



21 October 2022

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Australian Prudential Regulation Authority

By email: PolicyDevelopment@apra.gov.au

Discussion Paper – Strengthening operational risk management

Thank you for the opportunity to provide a response to the Discussion Paper and accompanying draft Prudential Standard CPS 230 Operational Risk Management

Rest is a major profit-to-member industry superannuation fund with around 1.9 million members – or around one-in-seven working Australians – that manages assets of around \$66 billion¹ and is passionate about improving the retirement outcomes of our members.

We welcome the proposed draft CPS 230 Operational Risk Management, and believe that the development of a consolidated prudential standard on operational risk management is practical and useful. We support the submissions made by both The Association of Superannuation Funds of Australia Limited (ASFA) and the Australian Institute of Superannuation Trustees (AIST) and refer to their comments for detailed feedback on the draft. In this submission, we seek to add to those comments with a large fund perspective.

Commencement and transition

Some elements of the work required to comply with the new expectations in the standard will require extensive resources and time. In particular the processes to negotiate new agreements or contracts with providers that would be newly deemed as 'material' will be considerable, and we have concerns about the expectation that this will be completed by 1 January 2024.

For Rest, we estimate that under the new expectations of what is a material service provider, the number of these providers will increase at least five-fold. While Rest supports these requirements to manage these providers prudently and actively, this is a significant number of agreements that need to be reviewed to recognise uplifted service expectations, monitoring and reporting. There is also considerable work required, on developing systems and processes to effectively manage the increase in ongoing obligations with those providers.

We suggest that a transition period would be appropriate, and that this could be managed with a risk-based approach, addressing the higher impact providers initially, and working through the full scope over 12 months following 1 January 2024.

Clarification of Board and management accountabilities

Rest has concerns about the relative responsibilities that the draft standard ascribes to the different roles in an organisation and believe that in some areas these responsibilities require greater clarity. Roles such as the approval of tolerance levels for disruption to each critical operation and the review of performance reporting on material service provider reporting are described as being Board responsibilities, however in a superannuation fund's risk management framework (RMF) functions at this operational level would be delegated to management.

¹ As at 30 June 2022

We consider that the role for the Board as described in CPS and SPS 220 to set risk tolerance, approve the RMF, and provide oversight, including challenging management, are the appropriate roles for these functions, and that an expectation that the Board devotes attention to operational matters draws away from their primary responsibility of providing strategy and direction.

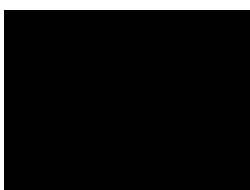
Elements that require greater clarity

A number of matters included in the draft CPS 230 overlap or have considerable commonality with existing obligations in other standards. We believe there are opportunities for clarification on some of these matters, for example:

- The draft CPS 230 does not merely provide additional obligations for RSE licensees to SPS 220, but contains considerable duplication. While the existing SPS 220 provides direction on the development and management of the RMF, the draft CPS 230 also contains a section on the RMF. Greater clarity would be achieved by referring to the obligations in SPS 220, rather than seeking to reproduce them in CPS 230. While we understand the future intent to develop more CPS-level standards, we are not aware of when SPS 220 may be incorporated into CPS 220, and we believe that RSE licensees require clearer guidance on the various expectations of the standards as a whole.
- Elements of draft CPS 230 also overlap with existing obligations in CPS/CPG 511, in particular the management of conduct risk (paragraph 11) and accountability frameworks (paragraph 20). APRA should give consideration as to whether the management of these issues is appropriate in this standard or could be addressed by reference to the existing CPS/CPG 511.
- Incident notification requirements vary between standards, and there is opportunity for clarity between obligations in CPS 230, CPS 234, and breach reporting requirements, including concerning the commencement of timeframes as being from identification or assessment.

To discuss any aspect of this submission, I invite you to contact me directly on [REDACTED] or via email on [REDACTED].

Yours sincerely,



General Manager, Regulatory and Technical Services