Dear Ms Rowell,


AustralianSuper provides this submission in response to the above-named APRA Discussion Paper on Prudential Standards.

About AustralianSuper

AustralianSuper is a superannuation fund that is regulated by APRA.

AustralianSuper is a fund that is run only to benefit members. With 1.8 million members and $42 billion in members’ assets, we use our scale to provide the best possible retirement outcome for members.

The trustee supports the introduction of Prudential Standards in superannuation as a means for APRA to provide timely regulatory responses to prudential issues that arise in superannuation.

We are preparing for the introduction of the Standards and for the resulting consequences for our fund. For example, AustralianSuper has already set aside an operational risk reserve that will meet the requirements of an APRA Prudential Standard.

We are also preparing for the Stronger Super reforms and the development of a MySuper product within AustralianSuper fund.

Our submission relates primarily to the alignment of the proposed Prudential Standards with these impending reforms.

Issues

There are some key issues within the APRA Discussion Paper which give the impression that some of the Prudential Standards and Guidance work being developed by APRA is not in step with the pending Stronger Super reforms. This is particularly the case in the following areas:

- Equal representation on trustee boards
- Tenure and renewal of boards
- Governance and Independent Directors
- MySuper and Prudential standards
Remuneration Policy

Equal Representation on Trustee Boards

Trustees of APRA regulated superannuation funds are subject to legislative requirements about their board representation set out in Part 9 of the Superannuation Industry (Supervision) Act 1993.

This Part sets out rules about the representation of employers and members in relation to the management and control of standard employer sponsored funds and also public offer funds. Compliance with this Part is achieved where the fund has a single corporate trustee and the board of the corporate trustee consists of equal numbers of employer representatives and member representatives.

Employer representatives may, under this part be nominated by organizations representing employers, and member representatives may be nominated by organizations representing members consistent with the equal representation requirements set out in Part 9 of the SIS Act.

AustralianSuper understands that APRA Prudential Standards will be able to effectively amend subordinate legislation passed by Parliament, such as operating standards. We assume however, that where an elected Government has rejected reform of the equal representation requirements that this will be complied with and reflected in the development of prudential standards and prudential guidance by APRA as an agency of Government. We would be grateful if APRA could confirm their approach to the development of prudential standards in this regard.

(The Cooper Review recommended that the SIS Act be amended so that it is no longer mandatory for trustee boards to maintain equal representation in selecting its trustee directors. (Recommendation 2.4). The Government response to the Cooper Review recommendations (The Stronger Super proposals) rejected such reform of the equal representation requirements).

Tenure and renewal policies

It is proposed that SPS 510 would require RSE licensees to define an appropriate maximum term for its directors, and that boards should have clear policies in place setting out their expectations with regard to board terms and succession planning. We question whether this requirement is consistent with prudential standards requirements for other APRA regulated entities. The comparable requirement for other regulated entities is to have a formal policy on Board renewal, and to give consideration to whether directors have served on Board for a period that could materially interfere with their ability to act in the best interests of the regulated institution.

We suggest also that maximum terms may at times be inconsistent with the nominating features of industry funds. In some circumstances the tenure of a Board Director of a superannuation fund may be related to their tenure in their role at a nominating organization. In other circumstances the Board Director may have been nominated by their nominating organization because of specific specialized skills.
Further, the proposed SPS 510 should specifically reflect the current legislative arrangements for representation on trustee boards in superannuation. That is, the Prudential Standard should at the very least be consistent with, and aligned with the legislative requirements for equal representation on boards pursuant to Part 9 of the Superannuation Industry (Supervision) Act 1993 and the operating standard on equal representation under Part 4 of the SIS Regulations.

Governance and Independent Directors

APRA’s Prudential Standard on Governance does not affect the composition of an RSE licensee board where its composition conforms with the fund’s governing documents which in turn comply with the equal representation requirements under Part 9 of the SIS Act.

However, APRA intends to introduce a new broader objective, principles-based concept of independent director to ‘sit aside’ the existing definition in section 10 of the SIS Act. While APRA’s discussion paper says they will not be requiring that boards have independent chairs or a minimum number of independent directors, it appears to suggest that independent director appointments lead to higher standards of governance.

It is good public policy to ensure that both the proposed prudential standards and also the prudential guidance are consistent with the legislated requirements of the SIS Act and do not conflict or contrast with them. (There are of course legal consequences in relation to conflict).

We suggest that:

- Consistent with the Stronger Super announcements by Government, the composition of the board is a matter for each board to decide (where the governing documents allow), but note that consideration of an appropriate board structure could contemplate the possible value that independent directors might be able to add. Guidance around independent directors should be reframed in this context.
- Trustee directors have an overarching duty to the members. Where there are competing duties, the requirement to put the members first, should overcome any concerns about independence.
- Trustee directors are already required to exercise ‘independence of mind’ when discharging their duties on the board of an RSE licensee.
- Trustee directors will be subject to the fitness and propriety requirements as well as strengthened conflicts of interest and conflicts of duty policies (SPS 521 and SPS 520).
- The PPG should have less emphasis on independent directors, noting that trustee directors and chairs should have appropriate competencies for their board functions and should be continually improving their skills and expertise, whether they are independent or not.
- We also note that the diversity of experience and industry knowledge on the AustralianSuper board could serve to demonstrate that it is not necessary to mandate independent directors.

MySuper and Prudential Standards

The introduction of a MySuper product as the product that receives all default Superannuation Guarantee contributions is a significant reform within compulsory superannuation in Australia. It applies an increased level of regulation on the MySuper product in the following areas:
• the reform of the investment objectives for MySuper products;
• the regulation of cross-subsidization between MySuper and Choice products;
• the transparency in disclosure to members and reporting to the regulator, particularly in relation to performance and cost issues.
• the exemptions for MySuper offers to employers in relation to administration efficiencies

APRA intends to issue a Prudential Standard that deals with transition to a MySuper product.

We suggest that it would be helpful for the regulated industry if APRA were able to issue a Prudential Standard that addresses some of the cost, scale, cross-subsidization and administration efficiency issues that trustees will have to address when operating a MySuper product and Choice products.

Remuneration Policy

APRA proposes to require all RSE licensees to establish and maintain a Board Remuneration Committee and that each Board would need to have in place a remuneration policy. This remuneration policy would need to ensure “the alignment of remuneration arrangements with the ongoing capacity of each RSE under the RSE licensee’s trusteeship to meet the reasonable expectations of its beneficiaries as well as the RSE licensee’s risk management framework.”

Presumably an effective remuneration policy would free up the directors to act with independence of mind when as acting as the trustee, and for the best interests of the members of the fund concerned. Directors of trustee boards that are owned by a conglomerate group are not in a position to act with independence of mind when acting as a trustee if they are not remunerated for being a trustee.

It is often the case that senior employees in a conglomerate group will also be on a board of trustees of a superannuation fund where the trustee is a related entity to their employer, the conglomerate group or separate corporate entity. In such circumstances their remuneration relates to their functions as an employee of another corporate entity, not as a trustee. This remuneration structure is not aligned with trusteeship; it potentially influences the performance of the employee to meet the business imperatives of the conglomerate group rather than the fiduciary obligations of a superannuation trustee director.

We do not agree with the view asserted by some in the industry that the fundamental purpose of an APRA regulated RSE trustee board is a compliance function – an RSE licensee is a fiduciary, with a statutory duty to act in the best interests of members whether it is a standalone trustee as is the case with an industry fund, or whether it is a subsidiary of another corporate entity or otherwise.

We suggest instead that a remuneration policy for trustees would be better aligned with their duty to act in the best interests of fund members if they were paid specifically to carry out the functions of being a trustee. This could be a separately identified component of a salary paid by another entity – it does not necessarily have to be paid out of the fund. It would need to be disclosed as trustee remuneration without disclosing the entire salary of the employee.

We are able to discuss these issues with APRA further if required. Please do not hesitate to contact me on 03 8648 3970 or Louise du Pre-Alba on 03 8648 3847.
Yours sincerely

IAN SILK
CHIEF EXECUTIVE