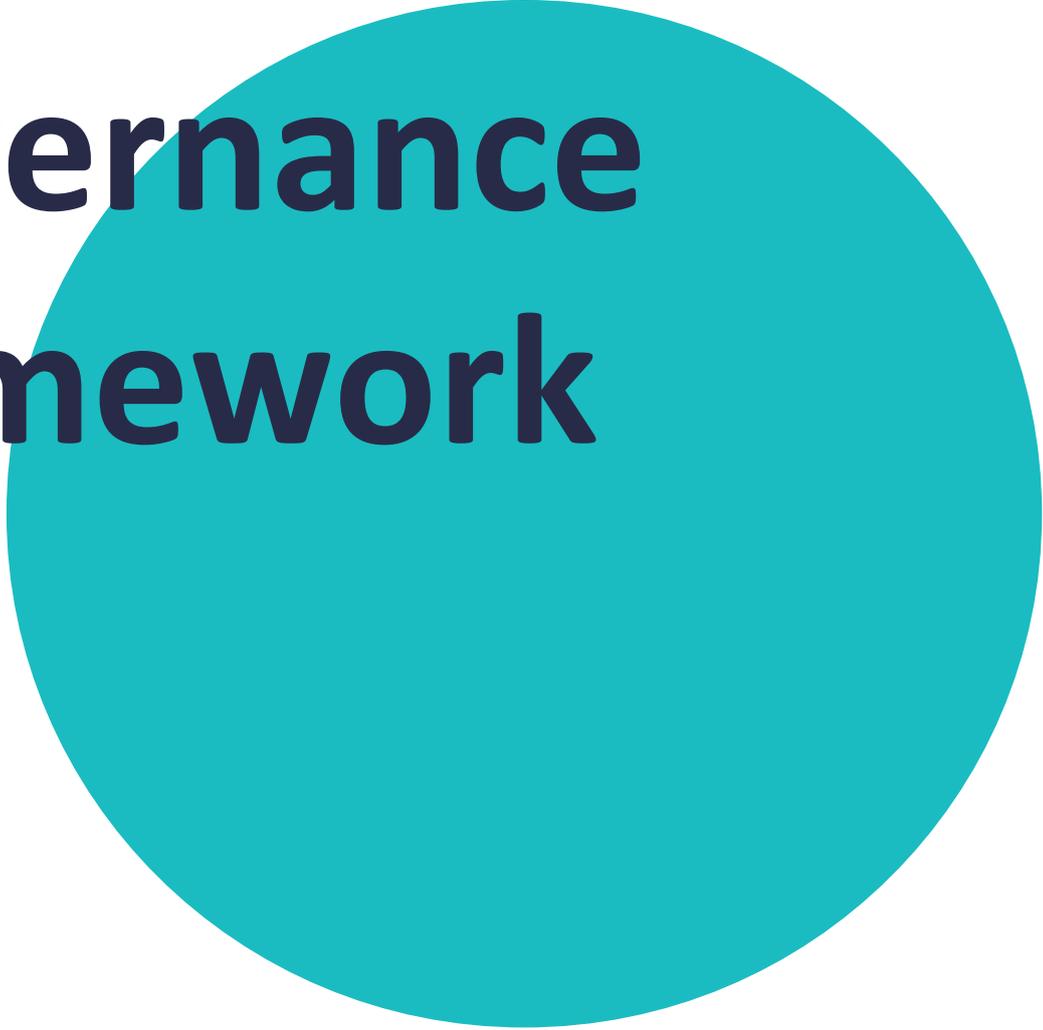




# Governance Framework



This document sets out how the Board oversees and exercises its authority in relation to Commonwealth Superannuation Corporation's (CSC's) business operations, which encompass the totality of systems, structures, policies, processes and people that underpin accountability within CSC's business operations.

An effective governance framework supports CSC in making objective and well-based business decisions in the best interests of customers. The Board aspires to achieve best practice and to be a leader in governance policy and practice.

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

## **Policy Framework**

The Board has developed a Board governance policy framework to manage the development, maintenance and review of key governance documents, policies, plans and procedures. This framework is designed to meet APRA Prudential Standard SPS 510, Governance (SPS 510). This document captures the Governance Framework in place at CSC.

## **Key elements of the Framework**

### **Formal Policies**

The policies outlined in Attachment A form the formal aspects of the Board Governance Framework.

They are subject to a regular cycle of review to ensure their continuing currency and effectiveness.

Board policies typically are reviewed initially by senior management and the relevant Board committee before being provided to the Board for approval. Independent reviews are conducted as required e.g. APRA mandates a triennial independent review of the Conflicts Management Framework.

### **CSC's Governance Model**

CSC's model for governance identifies a variety of elements of good governance and recognises all must work together to ensure the best possible outcomes for our customers.



### Outcomes for customers

At the centre of the model is outcomes for customers – all elements of CSC’s governance model contribute to outcomes for customers. That is, CSC’s governance model is designed to ensure that our customers are at the centre of everything we do. Delivering customer outcomes is the primary purpose for which CSC is established and the underpinning core of all of our other organisational and governance decisions.

### Board governance

Board governance is the framework and structure which the Board and its Committees operate. This includes:

- the establishment of formal policies, procedures and terms of reference that the division of responsibilities between the Board, its Committees, and management;
- setting and approving the vision, purpose and strategies for CSC; and
- the processes and policies around Board composition, capacity and performance.

### Accountability and remuneration

Accountability encompasses the systems and structures through which staff, both individually and collectively, fulfil their responsibilities and face consequences for not doing so. Being able to identify who is accountable ensures that issues are escalated and resolved effectively.

Remuneration is explicitly linked to accountability in that it is a key driver and influence on behaviour and can be used to demonstrate accountability outcomes both in a negative and positive manner. CSC’s staff remuneration includes both fixed and variable components, with the variable remuneration framework designed to promote financial and non-financial performance criteria that support long-term financial soundness and positive risk management activities.

### Three lines of defence

CSC has adopted the Three Lines of Defence (3LOD) model as part of its governance model, particularly with respect to risk, governance and compliance oversight. This model is built around three elements:

- The first line of defence is the business. The business ‘owns’ the risk and must ensure that there are controls in place to appropriately manage the risk within CSC’s risk appetite.
- The second line of defence is the independent risk management and compliance

function. The function develops risk management policies, systems and processes to promote a consistent approach to risk and compliance management, and provides independent review and challenge to ensure first line controls are appropriate.

- The third line of defence is the independent audit function (both internal and external). The function provides independent assurance that the risk management framework and compliance framework are adequate and operating effectively.

### Culture, values and behaviours

In addition to having a formal code of conduct, CSC understands the importance of culture, behaviours and setting values. The culture, values and behaviours of CSC and its people are fundamental to effectively embedding frameworks, structures and controls designed to manage business operations and risk.

### Investment governance, strategy and management

Investments, particularly investment returns, are at the forefront of many customers' minds when it comes to making decisions regarding their superannuation. Investment governance incorporates the elements, frameworks and structures that underpin CSC's investment approach.

The Board approves the Investment Governance Framework, risk budget and related policies, processes and delegations in accordance with the requirements of APRA Prudential Standard SPS 530, Investment Governance.

## **Strategy**

The Board is responsible for setting, reviewing and overseeing CSC's strategic direction, including its vision, mission and strategic objectives.

A Board-approved Strategic Plan is also used to deliver on CSC's vision, mission and strategic objectives. The Strategic Plan is a rolling three-year plan comprising a set of specific and measurable outcomes for each three-year period that are supported by annual milestones.

The Board receives quarterly reports on the achievement of CSC's Corporate Plan performance targets, the specific targets related to each Strategic Plan milestone, and other key operational objectives.

## **Risk Management**

The Board reviews, ratifies and oversees systems of risk management through the RMS and RAS in compliance with APRA Prudential Standard SPS 220, Risk Management. Non-investment risk management is overseen by the Risk Committee which reports to the Board through the Audit Committee. Formal risk policies are in place as well as numerous processes that form part of the risk management framework.

## **Compliance Management**

The Board approves the Compliance policy, which satisfies the requirements of CSC's AFS licence and outlines the processes that will be followed when incidents and breaches are identified. Compliance management is overseen by the Audit Committee which reports directly to the Board.

## **Fitness and Propriety Management**

The Board has developed a Fit and Proper policy which sets out the required fitness and propriety standards for directors in accordance with the requirements of the *Superannuation Industry (Supervision) Act (SIS Act)* and APRA Prudential Standard SPS 510, Fit and Proper.

## **Board Performance Evaluation**

Board performance evaluation is conducted in accordance with the Board performance evaluation policy.

## **Financial Management**

CSC's finances are managed in accordance with the Public Governance, Performance and Accountability Act 2013 (PGPA Act), the schemes' governing legislation, the SIS Act and the Corporations Act. A Board-approved budget is in place and the Board has delegated its authority to individual staff to make and implement certain financial decisions. CSC has a dedicated Audit Committee that oversees financial management.

## **Internal Audit**

The Audit Committee agrees an annual internal audit plan. In drawing up the plan, the committee takes into account previously identified risks, the results and recommendations of previous internal and external audits, legislative and regulatory changes and requirements, and anticipated business changes. Audits can be initiated at any time by the Board or the Audit Committee to address changes to business priorities or to CSC's risk profile.

## **Board Diversity**

CSC's commitment to Board diversity is reflected in its Board governance policies including its Board Renewal Policy, Diversity Policy, and Board Charter.

## **Relationship with Management and Delegations**

The Board's relationship with, and access to, management is detailed in the Board Charter. The Charter includes detail on the delegations provided by the Board to management across CSC.

## **Review**

The Governance Framework will be reviewed by the Board Governance Committee biennially or as required, in particular in light of relevant regulatory initiatives or any significant changes to CSC's constituent legislation, to assess its continuing currency. The Committee will recommend to the Board for its approval any necessary or desirable amendments to ensure the policy remains consistent with best practice and applicable law.

| <b>Date</b>   | <b>Author</b>         | <b>Comments</b>  |
|---------------|-----------------------|--|
| December 2012 | General Counsel Group | Establishment of document. Board Governance Committee meeting 20 November 2012; Board meeting 5 December 2012. |

|                |                       |   |
|----------------|-----------------------|---|
| April 2013     | General Counsel Group | Regular review to assess continuing currency.   |
| March 2015     | General Counsel Group | Biennial review to assess continuing currency. Board Governance Committee meeting 12 February 2015; Board meeting 24 March 2015.  |
| 15 June 2017   | General Counsel team  | Updated APRA governance requirements: Prudential Standard SPS 510, Governance, and Prudential Practice Guide SPG 510, Governance. Reviewed by Board Governance Committee meeting 22 March 2017; Board meeting 3 May 2017. |
| 15 August 2019 | General Counsel team  | Biennial review to assess continuing currency. Reviewed by Board Governance Committee meeting 14 August 2019; Board meeting 15 August 2021.   |
| 19 August 2021 | General Counsel Team  | Biennial review to assess continuing currency. Reviewed by Board Governance Committee 16 June 2021; Board meeting 19 August 2021.   |

## Policies Approved by the Board

| Policy Name  | Source  |
|--|---|
| Board Charter  | SPS 510, Governance, para 8   |
| Board Performance Evaluation Policy  | SPS 510, Governance, para 17, Board performance assessment procedures   |
| Board Renewal Policy   | SPS 510, Governance   |
| Business Continuity Management Policy  | SPS 232, Business Continuity Management, para 14  |
| Conflicts Management Policy  | SIS Act; Corporations Act; Prudential Standard SPS 521 Conflicts of Interest; PGPA Act; GAGGS Act   |
| Diversity Policy   | Australian 30% Club's Investors Working Group Statement of Intent   |
| Fit & Proper Policy  | SIS Act; Prudential Standard SPS 520 Fit and Proper and supported by Prudential Practice Guide SPG 520 Fitness and Propriety  |
| Governance Framework   | SPS 510, Governance   |
| Remuneration Policy  | SPS 510, Governance, para 19  |
| Staff External Appointments Policy   | Best practice governance  |
| Whistleblower Protection and Public Interest Disclosure Policy                         | Corporations Act; Prudential Standard SPS 510 Governance; Propriety Prudential Standard SPS 520 Fit and Proper; SIS Act and the Public Interest Disclosure Act 2013             |
| Investments Governance Framework<br>(inclusive of all investment policies & processes) | MySuper requirement; SPS 530 Investment Governance; best practice investment governance and documentation   |
| Active Ownership Policies (Including Proxy Voting and Stewardship Policies)            | MySuper requirement; SPS 530 Investment Governance; best practice investment governance and documentation   |
| Anti-Money Laundering/Counter-Terrorism Financing - Program Part A                     | Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) and Rules  |
| Compliance Policy  | AFSL, Corporations Act, SIS Act and regulations, scheme legislation   |
| Derivatives Risk Statement   | SIS Act; SPG 530 - Investment Governance; SPS 220 - Risk Management   |
| Earning Rate Policies (CSS, PSS)   | Industry standards and best practice guides as set by APRA, ASIC, ASFA and IFSA.  |
| Fraud and Corruption Control Plan  | ASFA Best Practice Paper 20: Managing the risk of fraud and corruption in superannuation entities; Commonwealth Fraud Control Guidelines.                                       |
| Insurance Strategy and Insurance Management Framework                                  | MySuper requirement; SPS 250 Insurance  |
| Media Policy   | Legislative misleading and deceptive obligations, Australian Financial Services License (AFSL) requirement to provide only general advice and management of reputational risks. |
| Modern Slavery Policy  | <i>Modern Slavery Act 2018 and associated regulations</i>   |
| Operational Risk Financial Requirement Strategy  | MySuper requirement; SPS 114/SPG 114 Operational Risk Financial Requirement   |
| Outsourcing Policy   | SPS 231 Outsourcing   |

|  |   |
|--|---|
| Risk Management Strategy and Risk Appetite Statement | SIS Act and regulations. Prudential Standard Risk Management (SPS 220); Prudential Practice Guide Risk Management (SPG 220) |
| Strategic Plan and Annual Milestones                 | Best practice; good governance  |
| Tax Risk Management Framework                        | ATO requirement   |
| Valuation of Investments Policy and Procedures       | Prudential Practice Guide SPG 531 – Valuation (SPG 531)   |
| PSSAP and ADF Super Administration Reserve Strategy  | Superannuation Industry (Supervision) Act 1993 APRA SPG 222, ASIC 'Unit Pricing – Guide to Good Practice                    |
| Unallocated Income Policy                            | PSSap Rules ADF Super Rules   |