



**A Practice Guide on Stronger Super .....  
for Australian asset owners and managers**



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## INTRODUCTION

In 2009, the Federal Government commenced its review, the “Cooper Review”, into the superannuation sector – Super System Review.

The key outcomes of this review were:

- Introduction of “MySuper” – a new simple low cost default superannuation product,
- Improved regulatory oversight by the Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC) and the Australian Taxation Office (ATO), and
- Implementation of SuperStream

Introduction of the significant reforms (referred to as Stronger Super) has resulted in improved and increased regulatory oversight by the regulatory bodies.

New disclosure and reporting requirements have necessitated the need for a consistent approach by industry participants.

To this end, ACSA established the Stronger Super Task Force to collaboratively review reporting requirements and determine the best way to efficiently and pragmatically fulfil them.

Although custodians are not required to report to APRA themselves, they are in the unique position of having both Responsible Superannuation Entities (RSE's) and Investment Managers as clients. The combination of having such a broad industry reach and an intimate understanding of data flows and investment structures enable custodians to work towards an industry consensus that will facilitate the consistency of reporting.

ACSA has been working closely with APRA to resolve interpretation issues and establishing pragmatic reporting solutions to meet these disclosure requirements.

This Practice Guide brings together the outcomes of the industry collaboration and engagement with APRA to provide a description of the approach that ACSA expects members to implement in providing their own response to the Stronger Super regime, especially as regards the RSE regulatory reporting. By its very nature, this Practice Guide is general in nature and does not look to take into account every possible circumstance. It is still the responsibility of each RSE and custodian to perform their own independent assessment and if necessary secure their own independent advice on the regulations and ensure their own individual compliance to the regulations.

This Practice Guide aims to summarise the outcome of the collaboration to date to give wider industry transparency.

ACSA expects all members to be compliant with the outcomes described in this guide or otherwise be able to explain to an RSE client their rationale for any areas of non-compliance.

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The key areas of focus within the Guide are as follows:

1. APRA reporting
  - a) Quarterly reporting deadlines
  - b) Look through reporting
  - c) Asset class classification
  - d) Currency hedging
2. Outsourcing Standards

This Practice Guide will be updated from time to time as required.

The information published is based on information available at the date noted in the footer.

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## 1. QUARTERLY REPORTING DEADLINES

### Background and Implications

The deadline for RSE's to submit returns to APRA is 28 calendar days (28CD) post quarter end.

One of the key tenets of regulatory reporting is covered under Section 29QC of the Superannuation Industry (Supervision) Act that stipulates that RSE reporting needs to be consistent across all disclosures. To achieve this consistency, custodians are using the month end hard close position to drive the APRA reporting. Using any other data set (e.g. soft close) would inevitably lead to mismatches in data quality.

Although 28CD may not be sufficient time to source, integrate and review all data on a direct and indirect basis post month end hard close, APRA does require RSE's to provide the latest available data within the 28CD timeframe.

It is acknowledged that the 28CD timeframe may cause all parties involved in inputting and completing the APRA Reporting Standards to trade-off between timeliness and accuracy

As a result of industry feedback, APRA for a transitional period, has extended the deadlines for quarterly reporting from 28CD to 35CD. For the period up to 30 June 2017, APRA does encourage RSEs that can lodge these forms in less than 35CD to do so.

### Select investment options

APRA has also released two reporting standards in relation to Select Investment Options, which represent a significant increase in the number of forms RSEs are required to produce.

SRF 533.1 comes into effect for reporting periods commencing from 1 July 2016, while 702.1 has now been deferred pending release of ASIC Product Dashboard requirements.

Once in force, the deadline for reporting these new forms will be 28CD post quarter end, thereby further increasing the number of forms to be reported by 28CD.

### ACSA approach

ACSA has discussed with APRA the month end timeline from the release of hard close pricing to the 28CD and all the implications in producing information within that timeframe.

As stated above, post feedback from the industry APRA has extended the quarterly reporting deadline to 35CD up to 1 July 2017 for a transitional period. Post 1 July 2017 deadlines will revert to 28CD.

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All reporting entities should use the latest available information to be included in their reporting although it is recognised that this information may not be current and may be considered stale.

Where data does become available post-delivery of returns, this data will not be retrospectively applied unless the updated reporting has a material impact on the reporting by Investment Managers or RSE's. APRA does expect that improvements in procedures and processes over time will improve the quality and accuracy of reporting.

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## **2. LOOK THROUGH REPORTING**

### **Background and Implications**

#### **APRA Reporting Requirements**

The Stronger Super reforms introduced the requirement to report on a look through basis. Look through reporting refers to the disclosure of investments that are held by indirect investment vehicles, that being, an investment in an unlisted unit trust and depending upon the specific regulatory report or disclosure requirement can vary, both in depth and detail. The driving force behind this requirement is transparency for supervisory purposes.

One of the key tenets of regulatory reporting is covered under Section 29QC of the Superannuation Industry (Supervision) Act that stipulates that RSE reporting needs to be consistent across all disclosures.

For the purposes of this paper, disclosure requirements in relation to Portfolio Holding Disclosure on RSE websites have not been covered as requirements are yet to be finalised.

#### **ACSA approach to collection of data**

Within the financial services industry, the custodians of both RSE's and Investment Managers' are dependent upon each other to provide timely and accurate look through data for indirectly held investments.

As such, it became evident quite early in the implementation phase that in order for the industry wide requirement of look through reporting as consistent as possible custodians would be well placed to co-develop the collection format and content of look through information.

ACSA has worked closely with market vendors in relation to the collection of data. There are currently two vendors in the market namely, AUSMAQ and Morningstar.

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## **Detail and Timing**

Due to the short time-frame of quarterly APRA reporting (35CD currently with a reduction to 28CD for reporting periods after 1 July 2017) and the long train of data that feeds into the reports, the data requirements from Investment Managers and their custodians is designed to minimise downstream reconciliation issues.

Although many entities share the same financial year end date and report financial information on a monthly basis, the timing of when they are able to perform a “hard” close of accounting information can differ. In addition the pricing methodologies of entities also vary. These two factors have the potential to cause downstream reconciliation issues and so the data dissemination is designed to overcome both of these issues.

Rather than each Investment Manager providing individual reporting to each of its investors based on their unit holding, the standard template aims for reporting to be completed once for all unit holders in a specific investment vehicle.

By reporting the total values of each investment classification combination and also their relevant weighting within the portfolio, downstream users can apply these percentages to their own “hard” close valuations of the investment vehicle. This pragmatic approach facilitates:

1. Investment Managers providing only a single report to all investors. Ideally this data will be delivered to both look through data aggregators, such as AUSMAQ and Morningstar.
2. RSE’s accounting valuations remaining constant with their other accounting reporting

In the absence of current quarter look through data from fund managers, we would recommend that RSE’s can apply a previously received “stale” file to generate their reporting.

## **Treatment of derivatives within Indirect Investment Vehicles**

Unlike the treatment of directly held derivatives that are reported separately in forms SRF 320 and a dedicated SRF 534 derivatives held within an investment vehicle must be reported alongside the other unit holdings in an investment vehicle. APRA require reporting derivatives within indirectly held investments to be reported. The value of derivative contracts market exposure is to be apportioned within the indirectly held investment to the asset class type to which the derivative relates.

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## **Look through reporting of net movements and income of an investment vehicle**

The disclosure of net movements and income of an investment vehicle on a look through basis is required on both the SRF 531.0 and SRF 533.0 reports if this information can be obtained or is known by an RSE. APRA have given guidance on how this information can be disclosed in the absence of this information in the instructions of the SRF 531.0 under item two of the report instructions.

APRA allows RSE's to apportion the income that they have received at the investment vehicle level to the underlying asset classifications received from fund managers on a proportional basis. This is an accepted pragmatic approach, but will not be the same outcome as completing a look through of transactions and profit and loss data at the individual asset classification level especially in the case of vehicles that hold investments over a range of asset classes.

On a side note, the allocation of all of these elements to individual unit holders based on their proportionate holding over a period of time would exponentially increase the data requirements and complexity required from Investment Managers. Investment Managers in turn would have to build entirely new reporting systems to disclose information that ultimately cannot be reconciled with their respective investors' financial statements. Going to this extent would also destroy the core design of a commingled investment vehicle as being able to aggregate its outcomes and communicate the overall outcome to its investors.

To this end ACSA members are not currently providing or seeking to source transactional look through information as currently it is extremely difficult to source and would create outcomes that are at odds with the reason these investment vehicles exist as co-mingled structures in the first place.

### **Forthcoming disclosures**

As additional forms are required to be lodged with APRA, data requirements from Investment Managers will continue to increase. To ensure that ongoing disclosure, ACSA members are committed to working with our clients, industry bodies (e.g. FSC, AIST, ASFA) and data aggregators (e.g. Ausmaq, Morningstar). We recognise we hold a unique position as custodians for both RSE's and Investment Managers to enable them to meet the tight timeframes for regulatory reporting.

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## Look Through Reporting and Investment Managers

### Background and implications

This is intended to be a set of guidelines to assist Investment Managers with understanding the provision of look through data for their RSE investors. The guidelines will not deal with all possible scenarios. We recommend dialogue with the RSEs on look through requirements particularly where these guidelines do not provide clarity for that security. ACSA believes that APRA are looking to Investment Managers to provide look through using reasonable and defensible methodologies to help the RSE report its investment exposure to APRA.

### Key APRA requirements

- Look Through Data should be based on actual asset allocation not targets
- APRA have provided definitions for asset classes and reporting needs to align to these asset classes, which will often be different to standard practice

### Recommended methodology

The preferred market practice for the sponsors of investment vehicles that contain RSE investors has been to provide asset allocation data rather than security level positions as it meets the RSE requirements and it generally protects the sponsors' or managers' intellectual property

1. Asset Allocation Reporting Options Bottom Up Security Level Categorisation (Preferred APRA approach)
2. APRA would prefer that individual securities are classified and then these classification are sub-totaled to provide an overall asset allocation for the vehicle. For an Australian Equities trust, this would potentially result in an allocation that looks like 98% Australian Listed Equities and 2% Australian Cash (listing type – not applicable). Direct Categorisation

In some cases, it may be appropriate to directly categorise as 100% invested in a single APRA asset class category e.g. International Listed Equities as the sponsor consider all other exposures to be immaterial. However APRA has provided guidance that they do not consider that there is a materiality threshold for this look through data.

### 3. Security Level Reporting

#### 3.1 Categorised Securities (Preferred but not Mandatory)

This will require the provision of a full list of securities with APRA categories attributed in the file.

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## 3.2 Uncategorized Securities

ACSA believes that negative asset allocations may occur, and do create issues. Negative asset allocations cause issues for the custodians, the RSEs and ultimately for the APRA data set. In many of these cases, we would expect these trusts to meet APRA's definition of a Hedge Fund and therefore the vehicle would be reported as 100% "Other".

### Data dictionary and the use of "Other"

- APRA has defined six main asset classes (refer to SRF 530.0 or SRF531.0). ACSA has issued a security classification matrix to help the industry with the consistent classification of underlying securities. This may be found at [www.acsa.com.au](http://www.acsa.com.au)
- APRA has also provided a classification called "Other" for all securities that do not fit with the six main asset classes.
- APRA has provided guidance that "Other" includes, but is not limited to, Hedge Funds, Mezzanine Debt and Convertible Debt. The ACSA APRA Reporting Classification Matrix provides a classification for all asset types including a breakdown of the "Other" asset class. The matrix can be found on the ACSA website ([www.acsa.com.au](http://www.acsa.com.au))
- If securities are assigned to the category of "Other", there are additional reporting obligations for both the investment manager and the RSE. These obligations are to provide the reason for the "Other" classification.

"Other" should not be used as a substitute for not finding out the actual asset allocation.

### Derivatives

- Derivatives that are used for rebalancing or gaining exposure should be included in asset allocation.
- When reporting indirectly held investments apportion the market value of any derivative contracts within the indirectly held investment to the asset class type(s) to which the derivatives relate. The apportionment will enable the net asset value of the indirectly held investment to be reported.
- If derivative contracts are used within an indirectly held investment to hedge currency exposure, report the percentage of the indirectly held investment's net asset exposure that is currency hedged.
- Fixed Income Derivatives should be allocated to Fixed Income Type = Government Debt unless the investment vehicle sponsor believes that the Fixed Income sub-type of Non-Government, Mortgage or Credit are more relevant to that specific derivative.

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## **Look through**

FAQ 37 directs RSE's to look through one level beyond the Fund or its associate vehicles. Look through is defined on page 8. ACSA believes it is APRA's intention to report on a look through basis to the first non-associate entity and then the reporting of the ultimate asset allocation

## **Balance sheet items**

Balance sheet items include any assets or liabilities of the trust that could not be defined as securities for example, receivables and payables.

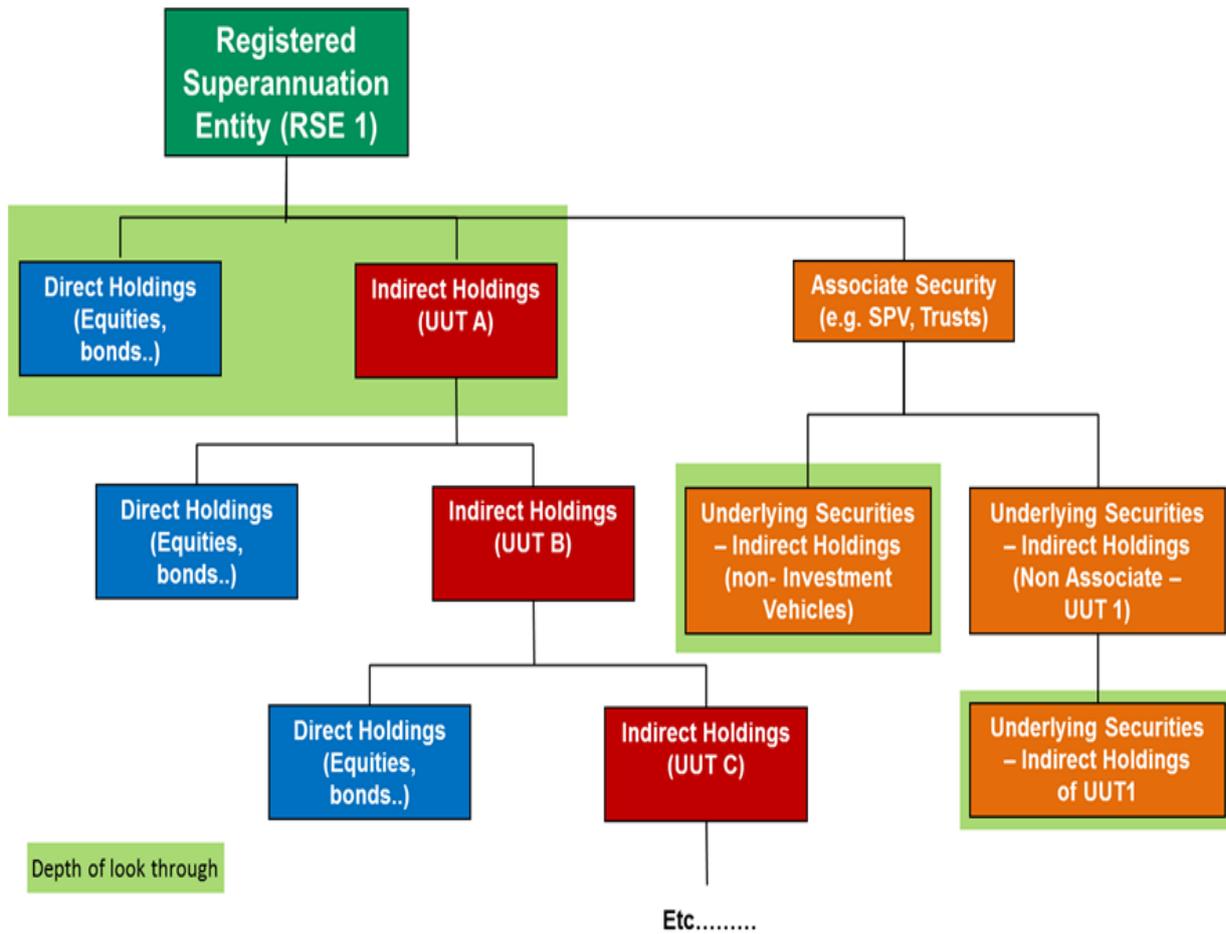
Balance Sheet items may be ignored if they are considered immaterial. If material, ACSA's approach is to categorise them as cash and offsetting them against the working currency of the fund.

Balance sheet items are not classified as other.

## **Delivery of data - timing**

All look through data is required within 7 Business Days (BD) in order to be utilised in that quarter's reporting. ACSA encourages 5BD but recognises that cut offs will vary across funds depending on individual RSEs hard close. If information is not available the latest available information should be applied.

Table 1: Example of look through reporting



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### **3. ASSET CLASS CLASSIFICATION**

#### **Background and Implications**

The APRA Reporting Standards require assets to be classified according to various APRA defined classifications. Across the industry at present there is no consistency as to how many asset types are classified. Accordingly, without an industry standard there exists a significant risk of inconsistent classifications reporting by RSE's and Investment Managers.

#### **ASCA Approach**

ACSA, with the support of APRA, has agreed a security type classification matrix to ensure that there is consistency in the classification of assets.

RSE's and Investment Managers should adopt the classification matrix and ensure that any classifications they undertake themselves are consistent with the ACSA Standard.

The ACSA APRA Reporting Classification Matrix can be found on the ACSA website ([www.acsa.com.au](http://www.acsa.com.au))

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## 4. CURRENCY HEDGING - MULTIPLE HEDGING APPROACHES

### Background and Implications

There is no industry standard for the implementation of currency hedging in a RSE investment structure (see Table 2). Hedging is possible at many levels but is most common at Option or Asset Class level. Most RSE's would calculate the currency hedging ratio for their investment options in order to ensure compliance with the investment mandate ranges allowed by the Investment Committee and to provide reports on the investments to members.

Currency hedging for a specific asset is unusual with the exception of large international direct assets e.g. a property or infrastructure asset. In many cases, it will not be possible to allocate a currency hedge to a particular APRA category of assets and calculate its hedge ratio.

### ACSA Approach

#### Hedging Ratio Calculations

Due to the variety of implementation approaches to currency hedging, ACSA would consider any of the following to be reasonable calculation methodologies. ACSA also acknowledges that this is a complex area that is highly reliant on the particular structure and approach of an RSE and so accurate reporting may also require client-by-client variation in approach.

#### Option Currency Hedging Approach

For RSE's and Investment Managers that implement their currency hedging at an Investment Option level, APRA could expect to see the same percentage for all international asset classes for each Investment Option reported in SRS 533.0. This will differ across each option but will be consistent within each option.

For SRS 530.0, it is likely that adopters of this approach will calculate a Total Fund hedging ratio, which would effectively be a weighted average of the option ratios. This average would then be used for all asset class categories in SRS530.0.

Option	Balanced	Growth	Conservative	Total (SRS 530.0)
Hedge Ratio	93%	95%	97%	93.1%

Option	Asset Class	Hedge Ratio
Balanced	International Equity	93%
Balanced	International Fixed Income	93%
Balanced	International Infrastructure	93%
Growth	International Equity	95%
Growth	International Fixed Income	95%
Growth	International Infrastructure	95%

### Asset Class Currency Hedging Approach

For RSE's and Investment Managers that implement their currency hedging at an Asset Class level, APRA would expect to see the same percentages for each international asset class reported in SRS 530.0

For SRS 533.0, the same percentages as from the SRS530.0 would then be utilised at the option level.

Asset Class	International Equity	International Fixed Income	International Infrastructure
Hedge Ratio	75%	100%	100%

Option	Asset Class	Hedge Ratio
Balanced	International Equity	75%
Balanced	International Fixed Income	100%
Balanced	International Infrastructure	100%
Growth	International Equity	75%
Growth	International Fixed Income	100%
Growth	International Infrastructure	100%

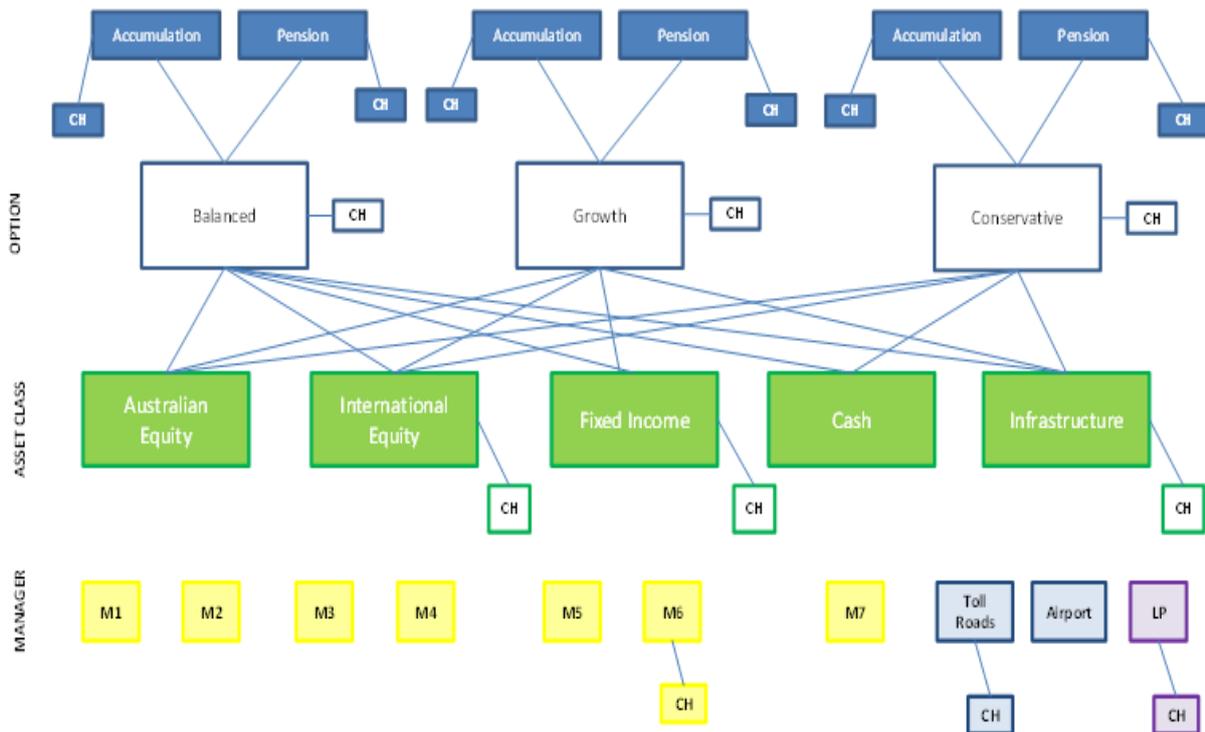
## Hedging Ratio Percentages

This is only relevant for “International Domicile” Assets. If the asset is “Australian domicile,” the currency hedging field will be left blank (as opposed to inserting “0%”).

If fully hedged, then “100%”

If fully unhedged, then “0%”

Table 2: Currency Hedging in a RSE Investment Structure



Note: "CH" = Currency Hedge.  
This diagram depicts how they can be employed at any level of a Super Fund structure

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## **5. OUTSOURCING STANDARDS**

### **Global Sub-Custodian Networks**

#### **Background and implications**

The nature of asset safekeeping and segregation requires custodians to support their clients in whatever global markets the clients choose to invest. RSE's enter these investments under their own discretion and based on their own evaluation of investment risk/reward.

A typical global custodian will provide access to a multitude of investment markets around the world. Global custodians have a variety of approaches to local asset safekeeping in each market, but no global custodian has a proprietary local custodian in every market. All global custodians use third party local sub-custodians to some extent.

The wide reach of the Australian prudential standards needs to be read in light of the common market practice that goes with supporting this range of markets, often through third party agents.

#### **ACSA approach**

ACSA expects that to align with the Australian regulatory requirements, a global custodian providing asset safekeeping and segregation for Australian funds will demonstrate reasonable care in the selection and ongoing management of their sub-custodians, (in particular the standard of care for a sub-custodian must be related to the expectations of a sub-custodian in that particular market), but that such oversight does not have to extend to providing an indemnity for the solvency of a sub-custodian.

Assuming adequate disclosure of the sub-custodian network means that the solvency of sub-custodians needs to be incorporated into a RSE's or Investment Manager's discretionary decision to enter and remain invested in the market in question.

Ref: APRA SPS 231 para 22, SPG 231 para 22, SPG 231 para 33  
(See Appendix 1)

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## **Specialist Providers**

### **Background and implications**

Custodians make use of various specialist providers in performing their services. Examples include

- pricing and information services, such as Reuters and Bloomberg;
- derivative pricing providers, such as Markit and SuperDerivatives; and
- corporate actions sources, such as the ASX.

Specialist service providers may also be used by custodians to provide “add on services” to the custody offering, such as proxy voting.

Generally these providers offer their services on global terms and conditions that stipulate that the relevant service provided is taken by the customer on an “as-is” basis, with no recourse by the customer to the specialist provider.

### **ACSA approach**

ACSA expects that to align with the Australian regulatory requirements, a global custodian will have its own policies and protocols to validate specialist providers. However due to the commercial position of the specialist provider, the limited recourse is a general market position and would be no different if the RSE was negotiating directly with the provider.

As such it is reasonable for a custodian to provide the service on the same terms as it is able to secure the service.

Ref: APRA SPS 231 para 22, SPG 231 para 22, SPG 231 para 33  
(See Appendix 1)

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## **Distributed Operating Models**

### **Background and implications**

Many ACSA members are large global financial services organisations that often use multiple sites across the world to deliver services for their clients. These sites are often used to achieve 'follow the sun' or 'pass the book' operating efficiency to provide highly scaled delivery to Australian clients in a way which might not be cost effective from a purely domestic footprint. Across the ACSA membership, these sites are mainly 'captive' with staff in the location being employees of the organisation but also include joint venture arrangements where staff are employed by the JV.

### **ACSA approach**

ACSA expects a custodian will recognise that irrespective of the underlying service location, final accountability and responsibility for the outcome and delivery to its Australian clients rests and remains with the Australian custody business (whether through a branch, subsidiary or other entity structure).

ACSA expects a custodian to be able to adequately facilitate disclosure between itself and an RSE that allows the RSE to then incorporate adequate risk management steps to demonstrate appropriate oversight of the custodian's distributed operating model.

ACSA does not expect that such disclosure in and of itself obligates custodians to provide prior notice and consent to the configuration (or changes in configuration) of a custodian's overall global end-to-end operating model.

ACSA does draw members' attention to SPG 231 para 35(a) where APRA is specifically identifying country risk that needs to be considered by an RSE. As such, even with 'captive' offshore locations, it remains important for an RSE to understand the countries that are used by a custodian to provide its services (including if and when these countries change).

Ref: APRA SPS 231 para 21.p, para 28, para 29, SPG 231 para 34 to 37  
(See Appendix 1)

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## **APPENDIX 1 – OUTSOURCING REFERENCES OUTSOURCING**

### **APRA Prudential Standard SPS 231 - Outsourcing**

#### **Paragraph 21.**

At a minimum, the (outsourcing) agreement must address the following matters:

- (p) to the extent applicable, offshoring arrangements (including through sub-contracting).

#### **Paragraph 22**

“An RSE licensee that outsources a material business activity must ensure that its outsourcing agreement includes an indemnity to the effect that any sub-contracting by a service provider of the outsourced function will be the responsibility of the service provider, including liability for any failure on the part of the sub-contractor”.

### **APRA Prudential Practice Guide SPG 231 – Outsourcing**

#### **Paragraph 22**

“As required by SPS 231, the agreement must address liability and indemnity issues. It would typically specify the extent of liability for each party and, in particular, whether liability for negligence is limited. It would also specify any indemnities and provide details of any insurance arrangements. Also, consideration would usually be given to the extent of liability to both the RSE licensee and service provider in relation to the subcontracting arrangements”.

#### **Paragraph 33**

“APRA considers that a prudent RSE licensee will ensure that the custody agreement clearly addresses the use, and potential use, of sub-custodians. APRA envisages that the agreement will require that, prior to arranging assets of an RSE to be held by a sub-custodian, the custodian will provide the RSE licensee with written notice of the identity of each sub-custodian with which the assets of an RSE are intended to be placed. Further, APRA envisages that the custodian will notify the RSE licensee in writing of any subsequent appointments of new or replacement sub-custodians at the earliest practical time but, in any event, no later than 10 business days after the appointment has been made”.

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### **Paragraph 34**

“SPS 231 requires an RSE licensee to consult with APRA prior to entering into offshoring agreements. This includes where a service provider conducts part of an RSE licensee’s material business activity offshore (i.e. the physical location of this part of its work is outside Australia). This prior consultation is intended to provide an opportunity for APRA to review the RSE licensee’s assessment of offshoring risks, and the processes and controls introduced to mitigate them. This will allow APRA to provide feedback to an RSE licensee but APRA does not intend to approve individual offshoring arrangements.”

### **Paragraph 35**

“An offshoring arrangement can give rise to a number of particular risks, including:

- (a) country risk — the risk that overseas economic, political and/or social events will have an impact upon the ability of an overseas service provider to continue to provide an outsourced service to an RSE licensee;
- (b) compliance (legal) risk — the risk that offshoring arrangements will have an impact upon an RSE licensee’s ability to comply with relevant Australian and foreign laws and regulations (including accounting practices);
- (c) contractual risk — the risk that an RSE licensee’s ability to enforce the offshoring agreement may be limited or completely negated;
- (d) access risk — the risk that the ability of an RSE licensee to obtain information and to retain records is partly or completely hindered. This risk also refers to the potential difficulties or inability of APRA to gain access to the service provider and the material business activity being conducted for prudential review purposes; and
- (e) counterparty risk — the risk arising from the obligor’s failure to meet the terms of any agreement with an RSE licensee or to otherwise perform as agreed.”

### **Paragraph 36**

“Typically, these and other risks would be specifically addressed during the preparation of a business case, when conducting due diligence and during contract negotiations. These risks would also be considered when conducting the ongoing monitoring and control of that material business activity. Specific risk management expertise may be required when assessing, monitoring and controlling material business activities outsourced to service providers conducting the activities outside Australia.”

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## Paragraph 37

“An offshoring agreement would typically include the following additional provisions:

(a) choice of law — typically, the agreement would specify the particular jurisdiction under which contractual disputes will be resolved. The due diligence process may include an examination of the relevant foreign legislation and regulations by a suitably qualified expert to ensure that contractual provisions are recognised by the foreign jurisdiction and are able to be enforced in the chosen jurisdiction; and

(b) security and confidentiality of information — as a guide, contractual provisions in relation to data would be of the same standard as those required of a domestic service provider and in accordance with requirements under Australian legislation and regulations. The agreement would normally also ensure that all information forwarded to the service provider by an RSE licensee (as well as any information forwarded by the service provider to third parties in the course of providing that service, such as to a backup disaster recovery provider) remains the property of the RSE licensee.”

## FAQ 3 (previously FAQ 65)

### **What are APRA’s expectations regarding liability and indemnity provisions relating to sub-contracting in outsourcing agreements?**

A: Prudential Standard SPS 231 Outsourcing (SPS 231) requires that an outsourcing agreement must, at a minimum, address a number of matters, including liability and indemnity, sub-contracting and insurance. Paragraph 22 of SPS 231 provides that there must be an indemnity to the effect that the service provider is responsible to the RSE licensee for the actions of any subcontractor. This requirement is independent of any rights or action the service provider may have against the subcontractor.

APRA’s view is that whilst SPS 231 requires the outsourcing agreement to cover ‘any liability’ this provision does not prohibit the RSE licensee and the service provider agreeing to a limit on the service provider’s liability and indemnities. This agreement between the RSE licensee and the service provider may, for example, be to reflect accepted business practices. This position is reflected in *Prudential Practice Guide SPG 231 Outsourcing* (SPG 231), which makes allowance for situations where the liability for negligence may be limited and includes reference to sub-contracting arrangements. APRA also expects that any possible limitations in the liability and indemnity provided under the contract be considered within the RSE licensee’s risk management framework and when considering a suitable level for the operational risk financial requirement target amount and tolerance limit.

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## **FAQ 60**

Where an indirectly held investment contains derivative contracts, how should those derivative contracts be reported on SRF 530.1 and SRF 530.0?

A: When reporting indirectly held investments on SRF 530.1 and SRF 530.0, apportion the market value of any derivative contracts within the indirectly held investment to the asset class type(s) to which the derivatives relate. The apportionment will enable the net asset value of the indirectly held investment to be reported.

If derivative contracts are used within an indirectly held investment to hedge currency exposure, report the percentage of the indirectly held investment's net asset exposure that is currency hedged (refer to column 9 of item 3 on SRF 530.1 and to column 5 of item 3 on SRF 530.0).

Do not report derivative contracts for directly held investments on SRF 530.1 and SRF 530.0. Directly held derivatives must be reported on SRF 534.0 from 1 July 2014.

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