

**HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS
REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS
SUPERANNUATION SECTOR**

Colonial First State – CBA Group

CFS7QW: A copy of your asset valuation policy (covering amongst other things independence of valuation, managing conflicts of interest, frequency of valuation, publication of latest valuation timings to members etc).

Answer: The below superannuation funds operated by Colonial First State Investments Limited (CFSIL) are valued on a daily basis. See attachment CFS7QW1 for a copy of the valuation policy.

- Colonial First State FirstChoice Superannuation Trust
- Colonial First State Rollover & Superannuation Fund
- Commonwealth Essential Super
- Colonial First State Pooled Superannuation Trust

Avanteos Investments Limited (AIL) does not have an asset valuation policy because of the structure of the fund as a Wrap. Investment options are generally priced daily and prices are given to the RSE and IDPS Operator by third parties. For unlisted investments, some valuation information is received through Morningstar and other information is provided directly by the fund manager. The price for these investments is updated manually using the latest price. Every three months the pricing and valuation of unlisted investments is reviewed to ensure that they are being priced appropriately.



Colonial First State Investments Limited
ABN 98 002 348 352
AFS Licence Number 232468

Asset Valuation Policy

DOCUMENT CONTROL TABLE

Version	Date	Amendment description / review details
7.1	September 2013	Annual review
7.2	August 2014	Annual review
8.0	November 2015	Policy updated to reflect new framework
9.0	August 2016	Annual review
10.0	October 2017	Annual review
11.0	December 2018	Annual review

APPROVAL

Version	Date	Approving body or person
11.0	December 2018	Executive General Manager, CFSIL

REVIEW

Title	Review Criteria
General Manager, Fund Services	Owner
Head of Investment Operations	Reviewer
Head of Fund Accounting	Reviewer
Head of Fund Operations	Reviewer
Head of Investments	Reviewer
Head of Risk, Fund Services	Reviewer
Head of Tax	Reviewer
Manager Asset Valuation and Data	Reviewer

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1. Glossary of terms

Key Term/ Abbreviation	Definition
BARC	The Board Audit and Risk Committee of CFSIL, the members of which are the independent directors
Board	The Directors of CFSIL acting as a Board
CFSIL	Colonial First State Investments Limited
EGM	Executive General Manager of CFSIL
FVPC	Fair Value Pricing Committee
Group	Commonwealth Bank of Australia and its subsidiaries
IPO	Initial Public Offering
Policy	The Asset Pricing Valuation Policy
SOP	Standard Operating Procedure

2. Purpose

The purpose of this document is to outline the relevant framework in respect to asset valuation adopted by Colonial First State Investments Limited (CFSIL). The Asset Valuation Policy (Policy) outlines guidance with respect to the valuation of assets held within managed investment schemes, investment options, trusts or investment mandates which CFSIL act as responsible entity, trustee or administrator.

3. Background & Scope

The valuation of assets and liabilities is the key determinant of the net asset value of managed investment schemes, investment options, trusts or investment mandates managed or administered by CFSIL. The valuation of managed investment scheme, trust or investment mandate assets and liabilities is also a determinant of entitlements due to CFSIL acting as responsible entity, trustee or administrator. The Policy aims to:

- Specify the principles to be adopted;

- Outline the supportive framework and governance for the principles adopted;
- Provide guidance in the interpretation and application of those principles; and
- Provide transparency and proper disclosure around the asset valuation framework.

4. Principles of Asset Valuation

The Policy has been developed in accordance with industry best practice and with reference to the below documents:

- *Regulatory Guide 94 Unit Pricing: Guide to Good practice* - Jointly issued by the Australian Securities and Investments Commission and the Australian Prudential Regulatory Authority;
- *FSC Standard Number 9 – Valuation of Scheme Assets and Liabilities* - Issued by the Australian Financial Services Council;
- *Australian Accounting Standards Board (AASB 07) – Fair Value Measurement; and*
- *Australian Accounting Standards Board (AASB 13) – Fair Value Disclosure.*

Asset valuation policies, procedures and practice must also be consistent with the documentation governing the operation of each managed investment vehicle, accompanied with relevant legislation and regulations. When there is a conflict between these governing documents, legislation/regulations and the Policy, the requirements set by legislation will prevail.

4.1 Procedures and processes are accurate and reviewed on a regular basis

To ensure asset valuations are consistent, accurate and affirm best practice the following procedures, systems or controls must exist:

- A dedicated asset pricing team (the “Asset Pricing Team”) with separated functional responsibilities;
- Asset prices being sourced from regulated market exchanges or independent pricing vendors;
- Comparison of asset prices between multiple vendors and/or sources when available;
- Where appropriate, vendor pricing hierarchies are used;
- Exception based pricing as designated by system tolerance limits;
- Automation of asset pricing processes where reasonable to reduce manual entry; and
- Review of asset pricing policies and procedures on a regular basis.

4.2 Procedures and processes are applied consistently

Consistency in the asset valuation must be achieved through the following methods:

- Assets are valued using the most recently available price from independent data vendors;

- Where assets are traded on more than one regulated market, the primary market is to be used for asset valuation;
- Valuation of assets and liabilities must be independently verifiable;
- Valuation of assets and liabilities are objective and not subject to undue influence by the scheme operator (or associate) (refer section 12.3 of FSC 9)
- System tolerance limits designed to reduce the level of manual entry and subjectivity; and
- A dedicated asset pricing team with clear asset valuation responsibilities.

4.3 Procedures and processes are documented and transparent

CFSIL achieves transparency of asset valuations by:

- Use of documented and regularly reviewed SOPs;
- Use of documented and regularly reviewed vendor hierarchies;
- An established Fair Value Pricing Committee (FVPC) (refer section 6.23) with broad business representation;
- Documentation of fair value decisions and communication to affected parties.

4.4 Policies and procedures are applied on a going concern basis

- CFSIL applies policies and procedures on a going concern basis unless the Fair Value pricing Committee (FVPC) determines this is not appropriate (refer to section 12.3 of FSC 9).

5. Asset Valuation Framework

5.1 Process Review Requirements

All assets valued as per the Policy must be completed by a minimum of two staff, one as the processor and the second as a reviewer. A complete asset pricing checklist is to be completed each day that asset pricing is performed.

5.2 Reporting Requirements

All asset pricing reports are to be collated on a daily basis, including a daily sign-off checklist and all necessary information as required by both legislative and audit requirements.

Financial statements must be prepared using prices which are compliant with AASB requirements.

5.3 Daily Completeness

A daily checklist is to be completed to ensure all documented deliverables have been met.

5.4 Policy Awareness

All members of the Asset Pricing Team, FVPC and reviewers of the Policy must read and understand the policy on an annual basis or as appropriate. The Policy must be readily accessible to the appropriate staff.

5.5 Fair Value Pricing

Where a security price cannot be independently sourced from independent vendors and asset valuation methodology is not described in Appendix A (Specific Asset Class Treatment), it will be referred to the Fair Value Pricing Committee.

6. Responsibilities

The policy is designed to provide a general framework on asset valuations, with appropriate layers of decision making and policy designed to ensure visibility. Decision making occurs via a structured hierarchy of teams, committees and forums, each with specific accountabilities including:

- General Manager – Fund Services;
- The Suspension Steering Committee;
- The Fair Value Pricing Committee;
- The Fund Services Asset Pricing Team;
- The Fund Services Operational Risk Team; and
- The Wealth Risk Management and Group Audit teams

Assurance over the responsibilities of each of the above functions will be obtained by review and monitoring by Line 1 risk management, Wealth Risk Management, Group Audit and external audit. Reinforcement of these responsibilities occurs through legislative requirements for compliance as well as CFSIL's standard operating procedures.

This framework acknowledges ongoing obligations to ensure best practice methods are adopted in a timely manner.

6.1 General Manager - Fund Services responsibilities

- Management oversight of asset valuation; and
- Owner of the Policy.

6.2 Suspension Steering Committee / Board Investment Committee

- Evaluation and decision making of an event that may lead to suspension of unit pricing or transaction processing or an event that results in an investment option meeting the regulatory definition of illiquidity (refer *CFSIL Suspension Policy*).
- Any material issues will be escalated to the Board Investment Committee (BIC) for noting if FVPC deems appropriate.

6.3 Fair Value Pricing Committee

- Review of all securities which do not have up-to-date and independent market data feeds. Examples of these may include suspended stocks, private placement debt, private equity and pre-IPOs. Asset classes mentioned in Appendix A (Specific Asset Class Treatment) will not be subject to FVPC review other than in the circumstances mentioned.
- Review of existing securities which have already been subject to decision, based on an agreed review frequency;
- Review of current pricing treatment for specific asset classes;
- Review of current pricing treatment for terminating portfolios and illiquid assets;
- Review the Policy no less than annually. Recommend changes as and when appropriate;
- Determine appropriate asset valuation during 'force majeure' events; and
- Escalation to Suspension Steering Committee if required.

6.4 Asset Pricing Team

The Asset Pricing Team has daily monitoring and oversight of all security pricing activity. Their primary responsibilities are:

- Manage the day to day asset pricing tasks as required by Policy; and
- Advising the FVPC of any security or market specific events which may necessitate the use of fair value pricing.

7. Risk Management Framework

CFSIL has a process for monitoring and reviewing controls to confirm business and system processes are operating effectively.

The monitoring and checking of controls follow CBA guidelines and is based on the "Three Lines of Defence" (3LoD) consisting of:

- Business management
- Wealth Risk Management team
- Independent and impartial controls enforced by internal and external audit.

8. Review Frequency

This Policy is to be reviewed at least annually by the FVPC.

9. Reference of Policies

CFSIL has in place a number of policies and procedures that support the way in which asset valuation is implemented. These include:

- [Compliance Risk Management Framework](#)
- [Operational Risk Management Framework](#)

- [Supplier Governance Framework](#)
- [Group Outsourcing Policy](#)
- [Group Procurement Policy](#)
- [Group Conflicts of Interest Policy](#)
- [CFSIL Suspension Policy](#)
- [CFSIL Investment Governance Framework](#)
- [CFSIL Document Execution Guidelines](#)
- [CFSIL Risk Management Strategy](#)
