

March 2017

Dear *Investment Manager*,

## Operational Due Diligence of Investments

You may be aware that the Australian Institute of Superannuation Trustees (AIST) recently issued a guidance note on Investment Manager Operational Due Diligence<sup>1</sup>. The guidance note was issued in response to the Australian Prudential Regulation Authority's (APRA) expectations that Registrable Superannuation Entities have processes to assess the operational risk of prospective and incumbent investment managers. APRA's expectation for an operational due diligence process (ODD) is reinforced by the requirements in Prudential Standard SPS 530 Investment Governance, Prudential Standard SPS 231 Outsourcing and Prudential Standard SPS 220 Risk Management.

APRA has reminded RSEs that, going forward, it will assess their processes for managing both investment and operational risk when appointing investment managers/investing in external products. APRA is essentially raising the bar on the need for ODD on the investment manager/product. This is an important element of the RSE's understanding of the ability of the investment manager/product to deliver on its representations and to fulfil its intended role in meeting the RSE's investment strategy and achieving its investment objectives.

The guidance note recommends an independent ODD report, commissioned by the investment manager, which will become an essential element to the appointment of new and review of existing managers of the RSE. Such a report is not intended to replace other assurance reports on the effectiveness of internal controls, but does seek to provide an assessment of operational capabilities to deliver on the investment strategy for which the manager has been appointed. The report should consider factors such as organisational structure, corporate governance, risk and compliance, trading processes, business continuity, systems and security, service provider oversight, valuation and reporting.

This approach removes the need for an investment manager to provide information and facilitate onsite reviews multiple times for multiple clients. However, any RSE will reserve the right to conduct additional ODD as it sees fit and in order to discharge its regulatory duties.

The *Member Board/IC* has resolved to follow the guidance note and is seeking your feedback and plans with regard to the recommendation from this guidance note. Specifically,

- Have you engaged an ODD or assurance provider to provide an operational due diligence report on your organisation?
- If so, can you please provide a copy of the report or indicate when you expect this report to be available.
- If an ODD or assurance provider has not been appointed, please indicate when you intend to appoint one or reasons why not.
- If you have undertaken other activities that you believe meet all or some of the recommendations, can you please provide us with the details.

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<sup>1</sup> [http://aist.asn.au/media/922305/aist\\_odd\\_guidance\\_note\\_final.pdf](http://aist.asn.au/media/922305/aist_odd_guidance_note_final.pdf)

We would appreciate your response to the above questions by x date.

Please contact xyz on [xyx@abcsuper.com.au](mailto:xyx@abcsuper.com.au) or 03 123 4678 if you have any questions.

Yours sincerely,

RSE authorised person.