APRA CONSULTATION: STRENGTHENING SUPERANNUATION MEMBER OUTCOMES

DECEMBER 2017

BACKGROUND

As you are no doubt aware, on 13 December 2017, APRA released its consultation package in respect of steps it intends to take for the purpose of strengthening *'the key requirements and expectations applying to RSE licensees in important strategic and operational areas'* which are *'expected to facilitate RSE licensees being able to demonstrate that they meet their obligations under the Superannuation Industry (Supervision) Act 1993.'*

This Paper details APRA's proposals, in detail.

APRA's proposals

APRA's consultation package comprises the following documents but, as is apparent, further changes are likely to be forthcoming:

(a) *Strengthening superannuation member outcomes* (**Discussion Paper**);

(b) proposed amended APRA Prudential Standard *SPS 220 Risk Management* (**SPS 220**);

(c) proposed APRA Prudential Standard *SPS 225 Outcomes Assessment* (**SPS 225**);

(d) proposed APRA Prudential Practice Guide *SPG 221 Strategic and Business Planning* (**SPG 221**);

(e) proposed APRA Prudential Practice Guide *SPG 225 Outcomes Assessment* (**SPG 225**); and

(f) *Summary of proposals (extract from discussion paper)*.

The Discussion Paper details APRA's proposals to:

(a) amend SPS 220;

(b) introduce new SPS 225;

(c) replace and introduce new SPG 221;

(d) introduce new SPG 225;

(e) amend SPG 220;

(f) merge APRA Prudential Practice Guide *SPG 222 Management of reserves* into SPG 221;

(g) assess APRA Circular III.A.4 *The Sole Purpose Test* (**APRA Circular**) for ongoing relevance;

(h) consider changes to the following APRA Reporting Standards:

  (i) *SRS 330.0 Statement of Financial Performance* (**SRS 330.0**); and

  (ii) *SRS 331.0 Services* (**SRS 331.0**);

(i) consider whether new APRA Reporting Standards are required; and

(j) amend APRA Prudential Standard *SPS 250 Insurance in Superannuation* (**SPS 250**).

APRA's proposals will impact:

(a) member outcomes requirements;

(b) superannuation reporting requirements; and

(c) insurance opt-out requirements.

Consultation

The consultation period for this package closes on 29 March 2018, and APRA is proposing that final APRA Prudential Standards will be released in mid-2018, coming into effect from 1 January 2019. In finalising the requirements, APRA will consider both the feedback provided during consultation and the progress of relevant measures in the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Bill 2017* (**TLA Bill**).

1. MEMBER OUTCOMES

APRA states that it *'is seeking to enhance overall industry practices in the key operational areas of strategic and business planning and expense management, which are central to the delivery of sound member outcomes.'* In doing so, APRA proposes to amend SPS 220 and introduce new SPS 225, whilst introducing associated guidance in respect of these.

1.1 SPS 220 – strategic and business planning

APRA proposes to further align SPS 220 with Prudential Standard CPS 220 Risk Management (**CPS 220**), that applies to other APRA-regulated entities, in respect of strategic and business planning and to ensure Trustees have the resources needed to support the operation of their businesses. In doing so, APRA proposes to expand SPS 220 to include enhanced requirements for strategic and business planning and expense management.

SPS 220 currently sets out some prescriptive requirements in relation to Trustees having adequate resources; but this differs from the more principles-based approach in CPS 220. APRA is proposing to harmonise the requirements relating to adequate resources in SPS 220 with CPS 220, removing much of the granularity in these requirements, which it states will reduce some of the compliance costs imposed on industry.

<u>1.1.1 Proposed material amendments to SPS 220</u>

1.1.1.1 Objectives and key requirements of SPS 220:

The objectives have been amended to cater for the amendments' requirements, but otherwise the previous objectives are similar.

1.1.1.2 Risk management framework

A Trustee's risk management framework will now need to also include:

(a) a business plan that satisfies the requirements of "**Attachment A**" of SPS 220 (see section 1.3 "strategic and business planning", below); and

(b) a management information system(s) that is adequate, both under normal circumstances and in periods of stress, for measuring, assessing and reporting on all material risks across the Trustee's business operations.

1.1.1.3 Strategic and business planning

SPS 220 introduces the requirement of a Trustee to prepare a written plan setting out its approach for the implementation of its business plan pursuant to the requirements set out in Attachment A of SPS 220. Under Attachment A:

(a) the Board must approve strategic objectives for the Trustee's business operations that support the delivery of the outcomes it seeks for beneficiaries and ensure the financial soundness of its business operations;

(b) the strategic objectives must be specific and measurable and informed by:

   (i) the Trustee's risk appetite statement;

   (ii) the strategies formulated for each of the Trustee's funds consistent with the reserves, investments, insurance and risk management covenants under SIS, section 52;

   (iii) the financial resources determined necessary to cover the operational risk that relates to the fund under the covenant to maintain and manage financial resources to cover the entity's related operational risks, under SIS, section 52(8)(b);

   (iv) the annual outcomes assessment, in accordance with the requirements of SPS 225 (as explained further, below); and

   (v) the sole purpose test;

(c) a Trustee's business plan must, at a minimum, specify:

   (i) the details and timing of the key activities that the Trustee will implement to achieve the Board's strategic objectives, including the expected outcomes of those activities;

   (ii) the key performance indicators that the Trustee will use to enable the outcomes of the activities to be reliably assessed;

   (iii) the forecasted revenue from fees to be charged to beneficiaries over the next three years and the Trustee's basis for setting the amount of these fees to be charged (as referable to the General Fees Rules under SIS, Part 11A);

   (iv) how the Trustee will apportion the revenue collected from fees to (where applicable) reserves, profit, dividend payments and expenses for the Trustee and each fund; and

   (v) the key assumptions that inform the Trustee's forecasted revenue from fees and how these assumptions take into account the material risks that have been identified by the risk management framework;

(d) a Trustee must put in place a process for monitoring how the business plan is being implemented, including whether the Board's strategic objectives are likely to be achieved; and

(e) the annual review of the business plan must take into account the most recent annual outcomes assessment, under SPS 225, and incorporate, where appropriate, any actions arising from that assessment.

The guidance provided in SPG 221 states that APRA considers the use of appropriate metrics as a core feature of tracking performance against the business plan. When deciding these metrics, a prudent Trustee would consider:

(a) whether the metrics can be meaningfully measured and monitored;

(b) the balance between qualitative and quantitative data underpinning the metrics; and

(c) the balance between leading and lagging metrics.

SPG 221 provides examples of metrics that a Trustee may consider when monitoring the performance of its business plan, as follows:

(a) financial performance indicators:

- (i) target investment performance, including net returns relative to appropriate benchmarks over the medium and long term;
- (ii) target net asset growth;
- (iii) target cost or expense base, including average operating costs per member and average operating costs per active member;
- (iv) target fee levels;
- (v) target liquidity measurements, including net outflow ratio; and
- (vi) target average insurance product premiums and claim payment ratios;

(b) membership indicators:

- (i) measures of member switching and the reasons for switching;
- (ii) target levels of active and inactive members;
- (iii) target levels for default employers;
- (iv) understanding membership demographics, including, at a minimum, data on age, gender, account balance, retirement preferences; and
- (v) targets for member engagement through various channels, including utilisation by members of different communication channels;

(c) business initiative indicators:

- (i) outcomes of initiatives such as new/enhanced services or changes in benefits/product design and associated member take-up or other targets; and

(d) outsourcing arrangement indicators:

- (i) target performance by service providers;
- (ii) target budget for outsourcing arrangements;
- (iii) analysis on the availability of alternative service providers in the event of a price increase or service disruption; and
- (iv) analysis on the ability or potential ability of the Trustee to in-house functions currently undertaken by third parties.

1.1.1.4 Expense management:

APRA proposes to introduce the following requirements:

(a) a Trustee must establish and maintain an expenditure policy that sets out how it ensures that fund expenditure is consistent with its strategic objectives. “Fund expenditure” relates to any cash outflow and expected future cash outflow from the assets of a fund, including payments to and from reserves, not otherwise allocated to members’ accounts;

(b) the Board must approve the expenditure policy and, at a minimum, the policy must specify:

(i) how the Trustee will ensure that fund expenditure is consistent with its strategic objectives, and is planned for, in the fund's business plan (planned expenditure);

(ii) the controls and approval processes for fund expenditure by level and type of expenditure, including specific reference to unplanned expenditure; and

(iii) the levels and types of expenditure either individually, or collectively (where multiple expenditures are related), that the Trustee determines to be significant because of the size, complexity or duration of the expenditure or related expenditures. For the avoidance of doubt, the Trustee is required to treat expenditure relating to those activities detailed in the business plan as significant; and

(c) a Trustee must prepare a business case for each significant expenditure, whether planned or not, which must detail:

(i) the expenditure's purpose, including how it will contribute to the Trustee meeting its strategic objectives;

(ii) whether the expenditure is reflected in the financial projections of the business plan;

(iii) for expenditure that is not planned, the source of funding for the expenditure and the expected impact of the expenditure on the financial projections in the business plan;

(iv) the metrics that the Trustee will use to measure whether the expenditure is achieving its intended purpose;

(v) the circumstances that would trigger a review of the expenditure decision, including whether any related future planned expenditure should take place; and

(vi) where relevant, how the use of reserves as the source of funding for significant expenditure accords with the strategy formulated for the purposes of the covenant to act fairly in dealing with classes of beneficiaries within the entity and the reserves covenant, under SIS, section 52.

SPG 221 states APRA's expectation that a Trustee's expenditure policies and procedures would broadly include the appropriation of member contributions not allocated to member accounts (for example payments to outsourced providers and business planning initiatives, such as advertising and payments to parent entities, sponsoring bodies or other shareholders). As is well known to Trustee's APRA's view is that when making decisions as to expenditure, the more indirect or tangential the linkage between an expenditure decision and the strategic objectives set by the Board, the less likely that the decision will comply with the sole purpose test. APRA is clearly seeking transparency of the expenditure decision-making process and monitoring that expenditure to ensure expected outcomes to beneficiaries from that expenditure are being achieved. To this end, APRA expects that a Trustee would document the process for making significant fund expenditure decisions, so that it is able to demonstrate:

(a) a clear relationship between fund expenditure and strategic objectives, business initiatives and business plan targets;

(b) how decisions regarding fund expenditure are consistent with the Trustee's duty to act in the best interests of beneficiaries; and

(c) where fund expenditure involves using an associated entity, how the decision has been made on an arm's length basis.

Trustees of funds that advertise or sponsor events or sports clubs, for example, would clearly be cognisant of these requirements, as the APRA Circular provides a similar guiding principle.

1.1.1.5 Risk appetite statement

The risk appetite statement must now also, at a minimum, articulate the degree of risk that the Trustee is prepared to accept in pursuit of *its business plan*, giving consideration to the interests of beneficiaries.

1.1.1.6 Review of the risk management framework and Adequacy of resources

The requirement that the review of the risk management framework must, at a minimum, include a review of the specific resources utilised, at a minimum, to undertake the risk management activities required has been changed so that the requirement includes the Trustee reviewing whether these activities are supported by "adequate resources", as opposed to "technical, human and financial" resources. Further, APRA also proposes to remove the current requirements surrounding the adequacy of its "technical, human and financial" resources. Possibly little turns on this as it is clear that the objective is to ensure that the Trustee is appropriately and adequately resourced.

1.2 APRA Circular III.A.4 *The Sole Purpose Test*

In the Discussion Paper, APRA states that it proposes to assess the APRA Circular when referring to SPG 221. However SPG 221 only refers to the sole purpose test once and that is to relate it to the guidance on expenditure. There could be a number of changes that occur from APRA's assessment, and one of those may be that APRA provides greater clarity as to how a Trustee may utilise funds derived from member fees (not fund assets) for purposes that may not have a clear or direct line of sight to a tangible member benefit – the APRA Circular provides guidance in respect of this, and it is clear from certain APRA Reporting Standards that APRA understands and accepts that Trustees need to advertise, promote and market their funds, but greater clarity that takes a commercial view should be welcomed.

1.3 SPS 225 – Outcomes Assessment

APRA's second material proposal is the introduction of SPS 225 which will require Trustees to annually assess the outcomes provided to all (not just MySuper) members on both absolute and comparative and annual basis (**Outcomes Assessment**). As APRA states *'this proposed outcomes assessment requires an RSE licensee to consider the impact of its investments, insurance benefits, scale, product features and fund expenditure on the outcomes provided to members.'*

The assessment under SPS 225 is in addition to the MySuper scale test under SIS, section 29VN(b), which is proposed to be amended by the TLA Bill. Those amendments detail the relevant outcomes (subject to further regulations) including:

(a) the appropriateness of options, benefits and facilities offered;

(b) the appropriateness of the MySuper investment strategy;

(c) the appropriateness of the insurance cover provided and its cost to members; and

(d) whether there are problems of scale,

based on comparison with other MySuper products assessing:

(a) fees and costs impacting returns;

(b) return targets;

(c) actual returns; and

(d) the level of investment risk.

Accordingly, Trustees will be required to assess the outcomes provided to members in both absolute terms and relative to objective benchmarks and other funds, whilst requiring a Trustee to demonstrate that its selection of other funds (from which it will compare outcomes) is rigorous and will provide a meaningful comparison, and to document the methodology and measures used to undertake the assessment.

APRA states that the prudential requirements under SPS 220 and SPS 225 are designed to ensure that Trustees are regularly monitoring and assessing the outcomes provided to members. Further, it observes that not all Trustees consistently specify actions to be taken in the event that the outcomes sought for members are not being delivered. Accordingly, as part of the Outcomes Assessment, Trustees will be required to identify if any improvements to its operations would improve outcomes provided to members. Where such improvements are identified, SPS 225 requires Trustees to consider the costs and benefits of making those changes as part of the annual review of their business plans.

1.3.1 Proposed requirements under SPS 225

1.3.1.1 Outcomes assessment:

A Trustee must conduct an annual Outcomes Assessment and determine whether future outcomes could be improved through changes to its business operations. For the purposes of SPS 225, a Trustee's "business operations" includes all of a Trustee's activities (including the activities of each fund of which it is the licensee), and all other activities of the Trustee to the extent that they are relevant to, or may impact on, its activities as a Trustee.

The Outcomes Assessment must cover beneficiaries across the entirety of a Trustee's business operations and be approved by the Board.

The Outcomes Assessment must, at a minimum, detail:

(a) the outcomes that the Trustee seeks to provide to beneficiaries;

(b) how the Trustee has designed its assessment, in particular how it has decided to segment its business to ensure that:

  (i) all parts of its business operations (i.e. all activities including those to the extent that they are relevant to, or may impact on, a Trustee's activities as an RSE licensee) are captured; and

  (ii) the assessment considers the outcomes provided to beneficiaries in each segment;

(c) the metrics that the Trustee uses to measure the outcomes being provided to beneficiaries;

(d) the calculation of each of those metrics for the period covered by the assessment in both absolute and relative terms, with reference to:

  (i) objective benchmarks and targets, both internal and external, used by the Trustee; and

  (ii) outcomes provided to beneficiaries of other funds (not under the Trustee's trusteeship);

(e) the factors identified by the Trustee as having affected the results of those calculations having specific regard to:

 (i) the investment strategy for each fund and each investment option offered by the Trustee;

 (ii) the insured benefits available to beneficiaries, relative to the costs of those benefits;

 (iii) the options, benefits and facilities offered to beneficiaries;

 (iv) the scale of, and within, the Trustee's business operations;

 (v) significant fund expenditure; and

 (vi) any other relevant factors identified by the Trustee; and

(f) the Trustee's conclusions as to whether the outcomes it seeks to provide to beneficiaries are being and will be provided.

Despite the above Outcomes Assessment requirements, Trustees may rely upon the SIS, section 29VN assessment in respect of their MySuper members (**Exemption**). However, the guidance provided in SPG 225 states that if a Trustee relies upon the Exemption to conduct its Outcomes Assessment in respect of MySuper members, it expects that the Trustee would clearly document how it has incorporated consideration of each MySuper product.

If, when undertaking the Outcomes Assessment, a Trustee determines that changes to its operations would likely improve outcomes for beneficiaries, the Trustee must assess the costs and benefits of implementing those changes, and where that cost-benefit analysis supports doing so, the Trustee must reflect those changes in its annual review of its business plan, as required under SPS 220.

The obvious question that arises from the proposed Outcomes Assessment is how to design it. One thing is clear, APRA expects that Trustees could explain and justify the rationale for their Outcomes Assessments methodologies and that these Outcomes Assessments would evolve over time, and therefore Trustees should re-evaluate their processes. The guidance in SPG 225 states that:

(a) Trustees may find that conducting their Outcomes Assessments at a segment level (rather than overall fund level) to assist, especially in identifying poorly performing segments, such as a sub-plan;

(b) metrics, including but not limited to the following metrics

 (i) net returns, on an absolute basis and relative to risk/return targets;

 (ii) costs per member for MySuper products;

 (iii) cost of insurance cover;

 (iv) administration and operating expenses as a percentage of average net assets (operating cost ratio);

 (v) net cash flows as a percentage of average net assets (net cash flow ratio);

 (vi) net member benefit outflow ratio;

 (vii) net rollovers as a percentage of average net assets (net rollover ratio);

 (viii) trends in membership base; and

 (ix) active member ratio;

(c) because fund assets represent a combination of the assets held for MySuper products, choice investment products, pension products and fund reserves, that are subject to different investment strategies, and hence asset allocations, reflecting their different purposes and risk/return targets, fees and costs, APRA expects that the Trustee's methodology to identify the measures of outcomes would, at a minimum, demonstrate consideration of different return objectives, risk profiles and liquidity requirements to reflect the range of options that may exist within a fund;

(d) given the unique nature of insurance products and premium structures, APRA expects that a Trustee would maintain an up-to-date view of its membership demographics (including information of their workforce participation) to allow it to improve the appropriateness of its insurance offering. To address some of these challenges, a Trustee may also consider the design of the product and its related costs by cohort. APRA states that broader industry benchmarks (such as the percentage of superannuation guarantee contributions that are taken up by insurance premiums) may serve as an important guide in assessing the impact of insurance on beneficiaries;

(e) APRA expects that Trustees would access external sources of information, including those produced by independent ratings agencies and APRA's statistical publications. The methodology may include simple comparisons of particular indicators or more sophisticated modelling techniques able to incorporate multiple factors. It may also consider both "point of time" analysis and a longitudinal review, the latter being particularly useful for highlighting trends consistent with the long-term nature of superannuation; and

(f) when selecting peer groups, APRA expects that a Trustee would identify peers that will minimise comparison bias. This necessitates considering peers from across the superannuation industry, and not limiting the peer group solely on size, sector type or profit status. In general, APRA expects that the cohorts for comparison selected by a Trustee would vary depending on the measures being considered and the degree to which comparable information is publicly available. Potentially, what APRA might be stating is that (as an example) a $1 billion fund must ensure that it compares its performance to a $20 billion fund (as opposed to limiting its comparison to other $1 billion funds).

An initial question that arises is whether the Outcomes Assessment could be relied upon by APRA in any useful manner, if different funds use different methodologies, based upon their specific membership demographics and business segments to the point that it is difficult to compare like with like. In other words, could the Outcomes Assessment of one fund be used as a reliable and valid indicator of performance of other funds (or its own performance against other funds)? It may be that over time, APRA seeks to set out specific metrics and the methodology to be used to achieve reliable and valid assessment across the RSE Industry. Until then, Trustees would be best suited to determining how best they can develop their Outcomes Assessments, and ensuring that their methodologies are appropriate and defensible.

1.3.1.2 Independent review

It is important to note that APRA may require a Trustee to appoint an appropriate independent expert to provide a report on a particular aspect of the Trustee's approach to, and completion of, the outcomes assessment. The Trustee must bear the costs of such an appointment. This suggests that APRA may be looking beyond a "mere compliance" approach to Outcomes Assessment, and it will be interesting to see whether it takes it cues from the Outcomes Assessment of some funds to determine what best practice may look like in respect of other funds.

1.4 Member Outcomes Consultation

APRA is seeking feedback in respect of the following questions:

(a) Amendments to SPS 220: business planning

Are there additional or alternative strategic and business planning requirements APRA should consider?

(b) Amendments to SPS 220: expense management

Are there additional or alternative expense management requirements APRA should consider?

Is the concept of 'significant' expenditure in SPS 220 consistent with how RSE licensees currently undertake delegated expenditure decisions?

(c) New SPS 225: outcomes assessment

Are there additional factors or considerations that should be included in the outcomes assessment?

(d) Commencement

Will the proposed commencement date of 1 January 2019 provide RSE licensees appropriate time to prepare for implementation of SPS 220 and SPS 225? If not, why not?

(e) New SPG 221 and new SPG 225

Is there any additional guidance APRA should consider including in the new SPG 221 and SPG 225 to assist RSE licensees in meeting the requirements in SPS 220 and SPS 225?

(f) Amendments to existing prudential guidance

Has APRA incorporated in new SPG 221 sufficient guidance to enable existing SPG 221 and SPG 222 to be withdrawn?

Does Circular No. III.A.4 remain relevant to industry?

2. SUPERANNUATION REPORTING

2.1 Understanding RSE expenditure

Certain APRA Reporting Standards (primarily SRS 330.0 and 331.0) require Trustees to report on certain financial and expense transactions involving a number of expense types (including advertising/marketing) and associates, based upon Australian Accounting Standard 1056 *Superannuation Entities* (**AASB 1056**). Despite these Reporting Standards, APRA remains concerned that some existing problems regarding accuracy, comparability and depth in expense reporting will remain unresolved because AASB 1056 permits Trustees discretion when deciding the particular category for the reporting of a particular type of expense. Further, the methodology does not require consideration of expenses on a look-through basis and does not capture how members' money is used by the Trustee – initial thoughts are that to do so would create a very high burden on Trustees to drill down to specific expenditures.

Therefore, APRA is considering how best to collect both financial statement information (based on AASB 1056) and more detailed and comparable data considered necessary for prudential supervision and publication purposes.

In particular, APRA takes the view that requiring data to be consistently reported in expense sub-categories on SRS 330.0 (across investment, administration, advice and insurance) may aid understanding about and comparison of fund expenses. The collection of expense data for MySuper products with the same granularity as fund-level data would facilitate greater understanding of potential cross-subsidisation and the extent to which each MySuper product is operating efficiently. The application of the proposed look-through powers would also provide an opportunity to collect more granular information about fund expenditure.

2.2 Reporting about superannuation service providers

APRA's view is that data collected under SRS 331.0 is currently reported inconsistently across the RSE Industry, thereby limiting APRA's ability to use this information to support its supervision activities. APRA is therefore also considering the relationship between SRS 331.0 and AASB 1056 and, separately, how to collect service provider expense information on a look-through basis.

With respect to the proposed look-through powers, APRA is considering the depth of look-through requirements that would be appropriate and whether it would be feasible for a Trustee to accurately report the value and type of service provision associated with the first non-associated entity in the chain of service providers.

As an example:

The Trustee of BetterSuper enters into a contract with AdminNow Ltd (an associated entity of BetterSuper) to provide assistance with their administration including their advertising campaigns. Subsequently, AdminNow Ltd enters into a contract with BetterLook Promotion Company to create an advertisement to increase BetterSuper's membership base.

When reporting the expenses of BetterSuper under SRS 331.0, the Trustee will need to identify and separately report the expenses relating to advertising undertaken by BetterLook through AdminNow Ltd and the expenses relating to the administration services provided by AdminNow Ltd

2.3 Financial statement information at the Trustee level

APRA states that financial statement information at both the fund and Trustee level is necessary to provide a complete picture for APRA and other stakeholders of the movement of members' money into and out of a Trustee's financial accounts. Further, APRA's analysis of the publicly available Trustee level financial statements suggests that they are not prepared in a consistent manner and do not require all items to be disclosed with sufficient granularity to enable adequate transparency and comparability of key information, such as expenditure by material expense categories. It is also not possible to reconcile the information in the financial statements with the data reported under SRS 330.0 and SRS 331.0.

APRA is therefore considering whether and how to collect Trustee level financial statement information consistent with items reported in accordance with Australian Accounting Standard 101 *Presentation of Financial Statements* (**AASB 101**). In some areas APRA is likely to specify reporting of some items that diverges from AASB 101, for example where APRA requires certain items such as the capital or reserves held to meet the operational risk financial requirement.

2.4 Superannuation Reporting Consultation

APRA is seeking feedback in respect of the following questions:

(a) Alignment with AASB 1056

What have been the material changes to the way you categorise and report expense information under AASB 1056?

In what areas would it be appropriate for APRA to require expense information that diverges from AASB 1056 to ensure adequate comparability and transparency?

(b) Look-through

Drawing from experience gained from reporting investments data on a look-through basis, what material operational challenges and costs are envisaged from reporting expense information on a look-through basis?

To what degree do you use bundled service arrangements? Are there material impediments for you in attributing or estimating the value of each component service in the bundle and, if so, how could they be addressed?

(c) SRS 331.0: updated items

On SRS 331.0, do the roles listed on items 1-2 and expense types listed on item 4 provide a complete coverage of current industry arrangements? If not, what suggestions do you have for additions to the list?

(d) Definition of associate

What areas should guidance on the definition of associate cover in order to support consistent reporting under SRS 331.0?

(e) RSE licensee financial statements

What are the key challenges for you in reporting of RSE licensee level financial statements information? How might these be affected by designing requirements based on AASB 101?

(f) Pilot testing

What are the key issues that a pilot or trial of expanded expense information reporting should focus on?

(g) Transition timeframe

If APRA were to change the reporting requirements as described in this chapter, what would be an appropriate transition period to enable you to implement these changes? If the transition needs would be different across different proposals, please specify this in your response.

3. INSURANCE OPT-OUT

APRA has observed a wide range of MySuper default insurance opt-out processes across the RSE Industry and supports the Government's expectation that opt-out processes permit fund members to implement decisions about their insurance cover in a timely manner. APRA therefore proposes (without providing an indication of how) to amend SPS 250 to require a Trustee to provide simple and straightforward opt-out processes for all insurance products.

3.1 Insurance Opt-Out Consultation

(a) Amendments to SPS 220: business planning

Are there additional or alternative strategic and business planning requirements APRA should consider?

(b) Amendments to SPS 220: expense management

Are there additional or alternative expense management requirements APRA should consider?

Is the concept of 'significant' expenditure in SPS 220 consistent with how RSE licensees currently undertake delegated expenditure decisions?

(c) New SPS 225: outcomes assessment

Are there additional factors or considerations that should be included in the outcomes assessment?

(d) Commencement

Will the proposed commencement date of 1 January 2019 provide RSE licensees appropriate time to prepare for implementation of SPS 220 and SPS 225? If not, why not?

(e) New SPG 221 and new SPG 225

Is there any additional guidance APRA should consider including in the new SPG 221 and SPG 225 to assist RSE licensees in meeting the requirements in SPS 220 and SPS 225?

(f) Amendments to existing prudential guidance

Has APRA incorporated in new SPG 221 sufficient guidance to enable existing SPG 221 and SPG 222 to be withdrawn?

Does Circular No. III.A.4 remain relevant to industry?

FINAL THOUGHTS

I remember when the draft APRA Prudential Standards were released, prior to Trustees applying for their MySuper authorisations, and the confusion that arose from those draft Standards, especially where terms were poorly defined or because of inconsistencies in the drafting. Further, APRA was required to revisit and amend certain Prudential and Reporting Standards (APRA Reporting Standard *SPS 510 Governance*, for example) after specific problems arose from their initial drafting. We have also had close to three years of Trustees preparing to comply with the ASIC Class Order [CO 14/1252] fees and costs requirements (if memory serves me correctly, its birthday was 12 December 2014, and it has grown considerably in size ever since).

Therefore it is fair to say that APRA's proposals will require Trustees to invest considerable time (even if the proposals are delayed) in order to understand the proposals' ramifications and whether they need to provide APRA with pragmatic feedback in respect of these proposals. If you have any questions, please do not hesitate to call.

For more information, please contact:

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