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Treasury
Langton Cres
PARKES ACT 2600

Via email: superannuation@treasury.gov.au

SUBMISSION IN RESPONSE TO SUPERANNUATION PORTFOLIO HOLDINGS DISCLOSURE EXPOSURE DRAFT REGULATIONS

Infrastructure Partnerships Australia is pleased to provide this submission to the Exposure Draft of the regulations concerning Superannuation Portfolio Holdings Disclosure as part of the Federal Government's *Your Future, Your Super* package.

Infrastructure Partnerships Australia is an independent think tank and executive member network, providing research focused on excellence in social and economic infrastructure. We exist to shape public debate and drive reform for the national interest.

This submission follows from Infrastructure Partnerships Australia's December 2020 submission to the *Your Future, Your Super* Exposure Draft Legislation, and our May 2021 submission to the previous round of Treasury's consultation on the exposure draft regulations of this reform package These submissions can be accessed here: www.infrastructure.org.au/submissions/.

Transparency is integral to trust, but only if it serves a purpose

As indicated in Infrastructure Partnerships Australia's previous submissions, we understand and support the need for greater transparency across the sector. The availability of accurate and up-to-date information is critical to the efficient operation of infrastructure markets. Transparency also supports better decisions on investments, guides changes to policy and regulatory settings, and underpins public confidence through enhanced accountability.

This support for enhanced transparency extends to infrastructure ownership and transactions, so long as the information that is shared does not undermine commercial negotiations or distort incentives for private investment. Our members collective view is that the Portfolio Holdings Disclosure reforms, as proposed, unfortunately do not meet this objective and, as such, risks serious and damaging unintended consequences.

The implications for Australian superannuation members and infrastructure users could be severe

The proposed changes could have implications for the investment dynamics in unlisted infrastructure, beyond equity holdings by superannuation funds, by revealing information that is otherwise highly commercially confidential. By placing these valuations on the public register, the proposed amendments may undermine current or future infrastructure transactions, placing an artificial cap on potential transaction values, and limiting asset holders' capacity to negotiate transactions with prospective buyers.

The ripples of this change could be far-reaching. By limiting the potential upside for the hundreds of billions of dollars' worth of unlisted assets held by Australian superannuation funds, the real losers are superannuation members – the ultimate owners of superannuation holdings in these assets.

Moving forward, the changes are likely to see Australian superannuation funds become less attractive as investment partners, particularly for unlisted assets, among other infrastructure investors who fear having the value of their assets publicly reported through this mechanism. This would limit the investment opportunities for Australian superannuation funds – again working to the detriment of members – and reduce competition for Australian infrastructure assets. This would also effectively tilt the playing field away from domestic investment in Australian infrastructure in place of investment by superannuation funds, meaning Australians are less likely to own and financially benefit from the infrastructure they use.

This runs counter to the Federal Government's long-standing position on encouraging increased investment by Australian superannuation funds in Australian infrastructure. This was reflected in comments by the Federal Treasurer in June of last year, when he stated superannuation was a *"massive pool in savings that should be harnessed more for domestic investment. I don't care if they are industry funds or retail funds, I would like to see them both put to work on domestic infrastructure assets more than they have been"*.[1]

It is hard to understand how the proposed reforms align with the Treasurer's sentiment. On the contrary, the proposed reform would appear to swim against the tide of the Treasurer's own statement and the long run of Australian Government policy on private investment in infrastructure.

The proposed changes are without precedent, and lack the necessary policy rationale

By requiring superannuation trustees to publish this level of detail on the value of their infrastructure asset holdings and investment options, the Federal Government is proposing what we believe to be an unprecedented level of reporting standards globally – and one which runs counter to the interests of superannuants and infrastructure investors. Whereas other reporting by pension and superannuation funds – including those in California and New Zealand – are held as the 'gold standard' globally, even these standards do not require the disclosure of both market value and proportion of ownership of infrastructure or other asset types.

The level of reporting goes beyond what is required of private companies in relation to their investments, including listed companies that are open to investment by individuals on the stock exchange. By requiring superannuation companies to disclose internal valuations of assets and business segments – as opposed to the book value of assets through mandatory reporting by publicly listed companies – this proposed change establishes a standard that is unfathomable and infeasible in other sectors of the economy.

This step towards increased reporting requirements is particularly disappointing as the overwhelming message provided in submissions to the previous round of *Your Future, Your Super* consultation – including that of Infrastructure Partnerships Australia – was strongly in opposition to these changes. Rather than heed the advice and warnings of industry experts, the updated regulations have moved in the other direction, and provided no rationale for doing so.

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[1] Comments by Hon Josh Frydenberg MP to Duke, J. 2020, *Sydney Morning Herald,* 'Super funds say policy stability key to more infrastructure investment,' published 10 June 2020.

The government should take a step back and ensure it gets these reforms right

At a time when the infrastructure investment need in Australia has never been greater, and the sector seeks to recover from a pandemic with extended lockdowns causing significant hardship and disruption, pushing for a change to distort the market and undermine the biggest pool of capital for infrastructure investment is counterintuitive.

Changes like this are contributing to a growing sense that Australia is becoming a less attractive infrastructure investment market. Three-quarters of infrastructure investors surveyed as part of our *2021 Australian Infrastructure Investment Report*[2] highlighted 'policy and regulatory uncertainty' as limiting their willingness to invest in this market. With other regions emerging faster and more strongly from the pandemic, we risk being left behind.

The message from investors was clear, capital is a coward and will go where it is treated well – so maintaining Australia's position as a destination of choice will require renewed focus on the settings that attract and retain capital in this market. It is precisely this type of unjustified market intervention that undermines confidence.

On this basis, we propose the Federal Government takes time to consider the full implications of these reforms, and changes tack towards an outcome that will work better for Australian infrastructure users and superannuation members.

We would be pleased to provide additional information. If you require further detail please contact Jon Frazer, Director of Policy and Research, on (02) 9152 6017 or jon.frazer@infrastructure.org.au.

Yours Sincerely,

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[2] Infrastructure Partnerships Australia, 2021. *2021 Australian Infrastructure Investment Report,* available here: https://infrastructure.org.au/investment-report21/.

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