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1 Introduction

This Outsourcing Policy (Policy) sets out the key processes and procedures that Commonwealth Superannuation Corporation (CSC) applies in relation to the outsourcing of material business activities to external service providers.

CSC is a Registrable Superannuation Entity (RSE) licensee (RSEL 0001397) and is therefore required to comply with the Australian Prudential Regulation Authority’s (APRA) Prudential Standard SPS 231, Outsourcing (SPS 231). SPS 231 requires that all of CSC’s outsourcing arrangements involving material business activities be subject to appropriate due diligence, approval and ongoing monitoring. All risks arising from outsourcing material business activities must be appropriately managed by CSC to ensure that it is able to meet its obligations to its beneficiaries.

This policy also applies to CSS/PSS Pty Ltd. CSS/PSS Pty Ltd is a company within the CSC group and is an RSE licensee in its own right. It is trustee of the CFM Australian Equities Fund, a pooled superannuation trust. CSC is the sole shareholder of CSS/PSS Pty Ltd, all CSS/PSS Pty Ltd responsible persons are responsible persons of CSC, and CSS/PSS Pty Ltd is managed by CSC staff as an integral part of CSC’s business operations. Accordingly, references to CSC will also include references to CSS/PSS Pty Ltd, as appropriate.

CSC also has an AFS (Australian Financial Services) licence (AFSL 238069) under the Corporations Act 2001. That Act also provides that CSC has ultimate responsibility for complying with the conditions of its AFS licence, even where activities are outsourced to third parties.¹

CSC’s stated vision is to: ‘Grow the wealth of Australian Government employees and members of the Australian Defence Force for their retirement’.

CSC’s stated mission is to:
- Achieve consistent long term investment return targets within a structured risk framework; and
- Provide information and services to members that are relevant, reliable and helpful.

This policy is designed to ensure that CSC uses high quality external service providers that will assist it achieve its vision and mission, and implement its strategic business goals, and that its arrangements with these providers are subject to appropriate due diligence, approval and ongoing monitoring.

CSC has established the processes and procedures set out in this document to comply with the relevant statutory and regulatory obligations. CSC’s board of directors (Board) requires that these procedures are implemented and adhered to at all times.

¹ Corporations Act 2001, section 769B
CSC is subject to some mandated arrangements with external service providers. For example, under statutory mandate, scheme administration services are provided to CSC by ComSuper, and external audit services by the Australian National Audit Office. Each of these agencies in turn outsources components of the services they provide. As far as possible, CSC manages these relationships in accordance with this policy although these relationships are not subject to the usual commercial terms of a contract but are managed in a cooperative manner to achieve the desired outcomes.

2 Background

CSC was established under the Superannuation Act 1990 (as Australian Reward Investment Alliance or ARIA) and continued in existence (as CSC) by section 5 of the Governance of Australian Government Superannuation Schemes 2011. CSC has both an Australian Financial Services licence and a Registrable Superannuation Entity licence and is a trustee of four regulated superannuation schemes for members of the Australian public sector and the Australian Defence Force. It is subject to the Commonwealth Authorities and Companies Act 1997.

CSC is the trustee of the following four regulated superannuation schemes:

(i) Commonwealth Superannuation Scheme (CSS);
(ii) Public Sector Superannuation Scheme (PSS);
(iii) Public Sector Accumulation Plan (PSSap); and
(iv) Military Superannuation Benefits Scheme (MSBS).

The funds for each of these schemes are co-invested through a pooled superannuation trust, the ARIA Investments Trust, of which CSC is also trustee.

CSC administers five unregulated public sector superannuation schemes:

(i) The Defence Force Retirement and Death Benefits Scheme (DFRDB);
(ii) The Defence Forces Retirement Benefits Scheme (DFRB);
(iii) The Defence Force (Superannuation (Productivity Benefit) Determination (DFSPB);
(iv) Superannuation Act 1922 Scheme (1922 Scheme) and
(v) Papua New Guinea Scheme (PNG Scheme).
CSC is responsible for member services and scheme administration for the unregulated public sector schemes. These schemes are unfunded. Accordingly no investment function is undertaken by CSC in relation to them.

As noted above, CSC, as an RSE Licensee, is required to comply with the Superannuation Industry Superannuation Act 1993 (SIS) prudential standards in relation to its outsourcing arrangements of material business activities. APRA’s SPS 231 sets out the minimum requirements for outsourcing agreements and is enforceable by APRA.

**SPS 231** defines a material business activity:

“A ‘material business activity’ is one that has the potential, if disrupted, to have a significant impact on an RSE licensee's business operations, its ability to manage risks effectively, the interests or reasonable expectations, of beneficiaries or the financial position of the RSE licensee, any of its RSEs or its connected entities having regard to such factors as:

(a) the financial and operational impact and impact on reputation of a failure of the service provider to perform over a given period of time;

(b) the cost of the outsourcing arrangement as a share of total costs;

(c) the degree of difficulty, including the time taken, in finding an alternative service provider or bringing the business activity in-house;

(d) the ability of the RSE licensee to meet regulatory requirements if there are problems with the service provider;

(e) potential losses to beneficiaries and other affected parties in the event of a service provider failure; and

(f) affiliation or other relationship between the RSE licensee and the service provider. “

SPS 231 specifically nominates the internal audit function as a material business activity. For other activities, General Counsel will make the decision about whether a function is a material business activity in accordance with the factors set out in SPS 231.

This policy sets out how CSC will comply with SPS 231.

This policy applies to situations where the outsourcing arrangement involves business activities that are material in the sense that, if disrupted, the outsourcing arrangement has the potential to impact significantly on CSC’s business activities or reputation. Non-material contracts (eg cleaning contract for office premises) will normally not be subject to this policy. If in doubt, these principles should be applied to the relevant outsourced relationship.

The Board has ultimate responsibility for the outsourcing of any material business activity. This includes responsibility for complying with all prudential and legal requirements that relate to the outsourced business activity. Day-to-day monitoring of outsourcing arrangements will

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2 SIS section 31(2)(sa). Note: mandated arrangements with services providers ComSuper and ANAO are not subject to these outsourcing provisions.
be carried out by the CSC business team responsible for the business activity that has been outsourced.

It is therefore the responsibility of the Board and management to ensure adequate practices are in place for the effective oversight and management of outsourcing arrangements including:

(a) Board review and approval of this outsourcing policy;
(b) review of compliance with this outsourcing policy; and
(c) effective monitoring of outsourced relationships.

3 Suitability of external service providers

Before deciding to outsource a material business activity CSC will consider the business case for outsourcing. This will consider whether CSC is appropriately resourced to provide the required service within the timeframe and budget available, actual and potential conflicts of interest, benefits and risks of the proposed outsourcing.

Once a decision is taken to outsource a material business activity, CSC must choose an appropriate selection process – eg, tender process, select tender on the basis of special expertise. If a tender document is prepared, it will be designed to enable prospective service providers to make a business submission for providing the material business activity in an informed and transparent manner. The tender document will clearly outline the requirements of CSC in the proposed outsourcing arrangement. The tender will also emphasise the basis on which a determination to proceed with a new service provider will be concluded.

Appropriate due diligence will be carried out on potential service providers. A due diligence process will be undertaken prior to any final decision being made as to whether to outsource the material business activity to a particular provider. This should address all material factors that would impact on the potential service provider’s ability to perform the business activity. The due diligence process should, as a minimum, look at the following issues:

(a) expertise and experience of the service provider;
(b) experience and qualifications of key staff;
(c) financial and technical abilities;
(d) how long the service provider has been providing similar services in the industry;
(e) the service provider’s client base and how CSC fits into that base;
(f) if the service provider is an existing one, what has the experience been to date (including in relation to identifying, reporting and then addressing breaches);
(g) if the service provider is required to be licensed to provide its service and, if so, whether it has the relevant licence;

(h) whether the service provider has appropriate monitoring, supervision and training processes and procedures to ensure that any staff providing services on its behalf comply with the relevant law and regulatory requirements;

(i) whether the service provider is a member of an industry body that has certain standards that need to be met by its members;

(j) the service provider’s internal control framework, performance standards, policies, procedures, compliance, breach identification and reporting systems;

(k) what insurance the service provider has in place;

(l) what technology the service provider has in place and its strategy for keeping up with changes in technology;

(m) whether business processes meet or exceed industry standards and whether these processes are consistent with CSC’s business requirements;

(n) whether outsourcing to the service provider is conducted on an arm’s length basis and in the best interests of beneficiaries;

(o) whether the service provider has adequate disaster recovery plans;

(p) other client testimonials/references/industry reputation; and

(q) cost.

The due diligence process should also identify any problematic issues, including potential conflict of interest where the service provider has similar arrangements with other superannuation fund providers who may be competitors of CSC.

The potential impact on CSC’s risk management framework, and its risk appetite and risk tolerance, must also be taken into account. The Board must consider CSC’s outsourcing risks and controls as a part of its overall risk management framework and when completing a risk management declaration required by APRA.³

Decisions to outsource material business activities will be made by the Board. The Board may delegate this responsibility to a committee or to management. If such a delegation is made, it will be clearly set out in writing. Material business activities may only be outsourced if it is in the members’ best interests to do so.

CSC will also consider how and to what extent the outsourcing of the material business activity will assist CSC in meeting the adequacy of resources requirements, and how these requirements will be monitored on an ongoing basis.

³ SPS 220 Risk Management, paragraph 33.
Where the material business activity that is being outsourced will be conducted outside Australia, CSC must consult with APRA prior to the outsourcing. This does not include arrangements where the physical location of an outsourced activity is within Australia but the service provider is not incorporated in Australia. APRA must be satisfied that the impact of the outsourced activity has been adequately addressed as part of CSC’s risk management framework.

4 Engagement of external service providers

All material outsourcing arrangements must be contracted in a documented legally binding agreement that is enforceable in Australia and subject to Australian law. It must be signed by all parties before the outsourcing arrangement commences. The agreement must document all components of the outsourcing arrangement between CSC and the respective third party provider. CSC management may have recourse to legal advisors in drafting or assessing contractual arrangements relating to outsourcing arrangements.

CSC’s relationship with its scheme administrator is legislative; it is not contractual. Therefore these provisions do not apply.

At a minimum any outsourcing agreement must cover the following arrangements:

(a) **The scope of the arrangement and services to be supplied, eg:**

   (i) scope, content, frequency, and format of the services being provided
   (ii) the duties and powers of the service provider

(b) **Term, eg:**

   (i) commencement and end dates
   (ii) flexibility to accommodate changes to existing service levels/processes, the law, and changes in ASIC or APRA policy
   (iii) option to renew the term (if any)

(c) **Review provisions, eg:**

   (i) periodic review of the agreement and services provided

(d) **Pricing and fee structure, eg:**

   (i) explicit pricing arrangements, including frequency of invoicing, payment procedures
   (ii) any fee review process
the connection between the service fees payable and (a) performance against benchmarks (if any) and (b) variations to the services being provided to CSC

GST clause

Service levels and performance requirements, eg:

(i) procedures to allow CSC to effectively monitor the performance of the service provider

Data, eg:

(i) ownership and control of data
(ii) form in which data is to be kept

Reporting requirements, eg:

(i) the content of the reports the service provider is required to prepare, the frequency of reporting

Audit and monitoring procedures, eg:

(i) CSC, ASIC or APRA may request an independent audit of the service provider's activities
(ii) CSC's external and internal auditors to obtain sufficient information to satisfy themselves of the adequacy of the operation of risk management and other systems and the adherence to those systems

Business continuity management, eg:

(i) business continuity plans
(ii) periods during which normal service levels must be restored
(iii) backup of data and software

Confidentiality, privacy and security of information, eg:

(i) confidential information to be kept confidential and secure
(ii) protection of the privacy of personal information

Default arrangements and termination provisions, eg:

(i) default arrangements linked to the termination provisions, where appropriate
(ii) rectification or indemnity to protect CSC's position, if appropriate
(iii) possible reasons for termination
(iv) appropriate notice periods
(v) rights and responsibilities of respective parties
(vi) access to documents, records, software and hardware
(vii) transitional arrangements
(viii) appropriate force majeure provisions.

(l) **Dispute resolution arrangements, eg:**

(i) formal dispute resolution mechanism
(ii) where necessary, conciliation and arbitration arrangements

(m) **Liability and indemnity, eg:**

(i) extent of liability of each party and, in particular, where there is any limitation of liability for negligence
(ii) indemnity in favour of CSC to the maximum extent permitted by law

(n) **Sub-contracting, eg:**

(i) the basis (if at all) on which the third party service provider may itself sub-contract eg the standards that the sub-contractor must meet, whether CSC agreement is required to any sub-contracting
(ii) liabilities or obligations under the head outsourcing agreement eg whether the sub-contracting agreement should meet the same standards as the head contract under which the material business activity was outsourced
(iii) responsibility for any act or omission of a sub-contractor in the performance of any sub-contracted services – CSC’s outsourcing agreement must include an indemnity to the effect that any sub-contracting by a service provider of the outsourced function will be the responsibility of the service provider, including liability for any failure on the part of the sub-contractor
(iv) offshoring arrangements

(o) **Insurance, eg:**

(i) service provider to hold professional indemnity insurance and fidelity insurance, at an appropriate level
(ii) CSC’s interest noted on the professional indemnity insurance policy
(iii) provision of certificate of currency of the policy

(p) Authorised representatives, eg:

(i) list of authorised representatives of CSC and the service provider

(ii) the power, duties, and conduct of authorised representatives

(iii) liability of the respective parties for conduct of its authorised representatives

(q) Regulator access, eg:

(i) access to information necessary to satisfy a regulator as to the adequacy of compliance and risk management systems used by the service provider

(ii) on-site visits and access any documents or information held at the premises

(iii) ensure that the service provider does not disclose or advertise that APRA has conducted an on-site visit, except as necessary to coordinate with other entities regulated by APRA that are existing clients of the service provider

(r) CSC access, eg:

(i) CSC may access any documents or information relating to CSC or the outsourcing arrangement

(ii) CSC may conduct on-site visits at the service provider’s premises on reasonable notice

(s) Financial problems or takeover of service provider, eg:

(i) dealing with financial capacity problems experienced by the service provider such as the occurrence of an insolvency event

(t) Jurisdiction, eg:

(i) enforceable in Australia

(ii) subject to Australian law.

Notification requirements

CSC must notify APRA after entering into an outsourcing agreement relating to a material business activity as soon as possible, and in any event, no later than 20 business days after the execution of the outsourcing agreement. When notifying APRA of a new outsourcing agreement, CSC will provide to APRA a summary of the key risks involved in the outsourcing
arrangement and the risk mitigation strategies put in place to address these risks. CSC must also consult with APRA prior to outsourcing a material business activity to a service provider where the outsourced activity will be conducted outside of Australia.

CSC will advise APRA of any significant problems that have the potential to materially affect the outsourcing arrangement and, as a consequence, materially affect CSC’s business operations, the interests of beneficiaries, or materially affect any connected entities of CSC.

Business continuity

Wherever possible, CSC will develop contingency plans – for example, to enable an outsourced business activity to be provided by an alternative service provider or brought in-house if required.

Where CSC invokes its Business Continuity Plan as the result of an unexpected event or there is a sudden financial or operational failure of an existing service provider, and, as a result, CSC enters into a new outsourcing agreement, CSC will comply with the minimum outsourcing agreement and APRA notification requirements as outlined under this section of this policy (refer Notification requirements, above) to the extent that is reasonably possible having regard to the nature of the extreme event or sudden failure. CSC will notify APRA as soon as practicable of any such outsourcing arrangement.

5 Conflicts of interest

CSC will have regard to CSC’s Conflicts Management Policy and Framework when a potential or actual conflict arises in relation to outsourcing arrangements. CSC’s Conflicts Management Policy and Framework sets out CSC’s approach to conflicts of interest that may arise including how all risks arising from such an arrangement will be identified, monitored, managed and mitigated.

6 Ongoing management of external service providers

Monitoring of outsourced activity

Prior to entering into any outsourcing arrangement in relation to a material business activity, it must be clear that the Board has delegated the requisite authority. The scope and limitations of the delegated authority must be complied with at all times.

As part of entering into any outsourcing arrangement in relation to a material business activity, CSC must put in place procedures to monitor and control the conduct of the activity and of the third party provider. The reporting framework will vary with each material outsourcing arrangement reflecting the size and nature of the arrangements. Accountability for managing the arrangement will be specifically assigned to an individual or business team to ensure there is continued focus on the respective outsourcing arrangement. The person or team responsible
should maintain regular contact with the service provider and regularly monitor the performance under the agreement, including service levels.

Meeting with service provider

CSC will meet with service providers regularly to review the continuing adequacy of the services provided, and identify any problem areas and areas for improvement. For example, members of the investment team meet with investment managers each year, in both CSC offices and in the managers’ offices, and members of the Member & Employer Services team meet regularly with the provider of group insurance for PSSap, but these arrangements will vary across service providers.

Board reporting

The Board will receive regular reports on outsourcing of material business activities, with a focus on any difficulties or issues arising from the outsourcing. Notwithstanding regular reporting arrangements, any significant problems with outsourcing will be brought immediately to the attention of the Board.

Internal/external audit

The management of arrangements for the outsourcing of material business activities will be part of CSC’s internal audit plans from time to time, as determined by the Audit & Risk Management Committee. Among other things, the audit function may be directed to:

(a) ensure compliance with relevant policies and procedures;
(b) ensure appropriate internal controls are in place; and
(c) ensure that reporting is adequate, accurate and timely.

It will be a requirement of all outsourcing arrangements that CSC’s auditors may also have access to the third party provider for the purpose of testing compliance with these matters. CSC will require that records held by the service provider are adequate for audit trail purposes and that those records are made readily available to CSC, its auditors, and when necessary, regulators.

CSC’s internal auditors must also review any proposed arrangements for the outsourcing of material business activities. APRA may also request CSC’s external auditors to assess the risk management processes in place with respect to an arrangement to outsource a material business activity.

Circumstances where an outsourced agreement will be reviewed

Circumstances which may give rise to a review by CSC of a material outsourcing agreement include:

(a) inadequate performance by the service provider, including quality or timeliness of services being delivered;
(b) changes in key staff of the service provider;

(c) changes to the ownership of the service provider’s business which may result in a different focus or philosophy being pursued;

(d) legislative changes which require a review, eg additional or different licensing or regulatory requirements;

(e) strategic change of direction by CSC or the service provider;

(f) a regular review for material outsourcing agreements that do not have a fixed term and when a tender process may not be practical;

(g) expiry of the term of a contract; or

(h) a review of provisions of renewable fixed term agreements where a tender process may not be practical.

Termination

Where an outsourcing arrangement for a material business activity with an existing service provider is terminated, CSC will notify APRA as soon as possible. When notifying APRA, CSC must provide a statement about the transition arrangements and future strategies for carrying out the outsourcing material business activity.

7 Review

CSC’s General Counsel Group will review this policy biennially. At a minimum, the review will take into account:

(a) changes in reporting lines or business unit responsibilities;

(b) changes resulting from legislative or regulatory amendments;

(c) improvements identified through experience; and

(d) improvements resulting from the identification of systemic or recurring problems.

The Board will consider any recommendations arising from the annual review and will be required to approve any proposed revision of the policy before it becomes effective.

Revision table

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