

Ms Helen Rowell
Deputy Chairman
Australia Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

11 September 2017

Sent via email to: superannuation.policy@apra.gov.au

Dear Ms Rowell

STRENGTHENING OPERATIONAL GOVERNANCE OF RSE LICENSEES Feedback on Upcoming Consultation

Thank you for the opportunity to provide feedback on APRA's proposal to change the superannuation prudential standards as part of its initiative to strengthen operational governance practices of RSE licensees.

Who is Mercer?

Mercer is one of the world's leading firms for superannuation, investments, health and human resources consulting and products. Across the Pacific, leading organisations look to Mercer for global insights, thought leadership and product innovation to help transform and grow their businesses. Supported by our global team of 22,000, we help our clients challenge conventional thinking to create solutions that drive business results and make a difference in the lives of millions of people every day.

Mercer Australia provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have over \$150 billion in funds under administration locally and provide services to over 2.4 million superannuation members and 15,000 private clients. Our own master trust in Australia, the Mercer Super Trust, has around 230 participating employers, 224,000 members and more than \$21 billion in assets under management.

Operational Governance Framework

From the round table discussions in Melbourne and Sydney, we understand the purpose of this initiative is to lift the strategic and business planning processes of RSE licensees in general; and to encourage a focus on risk management.

We question the need to introduce additional frameworks and/or prudential standards to achieve this purpose. In our view, the above could be done through issuing guidance papers on APRA's expectations and best practice. This would be a more effective tool in encouraging and instilling

the behaviours that APRA is looking for and allow APRA to remain principles based; than by introducing new requirements which would likely need to be prescriptive to achieve the intended purpose.

Furthermore, we note that the term 'framework' has compliance implications and associations, which would detract from the goal of encouraging a risk management focus. If deemed necessary, we posit that any new requirement could be incorporated under existing prudential standards/frameworks instead to minimise any associated costs.

Member Outcomes assessment for Choice members

We recommend that the outcomes test for choice products focuses on quality, value and money outcomes of the product but excludes the 'appropriateness' assessment that has been proposed for MySuper. Choice members, unlike their MySuper counterpart, make active investment decisions and it would be impossible for an RSE licensee to determine the appropriateness of the investment offering by taking into account each member's entire investment portfolio, which it would have no way of knowing.

For the outcomes assessment for both MySuper and Choice members, we also recommend that consideration be given to Funds with many sub-plans and investment options. For Funds such as these, an assessment for each group of members on different fee structures, benefit designs and investment options etc. would not be feasible and would increase the regulatory burden on the RSE licensee. Any assessment requirement introduced should be practical and not impose undue additional costs.

Expense Reporting

As discussed at the round tables, there may be potential commercial implications for a service provider to provide a breakdown of fees for bundled arrangements for RSE licensees to allocate into expense buckets. We request that APRA provide details of the proposed 'buckets' as soon as practically possible so that any implications can be properly considered. We look forward to providing further feedback when APRA consults on the look-through expense reporting.

Please contact Raymond Ng on (02) 8864 6887 or raymond.ng@mercer.com if you would like to discuss our feedback.

Yours sincerely,



Michelle Mott
Chief Risk & Compliance Officer