



Why do assets in super funds need to be valued at market value?

Essentially for 2 reasons:

- Accounting Best Practice – see recommendations from the Institute of Chartered Accountants below
- APRA requirements – see Superannuation Circular No. IV.A.4 attached

Extract from the Institute of Chartered Accountants Superannuation Bulletin (Edition 09 – 7 May 2009)

Question:

"I have been trying to find supporting legislation that requires the assets of a self managed super fund to be valued at market value at year end. I have looked to the SIS Act and Regulations - and cannot find anything there - Is it detailed at all in the Act or Regulations? - or do I rely on Accounting Standards? - If so as SMSFs are non reporting entities and we prepare special purpose reports - is there actually a requirement to value assets at market value at year end? In practice our firm does do this - but have received accounts from another accountant that has not done this - so needing some guidance as to why they have not accounted for assets at market value."

Answer:

Even though there is no statutory provision in relation to the issue of assets valuation for the purpose of SMSF accounting for financial statements, the ATO has provided guidelines in this regard in ATO Superannuation Circular 2003/1.

Australian Accounting Standard AAS 25 applying to reporting entities requires superannuation funds to value their assets at net market value as at reporting date. Most self managed superannuation funds (SMSFs) can be classified as non-reporting entities and therefore not required to comply with AAS25. Nevertheless the ATO prefers that "SMSFs should use market value reporting for their financial statements, even where the auditor has determined that the fund is a non-reporting entity."

The benefits of using market value financial reporting by SMSFs have been provided by the ATO in coming to the above conclusion:

Member benefits as reported in the annual statements will reflect all market value movements of the reporting period

This will assist trustees with the investment decisions of the fund and also enable the trustee to determine whether the mix of investments in the fund is in accordance with the investment strategy

It will also allow trustees to easily determine the resources that the fund has available for payment of benefits.

The above aspects are especially significant given recent market volatilities. If the SMSF has in-house assets, it will also enable the trustee to determine whether the level of in-house assets is within the limit required by the in-house assets rule.

The definition of market value and the method of determining market value have also been provided by the ATO in Superannuation Circular 2003/1. For the purposes of calculating the purchase price of a pension and the level of "in-house" assets the ATO will accept the most recent valuation obtained within the last 12 months of the commencement day of the pension, including valuations obtained for other statutory purposes.

For more information visit [ATO Superannuation Circular 2003/1](#)

**AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
SUPERANNUATION CIRCULAR NO. IV.A.4**

RESPONSIBILITIES OF THE APPROVED AUDITOR

**FEBRUARY 2001
(Addendum to Circular No. IV.A.4 of August 1999)**

ADDENDUM - FEBRUARY 2001

Circular IV.A.4 was issued in August 1999 to outline auditing requirements in relation to superannuation entities for the 1998/99 year of income. In paragraph 2 it was noted that this Circular also provides additional information about the expectations of APRA with respect to audits of superannuation entities

The purpose of this addendum is to inform trustees and approved auditors that APRA intends that financial reporting for all superannuation entities should be required to be on a market value basis.

APRA recognises that, following the transfer of the regulation of self managed superannuation funds to the Australian Taxation Office, there may still remain some small APRA regulated funds that can, in the professional judgement of the auditor, appropriately be classified as non-reporting entities. At present auditors of such entities preparing special purpose accounts may not apply AAS25 in full, and to this extent assets may not be recognised at market value in the financial statements of the fund.

APRA will continue to rely on the audit profession to ensure that superannuation funds are given the appropriate reporting definition. However, regardless of whether the approved auditor has determined that the fund is a reporting or non-reporting entity, market value accounting should be used for the year of income ending 30 June 2001. For this purpose, APRA has requested amendment of the relevant regulations prior to 30 June 2001.

The move to market value reporting for all funds will ensure that members' benefits reported in the annual statements of a fund are reflective of all market value movements during the reporting period as well as providing for a consistent accounting approach for all superannuation assets. Part 8 of SIS has required market value reporting in respect of new in-house assets since its commencement, and of existing in-house assets since the 1998/99 year of income.

The requirement in section 112 to provide a statement of cash flows is under review by APRA. Previously, excluded funds (those with fewer than 5 members) were exempted from this requirement. Now, the exemption only applies to self managed funds, not to APRA regulated funds with fewer than 5 members.

APRA proposes to update and reissue Circular IV.A.4 in full when these matters have been finalised. In the meantime, trustees and auditors should prepare to move to market value accounting and reporting for all APRA regulated funds for the 2001 year of income.

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