



27 November 2019

**TO: ALL RSE LICENSEES**

**RESPONSE TO SUBMISSIONS – PROPOSED REVISIONS TO SPG 516**

On 28 August 2019, APRA released for consultation proposed revisions to draft *Prudential Practice Guide SPG 516 Business Performance Review* (SPG 516). APRA received nine public submissions and met with various stakeholders during the consultation period, including conducting two roundtables in Sydney and Melbourne. Overall, submissions were broadly supportive of the revisions to SPG 516. They did, however, raise some drafting suggestions and issues, and sought additional guidance on aspects of the Business Performance Review (BPR) and (legislated) outcomes assessment.

This response letter and accompanying attachment outline the substantive matters raised in submissions, together with APRA's response.

**Background**

The proposed revisions to SPG 516 support the amendments made to *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515), which were finalised on 28 August 2019. The key changes to SPS 515 were the introduction of the BPR and requirements to support the outcomes assessment required under section 52 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

The proposed changes to SPG 516 seek to ensure all RSE licensees clearly understand APRA's expectations in respect of undertaking the BPR and the outcomes assessment.

**Implementation and trial outcomes assessment**

APRA expects that all RSE licensees will have updated their strategic objectives, business plans and expenditure management processes, so as to be compliant with SPS 515 from 1 January 2020.

The BPR and outcomes assessment requirements represent a new and complex undertaking for many RSE licensees. APRA will be looking for RSE licensees to implement these new requirements on a best endeavours basis during the first year of implementation. However, APRA expects the depth and sophistication of the analysis in the BPR and outcomes assessment will improve in subsequent iterations as better practice emerges and practical issues are addressed, such as the availability of additional, more granular data and consideration of a wider range of member cohorts.

One way for an RSE licensee to begin this improvement process is to undertake a trial outcomes assessment in 2020, covering all or a subset of its MySuper and choice products. For most RSE licensees the 2018/19 financial year is likely to be the appropriate period to utilise for undertaking such a trial. APRA expects that a trial outcomes assessment would provide RSE licensees with insights into the methodology, data and publication issues that may arise in respect of the outcomes assessment. The trial outcomes assessment is not

required to be published, however engagement with APRA supervisors on the trial process and outcomes is encouraged.

APRA has recently published an information paper on its forthcoming MySuper heatmap publication, which will be released in December 2019, and separately commenced consultation on the Superannuation Data Transformation. These initiatives, together with implementation of SPS 515, are mutually reinforcing in achieving APRA's long-term objective of ensuring an industry-wide focus on enhancing the outcomes delivered to superannuation members. They also support APRA's continuing, heightened supervisory focus on ensuring areas of underperformance across the industry are addressed in a timely manner.

Yours sincerely,

Helen Rowell  
Deputy Chairman

## **Attachment A – APRA’s response to submissions**

This Attachment summarises the main issues raised in submissions, along with APRA’s responses.

### **1. Outcomes assessment application to choice products**

A number of industry participants sought clarity on the application of the outcomes assessment to choice products, and some challenged APRA’s view in SPG 516 that an RSE licensee is unable to undertake the comparative component of the outcomes assessment in the absence of *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). Some industry participants thought that this interpretation would limit scrutiny on the performance of choice products.

#### **APRA response**

As detailed in the response letter on 28 August 2019 and draft SPG 516, APRA’s view is that absent the final SIS Regulations defining a comparable choice product, it is not possible for an RSE licensee to undertake the required comparison component of the outcomes assessment for each choice product under section 52(10A) of the SIS Act.

However, an RSE licensee is required to undertake an outcomes assessment determination for each of its choice products under section 52(9)(a), based on the assessment factors under section 52(11). APRA expects this analysis to include benchmarking and comparisons, using available data sources, to help assess relative performance of products based on the assessment factors under section 52(11). APRA has amended the guidance in SPG 516 to make this clearer.

APRA appreciates the challenges in undertaking the outcomes assessment in respect of choice products, particularly for platforms and direct investment options, in the absence of the SIS Regulations. APRA expects the SIS Regulations will assist in resolving some of these issues and APRA will look to update its prudential guidance, as necessary, if and when the SIS Regulations are released. In the meantime RSE licensees should make reasonable endeavours to undertake the assessment required under section 52(9)(a) for all of their products.

### **2. Timing and sequencing of outcomes assessment and BPR**

Submissions and discussions with industry indicate ongoing uncertainty in relation to the timing and sequencing of the outcomes assessment and the business planning process, including the BPR, which were not addressed by the consultation version of SPG 516.

Industry submissions also raised concerns with the lag between the end of the financial year and the outcomes assessment determinations and the consequential misalignment in time periods between the outcomes assessment and the BPR.

#### **APRA response**

APRA has amended the guidance to make it clearer how a RSE licensee might incorporate both the outcomes assessment and BPR into its business planning timetable. As noted in SPG 516, to promote comparability and consistency across the industry, the outcomes assessment is expected to be anchored to the publication of APRA’s Annual MySuper Statistics, Annual Fund-level Superannuation Statistics and Quarterly MySuper Statistics reports for the period ending 30 June.

APRA acknowledges the concerns from industry that in most circumstances the annual period for the outcomes assessment will be the financial year preceding that covered by the BPR.

However, in APRA's view, the results and insights from the comparison and analysis under sections 52(10), 52(10A) and 52(11), including trends over time, will provide a rich source of data that will be relevant to the assessment of performance in achieving the RSE licensee's strategic objectives. More current data may be used to update the analysis for the BPR where available and appropriate.

### **3. Investment performance based benchmarks**

Some stakeholders indicated that it would be beneficial for APRA to develop and mandate the use of specific investment performance benchmarks. Some submissions also indicated that guidance in SPG 516 on the outcomes assessment should clearly state that the promotion of financial interests to members, as measured by investment returns, is the only measure or consideration upon which to make each outcomes assessment determination.

#### **APRA response**

Based on its understanding of its membership, an RSE licensee is best placed to determine the appropriate benchmarks to be used in the initial cohort analysis under the BPR. APRA will review industry's approach to the initial reviews as part of its supervision and consider providing more specific guidance if required.

On 15 November 2019, APRA published its information paper on its forthcoming MySuper heatmap publication, which will be released in December. The heatmap will highlight provide measures of the outcomes provided by MySuper products in the key areas of investment performance and fees and costs, and indicators of sustainability. The heatmap will include metrics that reflect outcomes relative to peers and by reference to appropriate benchmarks. The heatmap will include investment performance relative to benchmark portfolios, to provide additional insights into the value that RSE licensees add in setting and implementing their particular investment strategy for their MySuper products.

APRA expects that the heatmap will be a starting point for comparative metrics and data that an RSE licensee would make use of in its BPR and outcomes assessment for MySuper products. Consistent with the requirements under SPS 515 and the guidance in SPG 516, an RSE licensee is expected to look beyond the heatmap to consider a broad range of metrics and factors relevant to its business operations and the delivery of outcomes in order to reach a holistic assessment of performance.

In addition, on 8 November 2019, APRA commenced consultation on significant changes to its superannuation data collection, including choice product data. As APRA's data collection and associated statistical publications are enhanced in future, APRA will consider whether specific benchmarks should be included in SPS 515 or as better practice in prudential guidance.

APRA acknowledges that the outcomes assessment is a determination of whether the RSE licensee is promoting the financial interests of the members holding the relevant MySuper or choice product. SPG 516 clarifies that in meeting the outcomes assessment requirements an RSE licensee's methodology should focus on factors relevant to the financial interests of the members holding the product.

### **4. Publication expectations**

Some stakeholders have requested further guidance in relation to the publishing of the outcomes assessment and supporting summary, including APRA developing a template of the publication to enhance comparability across the industry.

## **APRA response**

In APRA's view, it would be premature to provide more prescriptive guidance on publication at this time. APRA will monitor the implementation of the publications of the outcomes assessment information against the guidance set out in SPG 516. Where there are industry-wide deficiencies in the quality of publications on RSE licensees' websites, APRA will update its prudential guidance to address this issue and will engage with relevant RSE licensees. APRA has, however, made some changes to the publication section to improve clarity.

## **5. Overlap with Design and Distribution Obligations (DDO)**

A number of industry participants have highlighted the potential overlap between the outcomes assessment and DDO requirements in the choice segment of the superannuation market. It was requested that APRA provide guidance on how the two sets of requirements would interact, particularly with an RSE licensee making a product market determination under DDO for a choice product.

## **APRA response**

APRA and ASIC will work together closely as the implementation of DDO approaches in 2021 and consider whether specific guidance on this issue is required.

## **6. Drafting changes**

APRA has made drafting changes to SPG 516 to reduce uncertainty in a number of other areas including:

- expanding the expectations in considering insurance product design issues under the cohort analysis of the BPR;
- clarifying expectations for the cohort analysis under the BPR for members holding defined benefit and retirement products;
- improving the clarity of the section covering the comparison component of the outcomes assessment for MySuper products; and
- removing unnecessary and duplicative drafting from the insurance strategy assessment factor section.