

Article Information

Author: Lisa-Marie McKechnie, Kathy Neilson, Kerry Jacobs

Service: Banking & Finance, Corporate & Commercial, Corporate Governance

Sector: Financial Services

Stop! It's Members' Time: Amendments to SPS 515 Strategic Planning and Member Outcomes

The Australian Prudential Regulation Authority (APRA) has recently announced its proposed reforms to Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515) to enhance member outcomes in superannuation. The reforms reflect marked changes in the superannuation operating environment since SPS 515 came into effect in 2020 and aim to drive better member outcomes in areas such as trustee management of financial resources, expenditure and member transfers between funds.

On 21 September 2023, APRA announced its proposed reforms to SPS 515, a core prudential standard for superannuation. The proposed reforms are intended to strengthen member outcomes in superannuation in response to requests for greater clarity and significant changes in the superannuation operating environment since the introduction of SPS 515 in 2020. These include changes to the superannuation legislative settings, continued industry consolidation, emergence of implementation challenges in strategic planning and enhancements to other areas of APRA's prudential framework.

APRA's discussion paper on SPS 515 was released on 21 September 2023, with the paper outlining proposed enhancements to strengthen strategic and business planning and transfer planning.

APRA Deputy Chair Margaret Cole said that the reforms to update SPS 515 were a top policy priority for APRA in superannuation. She emphasised that:

"SPS 515 goes to the heart of what trustees need to do. Updating the standard will ensure trustees have robust business operations and are held to account to deliver outcomes that are in the best financial interests of their members."

Background

Commencing on 1 January 2020, SPS 515 set out new requirements for a registrable superannuation entity (**RSE**) licensee to regularly evaluate its performance in achieving its strategic objectives, including the delivery of quality outcomes to members, supported by sound strategic and business planning and expenditure management. It also supported the introduction of the legislated product-based member outcomes assessment. The introduction of SPS 515 followed extensive consultation between APRA and industry on new prudential requirements to improve industry-wide strategic planning and to ensure RSE licensees focus on the delivery of quality member outcomes.

The key requirements of SPS 515 are that an RSE licensee must:

1. Have Board-approved strategic objectives that will support the RSE licensee in achieving desired member outcomes, as well as achieving sound and prudent management of the RSE licensee's business operations. These strategic objectives must be specific and measurable, and be based on prescribed factors which the RSE licensee must consider;
2. Maintain a Board-approved written plan for the RSE licensee's business operations that sets out its approach to achieve its strategic objectives. The business plan must span at least three years' duration and be reviewed annually. The results of that review must be reported to the Board;

3. Ensure that all decisions made for the purpose of sound and prudent management of the RSE licensee's business operations that require significant fund expenditure are monitored against their expected outcomes; and
4. Conduct an outcomes assessment and implement any actions arising from that assessment so that all member outcomes the RSE licensee sought to achieve can be improved.

Proposed Reforms

The proposed reforms to SPS 515 include revisions to:

1. Ensure the expenditure requirements are in better alignment with the duty to act in the best financial interests of members, and to support the retirement income covenant (for the retirement phase only). RSE licensees are also required to justify the purpose of the expenditure in the context of their business operations;
2. Ensure that RSE licensees adopt a prudent approach to the management of financial resources, in particular with respect to fee setting, managing reserves (which are ultimately funded by members) and fund expenditure; and
3. Mitigate risks associated with the transfer of members across funds. This includes clarifying that an RSE licensee must take appropriate steps to prepare for future circumstances potentially necessitating a transfer of members into or out of its RSE(s) and by requiring, where an RSE licensee has a failed product in the legislated annual performance assessment, the RSE licensee to document its plan for responding to the failure.

In addition, the guidance circular on the sole purpose test, which was published in 2001, is proposed to be retired on the basis that it is recognised to have been created for a different generation of RSE licensees. Acknowledging the ever-evolving nature of the superannuation industry, Ms Cole said:

"The circular was designed more than 20 years ago for a larger number of less sophisticated trustees. It offered general guidance and had no legal status or effect. Trustees are operating more mature businesses today and are well placed to make decisions consistent with their legislative duties."

APRA is not in favour of issuing new guidance on the sole purpose test.

Next Steps

APRA requests that submissions in response to the discussion paper be provided by 21 December 2023. APRA indicates it expects to finalise the SPS 515 framework by mid-2024, ahead of its anticipated commencement on 1 January 2025.

Key Takeaways

RSE licensees will need to:

1. Consider the proposed reforms in the discussion paper to evaluate whether or not they would like to provide a submission in response by the deadline of 21 December 2023;
2. Monitor the APRA website for an update on the findings from the responses to submissions and the nature of and status of the proposed reforms for SPS 515; and
3. In light of APRA's priority to enhance member outcomes in superannuation:
 - a. assess the current state of their compliance with SPS 515 in order to address any gaps; and
 - b. continue to regularly evaluate their performance in achieving strategic objectives and delivery of quality outcomes to members and identify any opportunities for improvement.

To find out more about APRA's proposed reforms please click [here](#).