



25 July 2017

TO: ALL RSE LICENSEES

TREASURY LAWS AMENDMENT (IMPROVING ACCOUNTABILITY AND MEMBER OUTCOMES IN SUPERANNUATION) BILL 2017: CONSEQUENTIAL AMENDMENTS TO APRA'S PRUDENTIAL FRAMEWORK

The Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017 (the Bill) sets out a number of legislative proposals that will require consequential amendments to APRA's prudential framework or otherwise provide APRA with additional regulatory powers.

The consequential changes ultimately made to APRA's prudential framework will be consistent with the Bill that is passed by the Parliament and commence according to the legislated timetable. This letter briefly outlines APRA's plans for consulting on potential amendments to its prudential framework consistent with the draft legislation.

Expanding the scale test to an 'outcomes test'

The Bill proposes to expand the existing scale test in s. 29VN of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) to require trustees to determine in writing, on an annual basis, whether the financial interests of the fund's beneficiaries who hold a MySuper product are being promoted on a basis that goes beyond the number of beneficiaries or amount of assets of the fund.

APRA will consider appropriate changes to the prudential framework, including issuing prudential guidance, to support RSE licensees' compliance with this legislative obligation.

Accountability and improved expense transparency

The Bill includes proposed amendments to permit APRA to collect additional data about RSE licensee expenditure on a look-through basis. Similar to APRA's capacity to collect certain information relating to RSE investments on a look-through basis, this power would permit APRA to require that RSE licensees report to APRA the ultimate purpose and destination of payments from the RSE. APRA will therefore consider mandating reporting of the chain of associated transactions to identify the final recipient (associated or otherwise) and purpose of relevant payments.

To achieve this, APRA proposes to amend the superannuation reporting collection to collect both this look-through expense information and to make the current reporting of expenses of superannuation funds clearer and more consistent. APRA is also considering an expansion of the existing RSE licensee-level data collection to provide increased transparency about expense activities within RSE licensee business operations.

Powers to approve change in ownership

The Bill proposes to require RSE licensees to seek approval from APRA for a change of ownership or control of a trustee. This will bring the superannuation industry broadly in line

with other APRA-regulated industries where, under the *Financial Sector (Shareholdings) Act 1998*, an acquisition greater than 15 per cent in a financial sector company requires approval.

The proposed amendments will require applicants to apply for a change of ownership or control of a trustee in the approved form. APRA will publish an approved form and accompanying guidance for this purpose once the legislation is finalised.

Processes for opting-out of insurance

The Government has requested that APRA identify means to make it easier for members in MySuper products to opt out of insurance. APRA will, therefore, consider appropriate changes to *Prudential Standard SPS 250 Insurance* and *Prudential Practice Guide SPG 250 Insurance in Superannuation* in relation to RSE licensees' processes for complying with their obligations under s. 68AA of the SIS Act. These changes will be designed to support simple and straightforward processes for members to opt-out of insurance.

Next steps

APRA will provide further details on proposed consequential amendments to APRA's prudential and reporting standards and associated guidance over the coming months. APRA intends to undertake its usual consultation processes in relation to these proposed changes, to allow sufficient time for review and feedback by industry stakeholders. In the meantime, any questions should be directed to superannuation.policy@apra.gov.au.

Yours sincerely,



Helen Rowell
Deputy Chairman