

# Submission: APRA SPG 530 Investment Governance

17 March 2023

## Overview

The Responsible Investment Association Australasia (RIAA) thanks the Australian Prudential Regulation Authority (APRA) for the opportunity to comment on the draft updated guidance in *SPG 530 Investment Governance* (draft SPG 530).

RIAA congratulates APRA on draft SPG 530, which is a significant step forward in clarifying APRA's expectations of how superannuation funds undertake responsible investment. The updated guidance will assist the growing number of superannuation funds that use ESG integration and other responsible investment strategies to meet the requirements of Prudential Standard *SPS 530 Investment Governance in Superannuation*. RIAA also welcomes the important inclusion of climate risk as specific consideration in investment risk.

We make the following recommendations to further strengthen and clarify draft SPG 530:

1. **Clarify ESG terminology in line with global norms:** Define key ESG-related terms and use this terminology consistently.
2. **Relocate guidance on 'Additional ESG impacts':** Include the guidance on impact investing and stewardship within the section on 'Formulating the investment strategy'.
3. **Clarify stewardship guidance:** Define 'stewardship' and substitute principles-based guidance linking stewardship to superannuation funds' best financial interests duty to members.

## 1. Clarify ESG terminology in line with global norms

Draft SPG 530 includes a useful definition of 'ESG factors'. However, some other ESG-related terminology used in draft SPG 530 is not defined and appears unclear and/or inconsistent.

It is important that terminology is clear throughout SPG 530, to ensure the guidance is relevant and valuable to investors using a range of responsible investment approaches.

Key sections in which terminology could be clarified include:

- **ESG risk factors** (paras 47-49), which refers to 'ESG factors', but also 'ESG risk considerations', 'material ESG factors', 'ESG risks', 'ESG risks [that] are financially material' and 'ESG risk considerations'. It is unclear why each term is used in the particular context.

- **Due diligence** (paras 60, 61), which requires RSE licensees to seek evidence of potential returns on ‘ESG investment opportunities’ and show how their due diligence processes incorporate ‘ESG considerations’ into the minimum standards for investee companies.
- **Additional ESG impacts** (paras 73-75), which refers to ‘environmental or social impacts’, ‘additional objectives’ and ‘additional non-financial objectives, environmental or social impact related objectives’. Paragraphs 73-74 appear to relate to impact investing (one type of responsible investment approach), but they do not clearly state that or distinguish it from para 75.

The use of ESG terminology varies hugely, and this can present significant challenges for financial product issuers such as superannuation funds.

Institutional investors themselves are seeking to address the challenges in defining ESG terms. For example, RIAA has partnered with our overseas equivalents in the [Global Sustainable Investment Alliance](#), as well as the CFA Institute and the UN Principles of Responsible Investment (PRI) to develop [standardised definitions of key ESG terminology](#). This collaboration will agree on common definitions for use globally by markets and governments, and will assist product issuers such as superannuation funds to clearly label financial products. These globally-agreed definitions will provide a useful basis on which APRA may enhance clarity of usage of terms and definitions. The PRI’s submission to this consultation also helpfully refers to existing PRI definitions, and identifies terms that could be defined and/or further clarified.

APRA can bolster industry efforts towards more transparent investment strategies and product labelling by defining and consistently using key ESG-related terminology in SPG 530.

## 2. Relocate guidance on ‘Additional ESG impacts’

The section on ‘Additional ESG impacts’ (paras 73-75) provides guidance on how RSE licensees should demonstrate how particular responsible investment approaches benefit members. Paragraphs 73-74 appears to refer to [‘impact investing’](#), that is, investment made with an intention to generate positive, measurable social and environmental impact alongside a financial return. Paragraph 75 details what RSE licensees should demonstrate in relation to their active ownership or stewardship activities.

Paragraphs 73-75 clearly cover elements of investment objectives and strategy, as well as how the investment strategies are given effect. This guidance is relevant when funds are defining objectives for different member cohorts, and devising detailed strategies to achieve their long-term objectives. It is critical that funds have well-defined objectives, particularly in relation to any non-financial outcomes, and robust strategies to achieve those objectives. SPG 530 should provide useful guidance on how and when responsible investment approaches should be considered throughout the investment lifecycle.

The ‘Additional ESG impacts’ content (particularly para 73 and the first part of para 75) could logically be relocated to earlier in SPG 530 (and the wording slightly adjusted as needed), for example:

**Formulating the investment strategy**  
**Investment objectives**  
 [after para 26]

**Formulating the investment strategy**  
**Diversification**  
**ESG risk factors**  
 [after para 49]

### 3. Clarify stewardship guidance

Paragraph 75 sets out APRA's expectation that superannuation funds demonstrate how their stewardship activities contribute to long-term value, and are appropriate, cost-effective and publicly disclosed.

Stewardship is a critical aspect of how superannuation funds pursue their investment objectives.

There are many definitions of stewardship (see RIAA, [Engage, Advocate, Collaborate: Unpacking Stewardship in Australasia in 2022](#), p 7). For example, the PRI defines stewardship as:

*'The use of influence by institutional investors to maximise overall long-term value including the value of common economic, social and environmental assets, on which returns and clients' and beneficiaries' interests depend.'* ([About stewardship](#))

The key to stewardship is the creation and enhancement of long-term value for beneficiaries, contributing to sustainable economic, environmental and social outcomes (RIAA, 2022). This is central to how superannuation funds manage members' retirement savings.

Stewardship is a fast-evolving and increasingly diverse and sophisticated area of investment strategy and practice. For example, RIAA's stewardship framework identified 'strategic', 'proactive' and 'reactive' stewardship approaches, with differing purposes and intended outcomes (RIAA, 2022, p 11). Superannuation funds and other institutional investors – such as fund managers with mandates from superannuation funds – therefore use a wide array of stewardship activities and tools to achieve the overall goal of long-term, sustainable value (see RIAA, 2022, p 12).

Given the nature and direction of stewardship being undertaken by Australian superannuation funds, SPG 530 could more helpfully guide superannuation funds to meet their obligations in relation to stewardship by:

- clearly defining 'stewardship' in the glossary, for example, in line with the PRI definition, and
- replacing para 75(a)-(c) with principles-based guidance that describes APRA's expectations of how stewardship activities, costs and outcomes are linked to the best financial interests duty to members.

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## About RIAA and our members

RIAA champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand, and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy.

With more than 500 members managing more than USD29 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and Aotearoa New Zealand. RIAA's membership includes superannuation funds, KiwiSaver default providers, fund managers, banks, consultants, researchers, brokers, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry, across the full value chain of institutional to retail investors. RIAA represents 58% of all managed funds in Australia.