

## Senate Standing Committee on Economics

### ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

19 – 20 October 2011

Question No: SBT 825

Topic: Fund Valuation and Unit-pricing Policies

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Senator Bushby asked:

Senator BUSHBY: And that is the only enforcement action that you have taken generally in terms of that policy—sending out letters?

Mr Jones: On that particular issue?

Senator BUSHBY: In terms of the fund valuation and unit pricing policy.

Mr Jones: The valuation issue is something that trustees are expected to have an understanding of all the time. It also depends upon the nature of their assets. If the assets are assets that it is harder to get valuations on—for example, infrastructure assets—there are certain processes they are required to go through to get those valuations and so on.

Senator BUSHBY: What I am interested in—and I am happy for you to take it on notice—is how often you have had to take action after identifying that that policy is not being fully complied with.

Mr Jones: In terms of what I would loosely describe as formal enforcement action, issuing direction, I think the answer would be none. But in terms of—

Senator BUSHBY: I am interested in those where you have had to intervene in some way—once again, I do not want details of individual funds.

Mr Jones: Okay.

Answer:

APRA does not prescribe valuation and unit pricing practices and typically its discussions with RSE trustees relate to better practices or policies rather than required actions. Essentially fund assets, including investments, are required to be valued in accordance with the relevant professional accounting standards (eg fair value) and valuations are subject to annual audit by an approved auditor. What APRA, together with ASIC, produced (in 2005 and updated in 2008) is industry guidance, that is, the *APRA/ ASIC Joint Guide: Unit Pricing, Guide to Good Practice*. This guide promotes acceptable principles and the application of good pricing practices and is a good starting point in our discussions with trustees. This area would be covered in most prudential reviews, particularly if a fund has significant holdings of unlisted or otherwise 'difficult to value' assets. Both APRA and the accounting profession recognised an industry-wide concern in relation to such assets, particularly as the extent of unlisted investments increased and investment markets experienced greater volatility

since 2008. As a result, and after consultation with valuation experts from the large accounting firms, APRA issued further guidance outlining its expectations via letters to all APRA regulated trustees in April 2009 ([Letter to Trustees: Valuation of unlisted assets - General Principles for trustees](#)) and August 2010 ([Letter to Trustees: Valuation of unlisted assets - Industry Alert](#)).

Notwithstanding the above limitations there have been examples, as set out in the table below, of specific supervisory actions under this heading that have been captured under APRA's supervisory reporting framework. These numbers do not include recommendations and suggestions that individual APRA supervisors have raised with trustees as part of routine supervision activities.

Valuation and unit pricing issues since 2007		
Fund Type	Requirement	Recommendation
Corporate	2	2
Industry	3	7
Public Sector	-	-
Retail		3
Total	5	12