

Strategic planning and member outcomes

Transitioning from a 'documentation-focus' to member outcomes integration

The focus on delivering member outcomes continues to evolve with the release of *Discussion paper – Strategic planning and member outcomes: Proposed enhancements* by APRA. **Consultation is sought on a range of proposed changes** to the current *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* and associated guidance to incorporate the significant suite of reforms that have impacted the industry since SPS 515 was introduced in 2020.

APRA intends to use the feedback received to inform revisions to SPS 515 and associated guidance, with consultation on the draft standard and guidance expected to **commence in 2023**.

APRA confirmed work is continuing on *CPS 190 Financial Contingency Planning* and *CPS 900 Resolution Planning*. APRA also intends to update *SPG 227 Successor Fund Transfers and Wind-Ups* and will release a new standard relation to the ***transfer of assets where a MySuper authorisation is cancelled*** by APRA later in 2022.

Key Focus Areas

Clearly defining outcomes for members

Strengthened requirements to ensure the Board-approved member outcomes are defined in a quantifiable and objective manner, and all outcomes must clearly apply to either all beneficiaries or a specified cohort/s.

- *APRA has observed the outcomes sought by trustees are not always defined in an objectively measurable way.*

A principles-based approach must be applied to establishing cohorts, with trustees required to demonstrate why the identified cohorts are reasonable in the context of the RSE.

The identified cohorts must relate to a class or sub-class of beneficiaries at or approaching retirement (as per the requirements under the retirement income covenant).

- *Cohort analysis and the use of simplistic cohorts does not demonstrate a deep understanding of the membership base by trustees.*

Given the increasing availability of superannuation data available since SPS 515 was introduced in 2020, APRA expects trustees to be able to demonstrate a deep understanding of the membership base, which should be reflected within the cohorts identified.

Soundly run business

Financial resource management

With the aim of requiring trustees to take a more sophisticated, rigorous approach to financial resource management, while at the same time increasing efficiencies, APRA proposes an enhancement of existing requirements and additional guidance to inform the management of financial resources in the ordinary course of business by adopting and clearly articulating financial management-related performance measures, action plans, objectives, strategic goals and targeted outcomes for members.

- *Feedback in response to a November 2021 discussion paper identified trustees still working toward a mature approach to managing financial resources, and trying to find the optimum level of resources required to respond to the needs of the business without creating inefficiencies that may result in poor member outcomes.*

APRA also intends allow greater flexibility for responding to operational risk events that cause negative outcomes for members. Consultation on changes to *SPS 114 Operational Risk Financial Requirement* will occur later in 2022.



Key Focus Areas

Financial projections

Financial projections that form part of the Board-approved business plan must be sufficiently detailed to understand the impacts of contributions, rollover/payment flows and the planned strategic initiatives.

- *APRA is concerned that assumptions underpinning financial projections are unsubstantiated or inconsistent with historical trends.*

All financial projections must be reasonable and the result of historical trend analysis, having been prepared using a range of stress-testing measures where the results of potential downside scenarios are clearly identifiable.

The financial projections must be consistent with a financial projections methodology that has been approved by the Board.

Fee-setting

Trustees will need to demonstrate how the fees set are consistent with the fee-setting principles [as announced by APRA in discussion paper *Strengthening Financial Resilience in Superannuation* released in November 2021](#).

Trustees are expected to investigate, understand and take into account the tax consequences, capital management and other legal obligations that may arise in relation to the fee design.

Trustees need to consider the sustainability of the operating model and set fees that provide a healthy tension between delivering better long-term outcomes and promoting the best financial interests of members.

APRA is concerned a 'race to the bottom' in operating costs is not appropriate for sustaining member outcomes over the long term.

Expenditure management

APRA intends to consider insights through the upcoming YFYS review along with the [findings in the expenditure thematic review](#) to inform potential enhancements to the prudential framework. Consultation will occur in 2023.

Assessment of performance

When approving the Business Performance Review (BPR), the Board must be able to demonstrate an understanding of the factors driving performance and how any planned actions respond to these factors.

APRA will provide clarification that the BPR and Member Outcomes Assessment (MOA) must be completed prior to, and inform, the business plan.

APRA will also provide clarification on the circumstances that would trigger a revision to the business plan.

Additionally, trustees must have a robust trigger process framework to identify when a review of outcomes is required.

Take meaningful action

BPRs need to clearly state where an RSE licensee needs to take remediation action to improve member outcomes, such as making changes to products and/or fees, or making changes to business operations which may include transferring classes of members out of the fund.



ABOUT QMV LEGAL

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CONTACT US

If you have any questions or need assistance, you can contact us directly via the details below:



David Reckenberg
LLB (Hons), B.Ec
Special Counsel
0411 265 284
dreckenber@qmvolutions.com



Jonathan Steffanoni
JD, BA, Dip.FS, FASFA
Managing Partner
0434 835 966
jsteffanoni@qmvolutions.com



Gabriela Pirana
JD, BSc.
Senior Associate
0450 814 596
gpirana@qmvolutions.com



Jessica Pomeroy
MBA, BA
Senior Consultant
0400 708 447
jpomeroy@qmvolutions.com



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