



DISCUSSION PAPER

Strengthening superannuation member outcomes

13 December 2017

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Executive summary

The Australian Prudential Regulation Authority (APRA) is proposing changes to its prudential requirements to assist registrable superannuation entity (RSE) licensees (RSE licensees) to be better positioned to deliver sound outcomes for fund members. The changes are intended to improve practices across the superannuation industry so that RSE licensees can effectively respond to increasing strategic challenges. The proposals also reflect the importance of superannuation to the financial system and its central role in the provision of retirement incomes for the Australian public.

Accompanying this discussion paper are:

- proposed *Prudential Standard SPS 220 Risk Management* (SPS 220);
- proposed *Prudential Standard SPS 225 Outcomes Assessment* (SPS 225);
- proposed *Prudential Practice Guide SPG 221 Strategic and Business Planning* (SPG 221); and
- proposed *Prudential Practice Guide SPG 225 Outcomes Assessment* (SPG 225).

The proposals outlined in this discussion paper strengthen the key requirements and expectations applying to RSE licensees in important strategic and operational areas, and are expected to facilitate RSE licensees being able to demonstrate that they meet their obligations under the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

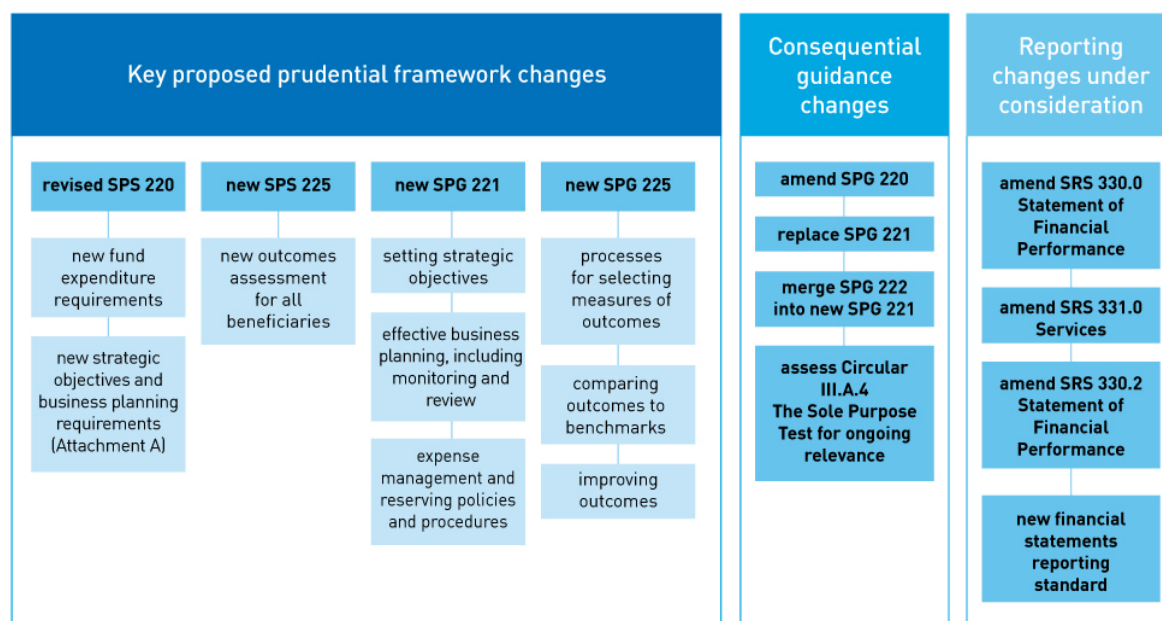
RSE licensees increasingly face significant strategic challenges, including demographic changes, increasing account consolidation and an ongoing lower investment return environment. These challenges, if not appropriately responded to, are likely to compromise both the delivery of appropriate outcomes to members and the financial soundness of RSE licensees' business operations.

Sound strategic and business planning processes and rigorous decision-making processes for fund expenditure enable RSE licensees to respond to these challenges without compromising the outcomes provided to their members. The proposals outlined in this discussion paper, if comprehensively embedded by RSE licensees in their practices, will assist in promoting a member-focused and transparently managed industry which delivers sound outcomes and is appropriately positioned for future effectiveness, resilience and viability in a competitive environment.

APRA continues to focus its supervision on how RSE licensees are prioritising the quality and value of products and services they deliver to members. This includes targeted discussions with RSE licensees that have been identified as not consistently delivering sound outcomes in the recent past or that may be unlikely to deliver sound or sustainable outcomes into the future. The proposed prudential framework changes complement and support this supervisory focus and address areas where the prudential framework requires updating to support further improvements in industry practice.

APRA initially outlined its proposals in conceptual form in a letter to RSE licensees on 11 August 2017 and conducted industry consultation through August and September 2017.¹ The changes to SPS 220 and introduction of SPS 225, SPG 221 and SPG 225 reflect feedback received during that consultation. An overview of the proposed changes is provided at Figure 1, with further detail about the proposals provided in Attachment A.

Figure 1 Overview of APRA’s proposed prudential framework changes



APRA intends that, for many RSE licensees, the proposed requirements will be readily incorporated into existing policies and processes. For those RSE licensees with sound strategic and business planning and fund expenditure processes, the proposals are unlikely to result in significant changes to how they currently approach these activities. Other RSE licensees may need to make more significant adjustments to their approaches to meet the intent of the proposed reforms.

APRA is also considering changes to its reporting collection to improve supervisory, industry and public understanding of RSE and RSE licensee expenditure. The collection and publication of more comparable and detailed expenditure data will also be central to driving improved RSE licensee decision-making, accountability and transparency. APRA is therefore seeking feedback on a number of key questions and will undertake consultation on more detailed reporting proposals following consideration of feedback received during this initial period of consultation.

APRA also proposes to amend *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) to require an RSE licensee to provide simple and straightforward processes for opting-out of all insurance products. These proposals seek to improve opt-out processes across the industry and align with the Government’s expectation that opt-out processes enable fund

¹ This letter is available at: <http://www.apra.gov.au/Super/Publications/Pages/other-publications-for-superannuation-entities.aspx>

members to implement decisions about their insurance cover in simple and straight-forward manner.

The consultation period for this package closes on 29 March 2018, and APRA is proposing that final requirements will be released in mid-2018 and come into effect from 1 January 2019. In finalising the requirements, APRA will consider both the feedback provided during consultation and the progress of relevant measures in the Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Bill 2017.

Glossary

APRA	Australian Prudential Regulation Authority
AASB	Australian Accounting Standards Board
FSCODA	<i>Financial Sector (Collection of Data) Act 2001</i>
Look-through	For the purposes of this discussion paper, look-through refers to the RSE licensee or RSE identifying the ultimate expense category and expense value paid to a third party or non-connected entity.
Proposed SPS 220	Proposed revised <i>Prudential Standard SPS 220 Risk Management</i>
Proposed SPG 221	Proposed <i>Prudential Practice Guide SPG 221 Strategic and Business Planning</i>
Proposed SPG 225	Proposed <i>Prudential Practice Guide SPG 225 Outcomes Assessment</i>
Proposed SPS 225	Proposed <i>Prudential Standard SPS 225 Outcomes Assessment</i>
Prudential framework	Prudential framework refers to the legislation, prudential standards and prudential guidance that are applicable to an RSE licensee's business operations.
Prudential requirements	In the context of this paper, the term 'prudential requirements' refers to the requirements in the prudential framework and applicable reporting requirements under the <i>Financial Sector (Collection of Data) Act 2001</i> .
RSE	Registrable superannuation entity
RSE licensee	Registrable superannuation entity licensee
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>

Chapter 1 – Introduction

1.1 Background

In 2012, the Australian Prudential Regulation Authority (APRA) was given the power to make prudential standards relating to the conduct of registrable superannuation entity (RSE) licensees (RSE licensees), with an emphasis on protecting the interests of superannuation fund members.

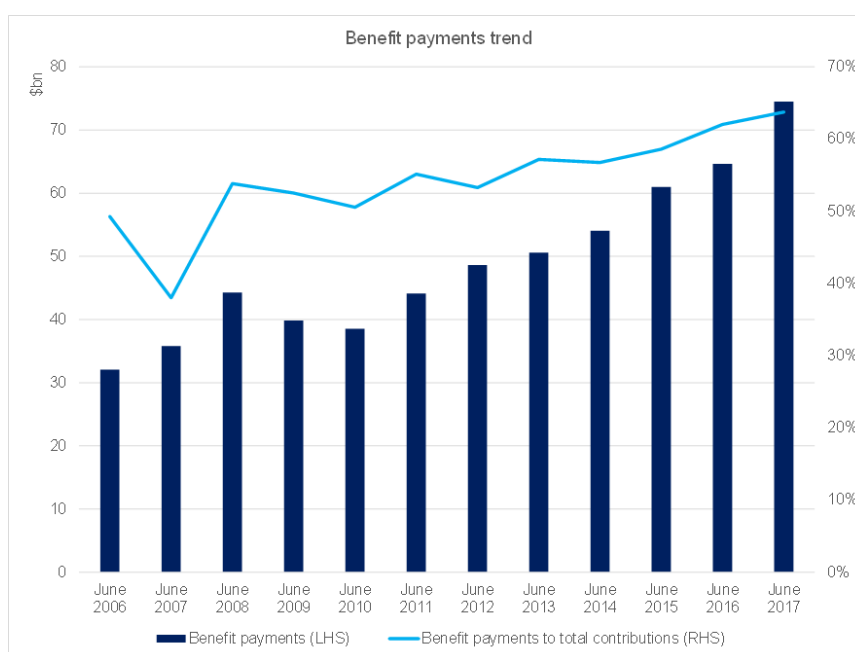
APRA subsequently introduced a suite of prudential standards aimed at promoting these objectives and, through its supervisory activities, has observed a range of practices by RSE licensees. While APRA considers that the prudential framework is effectively supporting prudent practice, APRA is committed to regular review of its standards and supporting guidance to reflect evolving industry practices and facilitate RSE licensees being well-positioned to manage emerging strategic challenges.

RSE licensees operating in the current superannuation sector represent, in the main, complex financial service businesses. APRA therefore expects them to adopt sound governance and business management practices commensurate with community expectations. RSE licensees must move beyond a focus on just meeting minimum prudential requirements in order to meet these expectations.

1.2 Challenges facing the superannuation industry

The superannuation industry faces increasing strategic challenges associated with a significant shift in the demographic profile as more members move into the retirement phase (Figure 2).

Figure 2 Trend in benefit payments



This demographic trend means that rates of growth in superannuation assets will vary across RSEs according to their different membership profiles, as members begin to draw down their savings. The sector as a whole is, however, expected to continue to experience growth due to continued contribution flows and positive net investment returns. Greater scrutiny on performance and efficiency, including investment management fees, administration fees and insurance premiums, will continue. As a result, products with higher-than-average costs will need to demonstrate that they are delivering commensurately better-than-average outcomes to justify their cost bases and remain competitive.

1.3 APRA's targeted supervisory activity on member outcomes

APRA has recently intensified its supervision of RSEs that are not consistently delivering sound member outcomes or that may be unlikely to deliver sound or sustainable outcomes in the future. In August 2017, APRA wrote to all RSE licensees providing an overview of this work and outlining its methodology.² In this letter, APRA noted that poorly performing RSEs often have inadequate strategic and business planning practices, governance and/or risk management frameworks to address the risks arising from poor performance.

The proposed changes to the prudential framework outlined in this discussion paper are intended to complement and support this supervision work. While this supervisory activity is expected to result in improvements and remediation for a subset of RSE licensees in the short term, the proposed prudential framework changes seek to drive long-term improvements in industry-wide practices.

1.4 Reporting proposals

Data collected under APRA's superannuation reporting standards since 2013 continues to inform both APRA's supervisory activities and, through APRA's statistical publications, public understanding of the industry.

APRA considers, however, that the current reporting collection has significant limitations that inhibit consistent understanding of how RSE licensees are spending RSE assets. The publication of more detailed and accurate data in this area is fundamental to supporting APRA's supervision of, and improving confidence in, the superannuation industry. Publishing more comparable and detailed data will also support improved RSE licensee decision-making, accountability and transparency.

1.5 Insurance opt-out

APRA proposes to amend *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) to require an RSE licensee to provide simple and straightforward opt-out processes for all insurance products. Addressing deficiencies in opt-out practices through changes to the

² This letter is available at: <http://www.apra.gov.au/Super/Publications/Pages/other-publications-for-superannuation-entities.aspx>

prudential framework, together with implementation of the proposed Insurance in Superannuation Code of Practice, will contribute to improving the sustainability of insurance in superannuation and addressing public concerns about inherent complexity in insurance arrangements provided through superannuation.³

1.6 Consultation to date

On 11 August 2017, APRA released a media release and letter, *Strengthening operational governance of RSE licensees – upcoming consultation*, that outlined proposed changes to the prudential framework.⁴ Industry roundtables were held in Melbourne and Sydney in August and September 2017 to discuss the concepts outlined in the letter and APRA received six public submissions.⁵

This initial round of consultation resulted in a number of issues and suggestions being raised, including:

- that APRA, where possible, includes proposals in existing prudential standards rather than issuing new prudential standards. Furthermore, a new prudential standard was perceived as likely to result in material compliance obligations for all RSE licensees, regardless of the quality of their current practices;
- a preference for APRA to address the identified issues with RSE licensee performance through supervisory activity and its existing powers;
- concerns that new requirements on fund expenditure may limit innovation;
- challenges in constructing an outcomes assessment for all members that drives meaningful self-assessment of performance, including the difficulty in understanding the needs of diverse membership bases; and
- concern about the costs and feasibility of implementing look-through reporting of expenses, including the potential for unintended consequences in how RSE licensees contract with service providers.

APRA has had regard to this feedback in developing the consultation package, for example by incorporating some of the proposed changes in existing SPS 220 rather than proposing a separate prudential standard. Issues raised in relation to expenditure oversight and reporting will be further explored with industry.

1.7 Structure of this paper

Chapter 2 sets out APRA's proposed enhancements to the prudential framework relating to RSE licensees' delivery of sound outcomes.

³ The draft Code is available at: [http://www.aist.asn.au/policy/insurance-in-superannuation-working-group-\(iswg\)/insurance-code-of-practice-and-consultation-paper.aspx](http://www.aist.asn.au/policy/insurance-in-superannuation-working-group-(iswg)/insurance-code-of-practice-and-consultation-paper.aspx)

⁴ The media release and letter are available on the APRA website at: http://www.apra.gov.au/MediaReleases/Pages/17_28.aspx

⁵ The submissions are available on the APRA website at: <http://www.apra.gov.au/Super/Pages/Strengthening-operational-governance-September-2017.aspx>

Chapter 3 sets out proposals to amend APRA's reporting collection.

Chapter 4 sets out APRA's proposal to simplify insurance opt-out processes.

Attachment A summarises the key changes proposed to existing SPS 220, SPG 220, SPG 221 and SPG 222.

Attachment B outlines the net benefits of the policy options considered by APRA.



1.8 Timetable





APRA anticipates that, subject to the feedback received during this period of consultation, the final prudential standards and guidance will be released in mid-2018. APRA proposes that the revised requirements in SPS 220 and SPS 225 will commence from 1 January 2019. In finalising the requirements, APRA will also take into account the status of relevant provisions in the legislation currently before Parliament which includes provisions to enhance superannuation governance, accountability and member outcomes.

APRA will consider the timetable for developing the reporting changes following the consideration of feedback received during this initial period of consultation.

1.9 Balancing financial safety and other considerations

In proposing revisions to the prudential framework, APRA has sought appropriate balance between the objectives of financial safety and efficiency, competition, contestability and competitive neutrality, while promoting financial system stability. On balance, APRA considers its proposals will deliver improved prudential outcomes and enhance financial safety and financial system stability without impeding competition.

PRIMARY OBJECTIVES	
<p>Financial safety</p> 	<p>Financial system stability</p> 
<p>Financial safety will be improved. RSE licensees will be required to undertake comprehensive and rigorous strategic and business planning and expense management which will improve the likelihood of their business operations remaining sustainable and better support the delivery of sound outcomes for members.</p>	<p>Financial system stability may be marginally improved through strengthened practices around the operation of superannuation funds and improved comparability of data.</p>

OTHER CONSIDERATIONS	
Efficiency 	Efficiency gains are expected from strengthening RSE licensee practices relating to strategic and business planning, fund expenditure decision-making and assessing member outcomes.
Competition 	Improved comparability of funds and increased transparency of fund operations will enable rigorous assessment of performance and ultimately more informed decision-making, although this will be weighed against the burden of expanding reporting requirements.
Contestability 	No material impact on contestability.
Competitive neutrality 	No material impact on competitive neutrality.

1.10 Request for cost-benefit analysis information

APRA requests that interested stakeholders use this consultation opportunity to provide information on the compliance impact of the proposed changes and any other substantive costs. Compliance costs are defined as direct costs to businesses of performing activities associated with complying with government regulation. Specifically, information is sought on any changes (both increases and decreases) to the compliance costs incurred by businesses as a result of APRA's proposals.

Attachment B to this paper sets out the net benefits of three identified policy options considered by APRA in developing these proposals.

Consistent with the Government's approach, APRA will use the methodology behind the Commonwealth Regulatory Burden Measure to assess compliance costs. This tool is designed to capture the relevant costs in a structured way, including a separate assessment of upfront costs and ongoing costs.⁶

Respondents are requested to use this methodology to estimate costs to ensure the data supplied to APRA can be aggregated and used in an industry-wide assessment. When submitting their cost assessment to APRA, respondents are asked to include any assumptions made and, where relevant, any limitations inherent in their assessment. Feedback should address the additional costs incurred as a result of complying with APRA's requirements, not activities that institutions would undertake in their ordinary course of business regardless of any changes to regulatory requirements.

⁶ The tool is available <https://rbm.obpr.gov.au/home.aspx>

Chapter 2 – Delivering sound outcomes for members

APRA is seeking to enhance overall industry practices in the key operational areas of strategic and business planning and expense management, which are central to the delivery of sound member outcomes. As indicated in APRA's letter to industry on 31 August 2017 on the assessment of sound member outcomes, some RSE licensees appear insufficiently prepared to manage current and future industry challenges.⁷ These include a more competitive environment, changing fund demographics as more members move into retirement and low investment returns.

The proposed changes will require RSE licensees to review and, if necessary, improve their strategic and business planning practices, decision-making and oversight of fund expenditure, and approach to defining, assessing and delivering sound outcomes for members. The changes proposed are designed to improve RSE licensees' practices across all industry segments.

APRA expects that, for those RSE licensees with sound existing practices in these areas, the proposed requirements will be able to be met without the need for fundamental changes to how they operate. However, other RSE licensees will be required to make changes to improve their practices in a number of areas.

2.1 Amendments to *Prudential Standard SPS 220 Risk Management*

APRA is proposing new requirements relating to strategic and business planning and fund expenditure in proposed SPS 220 to assist RSE licensees to be more resilient in responding to emerging challenges, and to address identified weaknesses in industry practices.

APRA seeks, where possible, to align prudential requirements across the industries that it regulates. APRA therefore proposes to further align SPS 220 with *Prudential Standard CPS 220 Risk Management* (CPS 220) in respect of requirements relating to strategic and business planning and to ensure RSE licensees have the resources needed to support the operation of their businesses.

In response to feedback already received from stakeholders regarding minimising additional compliance burden, APRA proposes to expand SPS 220 to include proposed enhanced requirements for strategic and business planning and expense management, rather than issuing a new prudential standard.

SPS 220 currently sets out quite prescriptive requirements in relation to RSE licensees having adequate resources; this differs from the more principles-based approach in CPS 220.

⁷ This letter is available at: <http://www.apra.gov.au/Super/Publications/Pages/other-publications-for-superannuation-entities.aspx>

APRA is proposing to harmonise the requirements relating to adequate resources in SPS 220 with CPS 220, removing much of the current granularity in these requirements. This will reduce some of the compliance costs imposed on industry.

A summary of the proposed changes to SPS 220 is provided in Attachment A.

2.1.1 Proposals relating to strategic and business planning

The increased focus on superannuation efficiency and competition and emerging challenges in the industry increases the importance of RSE licensees having sound strategic and business planning processes. Sound strategic and business planning is critical to ensuring the resilience of an RSE licensee's business operations.

While many RSE licensees have embedded sound operational governance practices throughout their business operations, APRA's supervision continues to identify weaknesses in the practices of some RSE licensees. These include:

- strategic objectives and goals that are broad, with no timeframes or allocated resources or budget and no linkage to clearly stated business initiatives;
- business projects or activities where the link to the delivery of sound outcomes for members appears limited or is not adequately demonstrated;
- limited or no measurable indicators or metrics, or associated tolerances or triggers, to enable performance or outcomes to be tracked against objectives;
- indicators and metrics that are inconsistent with the current position of the RSE, for example, a rapidly declining membership base; and
- failure to develop contingency plans and alternative future actions that would be taken in the event that adequate progress against key objectives or metrics was not achieved.

The strategic objectives of an RSE licensee represent the vision for the future direction of its business operations and are essential to guiding the activities it pursues. APRA proposes to revise SPS 220 to require an RSE licensee to consider certain factors when developing its strategic objectives. This includes consideration of the RSE licensee's fiduciary obligations set out in the SIS Act, its risk appetite statement, the financial resources needed to satisfy the operational risk financial requirements and the proposed annual outcomes assessment.

Proposed SPS 220 will also require that an RSE licensee's business plan specify:

- details of the activities that will be implemented to achieve the board's strategic objectives and the expected outcomes of the activities;
- the key performance indicators against which the outcomes of the activities will be reliably measured;
- the forecast revenue from fees charged to members and the basis for setting the level of fees;
- how the RSE licensee will apportion fee revenue to, where applicable, reserves, profit, dividend payments and expenses for the RSE licensee and its RSEs; and
- the assumptions used in the business plan that reflect due consideration of material risks, and evidence that these assumptions are monitored.

2.1.2 Proposals relating to expense management and reserving

RSE licensees' business operations are becoming increasingly complex, necessitating investment and spending decisions that, at their core, ultimately support the RSE licensee's obligation to act in the best interests of beneficiaries. APRA, however, continues to observe the need for improvement in areas of industry practice in relation to the governance and oversight of fund expenditure, including payments to related parties. Such practices include insufficient rigour around decision-making and monitoring in relation to fund expenditure, setting of fees and costs and the use of reserves, and how expenditure decisions are made to secure sound outcomes for members.

The combination of inadequately managed processes and oversight, and failure to take timely action (or any action at all) when issues are identified, can lead to costs being incurred that adversely affect outcomes for members. Further, inadequately controlled expenditure often indicates broader weaknesses in an RSE licensee's policies and procedures.

Accordingly, APRA proposes to amend SPS 220 to require RSE licensees to develop and maintain an expenditure policy that supports rigorous decision-making, monitoring and oversight of expenditure decisions and demonstrates how expenditure is linked to the delivery of cost-effective, sound outcomes.

Additionally, where an RSE licensee decides that a certain type or level of expenditure is significant, it will be required to demonstrate that the expenditure has a clear purpose or objective and closely monitor whether or not that expenditure has achieved the intended objectives.

2.2 *Prudential Practice Guide SPG 221 Strategic and Business Planning*

To assist RSE licensees in complying with proposed SPS 220, APRA intends to issue a new prudential practice guide (PPG), SPG 221. This PPG outlines APRA's expectations relating to strategic and business planning and expense management. The proposed new SPG 221 replaces existing *Prudential Practice Guide SPG 221 Adequacy of Resources* and updates existing guidance on resourcing, reserving and the sole purpose test.

Proposed SPG 221 will be central to APRA's objective of improving industry-wide practices relating to strategic and business planning and fund expenditure. Drawing from extensive supervisory knowledge, the guidance reflects APRA's expectations regarding matters an RSE licensee should consider and articulate in the preparation of key documents and processes. As with the proposed changes to the prudential standards, APRA expects SPG 221 to encourage proactive changes in industry approaches and standards of practice in strategic and business planning.

A business plan should be a living document, enabling regular assessment of performance, reporting to the board and timely remedial actions when necessary. Proposed SPG 221 includes guidance on monitoring and reviewing business plans to address observed weaknesses in industry practices in these areas, and also includes a list of metrics an RSE licensee may consider appropriate when undertaking such monitoring.

The management and use of reserves is often central to an RSE licensee's fund expenditure decisions and meeting the cost of activities associated with the business plan. Proposed SPG 221 therefore includes updated and amended guidance on the use of reserves, incorporating relevant material from existing *Prudential Practice Guide SPG 222 Management of Reserves* (SPG 222). Proposed SPG 221 will replace this guidance and the existing SPG 222 will be withdrawn.

APRA also proposes amending existing *Prudential Practice Guide SPG 220 Risk Management* to remove the current guidance on strategic and business planning, as proposed SPG 221 will contain and expand APRA's expectations in this area. This will consolidate APRA's guidance on strategic and business planning.

APRA is also assessing the appropriateness of current guidance on the sole purpose test in *Circular No. III.A.4 The Sole Purpose Test* (Circular No. III.A.4). The sole purpose test is a threshold consideration for a prudent RSE licensee when setting strategic objectives, undertaking business planning and making decisions on associated fund expenditure. APRA welcomes submissions on whether Circular No. III.A.4 remains relevant to industry.

2.3 Prudential Standard SPS 225 Outcomes Assessment

Proposed SPS 225 requires an RSE licensee to annually assess the outcomes provided to members, and identify any areas for improvement across the RSE licensee's business operations. Specifically, this proposed outcomes assessment requires an RSE licensee to consider the impact of its investments, insurance benefits, scale, product features and fund expenditure on the outcomes provided to members.

Section 29VN(b) of the SIS Act requires an RSE licensee that is authorised to offer a MySuper product to undertake an annual assessment of whether members in the fund who hold the MySuper product are disadvantaged in comparison to members of other funds who hold a MySuper product (the scale test).

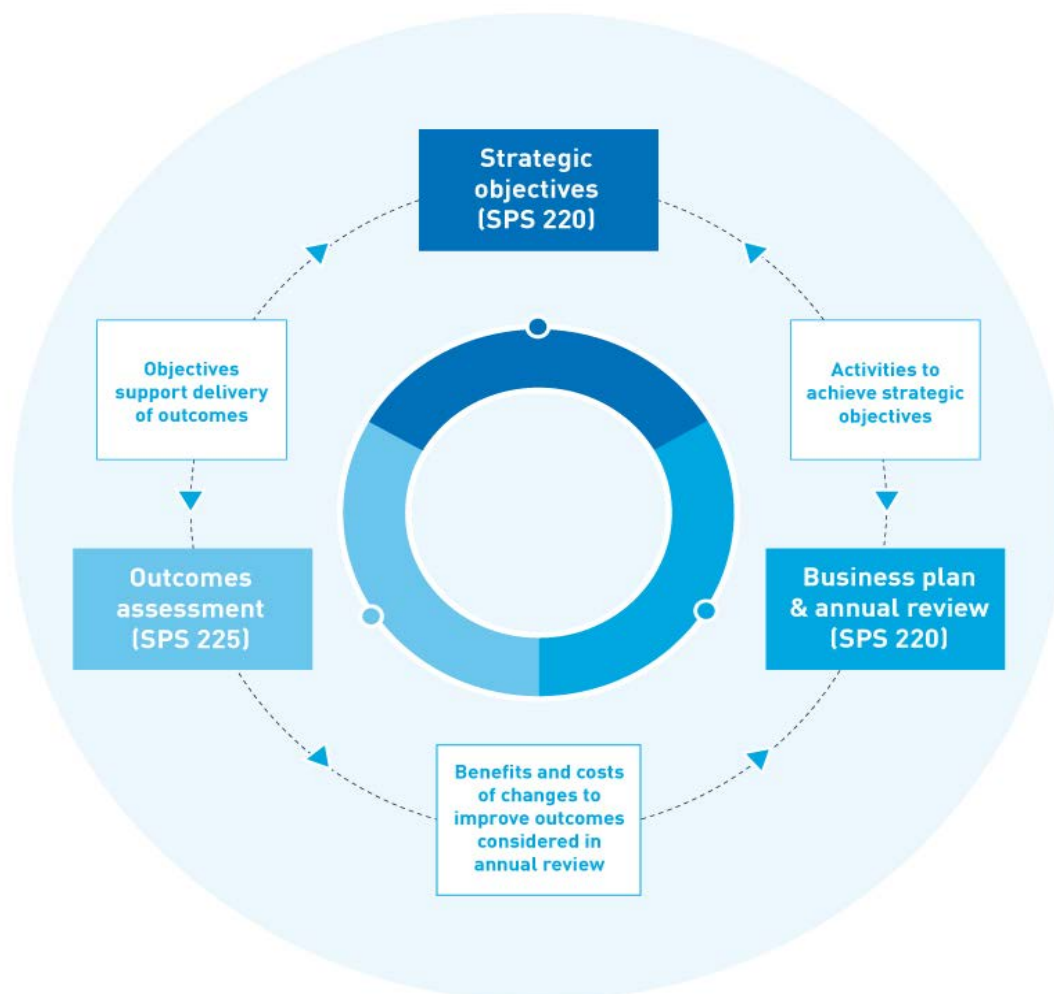
APRA has long recommended that RSE licensees consider the scale test as a starting point for undertaking a broad outcomes assessment, covering all members, and including consideration of net investment returns, expenses and costs, insurance, and other benefits and services provided. Members in all products provided by an RSE licensee should be able to have confidence that they are being provided sound outcomes.

APRA's proposals require RSE licensees to assess the outcomes provided to members in both absolute terms and relative to objective benchmarks and other RSEs. The comparison with other products and options available in the industry will be a valuable source of information for an RSE licensee when considering the results of its self-assessment. Proposed SPS 225 requires an RSE licensee to demonstrate that its selection of other RSEs is rigorous and will provide a meaningful comparison, and also to document the methodology and measures used to undertake the assessment.

The Government has proposed that the existing scale test for MySuper products be replaced by a broader outcomes assessment.⁸ The final form of any legislative amendments may have implications for the proposed outcomes assessment in SPS 225 and the guidance provided in SPG 225. APRA will seek to ensure that the requirements under SPS 225 appropriately align with any legislative requirements, when the final legislative position is known.

The prudential requirements under SPS 220 and SPS 225 are designed to ensure that RSE licensees are regularly monitoring and assessing the outcomes provided to members. The findings of the outcomes assessment are proposed to be a key input into an RSE licensee's strategic and business planning process; the conclusions resulting from the assessment are expected to be considered as part of the annual review of the business plan and to inform the strategic objectives set by the Board (Figure 3).

Figure 3 Linking the outcomes assessment and strategic and business planning



APRA observes that not all RSE licensees consistently specify actions to be taken in the event that the outcomes sought for members are not being delivered. Accordingly, as part of the

⁸ [Treasury Laws Amendment \(Improving Accountability and Member Outcomes in Superannuation Measures No. 1\) Bill 2017](#)

outcomes assessment, RSE licensees will be required to identify if any improvements to its operations would improve outcomes provided to members. Where such improvements are identified, proposed SPS 225 requires RSE licensees to consider the costs and benefits of making those changes as part of the annual review of their business plans.

The outcomes assessment is integral to ensuring that the Board is cognisant of, and gives appropriate consideration to, the quality of the outcomes it is providing for members. Accordingly, setting out the prudential requirements in relation to this assessment in a separate prudential standard, SPS 225, rather than incorporating them elsewhere in the suite of prudential requirements will ensure they are given appropriate consideration by RSE licensees.

2.4 Prudential Practice Guide SPG 225 Outcomes Assessment

To support RSE licensees to comply with SPS 225, APRA proposes to issue a new prudential practice guide, SPG 225. The new guide focuses on areas where APRA has observed room for improvement in current practices in assessing outcomes, including in the application of the existing scale test. Best practice in assessing the delivery of outcomes requires an RSE licensee to form a detailed understanding of its membership and particular cohorts. In many instances, this does not involve the RSE licensee putting in place new or complex data collection practices or projects but rather embedding a more comprehensive use of existing tools and data-sets.

Areas requiring particular improvement are genuine consideration of the impact of scale on the outcomes being delivered, and the quality and robustness of the comparison with appropriate benchmarks and other RSEs. APRA has observed that some RSE licensees have constructed peer group comparisons that appear to have been chosen as they provide a favourable comparison for the RSE licensee's product. Proposed SPG 225 provides guidance to RSE licensees on developing a methodology for conducting comparisons in a manner that is objective and seeks to ensure that the conclusions drawn are meaningful.

2.5 Commencement of proposed SPS 220 and SPS 225

Subject to the outcome of this consultation, APRA proposes that SPS 220 and SPS 225 will commence on 1 January 2019.

APRA recognises that the outcomes assessment is a new prudential requirement and RSE licensees are likely to require a period of time to prepare and consider how to undertake it. APRA intends to release final standards in mid-2018. This timeframe would provide RSE licensees with at least six months to prepare for the commencement of these standards.

APRA recognises that many RSE licensees review and update their strategic objectives and business plans prior to the commencement of a new financial year. Commencement of SPS 220 and SPS 225 in January 2019 is expected to enable RSE licensees to appropriately reflect the requirements of SPS 220 and SPS 225 in their review processes for the 2019/20 financial year.

2.6 Consultation questions

Submissions are welcome on all aspects of the proposals outlined in Chapter 2 and the drafting of SPS 220, SPS 225, SPG 221 and SPG 225. Specific areas where feedback would be of assistance to APRA are outlined below.

Table 1 Chapter 2 Consultation questions

Amendments to SPS 220: business planning	1. Are there additional or alternative strategic and business planning requirements APRA should consider?
Amendments to SPS 220: expense management	2. Are there additional or alternative expense management requirements APRA should consider? 3. Is the concept of 'significant' expenditure in SPS 220 consistent with how RSE licensees currently undertake delegated expenditure decisions?
New SPS 225: outcomes assessment	4. Are there additional factors or considerations that should be included in the outcomes assessment?
Commencement	5. Will the proposed commencement date of 1 January 2019 provide RSE licensees appropriate time to prepare for implementation of SPS 220 and SPS 225? If not, why not?
New SPG 221 and new SPG 225	6. Is there any additional guidance APRA should consider including in the new SPG 221 and SPG 225 to assist RSE licensees in meeting the requirements in SPS 220 and SPS 225?
Amendments to existing prudential guidance	7. Has APRA incorporated in new SPG 221 sufficient guidance to enable existing SPG 221 and SPG 222 to be withdrawn? 8. Does Circular No. III.A.4 remain relevant to industry?

Chapter 3 – Proposed enhancements to the superannuation reporting framework

Accurate, comparable and timely data supports APRA's supervision of, and publications about, the superannuation industry. Since 2013, RSE licensees have submitted data to APRA under the new reporting framework implemented as part of the Stronger Super reforms. This data collection has afforded the opportunity for APRA to gain new and deeper insights into RSE licensee business operations and key risks as they evolve over time which, in turn, has informed APRA's enhanced supervisory approach. It has also enabled publication of more extensive data on the superannuation industry.

The collection and publication of comparable and detailed data is core to driving improved RSE licensee decision-making, accountability and a transparent focus on the delivery of member outcomes. The quality of the data submitted under the reporting standards continues to improve. However, APRA continues to observe areas for improvement, particularly for data relating to RSE-level and RSE licensee-level expenditure. This limits the ability of APRA, industry and other interested stakeholders to understand and analyse how fund assets are being used to support business operations, both within and across RSEs.

The Government has legislation currently before Parliament to enable APRA to collect more comprehensive data relating to non-investment expenses incurred by RSEs and RSE licensees by amending the *Financial Sector (Collection of Data) Act 2001* (FSCODA). These changes, if passed, would allow APRA to require RSE licensees to provide information on a look-through basis in relation to transactions between an RSE licensee and another entity. The changes would enable the collection of more detailed information on expense transactions and provide additional transparency on the ultimate purpose and destination of payments from the RSE.

This chapter discusses both APRA's and the Government's proposals. APRA's proposals however, are separate and can proceed independently of the Government's proposals.

3.1 Understanding RSE expenditure

A number of APRA's reporting standards require RSE licensees to report information at the RSE level in accordance with Australian Accounting Standards. This includes information about the financial position of, and flows into and out of, each RSE within its business operations for both supervisory and publication purposes.

Australian Accounting Standard 1056 Superannuation Entities (AASB 1056) has applied to RSE licensees since 1 July 2016. APRA expects that the introduction of AASB 1056 will change the data reported to APRA under a number of reporting standards, including *Reporting Standard SRS 330.0 Statement of Financial Performance* (SRS 330.0) and *Reporting Standard SRS 331.0 Services* (SRS 331.0). Specifically, it is likely that the quality of expense information will be improved by the addition of new categories of reporting and enhanced clarity around the extent of RSE licensee discretion when categorising fund expenses.

While the application of AASB 1056 is likely to improve the quality of reported data to APRA, APRA remains concerned that some existing problems regarding accuracy, comparability and depth in expense reporting will remain unresolved. This is because AASB 1056 permits RSE licensees discretion when deciding the particular category for the reporting of a particular type of expense. Further, the AASB 1056 methodology does not require consideration of expenses on a look-through basis and does not capture how members' money is used by the RSE licensee.

As such, APRA is considering how best to collect both financial statement information (based on AASB 1056) and more detailed and comparable data considered necessary for prudential supervision and publication purposes.

In particular, requiring data to be consistently reported in expense sub-categories on SRS 330.0 (across investment, administration, advice and insurance) may aid understanding about and comparison of fund expenses. The collection of expense data for MySuper products with the same granularity as fund-level data would facilitate greater understanding of potential cross-subsidisation and the extent to which each MySuper product is operating efficiently. The application of the proposed look-through powers would also provide an opportunity to collect more granular information about fund expenditure.

3.2 Reporting about superannuation service providers

SRS 331.0 captures information relating to services provided to an RSE, either by the RSE licensee, an external third party provider or an associate provider, and is generally reported in accordance with Australian Accounting Standards.

Data collected under SRS 331.0 is currently reported inconsistently by RSE licensees, which limits APRA's ability to use this information to support its supervision activities. APRA is therefore also considering the relationship between SRS 331.0 and AASB 1056 and, separately, how to collect service provider expense information on a look-through basis.

With respect to the proposed look-through powers, APRA is considering the depth of look-through requirements that would be appropriate and whether it would be feasible for an RSE to accurately report the value and type of service provision associated with the first non-associated entity in the chain of service providers. Box 1 describes how look-through expense reporting might work in practice. APRA requests feedback on the practicalities of an RSE licensee obtaining this information, particularly with regards to bundled service arrangements.

Box 1: Look-through expenses reporting⁹

The RSE licensee of BetterSuper enters into a contract with AdminNow Ltd (an associated entity of BetterSuper) to provide assistance with their administration including their advertising campaigns. Subsequently, AdminNow Ltd enters into a contract with BetterLook Promotion Company to create an advertisement to increase BetterSuper's membership base.

When reporting the expenses of BetterSuper under SRS 331.0, the RSE licensee of BetterSuper's will need to identify and separately report the expenses relating to advertising undertaken by BetterLook through AdminNow Ltd and the expenses relating to the administration services provided by AdminNow Ltd.

3.3 Financial statement information at the RSE licensee level

RSE licensees are required, through a combination of *Corporations Act 2001* and SIS Act requirements, to make RSE licensee level financial statements available on their website at all times. When the revised reporting collection was introduced in 2013, APRA determined that it was therefore appropriate to collect and publish only RSE level financial statement information.

Financial statement information at both the RSE and RSE licensee level is necessary, however, to provide a complete picture for APRA and other stakeholders of the movement of members' money into and out of an RSE licensee's financial accounts. Further, APRA's analysis of the publicly available RSE licensee level financial statements as part of its supervision activities suggests that they are not prepared in a consistent manner and do not require all items to be disclosed with sufficient granularity to enable adequate transparency and comparability of key information, such as expenditure by material expense categories. It is also not possible to reconcile the information in the financial statements with the data reported under SRS 330.0 and SRS 331.0.

APRA is therefore considering whether and how to collect RSE licensee level financial statement information consistent with items reported in accordance with *Australian Accounting Standard 101 Presentation of Financial Statements* (AASB 101). In some areas APRA is likely to specify reporting of some items that diverges from AASB 101, for example where APRA requires certain items such as the capital or reserves held to meet the operational risk financial requirement.

3.4 Consultation questions

APRA recognises the significant complexities and cost implications for RSE licensees that can arise from changes to the reporting standards. In particular, while APRA has collected investment information on a look-through basis for a number of years, it is likely that there

⁹ Box 1 draws on an example provided in the Explanatory Memorandum to the [Treasury Laws Amendment \(Improving Accountability and Member Outcomes in Superannuation Measures No. 1\) Bill 2017](#)

will be additional complexities associated with collecting expense information on a similar basis. For example, APRA understands that it is common for RSE licensees to enter into contracts with a provider covering a number of separate services with one bundled price. For some of these arrangements, there may be difficulties in the service provider and RSE licensee attributing expenses to the different services provided under the one contract.

Submissions are welcome on all aspects of the proposals outlined in Chapter 3, including feedback on whether a pilot or similar trial with a selection of RSE licensees and service providers would assist to identify expense data that is currently or readily available to RSE licensees. Specific areas where feedback would be of assistance to APRA are outlined below.

Table 2 Chapter 3 Consultation questions

Alignment with AASB 1056	<ol style="list-style-type: none"> 1. What have been the material changes to the way you categorise and report expense information under AASB 1056? 2. In what areas would it be appropriate for APRA to require expense information that diverges from AASB 1056 to ensure adequate comparability and transparency?
Look-through	<ol style="list-style-type: none"> 3. Drawing from experience gained from reporting investments data on a look-through basis, what material operational challenges and costs are envisaged from reporting expense information on a look-through basis? 4. To what degree do you use bundled service arrangements? Are there material impediments for you in attributing or estimating the value of each component service in the bundle and, if so, how could they be addressed?
SRS 331.0: updated items	<ol style="list-style-type: none"> 5. On SRS 331.0, do the roles listed on items 1-2 and expense types listed on item 4 provide a complete coverage of current industry arrangements? If not, what suggestions do you have for additions to the list?
Definition of associate	<ol style="list-style-type: none"> 6. What areas should guidance on the definition of associate cover in order to support consistent reporting under SRS 331.0?
RSE licensee financial statements	<ol style="list-style-type: none"> 7. What are the key challenges for you in reporting of RSE licensee level financial statements information? How might these be affected by designing requirements based on AASB 101?
Pilot testing	<ol style="list-style-type: none"> 8. What are the key issues that a pilot or trial of expanded expense information reporting should focus on?
Transition timeframe	<ol style="list-style-type: none"> 9. If APRA were to change the reporting requirements as described in this chapter, what would be an appropriate transition period to enable you to implement these changes? If the transition needs would be different across different proposals, please specify this in your response.

Chapter 4 – Simplifying mechanisms for opting out of insurance

When announcing its package of proposed superannuation reforms in July 2017, the Government noted it had tasked APRA with making it easier for consumers to opt out of default life and disability insurance policies provided through superannuation.¹⁰

The SIS Act requires RSE licensees to provide a default level of life and total and permanent disability insurance in MySuper products on an opt-out basis. Income protection insurance may also be offered on the same basis. RSE licensees are required to ensure each member of MySuper product can elect to opt out of these arrangements.

It is important that all members of a MySuper product are able to change their level of cover in a simple and straightforward manner, including by opting out entirely (if they determine that is appropriate for their circumstances). APRA has observed a wide range of opt-out processes across the industry and supports the Government's expectation that opt-out processes permit fund members to implement decisions about their insurance cover in a timely manner. APRA therefore proposes to amend *Prudential Standard SPS 250 Insurance in Superannuation* (SPS 250) to require an RSE licensee to provide simple and straightforward opt-out processes for all insurance products.

APRA notes the work of the industry to address concerns about the sustainability of insurance in superannuation through the Insurance in Superannuation Working Group and the development by the industry of the Insurance in Superannuation Code of Practice. APRA understands that the release of the final Code of Practice is imminent and will assess whether any changes to *Prudential Practice Guide SPG 250 Insurance in Superannuation* would assist industry's implementation of the proposed SPS 250 requirement.

Initiatives to address inconsistent opt-out practices through changes to the prudential framework and an Industry Code of Practice will contribute to improving the sustainability of insurance in superannuation and addressing public concerns about the inherent complexity in the framework.

¹⁰ Minister for Revenue and Financial Services, Media release: [Reforms to give consumers more power at the heart of a stronger superannuation system, 24 July 2017](#).

Chapter 5 – Consultation

APRA invites written submissions on its proposals outlined in this discussion paper, the consultation questions in Chapters 2 and 3 and the drafting in:

- proposed *Prudential Standard SPS 220 Risk Management*;
- proposed *Prudential Standard SPS 225 Outcomes Assessment*;
- proposed *Prudential Practice Guide SPG 221 Strategic and Business Planning*; and
- proposed *Prudential Practice Guide SPG 225 Outcomes Assessment*.

This discussion paper, proposed prudential standards and proposed prudential practice guides are available on APRA's website at: <http://www.apra.gov.au>.

Written submissions should be sent to superannuation.policy@apra.gov.au by 29 March 2018 and addressed to:

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

APRA also intends to convene discussions about the proposals with interested parties during the consultation period. To express your interest in discussing the proposals, please contact superannuation.policy@apra.gov.au.

Important disclosure notice – publication of submissions

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence.

Automatically generated confidentiality statements in emails do not suffice for this purpose.

Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA).

APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.

Attachment A – Summary of proposals

A summary of the changes proposed to existing SPS 220, SPG 220, SPG 221 and SPG 222.

<i>Prudential Standard SPS 220 Risk Management</i>	
Paragraph 16(c)	Amended to align with CPS 220
Paragraph 16(g)	New paragraph replicated from CPS 220
Paragraph 18	Amended to align with CPS 220 in addition to a new reference to "Attachment A"
Paragraphs 19 and 20	Amended to align with CPS 220
Paragraphs 21 to 24 inclusive	New paragraphs relating to expense management
Paragraph 26(a)	Amended to align with CPS 220
Paragraph 35(b)	Amended to include the words "whether these activities are supported by adequate resources"
Paragraphs under the heading "Adequacy of resources"	Deleted
Attachment A	New requirements relating to strategic and business planning

<i>Prudential Practice Guide SPG 220 Risk Management</i>	
Paragraphs 19 to 21 inclusive	Paragraphs 19 to 21 have been removed and merged into the proposed SPG 221.

<i>Prudential Practice Guide SPG 221 Adequacy of Resources</i>	
Entire SPG	Proposed to be withdrawn.

<i>Prudential Practice Guide SPG 222 Management of reserves</i>	
Entire SPG	Paragraphs merged into the proposed SPG 221 and existing SPG 222 proposed to be withdrawn.

Attachment B – Policy options and estimated comparative net benefits

In designing the proposals outlined in this discussion paper, APRA considered three policy options:

1. retain existing strategic and business planning requirements in SPS 220 with no further alignment with CPS 220;
2. issue new or amended prudential guidance on APRA's expectations about RSE licensee strategic and business planning and fund expenditure decision-making in the form of amendments to SPG 220 (or in the form of a new standalone prudential practice guide); or
3. update the prudential framework by amending SPS 220 in respect of strategic and business planning, fund expenditure and alignment with CPS 220 and introduce new SPS 225, new SPG 221 and new SPG 225.

These options are discussed further below, together with preliminary analysis of the costs and benefits of implementing each approach. The analysis of costs associated with each option focuses on compliance costs, that is, the direct administrative, substantive business and financial costs incurred by RSE licensees in complying with the proposed prudential requirements. Indirect costs for RSE licensees and other stakeholders arising as a consequence of regulation (or not applying regulation) are also considered.

Any information provided in response to APRA's request for cost-benefit analysis information (refer to Chapter 1) will be used by APRA to quantify the change in regulatory burden using the Commonwealth Regulatory Burden Measures Tool, and inform calculations of the net benefits of the proposal.

Option 1: Status quo	Maintain APRA's existing prudential requirements on strategic and business planning in SPS 220.
Option 2: New or amended prudential guidance	Issue new or amended prudential guidance on APRA's expectations on strategic and business planning, RSE expenditure and undertaking the proposed legislative MySuper outcomes assessment.
Option 3: Update prudential framework	Amend SPS 220 to introduce new requirements on strategic and business planning and RSE expenditure and to align with CPS 220 in respect of adequacy of resources. Issue new SPS 225, new SPG 221 and new SPG 225.

Under Option 1, RSE licensees would continue to be subject to the existing prudential requirements under SPS 220, including those relating to strategic and business planning and adequacy of resources. There would be no new requirements relating to RSE expenditure and no new standard requiring an outcomes assessment to be completed. APRA considers that

there are no additional costs from this option and RSE licensees would benefit from the cost-savings of not having to comply with additional requirements.

Under Option 2, APRA would pursue its objective of enhancing industry-wide practices in RSE licensee strategic and business planning, fund expenditure decision-making and assessing outcomes to members through prudential guidance. This could take the form of amendments to existing guidance (e.g. SPG 220) or a new prudential practice guide. RSE licensees that follow the amended guidance could face some additional compliance costs, particularly if the RSE licensee has weaknesses in these areas, but the guidance would not be mandatory. The voluntary nature of prudential guidance would result in little change in industry practice, thereby significantly reducing the potential benefits from an overall improvement in industry standards.

Option 3 involves APRA amending SPS 220 and introducing new SPS 225, new SPG 221 and new SPG 225. As for Option 2, the changes seek to enhance industry-wide practices in strategic and business planning, RSE expenditure and assessing member outcomes so that RSE licensees are well-positioned to address emerging challenges and deliver sound outcomes.

New prudential requirements in SPS 225 would likely increase compliance costs for RSE licensees. APRA has sought to minimise the impact on industry in relating to strategic and business planning by locating the new requirements in SPS 220 rather than including them in a new prudential standard. RSE licensees will be able, under SPS 225, to design their outcomes assessment in a manner that best meets the needs of their business operations. Further, under this option, there would a reduction in the prudential requirements for RSE licensees by streamlining the requirements for adequacy of resources in SPS 220.

On balance, Option 3 represents the most effective policy mechanism to achieve the necessary improvements in industry practices. Changes in prudential standards are core to driving industry-wide changes in standards of practice. Issuing new prudential guidance alone is unlikely to be sufficient to address the issues APRA has identified with current RSE licensee practices in the areas covered by revised SPS 220 and new SPS 225. As a consequence, APRA considers that Option 3 provides the greatest net benefit.



 APRA

The logo for APRA (Australian Prudential Regulation Authority) consists of a stylized circular symbol on the left, followed by the letters "APRA" in a bold, serif font.