

# Senate Standing Committee on Economics

## ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question No: AET 182

Topic: Additional Regulatory Powers & the Cooper Review

Hansard Page: Written

Senator Bushby asked:

### Additional regulatory powers and the Cooper Review

The Government's response to the Cooper Review, known as Stronger Super, endorsed recommendations which will provide APRA with the capacity to issue prudential standards in superannuation.

- Does APRA feel it is presently ill-equipped to prudentially regulate the superannuation industry?
- What is APRA's current thinking on the nature of the proposed superannuation prudential standards?
- What type of standards does APRA believe it needs?
- Will APRA prudentially regulate the scale of the superannuation industry?

Answer:

1. Broadly speaking, the current framework has served APRA and the superannuation industry well. However, since the *Superannuation Industry (Supervision) Act 1993* came into force in 1994, the superannuation industry has grown in size and sophistication. In APRA's view it is appropriate that, consistent with the regulatory approach taken in relation to authorised deposit-taking institutions and insurers, the Act be modernised to introduce a prudential standard-making power.
2. Prudential standards will take the form of delegated legislation, setting requirements for all or particular classes of APRA-regulated superannuation entities. We also expect that, consistent with the standard-making powers in the *Banking Act 1959*, the *Insurance Act 1973* and the *Life Insurance Act 1995*, there will be power to make entity-specific prudential standards.
3. APRA is awaiting the outcome of Treasury's current consultation process on the introduction of Stronger Super to guide the development of the prudential standards. As such, the topics to be covered by prudential standards have not yet been fully determined. APRA will undertake a full consultation process on the draft prudential standards to provide an opportunity for industry and other

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stakeholders to comment before the prudential standards are finalised. Topics to be covered by the prudential standards are likely to be broadly consistent with those for other APRA-regulated industries covering areas such as governance and risk management. In addition, topics relevant to specific areas addressed by the Super System Review are also likely to be covered.

4. As a general point, APRA is neutral between larger and smaller superannuation funds. There is, however, one scale-related question in the Super System Review recommendation 1.6(b) (supported by the Government), which relates to the scale of MySuper products. This recommendation suggests the introduction of a statutory duty in legislation that MySuper trustees actively examine and conclude on an annual basis that their MySuper offering has sufficient scale on its own. APRA is awaiting the outcome of Treasury's current consultation process to guide the development of the prudential requirements in prudential standards. It is also important to note that recommendation 1.6(b) is directed at trustees making an assessment of scale, and, consistent with APRA's current approach to supervisory review, APRA would be likely to review the process that trustees adopt in making that assessment.