



ASIC
Australian Securities &
Investments Commission



APRA

1 April 2020

TO: ALL RSE LICENSEES

A joint letter from ASIC and APRA on the impact of COVID-19

The global COVID-19 virus has rapidly created a significant level of economic disruption and dislocation. Australia's financial system has entered this challenge from a position of strength, however, this period will bring the resilience and preparedness of financial institutions, including superannuation funds, into focus. The ongoing stability and proper functioning of the superannuation sector, which safeguards trillions of dollars on behalf of members, is critical to the overall stability of the financial system and the economic prosperity of all Australians.

The Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) have worked over recent weeks with Government, regulatory peers and industry to identify risks, share information and adjust regulatory priorities, taking into account emerging issues. APRA has also been working closely with individual trustees to ensure they understand their responsibilities and have pandemic plans in place that are being robustly implemented. Throughout this, APRA has shared information with, and sought input from, ASIC to ensure a co-ordinated regulatory response.

The unusual and challenging circumstances associated with COVID-19 require trustees to make new business arrangements, amend priorities and adjust their short-term investment strategies. What does not change is their duty to comply with the law, including the duty to act in the best interests of their members. At a time of uncertainty, this is essential to maintaining public confidence that superannuation remains a safe, fair and sound long-term investment towards retirement.

Liquidity

One of the primary areas of regulatory focus over recent weeks has been monitoring liquidity to ensure funds retain the means to fulfil their payment obligations, including the early release of superannuation payments recently announced by the Government. This must necessarily also be a top priority for trustees, who bear ultimate responsibility for maintaining sufficient levels of liquidity to sustain the operation of their funds.

Trustees should be:

- undertaking regular and detailed liquidity stress testing, ensuring that scenarios reflect changes in future net cash flows of the RSE, member behaviour and market conditions;
- identifying specific areas for heightened attention with respect to liquidity, such as increased member switching activity or deterioration in the liquidity profile of their investments, and taking appropriate action;
- assessing the impact on liquidity of their liabilities and contractual commitments, such as currency hedging programs, and reviewing their securities lending arrangements.

Trustees should also ensure that the valuation of unlisted and illiquid assets remains appropriate and consider whether any assets need to be revalued.

Communication

In a rapidly changing financial environment, with the potential for misinformation and confusion to spread, it is essential that trustees communicate often, clearly and accurately to their members. Communication should also be balanced, factual, provide context and be member-centric across all communication channels.

To ensure consistency of messaging for Australians, trustees should have regard to official Government information sources related to COVID-19 and its financial impacts, such as Treasury, the Australian Tax Office or ASIC's Moneysmart website.

In addition to proactively communicating with members, the ability to respond promptly, clearly and accurately to members' questions should be a key operational focus, and subject to ongoing monitoring and adjustment. In particular, being able to draw on complaints information to action and adjust communications and resourcing to meet member needs is likely to be key at this time.

Trustees also need to communicate with ASIC and APRA. This must be done reactively in response to requests for information, but should also be conducted proactively, particularly where emerging or evolving risks are identified.

Insurance in superannuation

Awareness and understanding of life insurance cover provided through superannuation during this time is also crucial to maintaining public confidence in the superannuation system.

To promote this, trustees should:

- understand how members' insurance may be affected by economic conditions and public health restrictions – for example, policy clauses

relating to employment, work hours, and exclusions (such as pandemic clauses);

- consider how members' insurance might be affected by a reduction in account balances due to market downturns and the early release of funds by some members;
- communicate these impacts clearly to their members in an accurate and balanced manner; and
- work closely with their insurers, assist members who may face additional challenges in making a claim – for example, difficulties with obtaining medical appointments or providing evidence of disability.

Scams and fraud

A range of possible scams, such as fraud and phishing, could emerge from these unsettled market conditions and member misunderstandings concerning the early release of superannuation initiative. The changed operating environments within organisations may also leave funds and their members more exposed to cyber-risk. Trustees are advised to be even more vigilant about their members' interests and promptly share intelligence with the regulators.

Business as unusual

In order to help trustees focus their resources and attention on responding to the impact of COVID-19, both ASIC and APRA are postponing a range of new and planned regulatory initiatives. While the priorities of both regulators and trustees must inevitably shift during this period, unless ASIC or APRA has granted specific relief, trustees' legal, regulatory and reporting obligations remain unchanged.

Trustees must therefore ensure key business activities, such as administration, are operationally resilient to ensure ongoing processing of member benefits. Trustees should be scenario testing their critical functions and determining (in conjunction with outsourced providers) essential staffing levels and contingency plans to ensure essential member transactions proceed in a timely manner, particularly where such activities are undertaken offshore.

Given the unusual and demanding circumstances, both regulators recognise that meeting legal and regulatory requirements may be challenging for some trustees. We encourage early and regular engagement in these cases and trustees can expect a constructive and pragmatic approach. To the extent that non-COVID related requests from either regulator remain outstanding, trustees may seek an extension from the relevant regulator where necessary.

To help trustees understand their new and ongoing responsibilities during this period of disruption, ASIC and APRA have published superannuation FAQs on each agency's website. These FAQs will be updated periodically over the coming weeks and months and we encourage trustees to check the page regularly.

[ASIC's FAQ document can be found here](#)

[APRA's FAQ document can be found here](#)

The coming period carries a great deal of uncertainty, including how long the health and economic impacts of the virus will endure. The primary impacts of COVID-19 are likely to be short-term, however superannuation is a long-term proposition. Australia's 16 million members of APRA-regulated superannuation funds are relying on trustees' nous, dedication and preparedness to appropriately safeguard their savings through this difficult time.

In some cases, difficult decisions will be required, and trustee boards and CEOs will need to display strong leadership. ASIC and APRA are available to provide guidance and assistance on issues arising under the regulatory framework, however ultimate responsibility for the outcomes superannuation members experience lies with boards and trustees.

Yours sincerely,

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