

13 May 2024

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Dear Sir/ Madam,

**Submission to APRA consultation on financial resources for risk events in superannuation:  
Operational risk financial requirements (draft amendments to SPS 114 and SPG 114)**

Aware Super welcomes the opportunity to provide a submission on APRA's consultation on draft amendments to the *Operational Risk Financial Requirement* standard (SPS 114) and its practice guidance (SPG 114) (19 February 2024).

**General comments**

- Aware Super supports the proposed amendments to SPS 114 and the supporting guidance SPG 114 that introduce a direct relationship with the requirements of Prudential Standard CPS 230 *Operational Risk Management* (CPS 230) on the use of the ORFR reserve.
- We support the proposal to widen the range of circumstances covered by the ORFR reserve, and the draft additional guidance (in SPG 114) on permissible activities as this helps to clarify expectations and improve consistency across the industry.
- We support the removal of the notification requirements in existing SPS 114 (i.e. within 10 business days), to reduce administrative burden and facilitate the use of the ORFR.
- We welcome the guidance that allows RSEs to pursue an "exception" basis pathway in determining the ORFR amount through a sophisticated risk-based approach aligned to the Fund's operational risk profile. This will give eligible RSEs the flexibility to align their ORFR reserve to their operational risk profile, and adapt as circumstances evolve.

This approach contrasts with a flat percentage rate of FUM which inherently assumes no difference in operational risk across RSE licensees within the industry, and assumes that the amount of capital required to manage operational risks changes on a linear basis with the changes in members' assets. Given that the source of funding for replenishing the ORFR to the target amount is generally from unallocated reserves (e.g. general or administrative reserve), maintaining an excessive ORFR reserve balance, that is not reflective of an RSE's risk profile, would be to the detriment of net returns to members' accounts, and therefore not in members' best financial interests.

However, this "exception" based approach is currently only mentioned in the Practice Guide and we recommend it is also documented in the standard itself to ensure consistency and effective implementation of this approach.

- Further to the above, we believe that additional clarity from APRA regarding their expectations for RSEs requesting the exception-based approach would be beneficial. Specifically, we seek guidance on the following points:
  - **Approval:** As part of the engagement process, is specific APRA approval required?

- **Specific Evidence for Risk-Based Framework:** Please could APRA expand on the specific evidence that APRA would expect to see in support of the risk-based framework in addition to what is stated in the Practice Guide
- **Size of Funds Eligible for Risk-Based Model:** What are APRA's expectations regarding the size of funds that can develop an appropriate risk-based model?
- **Engagement Process Duration:** what is the expected duration of the engagement process with APRA?"

### **Recommendations**

In reviewing the proposed draft amendments to SPS 114 and SPG 114, Aware Super also makes the following recommendations:

#### SPS 114

1. The notification requirement to APRA (paragraph 24, SPS 114) on any material change to the ORFR target amount, should also be reflected and reported in SRF 114.0 and SRF 114.1. That is the quarterly/annual APRA returns should indicate if a bespoke ORFR target amount is applied or the recommended benchmark of 25bps of FUM. This will help APRA to monitor and assess the adequacy of the ORFR target amount of RSEs (paragraph 13, SPS 114).

#### General

2. Postponing APRA's industry-wide assessment of potential costs of compliance. We understand that APRA has invited all stakeholders to use this consultation opportunity to submit to APRA their assessments on the compliance cost impact of the proposed changes to SPS 114 and SPG 114 (*Attachment C – Request for cost-benefit analysis information*). However, given APRA proposes to retain the current guideline of ORFR target amount (25 basis points of FUM), there is substantially no change for most RSEs that already follow this industry-wide practice. More meaningful cost-benefit analysis would only be apparent as RSE licensees opt for a bespoke (lower) ORFR target amount and engage with APRA to be considered as an exceptional case.

Thank you for the opportunity to participate in the consultation process. We would be pleased to provide additional information or to discuss this submission in further detail with APRA. If that would be of assistance, please contact [REDACTED] on [REDACTED].

Regards,

[REDACTED]  
Chief Financial Officer

## **About us**

Meet Aware Super - the multi-awarded super fund. We're here to help our members grow their savings, whether retirement is 2 or 20 years away. As one of Australia's largest profit-for-members funds, we always remember whose money it is and whose future we're looking after.

That means being super helpful in ways our 1.1m members want, and sometimes in ways they don't expect. From super returns of 8.40% p.a.\*<sup>1</sup> over ten years for our High Growth option. To expert super advice and guidance for right now. We're committed to helping our members get more from their super, so they can get more for their future.

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<sup>1</sup> Index median of 7.89% p.a. for the same period. Source: SuperRatings Fund Crediting Rate Survey (FCRS) 31 December 2023 (SR50 Growth (77-90) Index (approx. 50 options). Returns are after investment fees and costs, transaction costs, tax on investment income and any implicit admin fees. Past performance is not an indicator of future performance.