

House of Representatives Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

Division/Agency: Australian Prudential Regulation Authority

Question No: APRA02QW

Topic: Member Outcomes

Member: Andrew Leigh MP

Question:

A letter from APRA's Deputy Chair Rowell and ASIC's Commissioner Press to RSE licensees (dated 15 December 2020) notes:

Both the Member Outcome obligations and the design and distribution obligations require RSE licensees to make business decisions based on the outcomes they are seeking to achieve for their members who hold the product.

- (a) What standards will APRA apply to reassure itself that 'for profit' funds are not feeding out profits beyond the level that would deliver optimal member outcomes?
- (b) By APRA's calculation, what is that level?
- (c) Given that the obligations set out in the 15 December letter require RSE's to use both internal and external data to ensure member outcomes and design and delivery outcomes are defensible, how far above average sector performance would a retail fund's member returns need to be in order to justify a decision to distribute funds to owners or shareholders?

Answer:

APRA Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515), has a number of requirements relating to significant expenditure that apply to all RSE licensees. As outlined in the accompanying guidance, SPG 515 Strategic and Business Planning and SPG 516 Business Performance Review (SPG 516), an RSE licensee may operate under a business model that enables a return (e.g. dividend) to be paid to a parent company. In such circumstances, APRA expects the RSE licensee would be able to demonstrate that the level of return is consistent with the provision of quality member outcomes. Under SPS 515, RSE licensees are required to demonstrate through the outcomes assessment and business performance review processes how they are delivering on their strategic objectives and that their products promote the financial interests of members.

APRA's expectation is that RSE licensees consider a range of factors when determining profit distributions, based on the specific circumstances and arrangements relating to their business operations, and does not consider setting general performance thresholds to be appropriate.

APRA has been monitoring the application of SPS 515 closely since it commenced on 1 January 2020 and will continue to do so.