

Article Information

Authors: Alasdair McLean, Oscar Ruane

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Valuations of fund assets in times of ongoing uncertainty

ASIC has released guidance on its expectations for valuations of managed fund assets during the current period of heightened economic uncertainty caused by the COVID-19 pandemic.

While ASIC recognises that participants in the Australian financial services sector are under enormous pressure at this time, ASIC's interim corporate plan for 2020-2021 confirmed that a key area of focus for the regulator will be to identify:

- managed investment schemes where assets are not being appropriately valued;
- managed investment schemes where there is misconduct arising from valuations; and
- areas for potential revision of existing guidance on valuation practices.

The issues

The obligations of a fund manager to ensure that there are regular and appropriate valuations of fund assets comes from a number of sources, including:

- the valuation and reporting obligations set out in the fund documents;
- the statutory obligation of a responsible entity to exercise a reasonable degree of care and diligence (which is also imposed under general law on trustees);
- the statutory obligation of a responsible entity to act in the best interest of members of the fund;
- the statutory obligation of a responsible entity to ensure scheme property is valued at regular intervals appropriate to the nature of the property; and
- the statutory obligation of an Australian financial service licensee to carry on their financial services business efficiently, honestly and fairly.

In addition, an accurate valuation of fund assets, including illiquid assets, is required for a number of specific purposes in relation to the proper running of a fund, including:

- performance measurement;
- pricing of specific assets;
- unit pricing; and
- financial reports required by the *Corporations Act 2001* (Cth).

ASIC's expectations

ASIC's current focus is to ensure that fund managers ensure that valuations of their managed fund assets are regular and reasonably current having regard to the nature of the assets. That said, ASIC recognises that in the current landscape, fund managers will face a number of difficulties in carrying out valuations, including:

- difficulties in obtaining appropriate comparable data for valuation of illiquid assets;
- uncertainty around cash flow forecasts; and
- the selection of an appropriate discount rate.

ASIC's view is that fund managers will consequently need to:

- carry out valuations at a higher frequency than normal to ensure accurate valuations (and therefore unit prices) are

maintained;

- promptly write down assets, should the cash flows of an asset be negatively impacted by COVID-19 restrictions;
- consider whether past performance and historical inputs are still reflective of future outcomes;
- ensure that valuation policies are regularly reviewed by the senior management and the board of the fund manager; and
- ensure that valuations are carried out by unbiased valuers and valuers are periodically rotated.

Further, ASIC expects fund managers to ensure that they provide their members and investors with timely, full and fair disclosure of asset values, together with details of the processes they are implementing to support the valuations, given the current circumstances and uncertainties caused by COVID-19. Where valuations are uncertain for a material proportion of a fund's assets, ASIC suggests that this may require a temporary suspension of both unit pricing and entry and exit from the fund.

Other considerations

It will be important for fund managers to carefully consider the terms of their fund documents when taking action on asset valuation. Relevant issues to consider will include:

- timing of valuations that are permitted or required under the fund documents;
- rules for valuations under the fund documents (such as particular valuation methodologies that are required to be followed);
- any updates to valuation guidelines issued by industry bodies that may have been published in light of the current COVID-19 environment; and
- the nature of the assets and the purpose for which the valuations are being used.

Where relevant, fund managers should also consider whether steps will need to be taken to amend the fund documents to better adapt the administration of the fund to a new environment and to better meet the expectations of the regulator and investors.