

# SHORT TOPIC PAPER ONE

## Governance

### Introduction

As described in the *'Post-implementation review of APRA's superannuation prudential framework'* discussion paper released on 23 May 2018, this is the first paper in a series of short topic papers covering six specific areas of the prudential framework.

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/or 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;
- 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.

## Governance

### Objective of the governance elements of the prudential framework

The governance elements of the prudential framework seek to ensure registrable superannuation entity (RSE) licensees have effective systems, policies and processes, in place, and clearly articulated and roles and responsibilities, consistent with their legal obligations.

### Scope

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

- prudential standards – *Prudential Standard SPS 510 Governance* ([SPS 510](#)), *Prudential Standard SPS 520 Fit and Proper* ([SPS 520](#)), *Prudential Standard SPS 521 Conflicts of Interest* ([SPS 521](#)) and their related guidance material (which can be found on APRA's website); and
- reporting standards – *Reporting Standard SRS 520.0 Responsible Persons Information* ([SRS 520.0](#)), *Reporting Standard SRS 600.0 Profile and Structure (RSE licensee)* ([SRS 600.0](#)) and *Reporting Standard SRS 601.0 Profile and Structure (RSE)* ([SRS 601.0](#)).

## Prudential Standards

### SPS 510 and its associated guidance material

#### *Objectives and key requirements*

The objective of SPS 510 is to seek to ensure that an RSE licensee's business operations are managed soundly and prudently by a competent Board, which can make reasonable and impartial business judgements in the best interests of beneficiaries and duly considers the impact of its decisions on beneficiaries.

The key requirements of SPS 510 are:

- the Board must have a governance framework, which includes, at a minimum, the Board's charter (or equivalent document) and policies and processes that achieve appropriate skills, structure and composition of the Board (introduced 2016)
- the Board must have a written policy which sets out requirements relating to the nomination, appointment and removal of directors that support appropriate Board composition and renewal on an ongoing basis (expanded 2016).
- a Board Remuneration Committee and Board Audit Committee must be established;
- the RSE licensee must have a Remuneration Policy that aligns remuneration and risk management; and
- the RSE licensee must have a dedicated internal audit function.

APRA has issued two prudential practice guides to assist RSE licensees in complying with the requirements of SPS 510, *Prudential Practice Guide SPG 510 Governance* (SPG 510) and *Prudential Practice Guide SPG 511 Remuneration* (SPG 511).

SPG 510 provides context for the practical application of the key requirements of SPS 510 including: the composition of the Board (covering additional considerations for RSE licensees that are part of a conglomerate group); the purpose of Board committees; and Board renewal. SPG 510 also provides additional guidance on the requirement for the Board to assess its performance, and that of its individual directors, relative to its objectives.

SPG 511 provides a detailed discussion on the role of the Board Remuneration Committee (including the use of external advisers) and the Remuneration Policy, covering issues such as payments to non-employees, adjusting remuneration for risk, fixed and variable remuneration components and other considerations for executive remuneration.

## **SPS 520 and its associated guidance material**

### ***Objectives and key requirements***

The objective of SPS 520 is to seek to ensure that an RSE licensee prudently manages the risks that may be posed to its business operations should persons acting in responsible positions not be fit and proper.

The key requirements of SPS 520 are:

- the implementation of a Fit and Proper Policy;
- the fitness and propriety of a responsible person must generally be assessed prior to initial appointment and then re-assessed annually;
- an obligation that all prudent steps have been taken to ensure that a person is not appointed to, or does not continue to hold, a responsible person position for which they are not fit and proper (additional requirements apply to RSE auditors and actuaries); and
- the provision of information to APRA regarding responsible persons and the assessment of their fitness and propriety.

The supporting prudential practice guide for SPS 520, *Prudential Practice Guide SPG 520 Fit and Proper* (SPG 520) provides additional context around: who responsible persons are; the criteria to determine if a responsible person is fit and proper (including the interaction between the fit and proper and the equal representation requirements); and the process for the assessment of fitness and propriety.

## **SPS 521 and its associated guidance material**

### ***Objectives and key requirements***

The objective of SPS 521 is to provide RSE licensees with a holistic approach to managing potential and actual conflicts and set minimum requirements that must be adopted in a conflict management policy.

The key requirements of SPS 521 are:

- the development, implementation and review of a conflicts management policy that is approved by the Board;
- the identification of all relevant duties and interests; and
- the development of registers of relevant duties and interests.

The supporting prudential practice guide for SPS 521, *Prudential Practice Guide SPG 521 Conflicts of Interest* (SPG 521) aims to assist an RSE licensee in complying with its management of conflicts of interest and duty requirements. It is important to note that conflicts of interest arise in a number of contexts. As such, SPG 521 should be read in conjunction with other relevant prudential standards and practice guides.

## Prudential Standard and Prudential Practice Guide Questions

Questions	
	<ol style="list-style-type: none"> <li>1) What outcomes have been achieved through the implementation of the prudential standards and are these outcomes consistent with the objectives of the standards?</li> <li>2) Have the prudential standards, when read in conjunction with their relevant prudential practice guides: <ol style="list-style-type: none"> <li>a) provided increased clarity and certainty for trustees in relation to their obligations as trustees of superannuation entities? If not, how could they be improved/amended?</li> <li>b) provided sufficient flexibility for RSE licensees to achieve the objectives in a manner best suited to their business?</li> <li>c) been embedded in the decision-making processes and practices of trustees, and used in practice to support sound decision-making? If not, why not and how could they be improved/amended to achieve this?</li> </ol> </li> <li>3) Do the prudential standards and their relevant prudential practice guides continue to remain fit for purpose? If not why not?</li> <li>4) Are any of the principles or requirements contained in the prudential standards or prudential practice guides no longer applicable? If so please elaborate?</li> <li>5) Are there any material gaps in the areas covered by the prudential standards or their relevant prudential practice guides that need to be remedied to achieve the original intent and objectives of the prudential framework?</li> <li>6) Are there any aspects of the prudential standards or prudential practice guides that could be improved to: <ol style="list-style-type: none"> <li>a) achieve better governance outcomes?</li> <li>b) reduce compliance costs?</li> <li>c) facilitate better supervision of the superannuation industry?</li> </ol> </li> <li>7) Are there any ongoing compliance costs associated with the prudential standards and their associated prudential practice guides? If so can you please provide additional information on those costs?</li> </ol>

## Reporting Standards

### SRS 520.0

#### *Objective and key requirements*

The objective of SRS 520.0 is to provide a reporting standard that assists RSE licensees to identify all key individuals who fill responsible persons positions and to ensure that these people remain fit and proper for these positions. This information can be used by APRA for its prudential supervision, and for publication purposes to provide benefits (through enhanced transparency) for other interested stakeholders.

The information required to be reported under SRS 520.0 includes:

- the name and details of all responsible persons (new and existing), including their main responsibilities, status and whether they have been assessed under the RSE licensee's fit and proper policy;
- the name and details of any existing responsible person that is no longer fit and proper; and
- other contact details of the RSE licensees, including the primary and secondary crisis management contacts of the RSE licensee.

SRS 520.0 requires RSE licensees to provide information on new or changed responsible persons in a timely manner and to ensure that it remains correct over time.

### SRS 600.0

#### *Objective and key requirements*

The objective of SRS 600.0 is to provide a reporting standard that captures key information about the structure and membership of an RSE licensee's Board and relevant Board committees.

This information can be used by APRA for its prudential supervision, and for publication purposes to provide benefits (through enhanced transparency) for other interested stakeholders.

The information required to be reported under SRS 600.0 includes:

- the number of Board, Board Remuneration Committee, and Board Audit Committee meetings held;
- whether director term lengths have been set, including the length of term and the number of terms allowed (if relevant);
- the number of complaints received from members;
- the name and details of all directors, individual trustees and alternate directors including their remuneration, whether they are employed by an associate of the RSE licensee and the number of board meetings attended; and
- the name and details of all members of the Board Remuneration and Board Audit Committees including the number of meetings attended.

## SRS 601.0

### *Objective and key requirements*

The objective of SRS 601.0 is to provide a reporting standard that captures key information on an RSE's profile and structure including its employer-sponsors and the number and types of products that it offers, which can be used by APRA for its prudential supervision and publication purposes, and provide benefits for other interested stakeholders.

The information required to be reported under SRS 601.0 includes:

- the value of in-house assets, including those assets which have been exempted (in writing) by APRA;
- the value of assets held in respect of standard employer-sponsor business;
- detail of the top 20 employer-sponsors including the number of member accounts relating to the employer-sponsors;
- detail on defined benefit sub-funds and MySuper products offered by the RSE;
- the number of overall investments options offered and details of the RSE's select investment options; and
- information on investors in pooled superannuation trusts (only required for PSTs).

### Reporting Standard Questions

Questions	
	<ol style="list-style-type: none"><li>1) Do the current reporting requirements in the reporting standards capture:<ol style="list-style-type: none"><li>a) all relevant data relating to the governance practices of RSE licensees?</li><li>b) sufficient data to enable appropriate analysis of RSE licensees?</li><li>c) data at an appropriate level of granularity?</li></ol></li><li>2) Is the information captured under the reporting standards accurate, relevant and useful for policymakers, regulators, trustees and the community?</li><li>3) Can you identify the associated ongoing compliance costs associated with the collection of data required under the reporting standards? If so can you please provide additional information on these costs?</li><li>4) Are there any aspects of the reporting standards that could be improved to:<ol style="list-style-type: none"><li>a) reduce ongoing compliance costs?</li><li>b) facilitate better supervision?</li></ol></li><li>5) Are any of the current requirements in the reporting standards no longer applicable? Why?</li></ol>