

NEW ZEALAND SOCIETY OF ACTUARIES

PROFESSIONAL STANDARD NO. 50

INVESTMENT ADVICE

MANDATORY STATUS

EFFECTIVE DATE - 1 JULY 2013

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1. Introduction

1.1 Application

This Professional Standard applies to Investment Advice provided by a Member of the New Zealand Society of Actuaries to a Fiduciary.

Where there is an overlap with another Standard, Members must follow both Standards (refer to section 1.6). In the event of actual or perceived inconsistency, Members must seek advice in accordance with the provisions set out in the Code of Conduct.

This standard does not apply to an overseas Member who is residing or practising in a jurisdiction outside New Zealand, and who satisfies the requirements of the local legislation and Actuarial body.

It is a common situation for a Member to hold an executive appointment or (whether an employee or not) to be invited to join a board as a Fiduciary. On occasions the Member will then be expressing views as an executive or as one Fiduciary among many; at other times the Member will be providing Advice. The Member must make sure that the other executives or the other Fiduciaries, as the case may be, understand this position. This Professional Standard is not mandatory for Members who act in their capacity as a Fiduciary.

1.2 Background

The main aims of the Financial Advisers Act (FAA) 2008 are to promote the sound and efficient delivery of financial advice and to encourage public confidence in the professionalism and integrity of financial advisers. Under the FAA, financial advice is defined as making a recommendation or giving an opinion in relation to acquiring or disposing of (including refraining from acquiring or disposing of) a financial product. Financial products are defined in the FAA.

Actuaries are subject to the disclosure requirements under the FAA when providing financial advice to members of the public. The FAA incorporates reduced obligations in respect to investment advice to wholesale clients. Accordingly, this Professional Standard has been produced in considering the best interests of members, the profession, wholesale investors and members of the public.

This Standard does not however cover every investment matter outside of the scope of the FAA, and specifically is not mandatory for Members advising individuals who are considered wholesale clients under the FAA.

It is recognised that wholesale Investment Advice is not the sole preserve of Members, and it is not the intention that this Professional Standard will prejudice the ability of Members to provide Advice in competition with other practitioners. However the Standard is intended to ensure that any Member offering Investment Advice maintains the professional standing of the Society.

1.3 Purpose

The objective of the investment Professional Standard is to ensure that Fiduciaries who receive Investment Advice from a Member can be assured that they are receiving adequately researched, properly considered and defensible Investment Advice.

This Professional Standard has been deliberately designed to provide a framework within which Members are required to work when providing Investment Advice. Accordingly, the Standard does not prescribe the content that should be included in the provision of Investment Advice, nor the form in which that Advice is provided (notwithstanding existing professional obligations noted in Section 1.6).

This Professional Standard does, however, require that all Members who provide Investment Advice have an appropriate Process which they Document and can substantiate as required.

1.4 Previous Versions

This is the first version of this Professional Standard.

1.5 Legislation

This Professional Standard applies to but is not limited to financial advice as defined by the Financial Advisers Act (2008).

1.6 Existing Professional Obligations

Members must adhere to all current Professional Standards. Furthermore this Professional Standard does not override the requirements of other mandatory standards.

Members' attention is drawn specifically to sections 4.1.1, 4.1.4, 4.2.1, 5.1.2 and 5.2.1 of the Code of Professional Conduct dated 1 October 2006 (or similar sections of subsequent versions of the Code), and the requirement of Members to have (and be seen to have) the requisite levels of skill and knowledge in providing Advice.

Members' attention is also drawn to the requirements of Professional Standard 9 (Communication of Professional Advice), and in particular sections 4.3, 5.1f, 5.3 and 7 (or similar sections of subsequent versions of PS9).

1.7 Exclusions

Notwithstanding Section 1.6, this Professional Standard specifically excludes share broking, stock selection, investment management, investment banking, corporate finance, merger acquisitions, investment surveys, unit pricing, and interim rate calculation.

2. Effective Date

This Professional Standard applies to all Investment Advice provided by a Member on or after 1 July 2013.

3. Definitions

For the purposes of this Professional Standard the following terms will be used with the meanings indicated.

Advice: includes any conclusion, result, opinion or recommendation.

Documentation: any written or electronic records utilised in the provision of Investment Advice

Document: to record in Documentation

Fiduciary: trustees, directors and/or executive officers investing monies through pooled or direct vehicles on behalf of public or private savers, investors or beneficiaries

Investment Advice: means written, electronic or oral Advice pertaining to investments:

(a) given by a Member in a professional capacity in areas of investment work in which actuaries are reasonably understood to have expertise; or

(b) given by a Member and relied upon by the recipient because the recipient reasonably believes the Advice to be given in a professional actuarial capacity;

including, but not limited to Advice on:

(i) Risk Analysis

(ii) Investment Objectives

(iii) Asset Allocation

(iv) Portfolio Construction

(v) Manager / Product Selection

(vi) Performance Monitoring

and includes Advice provided on a pro bono basis.

Member: means a member of the Society.

Process: means to properly Document a reasonable and adequate basis underlying the approach in respect of the Advice given.

Society: means the New Zealand Society of Actuaries (Incorporated).

4. Investment Philosophy

Investment Philosophy represents the core investment beliefs and principles of the Member, or the Member's employer, that underlie both the development of the Investment Advice and the Investment Advice itself.

Investment Philosophy is not client specific and will influence the Member's (or their Employer's) opinions on such matters as investment risk and return, choice of investment models, assumptions and economic theories, the tracking of experience against assumptions, opinion on passive and active management and on appropriate vehicle selection.

5. Investment Advice Requirements

In respect of all Investment Advice, Members must:

- Document the Investment Philosophy underlying their Advice;
- be able to demonstrate how the Investment Philosophy is reflected in subsequent stages of Investment Advice;
- Document the methods utilised to model financial and economic returns, variability and diversification;
- Document the basis for the financial assumptions that are utilised;
- prepare Documentation in advance of Advice being provided;
- regularly review Documentation and ensure it is current at the date that Advice is provided; and
- store any Documentation such that it can be retrieved readily.

6 Professional Considerations

As applicable for each Fiduciary, Members must take into consideration and comply with the standard in respect of the following aspects of Investment Advice.

Definition	Standard
<p>Risk Analysis Determining the Fiduciary's tolerance to variability in returns or balance sheet changes over any given timeframe.</p>	<ol style="list-style-type: none"> 1) Members must have a Risk Analysis Process by which a Fiduciary's tolerance to financial and investment risk has been estimated. 2) Members must allow for and be able to differentiate between market index risk, active manager risk, taxation and investment fees as appropriate to the Fiduciary
<p>Investment Objectives Establishing investment objectives that are relevant to the Fiduciary's timeframe requirements and are measurable.</p>	<ol style="list-style-type: none"> 3) Members must have an Investment Objectives Process by which a Fiduciary's investment objectives have been determined, taking into account the Risk Analysis.
<p>Asset Allocation Asset class allocation intended to meet the investment objectives.</p>	<ol style="list-style-type: none"> 4) Members must have an Asset Allocation Process by which a Fiduciary's asset class allocations are set, taking into account the timeframe and Investment Objectives. 5) Members must state the following: <ol style="list-style-type: none"> a. their approach to rebalancing portfolios including whether they advise not to rebalance a portfolio; and b. the appropriateness of the Asset Allocation to the investment objectives. 6) Where the Asset Allocation is expected to be changed frequently, in response to market conditions, Members must ensure that the Process followed is of a sufficiently robust nature relative to the risks being borne by the Fiduciary.

<p>Portfolio Construction</p> <p>Number, roles and performance objectives of investment managers/products within an asset class.</p>	<p>7) Members must have a Portfolio Construction Process, taking into account the Fiduciary's Asset Allocation and Investment Objectives.</p>
<p>Manager / Product Selection</p> <p>Methodology by which managers/products are recommended, retained and/or removed from a Fiduciary's portfolio.</p>	<p>8) Members must have a Manager / Product Selection Process.</p> <p>9) The Process will Document:</p> <ul style="list-style-type: none"> a. general principles used to research and analyse investment managers/products; and b. factors which are important to the Member when researching and making recommendations on investment managers/products.
<p>Performance Monitoring</p> <p>Analysis and management of reported returns, asset allocations and other investment related data.</p>	<p>10) Members must state the investment and performance objectives and whether or not these have been met.</p> <p>11) Members must disclose investment performance returns on a fair and consistent basis. Appropriate attribution analysis should be undertaken as required.</p>

ENDS