



 APRA

INFORMATION PAPER

Review of APRA's 2013 superannuation prudential framework

30 April 2019

Disclaimer and Copyright

While APRA endeavours to ensure the quality of this publication, it does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0). This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit <https://creativecommons.org/licenses/by/3.0/au/>

Contents

Foreword	4
Summary of findings	6
Chapter 1 - Background	11
1.1 Development of the prudential and reporting standards	11
Chapter 2 - Approach to the post-implementation review	13
2.1 The analysis process	13
Chapter 3 - Governance	16
3.1 Governance	16
3.2 Fit and Proper	21
3.3 Conflicts of interest	23
Chapter 4 - Risk Management	26
4.1 Risk management	26
4.2 Audit and Related Matters	28
Chapter 5 - Financial Requirements, Operational Risk and Outsourcing	30
5.1 Operational Risk Financial Requirement	30
5.2 Outsourcing	31
5.3 Business Continuity Management	34
Chapter 6 - Investments	36
Chapter 7 - Insurance	39
Chapter 8 - Member Flows and Products	41
8.1 Defined Benefit matters	41
8.2 MySuper and Eligible Rollover Fund transition	41
Chapter 9 - Reporting framework	43

Foreword

APRA's current prudential framework for superannuation was established in 2013, with the implementation of the Stronger Super reforms. The suite of new prudential standards represented a significant addition to the regulatory framework for superannuation and sought to promote a material uplift in industry practices in key areas, including governance and risk management. Given this landmark regulatory reform, APRA committed to undertake a post-implementation review of the effectiveness of the standards in meeting their objectives once they had been in place for several years.

Recognising the changing environment in which the superannuation industry operates, and the need for RSE licensees to have a stronger focus on member outcomes, APRA formally commenced this review in early 2018 with the expectation that it would demonstrate progress by the industry in many areas, but would also highlight areas where further enhancement in industry practices was needed.¹ In particular, the review sought to determine whether the largely compliance-based approach to governance and risk management taken by industry prior to the prudential framework's introduction had given way to an approach with a stronger focus on improving processes and practices in the best interests of superannuation members.²

There has been significant change within the superannuation industry since 2013, including industry consolidation and changes to business models and operations. In addition, the effectiveness of the superannuation industry in meeting member and community expectations was examined recently by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), and also by the Productivity Commission in its review of the efficiency and competitiveness of the Australian superannuation system.³

As a result, the post-implementation review has sought to take into account both the original objectives of the prudential standards at the time they were issued and changing (and increased) expectations commensurate with the evolution of a more mature superannuation industry since that time.

The review of the prudential framework involved both consideration of the outcomes of supervisory processes and input from public consultation with stakeholders from across the financial services sector. Based on consideration of the information provided through these

¹ APRA, *Post-implementation review of APRA's superannuation prudential framework* (Discussion Paper, May 2018) <<https://www.apra.gov.au/post-implementation-review-apras-superannuation-prudential-framework>>.

² Throughout this paper 'members' includes other beneficiaries as and where relevant.

³ Commonwealth, Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, established on 14 December 2017 by the Governor-General of the Commonwealth of Australia, His Excellency General the Sir Peter Cosgrove AK MC (Retd) <<https://financialservices.royalcommission.gov.au/Pages/default.aspx>>; Productivity Commission, *Review of the efficiency and competitiveness of the Australian superannuation system*, established on 17 February 2016 <<https://www.pc.gov.au/inquiries/completed/superannuation>>.

channels, APRA's view is that the superannuation prudential framework has largely met its original objectives, in that it has led to improved practices and processes in many areas across the superannuation industry. Nevertheless, it is also clear from information gathered during the review that this uplift in industry practices has not kept pace with the heightened expectations of members, regulators and the broader community in all areas. As a result, the prudential framework requires further change to address the issues highlighted by the review, and to remain fit for purpose into the future.

The enhancements outlined in this information paper, many of which were suggested by industry stakeholders, will strengthen the prudential framework within which superannuation RSE licensees operate and go some way toward addressing the areas identified by the Royal Commission and in the Productivity Commission's review. Some of the enhancements could be implemented by making changes to the relevant prudential standards and guidance material, or by taking a stronger or different focus in APRA's supervisory approach, or a combination of both of these approaches. APRA will consider this further as it develops its approach to progressing the findings of this review.

Over the past few years, APRA has continued to shift the focus of its supervision of superannuation entities beyond the policies and processes required under the prudential framework to the effectiveness of their implementation in practice, and the approach taken by RSE licensees to ensure they are delivering quality member outcomes and continuing to enhance their practices. In particular, APRA has recently released new prudential requirements focused on ensuring RSE licensees operate their business to continuously assess performance and improve outcomes for members, and is identifying and taking action on underperforming funds. APRA has also recently communicated its current supervisory priorities to RSE licensees, many of which address issues highlighted by the Royal Commission and Productivity Commission. Further, APRA has recently completed its Enforcement Review and released its revised Enforcement Approach that outlines APRA's supervisory approach and enforcement philosophy.⁴

APRA will therefore be considering the most appropriate way to implement the enhancements identified in its review of the prudential framework, as outlined in this information paper, in that wider context as it progresses its superannuation policy and supervision priorities for the next 12-18 months.⁵

⁴ APRA, *APRA's Enforcement Approach* (April 2019) <<https://www.apra.gov.au/enforcement>>.

⁵ APRA, *APRA's Policy Priorities* (Information Paper, February 2019) <<https://www.apra.gov.au/information-papers-released-apra>>.

Summary of findings

In this post-implementation review, APRA examined whether the 2013 prudential framework for superannuation:

- met its objectives in terms of improving practices of RSE licensees from those observed before 2013;
- resulted in any unintended consequences; and
- continues to remain fit for purpose going forward.

The review has led APRA to conclude that the prudential framework has resulted in improved practices across the industry and stakeholders did not identify any material unintended consequences. However, while the original objectives of the prudential framework were largely met, further enhancements to the framework are needed to enable it to remain fit for purpose given the evolution of the industry and changing stakeholder expectations.

In this regard, the review has identified some specific areas where APRA will consider enhancements to the framework and/or to its supervisory practices. Table 1 sets out findings in relation to each individual prudential standard, including whether they largely achieved their objectives and continue to remain fit for purpose given changes since the standards took effect. The subsequent chapters explain these findings in more detail.

Table 1 – High-level summary of findings

Prudential standard and related guidance	Achieved objective	Remains fit for purpose
<i>SPS 510 Governance</i>	Over the past five years, RSE licensee board governance frameworks and practices have materially improved	Strengthening of the requirements appears warranted in a number of areas to ensure practices meet the intent of the standard
<i>SPS 520 Fit and Proper</i>	While some improvements have been observed, most RSE licensees view the requirements as a compliance exercise	The standard and its guidance could be strengthened to lift qualifications and accountability of responsible persons within RSE licensees
<i>SPS 521 Conflicts of Interest</i>	The recognition and documentation of conflicts of interest have improved	Frameworks for appropriate identification, avoidance and management of conflicts are not always reflected in effective practices and culture
<i>SPS 220 Risk Management</i>	Risk management frameworks and practices across the	The consideration of risk could be further strengthened to ensure effective risk management practices are embedded across the

Prudential standard and related guidance	Achieved objective	Remains fit for purpose
	superannuation industry have been strengthened markedly	superannuation sector and are commensurate with industry maturity
<i>SPS 310 Audit and Related Matters</i>	Industry practices have improved and the key requirements of the standard are being met	No material comments
<i>SPS 114 Operational Risk Financial Requirement</i>	The introduction of the operational risk financial requirement (ORFR) in 2013 led to sufficient reserves being held by RSE licensees to cover operational risk events	RSE licensees are observed to use the reserve only in limited circumstances. Further review of the ORFR objective and approach is needed
<i>SPS 231 Outsourcing</i>	Outsourcing practices have improved, particularly processes associated with establishing outsourced arrangements	Given the prominence of outsourcing in the superannuation industry, and ongoing weakness in aspects of industry practices, the standard could be further strengthened in some areas
<i>SPS 232 Business Continuity Management</i>	Since 2013, RSE licensees have improved their business continuity management	Business continuity requirements could be clarified to reflect prudent expectations in predominantly outsourced business models
<i>SPS 530 Investment Governance</i>	Practices and frameworks in relation to investment decision-making and governance practices have improved across the superannuation industry	The complexity that exists in the investment structures across the different business models operating in the superannuation industry needs to be better reflected in the standard and/or guidance
<i>SPS 250 Insurance in Superannuation</i>	The practices of RSE licensees in relation to the management and design of their insurance arrangements have improved	Practices with respect to insurance strategy, design and selection of insurers, and how these affect member outcomes, are consistent across the industry and requirements or guidance in these areas could be enhanced
<i>SPS 160 Defined Benefit Matters</i>	Industry practices have improved and the key requirements of the standard are being met	No material comments
<i>SPS 410 MySuper Transition</i>	This standard was generally viewed as effective	For any future transition standards, provide further clarity on expectations and key milestones
<i>SPS 450 Eligible Rollover Fund (ERF) Transition</i>	This standard applied to a small portion of the industry and similar issues to SPS 410 were identified	No material comments

Prudential standard and related guidance	Achieved objective	Remains fit for purpose
<i>Superannuation Reporting Standards</i>	Much of the data collected since 2013 is published and used extensively and the quality of the data collected under the reporting standards has improved	Further improvements to enhance the scope, granularity and quality and consistency of the data collected is required to improve its usefulness in assessing trends and performance across the industry

Table 2 below sets out the specific areas where the review has identified potential enhancements to the prudential framework. APRA will consider whether the changes should be progressed through revisions to the prudential standards, prudential guidance or through APRA’s supervisory approach in the wider context of its superannuation policy and supervision priorities for the next 12-18 months. Where changes to prudential standards or guidance are proposed, APRA will undertake additional consultation on the specific changes, in accordance with its usual consultation processes.

Table 2 – Potential enhancements

Prudential standard	Proposed enhancements
<i>SPS 510 Governance</i>	<ul style="list-style-type: none"> • Strengthening the nomination, appointment and removal process of RSE licensees particularly in relation to: <ul style="list-style-type: none"> – skills and experience of boards; this could be achieved by requiring RSE licensees to have a skills matrix in place, with additional guidance to be provided on the formulation of this matrix and its key elements; – composition of boards needs to be considered holistically to ensure the board continues to remain appropriate for its membership base into the future; this could be achieved by limiting board tenure to a specified period and other enhancements to board renewal processes; and – board performance assessment processes could be more robust and address the board’s performance in a range of areas, including delivery of member outcomes and strategy execution; APRA could provide feedback on industry best practice in relation to board performance assessment processes.
<i>SPS 520 Fit and Proper</i>	<ul style="list-style-type: none"> • Detailing more explicitly the factors that RSE licensees are required to consider when determining the fitness and propriety of responsible persons, including their skills and experience. • Reviewing notification requirements for individuals that are assessed by RSE licensees as not having satisfied fitness and propriety requirements.
<i>SPS 521 Conflicts of Interest</i>	<ul style="list-style-type: none"> • Strengthening the requirements for managing conflicts of interest, including:

Prudential standard	Proposed enhancements
	<ul style="list-style-type: none"> - improving processes relating to the disclosure of conflicts, including the quality and usability of conflicts of interest registers; - requiring RSE licensees to explicitly assess the impact of conflicts of interest on member outcomes; - introducing a two-stage process for the consideration of conflicts of interest – first establish interests held, then establish whether those interests give rise to a conflict; and - other enhancements to the standard and/or guidance that strengthen or clarify expectations for the avoidance, management and/or mitigation of conflicts.
<i>SPS 220 Risk Management</i>	<ul style="list-style-type: none"> • Harmonising SPS 220 with the equivalent standard that applies to other industries (CPS 220) in key areas, for example aligning requirements on risk culture and the requirement to have an independent risk function and Chief Risk Officer. • Strengthening requirements for RSE licensees to consider risks and risk appetite in their strategic planning.
<i>SPS 114 Operational Risk Financial Requirement</i>	<ul style="list-style-type: none"> • Reviewing the objectives and operation of the ORFR including: <ul style="list-style-type: none"> - refining the percentage of funds under management (FUM) to be held for operational risk events to reflect the size and complexity of RSE licensees' business operations; - refining the data collection for operational risk loss events or 'near-misses' to allow analysis of baseline operational risk in the sector; and - strengthening the way RSE licensees assess operational risk events to encourage consideration of risk events other than catastrophic events. • Consider developing a broader reserving standard and guide that reflect prudent practices around the management of all reserves, including those established for operational risk events.
<i>SPS 231 Outsourcing</i>	<ul style="list-style-type: none"> • Strengthening the standard to ensure considerations relating to outsourcing are appropriately reflected in the strategic planning of RSE licensees. • Strengthening the requirements for outsourcing to related party and intra-group entities to ensure conflicts of interest are more effectively avoided, managed or minimised.⁶
<i>SPS 232 Business Continuity Management</i>	<ul style="list-style-type: none"> • Expanding the scope of business continuity management to ensure RSE licensees consider the impact of events that are not directly connected to the business operations of the RSE licensee and the business operations of its outsourced service providers, such as material downstream vendors.

⁶ This change addresses Royal Commission Recommendation 4.14.

Prudential standard	Proposed enhancements
<i>SPS 530 Investment Governance</i>	<ul style="list-style-type: none"> • Clarifying or strengthening the factors that RSE licensees are required to consider for member directed (choice) investment options. • Considering additional guidance or requirements to enhance the application of investment strategy stress testing. • Reviewing and updating the guidance on consideration of ESG factors in formulating investment strategy.
<i>SPS 250 Insurance in Superannuation</i>	<ul style="list-style-type: none"> • Strengthening requirements for the development of appropriately targeted insurance arrangements that reflect an RSE licensee’s membership base.⁷ • Strengthening the requirements for selecting an insurer, including consideration of any conflicts.
<i>Superannuation Reporting Standards</i>	<ul style="list-style-type: none"> • Reviewing the reporting standards to ensure that the current definitions are both suitable and can be interpreted more consistently, the level of materiality reflects the purpose for which the data is being collected, and there is appropriate coverage of both MySuper and choice products. • When new reporting requirements are being considered or are required, ensuring there is: <ul style="list-style-type: none"> – more effective engagement with industry during their development; – improved communication with industry in relation to the purpose of collecting particular data, including whether it assists in prudential supervision of the soundness of the entity or in analysis and benchmarking of member outcomes; and – appropriate consideration of the different business models that exist across the superannuation industry.

⁷ This change addresses Royal Commission Recommendation 4.15.

Chapter 1 - Background

In 2009, the Government announced a review into the governance, efficiency, structure and operation of Australia's superannuation system (the Cooper Review). The Cooper Review identified significant issues across the entire superannuation system including in relation to the regulatory environment.⁸

The Cooper Review highlighted that while the 1996 Financial System Inquiry (the Wallis Inquiry) expressed the view that the role of the prudential regulator within superannuation was at the lower end of supervisory intensity, APRA needed to pursue that role in a manner that is focused on improving outcomes for members. The Cooper Review concluded that at the core of APRA's enhanced new role should be the ability to make prudential standards to improve structures and practices across RSE licensees and the gathering and publishing of additional data relating to investments, costs and other relevant data.

Following the release of the Cooper Review's final report in late 2010, the Government announced that it would develop legislation to implement many of the findings and recommendations of the review (the 'Stronger Super' reforms). Legislation to provide APRA with prudential standards-making powers was progressed through Parliament in 2013.

Previously, prudential requirements in superannuation consisted of the primary legislation and related instruments, and an amalgam of guidance notes, circulars and other prudential guidance relating to the implementation of the *Superannuation Industry (Supervision) Act 1993* (SIS Act). These bore little resemblance to the prudential requirements APRA had established for the other regulated financial industries.

1.1 Development of the prudential and reporting standards

The development of the current superannuation prudential framework started in late 2011 with the release of the discussion paper *Prudential Standards for Superannuation*, in which APRA outlined the broad structure of the new prudential framework.⁹ APRA subsequently released 11 new draft prudential standards in early 2012 for public consultation.¹⁰ The standards covered superannuation-specific topics and also harmonised requirements with those for other APRA-regulated industries, where appropriate.

Following extensive consultation, the initial superannuation prudential standards commenced in mid-2013. APRA finalised 21 prudential practice guides and 35 prudential

⁸ Review into the governance, efficiency, structure and operation of Australia's superannuation system (2010) <<https://treasury.gov.au/review/super-system-review>>.

⁹ APRA, *Prudential Standards for Superannuation* (Discussion paper, September 2011) <<https://webarchive.nla.gov.au/awa/20170421082752/http://www.apra.gov.au/Super/Pages/superannuation-prudential-standards-consultation.aspx>>.

¹⁰ APRA, *Prudential Standards for Superannuation* (Response to submissions, April 2012) <<https://webarchive.nla.gov.au/awa/20170422035128/http://www.apra.gov.au/Super/Pages/Prudential-Standards-for-Superannuation-April-2012.aspx>>.

reporting standards after consultation over the course of 2013. The suite of new prudential standards is summarised in Table 3 below.

Table 3 – Summary of new standards

Prudential standards extended to the superannuation industry from current banking and insurance prudential standards
Governance
Fit and Proper
Outsourcing
Business continuity management
Risk management
Audit and related matters
Prudential standards specifically for superannuation
Investment Governance
Conflicts of interest
Defined benefit matters
Operational risk financial requirement
Insurance in superannuation
Transition to MySuper

Chapter 2 - Approach to the post-implementation review

In the post-implementation review, APRA has sought to consider whether the prudential framework:

- achieved its original objectives; and
- remains fit for purpose.

To arrive at a balanced assessment of whether the framework achieved its objectives, APRA considered whether the framework contributed to improved processes and practices, whether RSE licensees have complied with key requirements of the standards, and whether any unintended consequences were observed with their implementation. In essence, the review sought to examine whether the policy objectives of the prudential framework were met, noting any difficulties with implementation.

In considering the reporting standards, APRA had regard to:

- whether the reporting standards met the purpose of supporting prudential supervision, including in supporting analysis of member outcomes, or APRA's obligations under the *Financial Sector (Collection of Data) Act 2001* (FSCODA); and
- any implementation challenges.

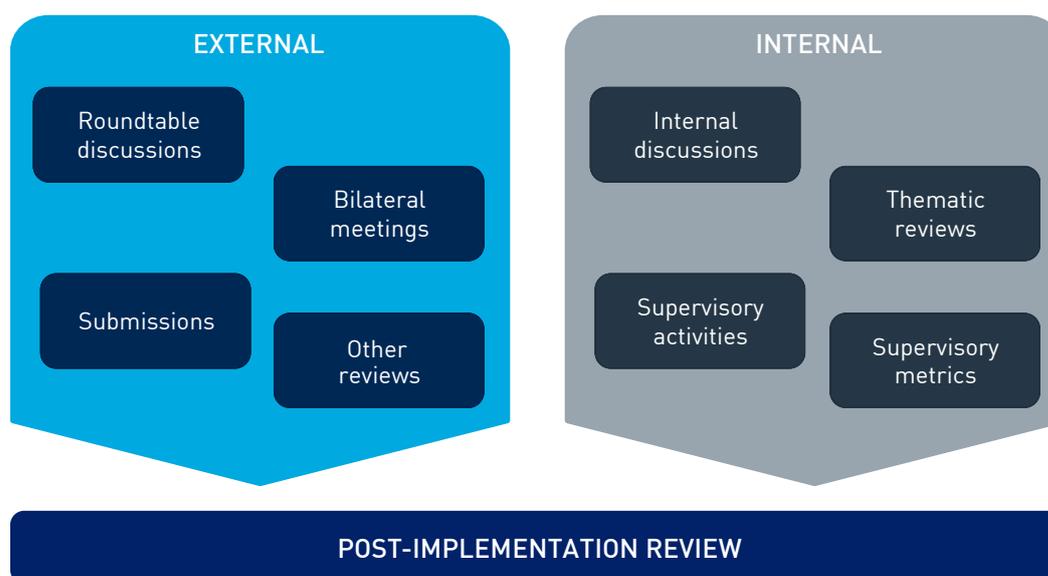
The analysis undertaken for this review involved broader consideration of what processes and practices the standards were designed to embed within industry and whether individual standards within the framework continue to remain fit for purpose or need enhancement. In relation to the reporting framework, the review also sought feedback on improvements to APRA's design and engagement process for future data collections.

The review has had regard to the current environment and developments. This includes the stronger focus on member outcomes reflected in a number of inquiries and reviews, for example the Productivity Commission's review and the Royal Commission. Many of the proposed enhancements to the framework align closely with the observations of these inquiries and reviews. However, APRA has not sought to explicitly address the relevant recommendations and findings of these reviews in this information paper. APRA will consider these as it progresses its superannuation policy and supervision priorities over the next 12 - 18 months.

2.1 The analysis process

APRA considered a range of evidence and used a number of approaches in this review, including a variety of information sources, to enable an informed assessment. However, it is important to recognise that in many areas the assessment is necessarily qualitative in nature. The diagram below sets out a summary of the sources used.

Figure 1 – Inputs into the review



Further detail on these information sources is summarised in the table below. During the first half of 2018, APRA published a series of papers designed to elicit input on specific topics.¹¹ Significant input was received from industry stakeholders through this process.

APRA also reviewed evidence from supervisory experience in implementing the new prudential standards, including the results of on-site reviews of superannuation RSE licensees' operations, regulatory data collected and other supervisory activities.

Table 4 – Summary of information sources for the review

Information source	Detail
Roundtable discussions	<ul style="list-style-type: none"> Seven external roundtables across Sydney, Melbourne and Brisbane, focused on the topic papers released for the review Internal roundtables focusing on the effectiveness of the framework in assisting supervisors
Written submissions	<ul style="list-style-type: none"> APRA received 15 submissions covering topics across the framework
Bilateral meetings	<ul style="list-style-type: none"> Bilateral meetings with stakeholders on particular issues
Other reviews	<ul style="list-style-type: none"> APRA's <i>Prudential Inquiry into the Commonwealth Bank of Australia</i>, the Royal Commission and Productivity Commission's reports were considered where relevant to the current prudential framework

¹¹ Post-implementation review of APRA's superannuation prudential framework Discussion paper and Short topic papers can be found at: <<https://www.apra.gov.au/post-implementation-review-apras-superannuation-prudential-framework>>.

Information source	Detail
Thematic reviews	<ul style="list-style-type: none"> Industry thematic reviews completed by APRA since 2013 including on board governance, related parties, conflicts of interest and insurance in super¹²
Supervisory activities	<ul style="list-style-type: none"> A sample of APRA's prudential reviews of individual entities, focusing on issues with the transition and implementation of the suite of prudential standards and reporting requirements
Supervisory metrics	<ul style="list-style-type: none"> High-level analysis of key risks using APRA's supervisory methodologies and tools (PAIRS and SOARS) to establish any trends in relation to compliance with the prudential framework

¹² APRA, 'Board governance thematic review' (Letter, 17 May 2018) <<https://www.apra.gov.au/letters-notes-advice-superannuation-rse>>, 'Related parties thematic review' (Letter, 29 May 2018) <<https://www.apra.gov.au/letters-notes-advice-superannuation-rse>>, 'Conflicts of interest thematic review' and 'Insurance in Superannuation thematic review' (26 February 2015).

Chapter 3 - Governance

In the context of superannuation, governance plays a critical role in ensuring an RSE licensee meets the reasonable expectations of members. The role of the board is fundamental in influencing the organisation's governance environment, not only by ensuring effective frameworks and procedures are in place, but also by fostering behaviours within the organisation that are conducive to an effective governance culture.

Prudential standards *SPS 510 Governance* (SPS 510), *SPS 520 Fit and Proper* (SPS 520) and *SPS 521 Conflicts of Interest* (SPS 521) seek to establish good governance practices by setting requirements for these key areas for RSE licensees.

3.1 Governance

SPS 510 sets clear requirements for effective governance arrangements across the superannuation industry. Its objective is:

‘to ensure that an RSE licensee’s business operations are managed soundly and prudently by a competent Board, which can make reasonable and impartial business judgements in the best interests of beneficiaries and which duly considers the impact of its decisions on beneficiaries.’

To support RSE licensees in achieving this objective, SPS 510 sets out key requirements that cover the process, procedures and actions that APRA considers necessary to underpin good governance. While the review considered the entirety of SPS 510, *Prudential Practice Guide SPG 510 Governance* (SPG 510) and *Prudential Practice Guide SPG 511 Remuneration* (SPG 511) in establishing its findings, only the key areas for consideration that were raised through the review process are discussed below.

3.1.1 Key areas of consideration

Nomination, board processes and succession planning

SPS 510 and SPG 510 cover the establishment and implementation of policies and processes for the nomination, appointment and removal of directors.

These areas were the subject of considerable discussion during roundtable sessions and were also key areas raised in written submissions. In general, participants believed the 2013 reforms helped drive maturity in these processes across the superannuation industry. When considering whether the standard and guidance material remain fit for purpose, participants indicated that processes needed to look beyond the way directors are nominated towards other important factors such as skills, experience, fitness and propriety and the potential impact of multiple directorships. It was also noted that policy with respect to nomination and

appointment may be ineffective if the processes and rights of third parties are entrenched in the governing rules of the fund or the constitution of the RSE licensee company itself.¹³

APRA's supervisory experience also indicates that nomination, appointment and removal processes of some RSE licensees could be improved. Examples include:

- Boards where executive directors are automatically appointed to the board based on their role within a nominating (or associated) organisation, with little regard to the skill and experience needs of the RSE licensee board, or where there is little role for the board in appointments made by such organisations.
- Boards that do not give adequate consideration to succession planning for directors' roles, with many boards simply addressing individual vacancies as they arise.
- Boards that do not consider diversity as part of their composition or consider diversity too narrowly.
- RSE licensees that do not take steps to assess and manage the risks associated with directors being required to leave their position prior to the end of their specified term, such as due to a change in their employment status or their role in the sponsoring organisation. Steps to mitigate this risk may include the appointment of independent directors (where their continuation on the board is not tied to any employer or sponsoring organisation requirements), use of alternate directors or building in other contingencies within a succession planning policy.

Skills and experience

SPS 510 and SPG 510 cover the skills and experience requirements of RSE licensee directors that are essential for the effective governance of the operations of the fund and execution of the board's strategy. Participants at roundtable discussions highlighted the importance of skills and experience for boards to be well functioning.

While participants indicated that, in general, the skills and experience of boards had improved since the introduction of SPS 510, this was largely because of the natural maturing of the superannuation system. Some larger RSE licensees have established processes to ensure that the board has an appropriate composition of directors with relevant skills and experience.

APRA's 2017-18 thematic review of board governance practices (focusing on board performance) indicated that some RSE licensees sought to comply with minimum requirements around skills and experience, rather than consider 'optimal' board composition.¹⁴ The thematic review also identified instances where there was a clear lack of financial skills and superannuation knowledge or a lack of prior experience on boards.

¹³ Due to constitutional reasons, SPS 510 may not be able to address these issues in relation to nomination and appointment without additional legislative change.

¹⁴ APRA, 'Board Governance Thematic Review' (Letter, 17 May 2018) <https://www.apra.gov.au/sites/default/files/BGTR_letter%2520to%2520industry_20180516.pdf>.

To improve board quality, participants highlighted the need for additional requirements or guidance on the requisite level of board skills and experience, including the importance of having a strategic planning context. A number of participants and written submissions indicated that it might be useful for APRA to develop a best practice skills matrix based on insights from industry to guide RSE licensees. The Productivity Commission also observed that processes to recruit highly skilled and experienced directors across the superannuation industry were ineffective, and recognised that skill matrixes would help to obtain best practice outcomes.

Further, consideration of skills and experience in isolation was not necessarily appropriate, as other key factors influencing good governance, such as fitness and propriety and conflicts of interest, needed to be taken into account when considering board composition.

Board tenure

Ongoing board renewal is central to ensuring that boards continue to perform effectively. Consistent with the approach to board tenure in other APRA-regulated industries, SPS 510 does not prescribe a maximum tenure for directors; however SPG 510 clearly sets the expectation that only in limited circumstances would tenure limits exceeding 12 years be appropriate.

Roundtable participants noted the failure of some RSE licensees to set both appropriate maximum and minimum tenure periods consistent with the intent of SPS 510 and SPG 510. APRA's thematic review of board governance also observed issues in relation to tenure limits, with board renewal policies of some RSE licensees showing a lack of regard for the intent of SPS 510.

Director tenure has also been one area of continued discussion between some RSE licensees and APRA supervisors. APRA's supervisory activities have highlighted areas for improvement, such as RSE licensees working with sponsoring organisations to achieve an outcome that is consistent with the intent of the legislation and prudential framework.

However, stakeholders observed that practices were improving with fewer long-term directors holding positions and more boards carrying out effective succession planning and board renewal. Participants expressed the strong view that an objective measure of board tenure should not be looked at in isolation, with many raising the importance of succession planning and the crucial role it plays in developing board agility and resilience.

Independence

SPG 510 sets out some of the potential benefits of appointing independent directors, including the ability of these directors to broaden the skills and capabilities of the board generally and to provide greater objectivity, which can lead to improved decision-making. Independent directors could also be better placed to hold other directors accountable for their conduct, particularly in relation to conflicts of interest.

SPG 510 notes that section 10(1) of the SIS Act contains a definition of 'independent director' and indicates that a prudent equal representation board would consider the benefits of appointing at least one independent director. It also notes that a prudent RSE licensee would consider whether to appoint an independent or non-affiliated director as Chair.

Participants generally agreed that increased independence could be obtained by RSE licensees introducing more diversity within their boards. Some noted that it was important that SPS 510 does not prescribe an ideal number of independent directors and provides sufficient flexibility to reflect different organisational structures.

When looking at independence, APRA found in its thematic review of board governance that the governance frameworks of most RSE licensees allowed for the appointment of one or two independent directors. For those boards that had appointed independent directors, there was a strong view that the appointments had positively contributed to overall governance practices.¹⁵

Board assessment and review processes

The ongoing assessment of the performance and effectiveness of boards and individual directors is critical for ensuring that boards and directors appropriately discharge the duties owed to members. SPS 510 requires RSE licensee boards to have procedures in place for assessing, at least annually, board and individual director performance. The Productivity Commission in its review noted the international recognition given to effective board performance assessment processes as best practice for detecting gaps in performance and determining whether boards are appropriately skilled.

The issue of board performance assessments attracted considerable attention during the roundtable discussions. It was noted that board performance assessments lack impact unless they are conducted by an independent party without influence from the RSE licensee board. Accordingly, the current self-assessment approach taken by many RSE licensees would be unlikely to provide the insights that are being sought through the annual review process.

In relation to the frequency of the assessment, some participants noted that the benefits that may be achieved through an annual performance assessment of the RSE licensee board may not justify its cost, suggesting that it may be appropriate to shift the annual assessment to a biennial assessment done by an external party.

Views on the scope of board performance assessments primarily centred on how comprehensive the review should be, with some participants indicating that assessments should focus on the strategic outcomes delivered under the oversight of the board. Further guidance on what APRA considers best practice in relation to board performance assessments could be beneficial to the industry.

APRA's board governance thematic review raised a number of issues including the lack of effective frameworks to manage underperformance, although many RSE licensees had also used external assessments that were underpinned by a robust review methodology and provided value towards enhancing board performance.

¹⁵ Sample population - 29 RSE licensees.

Board committees

SPS 510 requires an RSE licensee to have board remuneration and audit committees. SPG 510 provides guidance on the need for other board committees to oversee critical functions, such as a Board Risk Committee.

Some participants indicated that it should be within the board's discretion as to what committees were appropriate for the business structure of the RSE licensee. However, other participants indicated that it might be appropriate for SPS 510 to require RSE licensees to have a dedicated Board Investment Committee, given the importance of investments and the significant time spent by some boards on considering investment matters.

APRA's thematic review on board governance identified a variety of different committee structures established by RSE licensees, with a significant proportion of RSE licensees recently splitting their risk and audit committees to allow greater focus on risk matters. The review also noted that there appeared to be an increasing trend towards the use of independent consultants and experts on committees to assist the board, which may suggest gaps in board skills.

Remuneration

SPS 510 requires an RSE licensee to establish and maintain a documented remuneration policy, which outlines the objectives and structure of remuneration arrangements that align remuneration with prudent risk management. Remuneration arrangements include measures of performance, the mix of forms of remuneration (such as fixed and variable components) and the timing of eligibility to receive payments. The performance-based components of the remuneration policy must be designed to encourage behaviour that supports protecting the interests and meeting the reasonable expectations of members; the long term financial soundness of the RSE licensee; and the risk management framework of the RSE licensee.

Participants during the roundtable discussions indicated that the remuneration aspects of the prudential framework are working effectively, with the performance-based aspects not having a material impact on most entities. Participants noted that performance-based remuneration has generally only been relevant in the investment context. However, the need for effective processes around remuneration has only recently been taken more seriously by some RSE licensees. Many participants indicated the recent commentary around remuneration practices arising from the Royal Commission and APRA's *Prudential Inquiry into the Commonwealth Bank of Australia*, among others, would likely result in the need for many RSE licensees to review their remuneration policies.

Stakeholders agreed that remuneration and incentives should be aligned with an RSE licensee's duty to act in the best interests of members. Some stakeholders also noted that remuneration for board members should not be paid to a sponsoring organisation, particularly given board directors take on their board responsibilities in their personal capacity and are personally liable in their role.

3.1.2 Findings

The introduction of SPS 510, SPG 510 and SPG 511 and their application over the past five years has led to improved board governance structures and practices across the industry.

However, the review has identified that enhancements in a number of areas would help ensure that board governance structures and practices continue to improve and reflect evolving expectations. This includes:

- skills and experience of boards needs to be strengthened; this could be achieved by requiring RSE licensees to have a skills matrix in place, with additional guidance provided on the formulation of this matrix and its key elements;
- composition of boards needs to be considered holistically to ensure the board continues to remain appropriate for their broader membership base; this could be achieved by limiting board tenure to a specified period and other enhancements to board renewal processes; and
- board performance assessment processes could be more robust and address the board's performance in a range of areas, including delivery of member outcomes and strategy execution; APRA could provide feedback on industry best practice in relation to board performance assessment processes.

Finally, the observations of the Royal Commission in respect to board governance, organisational culture and remuneration more broadly are relevant to the findings of the review. These observations will be addressed by the proposed enhancements in this review or via other policy initiatives APRA is currently undertaking.¹⁶

3.2 Fit and Proper

The aim of APRA's fit and proper requirements is to ensure that responsible persons, including directors, of RSE licensees have the technical competence and integrity necessary to perform these roles. While the review considered the entirety of SPS 520 and *Prudential Practice Guide SPG 520 Fit and Proper* (SPG 520), only the key areas where material issues were raised are discussed below.

3.2.1 Key areas of consideration

Determining if a responsible person is fit and proper

SPS 520 requires an RSE licensee to clearly define and document the competencies required for each responsible person position. When determining whether a person is fit and proper, the RSE licensee must consider whether the person possesses a set of characteristics and skills relevant to the duties of the role or has any conflicts that will create a material risk that the person will fail to perform properly the duties of the position.

A number of stakeholders providing input to the review expressed the strong view that the current fit and proper requirements had not been effective in practice. They viewed many RSE licensees as establishing a minimalist, compliance-focused approach to meeting the requirements of the standard.

¹⁶ See APRA, *Remuneration practices at large financial institutions* (Information Paper, April 2018) <<https://www.apra.gov.au/information-papers-released-apra>>.

APRA's supervisory activity in relation to fit and proper has primarily focused on whether the RSE licensee had established effective frameworks for undertaking the fit and proper assessment. In a few instances, supervisors have sought improvements from RSE licensees to strengthen the importance of experience and relevant qualifications in the assessment process.

Annual assessment of fitness and propriety

SPS 520 requires RSE licensees to undertake an annual fit and proper assessment for each responsible person position. Many industry participants felt that the annual assessment in practice added little value. They questioned whether fit and proper tests are being appropriately applied to long-standing directors, as in many instances these directors did not appear to be seeking to improve their skills or participate in ongoing development opportunities.

One submission suggested that consideration should be given to moving to a two year 'deep-dive' fit and proper assessment coupled with a commensurate change to board performance assessments. Another called for APRA to undertake fit and proper assessments of responsible persons.

3.2.2 Findings

Over the past five years, SPS 520 and SPG 520 have delivered some improvements to industry fit and proper processes and practices; however, these changes have not always led to improved outcomes in terms of the quality of individuals in key positions. In particular, implementation of SPS 520 appears to have been considered by many RSE licensees to be merely a compliance exercise, not one aimed at ensuring that responsible persons have appropriate qualifications and experience.

This outcome is disappointing, and suggests there is significant scope for APRA to strengthen its requirements in this area. For example, consideration could be given to:

- detailing more explicitly the factors that RSE licensees are required to consider when determining the fitness and propriety of responsible persons, including their skills and experience; and
- reviewing the notification requirements for individuals that have been assessed by RSE licensees as not having satisfied the fitness and propriety requirement (in respect to particular factors).

The Royal Commission recommended that over time, provisions modelled on the Banking Executive Accountability Regime (BEAR) should be extended to superannuation RSE licensees.¹⁷ The imposition of the BEAR obligations would clarify what is expected of the relevant senior executives and would provide additional and important standards against which APRA and ASIC might examine the conduct of the affairs of the fund by both its board and by its senior management.

¹⁷ Royal Commission Recommendation 3.9 – Accountability regime.

APRA is working with Government to implement this recommendation, including considering amendments to its current prudential framework. This provides an opportunity for APRA to consider the possible enhancements noted above such that they align with the extension of BEAR to the superannuation sector.

3.3 Conflicts of interest

Appropriately managing conflicts of duty and interest is critical to ensuring that RSE licensees comply with their overarching obligation to act in the best interests of members. SPS 521 establishes requirements in this regard. However, the Royal Commission noted a number of areas where RSE licensees appeared not to have managed their conflicts of interest appropriately, particularly with respect to related party arrangements.

3.3.1 Key areas of consideration

The role of culture

Prudential Practice Guide SPG 521 Conflicts of Interest (SPG 521) points out that an RSE licensee's conflicts management culture generally reflects its corporate values as well as the attitudes and behaviours of individuals within its business operations. It is expected that a well-functioning conflicts management culture or approach would result in a fundamental understanding of the importance of:

- effective management and mitigation of conflicts in decision-making processes;
- initial and ongoing disclosure of relevant duties and interests; and
- regular promotion of the value of proactive disclosure of relevant duties and interests through internal communications.

During the roundtable discussions, most participants believed that failings in managing common conflicts of interest experienced in the industry were indicative of ineffective management of conflicts processes due to a breakdown in culture in some RSE licensees. However, these participants also recognised that culture is difficult to regulate via a prudential standard. Many participants believed the main issue facing the industry in this area is the undisclosed conflicts and conduct of directors or senior executives.

APRA's 2017-18 thematic review of related party arrangements indicated that many RSE licensee boards demonstrated sound governance processes for dealing with conflicts.¹⁸ However, the thematic review also observed situations where there was a lack of evidence that conflicts had formally been considered or declared at board or committee meetings.

Information provided to the review and observations of the Royal Commission indicate that there are some RSE licensees that do not always avoid or prudently manage conflicts of

¹⁸ APRA, 'Related party arrangements thematic review' (Letter, 29 May 2018) <<https://www.apra.gov.au/letters-notes-advice-superannuation-rse>>.

interest, such as circumstances involving dual regulated entities.¹⁹ These observations raise concern, and the ongoing weaknesses in appropriately addressing conflicts of interest across the industry reflect the need for an increased focus by the industry on promoting a strong and effective organisational risk culture.

Avoidance or management of conflicts

APRA has had, and continues to have, concerns with the effectiveness of processes to ensure that conflicts are being clearly identified and avoided or appropriately managed. Supervisory activities in this area to date have focused on RSE licensees ensuring they implement and embed a robust conflicts management framework. In some instances, fundamental changes to conflicts management practices have been required.

A critical stage in the conflicts management process, following identification of a conflict, is the avoidance or prudent management of the conflict. It is important that RSE licensees are able to demonstrate clearly that the actions they take in response to a potential or actual conflict are prudent and aligned with the best interests of members.

Participants during the roundtable discussions noted a lack of precision in the area of legal consequence, as the law previously required conflicts to be 'avoided' not 'managed'. Where an RSE licensee belonged to a wider financial services group, an actual or perceived conflict would always exist. As such, the prudent management of the conflict was particularly important.

Identification of conflicts and disclosure

SPS 521 requires RSE licensees to have a conflicts management framework that provides reasonable assurance that all conflicts are being clearly identified, avoided or prudently managed. The conflicts management framework must include up-to-date registers of relevant duties and interests.

Some roundtable participants noted that the current approach failed to capture all identified conflicts. To address this issue, one participant proposed that the standard could be refined to require consideration of what interests responsible persons held as a first step and then subsequently determine whether these interests created a conflict or potential conflict.

APRA's thematic review noted that policies underlying the conflicts management framework were in some instances too narrowly focused on conflicts arising in relation to responsible persons and did not cover conflicts arising for the RSE licensee as a whole. This narrow approach undertaken by some RSE licensees tended to be characterised by a lack of consideration of how these conflicts might be perceived by external stakeholders.

The thematic review also noted that, in many cases, the conflict identification process relied solely on self-identification by directors or responsible persons, with no independent review undertaken. It also found a lack of consistency across the industry in the identification and management of conflicts when dealing with intra-group services and product providers and

¹⁹ Royal Commission Recommendation 3.1.

other related parties. These inconsistencies arose, in part, due to inadequacies in the conflicts management framework for these types of RSE licensees.

A number of roundtable participants expressed the need for greater attention on the rationale underpinning decisions to engage related party service providers, particularly in relation to the outsourcing of key services such as investment management and insurance. In its review, the Productivity Commission also observed issues in relation to how some conflicts are managed, particularly when looking at interactions with related parties, noting that contract management processes, along with disclosure and reporting, need improvement.

Roundtable participants recognised that there are poor practices within the industry regarding the disclosure of conflict of interest. The thematic review observed cases in which there was a lack of clear responsibility regarding the maintenance and review of the registers of relevant duties and interests resulting in static and outdated records. Submissions to the review supported the need for further guidance on conflict register layouts.

3.3.2 Findings

The key procedural requirements of SPS 521 and SPG 521 have generally been met at an industry-wide level; however, it is not clear that the importance of effectively managing all potential conflicts of interest through a members' best interests lens is embedded within the culture of all RSE licensees. Enhancements to the standard and its supervision could be considered, including strengthening requirements in respect of the avoidance and effective management of conflicts. To promote a culture that is more sensitive to the potential risks inherent in conflicts of interest, RSE licensees could be required to explicitly assess the implications and impact of their relationships and interests on member outcomes.

Further, the procedure followed in dealing with conflicts could be enhanced by introducing a two-stage consideration process – first, establishing the interests held and second, confirming whether or not those interests give rise to a conflict. Finally, the disclosure of conflicts needs to be improved in terms of quality, usability and accessibility.

Chapter 4 - Risk Management

4.1 Risk management

An effective risk management framework includes appropriate levels of risk governance (oversight, monitoring and control) to enable RSE licensees to manage the material financial and non-financial risks of their business operations. The objective of *Prudential Standard SPS 220 Risk Management* (SPS 220) is to set expectations for RSE licensees to establish systems for identifying, assessing, managing, mitigating and monitoring material risks that may affect an RSE licensee's ability to meet its obligations to members. In *Prudential Practice Guide SPG 220 Risk Management* (SPG 220), APRA also considers that a strong risk culture is a core contributor to an effective risk management framework, and that the board has an important role in influencing the risk culture of the RSE licensee.

SPS 220 provides key requirements that cover the processes, procedures and actions that APRA considers necessary for RSE licensees to have a risk management framework appropriate to its size, business mix and complexity. Key areas of consideration for the review are discussed below.

4.1.1 Key areas of consideration

Materiality

SPS 220 requires RSE licensees to ensure their risk management frameworks cover all material risks to their business operations. In doing so, RSE licensees must assess the materiality of each risk with reference to their business operations as a whole, each of their funds, and the impact of the risk on meeting obligations to their members. At a minimum, risk management frameworks must cover governance, investment, operational, insurance, strategic, and liquidity risks that may have a material impact.

Roundtable discussions highlighted that RSE licensees have divergent views on what risks could have a material impact on their business operations, with materiality generally dependent on the views of the board and its risk culture.

Risk management framework

The primary focus of an RSE licensee's risk management framework should be the management of risks in a way that is consistent with the best interests of members and the maintenance of operationally and financially sound business operations by the RSE licensee.

Participants at roundtable discussions generally held the view that the introduction of SPS 220 and SPG 220 provided industry with a clear understanding of APRA's expectations of RSE licensees in respect to risk management. There was also broad agreement that risk has received a higher level of attention at the board level since the implementation of the risk management standard and guide. However, participants acknowledged that while the higher level of attention had aided enhanced maturity in the risk management frameworks of RSE licensees, but that maturity was not consistent across the industry.

Nonetheless, boards are now having important conversations in relation to risk management within the context of strategic and business planning. Some observed that these types of conversations, such as the utilisation of forward looking risk management to influence decision-making, were important for embedding an appropriate risk culture within the business operations of the RSE licensee.

Participants noted that board level engagement is one area where the risk management framework of RSE licensees could be improved. In this regard, many participants believed the requirement imposed in the insurance and banking industries to have a Chief Risk Officer (CRO), or a functionally equivalent position, could also be appropriate in the superannuation industry. With many large RSE licensees not having a CRO function currently in place, some participants questioned why the requirement to have a CRO had not been introduced already.

Risk appetite statement

RSE licensees are required to maintain an up-to-date risk appetite statement that covers their business operations and each category of material risks that they face. The development of risk appetite statements should be informed by and, in turn, inform the strategic planning process of RSE licensees by focusing their attention on the acceptability of risks when considering business initiatives.

Roundtable participants identified the risk appetite statement as the most important and influential requirement that had driven enhanced maturity in risk management within the superannuation sector. Submissions noted that the industry could benefit from APRA providing examples of better practice risk appetite statements.

Supervisory activities in relation to risk appetite statements appear to indicate that the majority of RSE licensees have established effective processes and practices, with discussion mainly focusing on the embedding, evaluation and ongoing developing of the risk appetite statement. However, in some instances supervisors found the level of detail contained in risk appetite statements insufficient to meet their intended purpose.

Information systems and breach reporting

As part of their risk management framework, RSE licensees are required to establish management information systems and to implement controls to ensure that data contained in information and reporting systems is current, accurate and complete. In relation to the reporting of breaches, SPS 220 requires RSE licensees to notify APRA when they:

- become aware of a significant breach of, or material deviation from, the risk management framework; or
- discover that the risk management framework did not adequately address a material risk.

Roundtable participants recognised that breach reporting practices could be enhanced or clarified, with a number of RSE licensees only reporting on breaches of the legislation rather than material deviations from their risk management framework.

Comprehensive review

RSE licensees are required to review annually the appropriateness, effectiveness and adequacy of their risk management framework, with an operationally independent comprehensive review taking place at least once every three years. There has only been one iteration of the triennial comprehensive review since the introduction of the framework; as a result, it may be too soon to conclude whether or not the process has been effective. The focus of the initial reviews had been mainly on the risk management framework from an implementation perspective. Most participants held the view that the next iteration of the reviews will be more focused on how effective entities have been in embedding the risk management framework and ensuring its effectiveness.

Participants also suggested that the quality of the assessment process would be improved if APRA took a more proactive approach in providing industry wide feedback on its views on the quality of the comprehensive reviews. In particular, participants sought greater feedback on better practices adopted by other RSE licensees and for APRA to publicly call out practices that it does not consider appropriate.

4.1.2 Findings

The introduction of SPS 220 and SPG 220 led to a marked improvement in the risk management frameworks and practices of RSE licensees across the superannuation industry over the past five years. However, the consideration of risk and its importance, while present in most RSE licensees, needs further strengthening to ensure effective risk management practices are firmly embedded across the superannuation sector. In this regard, this review has identified some areas where enhancements could be considered, including:

- harmonising SPS 220 with the equivalent standard that applies to other industries (CPS 220) in key areas, for example aligning requirements on risk culture and the requirement to have an independent risk function and Chief Risk Officer; and
- strengthening requirements for RSE licensees to consider risks and risk appetite in their strategic planning.

4.2 Audit and Related Matters

Prudential Standard SPS 310 Audit and Related Matters (SPS 310) provides key requirements for the appointment of a fund auditor and outlines the obligations of an RSE licensee to enable a fund auditor to fulfil its responsibilities. SPS 310 and *Prudential Practice Guide SPG 310 Audit and Related Matters* (SPG 310) require RSE licensees to annually appoint (or confirm the reappointment of) a fund auditor.

Participants observed that audit firms have been finding fewer issues with the internal functions of RSE licensees, which suggests that these requirements are operating as expected.

A number of the participants indicated that it may be helpful for APRA to provide guidance on better practice that boards can employ to hold management to account for addressing audit findings and their timely closure. A submission also suggested that the provisions on a

special purpose engagement be narrowed such that the existing fund auditor cannot be engaged for a special purpose engagement.

4.2.1 Findings

The introduction of SPS 310 and SPG 310 resulted in improved practices with the key requirements generally being met. Stakeholders did not raise material issues for consideration within the scope of SPS 310 and SPG 310.

Chapter 5 - Financial Requirements, Operational Risk and Outsourcing

5.1 Operational Risk Financial Requirement

APRA requires RSE licensees to maintain adequate financial resources to address operational risk events that may affect their business operations, particularly for risk events that may have a material impact on members. *Prudential Standard SPS 114 Operational Risk Financial Requirement* (SPS 114) requires RSE licensees to determine a target amount of financial resources to address the operational risks of the RSE licensee's business operations (the ORFR target amount).

5.1.1 Key areas of consideration

Determining the amount of the ORFR

The ORFR target amount must include an amount necessary to address the operational risks that have been identified in the RSE licensee's risk management framework, having taken into account the RSE licensee's risk appetite and appropriate risk mitigations and controls. RSE licensees must also determine a tolerance limit below the ORFR target amount that reflects the level at which they are required to take action to replenish financial resources held to meet the ORFR target amount. SPG 114 sets out an expectation of an ORFR target amount that is equivalent to at least 0.25 per cent of funds under management (FUM).

During the roundtable discussions, many participants indicate that both SPS 114 and SPG 114 had not been effective in encouraging meaningful assessment of operational risks. The current approach led many RSE licensees to take a minimalist compliance approach, limited to satisfying the guidance amount of 0.25 per cent of FUM. As such, participants noted that it would be beneficial if APRA updated its guidance on the determination of the ORFR target amount and how the ORFR target amount could better reflect the operational risk of RSE licensees' business operations.

Submissions noted that significant amounts are held in the reserve that is invested conservatively, which could otherwise be invested more purposefully to achieve member outcomes. A number of submissions expressed the view that the ORFR needed to be more risk sensitive and preferably implemented via a tiered approach having regard to the size and complexity of RSE licensees' business operations.

Operational risk events and the use of the ORFR

SPS 114 and SPG 114 require RSE licensees to ensure appropriate notification occurs when they become aware of emerging operational risk events, or a combination of emerging operational risk events, that would require the use of a material amount of the ORFR.

During the roundtable discussion, a number of participants indicated that the ORFR was only considered in the context of an extreme or significant operational risk event. Some

participants indicated that there was a misconception within some RSE licensees that APRA's approval was required before the ORFR could be used.

Participants provided the view that given the outsourced model was common within the industry, most RSE licensees have separate administrators and custodians and felt that those entities bear most of the operational risk rather than the RSE licensee themselves. Many RSE licensees look to those service providers for remediation or restitution to restore the financial position of members if there has been an operational risk loss. However, participants recognised that relying on service providers was not always appropriate, as the remediation or restitution sought may not always be sufficient or timely.

Most participants, when considering the use of the ORFR, indicated that RSE licensees had regard for equitable outcomes for members in their assessment of whether to utilise the ORFR or another reserve. If the amount required to address the operational risk event can be replenished in the financial year another reserve would be used, such as the general or administration reserves.

Submissions to the review sought additional clarification from APRA on the intent of the reporting requirements accompanying SPS 114 and whether that reporting is seeking to capture how the ORFR is being used, to help set a reserving policy or whether it is seeking to capture data on the magnitude of operational risk losses. Some participants also noted that APRA should consider prudential requirements around reserving holistically.

5.1.2 Findings

While the introduction of SPS 114 helped to ensure appropriate reserves for operational risk loss events have been established, it is clear that the use of the ORFR has been limited and, in some instances, has failed to be used or is used inappropriately.

In this context, enhancements to ensure the objectives of the ORFR are being fully achieved could be considered, including:

- refining the percentage of FUM required to be held for operational risk events to reflect the size and complexity of RSE licensees' business operations;
- refining the data collection for operational risk loss events or 'near-misses' to allow analysis of baseline operational risk in the sector; and
- strengthening the way that RSE licensees assess operational risk events to encourage consideration of events other than very significant losses.

In addition, consideration could be given to developing a broader reserving standard and guide, reflecting expected practices around reserves, which could cover all reserves including those established for operational risk events.

5.2 Outsourcing

Outsourcing is a feature of the superannuation industry and significant to the business operations of many RSE licensees. As such, it is important that RSE licensees consider the appropriateness of their approach to manage the risks arising from outsourcing business

activities. *Prudential Standard SPS 231 Outsourcing* (SPS 231) requires all outsourcing arrangements involving material business activities entered into by an RSE licensee to be subject to appropriate due diligence, approval and ongoing monitoring.

The use of related party service providers can raise concerns regarding conflicts of interests and the impact that these relationships can have on member outcomes. In this context, the Royal Commission identified instances where the conflicts of interests present in outsourced arrangements led to inappropriate outcomes for members. The Productivity Commission also raised concerns around the use of related party services and their impact on member outcomes.

5.2.1 Key areas of consideration

Materiality

The outsourcing requirements in SPS 231 only apply to material business activities. Material business activities are activities that have the potential, if disrupted, to have a significant impact on: the business operations of an RSE licensee; the ability for an RSE licensee to manage risks effectively; the interests, or reasonable expectations, of members; or the financial position of the RSE licensee or any of its funds. *Prudential Practice Guide SPG 231 Outsourcing* (SPG 231) provides additional guidance to RSE licensees in relation to the types of business activities that would generally be considered material by providing a non-exhaustive list of material business activities.

During the roundtable discussions, many participants noted inconsistent practices in determining material outsourcing arrangements, which was leading to varying approaches to the application of the outsourcing requirements. It was also noted that, depending on the arrangement, an activity may or may not be considered material at different points in time or under differing circumstances.

Many participants noted that the current wording of SPS 231 did not always capture activities that would have a significant impact on a fund, particularly expectations of RSE licensees to 'look through' service providers to their downstream providers, such as technology vendors to administrators. Participants noted that it is not always practical for RSE licensees to conduct a meaningful assessment of downstream providers of their vendors.

Submissions noted that under SPG 231, investment management activities under a formal mandate were considered a material business activity. This has led to some RSE licensees taking a conservative approach, applying a blanket rule to treat all activities under investment management agreements (IMAs) as material. However, there is significant variability in industry practices.

Outsourcing policy and agreements

SPG 231 provides guidance covering the selection and due diligence process, management of any conflicts arising from the arrangement and overall, how the RSE licensee determines that the arrangement is in the best interests of members. Where associated entities are involved in an RSE licensee's outsourcing arrangements, the outsourcing policy should cover additional factors or considerations including the impact of group or related party expectations and how these other interests are managed.

Many participants noted that the requirements within SPS 231 are based on processes that have been common practice across the industry prior to the introduction of the standard and therefore there have been no material issues with compliance for the majority of RSE licensees. That said, some participants indicated that some RSE licensees did not appropriately consider related parties and conflicts. In this regard, a number of participants indicated that the standard could be strengthened in relation to related party and intra-group service providers.

Submissions noted that SPS 231, with its list of mandated clauses, was overly prescriptive and at times not fit for purpose. Furthermore, the mandated clauses fail to set clear expectations on the level of contractual protection that RSE licensees should seek from its service level agreements. It was suggested that it would be helpful for APRA to provide guidance on better practice for the appropriate level of contractual protections and factors that RSE licensees should take into account. Participants also raised questions as to APRA's objective in requiring notification of outsourcing relationships, noting that it was not evident how APRA used this information.

The section on conflicts of interest, above, also highlights potential concerns regarding related party outsourcing arrangements. APRA's related party arrangement thematic review noted that improvements were observed in respect of the management of related party transactions following APRA's conflicts thematic review in 2014. However, APRA continues to find considerable room for improvement in this area, with inconsistencies in how RSE licensees approach related party arrangements and meet the relevant prudential requirements, particularly under SPS 231.

Offshoring – requirement for consultation

SPS 231 requires an RSE licensee to consult with APRA prior to entering into offshoring agreements for a material business activity. This includes where a service provider conducts part of an RSE licensee's material business activity offshore. This requirement was intended for APRA to provide feedback to RSE licensees on their risk assessment, processes and controls to mitigate those risks, rather than a mechanism for APRA to approve individual arrangements.

While participants recognised the potential risks that may be inherent in offshored arrangements, many submitted that offshoring arrangements did not pose a more significant risk than onshore outsourcing arrangements, with the exception of any outsourcing arrangement that handled personal information. In this regard, participants indicated that offshore investment management did not generally pose a higher risk than local investment management arrangements. Roundtable participants and submissions noted that the guidance in APRA's 5 July 2017 letter to industry on instances where an RSE licensee does not need to consult with APRA on an offshore IMA should be incorporated into SPS 231.

There was also an active discussion at roundtables on the risks posed by downstream entities in an outsourced arrangement. Participants indicated that, practically, RSE licensees have little or no visibility over downstream parties in respect of both offshore and onshore agreements.

Monitoring the relationship

SPS 231 requires RSE licensees to ensure sufficient and appropriate resources are available to manage and monitor each of their outsourcing relationships, including internal audit review. Many participants indicated that the internal audit review of outsourcing arrangements in most instances does not add value. In this regard, a number of participants indicated the wording of the standard could be clarified to better set out APRA's expectations.

Submissions suggested that consideration should also be given to imposing a requirement or expectation to have a due diligence framework or approach that incorporates periodic review of the outsourced arrangement from a lens of materiality, strategic goals and outcomes for members in addition to current interpretations of the standard that focus on service delivery. They suggested that RSE licensees should have discretion over the frequency of such reviews, commensurate with their risk assessment of vendors.

5.2.2 Findings

The introduction of SPS 231 and SPG 231 has led to improved outsourcing practices, particularly in respect of the processes associated with the establishment of outsourcing arrangements. However, given the prominence of outsourcing in the superannuation industry and the variation in industry practices, a broader consideration of the use of outsourcing, the extent to which it is used and the appropriate management of conflicts of interest that may arise is required. In this regard, consideration could be given to the following enhancements:

- strengthening the standard to ensure considerations relating to outsourcing are appropriately reflected in the strategic planning of RSE licensees; and
- strengthening the requirements for outsourcing to related party and intra-group entities to ensure conflicts of interest are more effectively avoided, managed or minimised.

The Royal Commission recommended changes to ensure that the provision of insurance by an RSE licensee to its members is clearly in their best interests when the insurance offered by an RSE licensee is provided by a related party.²⁰ This recommendation aligns with the proposed enhancements outlined above and will be progressed as part of the implementation of enhancements to SPS 231.

5.3 Business Continuity Management

Business continuity management (BCM) includes policies, standards and procedures to ensure that critical business activities can be maintained or recovered in a timely fashion in the event of a disruption, as set out in *Prudential Standard SPS 232 Business Continuity Management* (SPS 232). Under SPS 232, an RSE licensee is required to identify, assess, manage, mitigate and report on potential business continuity risks to ensure it is able to

²⁰ Royal Commission Recommendation 4.14.

meet its obligations to members and protect the financial position of the RSE licensee and any of its funds.

Separate to this review, APRA is also reviewing its prudential requirements for outsourcing and business continuity management across other APRA-regulated industries.

Participants at the roundtable discussions believed that, in general, the BCM requirements were straightforward and the standard had achieved its objective as set out in the 2013 reforms. However, participants also observed that the view of BCM within the standard might be too narrow in light of the ongoing evolution of the industry and did not fully consider the widespread use of outsourcing arrangements within the industry. In particular, a disruption may occur at a service provider or with vendors further downstream of that relationship. This influences the ability of the RSE licensee to assess and gain comfort over business continuity arrangements at outsourced providers.

Participants also noted that non-regulated entities provide significant services to the superannuation sector, such as administrators and custodians. A number of participants also pointed out the standard has a limited focus on information technology resilience but that this is a current material risk for RSE licensees.

5.3.1 Findings

The introduction in 2013 of SPS 232 and SPG 232 led to improvements in RSE licensees' business continuity management processes. It is important that any material changes affecting the operations of RSE licensees are reflected in their BCM processes. In particular, RSE licensees should consider expanding the scope of business continuity management to capture the impact of events that are not directly connected to the business operations of the RSE licensee and the business operations of its outsourced service providers.

Another area of focus for RSE licensees is cyber security. In an increasingly technology-enabled world, all APRA regulated entities will need to strengthen their resilience against information security incidents and respond swiftly and effectively when required to do so. To help facilitate this, in November 2018 APRA, released a new *Prudential Standard CPS 234 Information Security* (CPS 234).²¹

²¹ APRA, *Prudential Standard CPS 234 Information Security* (30 November 2018) <<https://www.legislation.gov.au/Details/F2018L01745>>.

Chapter 6 - Investments

Prudential Standard SPS 530 Investment Governance (SPS 530) requires RSE licensees to implement sound investment governance frameworks and manage their investments in a manner consistent with the best interests of their members.

6.1.1 Key areas of consideration

Investment management strategy

SPS 530 requires RSE licensees to formulate, give effect to, and review an investment management strategy for each of their funds, and for each of their investment options. In particular, for each investment strategy, SPS 530 requires RSE licensees:

- to determine appropriate stress scenarios that cover a range of factors and undertake stress testing prior to implementation; and
- to set asset allocation targets and ranges that are appropriate to the investment objectives of the investment option.

Many of the roundtable participants indicated that the breadth of investment options in the member directed (choice) product environment raised a number of potential issues. In particular, participants raised issues in relation to:

- making effective comparisons between investment options in general and highlighted differences in interpretation of definitions across funds, such as between growth/defensive asset categories; and
- linkages with other disclosure obligations.

A number of participants noted that aspects of SPS 530 are quite prescriptive. Written submissions indicated that the standard needed to be refined to accommodate the diversity of operating models in the industry, such as RSE licensees that offer member investment choice, investment menus, or operate independent RSE licensee arrangements. Submissions also suggested that guidance be enhanced to include expectations that the monitoring of investments not only reflect measures of risk and return, but also the quality of the overall strategy framed in terms of retirement outcomes.

The choice environment also poses challenges for investment strategy. In its recent inquiry, the Productivity Commission noted that members in the choice environment were considered by some RSE licensees to have made their investments through the guidance of their financial advisors and that this absolved the RSE licensee of any further consideration of the best interests duty.

The role of the board

SPS 530 requires the board of an RSE licensee to, at a minimum, approve investment objectives for each investment option and an investment strategy for each fund, and to monitor and assess regularly whether the investment objectives are being met.

In general, participants indicated that SPS 530 and SPG 530 provide an appropriate standard in respect of investment processes. A number of participants indicated that for the boards of larger RSE licensees, a separate Board Investment Committee may be useful, as it would ensure directors with the appropriate skills would be involved in the oversight of the investment decision-making process, while freeing up the remainder of the board to consider more strategic matters.

Environmental and social governance

When formulating an investment strategy, the SIS Act requires that RSE licensees have regard to the risk and likely return from investments, diversification, liquidity, valuation and other relevant factors. SPG 530 notes that RSE licensees may also consider additional factors where there are no conflicts with these requirements. Specifically, SPG 530 expects that RSE licensees have an appropriate rationale and analysis for determining that the investment strategy formulated for an environmental, sustainability, social and governance (ESG) investment option is in the best interests of their members.

A number of submissions addressed ESG issues. Written submissions suggested ESG factors should be incorporated into SPS 530, arguing that it would also be aligned with global investment practice. Some argued that SPS 530 should oblige RSE licensees to have regard to ESG considerations in the investment decision-making process after all other obligations under the SIS Act are satisfied. Submissions also noted that the current wording of SPG 530 inappropriately conflated ESG integration and ethical investments, and should be amended to separate these two concepts.

Stress testing

Stress testing is an investment risk management tool that may assist RSE licensees in identifying and assessing potential risk exposures that may impact the likelihood of meeting their investment objectives. SPS 530 requires an RSE licensee to develop a comprehensive stress-testing program that includes, at a minimum, the performance of each investment option against a number of scenarios.

Roundtable participants supported the stress testing requirements noting, however, that the flexibility in SPS 530 allowed RSE licensees to undertake a range of stress testing practices that could lead to inconsistencies in stress testing across the industry. Participants suggested that more guidance for investment strategy stress testing would be welcomed and may reduce the current inconsistencies. It was also recognised that the superannuation industry currently lacks the required skillset to conduct robust stress testing and that this would need to be outsourced, which would impose a significant cost burden on small funds that would ultimately be borne by members.

6.1.2 Findings

The introduction of SPS 530 and SPG 530 has led to improved investment governance and management structures and practices across the superannuation industry. In relation to ESG factors, APRA recognises the importance that some members and RSE licensees place on these broader considerations when establishing their investment strategy. In this regard, enhancements to the standard and guidance could be considered to reflect global developments in this area and provide clarity on the obligations of RSE licensees to take into account ESG factors when setting their investment strategies.

Given the level of complexity in the investment structures present across the superannuation industry, consideration could be given to:

- clarifying or strengthening the factors that RSE licensees are required to consider for member directed (choice) investment options;
- considering additional guidance or requirements to enhance the application of investment strategy stress testing; and
- reviewing and updating the guidance on consideration of ESG factors in formulating an investment strategy.

Chapter 7 - Insurance

Life and disability insurance coverage provided through superannuation provides an important benefit to members. A clear strategy for the provision and management of insurance benefits is essential to support the legislative requirement that RSE licensees provide insurance coverage that is in the best interests of members. The SIS Act includes requirements for RSE licensees to have an insurance strategy. *Prudential Standard SPS 250 Insurance* (SPS 250) and *Prudential Practice Guide SPG 250 Insurance* (SPG 250) provide further requirements and guidance in relation to insurance in superannuation.

7.1.1 Key areas of consideration

Insurance management framework

An RSE licensee's insurance management framework must, at a minimum, include the insurance strategy required under the SIS Act covenants; policies and procedures of the RSE licensee relevant to making insured benefits available to members; clearly delineated roles and responsibilities for the oversight of the insurance management framework; and a review process to ensure the framework remains appropriate and effective.

During roundtable discussions, it was recognised that, prior to the introduction of the prudential framework, RSE licensees lacked adequate insurance expertise and relied heavily on their insurance provider. It has taken a number of years for some RSE licensees to build expertise to enable them to appropriately consider matters relating to insurance governance and management. Participants recognised that insurance management frameworks for most RSE licensees were not as mature as other elements of the prudential framework, with the concepts in the standard being newer compared to the other risk management standards.

APRA conducted a thematic review of insurance across RSE licensees in 2015. The review noted that insurance management frameworks were largely compliance focused and did not generally encompass all aspects of an RSE licensee's business operations relevant to insurance. In particular, APRA observed weaknesses in the ability for RSE licensees to meet data management requirements. Linkages between the insurance management framework and the overall risk management framework were also not clear.

The thematic review concluded that claims management was generally sound but noted that there was still some room for improvement in governance and documentation of the claims management process within the insurance management framework.

Insurance strategy

The insurance strategy of an RSE licensee is a key component of the insurance management framework. Further, an RSE licensee would be expected to consider the membership profile of its funds and whether there are substantial differences in profile between different groups of members within a single fund. APRA's 2015 thematic review noted a lack of detailed analysis and documented processes to support how decisions in relation to insurance arrangements were being made in members' best interests. There was room to

enhance the quality and depth of RSE licensees' analysis of demographics and member profiles.

Roundtable participants indicated that while some consideration of membership demographics and insurance design has occurred, improvements have been slow. Some participants indicated that little consideration had been given to the insurance strategy until the work commenced on the voluntary industry insurance code. Other participants also noted that only larger RSE licensees have the ability to influence insurers in relation to insurance design.

A small number of participants noted that RSE licensees did not have as much capability to engage with insurers on product design, but were able to exert influence in relation to claims handling, which is an area of RSE licensee expertise.

Selection and monitoring of insurers

SPS 250 requires RSE licensees to develop and implement a selection process for choosing an insurer that includes a range of explicit considerations, such as terms of cover, claims philosophy and the reasonableness of the premiums. RSE licensees are also required to undertake a due diligence review of the selected insurer, including demonstrating that the engagement of an insurer is conducted at arm's length and is in the best interests of members.

During the roundtable discussions, participants indicated that there can be limited availability of insurers offering appropriate products and prices. Participants also noted the inherent conflicts associated with an RSE licensee selecting a related party insurer as the group insurance provider.

When focusing on SPS 250, participants indicated a desire for further guidance on insurer selection to prevent a focus on costs as the overriding criteria. Some participants noted that in some instances brokers also played a role in the process, at times driving the selection process, and that expectations in relation to the use of brokers should be addressed in the guidance.

APRA's 2015 thematic review found that the use of third party advisers for the tender process was still common at the time and there was limited due diligence in selecting third party advisers. Key contractual agreements were generally executed within a short period prior to the commencement of insurance arrangements, calling into question the level of consideration given to assessing the details of the insurance arrangements.

7.1.2 Findings

Through the introduction of SPS 250 and SPG 250, RSE licensees have improved their practices in respect to all aspects of their insurance arrangements; however, many RSE licensees continue to find insurance strategy, design and risk management challenging. Expectations of RSE licensees could be further strengthened in these areas, such as the design of insurance offerings by RSE licensees to ensure members are provided with appropriate cover without unduly eroding their retirement savings. The framework could also be enhanced by strengthening the requirements for selecting an insurer, including consideration of any conflicts particularly in relation to related party insurers.

Chapter 8 - Member Flows and Products

8.1 Defined Benefit matters

The objective of *Prudential Standard SPS 160 Defined Benefit Matters* (SPS 160) and its associated guidance material, *Prudential Practice Guide SPG 160 Defined Benefit Matters* (SPG 160) is to ensure that RSE licensees of defined benefit (DB) funds and DB sub-funds are able to meet the liabilities of the fund as they become due. The standard also addresses self insurance arrangements.

Stakeholders noted that SPS 160 has helped to crystallise expectations, provided rigour around the remediation of DB shortfalls and generally works well in practice.

8.1.1 Findings

The introduction of SPS 160 and SPG 160 resulted in RSE licensees improving their processes and practices in relation to ensuring that they could meet their liability when they become due.

8.2 MySuper and Eligible Rollover Fund transition

8.2.1 MySuper transition

Prudential Standard SPS 410 MySuper Transition (SPS 410) and *Prudential Practice Guide SPG 410 MySuper Transition* (SPG 410) set out the requirements for RSE licensees in respect of identifying and transferring accrued default amounts (ADAs) as part of the Stronger Super reforms. The standard was recently revoked as the transition period had ended and hence the standard is no longer required. It was included in this post-implementation review for the purposes of providing insights into the operation of transitional standards more broadly.

SPS 410 required RSE licensees to prepare, regularly review, and implement a transition plan for each affected fund. The transition plan was required to articulate processes and timeframes for specified activities that need to be undertaken in order that all accrued default amounts are in a suitable MySuper product before 1 July 2017, with the expectation that it would occur much earlier when doing so was in the best interests of members.

In general, participants believed SPS 410 was effective. It was noted that while for some funds the full transition period was required, the transition should have occurred with a shorter transition period in most cases. This outcome was also highlighted by the Royal Commission, which noted delays in transferring amounts into MySuper accounts at some RSE licensees. However, some participants believed that taking a longer, sequential approach to the transition of ADAs reduced operational risk.

To ensure that appropriate member outcomes are achieved while providing the level of flexibility required across the industry, participants suggested that in future two potential elements could be included in a transitional standard. The first would be to add milestones at different times of the transition period, which would require RSE licensees to clearly

justify to APRA the status of the transition and why the transition timeframes are not being achieved. The second would be to minimise any transition period, but provide the ability for RSE licensees to seek an extension from APRA as appropriate.

Submissions to the review further supported greater regulatory rigour being applied in instances where legislation permits a lengthy transition period that may allow practices that, on balance, would not be in the best interests of members.

8.2.2 Eligible Rollover Fund transition

Prudential Standard SPS 450 Eligible Rollover Fund Transition (SPS 450) sets out the requirements in relation to the transfer of amounts held in an eligible rollover fund (ERF) to a regulated superannuation fund that is an authorised ERF or offers a MySuper product. Relevant RSE licensees were required to prepare a transition plan to enable the orderly transfer of each member's interest to an authorised ERF or a MySuper product.

SPS 450 applied to a very small portion of the industry and had a less widespread impact. Similar issues were raised as with SPS 410.

8.2.3 Findings

The issues noted by respondents on SPS 410 and SPS 450 and their respective guidance could be incorporated into APRA's consideration of any future transitional standards, including setting out, where appropriate, more definitive milestones or expectations and clear consequences for not meeting them.

Chapter 9 - Reporting framework

The objectives of the reporting framework for superannuation are to support APRA's prudential supervision and provide appropriate transparency and disclosure to interested stakeholders. The review sought feedback on whether the reporting framework met those objectives and remains fit for purpose. APRA received feedback on the reporting framework at industry roundtables, bilateral meetings and via written submissions.

Stakeholder feedback indicated areas where the reporting framework could be enhanced to improve prudential supervision, enhance analysis of outcomes for members, improve transparency and comparability, and reduce undue reporting burden. At a high level, these can be summarised as:

- clarifying reporting definitions and removing duplication of data items;
- enhancing comparability between funds to facilitate appropriate benchmarking; and
- increasing the efficiency of the data collection and better explaining how APRA and other Government agencies utilise the data collected.

Recognising the changing financial landscape and regulatory environment, APRA is seeking to improve its data and analytic capabilities through enhanced processes and technologies for the way it collects, stores, accesses and innovates the data it obtains from regulated entities.

Feedback received from stakeholders on the current reporting framework is discussed in the table below.

Category	Feedback
Clarify reporting definitions	<ul style="list-style-type: none"> • There was a lack of clarity in definitions of data items, and reporting instructions could provide a better indication of materiality. <ul style="list-style-type: none"> – For example, SRF 331 Services should indicate the required level of materiality. • Participants noted that there is a wide range of interpretation of definitions for some line items between comparable funds, such as return targets, preventing accurate comparison of risk and return across funds.
Remove duplication	<ul style="list-style-type: none"> • Duplication exists between data reported to APRA and other reporting obligations of entities. • Entities report statements of financial position and financial performance under Australian Accounting Standard AASB 1056 and APRA reporting (SRF 320 Statement of Financial Position and SRF 330 Statement of Financial Performance). The items reported are similar and the format of APRA's reporting can be redesigned to increase efficiency for RSE licensees in completing their regulatory reporting obligations.

Category	Feedback
	<ul style="list-style-type: none"> • Duplication exists between data reported for annual returns and data reported for the year-end quarter. Participants observed that data submitted for annual returns generally have a higher level of data quality and governance oversight. • There is overlap between data items reported for disclosures under ASIC and APRA's data collection, such as fees and costs. Submissions noted that these definitions should be aligned and made consistent to enhance transparency for members and reduce compliance burden. • Participants observed that claims data could be a potential area of overlap between data provided by superannuation entities and life insurers. There may be scope to better combine data collected from both industries to assist supervisory outcomes. • Submissions noted that moving submission deadlines from 28 calendar to 28 business days would reduce the compliance burden for quarter-end dates impacted by public holidays. • Participants observed that some reporting entities have exemptions to report certain line items or forms but that D2A does not allow partial submission of incomplete or blank forms.
Enhance comparability	<ul style="list-style-type: none"> • There is more granular data collected on MySuper products than choice products. Participants observed that this hinders accurate comparisons across the industry. <ul style="list-style-type: none"> – In particular, submissions noted that comparisons of fees and expenses between products is difficult due to incomplete data across MySuper and choice products as well as definitional issues. – Stakeholders also noted that fund structure also influences allocation of fees and expenses and hence reporting.
Increase the efficiency of the data collection and better explain usage	<ul style="list-style-type: none"> • Participants noted that a greater understanding of the purpose of each data item within the form would better allow entities to accurately report data and answer queries more efficiently. <ul style="list-style-type: none"> – In particular, some stakeholders queried the purpose of the collection of some product level data. • Submissions suggested greater flexibility for resubmissions would reduce compliance burden and reduce the number of follow-up data queries. • Submissions observed that APRA should continually review the data collection and its usage by APRA or other agencies to understand any data items that are no longer required and can be removed. • Participants suggested that changes be made to the collection of non-regular or ad hoc data such as SRF 520 Responsible Persons to make it more efficient to notify APRA of changes.

Areas for consideration

APRA is commencing a significant review of its superannuation data collection, which will consider the feedback provided through this review. In addition to these technical issues, there are a number of areas where enhancements to the reporting framework could be considered, including in relation to the implementation of future reporting standards, communication/feedback processes and better reflecting differences between business structures within the superannuation industry. In particular, that:

- reporting standards be reviewed to ensure that the current definitions being used are both suitable and more consistently interpreted, the level of materiality reflects the purpose of collecting the data, and there is an appropriate level of coverage for different products (such as MySuper and choice); and
- when new reporting requirements are being considered or are required, ensuring there is:
 - more effective engagement with industry during their development, this could include using a working group to assist in ensuring consistency across the industry and assist in reducing undue compliance burden;
 - improving communication with industry in relation to the purpose of collecting particular data, including whether it assists in prudential supervision of the soundness of the entity or in analysis and benchmarking of member outcomes; and
 - appropriately considering the different business models that exist across the superannuation industry.



 **APRA**