

## APRA warns super funds on unlisted asset valuation issues

20 April 2009 | by Lucinda Beaman



The **Australian Prudential Regulatory Authority** (APRA) has weighed in on the valuation of unlisted assets within superannuation funds after a considerable period of industry debate on the issue. The regulator sent a letter to superannuation trustees last week to clarify its expectations on the matter, which include obtaining frequent revaluations from appropriate sources.

APRA also outlined a number of “unacceptable valuation practices” it has observed taking place in some super funds.



APRA said it had observed super funds that obtained a number of external valuations on unlisted assets before selecting the most favourable one to adopt, a practice the regulator called ‘valuation shopping’.

The letter from the regulator also pointed to super funds that had ‘smoothed’ returns by recognising increments and decrements in fund valuations over time, rather than when these movements were actually identified. The regulator said it expects trustees to apply the latest available valuation for the calculation of performance.

Other concerns identified by APRA included a lack of trustee independence in the valuation process. APRA warned that there should be an “adequate segregation of duties” between staff involved in the asset management process and those involved in the approval process for adoption of the valuation. Where reliance is placed on valuations provided by the investment manager, trustees need to be able to demonstrate how they are “effectively mitigating the potential conflict of interest that arises”, the regulator said.

APRA considers it good practice for trustees to have in place a nominated body, such as a valuation committee or similar, to oversee the valuation process.

On other matters, some trustees are relying too heavily on investment manager valuations without appropriate validation being performed. Some trustees have also appointed investment managers without considering their valuation policies and processes, followed by a continuing ‘lack of awareness’ on the issue, APRA said.

On the frequency of valuations, APRA said valuations for unlisted assets must be “updated regularly, particularly in times of market volatility”. The regulator told trustees there must be a clear basis for determining the frequency of valuations as well as a clear policy that indicates when immediate revaluations, outside the periodic valuation schedule, are needed. Trustees must also outline the events and circumstances upon which the assumptions the underlying valuation are based on would need to change, which could potentially result in a revaluation of the underlying asset.

Valuations of ‘appraisal based’ assets can have a critical impact on members, APRA said, as a result of their relative illiquidity and infrequency of valuation in an environment of ongoing contributions and withdrawals from members.