

# Draft Prudential Practice Guides (PPGs) – 110, 200, 230 and 520

ASFA Submission

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Association of Superannuation Funds of Australia

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14 September 2009

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Dear Ms Hennessy

**RE: Draft Prudential Practice Guides (PPGs) – 110, 200, 230 and 520**

The Association of Superannuation Funds of Australia (ASFA) would like to provide the comments below in relation to the Australian Prudential Regulation Authority's (APRA) draft PPGs regarding sound practice in respect of:

- capital requirements;
- risk management;
- adequacy of resources; and
- fitness and propriety.

**General comment**

ASFA congratulates APRA on the revised wording of the PPGs as we believe the vast majority of the draft changes will provide valuable guidance to trustees. Practical guidance in relation to satisfying the license conditions and operating standards will serve to drive improvement in prudent business practices across the industry.

We have provided specific comments under the headings of the draft PPGs below.

**Capital**

ASFA believes the changes made generally reflect a sensible approach to the treatment of the capital requirements needed to be maintained by trustees at all times. However, paragraph 24 indicates APRA's position that in-house administration creates a greater operational risk to trustees than outsourced administration in all instances (and therefore requires an additional amount of liquid assets to be maintained).

ASFA has concerns that, in some instances, the potential failure of an outsourced provider and/or increases in fees due to system upgrades may place a greater risk on trustees. The latter is particularly true in respect of smaller funds, which have very little bargaining power with administrators. It would be helpful for ASFA if APRA could provide background in this regard, and in particular the risk analysis it has undertaken.

That said, the imposition by way of a licence condition of an additional amount of liquid assets required to be maintained by trustees to cater for higher levels of risk is a sensible approach.

**Adequacy of Resources**

Paragraph 16(e) again articulates the concept that material business activities performed in-house pose a greater risk to trustees than outsourced activities in all instances (and therefore requires a margin to be maintained over and above the normal liquidity requirements).

## Risk Management

ASFA supports the clarification and provision of further guidance to assist trustees in managing risk, particularly around:

- the establishment, maintenance and documentation of effective information systems to assist in risk mitigation;
- the utilisation of more advanced techniques than checklists to identify and assess risk in all but the simplest scenarios;
- the consideration of risks associated with remuneration structures of both executives and investment managers as part of trustees' governance risk assessment; and
- clarifying the minimum 'fitness' requirements applying to all individual responsible officers, including attendance of suitable induction and training programs in order to acquire the required knowledge within a reasonable period of time (we agree that a reasonable period of time should not exceed 1 year).

Paragraph 21 asserts that an effective risk management framework requires a "continuous" process of identification and assessment of all material risks. ASFA has concerns about the ability of trustees to truly undertake such a process continually and, as such, we believe this should be amended to reflect the following wording – "at least annually unless a significant internal or external change occurs in the environment in which the fund operates".

Paragraph 31(i) – in certain circumstances, it may be difficult for trustees to ensure adequate financial, human and technical resources are available at all times (regardless of the robustness of the trustees' control mechanisms). We recommend that the wording in this paragraph be amended to reflect the need to have "adequate arrangements in place for trustees to have access to adequate financial, human and technical resources at all times".

Paragraph 45 – whilst we support the establishment of effective information systems as part of trustees' risk management frameworks (as stated above), we believe the specifications included in this paragraph are excessive with regard to the superannuation industry and are more appropriate for the banking sector. The implication of this paragraph is that trustees should be implementing a risk management IT system, which we believe would not be an effective use of trustees' financial resources (particularly when the cost of implementing such systems is weighed against any potential benefits to trustees and ultimately their members). We believe this paragraph should be moved under the section headed "Monitoring" but with the introductory sentence amended as follows: "To enable effective monitoring, trustees should endeavour to have access to information and reports that:".

Paragraph 51 – the word "material" should be added before the word "risk" in the opening sentence.

## Fitness and Propriety

Paragraph 10(i) – the timeframe for reviewing the trustee's Fit and Proper policy should be amended to prescribe that the reviews should be undertaken "annually or at such time as the composition of the trustee changes" rather than "regularly", which has the potential to signify a notion of arbitrariness to what should be a more structured process.

Paragraph 50 – the words "or promotion" should be added to the end of this sentence.

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If you have any questions or comments on this matter, please feel free to contact Jon Echevarria, Policy Adviser on 02 8079 0859 or by email [jechevarria@superannuation.asn.au](mailto:jechevarria@superannuation.asn.au).

Yours sincerely

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