

# SUBMISSION

Australian Prudential  
Regulation Authority

Proposed revisions to  
Prudential Standard SPS  
515 *Strategic Planning  
and Member Outcomes*

Consultation Paper

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29 May 2019

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Lodged via e-mail to [superannuation.policy@apra.gov.au](mailto:superannuation.policy@apra.gov.au)

29 May 2019

Dear Ms Richards,


**SPS 515 *Strategic Planning and Member Outcomes* – proposed revisions to SPS 515 consultation**

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to APRA's consultation on the proposed revisions to Prudential Standard SPS 515 *Strategic Planning and Member Outcomes*.

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 \$2.8 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 15.6 million Australians with superannuation.

Should you have any queries or comments in relation to the content of our submission, please contact Byron Addison, Senior Policy Adviser on (02) [REDACTED] or by email at [REDACTED].

Yours sincerely



[REDACTED]

Glen McCrea  
Deputy Chief Executive Officer and Chief Policy Officer

## General comments

Please find attached ASFA's submission on behalf of our members in response to the consultation for the proposed revisions to Prudential Standard SPS 515 *Strategic Planning and Member Outcomes*. Please note all legislative references refer to provisions in the *Superannuation Industry (Supervision) Act 1993* (SIS Act) unless otherwise stated.

ASFA's members support measures that will enhance outcomes for superannuation fund members and recognise the need for any areas of improvement identified in the course of conducting a member outcomes assessment to be incorporated into a fund's strategic and business planning. Now that the member outcomes assessment has been legislated our members are broadly comfortable with the revisions to SPS 515.

However, there are concerns about the uncertainty of various elements of SPS 515 which are now interrelated with the outcomes assessment as defined in subsection 52(9) and the timing or sequencing of all the new requirements under the SIS Act and SPS 515.

Specifically, these concerns relate to:

- The timing of the release of the *Improving accountability and member outcomes* regulations
- The degree to which the regulations will contain guidance or prescription on topics such as how MySuper or choice products are to be compared, investment benchmarks, and the segmentation of member cohorts
- The degree to, and manner, in which member cohorts are to be incorporated into the outcomes assessment given that it is not a requirement under subsection 52(9)
- Uncertainty about the need for cohort comparison with other fund cohorts under SPS 515 and, if it is required, the basis for making cohort comparisons
- The potential for there to be inconsistency between the regulations and SPS 515, and the possibility that there may be a further need to revise SPS 515
- The timing of the release of SPS 515 guidance
- The timing risk involved in the sequencing of all the obligations under the SIS Act, regulations and SPS 515 (i.e. outcomes assessment, annual business performance review, business plan execution, business plan monitoring and review) and the dependence on the timeliness of APRA data for making fund and product comparisons
- The expectations regarding the incorporation of the findings of the annual business performance review into the business plan on a rolling three year basis and the accommodation of short-term annual results into longer-term strategic planning

ASFA also notes that trustees often have limited access to information about their members and recommends that any cohort or outcomes assessment be based on available information and not impose a requirement to obtain additional information from members and/or employers.

## Detailed comments

ASFA considers that the draft SPS 515 requires further clarity in a number of areas which we outline in this submission.

### 1. *Improving accountability and member outcomes regulations and guidance*

#### 1.1 Release date and content

SPS 515 is contingent on the member outcomes assessment under subsection 52(9) of the SIS Act, but the related regulations have not yet been released. While we acknowledge that this is not an APRA responsibility, ASFA members would like the regulations to be issued as soon as possible so that they can begin preparing for their first outcomes assessment as early as possible.

It is noted that the regulations may define:

- Benchmarks to be used as a point of comparison for MySuper and choice products (s 52(9)(a)(i and ii))
- Benchmarks to be used to assess whether trustees are promoting the financial interests of the beneficiaries of the fund (s 52(9)(aa))

It is not clear whether there is an intention to define these benchmarks in the regulations which are soon to be released. Members would benefit from clarification as soon as possible.

It is also noted that the outcomes assessment permits 'matters' to be defined in the prudential standards. These are:

- The 'matters' to be used when making a MySuper product comparison with other MySuper products (in addition to returns, fees and investment risk) (s 52(10))
- The 'matters' to be used when making a choice product comparison with other choice products (in addition to returns, fees and investment risk) (s 52(10A))
- 'Matters' relevant to a trustee determining whether the financial interests of the beneficiaries of the entity who hold a MySuper or choice product are being promoted by the trustee (s 52(11)(e))

SPS 515 currently clarifies the application of subsections 52(9) and 52(11), but further clarity is sought as to whether there is an intention to issue further instructions or guidance on whether additional considerations may apply to those already identified as the basis for making a comparison.

Until the regulations are released, and their content known, there is potential for there to be inconsistency between them and SPS 515.

ASFA members would appreciate further and expanded guidance on how the outcomes assessment is to be applied, particularly with regard to the bases for making comparisons.

## 1.2 SPS 515 guidance (SPG 515)

Like the regulations, ASFA members would appreciate the release of guidance for SPS 515 as soon as possible so that they can begin preparing for the obligations imposed by SPS 515. This guidance should explain as much as possible the expectations for the use of the member outcomes assessment in strategic and business planning.

**ASFA recommends that guidance for SPS 515 be issued as soon as possible after the regulations are released.**

## 1.3 Segmentation by member cohorts

Subclause 14(a)(ii) of SPS 515 contains a reference to a requirement for trustees to analyse performance in achieving their strategic objectives having regard to 'the outcomes achieved for different cohorts of beneficiaries... relative to the outcomes sought and against objective benchmarks'.

ASFA seeks clarification about the use of cohorts for this purpose as it raises a number of questions:

- Given that the legislated member outcomes assessment is based in part on a comparison of 'products', is APRA's intention that a separate member cohort analysis be undertaken for the annual business performance review? If so, will guidance be provided as to how cohorts are to be defined?
- Is there an expectation that cohorts are to be compared against the cohorts of other funds, noting that this would be challenging given funds' lack of access to the relevant information and the potential for different cohorts to be used from fund to fund?
- Is there an expectation that cohort analysis will form part of the outcomes assessment itself through the regulations or prudential standards?

There are many possible approaches to the use of cohorts and ASFA seeks clarification about what APRA's expectations are for their use in the member outcomes assessments and the annual business performance review. ASFA members would prefer guidance be provided about their application to support consistency to the greatest degree possible across the industry.

**ASFA recommends that further guidance be provided about the role of cohorts in the annual business performance review, in particular: how they are to be defined; whether cohort analysis is separate from the member outcomes assessment; and, whether there is an expectation for the requirement to compare outcomes with other funds under the member outcomes assessment to extend to cohort analysis.**

## 2. Timing/sequencing

### 2.1 Coordination of the various planning and review obligations

ASFA is concerned that the combination of the legislated outcomes assessment, the business plan and business performance review components will raise timing/sequencing issues for funds.

The first issue is the misalignment of the outcomes assessment, which for most funds will need to be completed by 4 April 2020, and the timing of SPS 515, which requires a business performance review to be completed by 31 December 2020. In other words, the timing is close to financial year for the outcomes assessment and calendar year for the business performance review.

The second issue is the potential for the various planning and review obligations to interfere with a fund's existing strategic and business planning schedule. This is best explained using an example.

Fund A usually begins strategic and business planning at the start of the calendar year with the aim of finalising the business plan by April/May.

Fund A is now required to conduct an outcomes assessment, although it is unlikely to start this process until the related regulations are released. The member outcomes assessment, which is required to make use of comparisons, is likely to use APRA data which is released towards the start of the calendar year for the previous financial year.

Given that any improvements identified by the annual business performance review need to be included in the business plan it would appear that APRA's preferred sequencing would be: member outcomes assessment run and published on the website; annual business performance review incorporating member outcomes assessment and cohort analysis; incorporation of the annual business performance review results into the business plan and strategic planning review and finalisation.

Assuming that Fund A waits for the APRA annual statistical bulletin released in January/February, Fund A would be hard pressed to meet its traditional business plan timing of April/May.

An alternative would be to simplify the link between the results of the member outcomes assessment (and the identification of areas that need improvement) and the business plan. This could be done by including it as a specification of the business plan requirements under clause 11 of SPS 515, rather than the current approach of treating the annual business performance review as a separate process.

**ASFA recommends that APRA note the timing impact of the legislated member outcomes assessment and the annual business performance review on funds' existing strategic and business planning schedule. APRA should consider incorporating the annual business performance review features into the business plan specifications in clause 11.**

### 3. Strategic planning

The annual business performance review has a short-term perspective and requires any improvements to be incorporated into the business plan annually. The business plan, which is required to be a rolling plan of at least three years' duration (and possibly longer), may include short-term and longer-term strategies and objectives.

While there can be no objection to addressing issues that require immediate attention, there is potential for the annual business performance review to encourage short-term planning and evaluation at the expense of longer-term strategic considerations. It should also be noted that 'making improvements' identified in an annual review may take some years to implement.

ASFA considers that it would be desirable if the distinction between the short-term and long-term strategic considerations was acknowledged more clearly in SPS 515 to underline the significance of strategic long-term planning and the very different yardsticks by which it is evaluated. As described in 2.1 above, this would be addressed if the link between the annual business performance review and the business plan were made stronger, potentially by incorporating the review into the business plan specifications.

**ASFA recommends that APRA consider strengthening the link between the annual business performance review and the business plan to ensure the short-term focus of the review is consistent with the longer-term strategic components of the business plan.**