

# SUBMISSION

## **Submission to APRA: Discussion Paper – Post- implementation review of APRA’s superannuation prudential framework**

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3 October 2018

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## **Discussion Paper – Post-implementation review of APRA’s superannuation prudential framework**

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation on the *Post-implementation review of APRA’s superannuation prudential framework* (Post Implementation Review).

### **About ASFA**

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its \$2.6 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing over 90 per cent of the 14.8 million Australians with superannuation.

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Should you have any queries or wish to discuss any aspect, please do not hesitate to contact me on \_\_\_\_\_ or via [fgalbraith@superannuation.asn.au](mailto:fgalbraith@superannuation.asn.au).

Yours sincerely

Fiona Galbraith  
Director, Policy

## General comments

Generally member funds are broadly comfortable with APRA's superannuation prudential framework, comprised of the prudential standards and guidance, and, with the exception of those matters noted below, expressed no real concerns. They considered the post implementation review to be comprehensive and appreciated the opportunity to participate in the series of roundtables that were organised to discuss the various short topic papers.

## Specific comments on various short topic papers

### 1. Short Topic Paper Three – Financial requirements, operational risk and outsourcing

#### 1.1 Operational Risk

*Superannuation Prudential Guidance SPG 114, Operational Risk Financial Requirement*, at paragraph 9, states that

*APRA expects a soundly run RSE licensee that has implemented an effective risk management framework to have an ORFR target amount that is equivalent to at least 0.25 per cent of funds under management (FUM).*

Some member funds have expressed concern that this results in a significant amount of money within the superannuation industry effectively being quarantined in a reserve to meet the ORFR, which in most instances is invested conservatively and is likely to be addition to other reserves held within the fund such as administration or insurance reserves.

Accordingly, they have questioned whether the ORFR, set at 25 basis points of FUM, is always in the best interests of members and noted that the amount of money set aside to meet the ORFR will continue to grow to such an extent that it may be difficult to justify the quantum involved.

In addition, some member funds have expressed the view that the permitted use of the ORFR, to remediate losses from members' accounts, is too restrictive and that the use of the ORFR should extend to other remediation costs, such as the cost of professional/expert support which is usually required to investigate, report, advise on and resolve issues.

The view was expressed that the industry will be keen to see whether anyone has made use of the provisioning, and in what circumstances, and that some guidance for the industry from APRA could be useful.

#### 1.2 Outsourcing

Some member funds have indicated that the definition of what constitutes a 'Material Business Activity' requires clarification, in order for APRA and funds alike to be able to formulate and state the risks being addressed by *Prudential Standard SPS 231 Outsourcing*.

Related to this, members have expressed the view that the regulatory objective of the notification requirement with respect to the appointment of an overseas investment managers prior to executing the agreement. APRA issued a letter to industry dated 5 July 2017 in which it was stated that

*Provided the assets covered by an IMA are subject to Australian custody, or an offshore custody arrangement that has been subject to prior consultation with APRA with no issues raised, the following expectations apply:*

- *where an RSE licensee is entering into a new offshore IMA with a manager with which it currently does not have a separate offshore IMA, the RSE licensee is not required to consult APRA, but must comply with the outsourcing notification requirements set out in paragraphs 26 – 27 of SPS 231; and*
- *where an RSE licensee is amending an existing offshore IMA or entering into a new offshore IMA with a manager with which it has a current separate offshore IMA, the RSE licensee is not required to consult or notify APRA.*

Member funds have indicated that this should be incorporated into SPS 231.

Further, some member funds have queried the need to have each agreement audited, indicating that they consider the policy and regulatory objectives and intent of this requirement are unclear.

Member fund have also questioned the highly prescriptive nature of some of the content of SPS 231. In particular, they consider the list of mandated clauses in relevant agreements to be overly prescriptive and at times not fit for purpose, and do not believe that this approach delivers a considered methodology that identifies and addresses the relevant risks. This is particularly the case with some investment and IT agreements, especially those that involve shared computing and cloud services.

## **2. Short Topic Paper Five – Insurance in superannuation**

Member funds have indicated that *SPS 250 Insurance in Superannuation* has helped to ‘raise the bar’ and ensure that trustees implement more rigorous and thorough processes.

Despite this, some member funds have expressed the view that the level of details in SPS 250 is overly prescriptive and restrictive and should be principles based to allow flexibility within a well understood risk framework.

Member funds have also identified that SPS 250 may necessitate reconsideration and amendment in light of recent developments, including the legislative amendments announced as part of the 2018 Budget. They have indicated that there is a need for there to be a suitable time frame for transition, as well as guidance from APRA/ASIC including, amongst other things, how funds should seek confirmation/elections regarding opt-in insurance arrangements.

With respect to the reporting regime, member funds have indicated that the purpose and intent of the regime are not well understood within the industry. In particular it was noted that the data required under the regime does not capture the rates of claims being declined/denied. Some member funds queried what had been achieved by the reporting regime.

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