



Prudential Standards

Investment management



This fact sheet collectively refers to refundable accommodation deposits, refundable accommodation bonds and entry contributions as refundable deposits.

Key Points

An investment management strategy (IMS) must be implemented before you invest refundable deposits in financial products or Religious Charitable Development Funds (RCDFs). However, an IMS is not required when investing only in authorised deposit-taking institutions (ADIs) such as bank accounts and term deposits.

The IMS forms part of your governance arrangements and ensures refundable deposits are only used for permitted uses. Your IMS should create a structure and process so you make informed and prudent decisions regarding the investment of refundable deposits.

It will enable key personnel to:

- assess the risks of financial investments, including their liquidity management and obligations to refund refundable deposits
- respond to changing risk.

Background

Consumers pay a refundable deposit to approved providers at a vulnerable time of their life and the refundable deposit is often a substantial part of their remaining wealth. As an approved provider, you can use refundable deposits for certain permitted uses to increase your capital and in turn improve your service for consumers. To protect consumers' refundable deposits, funds can only be used for certain permitted uses. These permitted uses are set out in section 52N-1(1) of the *Aged Care Act 1997* (Aged Care Act). For more information on the permitted uses, see the fact sheet *Permitted uses of refundable deposits*.

Under section 52M-1(1) of the Aged Care Act, if you hold refundable deposits, you must comply with the Prudential Standards as set out in Part 5 of the *Fees and Payments Principles 2014 (No.2)* (Fees and Payments Principles). The Prudential Standards help increase consumer confidence in the security of their refundable deposit. The Prudential Standards are the:

- Liquidity Standard
- Records Standard
- Governance Standard
- Disclosure Standard.

If you use refundable deposits to invest in any of the approved financial products, you are obligated under the Governance Standard to implement and maintain an IMS. Your governance arrangements must be proportionate to the size and complexity of the business. The Governance Standard requires you ensure all investments are made in accordance with your IMS, that the IMS is kept up-to-date and complies with the requirements for an IMS.

What is the purpose of an IMS?

You can invest refundable deposits in specified financial products to generate additional income that can then be used to improve your business. This creates additional risk that needs to be appropriately managed. You must implement and maintain an IMS to ensure appropriate arrangements are in place to assess and manage the risk of investing refundable deposits.

The aim of an IMS is to:

- Ensure you have arrangements in place to make informed and prudent decisions
- Assess the risks of financial investments, including liquidity and any corresponding impact on your ability to refund refundable deposit balances when they fall due
- Improve your ability to appropriately respond to changing risk.

When is an IMS required?

An IMS is required if you invest in any of the following (see: section 50(1) of the Fees and Payments Principles):

- debentures, stocks or bonds issued by the Commonwealth, States or Territories
- securities
- any of the following in relation to a registered scheme:
 - an interest in the scheme
 - a legal or equitable right or interest in an interest in the scheme
 - an option to acquire, by way of issue, an interest or right covered by sections 52N-1(3)(d)(i) or (ii) of the Aged Care Act.
- unregistered managed investment schemes established for the purpose of investment in residential or flexible care
- Religious Charitable Development Funds (RCDF).

What must be included in the IMS?

Your written IMS must set out (see: section 50(2) of the Fees and Payments Principles):

- your investment objectives
- an assessment of the potential risk the investment may have on your ability to refund refundable deposits when required
- a strategy for achieving the investment objectives while ensuring that you can refund refundable deposits in accordance with the Aged Care Act
- the asset classes (the specified financial product and any subgroups of those products) you may invest in

- the investment limits for each asset class that are consistent with investment objectives
- key personnel with appropriate skills and experience responsible for implementing the IMS
- date of approval by relevant key personnel

You must ensure that the IMS is modified or replaced if you become aware that it no longer complies with the legislative requirements.

What should I consider for an IMS?

You must ensure any investment in a financial product and/or RCDF does not impact your ability to refund refundable deposits when they fall due. You should therefore not invest refundable deposits in financial products which impact your ability to maintain sufficient liquidity to repay these balances.

The IMS requires you to carefully consider your approach to investing refundable deposits in financial products and RCDFs, considering factors including the nature and complexity of your business, the availability of surplus funds, existing investments and, access to skills and advice to manage investments. You must analyse the risk and likelihood for any investment you consider to affect your ability to refund refundable deposit balances when they fall due, before undertaking that investment. Your IMS should include triggers for disposing of the investment and making up any losses incurred. You may wish to seek professional advice when considering these risks.

Role of key personnel in investments

You must ensure that only key personnel with appropriate skills and experience are responsible for implementing the IMS. These key personnel must ensure any investment of refundable deposits is undertaken in accordance with the IMS.

Key personnel should seek expert advice to guide decision making when investing refundable deposits, where required. Any outsourcing and allocation of responsibilities must be clearly documented in the governance system and the IMS.

Key personnel who are responsible for executive decisions of the approved provider must approve the documented IMS. Depending on the size and complexity of your business, these may be the same key personnel responsible for managing refundable deposits, which should be identified in the governance system.

Additionally, key personnel of the approved provider must:

- ensure that any investment of refundable deposits is in accordance with your IMS
- ensure the IMS is kept up-to-date and complies with the Fees and Payments Principles, modifying or replacing the IMS if it no longer complies
- implement and maintain a written governance system that details the use and management of refundable deposits.



When should the IMS be reviewed?

As a minimum, the IMS should be reviewed when:

- there is a change in key personnel responsible for the executive decisions of the approved provider
- there is a change in key personnel responsible for managing refundable deposits
- there is a change in the objectives of the investments
- there is a significant devaluation of any of the financial products invested in
- the approved provider becomes aware that the IMS no longer complies with the Fees and Payments Principles.

Further information

[Annual Prudential Compliance Statement \(APCS\) Guidelines](#)

[Introduction into permitted uses \(video\)](#)

[Provider obligations for permitted uses \(video\)](#)

[Governance Standard \(fact sheet\)](#)

[Permitted uses of refundable accommodation deposits \(fact sheet\)](#)

Need to know more?

If you have any questions or feedback on this fact sheet, contact the Prudential Compliance Section by email on:

prudential@agedcarequality.gov.au

Stay up to date by [subscribing to the Commission's newsletter](#).

The Aged Care Quality and Safety Commission acknowledges the Traditional Owners of country throughout Australia, and their continuing connection to land, sea and community. We pay our respects to them and their cultures, and to Elders both past and present.

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Phone

1800 951 822



Web

agedcarequality.gov.au



Write

Aged Care Quality and Safety Commission
GPO Box 9819, In Your Capital City