



Prudential Standard SPS 530

Investment Governance

Objectives and key requirements of this Prudential Standard

The purpose of this Prudential Standard is to ensure that an RSE licensee, consistent with its obligation to act in the best financial interests of beneficiaries, prudently selects on boards, manages oversees and monitors investments and investment options on behalf of beneficiaries. In doing so, an RSE licensee must act consistently with its obligations, including to act in the best financial interests of beneficiaries and to exercise the same degree of care, skill and diligence as a prudent superannuation trustee. To support this, a An RSE licensee is required to implement a sound investment governance framework which focuses on managing relevant risks and returns.

The Board of an RSE licensee is ultimately responsible for having an investment governance framework for the onboarding, overseeing selection, management and monitoring of investments and investment options 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 the whole of each RSE, and for each investment option, as required by the *Superannuation Industry (Supervision) Act 1993*.

Effective investment governance is critical to ensuring investment options remain aligned with their stated objectives, continue to be suitable for beneficiaries, and are subject to ongoing oversight of performance and risks. It supports timely action where concerns emerge and prudent oversight of investments and investment options on behalf of beneficiaries.

The requirements of this Prudential Standard apply to all RSE licensees and represent minimum standards for investment governance. All RSE licensees are accountable for ensuring the investment options made available to members and the investments included in these options are subject to robust oversight by the RSE licensee and are effectively and prudently managed.

The key requirements of this Prudential Standard are that an RSE licensee must:

- formulate specific, ~~and~~ measurable and appropriate investment objectives for each investment option, including return and risk objectives, and an investment strategy to meet those objectives;
- determine and implement member-level investment limits for member direct investment options;
- develop, maintain and implement an effective due diligence process for ~~onboarding the selection of~~ investments and investment options;
- determine appropriate measures to monitor and assess the performance of investments and investment options on an ongoing basis;
- review the ongoing suitability of investment objectives and investment strategies on a periodic basis;
- undertake timely escalation and remediation actions where required;
- develop, maintain and implement a comprehensive investment stress testing program;
- formulate, ~~maintain and implement~~ an appropriate liquidity management plan; and
- develop, maintain and implement an effective valuation governance framework.

Authority

1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Application and commencement

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees).¹
3. This Prudential Standard commences on 1 January ~~2023~~2028.

Interpretation

4. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

Adjustments and exclusions

5. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to:
 - (a) a particular RSE licensee of an RSE;
 - (b) a particular connected entity of an RSE licensee of an RSE;
 - (c) specified RSE licensees of RSEs; or
 - (d) specified connected entities of RSE licensees of RSEs.

Previous exercise of discretion

6. An RSE licensee must contact APRA if it seeks to place reliance, for the purposes of complying with this Prudential Standard, on a previous exercise of discretion by APRA under a previous version of this Prudential Standard.

The role of the Board

7. An RSE licensee is ultimately responsible for the sound and prudent ~~management~~ oversight² of the investments and investment options of each RSE within the RSE licensee's business operations.³
8. The Board of an RSE licensee (the Board⁴) must, for the RSE licensee's business operations, at a minimum:

¹ For the purposes of this Prudential Standard, 'RSE licensee' has the meaning given in section 10(1) of the SIS Act.

² For the purposes of this Prudential Standard, 'oversight' refers to all aspects of an RSE licensee's investment governance, supervision and management of the investments and investment options within the RSE licensee's business operations.

³ For the purposes of this Prudential Standard, an 'RSE licensee's business operations' includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

⁴ For the purposes of this Prudential Standard, a reference to 'the Board' is a reference to the Board of directors or group of individual trustees of an RSE licensee and 'group of individual trustees' has the meaning given in section 10(1) of the SIS Act.

- (a) approve investment objectives for each investment option⁵ offered in each RSE. The Board must be satisfied, on reasonable grounds, that the investment objectives are appropriate, having regard to the risk and return profile of the investment option;
- (b) approve an investment strategy, ~~in respect of each RSE,~~ that is consistent with the RSE licensee's duties to beneficiaries, including those in section 52(6) and (13) (if applicable) of the SIS Act and the requirements in this Prudential Standard:
 - (i) for the whole of ~~each that~~ RSE; and
 - (ii) in respect of each investment option offered in that RSE;
- (c) monitor and assess regularly whether the investment objectives are being met; and
- (d) take appropriate and timely action regarding information contained in reports to the Board on investment matters.

9. An RSE licensee must procure, at least annually, an attestation in writing from each person with senior executive responsibility for management of the RSE licensee's investment function,⁶ that the relevant senior executive has obtained sufficient information and assurance to be satisfied that the RSE licensee has complied with legislative and prudential requirements relating to investment governance.

10. In procuring the attestation referred to in paragraph 9, the RSE licensee must ensure that the relevant senior executive has regard, at a minimum, to the adequacy and effectiveness of the RSE licensee's investment governance arrangements and processes, whether they were appropriately followed, and the information and assurances relied upon by the RSE licensee, including in relation to the following:

- (a) formulating, reviewing regularly and giving effect to an investment strategy for each investment option offered in each RSE within the RSE licensee's business operations;
- (b) due diligence in onboarding⁷ of investments and investment options;
- (c) investment monitoring including determining and implementing⁸ member-level investment limits;

⁵ For the purposes of this Prudential Standard, an 'investment option' is an option made available to a beneficiary of an RSE for the investment of all or any part of their superannuation interest and 'superannuation interest' has the meaning given in section 10(1) of the SIS Act.

⁶ For the purposes of this Prudential Standard, a person has 'senior executive responsibility for management of the RSE licensee's investment function' if they are deemed to be an accountable person under subsection 10(2) of the *Financial Accountability Regime Act 2023 (FAR Act)* by virtue of holding a position with the responsibility prescribed in paragraph 8(2)(b) of the *Financial Accountability Regime (Minister) Rules 2024*.

⁷ For the purposes of this Prudential Standard, 'onboarding', in relation to an investment includes selecting investments for inclusion in an investment option, and in relation to an investment option, includes a decision to offer an investment option.

⁸ For the avoidance of doubt, 'implementing' includes ensuring compliance with member-level investment limits.

- (d) investment and investment option review and remediation;
- (e) valuation;
- (f) liquidity management; and
- (g) stress testing.

11. An RSE licensee must have regard to the attestation provided by the relevant senior executive under paragraph 9 when determining the variable remuneration⁹ of an accountable person, for the corresponding period over which performance is assessed.

RSE licensees that are part of a group¹⁰

9.12. Where an RSE licensee is part of a corporate group, and the RSE licensee utilises group policies or functions, the Board must approve the use of group policies and functions and must ensure that these policies and functions give appropriate regard to the RSE licensee's business operations.

Investment governance framework

~~10.13.~~ An RSE licensee must at all times ~~maintain~~have an investment governance framework ~~that is adequate and effective to oversee~~manage investments ~~and investment options in a manner consistent with~~to meet the RSE licensee's obligations to beneficiaries.¹¹

~~11.14.~~ An investment governance framework is the totality of systems, structures, policies, processes and people to address the RSE licensee's responsibilities with regard to investments ~~and investment options~~ of each RSE within the RSE licensee's business operations. An RSE licensee's responsibilities include generating returns to meet investment objectives while ~~managing~~overseeing and monitoring all identified sources of investment risk.¹²

~~12.15.~~ The Board is ultimately responsible for ~~the~~establishing~~ment~~, ~~implementation~~implementing, ~~oversight~~overseeing and ~~maintenance~~maintaining an adequate and effective of an RSE licensee's investment governance framework ~~for the RSE licensee~~.

13.16. An RSE licensee's investment governance framework must, at a minimum, include:

- (a) investment objectives for each investment option offered by the RSE licensee;

⁹ For the purposes of this Prudential Standard, 'variable remuneration' has the meaning given in section 26 of the FAR Act.

¹⁰ For the purposes of this Prudential Standard, a reference to 'a group' is a reference to a group comprising the RSE licensee and all connected entities and 'connected entity' has the meaning given in section 10(1) of the SIS Act.

¹¹ For the purposes of this Prudential Standard, a reference to 'beneficiaries' is a reference to 'beneficiaries of an RSE within the RSE licensee's business operations'.

¹² An RSE licensee's investment governance framework must reflect the risks associated with investments as a material risk area identified in *Prudential Standard SPS 220 Risk Management*.

- (b) a methodology for determining investment reporting measures¹³;
- (c) the investment strategy for the whole of each RSE and for each investment option as required by section 52(6) of the SIS Act;
- (d) all Board policies relating to investment activities;
- (e) role statements that include the details of each role's responsibilities and reporting structures for all roles related to investment activities;
- (f) structures, policies and processes relating to investment activities, including for the assessment and monitoring of investment performance and risk measurement, determining and implementing member-level investment limits, assessment, stress-testing, valuations and reporting to the Board and senior management; and
- (g) a review process to ensure that the investment governance framework remains effective.

~~14.17.~~ An RSE licensee's investment governance framework must be appropriate to the size, business mix and complexity of the RSE licensee's business operations, and be effectively implemented and maintained.

~~15.18.~~ An RSE licensee must have procedures to ensure that all persons in roles related to investment activities of the RSE licensee are made aware of, and have processes and controls that are effective for monitoring compliance with, the RSE licensee's investment governance framework.

Review of ~~the~~ investment governance framework

~~16.19.~~ An RSE licensee must ensure that the appropriateness, effectiveness and adequacy of its investment governance framework are subject to a comprehensive review by operationally independent, appropriately trained and competent persons at least every three years.

20. The scope of the review of an RSE licensee's investment governance framework must have regard to the size, business mix and complexity of the RSE licensee's business operations, the extent of any change to those operations and any changes to the external environment in which the RSE licensee operates.

17.21. An RSE licensee must consider the findings of the review and take appropriate and timely action to address them.

18.22. Where APRA has concerns regarding the adequacy or effectiveness of an RSE licensee's investment governance processes, controls or practices, APRA may require the RSE licensee, within a timeframe specified by APRA, to procure a review by an operationally independent, appropriately qualified and competent person. The review must examine one or more investments or investment options, or investment governance processes, controls or practices, and address any matters specified by APRA. The RSE licensee must consider the findings of the

¹³ An RSE licensee's methodology for determining the investment reporting measures must also support compliance with relevant reporting standards made under the *Financial Sector Collection of Data Act 2001*.

review and take appropriate and timely action to address any deficiencies identified.

19.23. Where APRA requires a review under paragraph 22, the RSE licensee must advise APRA of the person appointed to undertake the review. If APRA notifies the RSE licensee that the appointed person is not acceptable to APRA, the RSE licensee must appoint a different person and advise APRA of that appointment.

Investment objectives

20.24. An RSE licensee must, when formulating the investment strategy for each investment option, set investment objectives that are:

- (a) aligned with the size, business mix and complexity of the RSE from which the investment option is offered, and appropriate having regard to its intended beneficiaries; and
- (b) specific and measurable and, at a minimum, include:
 - (i) a return objective; and
 - (ii) a risk objective.

Formulating the investment strategy

25. When formulating each investment strategy for the whole of the RSE, and for each investment option, an RSE licensee must document:

- (a) how it has regard to each of the factors in section 52(6) of the SIS Act; and
- (b) why it considers the investment strategy to be appropriate having regard to those factors.

21.26. An RSE licensee must, when determining an ~~adequate~~appropriate level of diversification for each investment strategy¹⁴:

- (a) identify and document the risk factors, and sources of return with which the risk factors are associated;
- (b) where the strategy includes multiple assets and/or asset classes, identify how sources of returns are expected to interact, the variability in these interactions and the impact of these interactions on the overall diversification of the strategy in different market conditions;
- (c) determine the target exposure to the risk factors in paragraph 26(a); and
- (d) determine the asset classes and/or individual assets that it will invest in to achieve the desired risk exposure and whether making, holding and realising investments in those asset classes and/or individual assets can be implemented in a manner consistent with the interests of, and the RSE licensee's duties to, beneficiaries.

¹⁴ As required by section 52(6)(a)(ii) of the SIS Act.

22-27. An RSE licensee must, at a minimum, determine for each investment strategy for an investment option that includes multiple assets and/or asset classes:¹⁵

- (a) asset allocation targets and ranges that are appropriate to the investment objectives of the investment option;
- (b) the basis on which asset allocation targets and ranges would be changed; and
- (c) a policy to monitor and maintain the asset allocation within the determined ranges within a reasonable timeframe.

23-28. For the investment strategy of a MySuper product, an RSE licensee must also document, in addition to the requirements in paragraphs 25-27 inclusive, at a minimum, how the investment strategy:

- (a) is diversified over multiple risk factors and sources of return as required in the SIS Act;
- (b) complies with section 52(13) of the SIS Act; and
- (c) complies with the relevant fee rules for MySuper products and general fee rules in the SIS Act.¹⁶

Member directed investment options

29. An RSE licensee must, for each member direct investment option (MDIO)¹⁷, determine and implement¹⁸ appropriate member-level investment limits. These limits must have regard to the suitability for concentrated member exposure to the MDIO by considering, at a minimum:

- (a) the risks posed by the MDIO, including risks indicated by valuation movements, liquidity, and stress testing results; and
- (b) the diversification of the investments included in the MDIO.

30. Subject to paragraph 2931, the member-level investment limits must be the lesser of [20-30] per cent of a member's superannuation interest or the member-level investment limit determined by the RSE licensee under paragraph 29.

31. An RSE licensee may determine that a member-level investment limit greater than [20-30] per cent, or no member-level investment limit, applies where the RSE licensee is satisfied that:

- (a) the MDIO is, and is expected to remain, highly liquid;
- (b) the MDIO does not employ significant leverage;

¹⁵ Refer to paragraphs 62-6432-34 for minimum requirements relating to the comprehensive stress testing program.

¹⁶ As required in Part 2C Division 5 and Part 11A of the SIS Act.

¹⁷ For the purposes of this Prudential Standard, a 'member direct investment option' is an investment option that allows members, whether advised or non-advised, to invest in specific investments such as shares, exchange traded funds, managed investment schemes, listed investment companies, and term deposits.

¹⁸ For the avoidance of doubt, 'implement' includes ensuring compliance with member-level investment limits.

- (c) the investments included in the MDIO are highly diversified¹⁹ or are otherwise low risk²⁰; and
- (d) where an MDIO, or the investments included in the MDIO, are managed or overseen by an external party, that external party is well established and well capitalised.

24.32. 'Member-level investment limits' for the purpose of paragraphs 29-31 inclusive refer to the limit to which a member's superannuation interest in an RSE can be invested in an MDIO, assessed at the point of making an initial or subsequent investment in the MDIO (including at the time of making a contribution or transfer into the MDIO in the RSE or at the time of switching another investment option into the MDIO), but not at the point of investment earnings or increases as a result of market movements.

Capabilities and resourcing

- 33. An RSE licensee must ensure its capabilities, resources and governance arrangements, including personnel with appropriate skills and expertise, systems and technology, are commensurate with the number, complexity, nature and risk profile of the investments and investment options that are, or are proposed to be, made available to beneficiaries through each RSE within the RSE licensee's business operations.
- 34. An RSE licensee must assess, at least annually and following any material changes to its investment activities, whether the capabilities, resources and governance arrangements referred to in paragraph 33 remain sufficient. Where the assessment identifies deficiencies, the RSE licensee must take appropriate action to address those deficiencies within a reasonable timeframe.
- 35. An RSE licensee must determine and regularly review limits on the number, complexity, nature and risk profile of investments and investment options that it can effectively and prudently oversee, having regard to the assessment undertaken under paragraph 34.
- 36. An RSE licensee must not offer investment options in excess of that which it can effectively and prudently onboard, monitor and oversee.

Conflicts and independence

- 37. An RSE licensee must identify and assess on an ongoing basis, conflicts of interest that exist or that may arise in relation to third parties that provide services to, or that otherwise seek to influence²¹, the RSE licensee in relation to investments or investment options.
- 38. Where conflicts of interest are identified as a result of an RSE licensee's assessment under paragraph 37, the RSE licensee must ensure that the third party does not, directly or indirectly, influence the RSE licensee in:

¹⁹ For example, through an investment option that tracks a well-established equity or fixed-interest index.

²⁰ For example, cash and cash equivalents.

²¹ For the avoidance of doubt, this would include third parties seeking to influence the RSE licensee even where they are not providing services to the RSE licensee.

- (a) making decisions to offer or recommend investments or investment options; or
- (b) monitoring or assessing the performance of investments or investment options; or
- (c) making decisions to offboard or take remedial action on investments or investment options

unless the RSE licensee can demonstrate how it is satisfied the conflict is effectively mitigated or managed and the conflict does not have the potential to impact the RSE licensee's ability to comply with its legislative and prudential requirements.

Onboarding investments and investment options ~~Giving effect to the investment strategy~~

39. An RSE licensee must determine, document and implement criteria for onboarding investments and investment options (**investment onboarding criteria**) that are appropriate, effective and consistent with the RSE licensee's obligations to beneficiaries. The investment onboarding criteria must, at a minimum, specify the RSE licensee's criteria for:
- (a) risk, including the nature and level of investment risk and its consistency with the risk objective of the investment option;
 - (b) investment performance and returns, including benchmark comparison and performance history;
 - (c) fees related to the investment or investment option, as applicable, on an absolute and relative basis including performance and management fees, having regard to comparable investments or investment options;
 - (d) valuations, including the quality and frequency of available valuations;
 - (e) liquidity, including analysis of profile;
 - (f) stress testing, including assessment of the stress testing outcomes, the idiosyncratic risks of investments and whether those risks are consistent with the RSE licensee's risk tolerances;
 - (g) external product assessment information, including research and ratings;
 - (h) where an external party is responsible for the investment management of an investment or investment option, as applicable, the governance, capabilities and track record of any external party responsible for the investment management of the investment or investment option; and
 - (i) the identification, assessment and management of conflicts of interest that may arise in relation to the investment or investment option, as applicable,

including conflicts involving the RSE licensee, related parties, external parties or other service providers.

40. An RSE licensee must have **appropriate processes in place** and ~~criteria for selecting each investment to give effect to the investment strategy (investment selection process)~~ to ensure that effective due diligence that is commensurate with the nature and characteristics of the investment is undertaken prior to the selection of an investment for an investment option²² to ensure that:

(a) where the RSE licensee is responsible for the selection of all or some of the investments to be included in an investment option (**internally managed investment option**), the RSE licensee:

- i. subjects each investment it proposes to be included in the investment option to effective due diligence; and
- ii. subjects each investment an external party proposes to be included in the investment option to effective due diligence.

The effective due diligence must be commensurate with the nature and complexity of the investment and include a documented assessment of whether the investment satisfies the applicable investment onboarding criteria, before, subject to paragraph 41, a decision is made to onboard the investment.

(b) where an external party is responsible for the selection of investments to be included in an investment option (**externally managed investment option**), each investment option proposed to be included on the RSE licensee's investment menu is subject to effective due diligence. The effective due diligence must be commensurate with the nature and complexity of the investment option and include a documented assessment of whether the investment option satisfies the applicable investment onboarding criteria, before, subject to paragraph 41, a decision is made to onboard the investment option.²³

41. Where an RSE licensee proposes to onboard an investment in an internally managed investment option, or onboard an externally managed investment option, as applicable, that does not satisfy one or more of the applicable investment onboarding criteria under paragraph 39, the RSE licensee must not onboard the investment or investment option unless its inclusion has been approved by a Board committee or an appropriate senior manager who is operationally independent from the investment function.

25.42. An RSE licensee's ~~investment selection~~ onboarding process must enable the RSE licensee to ensure:

²² Where an RSE licensee engages an external service provider under an investment management agreement or mandate, the RSE licensee must comply with the requirements in *Prudential Standard SPS 231 Outsourcing*.

²³ Where an RSE licensee engages an external service provider under an investment management agreement or mandate, the RSE licensee must comply with the requirements in *Prudential Standard CPS 230 Operational Risk Management*.

- (a) it has sufficient understanding and knowledge of the investment or investment option, as applicable~~selected~~, including an assessment of any factors that could have a material impact on achieving the investment objectives of the investment option;
- (b) it has sufficient understanding of how the investment or investment option, as applicable, is expected to perform under the range of stress scenarios determined under paragraph 6134; and
- (c) the investment is appropriate for the investment option.

Monitoring investments and investment options

43. An RSE licensee must, at a minimum, monitor on an ongoing basis against, the applicable investment onboarding criteria under paragraph 39:

- (a) for each internally managed investment option, the investment option and each investment included in that investment option; and
- (b) for each externally managed investment option, the investment option and the adequacy and effectiveness of the external party's ongoing monitoring processes.

~~26. An RSE licensee must determine appropriate measures, for the purposes of monitoring performance on an ongoing basis, in respect of each MySuper product, each investment option and each investment within an investment option. These measures must include appropriate performance benchmarks and a methodology for setting performance benchmarks. These measures, other than performance benchmarks for each investment within an investment option, must be approved by the Board.~~

44. An RSE licensee must determine, document and implement appropriate measures for monitoring, on an ongoing basis, the investment performance of:

- (a) each MySuper product,
- (b) for internally managed investment options, each investment option and each investment included in an investment option; and
- (c) for externally managed investment options, each investment option.

45. The measures determined under paragraph 44 must include performance benchmarks and a methodology for setting those benchmarks. The measures, benchmarks and benchmark-selection methodology must be approved by the Board, except that Board approval is not required for performance benchmarks for each investment in an internally managed investment option.

46. The monitoring process under paragraph 43 must also include an assessment of:

- (a) changes in investment style or strategy;
- (b) governance concerns;

- (c) adverse developments, regulatory action, media coverage or other information relating to the investments in internally managed investment options, the externally managed investment options, or the adequacy and effectiveness of the external party's ongoing monitoring processes, as applicable;
- (d) unusual fund or adviser-related flows²⁴; and
- (e) any other material development or circumstance that may affect the investment's, or investment option's, as applicable, ongoing suitability.

27.47. An RSE licensee must establish and maintain a watch list for internally managed investment options, externally managed investment options, investments included in internally managed investment options, and, where relevant, concerns relating to the adequacy and effectiveness of an external party's ongoing monitoring processes, where the RSE licensee's ongoing monitoring identifies heightened risk or other characteristics that may affect their continued suitability.

28.48. An RSE licensee must regularly report to the Board and senior management on ~~ensure that~~ the performance of each internally managed investment option, each externally managed investment option, and each MySuper product. ~~is regularly reported to the Board and senior management.~~ This reporting must include an assessment of the sources of out-performance and under-performance relative to ~~appropriate~~ performance benchmarks as determined by the RSE licensee under paragraph 45.

49. An RSE licensee must ensure that persons undertaking the assessment of performance, by applying ~~and assessing~~ the measures ~~required~~ ~~indetermined~~ under paragraph 44, are operationally independent from persons who are responsible for making the investment.

Information and reporting from external parties

50. An RSE licensee must ensure it has adequate processes in place, including processes for obtaining information and reporting from external parties where relevant, to enable the RSE licensee to effectively oversee investment options, and investments included in an investment option, as applicable, on behalf of its beneficiaries.

51. Where an investment option, or an investment included in an investment option, is managed or overseen by an external party, the information and reporting received by an RSE licensee must, at a minimum, be of sufficient detail to enable the RSE licensee to:

- (a) assess the appropriateness and effectiveness of the external party's processes for managing risk and responding to under-performance; and
- (b) assess whether the investment option, or the investment included in the investment option, remains suitable for inclusion on the RSE licensee's investment menu, or in that investment option, as applicable, and consistent

²⁴ For the avoidance of doubt, this includes switching between investments and switching between investment options.

with its investment strategy.

Reviewing the investment strategy

29.52. For each investment strategy, an RSE licensee must have a review policy that is approved by the Board and that, at a minimum, requires each investment strategy to be reviewed against its investment objectives on at least an annual basis. The policy must also include:

- (a) the triggers that will cause an interim review of the investment strategy in addition to the annual review;
- (b) the processes for reporting the results of each review to the Board; and
- (c) the criteria that will determine whether the investment strategy must be changed.

30.53. On receipt of the results of a review of an investment strategy undertaken in accordance with the review policy, the Board must ensure that any decision to amend or retain the investment strategy is documented and supported by sufficient justification and analysis.

Escalation and remediation actions

54. An RSE licensee must determine and document appropriate minimum tolerances and triggers for taking action where ongoing monitoring or review identifies that:

- (a) —an investment option, or an investment included in an investment option, no longer satisfies the applicable investment onboarding criteria; or
- (a) material or persistent concerns arise in relation to the performance or risk of an investment option or an investment included in an investment option.

55. The tolerances and triggers under paragraph 54 must, at a minimum, apply to the matters assessed as part of the RSE licensee's monitoring of investments and investment options under paragraph 43 and the investment strategy review criteria referred to in paragraph 52.

56. Where a tolerance is breached or a trigger for action is met, an RSE licensee must take appropriate escalation and remediation action, including implementing a time-bound action plan to address identified concerns, and document its assessment of the matter and any actions taken.

57. The action plan must:

- (a) identify the persons responsible for making decisions and implementing actions;
- (b) specify appropriate timeframes for completion of those actions; and
- (c) where necessary, include steps in relation to one or more of the following:

- i. to review, impose or adjust limits under paragraph 29;
 - ii. to restrict the availability of the investment or investment option;
 - iii. to remove the investment or investment option from those made available to beneficiaries;
 - iv. to transition existing beneficiaries out of the investment option and/or
 - v. to communicate actions or proposed actions to beneficiaries.
- 58. Where beneficiaries remain invested in an investment option in relation to which material or persistent performance or risk concerns have arisen, an RSE licensee must take all reasonable steps to obtain active consent from those beneficiaries to remain invested in the investment option.
- 59. Where APRA considers that the tolerances or triggers under paragraph 54 are not appropriate, APRA may require the RSE licensee to amend those tolerances or triggers.

Investment stress testing

- 31.60. An RSE licensee must have a comprehensive investment stress testing program that is approved by the Board and is integrated into an RSE licensee's investment governance framework.
- 32.61. An RSE licensee must, at a minimum, determine appropriate adverse stress scenarios for the investment strategy of each investment option. These adverse stress scenarios must cover a range of factors that can create extraordinary losses or make the control of risk within accepted tolerance level in the investment strategy difficult.
- 33.62. An RSE licensee's comprehensive investment stress testing program must provide for:
 - (a) investment stress testing performed prior to the implementation of the investment strategy;
 - (b) investment stress testing based on scenarios determined in paragraph 34.61 to confirm that each investment strategy, including the targets and ranges set under paragraph 20.26(c) and paragraph 24.27(a) remain appropriate on at least an annual basis; and
 - (c) investment stress testing based on scenarios determined in paragraph 34.61, and other parameters deemed appropriate by the RSE licensee, to assess the performance of each investment option based on the actual asset allocation on at least an annual basis.
- 34.63. The comprehensive investment stress testing program must, at a minimum include:

- (a) clearly articulated stress testing objectives, methodology, assumptions, frequency (at least annually), and risk factors, including the rationale for the severity of the adverse stress scenarios as required in paragraph ~~34~~61;
- (b) the roles and responsibilities of persons (both internal and external) involved in the design, implementation, review, reporting and oversight of investment stress testing, including the role of the Board, relevant Board committees and senior management;
- (c) investment stress testing output or metrics that demonstrate the performance of each investment option under the stress scenarios required in paragraph ~~34~~61;
- (d) processes for the regular review of stress testing methodology and assumptions;
- (e) circumstances that might lead to ad hoc investment stress testing, including triggers to indicate when ad hoc investment stress testing would be undertaken; and
- (f) processes for ensuring that relevant and reliable data are used in investment stress testing.

~~35~~64. An RSE licensee must ensure that the results of the comprehensive investment stress testing program are:

- (a) reviewed periodically by the Board, relevant Board committees, and senior management; and
- (b) reflected in the RSE licensee's investment governance framework.

~~36~~65. The RSE licensee must document the methodology for stress scenario selection and how the results of the comprehensive stress testing program have been used in decision-making.

Liquidity and cash flow management

~~37~~66. An RSE licensee must, at a minimum, ~~maintain~~have a liquidity management plan, approved by the Board, for each RSE within its business operations that:

- (a) covers each investment option in the RSE;
- (b) outlines the procedures determined by the RSE licensee for measuring and managing liquidity on an ongoing basis;
- (c) includes consideration of how the liquidity of investment options in an RSE can be managed in a range of stress scenarios;
- (d) identifies the circumstances the RSE licensee considers to be a significantly adverse liquidity outcome that requires action (liquidity event);
- (e) outlines what action the RSE licensee will take when a liquidity event occurs;

- (f) outlines the roles and responsibilities of persons involved in the management and oversight of liquidity risk, including the role of the Board, relevant Board committees and senior management; and
- (g) outlines information, including key metrics, that must be reported to the Board, relevant Board committees and senior management, to ensure adequate oversight of liquidity risk.

~~38.67.~~ An RSE licensee must ensure that information, including key metrics referred to in paragraph ~~3666~~(g) are periodically reviewed by the Board, relevant Board committees and senior management, to ensure that such information and key metrics remain suitable.

~~39.68.~~ An RSE licensee must implement liquidity stress testing as part of the comprehensive investment stress testing program required in paragraph ~~3460~~ and the RSE licensee's liquidity management plan.

Valuation governance framework

~~40.69.~~ An RSE licensee must have an adequate valuation governance framework, which consists of the structures, processes, procedures and controls necessary to identify and manage valuation risk of investments.

~~41.70.~~ The valuation governance framework must include a Board-approved valuation policy which, at a minimum, outlines:

- (a) the roles and responsibilities of persons for the oversight and management of valuation processes and procedures, including the Board, relevant Board committees and senior management;
- (b) the key metrics and information that must be reported to the Board, relevant Board committees and senior management, and the frequency of that reporting;
- (c) the valuation methodology employed for each asset class (and sub-asset class and instrument/holding vehicle type where relevant), including the sources of valuation inputs;
- (d) clear and robust criteria for the circumstances under which independent external valuations ~~are to~~ will be obtained;
- (e) the frequency of valuation of investments having regard to the prevailing market, economic environment, member equity considerations and matters concerning the ongoing appropriateness of the asset valuation;
- (f) the circumstances in which interim valuations are to be made, to ensure the approach taken is consistent and transparent and has regard to both specific quantitative triggers and qualitative triggers which are both backward and forward looking;
- (g) the triggers that would require an interim valuation of investments outside of the frequency determined under paragraph ~~4070~~(e) and which reflect the circumstances identified in paragraph ~~4070~~(f);

- (h) a review process to ensure that the valuation policy remains effective;
- (i) the validation of valuation outputs including any back-testing procedures;
~~and~~
- (i)(j) a process to ensure that the RSE licensee can be satisfied that valuations undertaken by third parties have been undertaken based on suitable methodology; and
- (i)(k) the circumstances as to when to accept, reject or reassess valuations of investments to ensure that an RSE licensee's valuations remain appropriate, including an escalation procedure for the resolution of any disputed valuations.

71. An RSE licensee must, at a minimum, undertake or obtain valuations on at least a quarterly basis.

42.72. APRA may, in writing, require an RSE licensee to obtain a valuation of an investment from a suitably qualified and independent external party where APRA has reasonable grounds to believe that the existing valuation of an investment is not reliable and that obtaining an external valuation would be in the interests of beneficiaries of the RSE.

43.73. An RSE licensee must ensure that the key metrics and information referred to in paragraph 4070(b) are periodically reviewed by the Board, relevant Board committees and senior management, to ensure that such information and the key metrics remain appropriate to enable sufficient oversight of valuation risk.