



Prudential Practice Guide

SPG 410 – MySuper Transition

February 2013


Disclaimer and copyright

This prudential practice guide is not legal advice and users are encouraged to obtain professional advice about the application of any legislation or prudential standard relevant to their particular circumstances and to exercise their own skill and care in relation to any material contained in this guide.

APRA disclaims any liability for any loss or damage arising out of any use of this prudential practice guide.

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0).

 This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit www.creativecommons.org/licenses/by/3.0/au/.

About this guide

1. *Prudential Standard SPS 410 MySuper Transition* (SPS 410) sets out APRA's requirements in relation to the identification of accrued default amounts, the preparation and implementation of a transition plan addressing the attribution of these amounts to a suitable MySuper product and reporting of these amounts to APRA. This prudential practice guide aims to assist an RSE licensee to comply with those requirements and, more generally, to outline prudent practices in relation to the transition to MySuper.
2. For the purposes of this guide, and consistent with the application of SPS 410, RSE licensee has the meaning given in the *Superannuation Industry (Supervision) Act 1993* (SIS Act).
3. Not all of the practices outlined in this prudential practice guide will be relevant for every RSE licensee and some aspects may vary depending upon the size, complexity and business mix of an RSE licensee.

Introduction

1. This prudential practice guide (PPG) covers the activities of an RSE licensee as they relate to the attribution of accrued default amounts to a suitable MySuper product.
2. The SIS Act has been amended to give APRA a prudential standards-making power in relation to superannuation.¹ The Government has indicated its expectation that APRA will issue a prudential standard in relation to the treatment of accrued default amounts.²
3. SPS 410 outlines the requirements for an RSE licensee during the transition period from 1 January 2013 to 1 July 2017, by which date all accrued default amounts of members must be in a MySuper product, unless the member opts-out in writing. APRA expects the attribution of accrued default amounts to a MySuper product would occur at the earliest opportunity possible where it is in the best interests of beneficiaries to do so.

Key milestones

4. There are several actions required of an RSE licensee under SPS 410. These are summarised below.

Before applying for authorisation to offer a MySuper product, or otherwise by no later than 1 July 2013	Prepare a transition plan
By 30 September 2013	Identify all members with an accrued default amount, and the amount of each such balance
In conjunction with each periodic member statement	Provide information to members with an accrued default amount as specified in the <i>Corporations Regulations 2001</i>
No later than 30 June 2016	Identify one or more suitable MySuper products to which members' accrued default amounts could be attributed.
No later than 31 July 2016	If no suitable MySuper product can be identified for a member or class of members, report to APRA.
Prior to attributing a member's accrued default amount to a MySuper product	Provide information to the member about the proposed attribution as specified in r. 9.46 of the <i>Superannuation Industry (Supervision) Regulations 1994</i> (SIS Regulations).
Within 120 days of providing the specified information to an affected member	If no contrary instruction is provided by the member within three months of the date of providing the specified information, attribute the member's accrued default amount to the specified MySuper product.

¹ Refer to s. 34C of the SIS Act

² *Superannuation Legislation Amendment (Further MySuper and Other Measures) Act 2012*.

Rebadging an existing default option

5. SPS 410 provides relief from compliance with certain paragraphs of the standard where an existing default investment option is rebadged as a MySuper product. For the purposes of this PPG, rebadging is referred to as the scenario which complies with paragraph 4 of SPS 410. This definition is fully consistent with the conditions in r. 9.46 of the SIS Regulations which provide for relief from the requirement to provide notification to certain members with an accrued default amount prior to attributing that amount to a MySuper product.
6. An RSE licensee is expected to satisfy the definition of rebadging at the time of transfer in order to access relief from compliance. Where the definition of rebadging is fully satisfied with respect to some members, or classes of members, but not others, the requirements of SPS 410 must be met in full with regard to those members for whom the definition is not met. The reduced requirements will only apply in relation to those members for whom the definition of rebadging is met in full.
7. Not all members in a default investment option need to be in identical circumstances in order for the definition of rebadging to be satisfied. For example, members may have selected different levels of insurance cover, or face different pricing because of their demographic cohort. APRA considers that the insurance-related criteria for re-badging would be satisfied if the conditions experienced by each relevant cohort were improved or unchanged in the MySuper product. In particular, the re-badging definition could be satisfied in respect of a member only if the dollar amount of their insurance premium were unchanged or reduced, unless:
 - (a) the member gave a direction to increase the level of coverage; or
 - (b) the member's circumstances changed and the level of premium to be charged in the MySuper product is no greater than would have applied had the member remained in the former default investment option.

8. Where a default investment option is rebadged as a MySuper product, an RSE licensee is not required to identify a suitable MySuper product separate from the rebadged default option or undertake the opt-out processes required in SPS 410.

Identifying accrued default amounts

9. SPS 410 requires an RSE licensee to identify by 30 September 2013 any accrued default amount within each RSE within its business operations.³
10. When identifying all accrued default amounts, APRA expects an RSE licensee would have processes in place which give consideration to all investment options in each product and whether they are, or have been, default options at any point in time. Any amounts in a default option are defined in the legislation to be accrued default amounts unless the member has given a direction that some of their interest in the fund be invested in a strategy other than the default investment strategy, or the default strategy meets one of the exceptions set out in s. 20B(3) of the SIS Act. The direction may be given to the RSE licensee, or to the RSE licensee of a former fund from which the member was transferred to the current fund under the successor fund transfer provisions set out in r. 6.29(1) of the SIS Regulations. APRA expects that an RSE licensee would have processes for determining whether a member has given a direction regarding the investment of their assets.
11. The types of records that an RSE licensee may hold with respect to a member giving a direction include, but are not limited to, paper documents, email communication, records of phone conversations, documentation of member decisions from a web page or mapping the interests of a member who has been subject to successor fund transfer into the fund which demonstrates that some part of the member's interest in the former fund was in a non-default option.

³ Accrued default amount is defined in s. 20B of the SIS Act. Note that the definition excludes any amount within an eligible rollover fund (ERF), approved deposit fund (ADF) or pooled superannuation trust (PST).

12. A written direction from a member, at any time prior to the attribution of the accrued default amount into a MySuper product, that some or all of their interest should be invested in an option other than the default investment option, would mean that no part of the member's interest in the fund is an accrued default amount.
13. Where the RSE licensee only offers one investment option, that is, no investment choice is provided, all amounts in the RSE would constitute accrued default amounts.
18. Given the potential complexity and risk to member benefits inherent in any change process, an RSE licensee would ordinarily consider the governance arrangements in place to implement and monitor the transition. Depending on the scope and complexity of the transition plan, coupled with the experience within the RSE licensee, consideration might be given to the appointment of a dedicated person to assist with the process.
19. Where an external appointment is made to fulfil that function, APRA expects that care is taken to ensure that there is no perceived, or actual, conflict of interest in relation to the appointment.

Transition plan

14. SPS 410 requires an RSE licensee to prepare, regularly review, and implement a transition plan for each affected RSE. The transition plan must articulate processes and timeframes for specified activities which need to be undertaken in order that all accrued default amounts are in a suitable MySuper product before the transition period ends on 1 July 2017.
15. Notwithstanding that the legislation allows for an RSE licensee to move accrued default amounts at any time up until 30 June 2017, APRA expects that the attribution to a MySuper product would be made much earlier than 1 July 2017 when it is in the best interests of members. APRA would expect the RSE licensee's transition plan to reflect this approach.
16. In exercising its powers and performing its duties in the best interest of members, an RSE licensee would ordinarily consider the timing of the transition as well as any change in the bundle of benefits that is to be assigned to each group of members as part of the transition. Note that there is no requirement to undertake the transition of all affected members at the same time.
17. A successful transition of accrued default amounts requires careful planning and management. Depending on the level of complexity identified by an RSE licensee in its transition plan, it may consider seeking specialist advice and/or appointing a service provider to assist with implementation of the required processes.
20. APRA requires that the transition plan be regularly reviewed and updated as necessary.⁴ It would specify, amongst other things, the objectives of the transition, the timeframes for various stages of the transition and the roles and responsibilities of all relevant parties, including service providers. APRA recognises that the updated versions of the transition plan may more fully identify the roles and responsibilities of relevant parties for all aspects of the transition than early versions.
21. APRA envisages that an RSE licensee would have measures in place to assess the effectiveness of the transition process. APRA expects that an RSE licensee would investigate the reasons for any divergence from expectations during the transition, identify any risks arising from the divergence and put in place mitigating measures. If any part of the transition process were outsourced, a prudent RSE licensee would ensure that it was provided with regular and sufficient information on progress of that part of the transition.

⁴ Refer to paragraph 7, SPS 410.

22. In identifying any impediment to moving a member's accrued default amount to a suitable MySuper product, APRA expects an RSE licensee would have considered, at a minimum, the following matters:
 - (a) contractual arrangements – long-dated contractual arrangements, in particular with respect to investment management and administration, which may delay accrued default amounts being transferred within the contracted time period;
 - (b) investments – redemption and/or transfer of investments may need to occur in order to effect the transfer of accrued default amounts. APRA expects that an RSE licensee would have sound practices in place for managing the orderly redemption and/or transfer of investments and that these processes be clearly documented; and
 - (c) other legislative reforms – changes to the RSE licensee's business operations, including those stemming from the SuperStream and Future of Financial Advice (FoFA) reform programs, need to be managed together with the MySuper transition processes in order for the RSE licensee to successfully meet its obligations to members. APRA expects that an RSE licensee would consider whether a comprehensive change management plan is necessary. As part of this, APRA encourages an RSE licensee to have a data management framework that ensures complete, accurate and timely member data.
23. Where impediments to moving a member's accrued default amount are identified, an RSE licensee's transition plan would ordinarily include details as to how it intends to resolve these issues. While such details may not be fully developed in the early versions of the transition plan, APRA expects the RSE licensee would move as quickly as is practicable to resolution of the issues, and to have articulated processes and timetables for identifying solutions to issues that arise during the transition process.
24. An RSE licensee may form the view that some members may be worse off if their accrued default amounts are placed in a MySuper product within the same RSE. For example, the fees in the MySuper product may be higher than in the member's current account. In such cases, APRA expects that the RSE licensee would give consideration to whether a MySuper product in any other RSE would be suitable for those members.
25. APRA expects an RSE licensee would conduct a post-implementation review of the outcomes of a transition process to assess whether the objectives of the transition have been achieved. The nature of the review would depend on the scale and complexity of the transition process.

Identifying a suitable MySuper product

26. Under SPS 410, the transition plan must specify processes and timeframes for undertaking certain activities, including identification of a suitable MySuper product.⁵ A suitable MySuper product is one where the RSE licensee has formed the view that the transfer of the member's accrued default amount to that MySuper product promotes the financial interests of the member or class of members.⁶ It may be the case that different MySuper products are suitable for the member or class of members. A suitable MySuper product need not be in the same RSE as the member's accrued default amount, or in any RSE within the business operations of the RSE licensee. The RSE licensee's knowledge of MySuper products within its business operations and the ability for the RSE licensee to maintain control of the entire transition process are, however, reasonable factors for the RSE licensee to take into account in determining the suitability of a MySuper product.

⁵ Refer to paragraph 8, SPS 410.

⁶ Refer to paragraph 13, SPS 410.

27. A suitable MySuper product does not need to be specified in the transition plan; rather, APRA expects that an RSE licensee's transition plan would identify the processes and timetables for such identification. This would include, at a minimum, the criteria the RSE licensee proposes to adopt in assessing the suitability of a MySuper product. APRA expects that decisions that are made in respect to the selection of one or more suitable MySuper products would be formally documented in the Board minutes.
28. Authorised MySuper products will be published by APRA in a register available on APRA's website.



Telephone
1300 13 10 60

Email
info@apra.gov.au

Website
www.apra.gov.au

Mail
GPO Box 9836
in all capital cities
(except Hobart and Darwin)