

4 July 2013

Submission to APRA on the second set of draft prudential practice guides (PPGs) for superannuation

As an overall comment, ASFA is broadly comfortable with the guidance provided in the second set of draft prudential practice guides.

However, we have raised a number of issues and provided a range of recommendations in the submission in relation to each of the draft PPGs:

- SPG 160 – Defined Benefit Matters
- SPG 221 – Adequacy of Resources
- SPG 222 – Management of Reserves
- SPG 270 – Contribution and Benefit Accrual Standards
- SPG 280 – Payment Standards
- SPG 511 – Remuneration
- SPG 532 – Investment Risk Management
- SPG 533 – Valuation

The submission also included recommendations regarding the following two key issues:

1. Offshoring – requirement for consultation

Firstly, the industry needs clarity on the information APRA expects the RSE licensee to provide when advising the regulator of a proposed offshoring arrangement – a template may be useful for this purpose.

As well, it would be helpful for the industry to have greater clarity on the process around such consultations – not just what information to provide to APRA in the first instance, but also whether an RSE licensee is required to await a response from the regulator – and if so, for how long – before it can enter into the proposed offshoring arrangement. Given the uncertainty that currently exists around this issue, ASFA has suggested that the consultation process needs to be clarified (within SPG 231).

Secondly, ASFA strongly recommends that offshoring of investment management needs to be treated differently to other material business activities with respect to the requirement of prior consultation with APRA. Specifically, with respect to investment management agreements, we believe that the prudential standard and guidance should be amended to state that it is sufficient for APRA to review the RSE licensee's risk management framework with respect to offshoring investments prior to their first investment offshore, but not with respect to each and every subsequent change. An alternative approach may be to necessitate consultation the first time an RSE licensee enters into an investment management agreement in a particular jurisdiction, but not for subsequent agreements in that jurisdiction.

2. Determination of a 'material business activity'

Members have advised us that there appear to be differing positions adopted by APRA offices and APRA officers on whether or not a proposed outsourcing arrangement is a material business activity. In one example, advice from ASFA members reveals a difference in approach between the APRA's Melbourne, Brisbane and Sydney offices as to whether the selection of a Gateway service provider is considered to be the outsourcing of a material business activity. This in turn leads to differing approaches between trustees with respect to their dealings with potential gateway service providers and is a source of frustration for trustees and gateways alike.

ASFA has therefore recommended that SPG 231 should provide guidance around the determination process of whether, or in what circumstances, a particular activity is considered to be a material business activity.