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Note: Faded text relates to pre-existing requirements that are not subject to consultation.

# **Prudential Standard SPS 515**

## **Strategic Planning and Member Outcomes**

### **Objectives and key requirements of this Prudential Standard**

The objective of this Prudential Standard is to ensure that RSE licensees manage their business operations in a sound and prudent manner in order to achieve their strategic objectives, including giving due consideration to the impact of their decisions on beneficiaries.

The key requirements of this Prudential Standard are that:

- the Board approves strategic objectives that support it in achieving the outcomes it seeks for beneficiaries and the sound and prudent management of the RSE licensee's business operations;
- the RSE licensee maintains a Board-approved business plan that sets out the approach for implementation of the RSE licensee's strategic objectives;
- the RSE licensee annually reviews its performance in achieving its strategic objectives, and incorporates any actions to improve its performance in its business plan;
- decisions to incur significant fund expenditure support the RSE licensee achieving its strategic objectives and that those decisions are monitored against their expected outcomes; and
- the outcomes assessment required under section 52(9) of the SIS Act addresses the additional factors set out in this Prudential Standard.

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1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

**Application**

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees).<sup>1</sup>
3. All RSE licensees must comply with this Prudential Standard in its entirety, unless otherwise indicated.
4. An RSE licensee is not required to comply with paragraphs 7 (only in relation to the Board being required to approve strategic objectives that support achieving outcomes for beneficiaries), 8(a), 14(a)(ii), 14(a)(iii), 14(c)(i), 15 (only in relation to outcomes for beneficiaries), 20 and 21 inclusive in relation to a pooled superannuation trust.<sup>2</sup>
5. For the purposes of this Prudential Standard, a reference to the ‘Board’ is to be read as a reference to the Board of directors (Board) or group of individual trustees of an RSE licensee.<sup>3</sup>
6. This Prudential Standard commences on 1 January 2020.

**Strategic objectives**

7. The Board must approve strategic objectives for an RSE licensee’s business operations that support achieving the outcomes the RSE licensee seeks for beneficiaries and the sound and prudent management of the RSE licensee’s business operations.<sup>4</sup>
8. The strategic objectives must be specific and measurable and based on an RSE licensee’s consideration of:
  - (a) the outcomes that the RSE licensee seeks to achieve for beneficiaries;
  - (b) the RSE licensee’s risk appetite statement;

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<sup>1</sup> For the purposes of this Prudential Standard, ‘RSE licensee’ has the meaning given in section 10(1) of the SIS Act.

<sup>2</sup> For the purposes of this Prudential Standard, pooled superannuation trust has the meaning given in section 10(1) of the SIS Act.

<sup>3</sup> For the purposes of this Prudential Standard, a reference to ‘a director’ is a reference to a director of an RSE licensee which has a Board of directors or, in the case of a group of individual trustees, an individual trustee and ‘group of individual trustees’ has the meaning given in section 10(1) of the SIS Act.

<sup>4</sup> For the purposes of this Prudential Standard, an ‘RSE licensee’s business operations’ includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on its activities as an RSE licensee.

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- (c) the strategies formulated pursuant to sections 52(2)(i), 52(6)(a), 52(7)(a) and 52(8)(a) of the SIS Act;
- (d) the financial resources determined necessary to cover the operational risk that relates to the RSE under section 52(8)(b) of the SIS Act;
- (e) the most recent business performance review<sup>5</sup>; and
- (f) section 62 of the SIS Act ('the sole purpose test').

**Business plan**

9. An RSE licensee must maintain a written plan for its business operations that sets out its approach for implementing its strategic objectives (business plan).
10. The business plan must be a rolling plan of at least three years' duration. The business plan must cover the entirety of an RSE licensee's business operations and be approved by the Board.
11. An RSE licensee's business plan must, at a minimum, specify:
  - (a) the key initiatives it will undertake to achieve the RSE licensee's strategic objectives, including the expected results of each initiative;
  - (b) the financial projections over at least the next three years that demonstrate the ongoing financial soundness of the RSE licensee's business operations;
  - (c) the key assumptions that inform the RSE licensee's financial projections under paragraph (b) and how these assumptions take into account the material risks that have been identified under the risk management framework; and
  - (d) the key performance indicators that the RSE licensee will use to monitor its performance against the business plan and the triggers that will prompt action by the RSE licensee where expected outcomes are not being achieved.
12. An RSE licensee must monitor its performance against the business plan using the key performance indicators under paragraph 11(d).

**Business performance review**

13. Annually, an RSE licensee must review its performance in achieving its strategic objectives (business performance review) and use the results of the review to make improvements to its business operations.<sup>6</sup> The results of the review must be reported to the Board.
14. An RSE licensee's business performance review must include:

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<sup>5</sup> Refer to paragraphs 13 to 16 for details of the business performance review.

<sup>6</sup> The first business performance review must be completed by 31 December 2020. Subsequent business performance reviews must be completed within 12 months of the date of the last review.

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- (a) analysis of its performance in achieving its strategic objectives, having regard to:
    - (i) the results of its monitoring of its business plan required under paragraph 12;
    - (ii) the outcomes achieved for different cohorts of beneficiaries (such that all beneficiaries are covered), relative to the outcomes sought, and against objective benchmarks; and
    - (iii) the outcomes assessment under section 52(9) of the SIS Act;
  - (b) the key factors identified by the RSE licensee as having affected the results of the analysis under 14(a); and
  - (c) the RSE licensee's conclusions as to whether it achieved, and will continue to achieve:
    - (i) the outcomes it seeks for beneficiaries; and
    - (ii) the sound and prudent management of its business operations.
15. If the RSE licensee determines that changes to its business operations would likely improve the outcomes for beneficiaries or the sound and prudent management of its business, the RSE licensee must reflect those changes in its business plan.
16. APRA may require an RSE licensee, by notice in writing, to appoint an appropriate independent expert to provide to APRA a report on a particular aspect of an RSE licensee's business performance review, within a timeframe agreed to by APRA. An RSE licensee must bear the costs of such an appointment.

**Expenditure management**

17. An RSE licensee must ensure that its expenditure decisions are for the purposes of the sound and prudent management of its business operations and consistent with the best interests of beneficiaries.
18. When making decisions relating to its business operations that will result in significant expenditure, an RSE licensee must be able to demonstrate:
- (d) the purpose of the expenditure, including how the expenditure will contribute to the RSE licensee meeting its strategic objectives;
  - (e) how it will assess whether the expenditure is achieving its intended purpose, including any metrics used;
  - (f) the circumstances that would trigger a review of the expenditure decision, including whether any further related expenditure should take place; and

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- (g) how the expenditure will be funded and, where relevant, how the use of reserves as the source of funding for the expenditure accords with the strategy formulated pursuant to section 52(2)(i) of the SIS Act.
19. For the purposes of this Prudential Standard, ‘expenditure’ means a payment or expected future payment from the assets of an RSE or RSE licensee, including payments to and from reserves, not otherwise allocated to members’ accounts; ‘significant’ relates to the size or extraordinary nature of the expenditure.

**Annual outcomes assessment**

20. An RSE licensee must, at a minimum, document the methodology applied in undertaking the annual outcomes assessment under section 52(9) of the SIS Act, including:
- (a) the relative weight given to each of the factors it must have regard to in making its overall determination(s) under section 52(9) of the SIS Act; and
  - (b) how the RSE licensee has determined the comparable choice products under the SIS Regulations for the purposes of undertaking the annual outcomes assessment.
21. Pursuant to section 52(11)(e) of the SIS Act, in determining whether the financial interests of the beneficiaries of the RSE who hold a MySuper product or choice product are being promoted, an RSE licensee must also assess the following matters:
- (a) whether because of the scale of, and within, the RSE licensee’s business operations, those beneficiaries are disadvantaged; and
  - (b) whether the operating costs of the RSE licensee’s business operations are inappropriately affecting the financial interests of those beneficiaries.

**Adjustments and exclusions**

22. APRA may, by notice in writing to an RSE licensee, adjust or exclude a specific requirement in this Prudential Standard in relation to that RSE licensee.<sup>7</sup>

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<sup>7</sup> Refer to section 34C(5) of the SIS Act.