Governance working group

Issues paper on risk management

March 2011

PROPOSED REFORM

On 16 December 2010, the Government announced the Stronger Super package of reforms, in response to the final report of the Super System Review. These reforms include new arrangements concerning risk management strategies (RMSs) and risk management plans (RMPs). The Government supported in principle:

- removing the requirement under section 29PD of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) that trustees make a copy of fund RMPs available to members or, for defined benefit schemes, to employer sponsors (response to recommendation 6.4 of the Super System Review);
- removing the obligation on trustees to prepare a separate RMP for a fund when the trustee's RMS is considered to cover all risks relevant to the fund (response to recommendation 6.5);
- requiring trustees to explicitly include a liquidity management component in RMPs (response to recommendation 6.6); and
- requiring trustees to explicitly include material relating to the liquidity characteristics of investment options offered to members in the retirement phase in RMPs (response to recommendation 6.9).

The Australian Prudential Regulation Authority (APRA) will develop prudential standards, in consultation with industry, to address risk management issues such as those relating to liquidity (recommendations 6.6 and 6.9).

The Government committed to consulting with stakeholders on recommendation 6.5, to remove the obligation to prepare a separate RMP where the trustee considers that its RMS covers all risks relevant to the registrable superannuation entity (RSE) licensee in question.

RATIONALE

The SIS Act requires superannuation trustees to develop and implement an RMS and an RMP[1]. The purpose of the RMS is to identify, manage and monitor risks in relation to all of a trustee's activities as an RSE licensee. The RMP performs a similar function in relation to each individual RSE for a given

[1] SIS Act paragraphs 29HA(1)(a) and (b); paragraphs 29PA(1)(a) and (b).

trustee. An RSE can be a regulated superannuation fund, an approved deposit fund or a pooled superannuation trust, but not a self managed superannuation fund.

Separate requirements exist for RMSs and RMPs because one trustee could be responsible for a number of RSEs that face different risks or conduct other activities, such as owning an administrator or managing non-superannuation managed investment schemes.

However, an RSE licensee which acts as trustee for a single non-complex fund may choose to prepare a single document to satisfy the requirements of both the RMS and RMP.

Policy issue

Removing the obligation on trustees to prepare a separate RMP

In responding to recommendation 6.5, the Government said that it supported in principle removing the SIS Act obligation on trustees to prepare a separate RMP for an RSE where the trustee considers that its RMS covers all risks relevant to the RSE in question.

This approach would remove unnecessary regulation for trustees of multiple superannuation funds where the RMS is considered to cover all risks relevant to the RSE, allowing the trustee to combine the RMS and RMP in a single document.

Question 1.1 What benefits and drawbacks are associated with removing the obligation on trustees to prepare a separate RMP where the RMS is considered to cover all risks relevant to the RSE in question?

Question 1.2 What benefits and drawbacks are associated with implementing the removal of this obligation through legislation, as opposed to APRA prudential standards?