

16 February 2022

Via email: [REDACTED]

Consultation on Prudential Standard SPS 530: Investment Governance in Superannuation

The Financial Services Council (FSC) welcomes the opportunity to comment on the proposed changes to SPS 530.

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia’s largest industry sectors, financial services. Our Full Members represent Australia’s retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees.

Our comments are set out in the table below. Most of our comments relate to the desirability for further guidance on specific items in the standard.

Clause	Comments and Recommendations
<p>Application of the SPS530 (vs more recent guidance and other standards) and cross-references to ‘RSE licensee’s business operations’.</p>	<p>Footnote 2 relating to Para 6 of marked up SPS530 defines an RSE licensee’s business operations as including <i>“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.”</i> The bolded text may be interpreted as including activities conducted as a Responsible Entity or an IDPS Operator, as depending on the Trustee’s business model, activities undertaken as RE can impact on the activities of the RSE, and vice versa.</p> <p>Para 8 of the marked up SPS530 reads: <i>“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.”</i></p> <p>A ‘group’ is defined (footnote 4) as: <i>“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.”</i></p> <p>We request further guidance to provide explicit clarity of the definition of <i>‘RSE licensee’s business operations’</i> to avoid confusion arising from multiple definitions and to allow consistency in the application of the definition.</p>

Investment governance framework	
11: Board responsibilities	<p>The Board responsibilities have been further defined in para 11 so that the Board is responsible for the establishment, implementation, oversight and maintenance of the Investment Governance Framework (IGF). This could be taken as a strengthened obligation to the previous draft.</p> <p>We request further guidance on APRA’s expectations of trustees in complying with this more defined obligation. Are there additional steps APRA expects trustees to take to evidence that the Board has ‘implemented’ the IGF?</p>
Giving effect to the investment strategy.	
23: Ensuring selected investment is appropriate for an investment option.	<p>The trustee obligations relating to investment selection set out in para 23 have been strengthened so that a trustee must <i>ensure</i> that a selected investment is appropriate for the investment option under para 23(c).</p> <p>Para 23 currently requires trustees to be <i>satisfied</i> that a selected investment is appropriate for an investment option.</p> <p>We request further guidance on APRA’s expectations of trustees in complying with this strengthened obligation. What are the additional steps APRA expects trustees to take to ‘ensure’ as opposed to being ‘satisfied’ that an investment is appropriate for an investment option?</p>
Monitoring Investments	
26: Reporting of Investments and Investment Options.	<p>Para 26 requires trustees to ensure performance of each ‘investment’ and ‘investment option’ is regularly reported to the Board and senior management.</p> <p>We understand that an ‘investment option’ refers to what the member holds (MySuper or choice option on the product menu) with ‘investments’ being the underlying assets.</p> <p>Performance at the ‘investment option’ level would typically take into account the SAA and performance of the underlying investments.</p> <p>We submit that it would be sufficient for Para 26 to require trustees to ensure performance of each investment option is regularly reported to the Board and senior management and for the reference to ‘investment’ to be removed.</p> <p>This provides greater clarity and is consistent with Para 7(a), 7(b)(ii) etc which require objectives and strategies to be set at the ‘investment option’ level.</p>

Investment Stress Testing	
30: Investment strategy for each option.	<p>Consistent with the feedback for para 26, the word “investment” can be added as follows:</p> <p><i>“An RSE licensee must, at a minimum, determine appropriate adverse stress scenarios for the investment strategy of each investment option”</i></p>
31: Investment stress testing performed prior to implementation of investment strategy.	<p>Clarification is sought for investment options in the context of an RSE Trustee of a wrap platform product, through which members can access managed funds. Where a Trustee decides to add a managed fund investment option to the investment menu, would APRA interpret the decision by the trustee as the implementation of a new investment strategy?</p>
General comments	
Relationship to CPG 229: Climate Change Financial Risks and SPG 530.	<p>The FSC submission on CPG 229 stated that APRA should give consideration to ensuring expectations are aligned in the practice guide and SPG530 Investment Governance.</p> <p>SPG 530 states that APRA expects an RSE licensee would be able to demonstrate appropriate analysis to support the formulation of an investment strategy that has an ESG focus (such as climate risk), and ensure it satisfies the best (financial) interests of beneficiaries and satisfies liquidity and diversity requirements under section 52 of the SIS Act.</p> <p>Guidance would be welcome on how CPG 229 will be expected to align with SPG 530 and the best financial interest test, particularly as the timeframes over which trustees need to manage climate risk and the timeframes over which they are measured on investment performance don’t necessarily align.</p> <p>We note that the Australian Sustainable Finance Initiative has made specific recommendations about improvements to guidance related to addressing ESG considerations in investment strategies (see pg 59-60, Recommendation 19 here).</p>

If you wish to follow up on this submission or have any questions, please contact [REDACTED]

Kind regards,

Chaneg Torres
Policy Manager
Investments & Global Markets