

18 February 2022

Ms [REDACTED]
Executive Director,
Australian Prudential Regulation Authority (APRA)

Via email: [REDACTED]

Dear Ms [REDACTED]

Consultation on Prudential Standard SPS 530 Investment Governance in Superannuation

CPA Australia and Chartered Accountants Australia & New Zealand (CA ANZ) welcome the opportunity to provide comments on proposed changes to Prudential Standard SPS 530 Investment Governance (SPS 530, the “Prudential Standard”).

CA ANZ and CPA Australia represent almost 300,000 professional accountants globally. Our members work in diverse roles across public practice, commerce, industry, government, and academia throughout Australia and internationally.

CPA Australia and CA ANZ generally support the changes to the Prudential Standard, noting that the findings from the Unlisted Asset Valuation Thematic Review and two other reviews to a large extent have informed these changes. We generally agree that there is scope for improvement in relation to funds’ stress testing, valuation and liquidity management practices, and support improvements to these arrangements.

All references to SPS 530 are to the edited version provided as part of this consultation and will only refer to the current version by exception.

General comments

CA ANZ and CPA Australia generally support requirements to identify personnel responsible for stress testing, liquidity and cashflow management and valuation actions. However, these identifications should not obscure the fact that it is trustees who are responsible for decisions and oversight regarding these actions.

Similarly, we support the need for clearly stated objectives, assumptions, methodologies, trigger-points for revised calculations or new testing on either an ad-hoc basis, as well as the frequency by which normal testing and re-testing is undertaken, outside of the mandatory annual requirement for stress testing.

Finally, we support the need for Board review and approval of the comprehensive stress-testing program to include the liquidity management plan and the valuation governance framework which would include the valuation policy.

Stress testing

CPA Australia and CA ANZ support the requirement to develop and maintain a comprehensive stress testing program, with testing to be completed annually and against required performance benchmarks. The proposed approach as explained in paragraph 30 of SPS 530, is to ensure that factors which create “extraordinary losses” or make the “control of risk within accepted tolerance level in the investment strategy difficult” are reasonable in principle. Trustees will need to ascertain the factors likely to contribute to adverse conditions which may contribute to unacceptable outcomes.

We would welcome APRA providing guidance on how it expects trustees to perform stress tests, and over what likely period of time, for example, for a one in 200-year investment market event. This guidance could be provided via Prudential Practice Guide SPG 530 Investment Governance (SPG 530) which we understand will be updated during 2022.

In addition, we are unclear how stress testing will interact with the performance test, presently being extended beyond MySuper products to other multisector products available from the same fund, and later, to single sector investment products. Where the performance benchmark used in the design of a product – and disclosed to fund members – is not the same as the performance benchmark used by APRA, there naturally arises a tension as to which set of expectations is to be met.

We believe APRA should provide trustees with guidance about these potential inconsistencies in SPG 530 and potentially elsewhere in the standard.

CA ANZ and CPA Australia are concerned that a requirement where performance benchmarks are homogenised to those used in APRA’s heatmaps or performance tests may not be in a super fund’s members’ best financial interests, or in the interests of competition more broadly. Similarly, we believe that a requirement to meet more than one benchmark may be setting trustees up to fail.

Consistent with this, we also recommend that the proposed selection of performance benchmarks, as required by paragraphs 24-26 of SPS 530, are the subject of guidance to ensure that appropriate and consistent measures are provided through the production cycle: from investment strategy, through disclosure, stress testing, results measurement and finally, performance testing. Guidance should be provided to ensure that a decision process used by the trustee – as well as the benchmark’s relevance – is appropriate.

We note that there may be some expense to the creation and build of stress testing processes. We do not believe that these are likely to cause problems for large funds. However, we note that this may be cost prohibitive to smaller funds. Consequently, we are concerned that this may lead to increased barriers to entry for newer providers.

We also recommend that the requirement for the comprehensive stress-testing program to be incorporated into the investment governance framework should be mentioned in paragraph 12 of SPS 530.

Liquidity and cashflow management

CPA Australia and CA ANZ support the new requirements to identify personnel responsible for the management and oversight of liquidity risk, as well as a requirement to include liquidity stress testing as part of a fund's comprehensive stress-testing program. We also support the requirement to have key metrics reported to the board and periodically reviewed by relevant board committees and senior management.

Valuation

CA ANZ and CPA Australia support the requirements which would identify and manage valuation risk under a valuation governance framework approved and reviewed by the trustee's board.

We consider that valuation requirements would be enhanced with a statement requiring trustees to identify where valuations could be undertaken annually, consistent with their stress-testing programs, or by exception where annual valuations at a minimum are impossible or impractical. These would ideally be on an asset-by-asset basis and undertaken prior to the annual stress-testing requirement.

For further information in relation to our submission, please contact Richard Webb, Policy Advisor Financial Planning and Superannuation at CPA Australia at [REDACTED] or Tony Negline, Superannuation Leader at Chartered Accountants ANZ at [REDACTED]

Yours sincerely

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