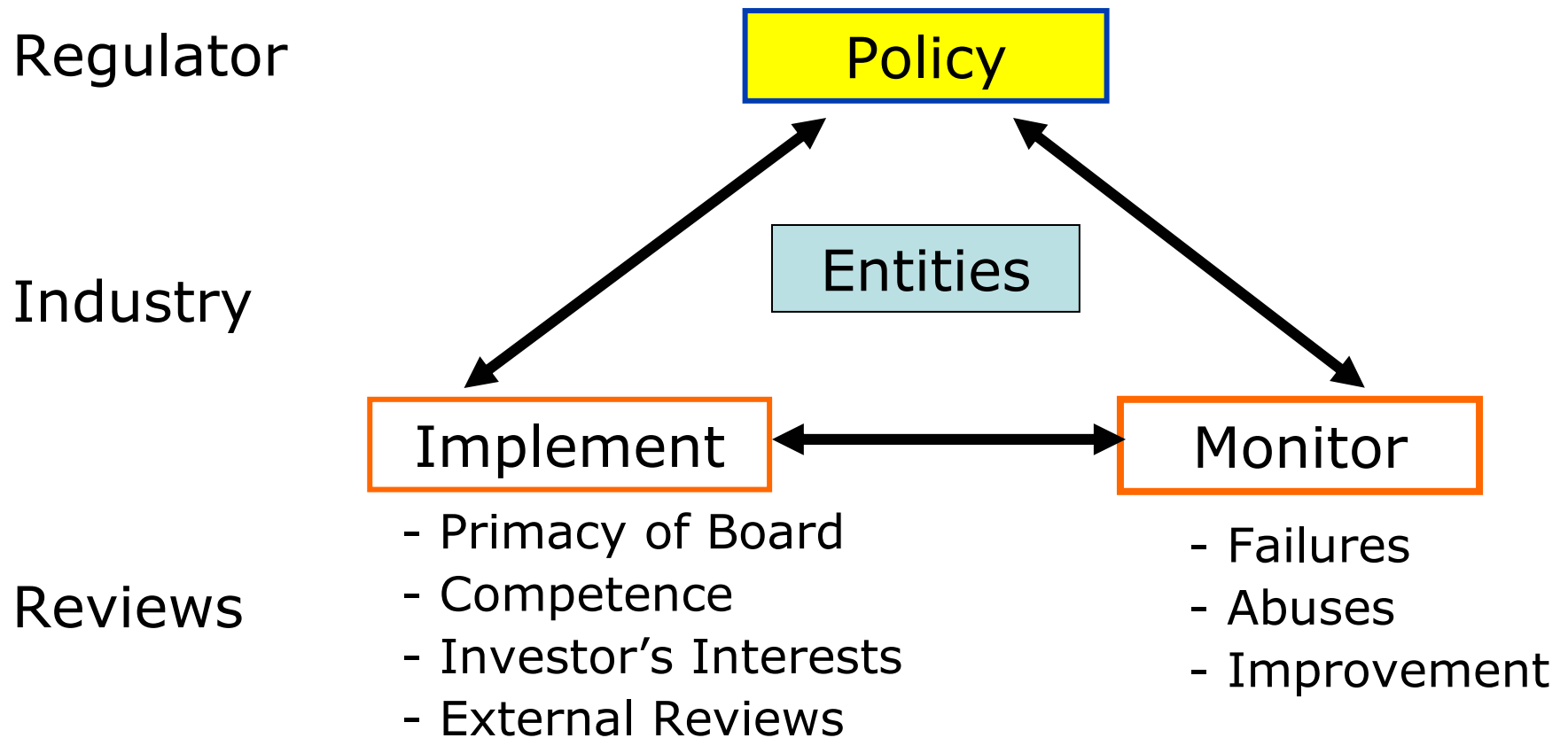
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Control Cycles

Unit Pricing Governance



Unit Pricing Regulation

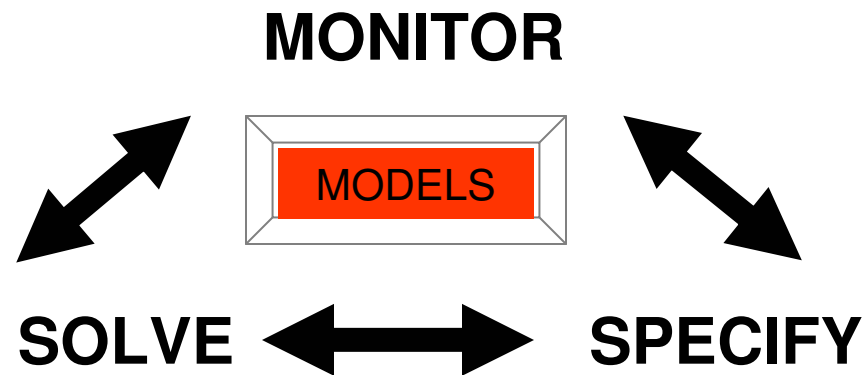




Actuarial Capabilities

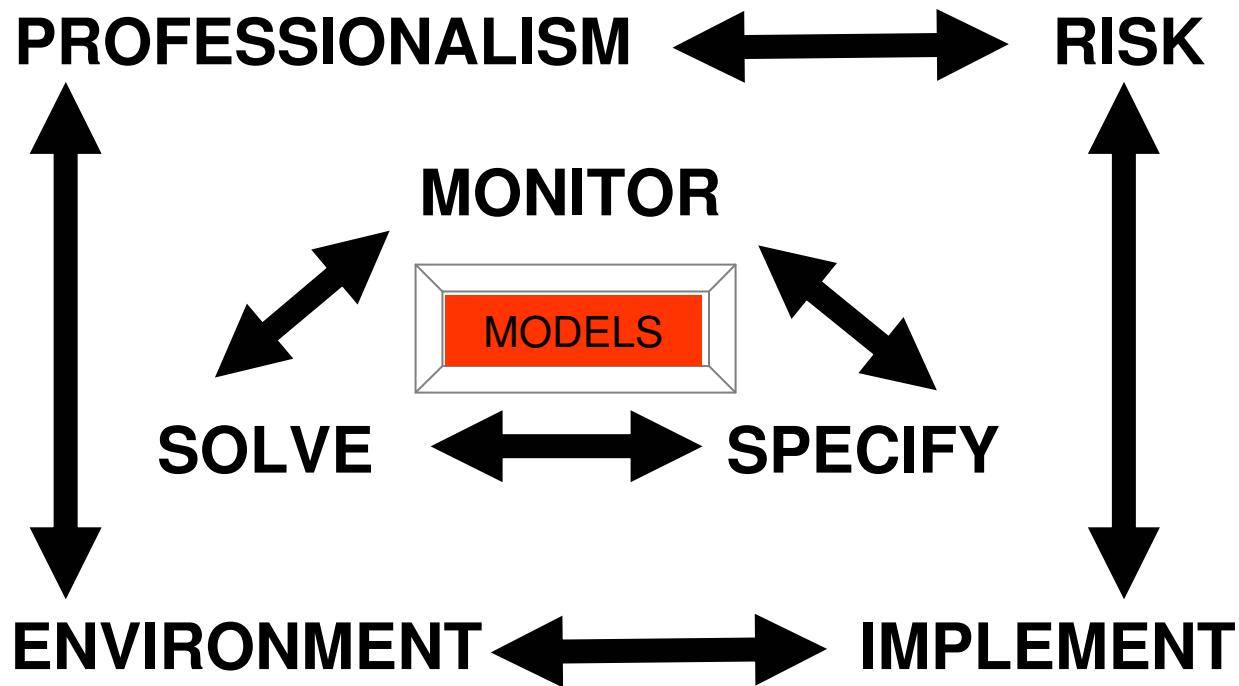
- Cognitive
- Expertise
- Actuarial Judgement
- Innovative & Flexible
- Rigour & Holistic
- Strategic
- Integrity
- Personal Management
- Influence and interpersonal Skills
- Communication
- Business Acumen

Analytic Cycle



- The 'techie' stuff
- Important, but not the whole game

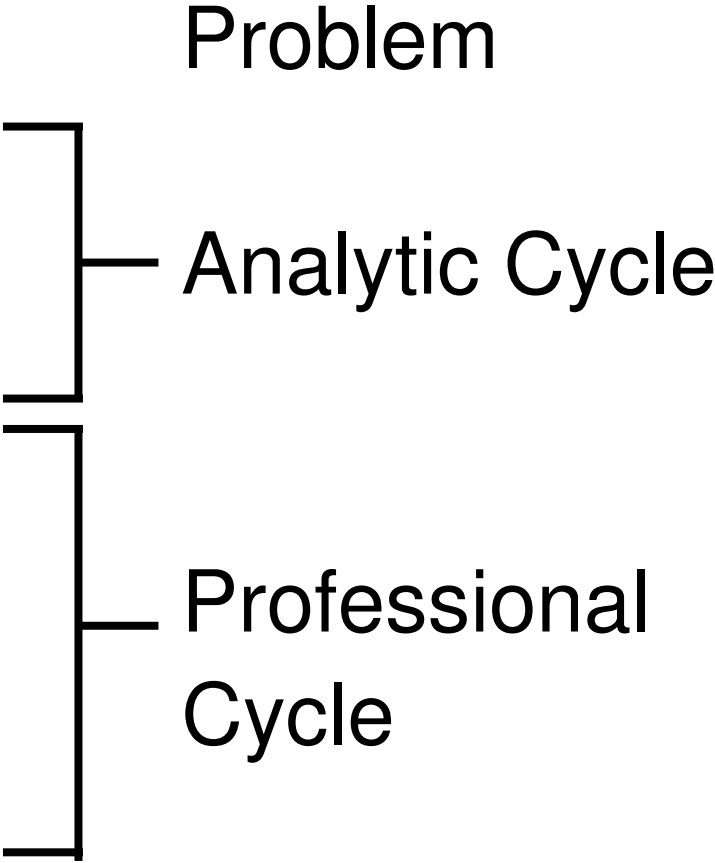
+ Professional Cycle



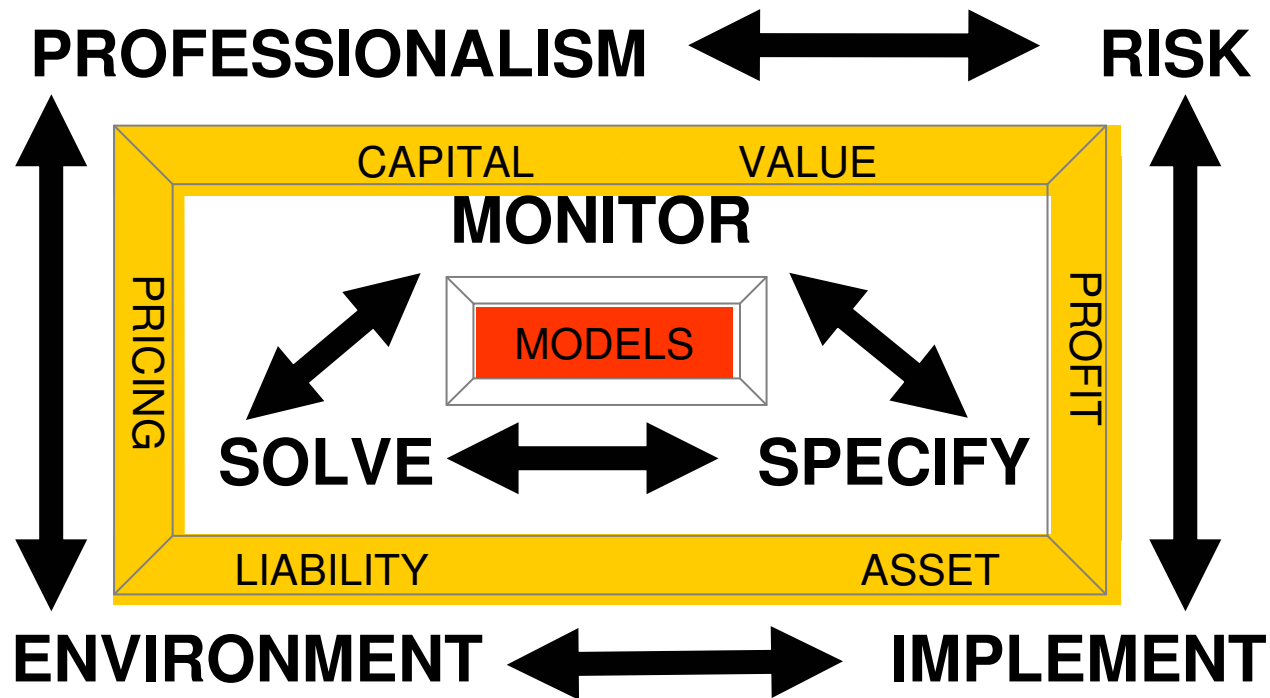
- Put into business context
- Who is the audience

= Actuarial Control Cycle

- Model
- Specify
- Solve
- Monitor
- Environment
- Professionalism
- Risk
- Implementation



+ Apply to Financial Services = Actuarial Control



Actuarial Practice

Identify the Problem

Models

+ Analytic Cycle

+ Professional Cycle

= Actuarial Control Cycle

+ Application to Financial Services

= Actuarial Control

+ Actuarial Capabilities

= Actuarial Practice

How Actuaries Add Value

- Analytic Cycle
 - Identify, Solve, Monitor
- Professional Cycle
 - Standards, Risks, Implement, Environs
- Apply in business team environment
- Communicate and advise
- Actuarial Practice and Control (Cycle)



Summary

- Easy bit
 - Design unit price computation
- Hard bit
 - Get the right answer to the investor
- Devil in the detail
 - Importance of individual investor
- Real actuarial work
 - Equity, materiality, judgement

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