



# Superannuation (prudential standard) determination No. 2 of 2019

## Prudential Standard SPS 515 Strategic Planning and Member Outcomes

### *Superannuation Industry (Supervision) Act 1993*

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I, Heidi Richards, delegate of APRA, under subsection 34C(1) of the *Superannuation Industry (Supervision) Act 1993* (the Act) DETERMINE *Prudential Standard SPS 515 Strategic Planning and Member Outcomes*, in the form set out in the Schedule, which applies to all RSE licensees.

This instrument commences on 1 January 2020.

Dated: 02 December 2019

[Signed]

Heidi Richards  
Executive General Manager  
Policy and Advice Division

### **Interpretation**

In this Determination:

*APRA* means the Australian Prudential Regulation Authority.

*RSE licensee* has the meaning given in section 10(1) of the Act.

## **Schedule**

*Prudential Standard SPS 515 Strategic Planning and Member Outcomes* comprises the document commencing on the following page.



## **Prudential Standard SPS 515**

### **Strategic Planning and Member Outcomes**

#### **Objectives and key requirements of this Prudential Standard**

The objective of this Prudential Standard is to ensure that an RSE licensee manages its business operations in a sound and prudent manner in order to achieve its strategic objectives, including rigorously assessing its performance and taking action to improve its operations consistent with its obligations under the SIS Act.

The key requirements of this Prudential Standard are that:

- the Board approves strategic objectives that support it in achieving the outcomes it seeks for beneficiaries and the sound and prudent management of the RSE licensee's business operations;
- the RSE licensee maintains a Board approved business plan that sets out the approach for implementation of the RSE licensee's strategic objectives;
- the RSE licensee annually reviews its performance in achieving its strategic objectives and incorporates any actions to improve its performance in its business plan;
- decisions to incur significant fund expenditure support the RSE licensee in achieving its strategic objectives and those decisions are monitored against their expected outcomes; and
- the outcomes assessment required under section 52(9) of the SIS Act addresses the additional factors set out in this Prudential Standard.

## Authority

1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

## Application and commencement

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees).<sup>1</sup>
3. An RSE licensee is not required to comply with paragraphs 8 (only in relation to the Board being required to approve strategic objectives that support achieving outcomes for beneficiaries), 9(a), 15(a)(ii), 15(a)(iii), 15(c)(i), 16 (only in relation to outcomes for beneficiaries), 21, 22 and 23 inclusive in relation to a pooled superannuation trust.<sup>2</sup>
4. For the purposes of this Prudential Standard, a reference to the ‘Board’ is to be read as a reference to the Board of directors (Board) or group of individual trustees of an RSE licensee.<sup>3</sup>
5. This Prudential Standard commences on 1 January 2020.

## Interpretation

6. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

## Adjustments and exclusions

7. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to:
  - (a) a particular RSE licensee of a registrable superannuation entity;
  - (b) a particular connected entity of an RSE licensee of a registrable superannuation entity;
  - (c) specified RSE licensees of registrable superannuation entities; or
  - (d) specified connected entities of RSE licensees of registrable superannuation entities.

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<sup>1</sup> For the purposes of this Prudential Standard, ‘RSE licensee’ has the meaning given in section 10(1) of the SIS Act.

<sup>2</sup> For the purposes of this Prudential Standard, pooled superannuation trust has the meaning given in section 10(1) of the SIS Act.

<sup>3</sup> For the purposes of this Prudential Standard, a reference to ‘a director’ is a reference to a director of an RSE licensee which has a Board of directors or, in the case of a group of individual trustees, an individual trustee and ‘group of individual trustees’ has the meaning given in section 10(1) of the SIS Act.

## Strategic objectives

8. The Board must approve strategic objectives for an RSE licensee's business operations that support achieving the outcomes the RSE licensee seeks for beneficiaries and the sound and prudent management of the RSE licensee's business operations.<sup>4</sup>
9. The strategic objectives must be specific and measurable and based on an RSE licensee's consideration of:
  - (a) the outcomes that the RSE licensee seeks to achieve for beneficiaries;
  - (b) the RSE licensee's risk appetite statement;
  - (c) the strategies formulated pursuant to sections 52(2)(i), 52(6)(a), 52(7)(a) and 52(8)(a) of the SIS Act;
  - (d) the financial resources deemed necessary to cover the operational risk that relates to the RSE under section 52(8)(b) of the SIS Act;
  - (e) the most recent business performance review<sup>5</sup>; and
  - (f) section 62 of the SIS Act ('the sole purpose test').

## Business plan

10. An RSE licensee must maintain a written plan for its business operations that sets out its approach for implementing its strategic objectives (business plan).
11. An RSE licensee's business plan must be a rolling plan of at least three years' duration updated annually based on the results of the most recent business performance review. The business plan must cover the entirety of an RSE licensee's business operations and be approved by the Board.
12. An RSE licensee's business plan must, at a minimum, specify:
  - (a) the key initiatives it will undertake to achieve the RSE licensee's strategic objectives, including the expected results of each initiative;
  - (b) the financial projections over at least the next three years that demonstrate the ongoing financial soundness of the RSE licensee's business operations;
  - (c) the key assumptions that inform the RSE licensee's financial projections under paragraph (b) and how these assumptions take into account the

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<sup>4</sup> For the purposes of this Prudential Standard, an 'RSE licensee's business operations' includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on its activities as an RSE licensee.

<sup>5</sup> Refer to paragraphs 14 to 17 for details of the business performance review.

material risks that have been identified under the risk management framework; and

- (d) the key performance indicators that the RSE licensee will use to monitor its performance against the business plan and the triggers that will prompt action by the RSE licensee where expected outcomes are not being achieved.
13. An RSE licensee must monitor its performance against the business plan using the key performance indicators under paragraph 12(d) of this Prudential Standard.

### **Business performance review**

14. An RSE licensee must, on an annual basis, review its performance in achieving its strategic objectives (business performance review) and use the results of the review to make improvements to its business operations. The results of the review must be reported to the Board.
15. An RSE licensee's business performance review must include:
- (a) analysis of its performance in achieving its strategic objectives, having regard to:
    - (i) the results of its monitoring of its business plan required under paragraph 13 of this Prudential Standard;
    - (ii) the outcomes achieved for different cohorts of beneficiaries (such that all beneficiaries are covered) against objective internal and external benchmarks; and
    - (iii) the outcomes assessments under section 52(9) of the SIS Act<sup>6</sup>;
  - (b) the key factors identified by the RSE licensee as having affected the results of the analysis under paragraph 15(a) of this Prudential Standard; and
  - (c) the RSE licensee's conclusions as to whether it achieved, and expects to continue to achieve:
    - (i) the outcomes it seeks for beneficiaries; and
    - (ii) the sound and prudent management of its business operations.
16. If the RSE licensee determines that changes to its business operations would likely improve the outcomes for beneficiaries or the sound and prudent

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<sup>6</sup> For the purposes of undertaking the first business performance review by 31 December 2020 an RSE licensee is not required to have regard to the outcomes assessments under section 52(9) of the SIS Act.

management of its business, the RSE licensee must reflect those changes in its business plan.

17. APRA may require an RSE licensee to appoint an appropriate independent expert to provide a report to APRA on a particular aspect of an RSE licensee's business performance review, within a timeframe agreed to by APRA. An RSE licensee must bear the costs of such an appointment.

### **Expenditure management**

18. An RSE licensee must ensure that its expenditure decisions are for the purposes of the sound and prudent management of its business operations and consistent with the best interests of beneficiaries.
19. When making decisions relating to its business operations that will result in significant expenditure, an RSE licensee must be able to demonstrate:
  - (a) the purpose of the expenditure, including how the expenditure will contribute to the RSE licensee meeting its strategic objectives;
  - (b) how it will assess whether the expenditure is achieving its intended purpose, including any metrics used;
  - (c) the circumstances that would trigger a review of the expenditure decision, including whether any further related expenditure should take place; and
  - (d) how the expenditure will be funded and, where relevant, how the use of reserves as the source of funding for the expenditure accords with the strategy formulated pursuant to section 52(2)(i) of the SIS Act.
20. For the purposes of this Prudential Standard, 'expenditure' means a payment or expected future payment from the assets of an RSE or RSE licensee, including payments to and from reserves, not otherwise allocated to members' accounts; 'significant' relates to the size or extraordinary nature of the expenditure.

### **Annual outcomes assessment**

21. 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* 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 product.<sup>7</sup>
22. 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 methodology set out in *Reporting Standard SRS 702.0 Investment Performance*; and
  - (b) for section 52(10)(c) of the SIS Act, use the methodology set out in *Reporting Standard SRS 700.0 Product Dashboard*.
23. 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 inappropriately affecting the financial interests of those beneficiaries; and
  - (c) whether the basis for the setting of fees is appropriate for those beneficiaries.

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<sup>7</sup> For the purposes of this Prudential Standard, 'MySuper product' and 'choice product' have the meanings given in section 10(1) of the SIS Act.