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## Superannuation Annual Members' Meeting Notices

Industry Super Australia (ISA) is a research and advocacy body for funds that carry the Industry SuperFund symbol. ISA manages collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

We welcome the opportunity to comment on the draft regulations outlining proposed changes to the disclosure requirements for Annual Members' Meeting (AMM) notices.

ISA is a longstanding supporter of greater transparency in the super industry. Greater transparency through disclosure that is both meaningful and not misleading fosters more informed public discussion of super-related issues, drives accountability in the industry and promotes better practices through comparability and peer review – all of which will ultimately benefit members.

On that basis, while we broadly support the draft regulations, we recommend that:

- ▶ **Recommendation 1:** Information about aggregate dividend payments by funds to shareholders should be disclosed in the AMM notices.
- ▶ **Recommendation 2:** Information about transactions between funds and certain related parties (i.e., where the related party or any related party that receives a financial benefit thereafter ultimately shares the same parent entity as the fund) should be disclosed in the AMM notices.
- ▶ **Recommendation 3:** There should not be *any* double counting of expenditure in the AMM notices.
- ▶ **Recommendation 4:** Together with APRA, the Government should ensure any expenditure disclosures in the notices can be easily reconciled with information reported to and published by APRA about fund expenditures.

ISA strongly supports the Government making the regulations in time to apply to the AMM in respect of the last financial year and we appreciate the timeframes are tight.

However, the Government should consider strengthening the AMM notice disclosures by requiring transparent reporting of dividend payments for the last financial year (if time permits) and future financial years. Otherwise, recommendation 1 – along with the other

recommendations – should be implemented by the Government so that they apply to AMMs in respect of the current financial year (2022-23) and future financial years.

Our recommendations are discussed in further detail below.

### Dividend payments

Dividend payments by funds to shareholders can be significant. For example, information provided to the House of Representatives Standing Committee on Economics as part of the Review of the Four Major Banks and other Financial Institutions showed two funds had paid a combined \$1.42 billion in dividend payments to their respective parent entities in the five years to FY20.<sup>1</sup>

Members should have the opportunity to consider and question these payments at the AMM, including whether they are reasonable and the impact they have on members' fees and net returns. In ISA's view, the absence of this disclosure in AMM notices is not in the best interests of members and it is unclear why they are not required to be disclosed when other types of payments are.

Therefore, the Government should consider amending the regulations to require aggregated dividend payments by funds to shareholders to be disclosed in AMM notices. Ideally such a change should apply to notices for the AMM in respect of the last financial year (subject to the time constraints for making the regulations) but otherwise subsequent financial years.

### Certain related party transactions

It is also evident that the commercial structures of retail super funds leverage the transactions between related parties for profit that ultimately flow to the same parent entity.

More detailed look through provisions are required to provide members with a reasonable level of transparency about the flow of their money with respect to financial arrangements by their fund with a related party, where that related party or any related party that receives a financial benefit thereafter ultimately has the same parent entity as the fund.

While the changes in Schedule 8 to the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019* empower APRA to make reporting standards to collect data on these kinds of transactions on a look-through basis, the standards set by APRA since the amendments were made over three years ago do not appear to require such disclosure.

The Government should work through these issues in greater detail to ensure that future disclosure requirements about these types of related party transactions in the AMM notices are comprehensive and meaningful for members – noting the complexity and diversity of commercial arrangements that are in place which make it difficult for members to see related party arrangements that inappropriately diminish their savings.

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<sup>1</sup>[https://www.apf.gov.au/Parliamentary\\_Business/Committees/House/Economics/SuperannuationSector/Documents](https://www.apf.gov.au/Parliamentary_Business/Committees/House/Economics/SuperannuationSector/Documents)

## Double counting of expenditure

We acknowledge that the draft regulations include amendments that remove the double counting of promotion, marketing or sponsorship expenditure (hereafter referred to as marketing expenditure) and political donations.

However, under the draft regulations, there may still be double counting of:

- ▶ marketing expenditure and industrial body payments,
- ▶ industrial body payments and related party payments,
- ▶ marketing expenditure and related party payments, and
- ▶ expenses that may be considered to be marketing expenditure, industrial body payments and related party payments.

Without similar amendments that remove double counting in these circumstances, the disclosure of these aggregated expenditure items could confuse members and the broader public, as it would overinflate expenses incurred by funds.

Future regulations should therefore include amendments that ensure these amounts are not counted in more than one expense category.

Additionally, future regulations could require funds to clarify that any amounts that would otherwise be counted in more than one expense category in the AMM notice (but is not because of the double counting rules), can also be characterised as forming part of another expense category in the AMM notice.

For example, if several expenses incurred by a fund can be characterised as both marketing expenditure and related party payments, and the double counting rules specify that these expenses are to be disclosed as part of the aggregated related party payments rather than marketing expenditure, the fund could be required to clarify in the AMM notice that the total amount of overlapping expenses could also be considered marketing expenditure.

In our view, this would increase the transparency of a fund's expenditure and the overall utility of the AMM notice for members.

## Consistency with APRA reporting and publications

APRA currently collects detailed information about funds' expenses under the superannuation reporting standards. This includes information that is similar to – but is unlikely to be exactly the same as – what is required to be disclosed in a fund's AMM notice, including information about their marketing expenses, sponsorship expenses, political donations, payments to registered organisations and related party payments.

For example, the disclosure of marketing expenditure in the AMM notice **may** cover the following expense types that are required to be reported to APRA:

- ▶ all five expense types under the Marketing and Distribution expense group,
- ▶ existing member campaigns (under the Member Services expense group)
- ▶ member acquisition campaigns (under the Member Services expense group)

- ▶ advertising or marketing (under the Corporate Overheads expense group), and
- ▶ sponsorship (under the Corporate Overheads expense group).

However, it is likely that for some funds, this will not be the case. This potential misalignment is inefficient for funds and increases the regulatory burden and cost of these requirements, which is ultimately borne by members.

To minimise this risk, the Government and APRA should clarify how the expenditure disclosures in AMMs and expense reporting to APRA may differ for funds.

APRA has also indicated that as part of its Superannuation Data Transformation project, it is likely to publish additional detail about each fund's expenses compared to what is currently published in the annual fund-level superannuation statistics (although this has not been confirmed). Regardless, it is likely that APRA will publish at least aggregated data about a fund's expenditure on the expenses that are required to be disclosed in the AMM notice.

To reduce confusion by members and the broader public, we recommend that the Government and APRA ensure that expenditure disclosures under the AMM notices can be easily reconciled with any relevant APRA publications.

If you have any questions, please feel free to contact me or Ella Cebon ([ecarbon@industrysuper.com](mailto:ecarbon@industrysuper.com)).

Kind regards



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