Prudential practice guide

SPG 515 Strategic Planning and Member Outcomes

July 2024

Contents

About this guide

Prudential practice guides (PPGs) provide guidance on APRA's view of sound practice in particular areas. PPGs often discuss legal requirements from legislation, regulations or APRA's prudential standards, but do not themselves create enforceable requirements.

Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515) sets out APRA's requirements for a registrable superannuation entity (RSE) licensee (RSE licensee) in relation to prudent strategic and business planning; financial resource management; monitoring and assessment of member outcomes; and APRA notification that a MySuper authorisation may be or is cancelled.

An RSE licensee can structure its business to achieve its strategic objectives[1]. Not all practices outlined in this PPG will be relevant for every RSE licensee. Some aspects may vary depending on size, business mix and complexity of business operations.

Where the guidance says an RSE licensee must 'demonstrate' a matter, APRA expects this to be done in practice and documented.

This integrated version of SPG 515 maps APRA's guidance to the relevant paragraphs in SPS 515. Paragraphs from SPS 515, which are enforceable requirements, have been set out in blue boxes; the accompanying guidance follows.

[1] Subject to the requirements of RSE licensee law - refer to section 10(1) of the *Superannuation Industry Supervision Act 1993* for the definition of 'RSE licensee law'.

Glossary

APRA	Australian Prudential Regulation Authority
CPS 190	*Prudential Standard CPS 190 Recovery and Exit Planning*
CPS 900	*Prudential Standard CPS 900 Resolution Planning*
ORFR	Operational risk financial requirement
Performance assessment	The annual performance assessment under section 60C of the *Superannuation Industry (Supervision) Act 1993*.
PPG	Prudential practice guide
RSE	Registrable superannuation entity as defined in section 10(1) of the *Superannuation Industry (Supervision) Act 1993*
RSE licensee	RSE licensee as defined in section 10(1) of the *Superannuation Industry (Supervision) Act 1993*
SFT	Successor fund transfer as referred to in regulation 6.29(1)(c) of the *Superannuation Industry (Supervision) Regulations 1994*; 'successor fund' as defined in regulation 1.03 of the *Superannuation Industry (Supervision) Regulations 1994*
SIS Act	*Superannuation Industry (Supervision) Act 1993*
SIS Regulations	*Superannuation Industry (Supervision) Regulations 1994*
SPG 515	*Prudential Practice Guide SPG 515 Strategic and Transfer Planning*
SPS 114	*Prudential Standard SPS 114 Operational Risk Financial Requirement*
SPS 250	*Prudential Standard SPS 250 Insurance in Superannuation*
SPS 515	*Prudential Standard SPS 515 Strategic Planning and Member Outcomes*
SPS 521	*Prudential Standard SPS 521 Conflicts of Interest*

Guidance

Strategic objectives

8. An RSE licensee must set specific strategic objectives for the sound and prudent management of its business operations that support achieving the outcomes the RSE licensee seeks for beneficiaries. The strategic objectives must be approved by the Board.
9. The strategic objectives must be informed by an RSE licensee's consideration of:
   (a) the specific outcomes that the RSE licensee seeks to achieve for beneficiaries;
   (b) changes to the RSE licensee's business operations that the RSE licensee considers, consistent with paragraph 14 of this Prudential Standard, are likely to improve outcomes for beneficiaries or the sound and prudent management of its business;
   (c) the RSE licensee's risk appetite statement;
   (d) the strategies formulated pursuant to sections 52(2)(i), 52(6)(a), 52(7)(a), 52(8)(a) and 52(8A)(a) of the SIS Act;
   (e) the financial resources deemed necessary to cover the operational risk that relates to the RSE under section 52(8)(b) of the SIS Act;
   (f) the most recent business performance review;
   (g) the duty to act in the best financial interests of beneficiaries; and
   (h) the sole purpose test.

1. APRA expects an RSE licensee would consider when its strategic objectives need to be amended, for example, when there is a material change in operating environment or performance issues. APRA does not in general expect strategic objectives to be amended every year.

2. An RSE licensee's strategic objectives should be measurable and otherwise be subject to clear qualitative criteria. Their strategic objectives should be informed by performance relative to previous business plans. An RSE licensee that fails to meet its strategic objectives should identify the root causes.

3. An RSE licensee that is part of a conglomerate group should develop strategic objectives independently.

Articulating member outcomes

4. Strategic objectives must be informed by the outcomes RSE licensees seek for members. Those outcomes should be measurable, noting that:

   (a) in some cases, the financial benefit to members may be long term. For example, engagement and education to help members make informed decisions about their superannuation benefits; and

(b) in the limited circumstances where it is difficult to quantitatively measure, APRA expects the RSE licensee to demonstrate how it knows if the outcome is met.

5. APRA expects that an RSE licensee would take a broad approach to articulating member outcomes that would cover, but is not limited to:

   (a) risk-adjusted investment returns net of investment fees;

   (b) administration and other fees;

   (c) insurance product design with appropriate balance between cost and members' needs;

   (d) retirement offerings and assistance available to beneficiaries; and

   (e) member services, engagement and education.

6. APRA expects an RSE licensee would also identify whether outcomes for specific member cohorts are appropriate. In evaluating this, RSE licensees may consider factors such as superannuation balance, age and financial profile.

7. For members approaching or in retirement, target outcomes should be underpinned by evidence-based member-needs assessment. Understanding members' retirement income needs involves considering the financial profile and future spending needs of members. A prudent RSE licensee would use internal and external data to support outcomes for retired members.

Review of the retirement incomes strategy

> 10. An RSE licensee must ensure its retirement income strategy is subject to review of its appropriateness, effectiveness and adequacy at least every three years.

8. APRA expects a review would consider whether the retirement income strategy:

   (a) is fit-for-purpose, factoring in any changes to the RSE or the RSE licensee's business operations or membership profile;

   (b) responds to changes in the external environment and relevant risks, including longevity, investment and inflation risks;

   (c) achieves the outcomes sought for members;

   (d) can be evaluated, including if there is enough quality data and information to make decisions and measure success; and

   (e) makes appropriate provisions for any relevant service providers which offer retirement assistance to members.

9. An RSE licensee may wish to consider the benefits of obtaining advice on the triennial review of its retirement income strategy by an operationally independent and appropriately experienced person.

Business plan

11. An RSE licensee must create and maintain a written rolling plan, of at least three years' duration, that covers the entirety of an RSE licensee's business operations (business plan). The business plan must be approved by the Board and set out the RSE licensee's approach for implementing and delivering on its strategic objectives.

12. An RSE licensee's business plan must specify:

    (a) the key initiatives it will undertake to achieve the RSE licensee's strategic objectives, including for each initiative, the expected cost, how it will be funded and the expected results; and

    (b) where an RSE licensee has decided to undertake a transfer of beneficiaries, remedial action or other recovery or exit activities, how this decision will be implemented. This includes, where necessary, adjusting key strategic initiatives and maintaining business operations during implementation.

10. Factors in deciding if an initiative is 'key' and should be included in the business plan include:

    (a) the size, complexity and duration of the initiative;

    (b) the budget or expenditure;

    (c) the strategic importance of the initiative; and

    (d) expectations for transparency, given nature of the expenditure.

    The business plan should include details commensurate with the importance of the initiative.

11. APRA expects that before commencing such an initiative, an RSE licensee would demonstrate:

    (a) a sound rationale, based on expected contribution to member outcomes and robust cost benefit analysis;

    (b) alignment with the RSE licensee's risk appetite statement, broader initiatives and business activities;

    (c) it is able to monitor and assess contributions to nominated outcomes; and

    (d) there is a plan to cease the initiative if the expected results are not being achieved.

Business plan financials

13. An RSE licensee must be able to demonstrate how the business plan reflects the RSE licensee's view of its current, and expected, level of financial resources, informed by:

(a) financial projections that demonstrate the ongoing financial soundness of the RSE licensee's business operations, including under different potential scenarios, for at least the term of the business plan; and

(b) key assumptions used in the required financial projections and how these assumptions take into account the material risks identified under the risk management framework.

12. A prudent RSE licensee's business plan would demonstrate that it has adequate human, technical and financial resources to achieve its strategic objectives and desired outcomes.[2] As part of its business planning process, an RSE licensee would typically prepare budget and income forecasts for the coming period.

Table 1. Typical considerations for financial projections

Topic	Specifics
Current and forecast position and performance	• Cash flow to meet the RSE licensee's liquidity, liabilities and operational requirements. • Assessment of scale • The impact of closure of products to new members, where applicable.
Membership projections	• Membership projections, including the active member ratio and membership demographics (including those members approaching or in retirement).
Operating costs and fees charged to members	• Operating costs and fees charged to members.
Changes in plans or operating environment	• Change in strategy or business plans. • Change in operating environment, for example, current/potential sources of competition or broader risk profile of the RSE licensee and its underlying RSE(s) • Favourable and unfavourable scenario analysis.
Interdependence	• Financial interdependence with other entities, such as promoters, or where the RSE licensee is part of a broader group of related entities.
Access to finance	• Access to shareholder capital and ongoing employer sponsor financial support where relevant.
Product and service sustainability	• The sustainability of and potential for innovation in the products and services available within the RSE(s).

14. The business plan must be updated annually having regard to the results of the most recent business performance review and ongoing monitoring. The annual updates to the business plan must incorporate

[2] Refer to requirements in *Prudential Standard SPS 220 Risk Management* to have adequate resources.

changes to the RSE licensee's business operations that the RSE licensee considers are likely to improve outcomes for beneficiaries or the sound and prudent management of its business operations, including, but not limited to, changes arising from recovery and exit planning activities required under *Prudential Standard CPS 190 Recovery and Exit Planning* or changes arising from remedial actions or transfer planning required under this Prudential Standard.

13. If an RSE licensee intends to transfer operations, it would demonstrate:

    (a) how critical services will be maintained within tolerance levels;

    (b) that the business strategy has been revised to support this change; and

    (c) that business plan initiatives that are still relevant will have the necessary resources.

Financial resource management

15. An RSE licensee must have a robust approach to the management of the financial resources available to support achieving the outcomes sought for beneficiaries and the sound and prudent management of the RSE licensee's business operations.

Setting fees

16. An RSE licensee must set each fee prudently and transparently. This includes demonstrating why the RSE licensee is satisfied, with respect to a fee charged to beneficiaries or a fee charged by the RSE licensee out of an RSE, that:

    (a) the charging of the fee, including determining the amount of the fee, complies with its legal duties and obligations; and
    (b) the fee is appropriate and proportionate, having regard to factors such as, the arm's length value of the features and services that the fee relates to, comparable fees charged in relation to comparable RSEs and financial resources currently available to the RSE licensee.

17. An RSE licensee must ensure that the use of any new fee power, or the use of an existing power for the first time, is approved by the Board.

14. APRA expects that in setting fees, an RSE licensee would:

    (a) thoroughly consider the appropriateness of the fee; and

(b) as relevant, measure the impact of fees on the financial interests of beneficiaries, and on the ongoing viability of its operations.

15. Where relevant, the above process should align with the MySuper fees rules and the general fees rules (including setting fees on a cost recovery basis); and be informed by the tax consequences of the fee design and capital management.[3]

16. In relation to fees and costs associated with a successor fund transfer, APRA expects that fees charged to beneficiaries would be on a cost recovery basis only.

Management of reserves

18. An RSE licensee's strategy for the prudential management of reserves must demonstrate the need for, and purpose of, each reserve in the RSE licensee's business operations. An RSE licensee's reserving strategy must include:

(a) how each reserve is managed in the context of its purpose; and

(b) an appropriate target amount or range for each reserve, including how and over what period the reserve is to be established and replenished in an equitable manner, with reference to different cohorts of beneficiaries, and intergenerational issues.

19. An RSE licensee's regular review of each reserve must ensure:

(a) the reserve remains appropriate to the RSE's circumstances; and

(b) there are adequate controls and procedures to ensure the reserve is used for the intended purpose.

17. APRA expects reserves to be prudently managed with a long-term view. RSE licensees should:

(a) consider intergenerational issues carefully;

(b) have a process to manage any excess reserves (for example, a cap on the size of the reserve); and

(c) monitor the balance of each reserve, the movements in and out of the reserve, and the intent thereof.

18. Whilst reserves are monies that have not been allocated to members, not all unallocated monies constitute reserves. Unallocated monies that are not reserves include accounting constructs, such as suspense accounts, used to record contributions and rollovers pending their allocation to the accounts of specific members. APRA's view is that provisions for accrued administration expenses, taxation liabilities or other present costs would not be classified as reserves for reporting purposes.

19. In some circumstances an RSE licensee may have an insurance premium adjustment mechanism in place, such that an insurer returns a portion of the premium when the claims experience is better than expected. It would be prudent to manage this mechanism through a specific insurance reserve. An RSE licensee's

[3] Refer to Part 11A and Division 5 of the SIS Act (in respect of MySuper products).

insurance reserve policy would ordinarily ensure appropriate, equitable and timely use of the insurance reserve for this purpose and that the reserve would be used only to meet future insurance premium costs.

Management of other financial resources

> 20. An RSE licensee must have controls to ensure prudent management of financial resources held at the trustee company level and to ensure it is in a sound financial position. Such controls include, at a minimum, a capital management plan to govern the permitted use of financial resources held at the trustee company level.

20. When deciding to pay an amount to a parent company, APRA expects an RSE licensee would make that decision consistent with a Board-approved policy that specifies:

    (a) how the payment demonstrably supports the sustainability of the RSE licensee's business operations and is consistent with its ability to properly perform its legal duties and obligations;

    (b) whether any fee charged to members to fund the payment is validly charged and is charged on an equitable basis; and

    (c) the circumstances in which the Board will not approve a payment.

21. Where an RSE licensee builds a financial contingency by charging fees, APRA expects the amount generated would not be excessive, and that the level would be transparent, evidence-based and aligned with the stated purpose of the reserve. Further, APRA expects that an RSE licensee would have diligently explored and exhausted all other avenues for raising or using financial resources before building this amount. Full details of alternative avenues pursued would be clearly evidenced and considered by the Board.

Expenditure management

> 21. An RSE licensee must ensure that its expenditure decisions are for the purposes of the sound and prudent management of its business operations and are consistent with all legal duties and obligations of the RSE licensee, including the duty to act in the best financial interests of beneficiaries and the sole purpose test.

22. As noted in the *Treasury Laws Amendment (Your Future, Your Super) Bill 2021* Revised Explanatory Memorandum, the duty to act in the best financial interests of beneficiaries and the associated reverse onus of proof are intended to increase accountability of an RSE licensee in meeting their fiduciary duties.[4]

23. An RSE licensee remains responsible for monitoring, managing and reviewing all expenditure, including where a related party or service provider has been engaged to perform functions within the RSE licensee's business. This may involve setting and amending contract terms and parameters and service-level agreements.

[4] Refer to Treasury Laws Amendment (Your Future, Your Super) Bill 2021 Revised Explanatory Memorandum.

Expenditure policies and processes

22. When making an expenditure decision relating to its business operations, an RSE licensee must positively demonstrate, at a minimum:

    (a) the purpose of the expenditure, including how the expenditure will contribute to the RSE licensee meeting its strategic objectives and outcomes sought for beneficiaries together with consideration of any previous assessment by the RSE licensee of whether the expenditure or type of expenditure has achieved its intended purpose;

    (b) where the expenditure has been incurred for a proper purpose and may also result in incidental benefits to beneficiaries or others, why, in such circumstances, the expenditure remains consistent with all legal duties and obligations of the RSE licensee;

    (c) how the expenditure will be funded; and

    (d) how the expenditure will be monitored, including the metrics used to determine delivery of expected outcomes, the circumstances that would trigger a review of the decision and timely action.

24. Rigorous decision-making on fund expenditure is vital. It positions an RSE licensee to meet its duty to act in the best financial interests of beneficiaries; use fund monies in a more considered way; and deliver better quality outcomes for members.

25. APRA expects an RSE licensee would have robust governance and oversight of fund expenditure. For example, an expenditure management framework which includes:

    (a) a defined risk assessment process for decisions;

    (b) policies and processes for the approval and monitoring of spending;

    (c) Board oversight;

    (d) alignment to strategic objectives, improved outcomes for members, and operational needs in line with best financial interests of beneficiaries; and

    (e) active monitoring, management and review.

26. Better practice is for the Board of an RSE licensee to obtain an attestation from the relevant accountable senior executive management that they are taking reasonable steps to meet the requirements in SPS 515 on expenditure management, consistent with the duty to act in the best financial interests of beneficiaries. This would support an RSE licensee in positively demonstrating that it is meeting the requirements set out in SPS 515.

27. A prudent RSE licensee would ensure that included within the attestation is a clear statement that controls are in place and operating effectively to prevent expenditure that would be unjustifiable in the context of the duty to act in the best financial interests of beneficiaries. Examples of such expenditure are likely to include political donations, payments to related parties that are not arms' length, or sponsorship and marketing that does not have a clear financial benefit to members.

28. APRA expects an RSE licensee's expenditure management procedure would include controls and limits calibrated to the expense. This may mean setting pre-determined tolerance limits for certain expenses. APRA expects an RSE licensee, as relevant, would:

   (a) set out criteria to assist its employees to understand when – and what type of – expenditure is acceptable. Such criteria must be consistent with the RSE licensee's legal duties and obligations and the sound, prudent management of the business operations.

   (b) detail the controls and delegations for all types of spending. Such controls should match the size and nature of expenditure, with defined approval thresholds and criteria, and requirements for reporting to the Board. For example, spending on training initiatives for RSE licensee employees above a certain amount would need documented approval by a senior manager of the RSE licensee, based on set criteria.

29. APRA expects an RSE licensee would, before making an expenditure decision, assess the nature and extent of the estimated financial benefit to beneficiaries from the proposed action. This may take the form of a robust business case setting out the purpose and clearly stated objectives of the expenditure and specific and measurable expected outcomes.

30. APRA expects an RSE licensee would be able to demonstrate that the primary purpose of an expenditure is the driving decision making factor to incur the expense. When determining the business case for expenditure APRA expects that all incidental benefits to beneficiaries or other parties arising from the expenditure would be clearly identified by an RSE licensee. Once identified, RSE licensees should consider the nature and impact of all incidental benefits and determine how the benefits will be managed, including any actual, potential or perceived conflicts of interest or duty.[5]

31. A prudent RSE licensee would maintain records of expenditure decisions to demonstrate, with appropriate evidence, compliance with its duty to act in the best financial interests of beneficiaries. APRA expects that the level of detail in an RSE licensee's records would be commensurate with the nature, quantum, complexity, regularity and duration of the expenditure. Such records would also detail dissenting views raised in making the decision (including where individual directors did not support the decision).

32. When intended benefits to beneficiaries are not being delivered, in APRA's view it would be difficult for an RSE licensee to demonstrate that spending more on the same activity is in the best financial interests of beneficiaries, or otherwise in line with SPS 515.

Monitoring and assessing expenditure

33. In monitoring and assessing expenditure, APRA expects a prudent entity to:

   (a) evaluate actual benefits against intended benefits[6], including whether the expenditure decision was value for money;

   (b) confirm whether desired targets are being met individually and collectively;

[5] Refer to requirements in *Prudential Standard SPS 521 Conflicts of Interest* relating to identifying, avoiding and managing conflicts of interest and duty by RSE licensees.

[6] For example, if the intent was to increase membership enough to be able to reduce member fees, the review should confirm both objects were met.

(c) have ‘stage-gate’ decision points, to consider whether expenditure should continue;

(d) be informed by robust qualitative and quantitative metrics and a sound evidence base;

(e) monitor closely; and

(f) have a suite of triggers in place, to ensure issues are identified and escalated quickly.

Monitoring

23. An RSE licensee must monitor progress against its strategic objectives and the business plan to prompt remedial action or transfer planning where expected outcomes sought for beneficiaries are not being, or are unlikely to be, achieved, using key performance indicators and triggers determined for this purpose.

34. Monitoring progress against the business plan helps RSE licensees to know whether outcomes are being achieved and is a key input into the business performance review.

35. APRA expects a prudent RSE licensee’s monitoring process would set triggers to escalate as a situation deteriorates; and require breaches to be reported to the Board. Triggers would be periodically reviewed and updated. Triggers should not be set so high that they are unlikely to ever be activated. APRA expects an RSE licensee would include failure of performance assessment as a trigger for action.

36. When choosing the right metrics, a prudent RSE licensee would consider:

    (a) whether they can be meaningfully measured and monitored;

    (b) the balance of qualitative and quantitative data; and

    (c) the balance of leading and lagging metrics.

    Refer to Table 2 for an illustrative list of indicators relevant to an RSE licensee’s business operations.

37. In addition to remediating known issues, APRA expects an RSE licensee would consider the appropriateness of transferring beneficiaries and planning for the recovery or exit of the RSE licensee.

Table 2. Illustrative indicators relevant to an RSE licensee’s business operations

Financial performance indicators
• Target investment performance, including net returns relative to appropriate benchmarks over the medium and long term
• Target net asset growth
• Target cost or expense base, including average operating costs per member and average operating costs per active member
• Changes in average member balance by cohort

• Target fee levels
• Target liquidity measurements, including net outflow ratio
Membership indicators
• Member switching, including reasons for switching
• Target levels of active and inactive members
• Target levels of default employers or default members
• Membership demographics, including consideration of age, gender, account balance, employment status, whether approaching or in retirement, retirement preferences including risk profiles and product preferences
• Targets for member engagement through various channels, including member use of different communication channels
• Take-up rates for retirement education and assistance for members
• Target take-up rates of retirement income products
• Target insurance product premiums, claim payment ratios and opt-out/take up rates for different cohorts and types of insurance, where appropriate
Service provider indicators
• Target performance by service providers, including service levels
• Target budget for outsourcing arrangements
Marketing indicators
• New members/retention of members attributable to particular campaigns with associated target outcomes such as reduction of fees
• Membership attrition rate
• Membership retention rate
• Member activity (voluntary contributions, contributions lapses/reductions or member actions such as insurance engagement)

Setting and monitoring transfer triggers

24. An RSE licensee must set triggers that identify to an RSE licensee the need to commence taking action to improve outcomes expected to be achieved for beneficiaries or to commence preparation for a transfer of beneficiaries. These triggers must, at a minimum, include failing or expecting to fail the legislated annual performance assessment in section 60C(2) of the SIS Act.

38. Transfer planning triggers should work in a range of plausible scenarios; and be set to activate when there is still time and resource to effect a successful transfer.

39. APRA expects an RSE licensee would consider its likely response to an unexpected stress affecting the RSE licensee itself.

40. APRA expects an RSE licensee would demonstrate how the RSE's governing rules empower it to transfer members' benefits to a successor fund. Generally, this power is conferred on an RSE licensee by an RSE's trust deed.

Business performance review

25. An RSE licensee must, on an annual basis, review its performance in achieving its strategic objectives, informed by the RSE licensee's monitoring of key performance indicators and triggers. The results of the review must be used to improve the RSE licensee's business operations for the benefit of beneficiaries.

41. The business performance review is intended to equip the Board with a detailed understanding of performance, and progress on strategic objectives.

42. Where a business performance review finds a pattern of underperformance in absolute or relative terms, APRA expects an RSE licensee would demonstrate how it is meeting or will meet legal obligations to members.

43. APRA expects RSE licensees will take an objective and robust approach to their business performance reviews. A 'set and forget', or wholly compliance-focused approach is not sufficient. In conducting their review, RSE licensees:

    (a) can design their review to fit their business (structure, product range, investment options, sub-plans, members)

    (b) are expected to complete it in time to feed into the annual update of the business plan;

    (c) would use a mix of quality data and internal and external sources;

    (d) may seek external expertise to assist or provide an independent view of performance.

44. A prudent RSE licensee would be able to demonstrate why it engaged an external expert or service provider, and how this delivered value for money.

Scope of the business performance review

26. An RSE licensee's business performance review must assess and demonstrate, at a minimum:

    (a) whether the strategic objectives are being met, including an explanation of what has driven this assessment;

    (b) the outcomes achieved for beneficiaries, having regard to:

        (i) different cohorts of beneficiaries, including beneficiaries who are retired or approaching retirement (and sub-classes of those beneficiaries);

        (ii) objective internal and external benchmarks; and

        (iii) the outcomes assessments under section 52(9) of the SIS Act, including having regard to the latest determinations (if any) made by APRA under section 60C(2) of the SIS Act that related to the product.

45. Factors that APRA expects an RSE licensee to cover in the business performance review include, but are not limited to, the appropriateness of:

(a) the investment strategy for each investment option;

(b) the insurance strategy and the insurance arrangements to address the strategy;

(c) options, benefits and facilities provided to beneficiaries, including the availability of employer-subsidised fees to certain member cohorts;

(d) the fee structures adopted by the RSE licensee;

(e) the scale of the RSE licensee's business operations;

(f) the retirement income strategy; and

(g) the costs incurred by the RSE licensee to operate and manage its business operations.

46. The use of group policies may enable an RSE licensee to operate in a manner that is consistent with the group. When approving the use of group policies, a Board would demonstrate why it considers the policies deliver outcomes to beneficiaries; how it will manage conflicts between RSE licensee policies and group policies; and how the Board will engage in reviewing these policies over time.

Cohort analysis

47. Segmenting beneficiaries into meaningful cohorts helps to better understand and meet their needs. It improves the RSE licensee's ability to benchmark performance; identify underlying trends and emerging issues; and deliver outcomes.

48. Individual members may belong to more than one cohort, based on their attributes, but must be in at least one cohort. See Table 3 for examples. The target market, as described in the target market determination for products the RSE licensee offers, may help to define cohorts. A prudent RSE licensee would regularly review its approach to defining and assessing outcomes for each cohort.

49. Outcomes for beneficiaries are reported in two complementary ways, informed by robust internal and external data.

(a) Over time, via the business performance review.

(b) At a point in time, via the annual outcomes assessment.

50. A prudent RSE licensee would connect product-based cohort analysis with broader strategic objectives for accumulation and retirement phases. The insights should also be valuable for the retirement income strategy.

Table 3. Illustrative examples - considerations for setting cohorts

Considerations - cohorts

Product features	Assess how different product features affect the outcomes, including whether member benefits are being eroded by fees or whether there is potential cross-subsidisation in fees and costs across the membership base.
MySuper product members	Use demographic data (for example, age, gender), balance size or occupation-type. For MySuper lifecycle products, lifecycle stages, representing age-based cohorts, can be a useful starting point for undertaking comparisons and benchmarking.
Choice products (other than platform products)	Apply a similar approach to the MySuper approach where the RSE licensee offers pre-mixed investment options.
Platform products	Group a number of investment options to form a choice member cohort, for example, based on asset class, investment strategy, life stages, and/or how fees are set and charged.
Defined benefit cohorts	Determine, consistent with the requirements in *Prudential Standard SPS 160 Defined Benefit Matters*, whether, on the basis of actuarial advice, future benefits of beneficiaries are expected to be fully funded by the time they become due and payable.
Legacy/closed products	Demonstrate a reasonable basis for maintaining the legacy/closed products given that alternative products may be available within the RSE licensee, or offered by other RSE licensees, with potentially better outcomes for beneficiaries.

Outcomes of the retirement income strategy

51. Business performance reviews should demonstrate how an RSE licensee's retirement income strategy has delivered outcomes for beneficiaries. This includes whether appropriate assistance has been given to those who are retired or approaching retirement (as per objectives set out in section 52AA(2) of the SIS Act). The conclusions should draw on a range of measures; report on the success of the strategy; and identify ways retirement outcomes can be further improved. APRA expects that an RSE licensee would use robust quantitative and qualitative metrics which are specific and measurable and may include, but are not limited to, changes to the rate of regular pension drawdown and member confidence in meeting their retirement goals.

52. APRA expects an RSE licensee to examine how it assists beneficiaries and whether this assistance is fit for purpose by tracking and testing the take-up rates and usefulness of assistance. Identifying which types of retirement products, information, tools and advice are likely to be most relevant to members is crucial to identifying the channels most likely to deliver good member outcomes.

Internal and external benchmarks

53. APRA expects RSE licensees to demonstrate objectivity in analysis.

(a) Objective external benchmarks help. APRA expects that due regard would be given to the methodologies in Part 6A of the SIS Act, and those of any product performance publications by APRA. APRA also expects an RSE licensee would consider, at minimum, factors set out in Table 4.

(b) Internal benchmarks may also be used, including comparing outcomes delivered by products or options that a member could access within the same RSE or across the RSE licensee's business operations. For example, comparison of performance and outcomes across i) multiple MySuper products; ii) different member cohorts invested in similar choice products or options; or iii) beneficiaries under different fee arrangements, with different advisor or dealer group channels.

Table 4. Factors to consider when setting benchmarks

Type of benchmark	Factors to consider
Investment performance	• Net returns. • Different return objectives, risk profiles and liquidity requirements of the range of products and investment options offered by the RSE licensee in both accumulation and retirement phases. • The risk and nature of underlying investments, including complex assets and use of active management. • Investment fees and costs. • Relevant performance assessment benchmarks and indices (as outlined in the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). • Measures included in APRA's product performance or other data publications. • Reference portfolios, where asset class benchmarks and weightings are appropriate to the nature of the investment strategy and underlying investments.
Fees and costs	• Impact of fee and cost structures for different member cohorts in products/options, including the split between flat and variable fees; fee capping; and with reference to MySuper product fees (where relevant). • Impact of fees on different account balances, inactive accounts or retained members. • Relevant performance assessment benchmarks (as outlined in the SIS Regulations). • Measures included in APRA's product performance or other data publications.
Insurance	• Insurance premiums • Product terms, such as definitions, exclusions and restrictions, with products offered by RSE licensees with similar membership demographics.

	• Information on structure and level of insurance from product disclosure statements. • Comprehensive information obtained through tender processes for new or revised insurance arrangements. • Premium costs as a proportion of salary, the superannuation guarantee contribution or the balance of a member's account. • How beneficiaries engage with and claim on their insurance, such as opt-out and opt-in rates for default beneficiaries, claims pay-out ratios, claims handling procedures and processing times, claim withdrawal rates, the number of insurance-related disputes, the time taken to resolve disputes, and policy lapsing rates.
Retirement incomes	• Absolute performance of retirement products. • Retirement income targets that reflect the retirement income needs of the membership. • Objectives of retirement income products (for example, guaranteed income or target returns). • For longevity products, such as annuities or other risk pooling products, measures of the long-term sustainability of the products, including trends in the pool of beneficiaries holding the product. • Take-up rate and member feedback on retirement income products and assistance offered.

Consideration of the outcomes assessment

54. An RSE licensee would generally include the analysis underlying its assessment of the outcomes achieved for beneficiaries for each product in the business performance review.

55. APRA expects an RSE licensee would consider the degree to which the results of the comparison and analysis under sections 52(10), 52(10A) and 52(11) of the SIS Act, which in most circumstances will relate to the previous financial year, are relevant to the business performance review. Where outcomes assessment analysis has been superseded by more current data, APRA expects that an RSE licensee would highlight this in the review.

Annual outcomes assessment

27. An RSE licensee must, at a minimum, document the methodology applied in undertaking the annual outcomes assessment under section 52(9) of the SIS Act, including:

(a) how the RSE licensee has balanced the factors it must have regard to under sections 52(10) or (10A) and section 52(11) of the SIS Act and any benchmarks under the Superannuation Industry

(Supervision) Regulations 1994 (the SIS Regulations) in making its overall determination(s) under section 52(9); and

(b) how the RSE licensee has determined the products it will use for the purposes of comparing its MySuper or choice products.

56. The annual outcomes assessment required under section 52(9) of the SIS Act is a key accountability and transparency obligation on all RSE licensees that offer MySuper and choice products. It enables an RSE licensee to publicly demonstrate that it advances the financial interests of beneficiaries. The assessment, and determination, must be completed at the individual product level, not at the RSE licensee or RSE level. For the avoidance of doubt, the outcomes assessment does not apply to defined benefit products.

57. Sometimes performance assessment results of more than one product are relevant to the outcome. APRA expects an RSE licensee would consider all relevant results and weight these according to their impact on member outcomes.

58. Where an RSE licensee transfers members' benefits from an RSE (the transferring RSE) to another RSE (the receiving RSE) by way of successor fund transfer before the next assessment is due, the transferring RSE licensee is not required to make and publish the determination in respect of the products that they no longer offer. Instead, the RSE licensee of the receiving RSE will conduct the outcomes assessment for the existing product into which the members' benefits are transferred. If the members' benefits are transferred into a new stand-alone product in the receiving fund, an RSE licensee may consider whether it is in the members' interests to continue the same outcomes assessment cycle established in the transferring RSE or adopt the cycle of the receiving RSE.

Outcomes assessment methodology

59. APRA expects an RSE licensee's outcomes assessment methodology would include:

(a) the selection of the relevant 12-month period. It is open to an RSE licensee to determine whether the 12-month period is a calendar year, financial year, income year for the RSE licensee or any other 12-month period;

(b) when the exercise is to be undertaken, including how it will draw on APRA's product performance publications and the results of the performance assessment;

(c) data sources;

(d) the framework or approach to the comparison including how changes in factors affect overall product determination; and

(e) the staff responsible, including use of external providers, if applicable.

60. The outcomes assessment requires an RSE licensee to reach a conclusion about the financial interests of the beneficiaries that hold the product. Consequently, APRA expects net returns delivered to beneficiaries would be a primary consideration in the overall determination for each product.

61. APRA expects an RSE licensee would regularly review its methodology, including where it might be enhanced to reflect better practices based on information published by other RSE licensees.

Timing and sequencing of the assessment

62. Access to publicly available data on product and fund performance is key. This includes, where relevant, the published results of the performance assessment, APRA's product performance publications and any other relevant publications issued by APRA.

63. APRA expects an RSE licensee would generally undertake the annual outcomes assessments for each MySuper and choice product within two months of APRA's product performance publications being released; and this would be immediately followed by the business performance review.

Assessing MySuper lifecycle products

64. RSE licensees conducting an outcomes assessment for a MySuper lifecycle product compare the product as a whole with other MySuper products. APRA expects RSE licensees to also consider the benefits of:

    (a) comparing different lifecycle stages with relevant single strategy MySuper products (for example, with a similar asset allocation); and

    (b) appropriate lifecycle stages of other MySuper lifecycle products.

65. APRA expects that the determination and summary information published on an RSE licensee's website would include information on all lifecycle stage comparisons.

Step 1: Determine comparison metrics

28. For the purposes of comparing a MySuper product with other MySuper products under section 52(9)(a)(i) of the SIS Act, an RSE licensee must calculate the comparison factors as follows:

    (a) for section 52(10)(a)-(b) of the SIS Act, use the methodologies set out in Reporting Standard SRS 705.0 Components of Net Return and Reporting Standard SRS 705.1 Investment Performance and Objectives; and

    (b) for section 52(10)(c) of the SIS Act, use the methodology set out in Reporting Standard SRS 700.0 Product Dashboard.

66. The first step of the outcomes assessment is to compare the relevant product against other products based on three metrics listed at section 52(10) or section 52(10A) of the SIS Act, as appropriate. Section 52(9)(a)(i) and (ii) of the SIS Act and SIS regulation 4.01A together require an RSE licensee to compare their MySuper product and relevant choice products based on the benchmark of whether the requirement in subsection 60D(1) was met in respect of the product being assessed.

67. This comparison results in an absolute metric and the relative ranking of the product against the comparison products. For example, a MySuper product performance will be calculated with reference to fees, costs and net return; and will be placed relative to an established benchmark. The RSE licensee may also use quartile comparison or graphical representations of the results.

68. For ‘fees and costs’ and ‘the level of investment risk’, the time period for comparison is limited to the one-year period covered by the outcomes assessment.

Comparing MySuper products

69. When comparing MySuper product returns, APRA expects an RSE licensee to present representative member investment performance for multiple time periods. For example: performance over three, five, eight and 10 years (where the product has that history) compared to all other MySuper products with that history.

Comparing choice products (that are not retirement income products)

70. Section 52(9)(a)(i) and (ii) of the SIS Act and SIS regulation 4.01A together require an RSE licensee to compare their MySuper product and relevant choice product(s) and determine whether the requirement in subsection 60D(1) was met for the product being assessed.

71. The comparison of a choice product would usually include a comparison based on whether the choice product’s investment options passed or failed the performance assessment (regardless of whether all investment options which comprise the choice product are subject to the performance assessment).

72. APRA expects an RSE licensee’s outcomes assessment for a choice product would be informed by benchmarking, including APRA’s product performance publications and other relevant publications, and comparison with relevant peer groups.

Comparing retirement income products

73. APRA expects an RSE licensee would consider how the features of the retirement income products it offers compare to other similar products. This should help RSE licensees to continually improve their retirement income strategy, and better serve beneficiaries who are in or approaching retirement.

74. For products with unique features, APRA expects the RSE licensee to regularly review the appropriateness of these features, analyse take-up rates and map against other comparable products.

Step 2: Assessment of specified factors

29. Pursuant to section 52(11)(e) of the SIS Act, in determining whether the financial interests of beneficiaries of the RSE who hold a MySuper product or choice product are being promoted, an RSE licensee must also assess the following matters:

    (a) whether, because of the scale of, and within, the RSE licensee’s business operations, those beneficiaries are disadvantaged;

    (b) whether the operating costs of the RSE licensee’s business operations are adversely impacting the financial interests of those beneficiaries; and

    (c) whether the basis for the setting of fees is appropriate for those beneficiaries.

75. The second step of the outcomes assessment is to assess how the financial interests of beneficiaries invested in the MySuper or choice product are being promoted. A prudent RSE licensee would demonstrate a sound understanding of its membership base in this context.

76. SPS 515 includes three additional factors to those listed under section 52(11) of the SIS Act. It is important that this assessment be informed by the prudential requirements and guidance relevant to these factors, for example the relevant investment governance and insurance prudential standards. APRA also expects an RSE licensee would, to the extent relevant, ensure this assessment is informed by APRA's most recent heatmap publication.

77. In addition to the requirements of section 52(9)(a)(i)-(ii) of the SIS Act and SIS regulation 4.01A, section 52(9)(a)(iv) of the SIS Act requires an RSE licensee to have regard to the latest performance assessment determination (if any) made by APRA for their product, i.e. the RSE licensee must consider the most recent pass or fail result when determining whether the financial interests of the beneficiaries holding the product are being promoted.

78. As noted in the *Treasury Laws Amendment (Your Future, Your Super) Bill 2021* Revised Explanatory Memorandum, an RSE licensee of a product that fails the performance assessment will find it very difficult to show that the product is promoting the financial interests of beneficiaries in their annual outcomes assessment.[7]

Options, benefits and facilities

79. Beneficiaries are generally charged for a range of options, benefits and facilities related to the superannuation products they hold. Common services relate to investment, administration, education and communications and the cost of managing the business operations. For example beneficiaries have access to call centres, education, intra-fund advice (where made available) and online account information.

80. APRA expects an RSE licensee would understand the impact of services costs on the financial interests of beneficiaries, as reflected in the fees and the ultimate returns to beneficiaries. For example, where costs or fees are measured as exceeding a set benchmark (for example, of a median cost fund), the RSE licensee would demonstrate the value of additional services or features using quantifiable evidence such as additional member take up and better member satisfaction ratings.

81. APRA expects that assistance provided by an RSE licensee to beneficiaries would be fit-for-purpose and informed by regular monitoring and evaluation. For beneficiaries who are approaching or in retirement, APRA expects RSE licensees would assess this cohort's needs on an ongoing basis and use the insights to help those beneficiaries achieve and balance the objectives outlined in section 52AA(2) of the SIS Act.

Investment strategy

82. To determine how the investment strategy contributes to outcomes, a prudent RSE licensee would consider whether the expected investment outcomes have been achieved and confirm that the investment outcomes remain appropriate for the membership.

83. Given that investment strategies must be set at fund level and investment option level (including each MySuper product), an RSE licensee may not have an investment strategy for a given choice product. In such cases, APRA expects an RSE licensee would consider all option investment strategies relevant to the product in forming a view of the strategies.

[7] Refer to paragraph 2.44, Treasury Laws Amendment (Your Future, Your Super) Bill 2021 Revised Explanatory Memorandum.

84. In addition to the comparison metrics under sections 52(10) and 52(10A) of the SIS Act, APRA expects an RSE licensee would do sufficient analysis of net returns to understand the drivers of performance; the risk taken to generate the returns; and any emerging trends, including persistent underperformance.

85. An RSE licensee may use metrics and benchmarks that assess returns relative to risk or to a relevant peer group to provide more insights. However, APRA considers it inappropriate to use benchmarks or peer groups that are overly narrow or likely to bias the assessment in favour of the RSE licensee's product.

86. A prudent RSE licensee would consider the glide-path design in determining if the investment strategy for a MySuper lifecycle product is appropriate. Further, an RSE licensee would assess how each lifecycle stage is contributing to the investment outcomes of the MySuper product; and if each stage is performing within expectations given its role in the glide path.

Insurance strategy and insurance fees

87. APRA expects an RSE licensee would assess the appropriateness of the RSE level insurance strategy and corresponding insurance costs, given their impact on the retirement income of its beneficiaries.

88. An RSE licensee would also consider how the impact of insurance arrangements varies by product. For example, insurance premiums may differ by superannuation product or insurance risk classification rather than be uniform across the RSE. Default arrangements for insurance products are likely to be a key consideration in assessing the appropriateness of the insurance strategy.

89. When assessing how insurance premiums are eroding retirement income, an RSE licensee would normally examine affordability measures, including benchmarking with comparable RSEs or other indicators, such as those established in industry codes or guidance. Conclusions should be drawn with reference to the characteristics of the beneficiaries that hold the MySuper or choice product.

Scale

90. Table 5 sets out considerations when assessing the impact of scale on beneficiaries.

Table 5. Illustrative considerations when assessing scale impacts

Considerations when assessing the impacts of scale
Optimising cost and fee ratios by spreading fixed costs over a larger asset and membership base, through internal investment management and economies of scale in administration.
Ability to offer customised and tailored member services and experience.
Engagement in stewardship activities from a greater number of voting rights.
Degree of bargaining power with service providers and access to any volume related discounts.
Complexity from coordinating a common culture and purpose throughout the organisation.
Impact of size on investment strategy, such as:

Considerations when assessing the impacts of scale
(a) access to investments in asset classes such as property and infrastructure that require scale; (b) sourcing sufficient attractive assets to complete large portfolios; (c) ability to tailor investment strategy and portfolio to the fund's objectives; and (d) difficulties in trading at scale, particularly with larger illiquid assets.
Reliance on internal management which emphasises the importance of sound governance, culture, ability to attract and retain key staff and investment manager diversification.
International expansion is difficult but potentially unavoidable at a very large size which may: (a) magnify staffing challenges; (b) heighten coordination problems throughout the organisation; and (c) necessitate navigating multiple regulatory regimes.
Adapting operating models to ensure they are evolving to succeed at scale.
Opportunity to pool risk, which is important in the context of certain retirement and insurance products.

Operating costs

91. For the purposes of the outcomes assessment, APRA expects an RSE licensee would decide whether operating costs incurred by the RSE licensee are inappropriately impacting the financial interests of beneficiaries who hold that particular product, including examining trends and comparing to other RSE licensees.

92. Operating costs include administration costs, actuarial services and IT expenses. An RSE licensee would normally consider reported data and the operating expense ratio as well as any other relevant information.

Fees

93. When assessing the appropriateness of the basis for setting fees an RSE licensee would consider:

    (a) the attribution of costs to different products and product options;

    (b) the structure of the fees charged (for example, split between flat and variable fees);

    (c) any fee caps;

    (d) the timing of fee charges and any fee discounts or rebates; and

    (e) the general and MySuper fee rules in the SIS Act.

94. When assessing the impact of fees on the beneficiaries invested in the relevant product, an RSE licensee would also consider the appropriateness of fees in different products across multiple account balances. This analysis would highlight the degree of cross-subsidisation within a product and across different products, and whether this is justifiable.

Publishing the outcomes assessment

95. An RSE licensee is required to publish the product determination, a summary of the assessment and comparison on which it is based (product summary), on the relevant RSE website within 28 days. The product summary would accurately detail the analysis supporting the two steps of the outcomes assessment and how the RSE licensee has reached the determination.

96. APRA expects an RSE licensee would draft and format each determination and product summary using concise, plain language and accurately detail the determination and supporting assessment. The presentation should ensure the product summary can be readily interpreted. It is also open to the RSE licensee to use tables, diagrams and graphs in a manner that would promote understanding.

97. There will usually be two distinct and clearly identifiable sections of the product summary:

    (a) the results of each of the comparison matters under section 52(10) of the SIS Act for the MySuper product and section 52(10A) for the choice product; and

    (b) the RSE licensee's analysis of each of the assessment factors under section 52(11) of the SIS Act.

98. An RSE licensee would ensure that the determinations and product summaries are easily accessible on the website of the relevant RSE, for example, being no more than two clicks from the homepage. The determination and product summary can be contained within one file (for example, a PDF file). Where the RSE licensee has multiple RSEs or white-labelled products with separate websites and branding, the RSE licensee would ensure that the determinations and product summaries are located on the website for each relevant RSE or product.

99. To support accessibility, the location of the determinations and product summaries would be, for MySuper products, with the MySuper product dashboard and equivalent location of member disclosure information for choice products. The outcomes assessment determinations and summary are expected to be clearly labelled on the relevant page.

100. RSE licensees should ideally alert beneficiaries and other stakeholders to product summaries via email and/or media releases.

Remedial actions and transfer planning

> 30. An RSE licensee must be able to demonstrate how it is taking timely remedial action where expected outcomes it seeks for beneficiaries are not being achieved, including where relevant triggers have been met as set out in paragraph 24.
> 31. An RSE licensee must take appropriate and timely steps to prepare for circumstances that may necessitate a transfer of beneficiaries out of, or into, its RSE(s), including where relevant triggers have been met as set out in paragraph 24.

101. Where an RSE licensee forms a view that the outcomes it seeks for beneficiaries are not being achieved, it is important that it acts promptly to determine whether it should continue to operate the RSE in its current form. This may result in taking actions to improve performance of a product or undertaking a transfer of beneficiaries.[8] To ensure that such actions are made in a timely manner, APRA expects an RSE licensee would form a view, at a minimum, about the following matters:

(a) the options available to the RSE licensee, with accompanying preparation measures, and relevant supporting analysis, that sets out the circumstances where these options will best support the RSE licensee meeting its legal duties and obligations;

(b) how choosing an action will be informed by the ability to reduce costs, improve returns and provide a better range of products and services to achieve member outcomes;

(c) how each action is likely to be funded; and

(d) a communication strategy to mitigate risks from adverse stakeholder reactions, including the acceleration of membership outflows.

102. An RSE licensee should have in place appropriate governance arrangements for making decisions about potential remedial actions or transfers. This includes roles and responsibilities of the Board and key stakeholders for each part of the governance process.

103. After a decision is made to undertake a transfer, it is important that the transferring and receiving RSE licensees execute the transfer proactively and efficiently with robust governance and risk and conflicts management practices, that support the timely completion of project milestones.

104. An RSE licensee may develop and maintain, a single approach that meets the requirements of both SPS 515 and CPS 190. For example, an RSE licensee may decide that it is clearer and more efficient to have one document setting out planned actions that may be interlinked, such as planned actions to address an RSE licensee stress event may also include or necessitate the transfer of its RSE(s).

32. Where an RSE licensee has received a determination from APRA that one or more of its products has not met the requirements of the legislated annual performance assessment under section 60D(1) of the SIS Act, the RSE licensee must document its plan for responding to this determination in a timely manner. This plan may include, but is not limited to:

(a) remedial actions to improve the performance of such products; and

(b) commencing preparations for a transfer of beneficiaries.

An RSE licensee must notify APRA if it has activated a plan made for the purposes of this paragraph.

105. Where an RSE licensee has a product that has failed the performance assessment, it is important that it assesses the impact of failure on its beneficiaries, and business operations. APRA expects an RSE licensee would:

[8] If undertaking a successor fund transfer (SFT), APRA expects an RSE licensee would consider the matters in Attachment A.

(a) identify whether the RSE licensee considers it likely that the product will fail next year's performance assessment, or alternatively the year in which the RSE licensee expects to pass the test;

(b) demonstrate how the failure affects the RSE licensee's strategic direction for its business operations as a whole; and

(c) for closed products, demonstrate a reasonable basis for maintaining the closed products given that alternative products may be available within the RSE licensee, or offered by other RSE licensees, with potentially better outcomes for beneficiaries.

106. Where an RSE licensee has a product that has failed the performance assessment, it should monitor and review key indicators, and update its financial projections and underlying assumptions as required. This includes, at a minimum, considering the effect of the failure on:

(a) membership flows (i.e. new entrants and exits) for the product and the RSE including the number and value of closed member accounts;

(b) investment, administration and operating expenses for the RSE;

(c) reserve levels and description of the purpose of each reserve;

(d) the level of concessional and non-concessional contributions;

(e) projected annual fees and any change in fees for members in other products across the RSE; and

(f) measures of liquidity, including where a liquidity provider arrangement is used, such as cash flow ratios and illiquid assets as a percentage of net assets.

Transfer of MySuper product assets

33. Paragraphs 33 to 43 only apply if an authority of an RSE licensee to offer a class of beneficial interests in a regulated superannuation fund as a MySuper product is cancelled, or if APRA notifies an RSE licensee that its authority to offer a MySuper product may be cancelled, by APRA under subsection 29U(1) of the SIS Act.

34. The Board is accountable for ensuring that, following the cancellation of an authority to offer a MySuper product, any affected MySuper product assets are transferred into another MySuper product within the timeframe stipulated in section 29SAB of the SIS Act.

35. The Board must ensure that there are clear roles and responsibilities at a senior executive level for the purpose of meeting the requirements in paragraphs 36 to 43 of this Prudential Standard.

107. The cancellation of an authority to offer a MySuper product by APRA under section 29U(1) of the SIS Act would generally only occur in rare circumstances. The process leading to APRA cancelling an authorisation is likely to be due to critical issues that APRA would have had substantial engagement with the RSE licensee on over an extended period of time.

Planning for a transfer of MySuper product assets

36. Where APRA notifies an RSE licensee that its authority to offer a MySuper product may be cancelled by APRA, the RSE licensee must document, within a time specified by APRA, a plan that demonstrates preparedness to transfer any MySuper product assets to another MySuper product (MySuper assets transfer plan).

37. An RSE licensee must nominate a MySuper product to receive the MySuper product assets (the receiving MySuper product) that meets the following requirements:

    (a) the RSE licensee of the receiving MySuper product has determined in writing, in its most recent annual determination, that the financial interests of the beneficiaries who hold the MySuper product are being promoted by the RSE licensee; and

    (b) APRA has determined that the receiving MySuper product has met the requirement in relation to the most recent legislative annual performance assessment and is not closed to new members.

38. An RSE licensee must ensure that its MySuper assets transfer plan has regard to:

    (a) the RSE licensee's risk appetite as set out in its risk management framework;

    (b) the RSE licensee's business plan; and

    (c) any other plans developed and maintained pursuant to this Prudential Standard, CPS 190 and Prudential Standard CPS 900 Resolution Planning.

39. An RSE licensee's MySuper assets transfer plan must, at a minimum, include:

    (a) the governance arrangements for the transfer of MySuper product assets, including the role of the Board;

    (b) a description of the roles and responsibilities of stakeholders with a key role in the transfer process;

    (c) the name of the MySuper product to which the RSE licensee considers that the assets should be transferred;

    (d) the name of the receiving RSE licensee that has agreed in-principle to receive the MySuper product assets from the transferring RSE licensee; and

    (e) a communication strategy that will be deployed in the event that the authority to offer a MySuper product is cancelled.

40. APRA may require an RSE licensee to develop and implement additional actions to support the orderly transfer of MySuper product assets to a receiving MySuper product.

108. SPS 515 sets out requirements for the purpose of an election made by an RSE licensee under section 29SAB of the SIS Act to take the action (including pre-planning) required under the prudential standards in relation to any MySuper product assets if the authority to offer that product is cancelled.[9]

109. The requirements and guidance set out in this section have a limited but necessary role in establishing the mechanics of how a transfer of MySuper assets would occur where APRA notifies an RSE licensee that it may cancel an authority to offer a MySuper product under s.29U(1) of the SIS Act. The circumstances in

[9] A transfer of member benefits of this nature is made under regulation 6.29(1)(d) of the SIS Regulations and is not an SFT within the definition of successor fund in the SIS Regulations.

which APRA would issue such a notification would generally follow extensive engagement with an RSE licensee.

110. Where APRA requires an RSE licensee to document a MySuper assets transfer plan, it is open to the RSE licensee to amend an existing plan to meet this requirement.

111. APRA expects an RSE licensee's MySuper assets transfer plan would document all necessary steps to demonstrate preparedness to complete the transfer of MySuper product assets within 90 days of cancellation of a MySuper authority. This would clarify:

(a) the steps to be completed before the cancellation of the MySuper authority; and

(b) the implementation steps to be completed within the 90-days statutory timeframe, after APRA has cancelled the MySuper authority.

112. A prudent RSE licensee would validate the plan by examining different scenarios, interdependencies and sequencing that may impact the timing for successful completion of the necessary steps to ensure appropriate planning and preparation of a MySuper asset transfer is undertaken before the cancellation of its MySuper authority.

113. A notification by APRA that it may cancel an RSE licensee's MySuper authorisation relates only to the assets of the MySuper product. Where an RSE licensee receiving such a notification holds assets outside the MySuper product, for example assets of a choice product, an RSE licensee would consider whether it is appropriate to undertake an SFT of the non-MySuper product assets at the same time.

114. Notwithstanding the above, APRA may take into account matters documented in a MySuper assets transfer plan when determining its decision to give a notice to cancel a MySuper authority. This may include matters related to timing issues, such as delays in redemption of certain assets, and reliance on third parties, such as unit pricing delays by the custodian.

Undertaking a transfer of MySuper product assets

41. If an RSE licensee's authority to offer a MySuper product is cancelled, the RSE licensee must:

(a) implement the MySuper assets transfer plan;

(b) report to APRA on progress of the transfer of MySuper product assets as required; and

(c) transfer the MySuper product assets to the receiving MySuper product.

42. An RSE licensee must provide all reasonable assistance to the receiving RSE licensee to ensure that the transfer of MySuper product assets to the receiving MySuper product is completed in accordance with this Prudential Standard.

43. An RSE licensee must notify APRA within 10 business days once the transfer of MySuper product assets has been completed.

115. An RSE licensee must support the beneficiaries who are being transferred out and provide all reasonable assistance to the receiving RSE licensee during a transfer. The support provided to the transferring membership would include ensuring that:

(a) service outages are minimised or prevented;

(b) its communication strategy is activated, including a detailed plan for communicating clearly with members;

(c) members can contact the relevant fund at any time; and

(d) members' personal data and documentation is managed and transferred securely.

Attachment A: Undertaking an SFT

1. Deciding to undertake an SFT involves a significant shift in focus for an RSE licensee. It is therefore important that the preparation for an SFT commences as early as necessary to reduce the risk of poor outcomes for beneficiaries.[10]

2. APRA expects an RSE licensee would be able to demonstrate that a decision to undertake an SFT is the result of a rigorous and formally documented process and is consistent with the duty to act in the best financial interests of beneficiaries. This decision would be demonstrably informed by an assessment of:

   (a) all reasonable methods for undertaking the SFT, and their impact on the outcomes for beneficiaries;

   (b) the impact on investment strategy, return target and recent investment performance and beneficiaries entitlement to other benefits, such as fee subsidisation by an employer when selecting or narrowing the range of suitable receiving RSEs; and

   (c) the ongoing sustainability of the RSE licensee's business operations, including the RSE licensee's ability to continue to deliver outcomes to beneficiaries and potentially further improve the member offering.

3. Where an RSE licensee is seeking to undertake a partial SFT, APRA expects the RSE licensee would demonstrate how it balanced the rights and benefits of all beneficiaries, including those being transferred and those remaining in the transferring RSE.

4. Similarly, in its consideration of whether to undertake an SFT, an RSE licensee would balance the rights and benefits provided to individual members, or small groups of members, with the totality of rights and benefits to beneficiaries as a whole.

5. In APRA's view, the features of the proposed receiving RSE do not necessarily have to be the same for all beneficiaries. APRA considers that a thorough evaluation of the features of a proposed receiving RSE would assist a transferring RSE licensee to demonstrate its decision to transfer is consistent with the duty to act in the best financial interests of beneficiaries.

'Equivalent rights' assessment

6. The key requirement of an SFT is the agreement between the transferring and receiving RSE licensees that the successor fund will confer on the members equivalent rights to those rights the members had in the transferring RSE in respect of their benefits. This is referred to in this guidance as the 'equivalent rights' assessment.

7. APRA expects that an RSE licensee would be able to demonstrate how they identify the rights of members in respect of their benefits when undertaking the 'equivalent rights' assessment. APRA considers that a 'right' is a legally enforceable right. Legally enforceable rights may arise under an RSE's governing rules, the general law and legislation. These rights may be able to be altered by action taken by an RSE licensee, for example, by amendment of the governing rules where permitted, or they may be unalterable.

8. Rights can be distinguished from features of an RSE. Features which are determined, and can be changed, at the discretion of an RSE licensee provide no ongoing entitlement to a member, and are therefore not

[10] For the purposes of this PPG, 'an RSE licensee' refers to both a transferring RSE licensee and a receiving RSE licensee.

rights. Ultimately, what are features and what are rights will be determinable by an RSE's governing rules. Generally, features may include the amount of fees that will be charged to a member, product features and particular investment options. What is a right in one RSE may be considered a feature in another RSE. A prudent RSE licensee would therefore be able to demonstrate how it determined rights and features, having regard to the governing rules of the relevant RSE.

9. In making an 'equivalent rights' assessment, APRA expects the transferring and receiving RSE licensees would each conduct a thorough assessment and comparison of the members' rights in respect of the members' benefits in the transferring and receiving RSEs, with reference to the governing rules of both RSEs and all relevant legislative requirements.

10. Features in a member's existing RSE and in a proposed successor fund can differ without affecting the equivalency of the member's rights in respect of the member's benefits.

11. APRA considers that the assessment of 'equivalent rights' means that the members' rights in the receiving RSE are required to be equivalent, but not equal, to their rights in the transferring RSE. Accordingly, APRA expects the transferring and receiving RSE licensees would undertake the assessment of equivalent rights on a 'bundle of rights' basis. In determining which rights are to be bundled and considered together, APRA expects an RSE licensee would give appropriate weighting to significant rights and the materiality of any changes to individual rights.

12. While the SIS Regulations require that equivalent rights be assessed on the basis of the member, APRA considers that it would be open to an RSE licensee to consider equivalent rights based on groups of members with common rights. Groups of members that may suggest separate consideration include, but are not limited to, default members, choice members, defined benefit members, retained members and members with pension benefits. In grouping members for the purpose of considering whether their rights are equivalent, an RSE licensee must at all times comply with the trustee covenants, including the duty to act fairly in dealing with different classes of beneficiaries and beneficiaries within a class.[11]

MySuper to MySuper SFTs

13. APRA considers that an SFT of members' benefits from a transferring RSE's MySuper product to a receiving RSE's MySuper product would generally satisfy the equivalence test.

14. All MySuper products must, to be considered to be a MySuper product, comply with the provisions of Part 2C of the SIS Act. This results in all MySuper products having the same core characteristics. For the equivalence test to be met, APRA's view is that it is not necessary for a MySuper product in a proposed receiving RSE to have the same features as the MySuper product in the transferring RSE.

15. APRA considers that the equivalence test will generally be met, and an SFT will usually be able to occur, in the following types of scenarios:

    (a) a transfer from a transferring RSE's MySuper product with a single diversified investment strategy to a receiving RSE's MySuper product with a single diversified investment strategy or a lifecycle investment option, and vice versa; and

    (b) a transfer between MySuper products with different features, for example, different asset allocation, different investment strategy, different applicable fees or different insurance offerings.

[11] Refer to section 52(2) of the SIS Act.

Preparing to undertake an SFT

16. A prudent RSE licensee would review relevant governance arrangements to ensure that they support robust oversight with necessary flexibility to respond to the demands of a transfer. APRA expects the transferring and receiving RSE licensees would each demonstrate how relevant conflicts of interest, including those unique to the proposed transfer, are evaluated and managed during all phases of the transfer.

17. APRA expects an RSE licensee would seek expert advice to support the identification of issues early in the process of undertaking a transfer and inform the formal decision to undertake and execute the transfer. Such advice may include legal, actuarial, tax, data, investment, audit or assurance advice.

18. APRA expects a transferring RSE licensee would undertake appropriate due diligence and risk assessment when assessing potential receiving RSEs. An RSE licensee would demonstrate how it arrived at a suitable short-list of receiving RSEs, informed by criteria based on the outcomes it seeks for its members.

19. APRA expects an RSE licensee would consider, at a minimum, the following matters when assessing a potential receiving RSE:

    (a) long term sustainability of the receiving RSE and RSE licensee;

    (b) performance across investments, fees and costs;

    (c) fees, both direct and indirect, covering investment, insurance and administration;

    (d) product design including insurance offerings and any restrictions or exclusions that are likely to impact on the membership;

    (e) the retirement income strategy of the receiving RSE licensee;

    (f) systems compatibility; and

    (g) member engagement.

20. Similarly, a receiving RSE licensee would have a documented due diligence and risk assessment process for assessing the impact of receiving the transferred members into the receiving RSE.

Identifying barriers to SFTs

21. To support an orderly and timely SFT of members' benefits, it is critical that an RSE licensee identifies and documents, at an early stage, any barriers or issues that may impede or delay a transfer. Such barriers may include legislative barriers, legal constraints, taxation issues, investments issues and issues relating to the identification and confirmation of suitable transfer funds. APRA expects an RSE licensee would be able to demonstrate, when deciding to undertake an SFT, a sound understanding of any existing barriers to transfer and the steps the RSE licensee will take to address or manage these barriers.

22. Additional barriers or issues that could impede an orderly SFT of beneficiaries' benefits, and which require early engagement by an RSE licensee, include, but are not limited to:

    (a) whether the governing rules of the transferring RSE or the receiving RSE require amendment to enable an SFT;

(b) where the RSE or RSE licensee is established under State or other Commonwealth Government legislation;

(c) termination provisions in service provider arrangements[12];

(d) potential disruptions to critical business activities that may arise during an SFT;

(e) matters relating to insurance (at the beneficiary and director levels), including issues relating to pending claims or difficulties in obtaining the same terms and conditions;

(f) taxation issues including capital gains/loss relief and GST issues;

(g) meeting disclosure obligations relevant to the SFT; and

(h) outstanding legal matters and any issues that may need to be resolved with other regulators.

Engaging early with APRA and other regulatory bodies

23. To support the identification and resolution of barriers and issues, APRA expects an RSE licensee would inform APRA of any potential transfer of members and identify the need for any approvals from APRA or other regulators as early as practicable.

24. Regulatory approvals that may be required include, but are not limited to, MySuper authorisations, applications for relief, such as portability relief in relation to administration outage periods during the transfer and other forms of relief, licence variations or approval to hold a controlling stake in an RSE licensee.

25. Relief may be required as an RSE licensee may be considered to be unable to contract with itself, i.e. the RSE licensee cannot legally agree with itself that the receiving RSE will confer on the members equivalent rights to the rights the members had under the original RSE. A modification to regulation 1.03(1) of the SIS Regulations, as it applies to regulation 6.29 of the SIS Regulations, may be required to facilitate the RSE licensee's 'equivalent rights' requirement in respect of the SFT.

26. Where an exemption or a modification declaration is in force for a transferring RSE and is still considered to be appropriate, the receiving RSE licensee should approach APRA in advance to discuss options for the application of the exemption or modification declaration to the receiving RSE.

Executing an SFT

Governance and conflicts considerations

27. It is important that an RSE licensee executes an SFT on a timely basis, with appropriate oversight and management of associated risks. This includes ensuring that the Board and any project governing committees receive regular reporting on the project progress against objectives, deliverables, risks, issues and key decision points.

28. A prudent RSE licensee would put in place documented decision-making protocols, and an escalation process, to ensure key decisions are timely, suitably informed, taken at the appropriate levels of

[12] Refer to Prudential Standard CPS 230 Operational Risk Management.

responsibility, well documented and demonstrably in the best financial interests of beneficiaries. Where an RSE licensee decides to defer any key dates in the transfer, APRA expects these decisions would be documented with sound reasons for the delay.

29. Where an RSE licensee establishes a project to manage the implementation of the SFT in a structured and efficient manner, it is important that the project plan outlines clear timeframes for achievement of the various stages of the SFT activity to support progress monitoring and enable early responses to emerging issues. The project plan and supporting documentation would also provide clarity on key deliverables, milestones, roles, responsibilities and accountabilities.

30. The management of conflicts of interest during the SFT process is important to ensure that decisions are evidently made with primacy to the interests of beneficiaries. Registers of interests and duties will need to be reviewed given the SFT may change views on the relevance of disclosures. Existing conflicts management protocols will also need to be assessed to establish whether refinements or supplemental processes, training and guidance is necessary during the SFT so that an RSE licensee is able to demonstrate that any conflicts that arise during the SFT are suitably managed.

Communicating with members

31. The development of a communications strategy must identify and follow legal requirements on communications matters, including disclosure, significant event notice and exit statement requirements for the holders of financial products within the *Corporations Act 2001* which are administered by ASIC.[13]

32. APRA expects that an RSE licensee would develop and implement a communications plan to ensure members and stakeholders are kept informed about matters that impact them in relation to the SFT, including, for example:

    (a) a decision to conduct an SFT;

    (b) details of any material changes to the benefit structure and future superannuation arrangements;

    (c) the continuity of, or changes to, existing insurance cover and how any claims in progress are to be managed; and

    (d) details of how disputes or concerns can be raised with the transferring RSE licensee, and any other matters relevant to members.

33. A transferring RSE licensee would clearly document the timing and methods for providing information to beneficiaries and other stakeholders including, but not limited to:

    (a) significant event notices, exit statements and other relevant disclosure documents;

    (b) communication that demonstrates that members’ benefits have been successfully transferred; and

    (c) contact details for the receiving RSE licensee and individual membership details in the receiving RSE.

[13] Refer to section 1017B of the Corporations Act 2001 and Notifying members about superannuation transfers without consent | ASIC.

Risk management

34. Transfers typically involve substantive changes to systems, people and processes. An RSE licensee's risk profile will change as new risks arise and existing issues may be identified. Effective management of risks during an SFT supports the orderly and timely transfer of members' benefits and assists an RSE licensee in meeting its legal obligations.

35. APRA expects an RSE licensee to demonstrate how it manages all material risks from the SFT. This includes consideration of any macro-economic events or other issues may potentially adversely affect investment markets or members' benefits at the time of transfer.

36. The risk of disruption is heightened if the SFT is not managed well. An SFT cancelled late in the process can also expose members to costs that might have been avoided. APRA expects key risks and issues that could become potential 'showstoppers' to the transfer are identified and addressed as a priority.

Data management

37. APRA expects a transferring RSE licensee would ensure that the data being transferred and received is of sound quality, and that the risk of data breach, corruption and leakage is robustly managed. This includes processes for capturing and transmitting member data and assets and transferring records of insurance data to the receiving RSE, particularly where there is a change of insurer.[14]

38. At a minimum, APRA expects a transferring RSE licensee would perform a data cleansing exercise before the assets and liabilities are transferred to a receiving RSE. It may be prudent to engage appropriate specialists to assist in assessing the quality and accuracy of the data. An RSE licensee may refer to guidance issued by the Australian Tax Office (ATO) on the transfer of data for SFTs, including SuperStream requirements. The guidance is outlined in the ATO's 'Successor and intra fund transfer reporting guidance'.[15]

39. After the completion of an SFT, APRA expects the transferring and receiving RSE licensees would each conduct a reconciliation of the member benefits, assets and liabilities transferred as part of the SFT.

Calculating benefits

40. APRA expects a transferring RSE licensee would be able to demonstrate how it has fully assessed and allocated each member's entitlements. This may involve obtaining specialist advice on the calculation and verification of benefits and ensuring that final balances are signed off by the RSE auditor (and RSE actuary where the benefits of defined benefit members are being transferred).

41. Where relevant, APRA expects a transferring RSE licensee would have processes in place to ensure that the final crediting rate/unit price is fair and equitable. A transferring RSE licensee would also have processes in place to confirm the valuation placed on the assets at the time of transfer and to ensure that the transfer of all assets is fully documented.

42. An RSE licensee would also agree and document arrangements for how insurance claims incurred, but not finalised, will be managed.

[14] Refer to *Prudential Standard SPS 250 Insurance in Superannuation* and *Prudential Practice Guide SPG 250 Insurance in Superannuation* for requirements and guidance in relation to the maintenance of sufficiently detailed insurance records.
[15] Refer to the ATO's Successor and intra fund transfer reporting guidance available at: Successor and intra fund transfer reporting guidance | Australian Taxation Office (ato.gov.au).

Financial resources held to meet regulatory requirements

43. An RSE licensee may be required, prior to a decision to undertake a transfer, to maintain financial resources within the RSE, the RSE licensee, or a combination of both to meet a legislative or regulatory requirement. This may include financial resources held to meet the ORFR and ensuring any reserves in the RSEs will be treated in a manner that is consistent with the respective policies of the transferring and receiving RSEs.[16]

44. In such circumstances, APRA expects the transferring and receiving RSE licensees would resolve how financial requirements for the receiving RSE licensee will be met once the transfer is complete. This includes, but is not limited to, financial resources held to meet the requirements under section 52(8) of the SIS Act.

45. In determining how to proceed, APRA expects the transferring and receiving RSE licensees would reach agreement on an equitable approach that, on balance, is demonstrably consistent with the duty of each RSE licensee to act in the best financial interests of beneficiaries. How each RSE licensee has funded these financial resources is likely to be relevant to the agreement. In the case of a partial SFT, APRA expects a transferring RSE licensee would also consider the effect on any members remaining in the transferring RSE.

46. It is APRA's view that differences in the ORFR financial resources, target amount or strategy would not generally, of themselves, prevent an SFT occurring, as the ORFR is only one of a number of factors relevant in an SFT.

Wind-up of an RSE

47. After the completion of a transfer of all beneficiaries' benefits out of an RSE or a MySuper product, an RSE licensee must ensure that it makes arrangements for registrations to be cancelled and, where relevant, the RSE is wound up. This includes:

    (a) where an RSE is closed to new entrants and all members' benefits are transferred out, the transferring RSE licensee making arrangements for the RSE to be wound-up and for its registration as an RSE to be cancelled by APRA[17]; and

    (b) where all the members' benefits are transferred out of a MySuper product, the transferring RSE licensee contacting APRA to determine whether the authority to offer the MySuper product must also be cancelled.[18]

48. Before a wind-up is finalised, APRA expects the transferring and receiving RSE licensees would formally agree on how minor residual assets or liabilities, for example, taxes, legal fees, outstanding APRA levies or unexpected receipts are to be managed after the transfer has been completed. Such agreements would ordinarily be documented in the arrangement between the transferring and receiving RSE licensees.

49. A prudent transferring RSE licensee would have the necessary arrangements in place to ensure it can meet its ongoing reporting, financial statement and audit obligations until such time as all wind-up reporting has been completed.

[16] Refer to Prudential Standard *SPS 114 Operational Risk Financial Requirement*.
[17] Refer to section 29N of the SIS Act. A reference to 'winding up' in this PPG can also be read as a reference to cancelling the registration of an RSE.
[18] Refer to section 29U of the SIS Act and paragraphs 34 to 44 of SPS 515 for requirements relevant to the cancellation of a MySuper authority.

50. *Reporting Standard SRS 602.0 Wind-up* sets out the requirements for lodgement of a wind-up return with APRA within three months of the wind-up date. APRA expects a transferring RSE licensee would have a process in place to confirm that lodgement of a wind-up return and cancellation of registration has occurred.

51. Where there are no other RSEs under trusteeship, APRA expects that a transferring RSE licensee would immediately apply to APRA to have its RSE licence cancelled after completion of the transfer.[19]

[19] Refer to section 29G(2)(a) of the SIS Act.