



Prudential Standard SPS 530

Investment Governance

Objectives and key requirements of this Prudential Standard

The purpose of this Prudential Standard is to ensure that an RSE licensee, consistent with their obligation to act in the best financial interests of beneficiaries, prudently selects, manages and monitors investments on behalf of beneficiaries. An RSE licensee is required to implement a sound investment governance framework which focuses on managing relevant risks and returns.

The Board of an RSE licensee is ultimately responsible for having an investment governance framework for the selection, management and monitoring of investments that is appropriate to the size, business mix and complexity of the RSE licensee's business operations. This investment governance framework must include the investment strategies for the whole of each RSE, and for each investment option, as required by the *Superannuation Industry (Supervision) Act 1993*.

The key requirements of this Prudential Standard are that an RSE licensee must:

- formulate specific and measurable investment objectives for each investment option, including return and risk objectives;
- develop and implement an effective due diligence process for the selection of investments;
- determine appropriate measures to monitor the performance of investments on an ongoing basis;
- review the investment objectives and investment strategies on a periodic basis;
- develop and maintain a comprehensive investment stress testing program;
- formulate a liquidity management plan; and
- develop and implement an effective valuation governance framework.

Authority

1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Application and commencement

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees).¹
3. This Prudential Standard commences on 1 January 2023.

Interpretation

4. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

Adjustments and exclusions

5. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to:
 - (a) a particular RSE licensee of an RSE;
 - (b) a particular connected entity of an RSE licensee of an RSE;
 - (c) specified RSE licensees of RSEs; or
 - (d) specified connected entities of RSE licensees of RSEs.

The role of the Board

6. An RSE licensee is ultimately responsible for the sound and prudent management of the investments of each RSE within the RSE licensee's business operations.²
7. The Board of an RSE licensee (the Board³) must, for the RSE licensee's business operations, at a minimum:
 - (a) approve investment objectives for each investment option offered in each RSE;

¹ For the purposes of this Prudential Standard, 'RSE licensee' has the meaning given in section 10(1) of the SIS Act.

² For the purposes of this Prudential Standard, an 'RSE licensee's business operations' includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

³ For the purposes of this Prudential Standard, a reference to 'the Board' is a reference to the Board of directors or group of individual trustees of an RSE licensee and 'group of individual trustees' has the meaning given in section 10(1) of the SIS Act.

- (b) approve an investment strategy, in respect of each RSE, that is consistent with the RSE licensee's duties to beneficiaries, including those in section 52(6) and (13) (if applicable) of the SIS Act and the requirements in this Prudential Standard:
 - (i) for the whole of that RSE; and
 - (ii) in respect of each investment option offered in that RSE;
- (c) monitor and assess regularly whether the investment objectives are being met; and
- (d) take appropriate and timely action regarding information contained in reports to the Board on investment matters.

RSE licensees that are part of a group⁴

- 8. Where an RSE licensee is part of a corporate group, and the RSE licensee utilises group policies or functions, the Board must approve the use of group policies and functions and must ensure that these policies and functions give appropriate regard to the RSE licensee's business operations.

Investment governance framework

- 9. An RSE licensee must at all times have an investment governance framework to manage investments to meet the RSE licensee's obligations to beneficiaries.⁵
- 10. An investment governance framework is the totality of systems, structures, policies, processes and people to address the RSE licensee's responsibilities with regard to investments of each RSE within the RSE licensee's business operations. An RSE licensee's responsibilities include generating returns to meet investment objectives while managing and monitoring all identified sources of investment risk.⁶
- 11. The Board is ultimately responsible for the establishment, implementation, oversight and maintenance of an RSE licensee's investment governance framework.

⁴ For the purposes of this Prudential Standard, a reference to 'a group' is a reference to a group comprising the RSE licensee and all connected entities and 'connected entity' has the meaning given in section 10(1) of the SIS Act

⁵ For the purposes of this Prudential Standard, a reference to 'beneficiaries' is a reference to 'beneficiaries of an RSE within the RSE licensee's business operations'.

⁶ An RSE licensee's investment governance framework must reflect the risks associated with investments as a material risk area identified in *Prudential Standard SPS 220 Risk Management*.

12. An RSE licensee's investment governance framework must, at a minimum, include:
 - (a) investment objectives for each investment option offered by the RSE licensee;
 - (b) a methodology for determining investment reporting measures⁷;
 - (c) the investment strategy for the whole of each RSE and for each investment option as required by section 52(6) of the SIS Act;
 - (d) all Board policies relating to investment activities;
 - (e) role statements that include the details of each role's responsibilities and reporting structures for all roles related to investment activities;
 - (f) structures, policies and processes relating to investment activities, including for investment performance and risk measurement, assessment and reporting to the Board and senior management; and
 - (g) a review process to ensure that the investment governance framework remains effective.
13. An RSE licensee's investment governance framework must be appropriate to the size, business mix and complexity of the RSE licensee's business operations.
14. An RSE licensee must have procedures to ensure that all persons in roles related to investment activities of the RSE licensee are made aware of, and have processes and controls for monitoring compliance with, the RSE licensee's investment governance framework.

Review of the investment governance framework

15. An RSE licensee must ensure that the appropriateness, effectiveness and adequacy of its investment governance framework are subject to a comprehensive review by operationally independent, appropriately trained and competent persons at least every three years.
16. The scope of the review of an RSE licensee's investment governance framework must have regard to the size, business mix and complexity of the RSE licensee's business operations, the extent of any change to those operations and any changes to the external environment in which the RSE licensee operates.

⁷ An RSE licensee's methodology for determining the investment reporting measures must also support compliance with relevant reporting standards made under the *Financial Sector Collection of Data Act 2001*.

Investment objectives

17. An RSE licensee must, when formulating the investment strategy for each investment option, set investment objectives that are:
 - (a) aligned with the size, business mix and complexity of the RSE from which the investment option is offered; and
 - (b) specific and measurable and, at a minimum, include:
 - (i) a return objective; and
 - (ii) a risk objective.

Formulating the investment strategy

18. When formulating each investment strategy for the whole of the RSE, and for each investment option, an RSE licensee must document how it has regard to each of the factors in section 52(6) of the SIS Act.
19. An RSE licensee must, when determining an appropriate level of diversification for each investment strategy⁸:
 - (a) identify the risk factors, and sources of return with which the risk factors are associated;
 - (b) where the strategy includes multiple assets and/or asset classes, identify how sources of returns are expected to interact, the variability in these interactions and the impact of these interactions on the overall diversification of the strategy in different market conditions;
 - (c) determine the target exposure to the risk factors in paragraph 19(a); and
 - (d) determine the asset classes and/or individual assets that it will invest in to achieve the desired risk exposure and whether making, holding and realising investments in those asset classes and/or individual assets can be implemented in a manner consistent with the interests of, and the RSE licensee's duties to, beneficiaries.
20. An RSE licensee must, at a minimum, determine for each investment strategy for an investment option that includes multiple assets and/or asset classes:⁹
 - (a) asset allocation targets and ranges that are appropriate to the investment objectives of the investment option;

⁸ As required by section 52(6)(a)(ii) of the SIS Act.

⁹ Refer to paragraphs 31-33 for minimum requirements relating to the comprehensive stress-testing program.

- (b) the basis on which asset allocation targets and ranges would be changed; and
 - (c) a policy to monitor and maintain the asset allocation within the determined ranges within a reasonable timeframe.
21. For the investment strategy of a MySuper product, an RSE licensee must also document, in addition to the requirements in paragraphs 18-20 inclusive, at a minimum, how the investment strategy:
- (a) is diversified over multiple risk factors and sources of return as required in the SIS Act;
 - (b) complies with section 52(13) of the SIS Act; and
 - (c) complies with the relevant fee rules for MySuper products and general fee rules in the SIS Act.¹⁰

Giving effect to the investment strategy

22. An RSE licensee must have processes and criteria for selecting each investment to give effect to the investment strategy (investment selection process) to ensure that effective due diligence that is commensurate with the nature and characteristics of the investment is undertaken prior to the selection of an investment for an investment option.¹¹
23. An RSE licensee's investment selection process must enable the RSE licensee to ensure:
- (a) it has sufficient understanding and knowledge of the investment selected, including an assessment of any factors that could have a material impact on achieving the investment objectives of the investment option;
 - (b) it has sufficient understanding of how the investment is expected to perform under the range of stress scenarios determined under paragraph 29; and
 - (c) the investment is appropriate for the investment option.

Monitoring investments

24. An RSE licensee must determine appropriate measures, including performance benchmarks, approved by the Board, to monitor the performance of each investment in each investment option and each MySuper product on an ongoing basis.

¹⁰ As required in Part 2C Division 5 and Part 11A of the SIS Act.

¹¹ Where an RSE licensee engages an external service provider under an investment management agreement or mandate, the RSE licensee must comply with the requirements in *Prudential Standard SPS 231 Outsourcing*.

25. An RSE licensee must ensure that persons applying and assessing the measures required in paragraph 24 are operationally independent from persons who are responsible for making the investment.
26. An RSE licensee must ensure that the performance of each investment and investment option is regularly reported to the Board and senior management. This reporting must include an assessment of the sources of out-performance and under-performance relative to appropriate performance benchmarks as determined by the RSE licensee under paragraph 24.

Reviewing the investment strategy

27. For each investment strategy, an RSE licensee must have a review policy that is approved by the Board and that, at a minimum, requires each investment strategy to be reviewed against its investment objectives on at least an annual basis. The policy must also include:
 - (a) the triggers that will cause an interim review of the investment strategy in addition to the annual review;
 - (b) the processes for reporting the results of each review to the Board; and
 - (c) the criteria that will determine whether the investment strategy must be changed.
28. On receipt of the results of a review of an investment strategy undertaken in accordance with the review policy, the Board must ensure that any decision to amend the investment strategy is supported by sufficient justification and analysis.

Investment stress testing

29. An RSE licensee must have a comprehensive investment stress-testing program that is approved by the Board and is integrated into an RSE licensee's investment governance framework.
30. An RSE licensee must, at a minimum, determine appropriate adverse stress scenarios for the investment strategy of each option. These adverse stress scenarios must cover a range of factors that can create extraordinary losses or make the control of risk within accepted tolerance level in the investment strategy difficult.
31. An RSE licensee's comprehensive investment stress-testing program must provide for:
 - (a) investment stress testing performed prior to the implementation of the investment strategy;
 - (b) investment stress testing based on scenarios determined in paragraph 30 to confirm that each investment strategy, including the targets and ranges set under paragraph 19(c) and paragraph 20(a) remain appropriate on at least an annual basis; and

- (c) investment stress testing based on scenarios determined in paragraph 30, and other parameters deemed appropriate by the RSE licensee, to assess the performance of each investment option based on the actual asset allocation at least on an annual basis.
32. The comprehensive investment stress-testing program must, at a minimum include:
- (a) clearly articulated stress testing objectives, methodology, assumptions, frequency (at least annually), and risk factors, including the rationale for the severity of the adverse stress scenarios as required in paragraph 30;
 - (b) the roles and responsibilities of persons (both internal and external) involved in the design, implementation, review, reporting and oversight of investment stress testing, including the role of the Board, relevant Board committees and senior management;
 - (c) investment stress testing output or metrics showing the performance of each investment option under the stress scenarios required in paragraph 30;
 - (d) processes for the regular review of stress testing methodology and assumptions;
 - (e) circumstances that might lead to ad hoc investment stress testing, including triggers to indicate when ad hoc investment stress testing would be undertaken; and
 - (f) processes for ensuring that relevant and reliable data are used in investment stress testing.
33. An RSE licensee must ensure that the results of the comprehensive investment stress testing program are:
- (a) reviewed periodically by the Board, relevant Board committees, and senior management; and
 - (b) reflected in the RSE licensee's investment governance framework.
34. The Board must document the methodology for stress scenario selection and how the results of the comprehensive stress testing program have been used in decision-making.

Liquidity and cash flow management

35. An RSE licensee must, at a minimum, have a liquidity management plan, approved by the Board, for each RSE within its business operations that:
- (a) covers each investment option in the RSE;
 - (b) outlines the procedures determined by the RSE licensee for measuring and managing liquidity on an ongoing basis;

- (c) includes consideration of how the liquidity of investment options in an RSE can be managed in a range of stress scenarios;
 - (d) identifies the circumstances the RSE licensee considers to be a significantly adverse liquidity outcome that requires action (liquidity event);
 - (e) outlines what action the RSE licensee will take when a liquidity event occurs;
 - (f) outlines the roles and responsibilities of persons involved in the management and oversight of liquidity risk, including the role of the Board, relevant Board committees and senior management; and
 - (g) outlines information, including key metrics, that must be reported to the Board, relevant Board committees and senior management, to ensure adequate oversight of liquidity risk.
36. An RSE licensee must ensure that information, including key metrics referred to in paragraph 35(g) are periodically reviewed by the Board, relevant Board committees and senior management, to ensure that such information and key metrics remain suitable.
37. An RSE licensee must implement liquidity stress testing as part of the comprehensive investment stress-testing program required in paragraph 30 and the RSE licensee's liquidity management plan.

Valuation governance framework

38. An RSE licensee must have an adequate valuation governance framework, which consists of the structures, processes, procedures and controls necessary to identify and manage valuation risk of an RSE licensee's investments.
39. The valuation governance framework must include a Board-approved valuation policy which, at a minimum, outlines:
- (a) the roles and responsibilities of the Board and, where relevant, any other persons or Board committee with delegated responsibilities for the oversight and management of valuation processes and procedures;
 - (b) the key metrics and information that must be reported to the Board, relevant Board committees and senior management, and the frequency of that reporting;
 - (c) the valuation methodology employed for each asset class (and sub-asset class and instrument/holding vehicle type where relevant), including the sources of valuation inputs;
 - (d) the circumstances under which independent external valuations are to be obtained;
 - (e) the frequency of valuation of RSE licensee's investments having regard to the prevailing market, economic environment, member equity

considerations and matters concerning the ongoing appropriateness of the asset valuation;

- (f) the circumstances in which interim valuations are to be made, to ensure the approach taken is consistent and transparent;
 - (g) the triggers that would require an interim valuation of RSE licensee's investments outside of the frequency determined under paragraph 39(e) and which reflect the circumstances identified in 39(f);
 - (h) a review process to ensure that the valuation policy remains effective;
 - (i) the validation of valuation outputs including any back-testing procedures; and
 - (j) the circumstances as to when to accept, reject or reassess valuations of RSE investments to ensure that RSE licensee's valuations remain appropriate, including an escalation procedure for the resolution of any disputed valuations.
40. An RSE licensee must ensure that key metrics and information referred to in paragraph 39(b) are periodically reviewed by the Board, relevant Board committees and senior management, to ensure that such information and key metrics remain appropriate to enable sufficient oversight of valuation risk.

Previous exercise of discretion

41. An RSE licensee must contact APRA if it seeks to place reliance, for the purposes of complying with this Prudential Standard, on a previous exercise of discretion by APRA under a previous version of this Prudential Standard.