



15 December 2022

Mr Tim Baird
Assistant Secretary
Financial Regulators and Advice Review Branch
Financial System Division

VIC and National Office

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Dear Tim

Assessment of the effectiveness and capability of APRA's supervision function in superannuation

About Cbus

Cbus Super was established in 1984, created by workers for workers. We are a proud industry super fund, representing those that help build Australia.

As one of Australia's largest super funds, we provide superannuation and income stream accounts to more than 850,000 members and manage over \$70 billion of our members' money (as at 31 August 2022)¹.

INTRODUCTION

Cbus welcomes the opportunity to participate in this review.

Cbus is a long-standing advocate of the importance of having strong, effective regulators given the size and compulsory nature of the superannuation system and understands this is the purpose of this assessment.

This submission reflects the themes of efficiency, effectiveness and clarity.

EXECUTIVE SUMMARY

Efficiency and effectiveness

- APRA's supervisory priorities are clearly communicated.
- Cbus welcomes APRA consultation with industry prior to the development of its supervision priorities.
- Cbus believes that APRA should focus on and direct resources to activity that aligns with APRA's supervisory priorities, and that APRA could consider a reduction in ad hoc, reactive supervisory activity.
- There is scope to improve the effectiveness of APRA's supervision in achieving APRA's objectives of driving industry consolidation.
- There is scope to improve alignment of APRA supervisory and specialist teams.
- The industry would benefit if APRA (and ASIC) were to prepare entity-specific supervision plans each year including a program of regular supervisory meetings with regulated entities.

¹ Media Super is now a division of Cbus, offering Media Super products. For more than 30 years Media Super has been the industry super fund for Print, Media, Entertainment and Arts, and broader creative industries. As at 30 June 2022 Media Super provided superannuation and retirement accounts to more than 65,000 members.

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- With APRA and ASIC's new information sharing powers, both regulators should ensure there is co-ordination in the nature and timing of regulatory requests for information.

Clarity

Where the industry is faced with implementing significant regulatory change with limited lead time, we believe that the industry would benefit if APRA:

- provided responses to industry requests for guidance;
- developed and communicated a comprehensive supervisory approach; and
- adopted a more consultative approach to compliance and enforcement.

SUPERVISION

1. Are APRA's supervisory priorities clearly communicated by APRA staff to the regulated population and external stakeholders?

APRA clearly communicates its industry supervisory priorities each year with the publication of its Corporate Plan and Supervision Priorities.

2. Does APRA clearly communicate and implement its supervision activities, and are supervision activities appropriately targeted?

During 2022:

- APRA and Cbus staff have engaged via email at least 207 times relating to some 56 separate supervisory matters (planned and unplanned).
- APRA and Cbus directors and staff have attended 26 meetings with APRA relating to 15 separate supervisory matters (planned and unplanned).

Some of these engagements reflected a clear linkage to APRA's priorities set out in its Corporate Plan and Supervisory Priorities. Cbus is of the view that all APRA interactions and engagements should demonstrate a clear linkage to APRA's Corporate Plan and Supervisory Priorities.

3. How effective is APRA's supervision in achieving APRA's objectives? Are there any gaps in APRA's supervisory activities in superannuation?

- There is scope to improve the effectiveness of APRA's supervision in achieving APRA's objective of eradicating poor performance through merger activity. It will be beneficial for the industry to be able to understand how APRA is considering changes in, or relief from, existing regulatory settings in supporting timely and orderly consolidation. The industry will also benefit from better understanding how APRA's enforcement and supervisory activities in this realm are contributing to eradicating poor performance.
- APRA and ASIC's new information sharing powers have yet to deliver the anticipated efficiency gains with respect to the nature or the timing, of regulatory requests for information. With increasingly overlapping regulatory demands, a consolidated entity-specific regulatory plan covering the common priorities of both regulators could be expected to increase efficiency of regulatory activities and the ability of entities to respond effectively.

4. To what extent does APRA have the appropriate organisational capabilities (including, people, data, technology, and systems) for detecting prudential risks, prioritising issues, and conducting its supervisory activities to achieve the right outcomes?

With respect to data, technology and systems, APRA has implemented 'APRA Connect' via the Super Data Transformation project which requires regulated entities to provide extensive and granular information. It is not clear to industry to what extent this data is leveraged in supervisory activities.

5. What steps has APRA taken to effectively reduce the regulatory impost of its supervisory activities? How could APRA improve?

In so far as regulatory impost concerns the cost of compliance to regulated entities, Cbus recommends:

- that APRA develop and communicate annual supervisory plans for regulated entities aligned with APRA's overarching objectives and priorities. This process should leverage the rich body of entity-specific information already held by APRA about regulated entities, including information collected from independent reviews each entity is required to undertake under APRA prudential standards. Cbus considers that APRA would also benefit greatly from engaging regulated entities and their internal auditors as part of this process. An annual supervisory plan for each entity could include a forward view of APRA's engagement with regulated entities. For example:
 - Timing and focus areas for engagement by APRA (and ASIC)
 - Topics and timing of planned thematic surveys and prudential meetings
 - Schedule of regular supervisory meetings between the APRA Supervisory Team and key fund personnel
 - Timetable for other planned engagements (for example, attendance at Board meetings, engagement with the Chair)
- This would assist APRA and the industry with resource planning to optimise efficient and productive engagement and assist with planning for other regulatory, strategic and operational activities the Fund is required to undertake.
- Cbus is of the view that APRA supervisory interactions with a clear linkage to APRA's Corporate Plan and Supervisory Priorities are more effective and valuable, when compared to ad-hoc interactions where the linkage is less clear.
- Cbus welcomes the opportunity to provide feedback on APRA's supervisory priorities and encourages APRA to consult with industry participants as part of its strategic planning processes.
- The industry would benefit from regulatory guidance from APRA to provide insight as to APRA's expectations in respect of implementation of new or changed regulatory settings, for example the Best Financial Interests Duty. APRA has conducted supervisory activity in respect of compliance with the Best Financial Interests Duty which was legislated in 2021 with minimal lead time for implementation.
- APRA could develop a better understanding of the costs, ultimately borne by members, of its supervisory activities by requiring regulated entities to estimate the time and resources associated with ongoing supervisory activities, requests for information, and thematic reviews.

As noted above, Cbus is a long-standing advocate of the importance of having strong, effective regulators given the size and compulsory nature of the superannuation system. Cbus would

welcome the opportunity to discuss the matters raised in this submission in more detail. Please contact myself or Wade Martin, Chief Risk Officer on 0448 264 019.

Yours sincerely



Justin Arter
Chief Executive Officer