



Prudential standards for superannuation

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 - The framework concept
 - Governance / fit and proper
 - Managing conflicts of interest
 - Risk management
 - Outsourcing
 - Operational risk financial requirement



Now

SIS Act

SIS Regulations

Guidance

In the future

SIS Act

SIS
Regulations

Prudential Standards

Guidance



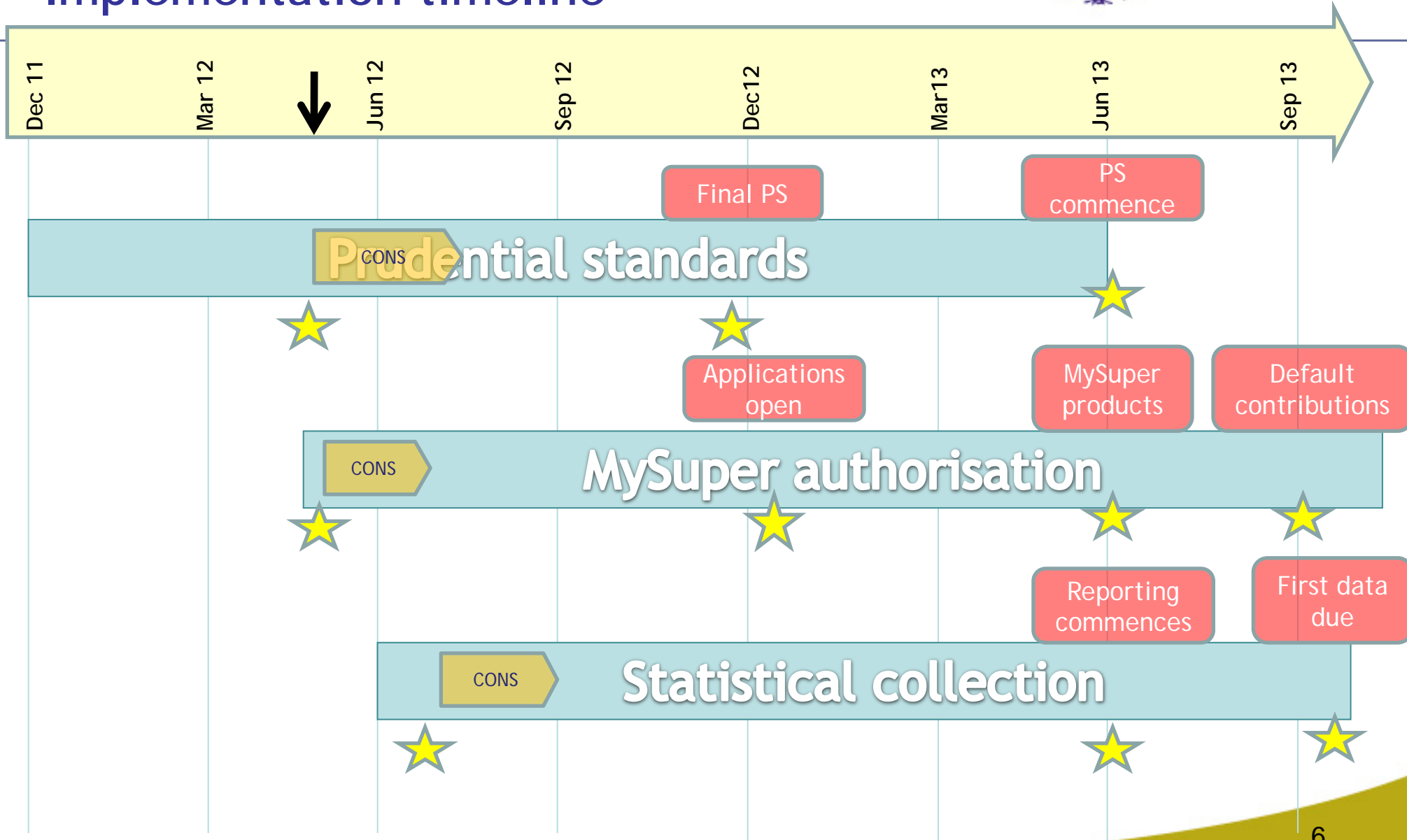
- Principles based approach
 - Focus on frameworks, policies, documentation
 - Trustees to demonstrate to APRA how they are complying
- Benefits
 - Simpler as key requirements in one place and plain English drafting
 - High level principles mean enhanced flexibility
 - Harmonisation where relevant
- Content
 - Implementing certain Stronger Super reforms
 - Moving current requirements and guidance from licence conditions, operating standards, circulars, PPGs, FAQs etc

12 proposed prudential standards



	Super	ADIs	GIs	LIs
Behavioural standards				
Governance	SPS 510	CPS 510	CPS 510	CPS 510
Fit and proper	SPS 520	CPS 520	CPS 520	CPS 520
Outsourcing	SPS 231	CPS 231	CPS 231	CPS 231
Business continuity management	SPS 232	CPS 232	CPS 232	CPS 232
Risk management	SPS 220		GPS 220, 221	LPS 220
Audit and related matters	SPS 310	APS 310	GPS 310, 311	LPS 310, 320
Standards specific to superannuation				
Investment governance	SPS 530			
Conflicts of interest	SPS 521			
Defined benefit matters	SPS 160			
Operational risk financial requirement	SPS 114			
Insurance in superannuation	SPS 250			
MySuper transition	SPS 410			5

Implementation timeline



What's new for the Board?



- Greater clarity that board has ultimate responsibility
- Requirements aligned with interest of members and beneficiaries
- Greater transparency and accountability of boards
- Board activities will increasingly focus on assessments, approvals, oversight, covenants
- Activities of RSE licensee must be appropriate to the size, business mix and complexity of their business operations



Substantial impact on Board approach and activities:

- The framework concept
- Governance / fit and proper
- Managing conflicts of interest
- Risk management
- Outsourcing
- Operational risk financial requirement

- Frameworks appear in several standards:
 - Investment governance (SPS 530)
 - Conflicts management (SPS 521)
 - Risk management (SPS 220)
 - Insurance management (SPS 250)

Example of a framework - investment governance

“An investment governance framework is the ‘totality of systems, structures, policies, processes and people’ to address the RSE licensee’s responsibilities with regards to investments of each RSE within the RSE licensee’s business operations. This includes generating returns to meet investment objectives while managing and monitoring all sources of investment risk.”



- Annual board assessment process and board renewal policy
- Remuneration policy that aligns remuneration and risk management
- Board-approved fit and proper policy, broader responsible person definition:
 - Aligns with cross-industry standard
 - Includes persons within connected entities
- Fit and proper assessment process:
 - Can leverage off, but not be replaced by, assurances from service providers and professional memberships



- Give priority to the interests of beneficiaries when there is a conflict (SIS Act trustee covenants (Part 6 s.52))
- Conflicts management framework and trustee covenants (which override governing rules) to trigger reviews of existing contracts with related parties
- Conflicts management framework to provide reasonable assurance that all conflicts are being clearly identified, avoided or prudently managed



- Risk management framework
- Accountability - risk management declaration
- Risk appetite statement (articulation of risk appetite and tolerance)
- Risk management function
- Alignment of risk management framework and business plan

- High levels of outsourcing in the super industry
- New requirements and covenants necessitate reviews of all arrangements with service providers
- Appropriate due diligence
- Comprehensive outsourcing agreement, for all outsourced material business activities
- Ongoing monitoring of service providers performance



- New requirement to hold financial resources to address losses arising from operational risks
- Financial resources to meet the ORFR can be trustee capital, a fund reserve or combination of both
 - Replaces existing public offer trustee capital requirements, but does not replace need for other reserves
- Amount is determined by the RSE licensee
 - Based on both identified and unidentified risks of each RSE
 - Approaches expected to evolve as risk management frameworks evolve
 - Not simply 0.25 per cent of assets, but this may be a benchmark for enhanced discussions to justify appropriateness of approach

- Substantial changes for all industry participants
- Early engagement will enable effective transition
- Start implementation now, for example:
 - Review / gap analysis against draft standards
 - Develop frameworks
 - Change management
 - Talk to APRA supervisors (if haven't already)



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