



16 February 2022

Policy & Advice
Australian Prudential Regulation Authority
Level 12, 1 Martin Place
Sydney NSW 2000

Submission to Consultation: Proposed Enhancements to Prudential Standard SPS 530 Investment Governance

The Actuaries Institute ('the Institute') welcomes the opportunity to comment on the proposed enhancements to Prudential Standard SPS 530 Investment Governance released on 29 September 2021 that will introduce a number of enhancements to valuation practices, stress testing and liquidity management practices.

The Institute is the sole professional body for actuaries in Australia. Our members have had significant involvement in supporting RSE licensees to continue to meet their obligations to prudently select, manage and monitor investments.

The proposed enhancements provide more granularity on RSE licensee obligations relating to stress testing, valuation and liquidity management practices. We support the added clarity that they provide to all RSE licensees on their investment governance obligations.

We set out below three key areas where we recommend further changes be made to SPS 530 or applicable guidance.

1 Requirements at the RSE sub-fund level

As stated in paragraphs 30 and 35(a) of the draft SPS 530, stress testing and liquidity management must be developed for each option. We recommend that these practices also be considered at product, sub-fund and fund levels. There may also be certain scenarios which may apply to a particular brand within a corporate entity and impact all of the investment options under that brand.

For RSEs with sub-funds that are defined benefit arrangements, stress testing requirements will apply to options underpinning defined benefit liabilities. The stress testing scenarios for these options should consider solvency implications, and include specific metrics and outputs consistent with SPS 160 (Defined Benefit Matters).

Institute of Actuaries of Australia

ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW 2000, Australia

t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170

actuaries@actuaries.asn.au | www.actuaries.asn.au



2 Enhancements to SPG 530

We propose the following recommendations to related guidance, Prudential Practice Guide SPG 530 – Investment Governance:

- Provide examples of adverse stress scenarios, e.g. an early release of super program, which was unlikely to have been identified pre-COVID-19 as a hypothetical event by RSE licensees.
- Consider examples of cohort based scenarios, for example in a period of heightened investment switching activity consider the outcomes of transacting members versus non-transacting members.
- Stress testing should be framed in terms of member outcomes. For example, members in or close to retirement who are likely to access their superannuation account balances are expected to be more adversely impacted by poor investment performance.
- Guidance on investment monitoring should be extended to consideration of the quality of the overall investment strategy in delivering member outcomes. This includes assessing investment return outcomes on an after-tax and after-fees basis.
- Under the valuation governance framework, set out the responsibilities that should remain with the Board, for example devising valuation processes.
- Particularly for unlisted assets, RSE licensees should consider reasonable alternative valuation assumptions and how they may lead to different valuation outcomes.
- With respect to paragraph 39(e) of draft SPS 530, RSE licensees should consider whether prevailing market conditions have led to a spike in investment switching activity, and whether an interim valuation is necessary to protect member equity.

3 A Comprehensive Stress Testing Program Requires Appropriate Expertise

The proposed enhancements demonstrate that a high level of rigour is required to establish and implement a comprehensive investment stress testing program. RSE licensees will need to ensure they are supported by appropriate expertise in areas such as the selection of appropriate adverse stress scenarios, and the review of stress testing methodology and assumptions. We recommend APRA consider whether SPS 530 or its related guidance provide details on the circumstances where an RSE licensee may wish to seek external advice.

Further information

We would be pleased to discuss this submission or to provide further information. Please contact the Institute's CEO if you wish to clarify any aspects of this submission.

Yours sincerely

President