

The updated Prudential Practice Guide SPG 530 Investment Governance (SPG 530)

August 2023

On 20 July 2023, APRA released the final version of Prudential Practice Guide SPG 530 – Investment Governance. APRA had released the draft SPG 530 in November 2022, which was open for industry consultation until March 2023.

The SPG provides guidance for superannuation trustees to interpret and implement the requirements of Prudential Standard SPS 530, the updated final version which came into effect on 1 January 2023. The SPG does not create enforceable requirements, instead it provides principles and examples of APRA's expectations and what it considers to be better practice.

APRA's response to submissions

Respondents were broadly supportive of the draft SPG 530 but requested APRA to consider further guidance relating to ESG risks, stress testing, valuations, and the governance of investments.

APRA recognised the raised concerns about the timing of the final SPG 530 release, given that the updated SPS 530 had already begun on January 1, 2023. However, APRA clarified this timing shouldn't impact an RSE licensee's ability to comply with SPS 530.

Through consultation and ongoing communication, APRA observed a greater focus on valuation governance and liquidity management, as well as a wider adoption of stress testing processes. RSE licensees demonstrated efforts to enhance their practices in line with the draft SPG 530 since its release in November 2022.

The final version of SPG 530 provides:

- Additional guidance to support SPS 530 requirements relating to liquidity management, stress testing and valuations.
- An outline of how APRA expects RSE licensees to consider material environmental, social and governance (ESG) risk factors as part of their overall investment risk management.
- Greater clarity in areas requested by industry in applying SPS 530.
- A more streamlined approach to guidance, aligning SPG 530 with APRA's 'Modernising the Prudential Architecture' (MPA) strategic initiative.

Table 1, over the page, summarises key submission points from the consultation and APRA's respective responses.

Table 1: Summary of key submission points and APRA's responses

Submissions	APRA's response
ESG risks	
Several submissions provided suggestions to enhance guidance relating to ESG risk.	APRA responded to calls for further clarity and consistency in the language relating to ESG risks and having an appropriate emphasis on ESG from a risk perspective. RSE licensees are encouraged to evolve their approach across all aspects of ESG risk, including the collection of appropriate data to help inform decisions.
Stress testing	
Submissions queried how RSE licensees should interpret the relationship between the requirement in SPS 530 for annual stress testing and the benefits arising from more frequent stress testing (as included in draft SPG 530).	APRA expects RSE licensees to consider the benefits that may arise from more frequent stress testing beyond the annual requirement in SPS 530, including on a quarterly basis or in line with criteria pre-determined by the RSE licensee. This position is reflected in final SPG 530.
Valuations	
Submissions raised questions about the guidance relating to valuations. Some submissions requested that APRA include detailed guidance in relation to valuations for indirectly held assets.	APRA noted it had addressed most of these questions in the final SPG 530. No separate guidance has been included for indirectly held assets - APRA's view is the valuations guidance is equally relevant to different holding vehicle arrangements, including pooled and externally managed assets.
Governance	
Submissions requested further clarification on the governance requirements of the Board and management of RSE licensees.	APRA noted the Board, as the accountable authority, should ensure an appropriate investment strategy is implemented in line with the size and complexity of the business, and is responsible for the establishment of investment processes. As such, it is important RSE licensees determine delegations and investment governance arrangements with their own operations and business structures in mind, following the principles outlined in the prudential standard. <i>APRA is planning to begin a comprehensive review of its governance and board requirements later in 2023.</i>

Get in touch

If you want to discuss this paper in more detail or have any other investment governance related questions, please contact your Frontier client team, or a member of our Investment Governance Team at GovernanceAdvisoryServiceTeam@frontieradvisors.com.au.