

Regulatory Update - SPG 530 Investment Governance

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SPS/SPG 530 regulatory update

The Australian Prudential Regulation Authority (APRA) recently revised Prudential Standard SPS 530 Investment Governance for the first time since its initial release in 2013. The SPS contains enforceable requirements and is effective from 1 January 2023.

Following these revisions, APRA released (in Q4 2022) a draft Prudential Practice Guide SPG 530 Investment Governance, to assist in the interpretation and implementation of SPS 530. The SPG does not create enforceable requirements, instead it provides principles and examples of what APRA considers to be better practice.

Note the draft SPG is open for consultation until 17 March 2023 and is therefore subject to change.

The key regulatory changes are aimed at delivering improved member outcomes, with an enhanced focus on stress testing, liquidity management and valuations. There is also a greater responsibility placed on the RSE Licensee Board's oversight function, including its role in understanding investment strategy and having appropriate policies and processes in place to drive both performance and manage risk. Notably, for the first time within its investment governance standards, APRA has incorporated climate change/ESG requirements for superannuation trustees.

Frontier Advisors' specialist Investment Governance Team has extensive superannuation and regulatory experience and can offer a range of services to assist RSE Licensees with the consideration, interpretation and where necessary adjust their governance frameworks to meet their prudential obligations. Clients can also leverage Frontier's Partners Platform technology to enhance their regulatory monitoring and reporting capabilities.

What the proposed changes mean for your fund



Investment governance arrangements



Performance monitoring



ESG factors and climate change risk



Liquidity management

PROPOSED CHANGES

Additional guidance for investment governance arrangements and the investment operating model, including oversight and delegations, plus a greater focus on the role of the Board.

Focus on performance monitoring, including the use of appropriate metrics and benchmarks, with links to APRA heatmaps and the annual performance test.

APRA now formally links ESG considerations and investment philosophy. Funds are expected to consider ESG factors, including climate change risk, when setting, implementing and monitoring the investment strategy and as part of investment risk management. The ESG section in the draft PPG specifically calls out key areas like stress testing and investment due diligence.

Increased focused on the results of liquidity management processes and member equity. APRA expects funds to consider the potential impacts on beneficiaries of secondary risks associated with liquidity risk.

IMPLICATIONS




Ensure the investment governance framework is appropriate and delegations and responsibilities are clearly outlined.

A greater need for analytics to be able to include more relevant, frequent and suitable performance monitoring.

Establish or review ESG beliefs/philosophy and ensure ESG risk is integrated into the investment strategy process. Climate risk should also be considered in investment risk and climate change scenarios should be incorporated into stress testing and scenario analysis.







Develop and update the liquidity management plan or perform more analytics to understand the potential impacts of liquidity risk.

WHAT THE PROPOSED CHANGES MEAN FOR YOUR FUND

	 Stress testing	 Valuations	 Member outcome and equity
PROPOSED CHANGES	APRA is now more focused on the results of stress testing programs. There is greater focus on interpretation and challenge from the Board, plus consequential actions for investment decisions following the reporting of stress testing results.	APRA has integrated SPG 531 Valuations (2013) into the draft SPG 530 (2022). This elevates the importance of valuation governance frameworks more generally, and includes a greater focus on valuation processes and guidelines.	A continued heightened focus on the Board's consideration of member outcomes and member equity.
IMPLICATIONS	Expected to demonstrate consideration of stress testing results in making strategic asset allocation (SAA) and now also actual asset allocation (AAA) decisions, with increased frequency. This will require additional, more accurate and timely analytics.	Update the valuation governance framework appropriately. Funds may also consider establishing a separate valuation governance committee which is optional, based on draft SPG 530.	Ensure the fund can clearly articulate what its investment strategy is designed to achieve and how it supports the delivery of member outcomes.

Investment governance

Our Investment Governance Team can assist RSE Licensee Boards and management teams with interpreting regulatory change and the structuring and implementation of customised, leading-practice investment governance frameworks.

-  Reviewing and upgrading investment governance frameworks, policies and systems to ensure their effectiveness and appropriateness in line with SPS and SPG 530.
-  Assessing and updating organisational, delegation and reporting structures of the Board and its committees to ensure roles and responsibilities are clear and fit-for-purpose.
-  Updating the liquidity management plan to ensure its effectiveness and appropriateness in line with SPS and SPG 530.
-  Assessing, developing and upgrading valuation governance frameworks, for both internal and outsourced arrangements, to match expanded regulatory requirements.
-  Updating the stress testing program to ensure its effectiveness and appropriateness in line with SPS and SPG 530.
-  Assisting with the documentation and execution of stress testing program including type of scenario types, objectives and methodology assumptions.







Our investment governance, research and consulting teams collectively bring a range of capabilities and collaborate seamlessly while working with clients to assess existing systems and deliver leading-practice advice and solutions.

-  Clarity on governance processes for valuations and the option for establishing a separate valuation governance committee.
-  Demonstrating how the stress testing program informs the business planning process and investment strategy, including risk tolerances.
-  Review of the investment management governance approach to ESG and climate change risk.
-  Establish and review ESG investment beliefs and philosophy.
-  Evaluate material ESG factors including climate change risk, when setting, implementing and monitoring the investment strategy, and as part of investment risk management and investment due diligence processes.
-  Incorporate climate change scenarios into stress testing and scenario analysis.

Investment consulting




Frontier Advisors' consulting team has over 25 years' experience providing investment advice to superannuation funds. We incorporate SPS/SPG 530 requirements into all our investment advice to our superannuation fund clients, with a particular focus on investment strategy.

The SPS/SPG 530 updates focus on stress testing, liquidity, valuation and climate change which are all critical considerations for setting investment strategy and in ongoing portfolio management. This is particularly the case in today's challenging market environment where stress testing (including climate scenarios) and liquidity modelling enables a range of potential environments to be considered as part of setting investment strategy. A robust investment process actively considers these issues as part of its investment decision making, and is strengthened by independent, specialist perspectives. Our consulting team can assist funds in a range of ways relating to SPS/SPG 530, depending on each fund's business and circumstances.

-  Detailed investment strategy reviews, incorporating the new SPS 530 requirements (e.g. expanded stress testing regimes).
-  Independent health checks of investment strategy and process, providing expert support to Boards and Investment Committees in ensuring regulatory requirements and members best interests needs are being met.
-  Regular risk reporting including stress, scenario, factor and liquidity analysis and insights, and assessment of diversification.
-  Provision of tailored historical stress and forward-looking market and economic scenario assumptions and analysis, along with outlook insights from our Capital Markets team.
-  Regular liquidity modelling for each investment option, including bespoke stress testing aligned to fund specific circumstances.
-  Benchmarking reviews of performance and investment strategy positioning relative to peers and leading industry practices.

Member solutions

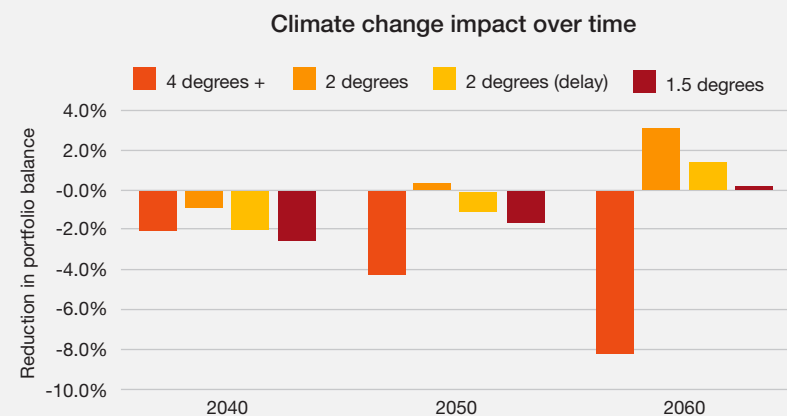
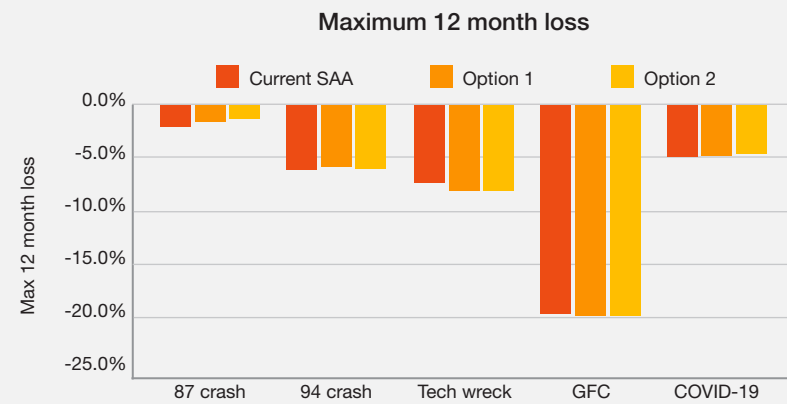
Under SPS 530, funds need to design investment options to support the outcomes for different member cohorts and we can help funds with this.

-  Designing their MySuper option to reflect the membership demographics. This can include modelling the merits of lifecycle and a single default approach.
-  Assessing the peer position of investment options, in terms of investment objective, risk, performance and fees. Determining member investment outcomes.
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Technology solutions

Portfolio Analytics, a module in Frontier's Partners Platform, is a user friendly program with tailored input and output and interactive tools. Partners Platform intelligence also supports manager research, fee benchmarking, private markets research, and superannuation peer comparison. We have outlined how Portfolio Analytics can support investment governance needs.

- ✓ Streamlined performance stress testing on SAA and AAA (AAA is new), performance monitoring and liquidity testing.
- ✓ Determining the appropriateness of modelled scenarios used in the stress testing program, including the use of climate risk scenarios.
- ✓ Generating information with respect to the legislated annual performance test and APRA heatmaps.
- ✓ Supporting the increased frequency of reporting.
- ✓ Annual confirmation that the investment strategy, including targets and ranges remain appropriate. This is also inclusive of analysing portfolio liquidity over historical periods and under various portfolio settings, such as cash flows, redemptions and currency overlays.



Meet the team

If you would like to discuss our services and how we can help, get in touch with our Investment Governance Team using the contact details below, or reach out to your Frontier Advisors client team.

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Sarah Cornelius

Head of Investment Governance

Sarah Cornelius joined Frontier Advisors in 2010 and has been a member of Frontier's Investment Governance Team since January 2015. Sarah has considerable experience providing governance advice to investment committees and boards, reviewing and preparing investment policies, as well as undertaking reviews of investment beliefs and internal investment capabilities across a range of institutional investors. Sarah is also a member of Frontier's investment consulting team, providing consulting support to clients and involvement with investment and manager research.

Sarah holds a Bachelor of Commerce (Commercial Law) from Swinburne University and a Masters of Applied Finance from Kaplan Professional.



Julie Wu

Associate

Julie Wu joined Frontier Advisors as an Associate in early 2022 and is a member of both the Investment Governance and Consulting teams. Prior to joining Frontier, Julie worked in the Assurance department at EY providing audit services to a wide range of clients and industries including retail, manufacturing and not for profit. Prior to this, Julie worked in Singapore for a financial and commodity services firm.

Julie holds a Bachelor of Commerce (Accounting and Finance) from the University of Melbourne.



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