



28 February 2011

Dear Trustee

### **Operational and governance risks issues to consider when implementing change**

Over recent years there has been considerable consolidation in the superannuation industry which is expected to continue into the future. Implementing change can give rise to a number of risks for funds and their members if they are not managed well. From a wider industry perspective, a poorly managed implementation process may undermine member confidence.

APRA currently has broad guidance on successor fund transfers which funds should be consulting. However, APRA considers it appropriate to highlight its expectations of Trustees when they are considering and implementing mergers, restructures', successor fund transfers or changes to Trustees/service providers.

### **Considerations**

Where a significant change is being considered by a Trustee, fund and/or its material service providers, trustees should ensure that there is a well documented Change Management Plan in place which includes the following:

(a) *A reasonable set of assumptions*

Details the steps being undertaken to implement the change and outlines the rationale underlying assumptions adopted and justification of the proposed timelines for implementation.

(b) *Due diligence*

Allows sufficient time for a proper due diligence assessment to be completed (e.g. equivalent rights assessment, IT system capacity, service providers).

(c) *Adequacy of resources*

Trustees should ensure adequate resources are available to manage both the change and the ongoing day-to-day activities. These resources should include human, financial and IT systems at both the Trustee office level and for material outsourcing service providers.

(d) *Governance implications are properly considered and addressed*

This should include consideration of conflicts of interest.

(e) *Risk management framework*

The Change Management Plan should include a review of the Risk Management Plan (RMP) to identify, and monitor the impact of the change and monitor the efficacy of compensating controls. Attention should be given to updating the RMP and risk management framework and ensuring the adequacy of resources (human, IT and financial).

(f) *Successor fund transfer requirements*

Completing an equivalent rights assessment as required under the successor fund provisions of the SIS legislation:

- ensuring it is conducted at arm's length and the trustee is acting in the best interests of members;
- referring to APRA Superannuation Circular I.C.4 [Equivalent Rights for Members in Successor Fund Transfers](#);
- referring to APRA Superannuation Circular II.A.6 [Winding-up a Superannuation Fund](#);
- where a successor fund transfer is taking place between two superannuation funds with the same trustee, that Trustee needs to apply to APRA for a modification declaration to facilitate the required equivalent rights signoff.

(g) *Change of service providers*

Ensuring a complying material outsourcing agreement is in place before the change of service provider takes effect. Also consideration needs to be given as to whether portability relief is required for any interim blackout period exceeding 30 days (e.g. unable to fully facilitate transfers/rollovers during transition).

(h) *Legal instruments*

Identify any legal issues that may need to be addressed prior to the change taking place AND allow sufficient time to adequately resolve these matters, particularly where interaction with APRA is required - for example:

- impact on legal instruments which may need to be applied for, or transferred, in respect of the fund and/or trustee (e.g. portability relief for frozen/suspended investments, transitions/blackout periods, family law splitting relief, defined benefit fund/subfund transfer requirements where less than 50 members<sup>1</sup>, relevant exemptions under Part 9 of the SIS regulations);
- impact of any conditions on the Trustee's RSE licence (e.g. capital requirements, particularly where a custodian is involved - any specific conditions that may apply which require a licence variation require an application to APRA);

In line with normal practice APRA will consider exemption, portability suspension requests and applications to vary an RSE licence under the SIS Legislation on a case by case basis. APRA would expect a copy of the due diligence undertaken and the handover arrangements to be detailed in any application or relief request.

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<sup>1</sup> Refer FAQ14.1 on APRA website at: <http://www.apra.gov.au/Superannuation/Super-Licensing-FAQ-Defined-Benefit.cfm#Q14.1>

All applications for relief under SIS r. 6.37 must outline the exceptional circumstances and present a business case that would warrant APRA granting relief for rollovers and transfers.

### **APRA Expectations**

APRA strongly encourages trustee representatives to contact their responsible APRA supervisor as soon as possible when considering restructures, transfers and changes in service providers. APRA also expects Trustees to apply for variations to an RSE licence and requests for relief or exemptions in a timely manner. Trustees should not leave it until late in the process to raise issues that require regulatory input or action.

### **Enquiries**

In the event you wish to discuss this letter, please contact your responsible APRA supervisor.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Greg Brunner', with a stylized flourish at the end.

Greg Brunner  
General Manager  
Supervisory Support Division