



SHORT TOPIC PAPER FOUR

Investments

Introduction

APRA is currently conducting a post-implementation review of the prudential framework for superannuation. As described in APRA's discussion paper released in May 2018, this is the fourth paper in a series of short topic papers covering six specific areas of the prudential framework.¹

This paper, as with the other papers, provides:

- the objectives and key requirements of the prudential and reporting standards (including guidance material) that fall within the relevant topic area;
- links to the final prudential and reporting standards; and
- a series of questions aimed at determining whether the prudential standards (including guidance material) and reporting standards have achieved their objectives and continue to remain fit for purpose.

The short topic papers seek to facilitate discussion and consideration of key elements of the prudential framework, and the provision of feedback from stakeholders that will:

- enable appropriate consideration of differing views on the effectiveness of the current prudential framework;

¹ APRA, *Post-implementation review of APRA's superannuation prudential framework*, 23 May 2018.

- provide a greater insight into the practical impact of the prudential framework;
- identify areas where improvements may be warranted;
- identify areas that could be streamlined to reduce compliance costs or improve outcomes; and
- ensure that full and appropriate consideration of the relevant areas and topics covered by the prudential and reporting standards is achieved.

APRA is undertaking this comprehensive post-implementation review to determine whether the prudential and reporting standards (and related guidance material) have achieved their objectives and remain fit for purpose. The review is not intended to revisit the original policy intent or objectives of the reforms, and is not seeking to either weaken or strengthen the prudential framework. Rather, APRA wishes to assess whether the prudential framework is operating effectively and efficiently, and to identify and seek to address any unintended consequences or areas for improvement in the framework.

Consultation on this and the other short topic papers will form part of APRA's industry engagement over the course of the review process, which will also comprise roundtables, small group discussions and bilateral meetings.

While formal written submissions close on 26 September 2018, written submissions (formal or informal) on any aspect of the review can be submitted at any time throughout the review process.

Investments

Scope

In the context of this review, the investments elements of the prudential framework cover:

- *Prudential Standard SPS 530 Investment Governance* ([SPS 530](#)) and its related guidance material which can be found on APRA's website.
- reporting standards – *Reporting Standard SRS 530.0 Investments* ([SRS 530.0](#)); *Reporting Standard SRS 531.0 Investment Flows* ([SRS 531.0](#)); *Reporting Standard SRS 532.0 Investment Exposure Concentrations* ([SRS 532.0](#)); *Reporting Standard SRS 533.0 Asset Allocation* ([SRS 533.0](#)); *Reporting Standard SRS 534.0 Derivative Financial Instruments* ([SRS 534.0](#)); *Reporting Standard SRS 535.0 Securities Lending* ([SRS 535.0](#)); *Reporting Standard SRS 702.0 Investment Performance* ([SRS 702.0](#)); and *Reporting Standard SRS 801.0 Investments and Investment Flows* ([SRS 801.0](#)).

SPS 530 and its associated guidance material

Objectives and key requirements

The objective of SPS 530 is to ensure that RSE licensees have a sound investment governance framework and manage investments in a manner consistent with the best interests of beneficiaries.

The board is responsible for maintaining an investment governance framework for the selection, management and monitoring of investments that is appropriate to the size, business mix and complexity of the RSE licensee's business operations.

The investment governance framework must include the investment strategies for each RSE, and for each investment option, as required by the *Superannuation Industry (Supervision) Act 1993*.

The key requirements of SPS 530 are that an RSE licensee must:

- formulate specific and measurable investment objectives for each investment option, including return and risk objectives;
- develop and implement an effective due diligence process for the selection of investments;
- review the investment objectives and investment strategies on a periodic basis; and
- formulate a liquidity management plan.

APRA has issued two prudential practice guides to assist RSE licensees in complying with the requirements in SPS 530, *Prudential Practice Guide SPG 530 Investment Governance* (SPG 530) and *Prudential Practice Guide SPG 531 Valuation* (SPG 531).

SPG 530 provides RSE licensees with assistance in complying with their requirements in relation to the formulation and implementation of an investment strategy and, more generally, outlines prudent practices in relation to corresponding investment risk management arrangements.

In particular, SPG 530 provides additional insights on key elements of SPS 530 including implementing and maintaining an investment strategy, investment objectives, portfolio construction, investment risk management, liquidity management and stress testing.

SPG 531 provides assistance to RSE licensees in complying with the requirements in SPS 530 and, more generally, outlines prudent practices in relation to the valuation of assets. In particular, SPG 531 provides additional guidance around governance processes and practices in relation to valuation, appropriate valuation policy and procedures, and matters that should be taken into account when considering the frequency of the valuation of assets.

Prudential Standard and Prudential Practice Guide Questions

Questions

- 1) What outcomes have resulted from the implementation of the prudential standards and are these outcomes in line with their objectives?
- 2) Have the requirements in the prudential standards been embedded in RSE licensees' decision-making processes and practices?
- 3) Have the prudential standards achieved their stated objectives? If so, do they continue to remain fit for purpose given developments within the industry?
- 4) Have the prudential practice guides achieved their stated objectives? If so, do they continue to remain fit for purpose given developments within the industry?
- 5) Do the prudential standards, when read in conjunction with their relevant prudential practice guides, provide sufficient:
 - a) Clarity and certainty for RSE licensees in relation to their obligations as trustees of superannuation entities?
 - b) Flexibility for RSE licensees to achieve the objectives in a manner best suited to their business?
- 6) Are any of the requirements or principles contained in the prudential standards or prudential practice guides no longer applicable? Why?
- 7) Are there any aspects of the prudential standards or prudential practice guides that could be improved to:
 - a) Achieve better risk management outcomes?
 - b) Reduce compliance costs?
 - c) Facilitate better supervision by APRA?
- 8) Are there any additional areas that should be addressed?
- 9) What are the ongoing compliance costs associated with the prudential standards and their related prudential practice guides?

Reporting Standards

The following reporting standards relate to the investments of RSE licensees. The reporting standards can be used by APRA for its prudential supervision and publication purposes, and provide benefits for other interested stakeholders.

SRS 530.0

Objective and key requirements

The objective of SRS 530.0 is to capture data in respect of the asset allocation and investments of RSEs.

The information required to be reported under SRS 530.0 includes:

- directly and indirectly held investments;
- other investments;
- listed illiquid investments; and
- hedge fund investments.

SRS 531.0

Objective and key requirements

The objective of SRS 531.0 is to capture data relating to movements in investments of RSEs. This includes movements in directly and indirectly held investments.

SRS 532.0

Objective and key requirements

The objective of SRS 532.0 is to capture data on investment exposure concentrations.

The information required to be reported under SRS 532.0 includes:

- large exposures in relation to:
 - directly held investments;
 - indirectly held investments;
 - indirectly held investments, by MySuper products and defined benefits;
 - indirectly held investments in underlying investment vehicles;
 - directly held investments, by country of investment;
 - indirectly held investments (international exposures); and
 - unlisted investments.

SRS 533.0

Objective and key requirements

The objective of SRS 533.0 is to capture data on the strategic and actual asset allocation of MySuper products.

The information required to be reported under SRS 533.0 includes:

- strategic asset allocation;
- directly and indirectly held investments;
- movements in directly and indirectly held investments; and
- total investment flows.

SRS 534.0

Objective and key requirements

The objective of SRS 534.0 is to capture data on derivative financial instruments of RSEs.

The information required to be reported under SRS 534.0 includes:

- directly held derivative financial instruments;
- value of assets of the RSE that are pledged to secure derivative positions;
- details of directly held over the counter derivatives; and
- details of net collateral pledged to secure positions per counterparty.

SRS 535.0

Objective and key requirements

The objective of SRS 535.0 is to capture data on securities lending of RSEs. The information required to be reported includes the size of securities lending programmes and amount currently loaned out, the amount of collateral and the type of collateral.

SRS 702.0

Objective and key requirements

The objective of SRS 702.0 is to capture data relating to the investment performance of non-lifecycle MySuper products and lifecycle stages of a lifecycle MySuper product.

The information required to be reported under SRS 702.0 includes:

- investment fees, costs and taxes;
- administration fees, costs and taxes;
- advice fees and costs; and
- net investment return, net return and representative member fees costs and taxes.

SRS 801.0

Objective and key requirements

The objective of SRS 801.0 is to capture data relating to the asset allocation and investment flows of small APRA funds and single member approved deposit funds.

The information required to be reported under SRS 801.0 includes:

- total investments;
- directly and indirectly held investments;
- indirectly held investments by vehicle;
- movements in directly held investments; and
- total movements in indirectly held investments.

Reporting Standard Questions

Questions

- 1) Are the objectives of the reporting standards and reported information well understood?
- 2) Do the current reporting requirements in the reporting standards capture:
 - a) All relevant data relating to the investment governance practices of RSE licensees?
 - b) Sufficient data to enable appropriate analysis of RSE licensees?
 - c) Data at an appropriate level of granularity?
- 3) Is the information captured under the reporting standards accurate, relevant and useful for policymakers, regulators, trustees and the community?
- 4) What are the ongoing compliance costs associated with the collection of data required under the reporting standards?
- 5) Are there any aspects of the reporting standards that could be improved to:
 - a) Reduce ongoing compliance costs?
 - b) Improve the usefulness of the reported data?
 - c) Improve the accuracy of the reported data or clarity of definitions and other instructions?
 - d) Facilitate better supervision by APRA?
- 6) Are any of the current requirements in the reporting standards no longer applicable? Why?