

Invitation for submissions on changing historical excess returns sample periods and Australian Commonwealth Treasury advice

In its report on our draft 2022 Rate of Return Instrument (RORI), the Independent Panel recommended that we consider the extent to which some of the rate of return parameters may have been impacted by the low interest rates and quantitative easing which is now being unwound. To this end, they suggested that we seek expert advice.

We sought advice from the Reserve Bank of Australia (RBA) and the Australian Commonwealth Treasury (The Treasury). This correspondence is now published.

Having regard to The Treasury advice the alternative options for estimating the market risk premium (MRP) include:

- No change to our current approach in the draft determination, which uses Historical Excess Return (HER) data to December 2021
- Adopt HER data up to December 2019
- Adopt HER data up to September 2022, given that is the latest available data
- Adopt HER data up to December 2022.

Adopting HER data up to December 2022 could be done using two alternative approaches:

- delaying the 2022 RORI into 2023 until the full calendar year data is available
- including a formula in the 2022 RORI that can be mechanically applied that calculates the HER after the full calendar year data is available. This option, all else being equal, may not require a delay to our 2022 RORI.

We have published updated data on HER that is consistent with the options available to us so that stakeholders can make an informed submission on the data we should use to estimate the MRP for the 2022 RORI.

The published excel spreadsheet shows HER at the end of 2019 and latest HER using data to the end of September 2022. Arithmetic annual returns have been calculated using actual return data to the end of September 2022. Geometric annual returns have been estimated using actual data to the end of September 2022 and an assumed return for the final quarter of the 2022 calendar year. The spreadsheet has linked cells that show the calculations. We are also publishing the market risk premium derived from our 3-stage dividend growth model (DGM) as at end September 2022.

We consider it important to have a short, targeted stakeholder consultation on the options for the HER sample period changes.

We therefore invite stakeholders to make submissions on if and how we should adjust the HER sample period considering The Treasury advice.

Submissions will close on **25 November 2022**.

The following material is available on our website [here](#) :

- AER letter to the RBA

- RBA response
- AER letter to The Treasury
- Treasury response
- HER data excel spreadsheet
- 3-stage DGM to end September 2022.