

14 February 2014

Manager
Superannuation Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir

Re: Better regulation and governance, enhanced transparency and improved competition in superannuation, Part 3B. Portfolio Holdings Disclosure

The current legislation requires periodic disclosure of the underlying investments of a superannuation fund, looking through any interposed investment vehicle structure. It appears that this may unintentionally also apply to a superannuation fund's investment in a capital guaranteed life policy.

We understand that the purpose of this requirement is to allow members to properly understand the underlying risks to which their investments are exposed.

In the case of a capital guaranteed life policy, the asset held by the superannuation fund is a contract with the life office to deliver a stream of payments which, unlike a unit trust, is not connected to the performance of particular assets but are contractually guaranteed by the regulated entity, the life office. As a result, showing the underlying assets is misleading as it misrepresents to members the risks to which they are exposed.

To require the superannuation fund to look through to the assets of the statutory fund would require creating either one of two fictions. The first, purporting to allocate specific assets in the life office statutory fund to particular policies. The second, providing a pro-rata allocation of all assets in the life office statutory fund. In either case, the resulting asset allocation requires some broad judgement and is not representative of the asset risks of the member.

In addition, an allocated or pro-rata share of the total assets of the statutory fund does not show the capital that the life office holds in the statutory fund to support the guarantee that it has provided.

For these reasons Challenger requests that the government adopts the discussion paper's first alternative model to "require superannuation fund trustees to disclose their direct fund holdings only (such as units in a collective investment vehicle), but not investments made by that collective investment vehicle."

For the avoidance of doubt it would be desirable if the amendment specifically referred to life office policies as direct fund holdings.

Challenger would be pleased to provide further elaboration on this issue should the government or Treasury require it.

Yours sincerely

A handwritten signature in blue ink that reads "D. A. Cox". The signature is written in a cursive style with a large initial "D" and "A".

David Cox
Head of Government Relations