AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY
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STANDING COMMITTEE ON AGRICULTURE AND WATER RESOURCES

PO Box 6021
Parliament House
CANBERRA
CANBERRA ACT 2600

Dear Secretary,

APRA submission – Inquiry into superannuation fund investment in agriculture

APRA welcomes the opportunity to provide a submission to the Inquiry into superannuation fund investment in agriculture.

APRA's submission addresses the first terms of reference of the Inquiry regarding whether APRA imposes any regulatory requirements on superannuation funds, which are acting as a barrier to superannuation fund investment in Australian agriculture.

APRA is the prudential regulator of the superannuation industry and is responsible for establishing and enforcing prudential standards and practices designed to ensure that, under all reasonable circumstances, financial promises made by institutions we supervise are met within a stable, efficient and competitive financial system.

Regulatory requirements imposed on superannuation funds by APRA and whether they may be a barrier to superannuation fund investment in Australian agriculture

APRA does not impose any specific regulatory requirements on superannuation funds in relation to investment in Australian agriculture.

Superannuation trustees must comply with legislative and prudential requirements including the requirement to have an investment strategy and an investment governance framework in place. These requirements do not proscribe, nor prevent, particular types of investments.

Superannuation trustees are subject to an overriding requirement to always act in the best interest of members and their beneficiaries; this applies to all aspects of their role as trustee including the making of investments and all aspects of investment decision-making.

APRA administers legislation that requires all superannuation trustees to formulate, review regularly and give effect to an investment strategy for the whole of the entity, and for each investment option, having regard to factors including the risk and the likely return from the investments, diversification, liquidity, valuation, tax consequences, costs and other relevant matters. The *Superannuation Industry (Supervision) Act 1993* (SIS Act), and in particular subsection 52(6), sets out the investment covenants to which all trustees are subject.

Subsection 52(2) also sets out trustee covenants, which include the requirement that trustees must perform their duties and exercise their powers in the best interest of the beneficiaries.[1]

APRA's prudential framework for superannuation trustees (RSE licensees) includes prudential standards which set out requirements, and prudential practice guides which provide guidance on meeting these requirements.[2]

Prudential Standard SPS 530 Investment Governance (SPS 530) establishes requirements for an RSE licensee to implement a sound investment governance framework for the selection, management and monitoring of investments, including appropriate monitoring and management of investment risk, that supports the best interests of beneficiaries. The investment governance framework must include the investment strategies as set out in the SIS Act, specific and measurable investment objectives for each investment option, an effective due diligence process for the selection of investments, appropriate measures to monitor the performance of investments, including the management of risk and return from the investments, a process to periodically review the investment objectives and investment strategies, and a liquidity management plan. *Prudential Practice Guide SPG 530 Investment Governance* (SPG 530) provides guidance on meeting these requirements.

SPS 530 and SPG 530 do not explicitly refer to any specific types of investments, such as Australian agriculture. However, SPS 530 does require RSE licensees to have effective due diligence processes and criteria for selecting each investment (paragraph 22) and to have sufficient understanding and knowledge of all investments selected, including an assessment of any factors that could have a material impact on achieving investment objectives (paragraph 23). RSE licensees are also required to determine appropriate stress scenarios for each investment strategy that cover a range of factors that can create extraordinary losses or make the control of risk difficult, and to undertake stress testing based on these scenarios (paragraph 19).

SPG 530 provides guidance on APRA's expectations regarding the due diligence to be undertaken for a proposed investment, and states that this would be expected to include an assessment of the industry in which the investment operates and the current market environment, the projected performance of the investment, the identified risk factors to which the investment is potentially exposed, the valuation methodology of the investment and other relevant factors (paragraph 66).

In conclusion, APRA does not impose any specific regulatory requirements on superannuation funds in relation to investment in Australian agriculture. The legislative and prudential requirements in place apply to all investments and superannuation trustees (RSE licensees) are responsible for determining the specific details of their investment arrangements, subject to the investment governance framework set out above.

Yours sincerely,

Helen Rowell
Deputy Chairman

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[1] The SIS Act is available here: https://www.apra.gov.au/legislation-superannuation-entities

[2] The prudential standards and guidance are available here: https://www.apra.gov.au/superannuation-standards-and-guidance