

Recovery and Exit Planning – Is the Superannuation Industry Ready?

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From 1 January 2025, Prudential Standard CPS 190 (CPS 190) will come into effect for Registrable Superannuation Entity (RSE) licensees. These entities will be required to have detailed recovery and exit plans to support the navigation of events which may threaten their financial viability. Following a recent review of the superannuation industry's preparedness for the commencement of CPS 190, the Australian Prudential Regulatory Authority (APRA) expressed the urgent need for RSE licensees to '*consider and develop more robust and effective*' contingency plans.

How to prepare

To assist entities in the adoption of CPS 190, APRA has published a breakdown of the key components of an effective recovery and exit plan.

1. *Trigger Framework*

The first component of the planning process involves the establishment of trigger frameworks to support the early identification of potential stress events. The framework should:

- clearly articulate early warning indicators of stress events and integrate them into contingency plans;
- develop staggered trigger levels to guide response escalation; and
- promote flexibility of trigger frameworks by tailoring actions to specific stress events.

2. *Governance Arrangements*

Once trigger frameworks have been established, RSE licensees will need to establish governance arrangements for the ongoing monitoring and reporting of, and response to, trigger events.

3. *Recovery and Exit Actions*

The third component of the planning process requires entities to develop recovery actions to restore financial resilience and strategies to effect a solvent exit where recovery is not possible.

4. *Communication Strategy*

To ensure that recovery and exit actions can be implemented as needed, RSE licensees must establish communication strategies which ensure all stakeholders and key actors understand what to do, when and how to do it, and how to communicate what is being done to appropriate personnel.

5. *Significant Financial Institutions (SFIs)*

The final two planning components, scenario analysis and assessment of recovery capacity, only apply to SFIs. An RSE licensee will be an SFI under CPS 190 if:

- the RSE has total assets in excess of \$30 billion; or
- where the licensee operates multiple RSEs, combined total assets exceed \$30 billion; or
- APRA otherwise determines the entity to be an SFI.

RSE licensees that are SFIs must assess the likely effectiveness of existing recovery and exit actions in response to common stress events such as economic downturns or adverse judicial decisions where litigation is pending. They must also assess recovery capacity by identifying credible sources of financial resources that can be relied on to support responses to contemplated stress events.

Key takeaways

RSE licensees need to prepare for the commencement of CPS 190 in 2025. With our significant financial services, and insolvency and restructuring expertise, K&L Gates is well equipped to assist these entities in the development and maintenance of credible recovery and exit plans by providing support across each component of the planning process. To find out more about how we can support you, reach out to one of our skilled team members listed above.

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