



6 December 2018

Domenic Gatto  
Partner  
King & Wood Mallesons  
Level 50 Bourke Place  
600 Bourke Street  
Melbourne VIC 3000

Dear Mr Gatto

**Potential imposition of additional conditions on licences and registration and directions to comply with licence conditions**  
**IOOF INVESTMENT MANAGEMENT LIMITED (IIML)**  
**AUSTRALIAN EXECUTOR TRUSTEES LIMITED (AET)**  
**IOOF LIMITED (IL)**

1. We confirm you act on behalf of IIML, AET, and IL (together, for the purposes of this letter, the **APRA Regulated Entities (AREs)**) and can accept service of this letter. The AREs are subsidiaries of IOOF Holdings Limited (**IHL**). IHL and its subsidiaries, both the AREs and other non APRA-regulated entities, are referred to collectively as the 'IOOF Group' for the purposes of this letter.
2. APRA is considering imposing additional conditions on the RSE licence held by IIML, AET and the registration held by IL. The potential conditions relate to failures to adequately identify and manage conflicts of interest throughout the IOOF Group, and failures to comply with legislative requirements and prudential standards.
3. APRA is also considering issuing directions to IIML to comply with licence conditions, as APRA has reasonable grounds to believe that IIML has breached a condition on its RSE licence, namely the requirement to comply with the RSE licensee law as defined in section 10 of the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*. APRA has formed this view based on the breaches, or potential breaches, of the SIS Act and relevant prudential standards identified by Ernst & Young (**EY**) in their report dated 4 September 2018.
4. This letter provides you with notice of the potential conditions and directions and an opportunity to respond to APRA's preliminary view on behalf of your client. If you want to make submissions in response to APRA's preliminary view in relation to the potential conditions and directions, please do so within 14 days of the date of this letter, being on or before 20 December 2018. If you do not provide a written response by 20 December 2018, APRA may proceed to make decisions without any further notice.
5. A copy of the potential conditions are attached to this letter (Attachments A to C).
6. A copy of the potential directions to comply is attached to this letter (Attachment D).

## Relevant Documents

7. A list of documents APRA has considered in reaching its preliminary view, and the documents themselves, have been shared with you via SecureDoc.

## Material Facts

### APRA

8. APRA has the functions and powers set out in the *Australian Prudential Regulation Authority Act 1998* (Cth) (**APRA Act**), the SIS Act and the *Life Insurance Act 1995* (**Life Act**).
9. Pursuant to section 34F of the SIS Act, APRA is responsible for encouraging and promoting the carrying out by registrable superannuation entity licensees (**RSE licensees**) of sound practices in relation to prudential matters. It is also responsible for the evaluation of the effectiveness and carrying out of those practices. Pursuant to section 34C of the SIS Act, APRA may make standards in relation to prudential matters that must be complied with by all RSE licensees (**Prudential Standards**). The Prudential Standards set out the minimum prudential requirements to be observed.
10. Section 29EA of the SIS Act gives APRA the power to impose additional conditions on an RSE licence by giving the RSE licensee a notice setting out the additional conditions.
11. Section 29EB of the SIS Act gives APRA the power to direct an RSE licensee to comply with a specified condition of its RSE licence by a specified time if APRA has reasonable grounds to believe that the RSE licensee has breached the condition by giving the RSE licensee a notice setting out the direction.
12. Pursuant to section 3 of the Life Act, the main objects of the Life Act are to protect the interests of the owners and prospective owners of life insurance policies in a manner consistent with the continued development of a viable, competitive and innovative life insurance industry and to promote financial system stability in Australia. One of the principal means adopted for the achievement of these objects is the supervision of life companies by APRA.
13. Pursuant to section 230A of the Life Act, APRA may make standards in relation to prudential matters that must be complied with by all life companies, registered non-operating holding companies (**NOHCs**) and subsidiaries. The Prudential Standards set out the minimum prudential requirements to be observed.
14. Section 22 of the Life Act gives APRA the power to impose additional conditions on the registration of a company by giving the company a notice setting out the additional conditions.
15. A copy of the relevant sections of the SIS Act and Life Act are attached to this letter (Attachments 1 and 2)

### IIOF

16. On 25 November 2005 IIML was granted a public offer entity RSE licence pursuant to section 29D of the SIS Act. On 24 May 2010 additional conditions were imposed on IIML's licence under section 29EA of the SIS Act.

17. On 12 May 2006 AET was granted a public offer RSE licence pursuant to section 29D of the SIS Act.
18. Accordingly, IIML and AET are RSE licensees regulated by APRA under the SIS Act.
19. All RSE licensees must comply with the SIS Act and the relevant Prudential Standards.
20. IL was formerly known as IOOF of Victoria Friendly Society Ltd. APRA issued a registration certificate under section 21(5) of the Life Act that took effect on 1 July 1999 for IOOF of Victoria Friendly Society Ltd (the 'original registration certificate').
21. On 6 April 2000, APRA revoked the original registration certificate and registered the company as a Friendly Society in its new name, 'IOOF Ltd', with effect from 18 November 1999 pursuant to section 21(5) of the Life Act.
22. IL is regulated by APRA under the Life Act and must comply with the Life Act and the relevant Prudential Standards.
23. IOOF Group Ltd is another entity which is a subsidiary of IHL and regulated by APRA under the Life Act. It is a NOHC registered by APRA in 2014 with the intention of restructuring the IOOF Group so that the AREs were subsidiaries of the NOHC. This restructure never eventuated. At this time APRA is not considering imposing licence conditions or issuing directions in relation to the NOHC.

## **Concerns**

24. APRA has raised issues and concerns regarding the adequacy of the organisational structure, governance and conflicts management frameworks of the AREs within the IOOF Group. These concerns have been communicated by APRA to the AREs and IHL on numerous occasions, including as set out in the correspondence attached to this letter.
25. A summary of APRA's concerns is set out below.

### *Organisational structure*

26. Since at least 2015, APRA has raised concerns with the organisational structure of the AREs. This structure has resulted in a lack of demonstrable focus on the individual AREs, as well as issues relating to the identification and management of conflicts of interest and duty.
27. Prior to January 2017, the IOOF Group operated under a group structure where all directors sat on the parent and subsidiary Boards. This structure presented an inherent conflict of interest, as the same individuals were responsible for making decisions in respect of issues where the interests of the investors or members of the different entities within the IOOF Group were likely to give rise to conflicts of interest or duty.
28. By letter dated 21 December 2015, APRA observed that decisions were made which appeared to favour the interests of shareholders over the beneficiaries of superannuation funds. For example, the decision in relation to the Pursuit and Sweep breaches to compensate non-superannuation investors from the entity's own funds, whereas superannuation investors were compensated from the Operational Risk Financial Reserve (see Attachment 3).

29. In January 2017 two independent directors were appointed to the Board of the AREs (Attachment 4). However, some of the directors on the IHL Board remained on the ARE Board, including Chris Kelaher (Managing Director of IHL) and George Venardos (Chair of IHL). The Board of the AREs have only recently moved to having a majority of independent directors, as required by the APRA.
30. Both IIML and AET are considered by APRA to be superannuation dual regulated entities (**SDREs**), as they are also Responsible Entities (**REs**) of a number of managed investment schemes. This structure also presents an inherent conflict of interest, as the directors of the Board of IIML make decisions on issues where the interests of IIML as RE conflict with the interests of the superannuation members. For example, the Board of IIML decided to add a certain product (for which IIML is RE) to the investment menu of one of the superannuation funds for which IIML is the RSE licensee. IIML failed to identify this conflict of interest and either avoid or appropriately manage the conflict (see Attachment 5).

#### *Governance Framework*

31. Since at least 2015, APRA has raised concerns with the governance framework which applies to the AREs including the:
  - a. failure to formally document consideration of the optimal skills, structure and composition of the Board;
  - b. use of IHL group committees, rather than dedicated committees for each of the AREs, as it results in insufficient consideration of individual ARE requirements; and
  - c. annual assessments of the Boards' performance (as required by *Prudential Standard SPS 510: Governance (SPS 510)* and *Prudential Standard CPS 510: Governance (CPS 510)*) being conducted at the IHL Board level and therefore not adequately addressing the objectives specific to each ARE (see Attachments 3 and 5).

#### *Conflicts Management Framework*

32. Since at least 2015, APRA has raised concerns with the adequacy of the conflicts management framework which applies to the AREs to manage the inherent conflicts arising from the IOOF Group's organisational structure.
33. In particular, APRA has raised concerns with the:
  - a. misinterpretation of section 52(2)(d) and 52A(2)(d) of the SIS Act reflected in the AREs' implementation of the Conflict Management Framework and the 'Directors Conflicts Guide';
  - b. ARE directors' inadequate understanding of the conflicts present in its dual RE / RSE licensee business model; and
  - c. failure to consistently document in Board, committee or other relevant meeting minutes details of conflicts identified or actions taken to avoid or manage such conflicts (see Attachment 5).

34. APRA raised significant concerns with Questor's actions in relation to the Cash Management Trust (**CMT**) over-distribution, remediation and compensation plan. In particular, by letter dated 12 December 2016 APRA raised serious concerns about the extent to which the interests of the superannuation members were considered and prioritised by Questor, as required by section 52(2)(d) of the SIS Act in the event of a conflict (see Attachment 6). In APRA's view, the actions taken by IOOF in relation to the CMT Breach demonstrate a failure of the Conflicts Management Framework to identify conflicts and appropriately manage or avoid the conflict.
35. By letter dated 19 April 2017, IOOF responded to APRA's concerns in relation to the CMT Breach (see Attachment 7).
36. To address APRA's ongoing concerns with inadequate risk culture and conflict management which affected the AREs in the IOOF Group, APRA's 2017 Prudential Review Report required the engagement of an independent and appropriately skilled external party to review the IOOF Group's risk culture and approach to conflicts management (see Attachment 5). This review was subsequently conducted by EY.
37. In September 2018, EY provided a final report which also raised numerous issues and concerns with the IIML's compliance with the SIS Act and relevant prudential standards (**EY Report**) (see Attachment 8). EY's report found:
  - a. the conflicts of interest management challenges arise from the dual regulated and multiple entity nature of IIML;
  - b. a potential breach of *Prudential Standard SPS 520: Fit and Proper* (**SPS 520**). Responsible persons for IIML as RSE licensee identify any conflicts of duty through a self-attestation process, however any conflicts identified do not appear to have been reviewed by IIML in accordance with SPS 520 (paragraph 18(d));
  - c. breaches, or potential breaches, of *Prudential Standard SPS 521: Conflicts of Interest* (**SPS 521**), including:
    - i. the existing Conflicts of Interest Framework is applicable to the whole of the IOOF group, rather than specific to IIML, and requires the approval of a number of entities within the IOOF Group (SPS 521, paragraphs 8 and 10);
    - ii. the Conflicts of Interest Framework does not contain any specific provision requiring responsible persons to disclose relevant duties and interests before taking up a position (SPS 521, paragraph 12);
    - iii. it is not evident that the RSE licensee Boards are required to approve the use of all policies and functions applicable to them. It appears that some policies applicable to the RSE Licensees have been approved by the IHL Board on behalf of the RSE Licensees. It is also not evident that the RSE Licensee Boards have conducted any analysis of the Group policies to ensure that they have appropriate regard to their business operations and specific requirements (SPS 521, paragraph 13);
    - iv. the Conflicts of Interest Framework, which applies to all IOOF entities, contains a broad statement that 'when a conflict cannot reasonably be managed it must be avoided'. This is inaccurate for the RSE Licensees, as it does not take into account the covenants contained in sections 52 and 52A of the SIS Act (SPS 521, paragraph 18(c));

- v. there is a standing item for the disclosure of 'Conflicts of Interest' in the board minutes, but the approach to documenting treatment plans is templated and the detail is recorded in another document. This is merely referenced in the board minutes, whereas SPS 521 paragraph 18(e) requires the details on the conflict and action taken to be recorded;
- vi. while EY observed that entities in the IOOF Group record the relevant duties and interests of other internal and external responsible persons, this is not reflected in the Conflicts of Interest Framework (SPS 521, paragraph 19);
- d. a misunderstanding of the covenants contained in sections 52 and 52A of the SIS Act, including the requirement to give priority to the interests of superannuation members in the event of a conflict, as demonstrated through:
  - i. the inclusion of the statement 'when a conflict cannot reasonably be managed it must be avoided' in the Conflicts of Interest Framework which applies to all IOOF entities, but is inaccurate for the RSE licensees as it does not take into account the SIS Act covenants;
  - ii. the practice of sending a single board paper for IIML to make a decision with respect to a transaction made in both of IIML's capacities and the decision is considered in a single board meeting of IIML;
  - iii. related party transactions between IIML as RSE Licensee and IIML as RE are not recognised or documented. IIML rarely obtains an independent expert report or an independent advice as to whether the board decision is in the best interests of superannuation members before making a conflicted investment decision;
  - iv. EY's observation that some Senior Leaders consider that IIML must meet all members' interests and balance the interest of superannuation fund beneficiaries and RE members and the sustainability of earnings for the IOOF Group.

38. IOOF has prepared an Action Plan to address the findings of the EY Report, which sets out the timeframes within which IOOF will address each of EY's recommendations (see Attachment 9).

*IOOF's inability to address APRA's concerns in a timely and productive manner*

39. On 5 March 2018, APRA reiterated its concerns in respect of the deficiencies in the implementation of the Conflicts Management Framework and the inherent conflicts of interest and duty presented by the composition of the ARE Boards (see Attachment 10).

40. On 20 March 2018, IOOF set out proposals to address APRA's concerns, including to appoint an independent chair to lead a majority independent board and to hold separate meetings for IIML in its capacity as RE and RSE Licensee (**RSEL**) (see Attachment 11).

41. On 19 June 2018, APRA set out the following minimum changes it expected IHL and the AREs to implement in a timely manner to strengthen the management of conflicts and address APRA's governance concerns ahead of the proposed acquisition of ANZ's P&I Business:

- a. splitting of the RSEL and RE functions into distinct legal entities;



- b. establishment of a dedicated business function to support the AREs;
  - c. appointment of an Independent Chair to lead a majority Independent Board for the AREs (with independence to include independence from IHL); and
  - d. consolidation of RSEs and Registrable Superannuation Entities (**RSEs**) post-acquisition of ANZ's P&I Business (see Attachment 12).
42. By letter dated 14 August 2018, IHL, presumably on behalf of the AREs, agreed to the changes set out in paragraph 41(a), (c) and (d) above (see Attachment 13).

#### *The Managed Action Plan*

43. On 4 September 2018, APRA set out a Managed Action Plan (**MAP**) which includes the following requirements:
- a. splitting RSE license and RE functions of IIML and AET into distinct legal entities;
  - b. establishing a dedicated business function to support the AREs;
  - c. appointing a suitably skilled independent executive to lead the dedicated business function;
  - d. appointing an independent chair to lead a majority independent board for the AREs within the IOOF Group;
  - e. consolidating the RSE licenses and RSEs post-acquisition of ANZ's P&I Business;
  - f. amending the structure and composition of ARE board committees to ensure ongoing compliance with *Prudential Standard SPS 510: Governance* and *Prudential Standard CPS 510: Governance*;
  - g. completing the EY Independent Review into conflicts of interest and risk culture, including timely closure of any findings; and
  - h. ongoing reporting to APRA (see Attachment 15).
44. The items referred to in paragraph 43(f) to (h) above are in addition to the minimum requirements which were set out in APRA's letter dated 19 June 2018.
45. On 20 September 2018 IHL and each of the AREs agreed to implement the MAP to address the concerns set out in paragraphs 24 to 34 above, subject to some comments on timing and approach (see Attachment 16). Further correspondence between APRA and IOOF in relation to the MAP can be found at Attachments 17 and 18.

#### *Progress on the MAP to date*

46. While IHL and the AREs have agreed to implement the MAP there have already been delays in its implementation. For example, IHL and the AREs:
- a. did not commence holding separate Board meetings for IIML (as RSEL and RE) until 26 September 2018 and AET (as RSEL and RE) until 28 November 2018, despite this separation of Board meetings being required by 14 September 2018 (see Attachments 19 to 21);

- b. provided a plan to give effect to the legal separation of the RSEL and RE function in November 2018. However the plan does not provide sufficient detail, particularly in relation to the reasons for the time given for the different stages of the plan, to satisfy the MAP item (required by 30 September 2018) (see Attachment 22);
  - c. have indicated that the legal separation of the RSEL and RE function will not take effect until at least March 2020, despite APRA requiring that the legal separation occur by 30 June 2019 (see Attachments 21 and 22)
  - d. have not appointed an appropriately skilled and experienced person to head the dedicated business function to support the AREs. The appointment of the interim CEO to this role does not satisfy the requirement or intent of the MAP item (which was required to be completed by 1 October 2018) (see Attachment 21);
  - e. provided a board paper relating to the proposed dedicated business function dated 27 November 2018 which does not refer to a plan to establish a dedicated business function to support IL. The MAP requirement is to establish a dedicated business function to support all of the AREs, not just the RSE licensees (see Attachment 23);
  - f. appointed an interim Independent Chair for the ARE Boards on 13 September 2018. This does not satisfy the requirement or intent of the MAP item, which is to appoint a permanent Independent Chair to the ARE Boards (which was required to be completed by 14 September 2018). Andrew Bloore has subsequently been appointed permanent Chair of AET and IL, but not IIML (see Attachment 24);
  - g. moved to a majority independent board for the AREs on 14 November 2018 (which was required to be completed by 2 November 2018) (see Attachment 24);
  - h. established dedicated Board Audit and Risk Committees close to two months late per the MAP action timeframes. APRA notes that dedicated Board Audit and Risk Committees first met on 20 November 2018, despite the requirement to establish the committees by 30 September 2018 (see Attachment 22);
  - i. did not provide its first fortnightly report until 31 October 2018, more than a month after agreeing to implement the MAP on 20 September 2018 (see Attachment 25); and
  - j. did not hold its first monthly meeting with APRA until 15 November 2018, almost two months after agreeing to implement the MAP (see Attachment 26).
47. The ongoing delay in progress on the MAP is unacceptable to APRA, particularly given that the concerns have been raised since at least 2015 and many of the specific items included in the MAP have been raised since March 2018. The timeframes set out by APRA in the MAP were based on the expectation that work would have already been underway to complete these action items following the receipt of APRA's letter dated 19 June 2018.

### **Preliminary view**

48. APRA's concerns have been raised since at least 2015 and many of the specific items included in the MAP have been raised with the AREs since March 2018. The concerns have not been addressed to APRA's satisfaction for an unacceptable period and APRA is not satisfied with the progress on the implementation of the MAP to date.



49. Given IOOF's long history of delays and non-compliance with APRA's requirements, as well as the need for enduring change in the IOOF Group's culture and approach to conflicts management, APRA is considering imposing additional conditions on the licence or registration of the AREs to ensure that:
- a. the AREs implement the MAP in accordance with the specified timeframes, unless otherwise agreed by APRA;
  - b. the AREs implement a process for the nomination and appointment of directors to the ARE boards which is independent from IHL, to be complied with on an ongoing basis;
  - c. APRA is notified prior to any director appointments to the board of the AREs being finalised;
  - d. the AREs within the IOOF Group have a suitably skilled independent chair leading a majority independent board; and
  - e. an APRA- approved independent reviewer (or reviewers) can monitor the progress of the ARE's in completing the MAP items and their compliance with the proposed additional conditions and directions are nearing completion.
50. For the reasons set out in paragraphs 37 above, APRA considers that there are reasonable grounds to believe that the RSE licensee has breached a condition on its RSE licence. For this reason, APRA is also considering issuing directions to comply with licence conditions to ensure that IIML rectifies the breaches, or potential breaches, of the SIS Act and relevant prudential standards identified in the EY Report dated 14 September 2018 in a timely manner.

## Response

51. This letter provides you with notice of the potential conditions that APRA is considering imposing on the RSE licences of IIML and AET and on the registration of IL, and the potential directions APRA is considering issuing to IIML. This letter also provides you with an opportunity to respond to APRA's preliminary view.
52. Please provide your response to this letter within 14 days of the date of this letter, being on or before 20 December 2018. If you do not provide a written response by 20 December 2018, APRA may proceed to make decisions without any further notice.

Yours sincerely



**Brandon Khoo**  
Executive General Manager, Diversified Institutions Division

## Schedule of Documents

Attachment	Document description
A	Proposed licence conditions - IIML
B	Proposed licence conditions - AET
C	Proposed registration conditions - IL
D	Proposed directions to comply with licence conditions - IIML

## ATTACHMENT A

### I.O.O.F. Investment Management Ltd

#### **Proposed additional conditions to be imposed on the RSE Licence**

##### ***Legal Separation of IIML - [MAP Action Item 1]***

1. By 30 June 2019 IIML must only perform IIML's RSE licensee functions.
2. Until Condition 1 is met, IIML, when conducting IIML's RSE licensee functions, must hold board meetings separate from the board meetings held by IIML when conducting IIML's RE functions.

##### ***Dedicated Business Function - [MAP Action Item 2]***

3. The RSE licensee must establish a dedicated business function to support the RSE licensee by 31 March 2019. The dedicated business function may be shared with other AREs within the IOOF Group. The RSE licensee must ensure that the dedicated business function:
  - (a) supports the RSE licensee to fulfil its fiduciary obligations by advocating for member interests;
  - (b) assists with the development and implementation of a Strategy for the RSE licensee that is focused on the delivery of quality member outcomes, whilst having regard for the IOOF Group Strategy;
  - (c) manages day to day relationships with service providers and regulators on behalf of the RSE licensee, ensuring arms-length relationships with related parties;
  - (d) provides independent risk reporting on behalf of the RSE licensee, including investment reporting that is independent from the IOOF Group's investment business;
  - (e) ensures that an effective compliance and risk regime is in place with an appropriate risk culture on behalf of the RSE licensee; and
  - (f) considers any contagion or reputational impacts on the RSE licensee.
4. The RSE licensee must appoint an appropriately skilled and experienced head of the dedicated business function by 31 January 2019 with APRA's prior written approval in relation to the suitability of the candidate.

##### ***Independence of the Board – [MAP Action Item 3]***

5. At all times, the board of the RSE licensee must be chaired by an independent director.
6. At all times, the minimum number of independent directors of the RSE licensee must be at least a simple majority of the total number of directors.
7. The RSE licensee must implement a process for the nomination and appointment of directors which is independent from the IOOF Group and any of the IOOF Group's committees, with the exception of the AREs.

8. The RSE licensee must notify APRA of the name, qualifications, experience and any other relevant details of any director proposed to be appointed to the RSE licensee board at least 30 days prior to the appointment of that independent director.

***Consolidation - [MAP Action Item 4]***

9. The RSE licensee must appoint an independent expert (or experts) by 30 June 2019 to prepare an analysis in relation to the possible consolidation of its RSEs, including with any other RSE within the IOOF Group, or the possible cancellation of its RSE licensee's licence. A copy of that report must be provided to APRA within 7 days of its completion.

***Board Audit and Risk Committee - [MAP Action Item 5]***

10. The RSE licensee must have its own Board Audit Committee separate from the other entities of the IOOF Group that complies with Prudential Standard SPS 510 Governance in force from time-to-time.
11. The RSE licensee must have its own Board Risk Committee separate from the other entities of IOOF Group that complies with Prudential Standard SPS 510 Governance in force from time-to-time.

***Compliance with IOOF Action Plan - [MAP Action Item 6]***

12. The RSE licensee must complete the 'IOOF Action Plan – Independent Review of COI Management Culture and approach to Conflicts Management' dated 12 October 2018 by the dates set out in that plan.

***Progress Reports - [MAP Action Item 7]***

13. The RSE licensee must prepare and issue a report to APRA on the progress of the implementation of the MAP on a fortnightly basis. A single report may be provided on behalf of the RSE licensee and the other AREs within the IOOF Group.
14. The RSE licensee must meet with APRA on at least a monthly basis to report on the progress of the MAP.
15. The RSE licensee must provide APRA with a complete and unedited copy of all board and sub-committee meeting minutes and relevant papers which document the discussions in relation to the MAP within 14 days of the meeting of the board or sub-committee.

***Independent Reviewer – [Additional items]***

16. The RSE licensee must appoint an independent reviewer (or reviewers), to be approved by APRA and on terms approved by APRA, to report to APRA every three months commencing from 31 December 2018 and continuing until APRA considers that all items in the MAP have been completed, in relation to:
  - (a) the status and quality of compliance with these additional conditions on the RSE licensee's licence; and
  - (b) items in the MAP that the RSE licensee considers are nearing completion.

## ***Variations of Time***

17. APRA may at any time vary in writing:

- (a) the dates set out in paragraphs [1], [3], [4], [9], [12] and [16] by which; and
- (b) the time frames set out in paragraphs [8], [9] and [13] to [16] within which, the RSE licensee is obliged to comply with the above conditions.

### Interpretation:

In these conditions:

**APRA** means the Australian Prudential Regulation Authority.

**AREs** means IIML, Australian Executor Trustees Limited ACN 007 869 794, IOOF Ltd ACN 087 649 625 and IOOF Group Pty Ltd ACN 157 711 512.

**IIML** means I.O.O.F. Investment Management Limited ACN 006 695 021.

**IIML's RE functions** means the functions and powers exercised by IIML in its capacity as an RE.

**IIML's RSE licensee functions** means the functions and powers exercised by IIML in its capacity as an RSE licensee.

### **Independent director:**

- (a) has the same meaning as in section 10(1) and section 93A of the SIS Act; and
- (b) means a person who is not:
  - i. a director;
  - ii. an employee; or
  - iii. a member of a committee,

of an entity within the IOOF Group which is not an ARE.

**IOOF Group** means IOOF Holdings Ltd ACN 100 103 722 and its subsidiaries.

**MAP** means the managed action plan contained in Appendix 1 to APRA's letter to the RSE licensee dated 4 September 2018, as amended on 5 September 2018.

**RE** means a responsible entity of a management investment scheme registered under Part 5C of the *Corporations Act 2001* (Cth).

**RSE** means a registrable superannuation entity for the purposes of Part 2B of the *Superannuation Industry (Supervision) Act 1993* (Cth).

**RSE licence** has the meaning given in section 10(1) of the SIS Act.

**RSE licensee** means IIML acting in its capacity as an RSE licensee.

**SIS Act** means the *Superannuation Industry (Supervision) Act 1993* (Cth).



## ATTACHMENT B

### Australian Executor Trustees

#### **Proposed additional conditions to be imposed on the RSE Licence**

##### ***Legal Separation of AET - [MAP Action Item 1]***

1. By 30 June 2019 AET must only perform AET's RSE licensee functions.
2. Until Condition 1 is met, AET, when conducting AET's RSE licensee functions, must hold board meetings separate from the board meetings held by AET when conducting AET's RE functions.

##### ***Dedicated Business Function - [MAP Action Item 2]***

3. The RSE licensee must establish a dedicated business function to support the RSE licensee by 31 March 2019. The dedicated business function may be shared with other AREs within the IOOF Group. The RSE licensee must ensure that the dedicated business function:
  - (g) supports the RSE licensee to fulfil its fiduciary obligations by advocating for member interests;
  - (h) assists with the development and implementation of a Strategy for the RSE licensee that is focused on the delivery of quality member outcomes, whilst having regard for the IOOF Group Strategy;
  - (i) manages day to day relationships with service providers and regulators on behalf of the RSE licensee, ensuring arms-length relationships with related parties;
  - (j) provides independent risk reporting on behalf of the RSE licensee, including investment reporting that is independent from the IOOF Group's investment business;
  - (k) ensures that an effective compliance and risk regime is in place with an appropriate risk culture on behalf of the RSE licensee; and
  - (l) considers any contagion or reputational impacts on the RSE licensee.
4. The RSE licensee must appoint an appropriately skilled and experienced head of the dedicated business function by 31 January 2019 with APRA's prior written approval in relation to the suitability of the candidate.

##### ***Independence of the Board – [MAP Action Item 3]***

5. At all times, the board of the RSE licensee must be chaired by an independent director.
6. At all times, the minimum number of independent directors of the RSE licensee must be at least a simple majority of the total number of directors.

7. The RSE licensee must implement a process for the nomination and appointment of directors which is independent from the IOOF Group and any of the IOOF Group's committees, with the exception of the AREs.
8. The RSE licensee must notify APRA of the name, qualifications, experience and any other relevant details of any director proposed to be appointed to the RSE licensee board at least 30 days prior to the appointment of that independent director.

**Consolidation - [MAP Action Item 4]**

9. The RSE licensee must appoint an independent expert (or experts) by 30 June 2019 to prepare an analysis in relation to the possible consolidation of its RSEs, including with any other RSE within the IOOF Group, or the possible cancellation of its RSE licensee's licence. A copy of that report must be provided to APRA within 7 days of its completion.

**Board Audit and Risk Committee - [MAP Action Item 5]**

10. The RSE licensee must have its own Board Audit Committee separate from the other entities of the IOOF Group that complies with Prudential Standard SPS 510 Governance in force from time-to-time.
11. The RSE licensee must have its own Board Risk Committee separate from the other entities of the IOOF Group that complies with Prudential Standard SPS 510 Governance in force from time-to-time.

**Progress Reports - [MAP Action Item 7]**

12. The RSE licensee must prepare and issue a report to APRA on the progress of the implementation of the MAP on a fortnightly basis. A single report may be provided on behalf of the RSE licensee and the other AREs within the IOOF Group.
13. The RSE licensee must meet with APRA on at least a monthly basis to report on the progress of the MAP.
14. The RSE licensee must provide APRA with a complete and unedited copy of all board and sub-committee meeting minutes and relevant papers which document the discussions in relation to the MAP within 14 days of the meeting of the board or sub-committee.

**Independent Reviewer – [Additional items]**

15. The RSE licensee must appoint an independent reviewer (or reviewers), to be approved by APRA and on terms approved by APRA, to report to APRA every three months commencing from 31 December 2018 and continuing until APRA considers that all items in the MAP have been completed, in relation to:
  - (c) the status and quality of compliance with these additional conditions on the RSE licensee's licence; and
  - (d) items in the MAP that the RSE licensee considers are nearing completion.

**Variations of Time**

16. APRA may at any time vary in writing:

- (a) the dates set out in paragraphs [1], [3], [4], [9] and [15] by which; and
  - (b) the time frames set out in paragraphs [8], [9] and [12] to [15] within which,
- the RSE licensee is obliged to comply with the above conditions.

Interpretation:

In these conditions:

**APRA** means the Australian Prudential Regulation Authority.

**AREs** means AET, I.O.O.F. Investment Management Limited ACN 006 695 021, IOOF Ltd ACN 087 649 625 and IOOF Group Pty Ltd ACN 157 711 512.

**AET** means Australian Executor Trustees Limited ACN 007 869 794.

**AET's RE functions** means the functions and powers exercised by AET in its capacity as an RE.

**AET's RSE licensee functions** means the functions and powers exercised by AET in its capacity as an RSE licensee.

**Independent director:**

(c) has the same meaning as in section 10(1) and section 93A of the SIS Act; and

(d) means a person who is not:

- j. a director;
- ii. an employee; or
- iii. a member of a committee,

of an entity within the IOOF Group which is not an ARE.

**IOOF Group** means IOOF Holdings Ltd ACN 100 103 722 and its subsidiaries.

**MAP** means the managed action plan contained in Appendix 1 to APRA's letter to the RSE licensee dated 4 September 2018, as amended on 5 September 2018.

**RE** means a responsible entity of a management investment scheme registered under Part 5C of the *Corporations Act 2001* (Cth).

**RSE** means a registrable superannuation entity for the purposes of Part 2B of the *Superannuation Industry (Supervision) Act 1993* (Cth).

**RSE licence** has the meaning given in section 10(1) of the SIS Act.

**RSE licensee** means AET acting in its capacity as an RSE licensee.

**SIS Act** means the *Superannuation Industry (Supervision) Act 1993* (Cth).

## ATTACHMENT C

### IOOF Ltd

#### **Proposed additional conditions to be imposed on the company's registration**

##### ***Dedicated Business Function - [MAP Action Item 2]***

1. The Company must establish a dedicated business function to support the Company by 31 March 2019. The dedicated business function may be shared with other AREs within the IOOF Group. The Company must ensure that the dedicated business function:
  - (m) supports the Company to fulfil its fiduciary obligations by advocating for member interests;
  - (n) assists with the development and implementation of a Strategy for the Company that is focused on the delivery of quality member outcomes, whilst having regard for the IOOF Group Strategy;
  - (o) manages day to day relationships with service providers and regulators on behalf of the Company, ensuring arms-length relationships with related parties;
  - (p) provides independent risk reporting on behalf of the Company, including investment reporting that is independent from the IOOF Group's investment business;
  - (q) ensures that an effective compliance and risk regime is in place with an appropriate risk culture on behalf of the Company; and
  - (r) considers any contagion or reputational impacts on the Company.
2. The Company must appoint an appropriately skilled and experienced head of the dedicated business function by 31 January 2019 with APRA's prior written approval in relation to the suitability of the candidate.

##### ***Independence of the Board – [MAP Action Item 3]***

3. At all times, the board of the Company must be chaired by an independent director.
4. At all times, the minimum number of independent directors of the Company must be at least a simple majority of the total number of directors.
5. The Company must implement a process for the nomination and appointment of directors which is independent from the IOOF Group and any of the IOOF Group's committees, with the exception of the AREs.
6. The Company must notify APRA of the name, qualifications, experience and any other relevant details of any director proposed to be appointed to the Company's board at least 30 days prior to the appointment of that independent director.

**Board Audit and Risk Committee - [MAP Action Item 5]**

7. The Company must have its own Board Audit Committee separate from the other entities of the IOOF Group that complies with Prudential Standard CPS 510 Governance in force from time-to-time.
8. The Company must have its own Board Risk Committee separate from the other entities of the IOOF Group that complies with Prudential Standard CPS 510 Governance in force from time-to-time.

**Progress Reports - [MAP Action Item 7]**

9. The Company must prepare and issue a report to APRA on the progress of the implementation of the MAP on a fortnightly basis. A single report may be provided on behalf of the Company and the other AREs within the IOOF Group.
10. The Company must meet with APRA on at least a monthly basis to report on the progress of the MAP.
11. The Company must provide APRA with a complete and unedited copy of all board and sub-committee meeting minutes and relevant papers which document the discussions in relation to the MAP within 14 days of the meeting of the board or sub-committee.

**Independent Reviewer – [Additional items]**

12. The Company must appoint an independent reviewer (or reviewers), to be approved by APRA and on terms approved by APRA, to report to APRA every three months commencing from 31 December 2018 and continuing until APRA considers that all items in the MAP have been completed, in relation to:
  - (e) the status and quality of compliance with these additional conditions on the Company's registration; and
  - (f) items in the MAP that the Company considers are nearing completion.

**Variations of Time**

13. APRA may at any time vary in writing:
  - a. the dates set out in paragraphs [1], [2] and [12] by which; and
  - b. the time frames set out in paragraphs [6], [9] to [12] within which,the Company is obliged to comply with the above conditions.

**Interpretation:**

In these conditions:

**APRA** means the Australian Prudential Regulation Authority.

**AREs** means the Company, I.O.O.F. Investment Management Limited ACN 006 695 021, Australian Executor Trustees Limited ACN 007 869 794 and IOOF Group Pty Ltd ACN 157 711 512.

**Company** means IOOF Ltd ACN 087 649 625.

**Independent director** means a person who is not:

- (a) a director;
- (b) an employee; or
- (c) a member of a committee,

of an entity within the IOOF Group which is not an ARE.

**IOOF Group** means IOOF Holdings Ltd ACN 100 103 722 and its subsidiaries.

**MAP** means the managed action plan contained in Appendix 1 to APRA's letter to the Company dated 4 September 2018, as amended on 5 September 2018.



## ATTACHMENT D

### IOOF Investment Management Ltd

#### Proposed directions to comply with licence conditions

Section 29E(1)(a) of the *Superannuation Industry (Supervision) Act 1993* (Cth) (**the Act**), which includes but is not limited to an obligation to comply with the following provisions of the RSE licensee law:

- (a) sections 52(2)(d) of the Act by:
  - i. amending any Conflicts of Interest Framework policies which apply to the RSE licensee to properly address the trustee obligations under section 52(2)(d) of the Act in accordance with recommendations A.11.1 and A.11.2 of the EY Report by 31 December 2018;
- (b) Prudential Standard SPS 520: Fit and Proper (**SPS 520**) by:
  - i. amending the Responsible Persons Policy which applies to the RSE licensee to satisfy the requirements contained in paragraph 18(d) of SPS 520 in accordance with recommendation B.8.1 of the EY Report by 31 December 2018 (paragraph 18(d) of SPS 520);
- (c) Prudential Standard SPS 521: Conflicts of Interest (**SPS 521**) by:
  - i. establishing a separate Conflicts of Interest Framework for the RSE licensee which is specific to, and for the operations of, the RSE licensee (**the RSE COI Framework**) in accordance with recommendation A.1.1 of the EY Report (paragraphs 8 and 10 of SPS 521);
  - ii. amending the RSE COI Framework to require all incoming responsible persons to disclose all relevant duties and interests before they are appointed as a responsible person of the RSE licensee in accordance with recommendation A.3.1 of the EY Report (paragraph 12 of SPS 521) by 31 December 2018;
  - iii. amending the RSE COI Framework to require the RSE licensee board to approve the use of, and any changes to, each group policy that references conflicts of interest obligations that is applicable to the RSE licensee in accordance with recommendation A.2.1 of the EY Report (paragraph 13 of SPS 521) by 31 December 2018;
  - iv. recording in the board minutes of the RSE licensee each conflict identified and the action taken to avoid and manage this conflict (paragraph 18(e) of SPS 521) by 31 December 2018;
  - v. amending the RSE COI Framework to satisfy the requirement to consider all conflicts arising from the RSE licensee's relationship with service providers or advisers in accordance with recommendation A.4.1 of the EY Report (paragraph 19 of SPS 521) by 31 December 2018.

#### Interpretation

EY means Ernst & Young.

**EY Report** means the report titled 'Independent Review of COI Management Culture and approach to Conflicts Management' dated 14 September 2018.

**RSE licensee** means I.O.O.F. Investment Management Limited ACN 006 695 021.

**RSE licensee law** has the same meaning as in section 10 of the Act.