



29 June 2018

**TO: ALL RSE LICENSEES**

**CASH INVESTMENT OPTIONS' NON-CASH HOLDINGS: INDUSTRY GUIDANCE**

As part of a targeted desktop review, APRA has identified examples in the industry where 'cash' investment options appear to include exposure to underlying investments that would not generally be considered cash or cash-like in nature.

Under the reasonable expectations principles as set out in SPS 530 *Investment Governance* APRA considers that a superannuation fund member would understand that exposure to a 'cash' investment option or product will be readily accessible (for withdrawal or transfer) without change in value. This aligns with APRA's definition of cash under Superannuation Reporting Standard (SRS) 530 *Investments* (drawn from AASB 107) which states that 'cash':

'Represents cash on hand and demand deposits, as well as cash equivalents. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.'

Assets that APRA has observed forming part of cash options' underlying investments include asset-backed and mortgage-backed securities, commercial bonds and hybrid debt instruments, credit-default swaps, loans and other credit instruments. These assets do not typically exhibit the characteristics necessary to be considered as cash or cash equivalent. There were also exposures noted to cash enhanced vehicles without sufficient policy guidance as to the permitted holdings of these vehicles.

APRA further notes that there were a number of cash options where the investment policy framework permitted investments in non-cash like assets although there were no material exposures observed.

In view of the above, RSE licensees are reminded of their obligations under SPS 530 *Investment Governance* paragraph 23 which states that:

'An RSE licensee's investment selection process must result in the RSE licensee being satisfied that: It has sufficient understanding and knowledge of the investment selected, including any factors that could have material impact on achieving investment objectives of the investment option... and the investment is appropriate for the investment option.'

In addition to follow-up with specific RSEs identified as part of the desk review, APRA will monitor RSE licensees' cash investment options during the course of its supervisory activities on an ongoing basis. APRA expects that RSE licensees consider the content of this letter and, where necessary, review and restructure 'cash' investment options with exposure to non-cash assets. APRA also expects RSE licensees to review relevant investment governance policies such that an appropriate framework is in place, including criteria for inclusion of particular assets in a cash option.

Please contact your APRA responsible supervisor if you wish to discuss the content of this letter in further detail.

Yours sincerely,

A handwritten signature in cursive script that reads "Helen Rowell".

Helen Rowell  
Deputy Chairman, APRA