

# Appendix A: Regulatory Impact Analysis

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# 1. Executive Summary

The proposed *Superannuation Legislation Amendment (Governance) Bill* requires a number of changes to fund governance. In meeting these changes funds will incur a number of costs that for not-for-profit funds, will be ultimately born by their members.

These costs relate to higher director fees for both replacement and additional directors who meet the proposed definition of independence, additional recruitment and training costs, and administrative and legal costs.

The total implementation cost over the first five years of reform is estimated to be between \$89 and \$168 million.

The reform will impact an estimated 101 not-for-profit funds (corporate, industry and public sector funds), with secondary costs impacting 147 retail funds.

The most significant and costly change is an estimated increase in the number of non-chair independent directors of 57 per cent, and an estimated increase in number of independent chairs of 35 per cent across all superannuation sectors, including retail.

This estimate of implementation cost does not include the very likely consequence that the proposed changes will result in lower net returns given that the funds impacted most significantly (corporate, industry and public sector funds) have achieved consistently higher net returns for their members over the last 17 years, as compared to the funds less impacted by the proposed changes.

Against this estimate of direct compliance costs associated with these proposed changes, absolutely no evidence has been presented in the explanatory material released so far to demonstrate that the proposed changes will result in benefits to members.

## 2. Introduction

Australia's superannuation system manages the retirement savings of over 13 million people. The pool of savings is currently just over \$2 trillion in total assets.

The majority of these savings, \$1.2 trillion, are in funds regulated by the Australian Prudential Regulatory Authority (APRA). The majority of these assets, \$715 billion, are in turn managed by funds that are governed by representative trustees.

Representative trustee funds are defined by their governance structure in which employer and employee representatives are equally represented on the trustee board. These funds include corporate funds, industry funds and public sector funds.<sup>1</sup> In legislation they are referred to as standard employer-sponsored superannuation funds.

Over the last 10 years, funds governed by representative trustees have outperformed funds governed under the alternative governance structure (retail funds) by on average two per cent per annum.<sup>2</sup> Retail funds are governed by trustees that reflect the governance models of the major banks (often their parent companies) and other publicly listed companies.

Under current legislation funds operating under the representative model are able to appoint one director who is neither an employer or employee representative, i.e. an "independent director" under current

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<sup>1</sup> Some public sector superannuation schemes are not regulated by APRA but rather under their own specific legislation.

<sup>2</sup> APRA, *Superannuation Fund-level Profiles and Financial Performance*, 2014 and ISA analysis

definitions.<sup>3</sup> In reality, however, funds may appoint independent directors through an application to APRA or if such an appointment is permitted under the individual fund's governing rules and requested by the employer or employee representatives on the board. Boards of Registrable Superannuation Entity (RSE) licensees acting as trustees of APRA regulated superannuation must regularly review their governance arrangements. This has been a requirement since the introduction of APRA licensing regimes in 2006, with further enhancements to prudential oversight and governance standards introduced in 2013 as part of the Stronger Super reforms.

Representative trustee boards have evolved over the past twenty years. This evolution has included an increased use of independent directors and independent chairs where the trustee has formed the view that this would improve the skills matrix of the board and or improve board dynamics whilst maintaining the positives flowing from the representative character of the board.

In 2014, approximately half of all representative trustees had at least one independent director.<sup>4</sup> Just over one third of representative trustees had an independent chair.

## 3. Proposed Change

### 3.1 The *Superannuation Legislation Amendment (Governance) Bill*

The proposed *Superannuation Legislation Amendment (Governance) Bill* provides that all boards of RSE licensees acting as trustees of APRA regulated superannuation funds, including standard employer-sponsored superannuation funds, are required to have a minimum of one-third independent directors and an independent chair. Where the licensee is a group of individual trustees, one-third of these individuals must be independent. The definition of "independence" in the proposed Bill is far broader than the both the current definition in the SIS Act (independent of stakeholders i.e. employer and employee associations), and the definition used in the FSC Code for the retail sector (independent of management, parent companies and material service providers).

The definition of "independence" in the proposed *Bill* excludes anyone is employed by an entity with a material relationship with the fund. These entities would include management, service providers and a number of others including sponsoring organisations. The determination of "material" is made by ARPA in prudential standards. It is proposed that APRA will also have the power to make a determination regarding whether an individual trustee satisfies APRA that they can exercise independent judgement, at their own motion. Due to the breadth and discretionary element in the proposed definition/process, it is impossible to determine for every case whether a trustee director currently classified as independent (under SIS or the retail definition) would be classified as independent under the proposed definition.

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<sup>3</sup> As noted by the Explanatory Guide of the proposed Bill 'the current definition of "independent director" under the SIS Act is designed to achieve independence from stakeholders (i.e. employers and members and their representative organisations) rather than independence from management, service providers and advisers.' In the retail sector, which has not stakeholder representation, "independence" currently means independent of management, service providers and advisers

<sup>4</sup> This is based upon the sample of 45 funds used in this analysis. APRA has previously reported that at June 2013, 34 per cent (35 out of 103) of RSE licensees with an equal representation board had an independent director. See APRA, *Annual Superannuation Bulletin June 2013* (revised 5 February 2014). Note that the definition of independent trustee used in this calculation is narrower than the definition contained in the exposure draft Superannuation Legislation Amendment (Governance) Bill 2015 and associated material.

## 3.2 Impact analysis and the *Australian Government Guide to Regulation*

Regulatory impact analysis is a crucial element in policy development, as it tests the evidence base for reform and ensures a degree of rigour in the reform process. Regulatory impact analyses are the key feature of the 2014 *Australian Government Guide to Regulation* and are required of all reform proposals by government regulatory agencies.

The 2013 discussion paper *Better regulation and governance, enhanced transparency and improved competition in superannuation* which informs the current Bill specifically requested estimates of the costs incurred in complying with reform proposals for superannuation governance. Moreover, it committed the Government to “ensuring all regulatory measures undergo a Regulatory Impact Assessment, to establish the precise impact of regulation”.<sup>5</sup>

However, the draft legislation, draft regulation and explanatory guide do not include any assessment of associated costs and benefits of the proposed reforms. This analysis provides a regulatory impact assessment for the proposed reforms.

## 4. Methodology

### 4.1 Categories of costs

In implementing the proposed governance reforms, affected funds will incur two kinds of costs: (i) transitional costs, particularly the costs to search for, recruit, and train a greater number of new chairs and trustee directors than would otherwise be the case, and (ii) ongoing costs, particularly assumed higher average salary costs of independent chairs and trustee directors.

There also are potential costs that relate to the substance of the proposal. Representative trustees are associated with superior long-term net performance relative to funds with non-representative governance models, including those with a majority of independent directors. Long term performance data provides an unequivocal basis for this fact. We have not included the costs of reduced performance in this analysis but have focused solely on the costs associated with the need to recruit additional trustee directors, pay their salaries and meet the requirements of the reform in respect to legal and administrative processes.

### 4.2 Population of Affected Funds

This regulatory impact assessment considers the processes which funds must undertake to comply with the proposed law within the transition period. For each of the processes, the costs incurred by the superannuation funds, and ultimately their members in the case of not-for-profit funds are estimated. As many of the processes do occur within funds in a business as usual scenario, the cost estimates are for costs in excess of a business as usual scenario.

The explanatory statement accompanying the Bill indicates the intended target of the reforms is the representative trustee sectors. While some retail funds will incur costs associated with these reforms, this analysis takes a conservative scope in only considering the intended target of not-for-profit representative funds. Hence, the for-profit retail sector funds are not included in the affected population in this analysis, although changes in the demand for independent directors may impact fees they charge across all sectors of the superannuation industry, including retail. This factor is included as a sensitivity analysis.

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<sup>5</sup> *Better regulation and governance, enhanced transparency and improved competition in superannuation*, Discussion Paper, 28 November 2013, Treasury, p 7

The population of affected funds is anticipated to be 101 funds in the following sectors:

- 44 industry funds
- 38 corporate funds
- 19 public sector funds

A survey of 45 funds, representative of the three different APRA regulated sectors (corporate, industry and public sector) which use equal representation trustees was used to inform the estimates under the reform scenarios. The sample includes 26 industry funds, 13 corporate funds and 6 public sector funds. The parameters determined by the survey are included in Table 1 below.

Under the draft Bill, APRA is given power to determine which relationships will fall within and outside the definition of independent. Hence, there is a level of uncertainty regarding whether trustee directors who are currently considered independent under the SIS Act and the constitutions of particular RSEs will meet the new definition of independence, or whether current directors not currently considered independent will meet the definition following reform. However, the current analysis assumes no change in the number of directors who are currently classed as independent/not independent under the reform scenario.

**Table 1 – Summary statistics of fund and trustee parameters**

Summary Stats	Industry	Corporate	Public Sector	Overall
Population of affected funds	44	38	19	101
Number of funds in sample	26	13	6	45
Average trustee size - current	9.62	7.00	8.17	8.36
Number of funds with at least one independent trustees	17	3	3	51%
Average number of independent directors per trustee	0.96	0.54	0.83	
Average proportion of independent trustees	9.68%	6.22%	10.19%	
Proportion of funds with an independent chair	42.31%	23.08%	50.00%	37%
Average number of independent trustees (excl chair)	0.54	0.31	0.33	
Average proportion of independent trustees (excl chair)	5.10%	2.37%	4.17%	
Average trustee size - reform scenario	10.27	9.62	9.00	

Source: APRA, RSE Disclosures and ISA analysis

### 4.3 Reform Scenario

Affected funds may meet the requirement to have a minimum of one-third independent directors and an independent chair on their boards in two ways:

1. They may maintain their existing trustee size and substitute existing trustee directors and/or chair for new directors who meet the new definition of independent trustee directors
2. They may increase the size of their trustee board through adding additional trustee directors.

In practice, the implementation across the population of affected funds will likely involve a combination of these approaches. Trustees of relatively small size may increase in size, whereas larger trustees may exclusively substitute.<sup>6</sup>

The reform scenario used in this analysis takes into account the combined response of substitution and addition of trustee directors. Funds with fewer than nine trustee directors will comply by both adding trustee directors up to a trustee size of nine, and substituting trustee directors. Funds with nine or more trustee directors will exclusively substitute trustee directors.

<sup>6</sup> APRA are also likely to weight against large increases in trustee size or the emergence of very trustees in response to this reform.

The reform scenario will result in:

- The appointment of 64 replacement independent chairs
- The appointment of 247 replacement independent trustee directors, and 48 new additional trustees.

Table 2 shows these appointments broken down by sector.

**Table 2 – Number of new appointments under reform scenario**

Reform Scenario	Industry	Corporate	Public Sector	Overall
Number of Replacement Chairs	25	29	10	64
Number of Replacement Independent non-chair Trustees	119	82	46	247
Additional New Independent non-chair Trustees	10	33	5	48

Source: APRA, RSE Disclosures and ISA analysis

The increase in the number of both independent chairs and independent non-chair trustee directors is significant. It is estimated that there is currently 520 trustee directors serving as independent directors under current definitions: 79 on the trustees of the affected funds population specified above and 441 on the trustees of retail funds. For trustees serving as independent chairs, under current definitions, there is estimated to be 184: 37 on affected funds and 147 on retail funds.<sup>7</sup> Hence, the increase in non-chair independent directors under the reform scenario is estimated to be 57 per cent, while for independent chairs the increase is estimated to be 35 per cent.

## 4.4 Implementation Costs

The full table of the parameters and assumptions underlying cost estimates is provided in the Appendix on page 10.

### 4.4.1 Recruitment

The additional cost of recruiting new independent trustees would be equal to the difference between the recruitment costs under normal trustee director renewal processes and the recruitment costs incurred appointing the required independent trustees within the transition period.

Typical board renewal policies state a maximum tenure of between 9 and 12 years.<sup>8</sup> For a trustee with between 8 and 9 trustee directors, an average constant appointment rate for directors is between 0.75 and 0.90 per year. Due to the significant and rapid increase in demand for independent directors, prudent funds are anticipated to recruit (and train) new independent directors within the first two years of the three year transition period. Therefore, under a business as usual scenario, between 1.5 and 1.8 trustee directors would be appointed during the transition period. To take this into account, the number of new independent directors required has been reduced by 1.75 for each fund for estimating recruitment and training costs.

<sup>7</sup> The estimates for the retail sector are based upon APRA statistics at June 2014 and an assumption of one independent chair per fund and three independent non-chair trustee director per fund (this equates for four independent directors per fund in the retail sector where the average trustee size is estimated to be 7 based upon the survey of 11 major retail funds).

<sup>8</sup> Typical renewal policies are nine years (three three-year terms), 10 years (two five-year terms), or 12 years (three four-year terms) after which the board can continue to extend tenure under specified circumstances.

The current industry benchmark for recruitment is a one-time cost of between \$20,000 and \$30,000.<sup>9</sup> This cost is the same regardless of whether the recruitment is done in-house or using a recruitment agency.

#### 4.4.2 Training

The additional cost of training the required independent directors is estimated in the same way as recruitment costs.

The current industry benchmark for training is between \$10,000 and \$15,000.<sup>10</sup>

#### 4.4.3 Termination Costs

Under the assumptions detailed in section 4.4.1 Recruitment, 48 independent trustees must be appointed in addition to those that replace existing positions under business as usual. These 48 appointments may require a corresponding 48 terminations. Termination fees have not been a feature of the governance practices of industry super funds, however in other sectors terminations may incur costs depending on the contractual arrangements.

ISA has been unable to source cost estimates for terminations and therefore have not included these in the analysis.

#### 4.4.4 Trustee Director Fees

The reform is predicted to lead an increase in director fees. This is due to differences in fee rates between representative chairs and independent chairs and non-chair representative directors and non-chair independent directors.

The following fee rates (Table 3) have been determined by a survey of 45 funds, representative of the population of funds governed by representative trustees, and 11 trustees of major retail funds.

**Table 3 – Average Current Chair and Independent Director Fees**

Trustee Position	Corporate	Industry	Public Sector
Average Chair annual fee (representative sectors)	\$14,911	\$87,940	\$85,572
Average non-Chair annual fee (representative sectors)	\$14,053	\$50,959	\$51,662
Average Independent Chair annual fee (excluding corporate)		\$120,029	
Average Independent non-Chair annual fee (excluding corporate)		\$79,440	

Source: RSE Disclosures and ISA analysis

Note: Corporate Funds have been excluded from the Independent Chair and Independent non-chair fee averages because the sample size is small and disclosed fees are atypical compared to the two other representative sectors (industry and public sector) and the retail sector within which independent chairs are more common. These fee estimates do not take into account additional fees for committees of the board which are likely to increase under APRA's proposed changes to SPS 510 to require that a majority (including the chair) of both the Board Audit Committee and Board Remuneration Committee be independent directors. All figures are in 2013/14 dollars.

The average independent chair fee and independent non-chair fee are used for the reform scenario. The cost for each sector will be the difference in the current fee and the fee under the reform scenario, multiplied by the number of new independent chairs and new independent directors under the reform scenario.

<sup>9</sup> Industry Super Australia has surveyed funds and industry consultants to determine this range.

<sup>10</sup> Industry Super Australia has surveyed funds and industry consultants to determine this range.

In addition to the direct costs of increasing the number of independent directors on equal representation trustees, on a broader scale this rapid demand for independent superannuation trustee directors is likely to bid up independent director remuneration and flow through to all independent directors. This is due to two factors.

First, the required increase in independent directors is significant. Across the affected funds and retail funds, the estimated increase in the number of non-chair independent directors industry wide under the reform scenario is estimated to be 57 per cent, while for independent chairs the increase is estimated to be 35 per cent.

Second, the supplier response to wages is highly inelastic for specialised services, such as being a superannuation trustee director. That is, general speaking, there are relatively few people with the appropriate skill level and background, and therefore larger movements in fees are required to attract greater work effort. This is a standard result in labour economics.<sup>11</sup> The supply of appropriate candidates will ultimately depend on the definition of excluded persons.

There appears to be few directly relevant Australian studies that address the link between independent directors, work effort and remuneration. Linck et al 2008 uses United States public company data on 8000 firms to find that regulatory reforms imposing greater independence significantly drive up the cost of corporate boards.<sup>12</sup>

In the absence of a precise estimate of the regulatory impacts on Australian super fund boards, we have assumed that independent director fees increase from current average fees to the 80th percentile fees of retail fund non-chair independent directors. Chair fees increase to \$125,000.<sup>13</sup> The immediate fee impact is assumed to take immediate effect.

#### 4.4.5 Legal and Administrative Costs

RSE licensees acting as trustees of APRA regulated superannuation funds will need to amend trust deeds and articles of association under the reform scenario. In addition, they must update publications including Product Disclosure Statements and websites. The additional cost of implementing these changes is assumed to be \$14,000 per fund based upon stakeholder feedback.

#### 4.4.6 Transition plan

The proposed Bill requires funds to comply with transition requirements to be prescribed by APRA under SPS 512. These requirements will include submitting a Transition Plan by July 1 2016. The Transition Plan must include assessment of the status of each current director, what changes are needed to meet new requirements, steps that the board will take by the end of the transition period to ensure compliance. The additional cost of meeting the requirements under SPS 512 are assumed to be \$20,000 per fund based upon stakeholder feedback.

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<sup>11</sup> Richardson, S, 2007, *What is a skill shortage?*, National Centre for Vocational Education Research (NCVER), 2007

<sup>12</sup> Linck, J, Netter, J & Yang, T, *The Effects and Unintended Consequences of the Sarbanes-Oxley Act on the Supply and Demand of Directors*, Oxford University Press on behalf of The Society for Financial Studies, 2008, p 3298

<sup>13</sup> There is insufficient data from which to calculate a meaningful estimate for the chair uplift, either using the 80<sup>th</sup> percentile for independent chairs or premium rates for chairs across all sectors. Such metrics produce figures between \$150,000 and \$200,000.



## 5. Estimates

Table 4 shows the cost estimates, expressed as a range, for each item under the reform scenario.

The five year cost for the reform is estimated to be between \$89 million and \$168 million.

**Table 4 – Aggregate Cost Estimates**

Item	Minimum Cost	Maximum Cost
<b>Transition Costs</b>		
Recruitment	\$7,183,985	\$10,775,978
Training	\$3,591,993	\$5,387,989
Legal and Admin Cost	\$3,472,000	\$3,472,000
Transition Plan	\$4,960,000	\$4,960,000
<b>Ongoing Costs</b>		
Chair Fees	\$4,214,570	\$4,533,285
Director Fees (non-chair)	\$13,858,107	\$23,061,884
Fee Response (retail funds)	\$0	\$8,835,226
<b>Total Costs</b>		
Total - Transitional Years	\$45,620,532	\$84,570,590
Total - Subsequent Years	\$14,259,920	\$31,120,633
<b>Five Year Cost</b>	<b>\$89,390,401</b>	<b>\$168,050,904</b>

Source: ISA analysis

Note: All estimates are in 2013/14 dollars.

The minimum and maximum cost of Director Fees (non-chair) is determined using the reform fee rate as the average independent director fee for the minimum and the 80<sup>th</sup> percentile fee for retail funds for the maximum.

For the total cost in the reform scenario, the anticipated remuneration response to the spike in demand for independent superannuation trustee directors (discussed in section 4.4.4) is only included in the maximum cost estimate. It is judged this outcome is more likely than no change in independent director remuneration assumed in the minimum cost estimate.

The five year cost is determined as the sum of the transition costs (which are one-off) and an appropriate weighting of the ongoing costs over the three year transition period. The chair fee increase is weighted at 1.5 on the assumption that the new chair is appointed half way through the transition period. The director fee are weighted at two, assuming all new independent directors are appointed after the first two years (a weighting of half for the first two years and one for the third year). The fee response is weighted at two, assuming the price impact is swift and comes into full effect within the first year.

## 6. Appendix

Table 5 – Parameters and Assumptions

Item	Corporate	Industry	Public Sector	Retail
<b>Cost Estimates by Sector</b>				
Increase in chair fees Min is current average / Max is \$125,000	\$3,072,671 to \$3,217,976	\$814,559 to \$940,745	\$327,340 to \$374,564	-
Increase in non-chair independent. directors fees Min is current average / Max is current 80 <sup>th</sup> percentile	\$5,385,951 to \$7,955,127	\$3,402,289 to \$7,128,304	\$1,257,110 to \$2,668,691	-
Fees for additional non-chair independent Min is current average / Max is current 80 <sup>th</sup> percentile	\$2,631,689 to \$3,664,970	\$761,805 to \$1,060,912	\$419,264 to \$583,880	-
Recruitment cost per director	\$2,894,595 to \$4,341,893	\$3,088,695 to \$4,633,042	\$1,200,694 to \$1,801,041	-
Training cost per director	\$1,447,297 to \$2,170,946	\$1,544,347 to \$2,316,521	\$600,347 to \$900,520	-
Legal and admin cost per fund	\$532,000	\$616,000	\$266,000	\$2,058,000
Transition plan	\$760,000	\$880,000	\$380,000	\$2,940,000
<b>Assumptions / Inputs</b>				
	Corporate	Industry	Public Sector	
Current chair fee	\$14,911	\$87,940	\$85,572	-
Current non-chair fee	\$14,053	\$50,959	\$51,662	-
New independent chair fee	\$120,029 to \$125,000			-
New independent non-chair fee (average)	\$79,440 to \$110,630			-
Recruitment cost per director	\$20,000 to \$30,000			-
Training cost per director	\$10,000 to \$15,000			-
Legal and Admin Cost per Fund	\$14,000			
Transition plan	\$20,000			

Source: RSE Disclosures and ISA analysis – new fees adjusted for wage inflation since relevant reporting periods.

Note: All estimates are in 2013/14 dollars.

# GOVERNANCE & DISCLOSURE PROPOSAL



Industry  
Super  
Network

## About Industry Super Network

Industry Super Network (ISN) is an umbrella organisation for the industry super movement. ISN manages collective projects on behalf of a number of industry super funds with the objective of maximising the retirement savings of five million industry super members. Please direct questions and comments to:

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# GOVERNANCE & DISCLOSURE PROPOSAL

## Background

Industry Super Network (ISN) is advocating significant changes to the disclosure protocols of the superannuation industry, which will improve accountability across all sectors of the industry and provide greater confidence in the superannuation system.

## The role of superannuation in the economy and public policy

In addition to the important role it plays in securing retirement incomes for all Australians, superannuation is a critical part of the Australian economy. Superannuation not only helps the economy to grow, it is vital to the economic and demographic imperative of reducing the tax burden in the form of pension payments to an ageing population.

These goals are supported by public policy. This support includes compulsion and tax concessions. As a result, the public has a stake in the superannuation system. To ensure accountability to members and to the public, superannuation funds and other key participants in the system should have a level of governance and transparency that at least meets that of listed companies in relevant comparisons. ISN's proposals have four core recommendations.

1. Uniform disclosure requirements that apply system-wide, including material fund managers and other professional and financial service providers to superannuation funds;
2. All related party transactions should be disclosed and conducted on commercial 'arms-length' terms;
3. Superannuation fund trustee boards and directors should be committed to achieving outcomes that are in the best interests of the beneficiaries of their funds. Should the Australian Prudential Regulation Authority (APRA) identify concerns, the trustee should be required by APRA to consider the composition of its board, which may include appointing representative or non-associated directors; and
4. Disclosure standards that enhance accountability to the public interest.



## 1. Uniform disclosure expectations throughout the super system

It is recognised that many trustee offices across all sectors are often small and most of the material activities of the fund are outsourced. Equally, many entities (including related parties) exist mainly or solely to provide services to the super industry.

Therefore to achieve system-wide transparency for public accountability, improved disclosure and governance should not be limited to super funds but include all material service providers in the superannuation system, including fund managers. System-wide disclosures are necessary to ensure effectiveness; piecemeal or voluntary adherence will only distort competition.

### Recommendations

1. In light of the different business models and corporate structures, disclosure outcomes across super funds and material service providers including fund managers and related parties must be uniform.
2. This includes disclosing the:
  - a. Identity of directors, their backgrounds and qualifications, and their attendance at board and committee meetings.
  - b. Remuneration of directors, and key executive and highest paid employees, as appropriate, using listed company methodology.
3. Super funds should disclose fee and other significant information regarding each material professional and financial service provider it retains.
4. Material professional and financial service providers should disclose their revenues from superannuation.



## 2. Related party transactions

There is evidence that some trustees using related parties are paying significantly higher fees, effectively almost doubling the median member's cost load. Retaining confidence in the superannuation system demands integrity in all related party transactions.

### Recommendations

1. All related party transactions must be disclosed.
2. All related party transactions must be conducted on terms no more favourable to the related party than would be reasonable if the fund were dealing at arm's length.

## 3. Board composition

Recognising there are different governance models (related party, representative trustee and self-managed) governance arrangements should ensure the interests of members (the beneficiaries) are the priority and the governance model is transparent.

The long-term outperformance of the representative trustee model supports the inclusion of representative directors on trustee boards over related party directors or the mandatory inclusion of independent directors. There is no empirical evidence to support an alternative policy setting.

### Recommendations

1. Superannuation fund trustee boards and directors should be committed to achieving outcomes that are in the best interests of the beneficiaries of their funds. If APRA identifies concerns, the trustee should be required by APRA to consider the composition of its board, which may include appointing representative or non-associated directors.
2. Trustee boards should advise shareholders or nominating organisations of the skills and experience sought in a director nomination. In relation to directors eligible for reappointment, the shareholder or nominating organisation should be provided with an assessment of their performance by the board.
3. Boards should be able to remove directors for cause and subject to procedural safeguards, including recognition of shareholder rights.
4. The superannuation industry should seek to achieve no less than 40% representation of each gender on boards, as recommended by the Australian Institute of Superannuation Trustees.
5. Trustee directors should be required to be members of a relevant professional organisation (including but not limited to superannuation organisations), and undertake ongoing training and development.
6. Directors should be appointed for renewable fixed terms.



## 4. Disclosures in the public interest

For members and the broader community to retain confidence in the superannuation system, disclosure should, in principle, at least meet the benchmarks for listed companies on relevant comparisons.

### Recommendations

1. Portfolio holdings should be fully and periodically disclosed to promote public accountability, even though very few members would be expected to use the information.
2. Disclosure should be provided regarding proxy voting policies in respect of portfolio securities and how votes were cast.
3. Environmental and social reporting should be provided consistent with listed company requirements, supplemented with industry-agreed disclosures targeted toward investment activities, including whether the entity is a signatory of the United Nations-backed Principles for Responsible Investment Initiative (PRI) and its participation in primary offerings and nation building in Australia.

### Implementation

ISN recognises that the above proposals must be implemented through standards that would apply to all participants in the superannuation industry at the same time. Disclosures are most useful when they enable comparisons, which is only possible if all participants furnish comparable information. In addition, ISN acknowledges that some of the proposed disclosures may include commercially sensitive information, and it may be unreasonable to publish that information if it was not required equally of all participants. Accordingly, a voluntary approach in which some superannuation fund trustees or service providers unilaterally make all of the proposed disclosures is neither expected nor recommended.





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