

GOVERNANCE TOOLKIT

Governance

31 OCTOBER 2018



TOOLKIT CO-PRODUCED WITH:

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LAWYERS



AUSTRALIAN INSTITUTE of
SUPERANNUATION TRUSTEES

PURPOSE OF THE GOVERNANCE TOOLKITS

AIST has developed the Governance Toolkits to assist trustees with maintaining strong prudential frameworks.

The Toolkits contain functional tools such as diagrams, decision trees, flowcharts and checklists, to assist trustees with understanding and applying their legal obligations and AIST’s governance guidelines

HOW TO USE THIS TOOLKIT

This Toolkit is designed to assist trustees with understanding and implementing the Superannuation Prudential Standard Governance SPS 510, related legislation and regulatory guidance and AIST’s Governance Code. It also incorporates findings made by APRA as part of their thematic review of superannuation board governance practices in May 2018.

The Toolkit also includes some better practice recommendations. Strict, legalistic compliance with governance requirements no longer meets the expectations of regulators with an increasing focus on culture and outcomes. The concept of “better practice”, rather than best practice, acknowledges differing views on what can make governance practices more effective. However board effectiveness will be difficult to achieve without a culture of striving to meet better practice. This requires trustees to be alert to developments in better practice standards in governance.

“Sound corporate governance is critical to the long-term viability of any company...” (Prudential Inquiry into the Commonwealth Bank of Australia Final Report)

WARNING AND DISCLAIMER

The Toolkit is intended to assist trustees but does not replace or exhaustively replicate primary sources of a trustee’s legal obligations, such as general law, legislation, regulations, prudential standards and regulatory guidance.

While the ⚠ symbol identifies issues requiring care, content without a symbol should not be regarded as any less significant. The trustee will have to make its own judgments on how to apply the information in this Toolkit.

This Toolkit does not constitute legal advice and should not be relied upon to demonstrate compliance with any legal obligation or standard of conduct expected of trustees or their directors. While this Toolkit is a valuable tool for a trustee considering its obligations, it will not guarantee compliance or sound outcomes.

The information is current as at 31 October 2018.

Further assistance

If you would like further assistance, contact your professional advisers, AIST at info@aist.asn.au or Mills Oakley at mbland@millsoakley.com.au.

TOOLS

OBLIGATIONS MAP	Showing the breadth of sources from which obligations in relation to fund governance arrangements arise.
GOVERNANCE FRAMEWORK OVERVIEW	Summarising the main requirements of a Governance Framework and interaction with other frameworks contained in Superannuation Prudential Standards.
CHECKLISTS	Governance framework
	Board delegations
	The board (charter, voting, composition, renewal, nomination, and performance assessment)
	Diversity
	Board committees
	Other frameworks
	Audit
	Confidentiality and access
	Governance Framework review
	AIST Governance Code requirements
DICTIONARY	Key words are defined in a dictionary at the back of the Toolkit.
KEY	Symbols are used to help you identify whether items in this Toolkit relate to law, guidance, recommendations, commentary and the AIST Governance Code.
	Symbol  is used to identify a legal requirement.
	Symbol  is used to identify APRA Guidance, including some APRA findings as part of their thematic review of superannuation board governance practices in May 2018.
	Symbol  is used to identify AIST Governance Code requirements.
	Symbol  is used to identify recommendations and commentary that may be considered as better practice.
Symbol  is used to identify an issue that needs particular care.	

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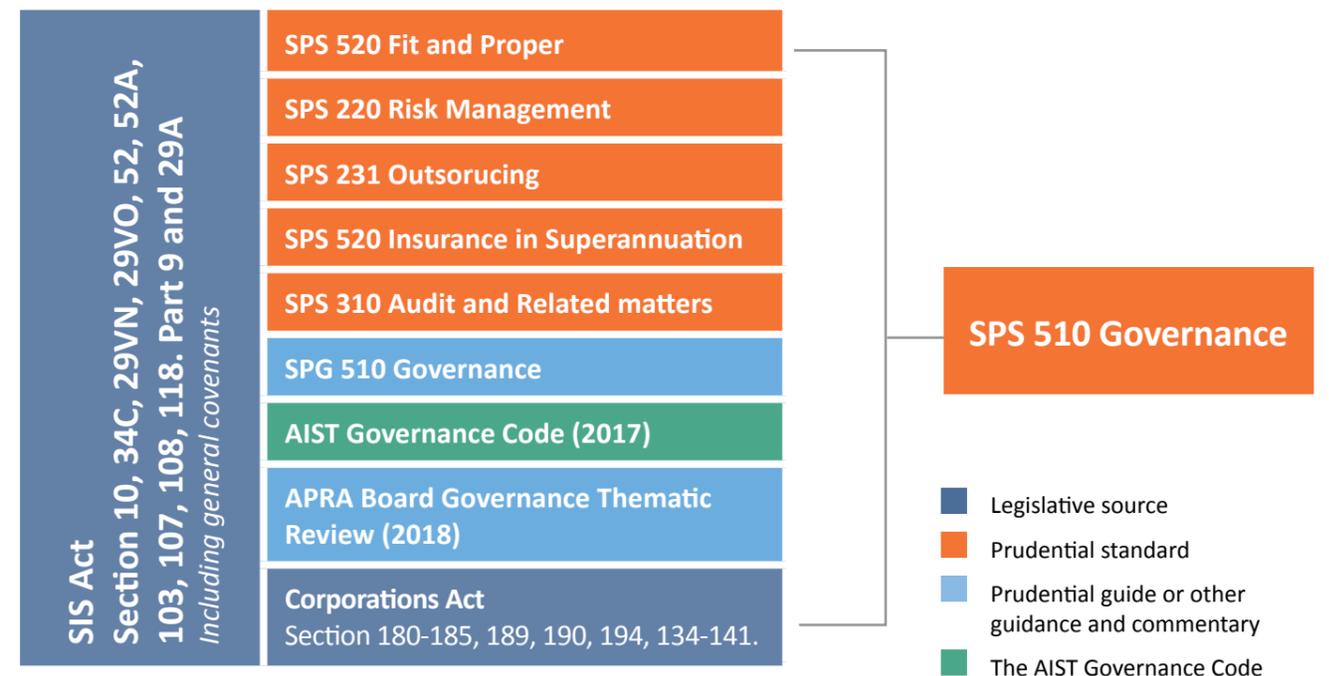
1. RSE licensee's obligations

An RSE Licensee must comply with the requirements set out in SPS510. The ultimate responsibility for the sound and prudent management of business operations rests with its board of directors.

- R** It is essential that an RSE licensee has a sound governance framework and conducts its affairs with a high degree of integrity. A culture that promotes good governance benefits all stakeholders of an RSE licensee and helps to maintain public confidence in the entity.
- R** The governance of an RSE licensee builds on these foundations in ways that take into account the size, business mix and complexity of the RSE licensee's business operations.

OBLIGATIONS MAP

The following Obligations Map sets out the breadth of sources from which obligations in relation to fund governance arrangements arise.



THE AIST GOVERNANCE CODE

GC The AIST Governance Code and accompanying Guidance were developed to build on AIST's guidelines and principles for good governance in the industry – the Fund Governance Framework for Not-for-Profit Superannuation Funds, first published in 2011 and now in its third edition.

AIST registered funds must demonstrate how they have fulfilled each requirement or provide a reasonable explanation of why it was not possible to comply, or why it would not be in the interests of members of the fund if they were to comply.

The Code requirements are set out and denoted by the **GC** symbol in appropriate places in this Toolkit.

2. Governance Framework

I An RSE licensee must have a governance framework that sets out how the board oversees and exercises its authority in relation to its business operations. The framework must encompass the totality of systems, structures, policies, processes and people within the RSE licensee’s business operations.

I The board is ultimately responsible for the establishment, implementation and oversight of the governance framework.

R An effective governance framework supports an RSE licensee to make objective business decisions in the best interests of beneficiaries.

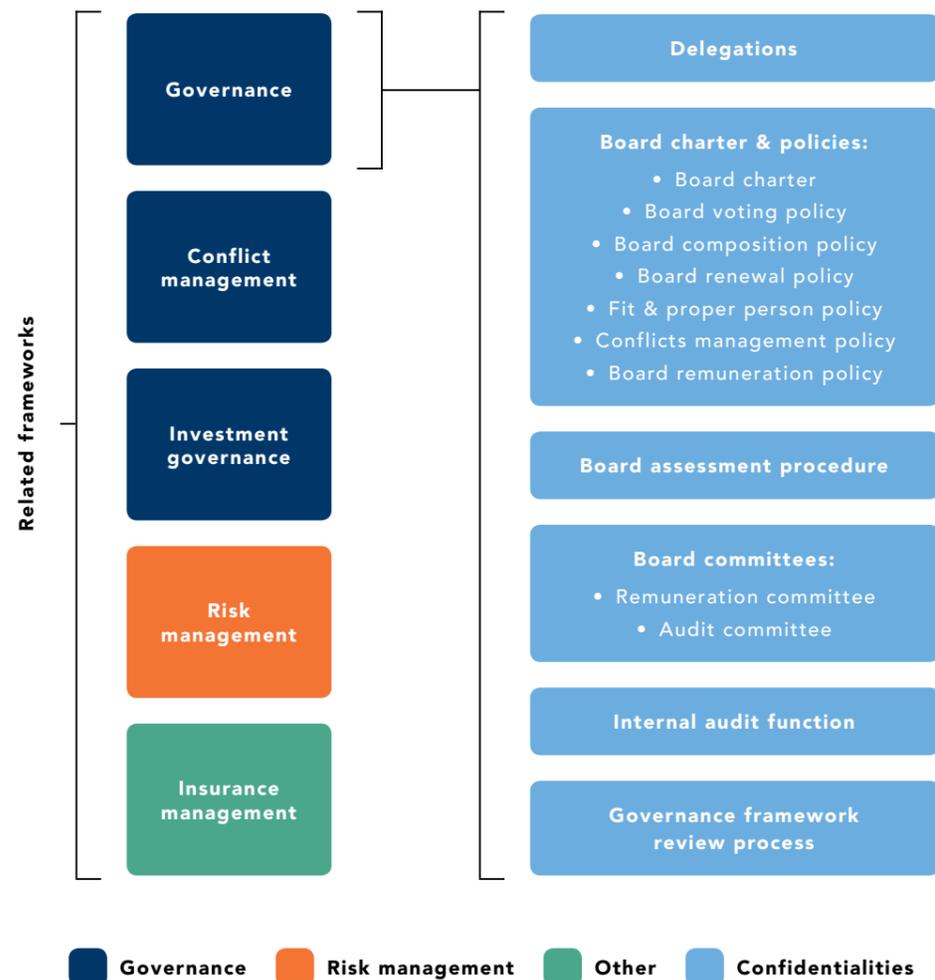
This part of the Toolkit will assist the RSE licensee to understand and manage components of the Framework.

FRAMEWORK COMPONENTS

R The Governance Framework cannot be distilled into a single document; however, it is good practice to itemise the components of the framework into an overarching document.

A **⚠** Where a policy in another framework, such as the risk management framework, satisfies SPS510 requirements, it can be incorporated by reference. They do not have to be duplicated.

This diagram shows the main components of a Governance Framework:



MANAGING THE FRAMEWORK

The following worksheet will assist the trustee in auditing and managing the components of its governance framework:

COMPONENT		HOW THIS IS ACHIEVED
1	How does the board oversee and exercise its authority in relation to the RSE Licensee’s business operations?	
2	A formal charter that sets out the roles and responsibilities and objectives of the board	
3	Board policy on voting rights and procedures for board decisions	
4	Board policy on size and composition of the board and any board committees	
5	Board policy on board renewal	
6	Board policy on the nomination, appointment and removal of directors	
7	Policies and processes to manage risks relating to fitness and propriety of responsible persons	
8	Policies and processes relating to the management of conflicts	
9	Review process to ensure that the governance framework remains effective	

KEY GOVERNANCE RISKS	YES/NO
(a) A Is the RSE licensee aware that APRA considers that the following are key governance risks:	
i. Accountability and transparency of decision-making processes?	
ii. Delegation of roles and responsibilities?	
iii. Remuneration arrangements?	
iv. Fitness and propriety?	
v. The management of conflicts of interest?	

3. Board delegations

The board cannot abrogate its responsibility for functions delegated to management.

A The delegation of roles and responsibilities is a governance risk.

The checklist below deals with matters relating to board delegations.

DELEGATION PROCEDURES		YES/NO
(a)	Does the board have a procedure for delegating authority to management in respect to certain matters?	
(b)	Is the procedure for delegating authority clearly set out and documented?	
DELEGATES		YES/NO
(c) A	Do the people to whom responsibility is delegated possess a range of skills to enable them to fulfil the position, encompassing the totality of systems, structures, policies, processes and people with the business operations?	
(d)	Are Senior Management of an RSE licensee ordinarily resident in Australia?	
(e) GC	Does the fund have a written agreement with each senior executive setting out the terms of their appointment?	
MONITORING		YES/NO
(f)	Is there a mechanism in place for the monitoring of the exercise of delegated authority?	
(g) R	Is non-compliance with the delegations framework monitored and reported to the board?	
(h) R	Has the board formally set out what metrics or success measures it uses to monitor the effectiveness of delegated authority?	
(i) GC	Is the trustee aware that the:	
	i. Fund's company secretary is accountable directly to the board, through the chair, on all matters concerning effective board operations and must provide every assistance to the board to fulfil their obligations in acting in the best interests of members?	
	ii. Chief Executive Officer must not be the company secretary?	
(j) GC	Is the trustee aware that the board:	
	i. Must have a documented process for evaluating the performance of the senior management?	
	ii. Must disclose whether a senior management performance evaluation was undertaken during the reporting period?	

4. The board

The checklists below detail arrangements relating matters such as maintaining and developing a charter, voting, composition, board renewal, nomination and performance assessments.

BOARD CHARTER		YES/NO
(a)	Does the board have a Charter setting out roles, responsibilities and objectives of the board?	
(b) A	Does the Charter:	
	i. Include policies and processes designed to achieve appropriate skills, structure and composition of the board?	
	ii. Detail how the board and individual directors' performance is assessed?	
(c) A	Is the Charter consistent with the complexity of its business operations and does it identify the skills and experience needed by the board?	
(d) GC	Does the trustee have a code of conduct for its board, senior management and employees?	
	i. Is the Code, or a summary of it, disclosed?	
(e) R	Does the Board Charter provide for it to be reviewed on a periodic basis against changing:	
	i. Legal requirements?	
	ii. Regulatory guidance?	
	iii. Better governance practices?	

BOARD VOTING	YES/NO
(a) Does the board have policies and procedures relating to voting rights that:	
i. Support effective decision-making by the board?	
ii. Detail the board’s policy on nomination, appointment, reappointment and removal of directors?	
iii. A Ensure the view of all directors are adequately reflected in all decisions made by the board?	
(b) Are the fund’s governing rules consistent with legislative provisions dealing with circumstances:	
i. Where a director has a material personal interest?	
ii. Where a director has a conflict of the kind described in the SIS Act conflicts covenant?	
iii. Where a director has a casting vote?	
iv. Where an approach is required to comply with a prudential standard that deals with conflicts?	
The SIS Act and Corporations Act contain provisions that may affect the content or application of the fund’s governing rules.	
(c) Is the trustee aware that:	
i. The voting rights of all trustee directors on the board must be equal, regardless of their status as a member or employer representative director, or non-representative director?	
ii. The voting majority for any board decision should be no less than two thirds of all trustee directors?	

BOARD COMPOSITION	YES/NO
<i>Eligibility</i>	
(a) Is the chair of the board:	
i. A director of the RSE licensee?	
ii. Appointed by the board?	
iii. Able to satisfy all the requirements of skill and experience identified in the fund’s skills matrix for the role of the chair?	
(b) Has the trustee considered the benefit of appointing an independent or non-affiliated director as chair of the board?	
(c) Are a majority of directors ordinarily resident in Australia?	
(d) Is the trustee aware that the CEO must not be a director of the fund?	
(e) Does the trustee have a formal view on multiple directorships on superannuation trustee boards?	

<i>Skills, knowledge and experience</i>	
(f) Do the directors and senior management of the RSE licensee, collectively, have the full range of skills needed for the effective and prudent operation of the RSE licensee’s business operations?	
(g) Does each director have the necessary skills, knowledge and experience:	
i. To understand the risks of the RSE licensee’s business operation including its legal and prudential obligations?	
ii. To ensure that the RSE licensee’s business operations are managed in an appropriate way taking into account these risks?	
iii. To make an effective contribution to board deliberations and processes?	
(h) A Has the RSE licensee considered, determined, documented and regularly reviewed the optimal composition for the board and board committees in the context of the RSE licensee’s business operations and strategic plan (including the skills, capabilities and experience needed to effectively execute the plan)?	
i. Does the document dealing with optimal board composition address a range of relevant aspects including achieving appropriate diversity, policies on multiple directorships and current and expected future skills and experience requirements?	
(i) A Has the board considered APRA’s view of the benefits of appointing at least one independent or non-affiliated director?	
(j) Is the trustee aware they must:	
i. Maintain a matrix showing the skills, relevant experience and diversity the board currently has and acknowledge gaps it is looking to fill to effectively fulfil its strategic plan?	
ii. Disclose annually a representation of the existing collective skills, experience and diversity of the board?	

BOARD RENEWAL	YES/NO
<i>Policy</i>	
(a) Does the board have a policy on board renewal?	
(b) Does the board renewal policy detail how the board intends to renew itself in order to ensure it remains open to new ideas and independent thinking, while retaining adequate expertise?	
(c) A Does the board renewal procedure:	
i. Include an assessment of the ongoing fitness and propriety of responsible persons?	
ii. Take into account board composition factors discussed above in the 'board composition' part of this Toolkit?	
<i>Tenure</i>	
(d) A Has the trustee developed a policy on maximum tenure periods?	
(e) A Has the trustee set a maximum tenure limit for individual directors?	
(f) A Does the tenure limit include non-continuous periods of service?	
(g) A Does the maximum tenure limit require the board to take into consideration previous terms served on predecessor boards?	
(h) A Does the tenure policy avoid including content that may result in:	
i. Overly long tenure limits?	
ii. Transition arrangements that delay board renewal?	
iii. Inconsistencies with the constitution?	
iv. The fund calculating overall board tenure figures, rather than individual director tenure?	
v. Indefinite tenure limits?	
vi. Permanent tenure for directors who hold a senior position in a stakeholder organisation?	
vii. Extended tenure for special circumstances that were not specified in the policy and did not limit the extension to only one additional term?	
(i) A Does the tenure policy contain:	
i. Staggered appointment terms?	
ii. Maximum overall tenure limits?	
iii. Maximum term limits?	
iv. Maximum number of terms?	
v. An indication if the tenure limits apply from the appointment date of each director, rather than from the commencement of the tenure policy or its revision date?	

BOARD NOMINATION, APPOINTMENT AND REMOVAL POLICIES AND PROCESSES	YES/NO
<i>Policies and processes</i>	
(a) Has the board established and implemented policies and processes for the nomination, appointment and removal of directors?	
(b) A Does the RSE licensee have a director selection process that provides a clear role for the board (and not just nominating bodies) in the appointment of candidates, with a view to ensuring that candidates with the necessary skills and capabilities are appointed?	
(c) Do the policies and processes detail:	
i. How vacancies will be managed, including, where applicable, how the RSE licensee will comply with the vacancy requirements in Part 9 of the SIS Act?	
ii. How a candidate will be nominated for a vacant board position?	
iii. How a director will be appointed?	
iv. The factors that will be considered when assessing the suitability of a nominated candidate, including:	
A. How the board assesses the independence of the candidate where relevant?	
B. When the director has served on the board, whether their period of service could, or could reasonably be perceived to materially interfere with their ability to act in the best interests of beneficiaries?	
v. How the board will resolve disputes about nominations, appointment, re-appointment or removal of directors?	
vi. How and when a director will be removed from the board?	
vii. Procedures in relation to nomination, appointment, reappointment and removal of a director?	
viii. R The board's engagement approach with sponsoring organisations regarding board renewal?	
<i>Nomination and appointment</i>	
(d) A If appropriate, has the RSE licensee ensured that nominating organisations have a good understanding of the board's strategic direction and plan, and the skills, capabilities and experience needed of potential candidates to effectively execute it?	
(e) GC Has the board conducted all appropriate enquiries to ensure that nominees have the appropriate skills and experience before appointing a person as a trustee director?	
GC For the appointment of representative directors in particular, this includes engagement with sponsoring organisations.	
(f) GC Does the fund have a written agreement with each trustee director setting out the terms of their appointment?	
(g) GC Does the trustee:	
i. Have an induction program for new trustee directors?	
ii. Provide appropriate ongoing professional development and training opportunities to continuously enhance their skills and knowledge?	

Board performance assessment	
(a)  Does the board have a procedure for assessing the board’s performance relative to its objectives?	
(b)  Does the board have a procedure for assessing the performance of each director?	
(c)  Do these procedures to assess the performance of the board and each director provide for assessments that occur at least annually?	
<p> A APRA recommends licensees have a robust and objective board assessment process that considers the performance of the board as a whole, as well as performance of individual directors, and identifies recommendations to improve performance that are effectively implemented.</p>	
(d)  Does the board have procedures for assessing, at least annually, the board’s performance relative to its objectives?	
<p> GC The AIST Governance Code requires funds to have procedures to evaluate the performance of the board and individual trustee directors at least annually. The fund must disclose a summary of those procedures and confirm annually that the performance evaluations were undertaken during the reporting period.</p>	
(e) A Has the board ensured there is an objective and independent review by external experts at least every 3 years?	
(f) A Is there a framework to address board underperformance, including consideration of whether an initial remedial step of training and education programs may address the reasons leading to the underperformance?	

Features of a positive assessment	
(g)  Has the trustee, when developing or undertaking board assessments, considered the following positive assessment features?	
i. Prior to the assessment:	
A.  Actively select an evaluation process that best suits the board’s needs.	
B. A Set the evaluation timeframe.	
C.  Develop a documented policy on board performance assessments.	
D.  Design the assessment to avoid directors feeling they are ‘competing’ against each other.	
E.  Determine the objectives of the evaluation.	
F.  Establish performance indicators against which the board will be assessed.	
G.  Ensure any board performance indicators relate to the trustee’s strategic objectives.	
H.  Allocate resources and personnel.	
I.  Determine who will perform the evaluation, for example the chair, the board audit committee, a board committee (e.g. governance), or an external provider.	
J.  Consider including similar questions in each survey to facilitate a longitudinal analysis.	
K. A Determine how objectivity within the performance assessments will be achieved.	
L. A Ensure the assessment considers the performance of the board, as well as of individual directors.	
M. A Ensure the assessment goes beyond merely subjective assessments of the skills and capabilities of individual directors.	
ii. During assessment:	
A.  Consider collecting qualitative and quantitative data.	
B.  Evaluate board and director performance against objectives.	
C. A Consider assessing behavioural aspects, such as quality and level of contribution, collegiality and directors’ approach to teamwork.	
D. A Consider the reviewer (such as the chair) interviewing directors.	
E. A Consider seeking input from senior management.	

Features of a positive assessment	YES/NO
iii. After assessment:	
A. R Identify opportunities to improve board performance.	
B. R Determine how the board will manage the outcomes of the assessment.	
C. R Develop a program to sit alongside assessment to enhance board effectiveness.	
D. R Determine who receives assessment results.	
E. R Develop an action plan to implement any necessary changes including timeframes for these actions to be completed	
(h) A Has the trustee ensured that board assessments are:	
i. Based on documented objectives for the board collectively, such as:	
A. Establishing the fund’s overall strategy and ensuring reporting against this?	
B. Assessing the operating and financial conditions against forecasts?	
C. Assessing senior management performance against agreed criteria, which would include, for relevant senior management, the effectiveness of risk controls?	
D. Making key decisions in a timely manner?	
ii. Based on documented objectives for individual directors, such as:	
A. Demonstrating the required expertise for the role?	
B. Attendance and participation at board meetings?	
C. Contributing to board deliberations and the overall direction of the trustee?	
(i) A Have key performance indicator metrics or measures been set, for example relative to business plans?	
i. R Has the board considered that performance metrics can include:	
A. Net returns on both an absolute basis and relative to risk/return targets?	
B. Costs per member?	
C. Costs of insurance cover?	
D. Administration and operating expenses as a percentage of average net assets (operating cost ratio)?	
E. Net cash flows as a percentage of average net assets (net rollover ratio)?	
F. Trends in membership base?	
G. Active member ratio?	
R A AIST believes that the primary performance metric is net returns, and all others are secondary.	

Implementation	
(j) A Does the assessment test whether:	
i. The directors and senior management of the RSE licensee, collectively, have the full range of skills needed for the effective and prudent operation of the RSE licensee’s business operations?	
ii. Each director has the skills that allow them to make an effective contribution to board deliberations and processes?	
iii. Each director has the necessary skills, knowledge and experience:	
A. To understand the risks of the RSE licensee’s business operation including its legal and prudential obligations?	
B. To ensure that the RSE licensee’s business operations are managed in an appropriate way taking into account these risks?	
(k) A Is the implementation of board performance assessments consistent with board policy?	

5. Diversity

The following checklist deals with matters relating to the fund's written diversity policy.

DIVERSITY	YES/NO
(a)  Is the trustee aware that the fund must have a written diversity policy, appropriate to the circumstances of the fund, which sets out clear and measurable objectives and provides for annual reporting to the board and members?	
(b)  Is the trustee aware that the policy must:	
i. Establish objectives concerning gender balance as a minimum, with other forms of diversity considered by the fund as appropriate?	
ii. The objectives must relate to processes, which may, but do not necessarily, include targets for participation at board and management levels, to ensure that the fund taps the broadest talent pool and is responsive to the needs of all its members?	

6. Board committees

A While some board responsibilities may be delegated to board committees, the board retains ultimate responsibility for ensuring that those functions and responsibilities are exercised in accordance with the RSE licensee's duties.

A APRA expects that RSE licensees consider, determine, document and regularly review the optimal composition for the board and board committees in the context of the RSE licensee's business operations and strategic plan.

A A board should consider the merit of establishing board committees for critical functions, beyond those required under SPS510. This may include member services, marketing, investment, insurance and claims, risk, compliance, board governance and nomination committees.

A In establishing committees, a board should have regard to the RSE licensee's risk profile, the complexity of its business, as well as the experience and expertise of the directors.

A Committees should have clearly defined charters that set out their role and objectives, responsibilities, authorities and tenure and provide for regular reports to the board and regular review of the charter.

R Many RSE licensees engage independent experts on board committees however they may not consider whether, if they are formal members, they become officers of the RSE licensee and have duties and / or eligibility to be covered under RSE licensee or director and officer insurance policies.

COMPOSITION OF BOARD COMMITTEES	YES/NO
(a) Is the chair of a board committee a director of the RSE licensee?	
(b) A Is there clear criteria in training and fit and proper policy requirements in respect of the skill levels needed on committees?	
(c) A Is there a policy that the board regularly reviews the optimal composition for the board committees in the context of its business operations and strategic plan?	
(d) A Has the trustee considered the extent to which the use of independent experts signals a skills deficiency on the board?	

BOARD AUDIT COMMITTEE	YES/NO
(a)  Does the RSE licensee have a Board Audit Committee to assist the board by providing an objective non-executive review of the effectiveness of the RSE licensee's financial reporting and risk management framework (unless, with respect to risk management, there is another board committee which carries out this function)?	
(b) A Has the trustee considered separating responsibility for risk and compliance into a different committee?	
 A Separating these functions can increase focus on these areas.	
(c)  Does the committee, at all times, have free and unfettered access to senior management, the internal audit function, the heads of all risk management functions, the auditor and the actuary, as applicable, and vice versa?	
<i>Committee composition</i>	
(d)  Are all members of the committee non-executive directors?	
(e)  Are committee members available to meet with APRA on request?	
<i>Committee functions</i>	
(f)  Does the committee have:	
i. Sufficient powers to enable it to obtain all information necessary for the performance of its functions?	
ii. At least three members?	
iii. A chair that is not the chair of the board, unless the chair is an independent director within the meaning of the SIS Act?	
iv. A charter detailing it has responsibility for overseeing:	
A. All APRA statutory reporting requirements?	
B. Other financial reporting requirements?	
C. Professional accounting requirements?	
D. Internal and external audit?	
E. The appointment of both the RSE licensee's auditor and internal audit function?	
v. Policies and procedures for employees of the RSE licensee to confidentially submit information about accounting, internal control, compliance, audit, and other matters about which the employee has concerns?	
vi. A process for ensuring employees are aware of these policies and for dealing with matters raised by employees under these policies?	
(g)  Is the committee required to:	
i. Review the engagement of the auditor, at least annually, including making an assessment of whether the auditor meets the Audit Independence tests set out in APES 110 Code of Ethics for Professional Accountants and the auditor independence requirements in SPS 510?	
ii. Regularly review the internal and external audit plans, ensuring that they cover all material risks and financial reporting requirements of the RSE licensee?	

iii. Regularly review the findings of audits, and ensure that issues are being managed and rectified in an appropriate and timely manner?	
iv. Ensure the adequacy and independence of both the internal and external audit functions?	
v. Invite the auditor and actuary to meetings, if applicable?	

BOARD REMUNERATION COMMITTEE YES/NO

(a) Does the RSE licensee have a Board Remuneration Committee?	
This is a requirement unless APRA provides an exemption.	
(b) Does the committee have unfettered access to risk and financial control personnel and other parties (internal and external) in carrying out its duties?	
(c) Is the trustee aware that AIST has a Remuneration Governance Toolkit to assist trustees in implementing aspects related to remuneration, as set out in SPS510?	
The Toolkit includes checklists to assist with the preparation and maintenance of a remuneration policy and for the establishment of a Remuneration Committee. The toolkit is available on our website at aist.asn.au	

COMMITTEE COMPOSITION YES/NO

(d) Does the committee have at least three members?	
(e) Are all members of the committee non-executive directors?	
(f) Is the committee chair someone that is not the chair of the board, unless the chair is an independent director within the meaning of the SIS Act?	
(g) Are committee members available to meet with APRA on request?	

COMMITTEE FUNCTIONS YES/NO

(h) Does the committee have:	
i. A written charter and terms of reference that outline the committee’s roles, responsibilities and terms of operation?	
ii. The powers necessary to enable it to perform its functions?	
iii. The power to engage third party experts, if appropriate?	
iv. The power to ensure that any independent reports prepared by third party experts are independent?	
(i) Is the committee required to:	
i. Regularly review the remuneration policy and make recommendations to the board where relevant?	
ii. Make annual recommendations to the board on the remuneration of:	
A. Each responsible person employed by the fund?	
B. Persons whose activities may affect the financial soundness of the RSE licensees business?	
C. Any other person specified by APRA?	
D. Persons covered by the Remuneration Policy?	
The committee is not required to make recommendations regarding auditor or actuary remuneration	

BOARD RENEWAL COMMITTEE YES/NO

(j) Does the board have a committee responsible for board renewal that has at least three members?	
i. Does the committee have a charter that is disclosed?	
ii. Does the committee meet at least annually?	
(k) Has the trustee ensured for each reporting period they have disclosed to members:	
i. The members of the committee?	
ii. The attendance records for any meetings during that period?	
This requirement does not oblige the trustee to have a standalone board renewal committee. It is open to the board to decide the committee responsible for board renewal could also be responsible for other functions.	

7. Other Frameworks

In addition to the Governance Framework, the prudential standards require the maintenance of other frameworks and policies. A summary of key frameworks and policies are detailed below.

FIT AND PROPER PERSON POLICY	YES/NO
(a)  Does the board have a risk management framework to manage review of responsible persons required to maintain fitness and propriety?	
(b)  Does the board have a documented position description of responsible person positions, detailing their roles and responsibilities?	
(c)  Does the responsible person perform these functions and duties, not simply that it is their title?	
(d)  Does the board require periodic training on content and application of the policy?	
 AIST has published a 'Fit and Proper' Toolkit on our website at aist.asn.au that is designed to assist trustees with understanding and implementing the Fit and Proper prudential standard SPS 520.	

RISK MANAGEMENT FRAMEWORK	YES/NO
(a)  Does the board maintain a risk management framework appropriate to the size, business mix and complexity of its business operations, as relevant?	
(b)  Has the board devised and approved a risk appetite statement?	
(c)  Is there a board approved risk management strategy that describes the key elements of the risk management framework that gives effect to the approach to managing risk?	
(d)  Is there a board approved business plan that sets out the approach for the implementation of the strategic objectives of the RSE licensees' business operations?	
(e)  Are there adequate resources to ensure compliance with the Prudential Standard SPS 220?	
(f)  Is there a mechanism to notify APRA when the RSE licensee becomes aware of a significant breach of, or material deviation from, the risk management framework, or discovers that the risk management framework does not adequately address a material risk?	
 AIST has published a 'Risk Management' Toolkit on our website at aist.asn.au that is designed to assist trustees with understanding and implementing the Risk Management prudential standard SPS 220.	

CONFLICTS MANAGEMENT FRAMEWORK	YES/NO
(a)  Does the RSE licensee undertake its business operations in accordance with its obligations under sections 52(2)(d) and 52A(2)(d) of the <i>Superannuation Industry (Supervision) Act 1993</i> , which requires it to perform its duties giving priority to the best interests of the beneficiaries?	
(b)  Does the RSE licensee have suitable procedures in place to identify and manage conflicts in all aspects of its business?	
(c)  Has the RSE licensee resolved to reflect its conflicts management culture in its corporate values, in addition to the attitudes and behaviours of individuals within the business?	
 AIST has published a 'Conflict Management Framework' Toolkit on our website at aist.asn.au that is designed to assist trustees with understanding and implementing the Conflicts of Interest prudential standard SPS 521.	

INSURANCE MANAGEMENT FRAMEWORK	YES/NO
(a)  Does the trustee have an insurance management framework that reflects the risks associated with making available insured benefits that is appropriate to the size, business mix and complexity of the RSE licensee's business operations?	

8. Audit

The following checklist will assist the trustee in determining whether they have adequate audit functions, processes and procedures in place.

INTERNAL AUDIT	YES/NO
(a) <input type="checkbox"/> Does the trustee have an independent and adequately resourced internal audit function (or alternative arrangements approved by APRA)?	
(b) <input type="checkbox"/> Do the objectives of the internal audit function include evaluation of the adequacy and effectiveness of the financial and risk management framework of the RSE licensee?	
(c) <input type="checkbox"/> Does the internal auditor, at all times, have unfettered access to all the RSE licensee’s business lines and support functions?	
AUDITOR INDEPENDENCE	YES/NO
(a) <input type="checkbox"/> Has the board undertaken steps to satisfy itself that the auditor, who undertakes work for the RSE licensee in relation to RSE licensee law:	
i. Is independent of the RSE licensee and the RSE?	
ii. That there is no conflict of interest situation that could compromise, or be seen to compromise, the independence of the auditor?	
(b) <input type="checkbox"/> Has the RSE licensee, as part of the process of ascertaining the independence of the auditor, obtained a declaration from the auditor to the effect that:	
i. The auditor is independent, both in appearance and in fact?	
ii. The auditor has no conflict of interest situation?	
iii. There is nothing to the auditor’s knowledge (either in relation to the individual auditor or any audit firm or audit company of which the auditor is a member or director) that could compromise that independence?	
(c) <input type="checkbox"/> Has the RSE licensee ensured that no person who:	
i. Was a member of an audit firm, or a director of an audit company, and who served in a professional capacity in the audit of an RSE licensee in relation to RSE licensee law, has been appointed to the role of director or senior manager of that RSE licensee until at least two years have passed since they served in that professional capacity?	
ii. Was an employee of an audit company, other than a director of that company, and who acted as the lead auditor or review auditor in the audit of an RSE licensee in relation to RSE licensee law, has been appointed to the role of director or senior manager of that RSE licensee until at least two years have passed since they acted as the lead auditor or review auditor?	
(d) <input type="checkbox"/> Is a person prevented from being appointed as a director or senior manager of an RSE licensee if:	
i. The person was, or is, a director of the audit company or a member of the audit firm that was, or is, responsible for the audit of the RSE licensee in relation to RSE licensee law?	

ii. There is already another person appointed or employed as a director or senior manager of the RSE licensee who was a director of the audit company or a member of the audit firm, at a time when the audit company or audit firm undertook an audit of the RSE licensee at any time during the previous two years?	
(e) <input type="checkbox"/> Has the RSE licensee ensured that no individual who plays a significant role in the audit of an RSE in relation to RSE licensee law, for five successive years, or for more than five years out of seven successive years, can continue to play a significant role in the audit until at least a further two years have passed (except with an exemption in writing from APRA)?	
(f) <input type="checkbox"/> Has the RSE licensee ensured that the auditor and actuary cannot both be employed by the same body corporate or related bodies corporate, or by the same firm or related firms?	

9. Confidentiality and access

CONFIDENTIALITY AND ACCESS	YES/NO
(a) <input type="checkbox"/> Has the RSE licensee ensured that no prospective, current, or former officer, employee or contractor (including professional service provider) of an RSE licensee may be constrained or impeded, whether by confidentiality clauses or other means, from:	
i. Disclosing information to APRA, from discussing issues with APRA of relevance to the management and prudential supervision of the RSE licensee?	
ii. From providing documents under their control to APRA, that may be relevant in the context of the management or prudential supervision of the RSE licensee (including from providing information to, as applicable, auditors, actuaries and others, who have statutory responsibilities in relation to the RSE licensee)?	
(b) <input type="checkbox"/> Has the RSE licensee ensured that its internal policy and contractual arrangements do not explicitly or implicitly restrict or discourage auditors or other parties from communicating with APRA?	
(c) <input type="checkbox"/> Is the trustee aware that directors and senior management of an RSE licensee must be available to meet with APRA on request?	

10. Governance Framework review

The governance framework must include a review process to ensure that the framework remains effective.

A The checklist below is based on APRA guidance on hallmarks of a sound and effective governance framework.

PRINCIPLE	INDICATION OF EFFECTIVENESS
Responsibility	The board is ultimately responsible and accountable for the decision and actions taken by an RSE licensee.
Independence	Demonstrated by a board that discharges its review and oversight role effectively and independent of the interest of dominant shareholders, management, and competing or conflicting business interests.
Renewal	A policy of renewal provides for fresh insight and general reinvigoration of a board while also ensuring ongoing effective oversight and understanding of the business of the RSE licensee by the board.
Expertise	Demonstrated by a board with the necessary expertise to fulfil its role and functions, and access to independent expertise not readily available amongst the current directors.
Diligence	Demonstrated by a board that discharges its duties and responsibilities carefully and conscientiously.
Prudence	Demonstrated by a board with a clear focus on the prudent management of the RSE licensee’s business operations.
Transparency	Demonstrated by a board that is open and honest in its dealings on behalf of the RSE licensee.
Oversight	Demonstrated by a board that is able to satisfy itself that the management and operation of the RSE licensee’s business operations conforms to its strategy, direction and policies.

11. AIST Governance Code requirements

The following checklist includes AIST Governance Code requirements in addition to those already detailed in this Toolkit.

AIST GOVERNANCE CODE	YES/NO
(a)  Is the trustee aware that in disclosing the names of its directors the fund must identify for each director whether they are a member representative, an employer representative or a non-representative member?	
  In each instance, the name of the nominating body must also be disclosed.	
(b)  Is the board aware that:	
i. They must ensure the financial integrity of both the fund and the trustee entity?	
ii. They must ensure due process in all transactions, and ensure that any related party transactions are conducted under market conditions with full transparency and disclosure?	
iii. They must receive an attestation from the fund’s CEO and CFO that the fund’s accounts are a true and accurate reflection of the fund’s financial position and that the financial records have been properly maintained, before approving the financial statements?	
iv. The fund must develop and implement a stakeholder engagement program, for effective disclosure of relevant and material issues?	
v. The engagement program must provide opportunities for directors and senior management to communicate directly with stakeholders and for stakeholders to ask questions of them?	
vi. The fund must have a strong risk culture with a board that provides robust oversight of the fund’s material risk?	
vii. The risk management framework must explicitly address factors that may erode the fund’s members-first culture?	
viii. The fund must have policies and practices in place to attract and retain highly competent people, assessed relative to the size, nature and complexity of the fund?	
ix. These policies and practices must be consistent with its responsibilities for maximising members’ retirement outcomes and encouraging and rewarding ethical practices and behaviour?	
x. The fund must design and manage appropriate investment strategies having regard to member demographics and circumstances during both the accumulation and decumulation phases?	

12. Dictionary

APRA means the Australian Prudential Regulation Authority.

Corporations Act means the *Corporations Act 2001*.

CEO means Chief Executive Officer.

CFO means Chief Financial Officer.

Independent director is defined in Part 9 of the SIS Act and means, in relation to a corporate trustee of a fund, means a director of the corporate trustee who:

- (a) is not a member of the fund; and
- (b) is neither an employer sponsor of the fund nor an associate of such an employer sponsor; and
- (c) is neither an employee of an employer sponsor of the fund nor an employee of an associate of such an employer sponsor; and
- (d) is not, in any capacity, a representative of a trade union, or other organisation, representing the interests of one or more members of the fund; and
- (e) is not, in any capacity, a representative of an organisation representing the interests of one or more employer sponsors of the fund.

Note: A director of a corporate trustee of a fund that is also an employer-sponsor of the fund is not taken to be an associate of that employer-sponsor by reason only of being such a director.

Non-affiliated director is a term used by APRA in SPG 510 to describe a director who is free from any business or other association that could materially interfere with the exercise of their independent judgement.

RSE licensee means an entity that holds an RSE licence granted under s29D of the SIS Act. It is used interchangeably in this Toolkit with trustee and board.

SIS Act means the *Superannuation Industry (Supervision) Act 1993*.

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