



Superannuation (prudential standard) determination No. 6 of 2024

Prudential Standard SPS 114 Operational Risk Financial Requirement

Superannuation Industry (Supervision) Act 1993

I, Sean Carmody, a delegate of APRA:

- (a) under subsection 34C(6) of the *Superannuation Industry (Supervision) Act 1993* REVOKE Superannuation (prudential standard) determination No. 1 of 2012, including *Prudential Standard SPS 114 Operational Risk Financial Requirement* made under that determination; and
- (b) under subsection 34C(1) of the Act, DETERMINE *Prudential Standard SPS 114 Operational Risk Financial Requirement* in the form set out in the Schedule, which applies to all RSE licensees.

This instrument commences on 1 July 2025.

Dated: 11 October 2024

Sean Carmody
Executive Director
Policy and Advice Division

Interpretation

In this instrument:

APRA means the Australian Prudential Regulation Authority.

RSE licensee has the meaning given in subsection 10(1) of the Act.

Schedule

Prudential Standard SPS 114 Operational Risk Financial Requirement



Prudential Standard SPS 114

Operational Risk Financial Requirement

Objectives and key requirements of this Prudential Standard

Prudential Standard SPS 114 Operational Risk Financial Requirement (SPS 114) is a **prudential standard** in the **business operations pillar** of APRA's superannuation prudential framework. The Operational Risk Financial Requirement (ORFR) requires RSE licensees to maintain, manage and utilise, in accordance with this Prudential Standard, financial resources to protect beneficiaries from losses due to operational risks that relate to the RSEs within its business operations. Key requirements include having a documented ORFR strategy, an ORFR target amount and tolerance limit. An RSE licensee must maintain ORFR financial resources which must be used in a manner consistent with the ORFR and the overarching legislative requirements.

Authority

1. This Prudential Standard is made under section 34C of the *Superannuation Industry (Supervision) Act 1993* (SIS Act).

Application and commencement

2. This Prudential Standard applies to all registrable superannuation entity (RSE) licensees (RSE licensees).¹
3. The requirements of this Prudential Standard apply for the purposes of section 52(8)(b) of the SIS Act.

¹ For the purposes of this Prudential Standard, 'RSE licensee' has the meaning given in subsection 10(1) of the SIS Act.

4. This Prudential Standard commences on 1 July 2025.

Interpretation

5. Where this Prudential Standard provides for APRA to exercise a power or discretion, the power or discretion is to be exercised in writing.

Adjustments and exclusions

6. APRA may adjust or exclude a specific requirement in this Prudential Standard in relation to:
- (a) a particular RSE licensee of an RSE; or
 - (b) specified RSE licensees of RSEs.

Previous exercise of discretion

7. An RSE licensee must contact APRA if it seeks to place reliance, for the purposes of complying with this Prudential Standard, on an exercise of discretion by APRA made under a previous version of this Prudential Standard.

RSE licensees that are part of a group²

8. Where an RSE licensee is part of a corporate group, and the RSE licensee utilises group policies or functions, the Board must approve the use of group policies and functions and must ensure that these policies and functions have appropriate regard to the RSE licensee's business operations.

Operational risk financial requirement

9. An RSE licensee must maintain, manage and utilise, in accordance with this Prudential Standard, financial resources to protect beneficiaries from losses due to operational risks³ that relate to the RSEs within its business operations.⁴

ORFR strategy

10. An RSE licensee must formulate and give effect to an ORFR strategy that sets out how it will meet the ORFR. At a minimum, the ORFR strategy must include the RSE licensee's:
- (a) ORFR target amount and tolerance limit, including how and why it has determined these amounts to be appropriate;

² For the purposes of this Prudential Standard, a reference to 'a Group' is a reference to a group comprising the RSE licensee and all connected entities of the RSE licensee. 'Connected entity' has the meaning given in subsection 10(1) of the SIS Act.

³ Refer to *Prudential Standard CPS 230 Operational Risk Management* for a description of operational risks at paragraphs 13 and 24.

⁴ For the purposes of this Prudential Standard, an RSE licensee's business operations includes all activities as an RSE licensee (including the activities of each RSE of which it is the licensee), and all other activities of the RSE licensee to the extent that they are relevant to, or may impact on, its activities as an RSE licensee.

- (b) processes and parameters for determining when and how the ORFR financial resources can be used;
 - (c) approach to holding the ORFR financial resources, including how the RSE licensee will ensure that the requirements in paragraphs 16 and 17 (as applicable) are met on an ongoing basis;
 - (d) investment strategy for operational risk reserves held to meet the ORFR target amount;
 - (e) process for implementing a replenishment plan in accordance with paragraph 18 (replenishment plan);
 - (f) review process for the ORFR target amount, tolerance limit and ORFR strategy; and
 - (g) process for managing the financial resources held to meet the ORFR target amount in the event that the RSE licensee or RSE is wound up.
11. The Board must approve the ORFR strategy and is ultimately accountable for ensuring the implementation of the RSE licensee's ORFR strategy.

ORFR target amount and tolerance limit

12. For the purposes of paragraph 9, an RSE licensee must determine:
- (a) a target amount of financial resources (ORFR target amount); and
 - (b) a tolerance limit below the ORFR target amount (tolerance limit). Where ORFR financial resources fall below the tolerance limit, the RSE licensee must take action to replenish financial resources to meet the ORFR.
13. An RSE licensee's ORFR target amount and tolerance limit must be determined on a prudent basis that suitably reflects:
- (a) the RSE licensee's operational risk profile and risk assessments;
 - (b) the uses of the ORFR financial resources permitted under paragraph 15; and
 - (c) the size, business mix and complexity of the RSE licensee's business operations.
14. If APRA considers that the ORFR target amount and/or tolerance limit set by the RSE licensee does not adequately reflect the requirements of this Prudential Standard, APRA may require an RSE licensee to:
- (a) meet an ORFR target amount determined by APRA, within a specified time; and/or
 - (b) adopt a tolerance limit determined by APRA.

Use of ORFR financial resources

15. An RSE licensee must only use ORFR financial resources for one or more of the following:
 - (a) to address operational risks that could reasonably be considered to have caused or could cause one or more beneficiaries in an RSE within the RSE licensee's business operations to sustain a loss, or to be deprived of a gain to which they otherwise would have been entitled;
 - (b) to meet the requirements of *Prudential Standard CPS 230 Operational Risk Management* for the effective management and prevention of operational risk incidents, including the remediation of identified material weaknesses and maintenance of critical operations within tolerance levels through severe disruption; and
 - (c) to reduce a surplus where ORFR financial resources are materially larger than the ORFR target amount.

Access to ORFR financial resources

16. To be eligible to meet the ORFR target amount, any ORFR financial resources held as an operational risk reserve within an RSE must:
 - (a) be separately identifiable from member accounts and reserves held in the RSE for other purposes; and
 - (b) be unrestricted and readily available to address operational risks in a timely manner.⁵
17. To be eligible to be used to meet the ORFR target amount, any ORFR financial resources held as trustee capital must be held in a form that is equivalent to Common Equity Tier 1 Capital.⁶

Shortfall management

18. Where the level of ORFR financial resources falls below the tolerance limit, an RSE licensee must implement a replenishment plan and replenish the ORFR financial resources. Replenishment must occur within a period and in a manner the RSE licensee determines will ensure that the RSE licensee acts fairly in

⁵ Refer also to *Prudential Standard SPS 515 Strategic Planning and Member Outcomes* for requirements relating to the prudent management of reserves.

⁶ *Prudential Standard APS 111 Capital Adequacy: Measurement of Capital* states that Common Equity Tier 1 Capital comprises the highest quality components of capital that fully satisfy all of the following characteristics: (a) provide a permanent and unrestricted commitment of funds; (b) are freely available to absorb losses; (c) do not impose any unavoidable servicing charge against earnings; and (d) rank behind the claims of depositors and other creditors in the event of winding-up of the issuer.

dealing with beneficiaries and minimises the risk of adverse outcomes for beneficiaries.⁷ The replenishment plan must, at a minimum, explain:

- (a) how the shortfall has arisen;
 - (b) the amounts that apply in relation to each RSE;
 - (c) how the RSE licensee will replenish the ORFR financial resources, including the source of funding; and
 - (d) the expected date for the RSE licensee to again meet the ORFR target amount.
19. An RSE licensee's replenishment plan must be approved by the Board prior to implementation.
20. APRA may require an RSE licensee to revise its replenishment plan if APRA considers that the plan does not comply with the RSE licensee's duties and obligations.

Review and audit

21. An RSE licensee must review the appropriateness of its ORFR target amount and tolerance limit at least annually and following a material operational risk incident or material change to the RSE licensee's business operations. The findings of the review must be reported to the Board.
22. An RSE licensee must implement satisfactory internal audit procedures and external audit arrangements to ensure compliance with, and the adequacy and effectiveness of, the ORFR strategy.⁸
23. APRA may require the appointment of an external expert to provide an assessment of, and report on, the adequacy and effectiveness of, the RSE licensee's approach to meeting the requirements of this Prudential Standard. The report must be paid for by the RSE licensee and must be made available to APRA, together with the Board's preliminary response within 30 business days after it has been provided to the RSE licensee.

Notification requirement

24. An RSE licensee must notify APRA prior to making a material change to the ORFR target amount.

⁷ For the purposes of this Prudential Standard, a reference to 'beneficiaries' is a reference to 'beneficiaries of an RSE within the RSE licensee's business operations'.

⁸ Refer to *Prudential Standard SPS 310 Audit and Related Matters* and *Prudential Standard SPS 510 Governance* for requirements relating to external and internal audits respectively.