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Investment governance for superannuation trustees

SPS 530 | APRA Final Guidance

27 July 2023

The Australian Prudential Regulation Authority (APRA) has released its final guidance on investment governance for superannuation trustees.

The updated guidance is designed to assist superannuation trustees in meeting their obligations under the strengthened Prudential Standard SPS 530 Investment Governance, which came into force on 1 January 2023.

The final guidance released by APRA does not provide a prescriptive approach to guide superannuation trustees; rather APRA has taken a principles-based approach, catering for the variety of assets captured under Unlisted Assets.

The release of SPS 530 is a welcome addition to the superannuation industry to raise the bar on the process and governance of the management of investments, whilst providing the industry room for interpretation and flexibility to structure their business operations in the way most suited to achieve the fund's business objectives.

Given this ability for interpretation, time will tell how the application of the guidance plays out and whether the level of consistency in relation to investment governance in the industry is increased.

But the guidance is certainly timely, given the heightened concern and debate over potential for variations in valuation approaches across the superannuation sector. In an ever-growing 'choice' environment where members are moving between super funds on a regular basis (and between valuation cycles) and there is benchmarking of super funds' investment performance (MySuper), it is more important than ever to have consistency of approach to valuation.

Off the back of recent valuation challenges and the introduction of SPS 530 in January 2023, there has been an uplift in investment governance frameworks as applied by superannuation trustees. Some of the changes we are seeing in the market include:

- a focus on the improvement of valuation policies and procedures of the funds
- the creation of separate valuation compliance teams from the investment teams
- the building out of skilled and experienced team members with valuation experience in the funds
- the increase in frequency of valuations from annual and semi-annual to a quarterly basis
- the increase of the appointment of independent external valuation practitioners to perform the valuation of the unlisted assets
- increased focus on triggers impacting key value drivers, performance of stress testing, and applying scenario analysis to provide investment committees and boards sufficient information to conclude on investment matters
- focus on the characteristics of the unlisted asset classes to ensure appropriate valuation methodologies are adopted, with a clear source and support for inputs as well as details of qualitative and quantitative valuation triggers.

In relation to the frequency of valuation of investments, SPS 530 states that in determining the frequency, superannuation trustees should have regard to the 'prevailing market, economic environment, member equity consideration and matters concerning the ongoing appropriateness of the asset valuation'. Whilst APRA expects valuations on at least a quarterly basis, this is a suggested guidance and not an enforceable requirement. APRA does expect a superannuation trustee to demonstrate if they chose to undertake valuations less frequently how it has determined that the valuation frequency adopted is appropriate.

For certain unlisted asset classes, the valuation considerations and frequency will be different. Some, such as private equity and property, have greater exposure to market volatility. Other classes such as infrastructure have certain characteristics which mitigate market volatility such as stable and steady cash flows, limited volume risk exposure and often non-cyclical characteristics.

The aim of the superannuation trustee when considering the valuation governance is to ensure processes and frameworks are in place to achieve a 'market value' of the unlisted assets. The key valuation inputs and assumptions and the selection of the appropriate valuation methodology are equally as important as frequency to ensure a robust valuation process is undertaken.

The issuance of the final guidance on investment governance and valuation practices by APRA is a welcome addition to the business operations pillar across the prudential framework, raising the quality of investment governance to effectively manage investments and achieve investment objectives and strategies.

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