



22 December 2021

Mr Mark Fitt
Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Secretary

APRA welcomes the opportunity to assist the Senate Economics Legislation Committee's Inquiry into the Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 (the Bill).

As the prudential regulator for superannuation, APRA's submission focuses on Schedule 9 of the Bill, the implementation of the Retirement Income Covenant.

APRA supports the Government's proposed reforms to introduce a retirement income covenant (the covenant). These reforms are an important step in broadening industry focus beyond the accumulation phase to advance the decumulation, or the retirement phase of superannuation.

It is critical that superannuation members are provided with appropriate information and choices to support their decisions in retirement. Current evidence, including the findings of the recent Retirement Income Review, shows that many Australians do not adequately plan for their retirement or make the most of their assets in retirement.¹ The proposed covenant would set a framework for RSE licensees (trustees) to develop a retirement income strategy that addresses the needs of their members who are retired or are approaching retirement, and assists their members in achieving improved outcomes in retirement.

This submission briefly outlines APRA's role in relation to the implementation of the covenant. With the introduction of the proposed new legislative obligations, and in consultation with stakeholders, APRA would examine how the superannuation prudential framework should be amended for consistency with the reforms.

APRA has been working, and will continue to work, closely with the Treasury, the Australian Securities and Investment Commission (ASIC) and the Australian Taxation Office (ATO) in the development of these important reforms and looks forward to assisting the Committee during its deliberations.



Margaret Cole
Executive Board Member

¹ Retirement Income Review Final Report: [Retirement Income Review - Final Report | Treasury.gov.au](https://www.treasury.gov.au/retirement-income-review-final-report)

ANNEX A: Overview of APRA's role in the regulation of superannuation

APRA's mandate and supervisory approach

APRA is an independent statutory authority established for the purposes of prudential supervision of financial institutions and promoting financial system stability in Australia. APRA's mandate is to protect the Australian community by establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by the institutions it supervises are met within a stable, efficient and competitive financial system. As the prudential regulator of superannuation funds (excluding self-managed funds), APRA seeks to ensure that the interests of superannuation fund members are protected.

In undertaking its mandate and administering the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act), the *Superannuation Industry (Supervision) Regulations 1994* and the prudential standards, APRA places a strong emphasis on active supervision to identify and require RSE licensees to address issues, particularly where they threaten to negatively impact member outcomes.

APRA's supervisory approach is underpinned by three core attributes: risk-based, forward-looking and outcomes-focused. APRA's risk-based approach directs supervisory focus to issues that are likely to present the greatest risk to the interests of superannuation members.

The Government's proposed reforms - Retirement income covenant

APRA recognises the importance of its role in implementing the Government's reforms and, on the passing of the Bill into law, intends to communicate with industry to make clear APRA's expectations of RSE licensees in implementing the covenant. This communication will also highlight the expansion in supervisory focus to the retirement phase expected to follow the commencement of the covenant.

After consultation with industry, APRA intends to amend the superannuation prudential framework to set out more detailed requirements in relation to the covenant, accompanied by guidance where appropriate. Amendments to the prudential framework that may be considered will be consistent with guidance in the Explanatory Memorandum to the Bill and may include further requirements for review of the retirement income strategy and for the analysis of sub-classes or cohorts of beneficiaries under the strategy. APRA may also consider how to adjust the prudential framework more generally to ensure connection with existing requirements relating to member outcomes, as set out in *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515) and related guidance.

Supervision of RSE licensees' compliance with the covenant would apply in accordance with APRA's existing prudential framework structure, with the expectation that RSE licensees have a strong focus on the retirement income needs of their beneficiaries, that member outcomes are optimised and retirement income strategies are developed in the best financial interests of the beneficiaries. Over time, APRA would consider expanding its data collection for retirement income products and the development of further tools that would give a sharper focus on the performance of these products.

APRA intends that its prudential framework changes will support compliance with the Retirement Income Covenant. APRA will continue to work closely with the Treasury, ASIC and the ATO in ensuring the success of these reforms.