



29 September 2021

TO: ALL RSE LICENSEES

STRENGTHENING INVESTMENT GOVERNANCE – CONSULTATION

APRA has today released a revised prudential standard on investment governance practices, for consultation. The draft amendments to *Prudential Standard SPS 530 Investment Governance* (SPS 530) include a number of enhancements to valuation practices, stress testing and liquidity management practices.

RSE licensees must maintain a sound investment governance framework, which focuses on managing relevant risks and returns. The proposed revisions are an important step in ensuring RSE licensees meet their obligations to prudently select, manage and monitor investments.

This consultation was foreshadowed in early 2021 as a priority area for APRA's superannuation prudential standards.¹ The implementation of the Government's Your Future, Your Super reforms in July 2021 has further highlighted the importance of robust investment governance arrangements.²

Background to the revisions

APRA undertook a [post-implementation review \(PIR\)](#) of its superannuation prudential framework in 2018-19, which included review of investment governance requirements. The PIR found that SPS 530 and the associated guidance had improved investment decision-making and governance practices. The PIR also identified several enhancement opportunities to ensure the investment governance prudential standard remains fit for purpose.

Over the period September 2020 – March 2021, APRA also conducted a thematic review of unlisted asset valuation practices (the Unlisted Asset Valuation Thematic review) to assess industry practices and identify areas for improvement. The findings from the Unlisted Asset Valuation Thematic review will be published shortly together with the findings from two other APRA thematic reviews.

The findings from the PIR, Unlisted Asset Valuation Thematic review, and supervisors' observations of investment governance more broadly, have highlighted three key areas for improvement: stress testing, valuation and liquidity management practices. Draft SPS 530 includes enhancements in each of these key areas (refer to Attachment A for detail of the proposed enhancements).

¹ Information Paper - Policy Priorities 2021 (apra.gov.au)

² Refer to APRA's letter on YFYS reforms issued 30 July 2021: [Implementation of Your Future, Your Super reforms | APRA](#). Refer also to section 220A of *Superannuation Industry (Supervision) Act 1993*.

Consultation

The consultation will be open for five months, closing on 16 February 2022. APRA invites feedback on the proposed standard. Written submissions on the proposal should be sent to superannuation.policy@apra.gov.au by 16 February 2022.

Next steps

APRA intends to consult on enhancements to the accompanying guidance (*Prudential Practice Guide SPG 530 Investment Governance* and *Prudential Practice Guide SPG 531 Valuation*) in 2022, after the completion of consultation on draft amendments to SPS 530. Subject to the outcomes of the consultation, APRA intends that the enhancements to SPS 530 will commence on 1 January 2023.

If you have any queries regarding this letter, please contact your responsible supervisor.

Yours sincerely,

Renée Roberts

Executive Director

ATTACHMENT A. PROPOSED ENHANCEMENTS TO SPS 530

This attachment summarises APRA's proposed enhancements to SPS 530. The majority of the proposed changes build on existing guidance in SPG 530 and SPG 531, covering stress testing, valuations, and liquidity management.

1. Stress testing

APRA has identified scope for improvement in stress testing. For example, some RSE licensees lack formal stress testing processes and, in some cases, stress testing results are not incorporated into the investment decision making process.

Draft SPS 530 proposes that an RSE licensee's comprehensive stress testing program must be completed at least annually, and include at a minimum:

- detail on the roles and responsibilities of persons involved in the design, implementation, review, reporting and oversight of stress testing;
- articulation of the methodology, objectives, assumptions used and frequency of stress testing, as well as the review of the metrics and methodology employed;
- identification of circumstances that may lead to the need for ad hoc stress testing, including triggers; and
- processes to ensure the data used in stress testing is reliable.

2. Valuation

APRA continues to observe asset valuation practices of varying quality across the industry. This includes infrequent valuation of certain asset classes by some RSE licensees, and a lack of detail in some valuation policies on the roles and responsibilities for oversight and management of valuation processes, review of valuation management processes and board reporting. APRA's recent Unlisted Asset Valuation Thematic review has informed the proposed revisions to SPS 530.

Draft SPS 530 includes a number of additional requirements to enhance RSE licensees' valuation governance practices, most of which were previously reflected as guidance in SPG 531. Specifically:

- an RSE licensee must establish a valuation governance framework to identify and manage valuation risk, with a Board approved valuation policy;
- an RSE licensee's valuation policy must:
 - outline the roles and responsibilities of the Board and other persons (where relevant) for the oversight and management of valuation processes and procedures;
 - outline the circumstances under which valuations of an RSE licensee's investments are accepted, rejected or reassessed; and
 - identify the circumstances and triggers under which an interim valuation is to be undertaken outside of the regular frequency of valuations determined by the RSE licensee.

- an RSE licensee must, when determining the frequency of valuations, have regard to factors which may affect the ongoing appropriateness of a valuation, including market volatility, change in material investment return drivers and member equity considerations.

3. Liquidity management

APRA continues to identify RSE licensees with liquidity management plans which include minimal detail on roles and responsibilities, liquidity risk tolerance and actions that should be taken following a liquidity event.

Draft SPS 530 therefore proposes that an RSE licensee's liquidity management plan must:

- identify personnel responsible for the management and oversight of liquidity risk;
- include liquidity stress testing as part of their comprehensive stress testing program; and
- outline key metrics to be reported to and periodically reviewed by the Board, relevant board committees and senior management.