



30 May 2019

Ms Heidi Richards
General Manager, Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

BY EMAIL: superannuation.policy@apra.gov.au

Dear Ms Richards,

Proposed Revisions to Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515).

The Financial Services Council welcomes the opportunity to make a submission in response to the proposed changes to SPS 515.

The FSC is a leading peak body which sets mandatory Standards and develops policy for more than 100 member companies in Australia's largest industry sector, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing almost \$3 trillion on behalf of more than 14.8 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is the fourth largest pool of managed funds in the world.

In general, we are supportive of the changes to SPS 515 to align with the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019 (Member Outcomes Act)*. Our detailed comments on the proposed changes are attached in the Appendix.

However, it is important to note that the timeframe for implementing the requirements is extremely short. In order for Registrable Superannuation Entities (**RSEs**) to be able to report by 31 December 2020, systems and processes will need to be embedded before the start of the calendar year. It is vital that work progresses quickly to develop and finalise the required benchmarks to provide certainty to industry.

The FSC and its members look forward to being closely involved in the ongoing development of the member outcomes framework.

Should you wish to discuss this submission further please do not hesitate to contact me on (02) 9299

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Yours sincerely,

A handwritten signature in grey ink is visible above a large black rectangular redaction box that covers the printed name of the sender.

Jane Macnamara
Policy Manager, Superannuation and Retirement Incomes

ATTACHMENT: DETAILED FSC COMMENTS ON PROPOSED REVISIONS TO SPS 515

INTRODUCTION

The FSC welcomes the opportunity to comment on the proposed changes to SPS 515.

We are generally supportive of the changes proposed, and comfortable that they will assist in implementing the requirements introduced by the Member Outcomes Act 2019

Our detailed comments on the draft SPS 515 are set out below.

ANNUAL OUTCOMES ASSESSMENT METHODOLOGY

Weighting of factors

Paragraph 20(a) requires a trustee to include the relative weights they have given to each of the prescribed factors required to be considered in accordance with the requirements of the SIS Act.

We note there is no legislative requirement for these factors to be weighted in the relevant provisions of the SIS Act, nor has this been explicitly clarified elsewhere in SPS 515. As such, it is not clear whether APRA expects trustees to assign different weightings to each of these factors, or whether it would be acceptable for a trustee to weight all factors equally, should they determine this is the most appropriate approach.

Comparable choice products

Paragraph 20(b) notes that the documentation of the methodology used for the annual outcomes assessment needs to include how the trustee “has determined the comparable choice products under the SIS Regulations for the purposes of undertaking the annual outcomes assessment”.

Identifying comparable products will be extremely complex for trustees with choice products in their fund, due to the challenge of creating a like-for-like comparison between the broad variety of products within the choice market.

For those RSEs offering choice superannuation products, further guidance from APRA is essential to ensure a consistent approach is taken by trustees in determining *comparable choice products*. Guidance should set out the factors that APRA expects a trustee to consider as part of this process.

This guidance, along with the finalised SPS 515, should be delivered as soon as practicable to ensure trustees and administrators have sufficient time to develop their approach and have the determined approach approved at trustee board level before the start of 2020. This is because where there are requirements for ongoing monitoring, the metrics and approach would need to be agreed and relevant monitoring processes in place before the beginning of the year.

BUSINESS PERFORMANCE REVIEW

We would appreciate further clarification on APRA’s expectations with respect to paragraph 14(a)(ii), requiring the trustees to assess outcomes achieved for different cohorts of beneficiaries, relative to the outcomes sought, and against objective benchmarks. In particular, further clarification is required on the difference, if any, between:

- the outcomes set by trustees as part of this prudential standard; and
- the promotion of the financial interests of members as required as part of the legislated member outcomes assessment.

Additional guidance in relation to APRA's expectations of what is considered an appropriate 'objective benchmark' for these purposes would also assist trustees.

ALIGNMENT WITH REGULATIONS

APRA and Treasury should work closely to ensure alignment between SPS 515 and the Regulations that will support the legislated outcomes test. If the Regulations contain requirements not considered in SPS 515, or inconsistent with SPS 515, APRA should be open to further revisions to SPS 515 to ensure ongoing consistency.

REVISION OF THE RELEVANT PRUDENTIAL PRACTICE GUIDES

Given the changes made as part of the draft SPS 515 under consultation, we consider it necessary that the relevant Prudential Practice Guides (SPG 515 & SPG 516) are updated as soon as possible. In particular, we submit the revised SPGs should provide clarification on:

- APRA's expectations when defining member cohorts;
- guidance on how key factors are to be determined under item 14(b); and
- APRA's expectations with respect to the application of member outcomes 'at product level' and how this relates to MySuper and choice product offerings or investment options offered within superannuation products

CLARIFICATION OF APPLICABLE TIMEFRAMES

Two issues relating to timing of new requirements have been raised by FSC members.

Alignment with legislated timing

There is currently some confusion relating to the interaction of the Member Outcomes Act and the draft SPS 515.

The Act specifies that the benchmarking measure commenced from the date after Royal Assent, which would require the first legislated outcomes assessment to take place by 8 April 2020. However, SPS 515 requires initial outcomes assessments by 31 December 2020.

In effect, it appears that trustees will be required to provide two assessments in 2020.

The FSC considers it would be helpful to clarify whether this is the intended interaction between the Member Outcomes Act and SPS 515, or if there is an intention to align both required assessments.

Business Performance Review (BPR) commencement

The draft SPS 515 has a commencement date of 1 January 2020 and states that the first BPR of the Trustee's business plan must be completed by 31 December 2020.

We understand that this means that the trustees are able to update their business plans in accordance with the requirements under SPS 515 sometime after 1 January 2020 in line with their existing review cycle and that the first BPR for this revised business plan must occur by 31 December 2020.

However, it would be helpful for APRA to clarify as soon as possible if this is not the case, and whether there is an expectation that business plans must be updated before 1 January 2020.