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Invitation to comment - Measures to strengthen superannuation member outcomes

PwC welcomes the opportunity to comment on APRA's proposed changes to the Superannuation Prudential Standards, intended to strengthen the industry's focus on prioritising member outcomes. We have assessed the proposed changes and have detailed our feedback in this paper for your consideration.

We support APRA's intention to ensure the industry continues to prioritise member outcomes. However, we feel some of APRA's proposed changes to *SPS 220 Risk Management* ("SPS 220") are too prescriptive and could benefit from a more principles based approach. We feel this approach will allow sufficient flexibility to cater for the different strategic objectives and operational nuances of funds across the industry. *SPS 225 Outcomes Assessment* ("SPS 225") and the supporting prudential practice guidance appears to contain guidance that can be adapted to cater for the different operating models and strategic objectives of funds within the industry.

We also believe the implementation date of adopting the new standards should be extended to 1 July 2019, instead of APRA's current proposal of 1 January 2019. This will allow licensees adequate time to implement these changes and consider them as part of the annual strategic planning process, which for most funds typically takes place towards the end of the financial year.

We have provided further feedback on APRA's proposed changes to the prudential framework below.

SPS 220 – Risk Management

SPS 220 when read in conjunction with *SPG 221 Strategic and Business Planning* ("SPG 221") provides adequate guidance on APRA's expectations relating to the strategic business planning process and how this links to a licensees risk management framework. The requirements included in

Attachment A of SPS 220 should help lift industry practices and consistency in developing and tracking strategic business plans. We also support the inclusion of the annual member outcomes assessment as an item to be considered in setting a licensees strategic objectives. However, APRA may want to acknowledge in SPS 220 and SPG 221 that business plans are typically comprised of interdependent elements. As a result, not meeting predetermined objectives on some components may adversely impact other components and the overall business plan. APRA may like to consider including additional guidance for trustees when assessing the overall outcomes achieved in a given business planning cycle.

We believe APRA's inclusion of requirements in SPS 220 relating to expense governance is overly prescriptive in nature. We understand APRA have identified some instances of poor practices relating to expense governance which has influenced the introduction of these new requirements. Nevertheless, we believe these detailed measures would only be necessary if these poor practices are systemic throughout the industry and not isolated in nature. As an alternative measure, APRA may want to consider embedding lighter expense governance principles within the strategic business planning section of SPS 220 to ensure licensees remain focused on sound expense governance practices but also to provide greater flexibility.

Further, it's unclear why a dedicated section on expense management has been included within SPS 220 and how these requirements fit into a licensee's broader risk management framework. Expense management is not typically classified as a specific risk, but rather a key process that supports the operation of a fund. If the proposed inclusion of expense governance requirements in SPS 220 is kept, we encourage APRA to provide further context on how these requirements should be integrated into a licensees risk management framework.

In addition, the term significant expenditure is not defined within SPS 220 and open for interpretation. This may lead to licensees creating inconsistent definitions and practices of what they believe significant expenses are, resulting in APRA's intended outcome of including expense requirements into SPS 220 not being met, or being overly onerous from an administrative perspective. Further, APRA may want to consider exempting specific significant expenses that are out of the control of licensees, such as tax, from the requirements in SPS 220.

SPS 225 – Outcomes assessment

We support the introduction of the member outcomes assessment detailed in SPS 225. Introducing an annual assessment process will help licensees improve their focus on member outcomes across the industry. We believe licensees will require a longer lead time to implement the requirements in SPS 225 when compared with the amendments prescribed in SPS 220. This is because significant time and resources will be required to adequately setup processes and metrics to sufficiently assess outcomes for all types of beneficiaries.

We believe current practices relating to the classification of fund investments makes assessing fund's net investment performance against comparative products within the industry challenging. The increased investing in alternative assets such as infrastructure, private equity, and hedge funds is making investment classification more complex and challenging to perform comparisons of returns across different funds. These types of investments can be difficult to allocate to traditional growth and defensive asset definitions. Currently fund asset classification is currently at a licensee's discretion with no current guidelines in place to encourage consistent practices across the industry. APRA may want to consider introducing industry wide guidance to help licensees classify assets consistently as part of the introduction of SPS 225 or more broadly in the prudential framework. This may help APRA and the industry further improve comparability of returns for the purpose of assessing member outcomes.

Importantly, when reviewing the implementation of SPS 225 it should be acknowledged by APRA that funds may have different value propositions to support their members which may make a meaningful peer comparison and assessment of fund performance harder to perform in practice.

Understanding RSE expenditure

APRA has stated it is considering collecting financial information relating to fund expenditure to improve current expense reporting practices. We recommend APRA considers avoiding enforcing overly prescriptive requirements to licensees with regard to expense reporting as this may prove challenging for licensees to comply with given the various fund operating models evident within the industry. Rather, APRA may want to consider introducing broad guidelines around fund expense categories that allows sufficient flexibility to cater for different operating models of licensees throughout the industry.

Sole purpose test

APRA requested in its discussion paper feedback on whether the sole purpose test is still relevant. We believe the sole purpose test is still relevant for the industry as it provides clear guidance as to the type of funds that are required to comply with the SIS Act and covers APRA's interpretation of the legislation. This is a good reference point for licensees to refer to when required.

We are committed to positively contributing to the Australian community and supporting initiatives that will strengthen the future prosperity of our country. I would welcome the opportunity to discuss our views further. Please feel free to contact me on 8266 7937 if you wish to discuss this further.

Yours sincerely

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PwC Australia