



28 August 2019

TO: ALL RSE LICENSEES

RESPONSE TO SUBMISSIONS – PROPOSED REVISIONS TO SPS 515

On 30 April 2019, APRA released for consultation proposed revisions to *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* (SPS 515). APRA received ten submissions and met with various stakeholders during the consultation period. Overall, submissions expressed broad support for the proposed revisions, however they raised some drafting issues and sought additional guidance on key components of SPS 515 and the legislated outcomes assessment.

This response letter and accompanying attachment detail the substantive matters raised in submissions and APRA's responses, including areas where amendments have been made to the supporting prudential guidance.

Background

In April 2019, APRA reviewed SPS 515 following the passage of *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No.1) Act 2019* (the Member Outcomes Act). The review sought to align SPS 515 with the legislated outcomes assessment introduced in the Member Outcomes Act and reduce uncertainty for industry in complying with both the legislation and APRA's requirements in SPS 515. The key changes made to the revised SPS 515 were:

- a requirement for each RSE licensee to undertake an annual business performance review (BPR), to assess its performance in achieving its strategic objectives across its business operations, taking into account the results of the legislated outcomes assessment, and to use the BPR as the basis for taking action to improve performance¹; and
- the inclusion of requirements to support the legislated outcomes assessment.

The proposed changes to SPS 515 seek to achieve APRA's original policy intent in the December 2018 version of SPS 515, while accommodating the new legislated outcomes assessment. Accordingly, SPS 515 continues to require an RSE licensee to both assess its past performance (taking into account the legislated outcomes assessment) and be forward-looking in identifying improvements that would enhance the sound and prudent management of its business operations and drive the sustainable delivery of quality outcomes to members.

¹ SPS 515 released in December 2018 had included similar requirements, described as a member outcomes assessment that informed the annual strategic and business planning process.

Commencement date

APRA has maintained the commencement date for SPS 515 as 1 January 2020. The strategic objectives, business planning, and expenditure management requirements in SPS 515 were finalised in December 2018 and are substantially unchanged, providing industry with a year to prepare for commencement. Further, consultation indicates that the new BPR requirements are consistent with common industry practices in respect of reviewing and updating strategic and business plans. Accordingly, many RSE licensees would be well placed to implement these requirements from 1 January 2020.

APRA recognises there is some complexity and uncertainty associated with the new legislated outcomes assessment, in part due to the need for supporting *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations) to be finalised. Availability of appropriate and consistent data for all choice products and options, to support the legislated outcomes assessment, is also more limited than is the case for MySuper products. This may provide challenges for RSE licensees in completing the legislated outcomes assessment, particularly for choice products, and considering the results in the BPR required under SPS 515 in 2020. APRA has therefore amended SPS 515 to provide that RSE licensees do not need to consider the results of the legislated outcomes assessment in undertaking their first BPR. Nevertheless, APRA expects appropriate review and analysis of performance across each RSE licensee's business operations to be undertaken to support its BPR in 2020.

APRA has provided guidance in draft *Prudential Practice Guide SPG 516 Business Performance Review* (SPG 516) on expectations for the timing and sequencing of the legislated outcomes assessment and BPR.

SIS Regulations

Until the SIS Regulations are finalised, an RSE licensee is not able to undertake the comparison component of the outcomes assessment for choice products required under sections 52(9)(a)(ii) and 52(10)(A) of the SIS Act. An RSE licensee is, however, required to undertake an outcomes assessment determination for each of their choice products under section 52(9)(a), based on the assessment factors under section 52(11).

APRA expects that, as a component of the assessment for each choice product, an RSE licensee would undertake relevant benchmarking and comparison, including the use of appropriate peer groups, to assist it in assessing the relative performance of its choice products based on the assessment factors in section 52(11).

Prudential Practice Guides SPG 515 and SPG 516

APRA released two prudential practices guides in December 2018 to support industry with implementation of SPS 515.

Prudential Practice Guide SPG 515 Strategic and Business Planning (SPG 515) includes guidance on components of SPS 515 that are largely unchanged from December 2018. Similarly, the related guidance is largely unchanged, hence APRA is releasing SPG 515 in final form.

The guidance in draft SPG 516 has been substantially revised to reflect both the legislated outcomes assessment, the BPR and the movement of some guidance material into SPG 515. APRA is therefore releasing SPG 516 as a draft for consultation and welcomes feedback on it, particularly the guidance on the legislated outcomes assessment (paragraphs 57 – 109).

Releasing draft SPG 516 provides industry with more certainty on APRA's expectations for the BPR and components of the legislated outcomes assessment that are not currently envisaged to be dependent on the SIS Regulations. This draft guidance will allow RSE licensees to prepare for implementation of the prudential requirements from 1 January 2020.

Written submissions on draft SPG 516 should be emailed to superannuation.policy@apra.gov.au by **10 October 2019**.

APRA plans to release the final SPG 516 by December 2019. APRA will make any necessary further adjustments to SPG 516 to reflect the SIS Regulations once they are finalised.

Implementation

Outcomes assessment

In relation to the legislated outcomes assessment, an RSE licensee must undertake and publish the assessment in a manner that reflects its importance in publicly demonstrating the RSE licensee's performance in promoting the financial interests of its MySuper and choice members. This includes an RSE licensee ensuring that it is able to access and utilise reliable internal and external data to undertake the assessment.

APRA encourages each RSE licensee to consider undertaking a trial outcomes assessment for all, or a subset of, its products in 2020. APRA encourages RSE licensees to engage with their APRA supervisor on the design and methodology of the trial assessment.

SPS 515

RSE licensees should be well progressed in addressing any gaps between their existing practices and the new requirements relating to strategic objectives, business planning and expenditure management.

APRA expects that the rigour of the BPR and its role in the business planning process will evolve as the industry develops experience in undertaking BPRs. In 2020 APRA supervisors will look for reasonable efforts by each RSE licensee to conduct its BPR in a comprehensive manner, including the use of appropriate internal and external data sources.

APRA will closely monitor the implementation of SPS 515 and the legislated outcomes assessment and periodically review and update the prudential guidance to reflect better industry practices that emerge over time.

APRA expects to commence consultation on enhancements to its superannuation reporting collection later in 2019. APRA will also publish additional information, including performance relative to a range of benchmarks in key areas, to provide enhanced transparency on the performance of the superannuation industry. Initially, these enhanced publications will focus on MySuper products where sufficient reliable data is available – the first such publication is expected to be released in late 2019. Over time, these publications will be expanded as additional reported data is available and other benchmarks are developed, particularly for choice products and options. The information and benchmarks used in these publications will be a key input into the assessment of industry performance and the delivery of outcomes by the RSE licensee, APRA and other stakeholders.

APRA supervisors will continue to engage with RSE licensees over the second half of 2019 on their preparations for commencement of SPS 515 on 1 January 2020.

Yours sincerely,

Helen Rowell
Deputy Chairman

Attachment A – APRA’s response to submissions

This Attachment summarises the main issues raised in submissions, along with APRA’s responses.

In addition to the changes outlined below, APRA has made a number of non-substantive formatting and stylistic changes to SPS 515, to ensure alignment with APRA’s new approach to the drafting prudential standards.

1. Business performance review (BPR)

The BPR is intended to ensure each RSE licensee undertakes a holistic review of its business operations, including the outcomes it delivers, and identifies actions for improvement.

Submissions were generally supportive of the concept of the BPR, with a number of participants contending it was consistent with how many RSE licensees currently seek to improve their operations, including through annual updates to their business plans. However, as detailed below, feedback requested review and clarification of the drafting and additional APRA guidance in some areas.

1.1. Cohort analysis and benchmarking

A number of industry participants sought additional clarity on the cohort analysis required under paragraph 15(a)(ii) of SPS 515. In particular, there was uncertainty around APRA’s expectations for the construction of cohorts and whether an RSE licensee would have to benchmark against the cohort level outcomes delivered by other RSE licensees.

Some submissions considered that APRA should mandate the benchmarks to be utilised in the cohort analysis with a strong focus on investment performance.

APRA response

SPS 515 provides an RSE licensee with discretion to identify the cohorts appropriate and relevant to their membership base. The objective of the cohort analysis is for an RSE licensee to go beyond fund or product based analysis of performance to also assess outcomes provided to members in different demographic or other cohorts within or across products and options. A product that performs well under the legislated outcomes assessment may not provide quality outcomes to all members within that product.

APRA has made a minor change to the drafting of 15(a)(ii) through removing the wording ‘relative to outcomes sought’. This drafting appears to have added to industry uncertainty about how to undertake the cohort analysis by suggesting the need to separately consider outcomes sought at a cohort level when developing strategic objectives. Additionally, SPG 516 has been updated to provide further clarity on the purpose of the cohort analysis, including examples of cohort analysis.

In APRA’s view, it is preferable not to set specific benchmarks or specific cohorts that all RSE licensees must utilise in the cohort analysis. Each cohort will have unique characteristics based on the membership base and the RSE licensee’s decisions on how to segment its membership base. An RSE licensee is best placed to determine what cohorts are meaningful to be assessed under the BPR, including accounting for internal and external data to set the relevant objective benchmarks.

APRA will consider providing additional guidance in these areas as needed, based on industry's experience in implementing the requirements.

1.2. Overlap with the legislated outcomes assessment

A number of industry participants noted there would be overlap between the analysis undertaken for the legislated outcomes assessment and APRA's BPR, particularly the cohort analysis, and sought clarity on whether and how this overlap could be addressed in undertaking the BPR.

APRA response

APRA recognises there will be overlap between the analysis completed for the product based legislated outcomes assessments and the cohort analysis under the BPR. The results of the metric calculations and consideration of the factors under the legislated outcomes assessment will provide a rich source of data that is relevant to assessing performance of an RSE licensee in achieving its strategic objectives. Guidance in draft SPG 516 recognises that these components of the legislated outcomes assessment can be utilised by the RSE licensee for the purposes of the cohort analysis and the analysis of key factors impacting performance, as required for the BPR.

1.3. Timing of BPR

Stakeholders sought guidance from APRA as to when the annual BPR would be expected to be completed and how it would be sequenced with the legislated outcomes assessment.

APRA response

APRA expects the BPR will be a key input to an RSE licensee's business planning cycle, typically undertaken prior to the end of the relevant financial year, to allow for actions identified to improve performance to be included in an updated business plan. For many RSE licensees this would mean undertaking the BPR around March-May each year to allow for an updated business plan to start on 1 July of the relevant year. APRA expects that subsequent BPRs will be undertaken within 12 months, and at broadly the same time each year. APRA has amended SPG 516 to make this clearer. Sequencing of the legislated outcomes assessment and the BPR is discussed below.

In addition, APRA has also amended paragraph 11 of SPS 515 to require that the business plan is updated annually with the results of the BPR.

2. Legislated outcomes assessment

Consultation indicated significant industry uncertainty with how to interpret and undertake the legislated outcomes assessment, particularly in respect of choice products. Areas raised included definitional-challenges for choice products, the need for the SIS Regulations to be finalised and the availability and timeliness of data needed to undertake the assessments.

2.1. Weighting of factors

Submissions indicated misunderstanding of APRA's intent in requiring an RSE licensee to detail its methodology for the legislated outcomes assessment. A number of submissions considered that APRA's requirement for an RSE licensee to detail how it had weighed the components of the legislated outcomes assessment may be misinterpreted as signalling that an RSE licensee is required to specify numerical weightings for each element of the outcomes assessment.

APRA response

The legislated outcomes assessment requires an RSE licensee to follow two steps - the first step requires the RSE licensee to compare its product against other products based on the metrics prescribed in sections 52(10) and (10A), and the second step requires an RSE licensee to assess whether it is promoting the financial interests of members based on the factors set out in section 52(11).

APRA's intent in SPS 515 is to require an RSE licensee to describe how it has balanced the results from both the comparison prescribed in sections 52(10) and (10A) with the qualitative elements prescribed in section 52(11) in making its overall determination. APRA has sought to clarify this through changes to SPS 515 and in the guidance in draft SPG 516. APRA has also amended paragraph 21(b) of SPS 515 to ensure that an RSE licensee comprehensively documents how it determines the products it will use for the purposes of comparing its MySuper or choice product under the legislated outcomes assessment.

2.2. Benchmarks for the legislated outcomes assessment

A number of stakeholders submitted that APRA should develop and require the use of specific benchmarks in SPS 515 for the comparison component of the legislated outcomes assessment for both MySuper and choice products under sections 52(10) and 52(10A).

APRA response

Prior to the development of specific product benchmarks for the legislated outcomes assessment under SPS 515, enhancements to APRA's reporting collection are necessary. More complete and higher quality comparable data, particularly on choice products and expenses, will enable the development of reliable benchmarks that will be a key input into an RSE licensee reaching a determination under section 52(9)(a). As noted in the cover letter, later in 2019 APRA will release a publication detailing an assessment of superannuation industry performance. This publication will have an initial focus on MySuper products with reference to meaningful benchmarks.

2.3. Additional assessment factors

Stakeholders sought further clarification on what should be captured as 'operating costs', as an additional assessment factor required to be assessed under section 52(11) of the SIS Act. It was also recommended that APRA consider including the 'basis for setting fees' as an assessment factor, consistent with the previous APRA outcomes assessment in SPS 515.

APRA response

APRA has provided guidance in draft SPG 516 on operating costs that will assist an RSE licensee undertake the analysis for this assessment factor. The intent of this assessment factor is to ensure that an RSE licensee closely examines how efficiently, as reflected in the operating cost base, it operates its business and how it impacts the financial interests of members holding the relevant products.

APRA agrees that the basis for setting fees is an important factor in assessing the promotion of the financial interests of members of a particular product and has included the requirement to consider this assessment factor in SPS 515. Guidance on APRA's expectations on this requirement is set out in draft SPG 516.

2.4. Use of APRA reporting standards

During consultation, industry expressed some uncertainty around the methodology to be used in calculating the comparison metrics set out in sections 52(10) and 52(10A) of the SIS Act.

APRA response

The Explanatory Memorandum to the Member Outcomes Act suggests that APRA's reporting standards may set out the methodology for the calculations. To provide industry with certainty, APRA has included a requirement in SPS 515 that the MySuper comparison metrics are calculated in accordance with the methodology under *Reporting Standard SRS 700.0 Product Dashboard* and *Reporting Standard SRS 702.0 Investment Performance*. This will assist in ensuring that the methodology, and therefore comparisons, are standardised across the industry for MySuper products.

2.5. Timing of legislated outcomes assessment

Under section 52(9)(a), an RSE licensee must undertake the legislated outcomes assessment on an annual basis.

Nearly all industry participants raised issues with the timing and sequencing of the first legislated assessment in 2020 and how this would be considered as part of the first BPR.

APRA response

As set out in detail in the cover letter, APRA acknowledges there would be significant challenges for many RSE licensees in undertaking the legislated outcomes assessment for all products for consideration in the BPR in 2020.

Accordingly, APRA has determined that for 2020 only, the results of the legislated outcomes assessment are not required to be considered as part of the BPR. From 2021 onwards the results of the most recent legislated outcomes assessments for all products would need to be included as a component of the BPR.

APRA has included guidance in draft SPG 516 that encourages an RSE licensee to link its outcomes assessment to the publication of key APRA superannuation statistical publications covering the preceding July-June financial year. APRA's intent with this guidance is that the industry is utilising the same time period and key data sources to assist comparability of outcome assessment results and methodology.

3. Revisions to prudential guidance

The proposed changes to SPS 515, including the introduction of the legislated outcomes assessment, necessitate changes to both SPG 515 and draft SPG 516. Relevantly, draft SPG 516 has been renamed 'Business Performance Review,' and also includes guidance on the legislated outcomes assessment.

Industry participants have sought further guidance in the following specific areas:

- expectations for cohort analysis under the BPR, particularly on best practice cohort construction and the use of internal and external benchmarks;
- the overlap between analysis undertaken for the legislated outcomes assessment in the cohort analysis;

- undertaking the legislated outcomes assessment, covering:
 - product definitional issues, including how to undertake the outcomes assessment for MySuper lifecycle products, choice products, retirement products and legacy products;
 - establishing ‘comparable choice products’;
 - data sources and challenges to undertake the assessment without APRA choice data;
 - timing of the legislated outcomes assessment and alignment with the BPR; and
 - the detail expected in the summary published on the RSE licensee’s website.

With the exception of further guidance on undertaking the outcomes assessment for choice products, which is dependent on finalisation of the SIS Regulations, APRA has updated draft SPG 516 to provide guidance across these areas. Once the SIS Regulations are finalised, APRA will update its guidance as necessary.

As set out in draft SPG 516 and the cover letter, until the SIS Regulations are finalised APRA expects RSE licensees to comprehensively undertake the outcomes assessment for choice products based on the assessment factors under section 52(11) of the SIS Act, including the use of appropriate peer groups and benchmarks to assess the performance of its choice products.

APRA will continue to periodically review its guidance as industry implements the new requirements and as practices across the industry evolve.