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██████████  
General Manager, Policy

via email: ██████████

Dear ██████████,

## Consultation on the draft Prudential Practice SPG 530 Investment Governance

This submission includes our comments on the proposed SPG 530 *Investment Governance*, released for consultation in November 2022. We support the intention to improve investment governance practices at superannuation funds and the additional statement of APRA's expectations. We note that funds frequently treat these as effective requirements. This submission highlights the areas where we believe the guidance would benefit from additional clarity or modification.

### Integrated Framework

On the specific question of the integrated version, this is a helpful addition, making SPS 530 and the detailed SPG 530 more useable.

### Stress Testing

SPG 530 has outlined an expectation for quarterly stress testing, however no explanation is provided as to why this frequency is needed. Stress testing is a valuable information source and potential warning indicator however, as with all activities, increased frequency does not necessarily lead to the same proportionate benefits, and hence quarterly stress testing could be imposing an additional cost that exceeds the benefits.

A conditions-based stress testing regime, as APRA has effectively referenced by outlining the need for a framework covering ad hoc stress testing, would be more beneficial. The guidance could also address some of the conditions that would lead to more frequent stress testing.

Increased frequency of stress testing is typically needed when an organisation is leveraged (which superannuation funds are not) or is subject to significant risks of permanent losses of capital (which is frequently linked with fixed obligations). The most significant driver of returns (and hence risk) is the strategic asset allocation, which should not change quarterly. Furthermore, funds that are subject to a greater than normal risk of cash outflows due to, for example, member concentration, could still be captured under a conditions-based framework, especially with respect to liquidity stress testing.

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The requirement to address the possibility of policy-driven liquidity events in liquidity stress testing needs further explanation, and possibly some parametrisation. As it currently stands, Trustees could be expected to model the possibility of governments ceasing the system of compulsory contributions or terminating preservation requirements in their entirety. There is limited benefit in stress testing these types of scenarios as there is limited, if any, capacity for building a portfolio that would be resilient to such eventualities. While Trustees do have the responsibility for the management of the assets in their Trusteeship, it is practically difficult for them to manage the risk of the underlying rules of the system being changed.

## **Valuation Governance**

We agree with the proposed enhancements to valuation governance. An area that would benefit from further explanation is when investments are made into pooled vehicles managed by investment managers. It is often practically (and legally) difficult to obtain the valuations of the underlying assets so more discussion on the expectation of the RSEL with respect to reviewing, testing, and challenging valuations of interests that are received from managers would be helpful.

There is a clear concern with members' equity, and consideration should be given to providing guidance around when funds should exercise their s. 155 obligations with regards to suspending member transactions, whether it is in SPG 530 or elsewhere (noting that this might be considered out of scope for the investment governance standard).

We would be pleased to discuss this submission further, please contact [REDACTED] if you have any queries.

Yours sincerely

[REDACTED]

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