# SUBMISSION

# BETTER REGULATION AND GOVERNANCE, ENHANCED TRANSPARENCY AND IMPROVED COMPETITION IN SUPERANNUATION

## CBH SUPERANNUATION FUND

**6 FEBRUARY 2014**

# Introduction

The CBH Superannuation Fund was incorporated in 1945 and is the corporate superannuation fund for permanent and fixed term employees of CBH Group, former employees and spouses of existing members. The Fund currently has approximately 750 choice members.

In January 2014, APRA released statistics for the top 200 regulated Australian superannuation funds and ranked the CBH Superannuation Fund number one for five year fund level rates of return. The Fund was previously ranked number three in 2012 and number one in 2011.

The Trustee board is made up of equal representation of two member elected directors and two employer appointed directors. In addition, there are two appointed alternate directors – one for member elected directors and one for employer appointed directors. No remuneration is paid to directors for their role as director of the entity.

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| Part 1: A Better Approach to Regulation<br><br>1. The Government has committed to identifying (in dollar terms) measures that offset the cost impost to business of any new regulation. What suggestions do you have for how the regulatory compliance burden can be reduced? | <br><br>We support the Government's proposal to minimise regulation costs.<br><br>The costs related to regulatory compliance burden can be reduced by minimising regulation and allowing the industry to self regulate, particularly governance issues. The superannuation industry is incurring significant costs to provide greater transparency and allowing the industry to self regulate governance issues is an area that will reduce costs.<br><br>We estimate that as a non-public offer corporate superannuation fund we have incurred significant additional costs meeting Stronger Super reforms.<br><br>Changes in regulation should not require funds to engage actuaries, auditors, consultants or lawyers to confirm a fund is compliant. These are unnecessary costs being borne by members. |
| Part 2: Better Governance<br><br>2. What is the most appropriate definition of independence for directors in the context of superannuation boards? | <br><br>For a corporate non-public offer superannuation fund a person shall be eligible to be appointed an Independent Director if that person is not a member, an officer or employee of the principal employer or associated employer or an official of a trade union or any like organisation which represents employees. |
| Proportion and role of independent directors<br><br>3. What is an appropriate proportion of independent directors for superannuation boards? | <br><br>In January 2014, APRA ranked the CBH Superannuation Fund number one for five year fund level rates of return. The Fund was previously ranked number three in 2012 and number one in 2011.<br><br>Our trustee consists of a well skilled and experienced director trustee mix based on equal representation with no independent directors. We do not support the assumption that the inclusion of independent directors will improve either the governance or performance of our fund.<br><br>We do support superannuation boards having the flexibility to consider the appointment of independent/non-aligned board members. We do not support mandatory appointment of any or a proportion of independent/non-aligned board members.<br><br>We understand the Government's election promise requiring boards of public offer superannuation funds to include independent directors. We note that the *"Better regulation and governance, enhanced transparency and improved competition in superannuation"* discussion paper does not differentiate between public offer and non-public offer funds. We do not support this requirement being applied to non-public offer superannuation funds.<br><br>As there is currently no remuneration paid to trustee |

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| | directors of our corporate non-public offer fund any requirement to mandate the inclusion of any independent directors will incur additional costs on our fund members. We are unaware of any benefit this will provide our members. |
| 4. Both the ASX Principles for listed companies and APRA's requirements for banking and insurance entities either suggest or require an independent chair. Should superannuation trustee boards have independent chairs? | There should not be a mandatory requirement for a superannuation trustee board to have an independent chair. This should be at the discretion of the trustee board and should not be a requirement for a non-public offer superannuation fund.<br>There is currently no remuneration paid to trustee directors of our corporate non-public offer fund and there are no independent directors on our trustee board. Any requirement to mandate that the chair of the trustee board is to be an independent director will incur additional costs on our fund members. We are unaware of any benefit this will provide our members. |
| Process for appointing directors on superannuation trustee boards | |
| 5. Given the way that directors are currently appointed varies across funds, does it matter how independent directors are appointed? | No, this should be a matter for individual trustee boards to determine. |
| 6. Should the process adopted for appointing independent directors be aligned for all board appointments? | This should be a matter for individual trustee boards to determine. |
| Management of conflicts of interest | |
| 7. Are there any other measures that would strengthen the conflict of interest regime? | We support governance processes which require superannuation trustees and directors to manage conflicts of interests. The current legislative requirements of the Corporations Act and APRA's prudential standards more than adequately address this. |
| Ongoing effectiveness of superannuation trustee boards | |
| 8. In relation to board renewal, should there be maximum appointment terms for directors? If so, what length of term is appropriate? | There should not be mandatory maximum appointment terms for directors. Individual trustee boards should have the ability to determine if they wish to introduce policy to address this. APRA's prudential standards more than adequately address this. |
| 9. Should directors on boards be subject to regular appraisals of their performance? | We support directors on boards being subject to regular appraisals of their performance as good corporate governance. APRA's prudential standards more than adequately address this. |
| Implementation issues | |
| 10. Would legislation, an APRA prudential standard, industry self regulation or a combination be most | If the Government is serious about minimising compliance burden in the sector, industry self |

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| suitable for implementing changes to governance? What would the regulatory cost and compliance impacts of each option be? | regulation is the most suitable and cost effective method for implementing changes to governance.<br><br>Changes in legislation or introduction of additional APRA prudential standards incur far greater regulatory cost and compliance impacts that are ultimately borne by fund members. They lead to a raft of impost costs particularly related to amending trust deeds, additional policies and additional compliance requirements. In addition, this often requires additional legal and other external expertise costs both for set up and also ongoing compliance including external and internal audit costs.<br><br>There should not be a need to force more legislation or prudential standards for governance on an industry that is already being over burdened with unnecessary costs that are ultimately borne by fund members for minimal if any benefit to members. |
| 11. What is the appropriate timeframe to implement the Government's governance policy under each option? | Legislation – 1 January 2016<br><br>APRA prudential standard – 1 January 2016<br><br>Industry self regulation - 1 July 2015 |
| 12. Given that there will be existing directors appointed under a variety of terms and conditions, what type of transitional rules are required? | We consider a 3 year transitional timeframe from the implementation of Government's governance policy as appropriate. For example, if Government policy is implemented effective of 1 January 2016 – funds will have 3 years to 1 January 2019 to transition to the new regime. |
| Part 3: Enhanced transparency—choice product dashboard and portfolio holdings disclosure<br><br>Part 3A. Choice product dashboard<br><br>13. Should a choice product dashboard present the same information, in the same format, as a MySuper product dashboard? In answering this question you may wish to consider, if the choice product dashboard is to present different information, what should it include and why? | Yes, for consistency purposes it should be the same and will assist to educate and simply superannuation for individuals. It will also allow them to compare "apples with apples" regardless of the product they are researching. |

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| Net investment return versus net return | |
| 14. Is it appropriate to use a single benchmark (CPI plus percentage return) for all choice product return targets? | Yes, for consistency across the industry a CPI + measure would reduce meaningless targets. |
| 15. Should both net investment return (investment return net of investment costs only) and net return (investment return net of all associated costs) be used to measure a product's investment return on the choice product dashboard? In considering this question, you may wish to consider: | Net return should be the only return displayed on all products – this means there can be no manipulation of cost incurred and the category they belong in. |
| If including an additional measure for a product's investment return would add unnecessary complexity. | Showing individual returns will only add confusion. |
| If both net investment return and net return are used on the choice product dashboard, whether they should also be used on the MySuper product dashboard. | There should be consistency across all products. |
| Whether it is appropriate to use a single time horizon, for example 10 years, when calculating target net return and net return for the range of possible choice products. | Yes it is appropriate to use a single time horizon and it should be a minimum of 10 years – for most people superannuation is a long term investment and it should be measure in this way. |
| Measuring a product's investment risk | |
| 16. Should the choice product dashboard include both a short term (volatility) and long term (inflation) risk measure? In considering this question, you may wish to consider: | Yes, superannuation is a long term investment and individuals should have an understanding of the impact decision will have on achieving retirement goals. |
| Is the SRM model the best measure of short term investment risk? | This is possibly not the best measure but it does provide consistency in the outcome although not in the process to identify the level of risk. |
| What would be the most suitable measure of long term risk to include on the product dashboard? | The measure outlined in the paper seemed to be reasonable. |
| Is it possible to present a long term risk measure in a similar format to the short term risk measure (that is High/Medium/Low)? | Yes |
| Would including an additional risk measure add unnecessary complexity to the product dashboard? | Possibly but it will assist individuals if done correctly to understand the impact on retirement benefits. |
| Additional carve outs | |
| 17. Are additional carve outs from the choice product dashboard obligations required? If so, why are these additional carve outs required? In considering this question, you may also wish to consider identifying where the gaps in the current carve out provisions are. | No, any additional carve outs only provides an opportunity to manipulate data. |
| A liquidity measure | |
| 18. Should a measure of liquidity be included on the choice and/or MySuper product dashboard? If so, what would a suitable measure be? | No, added complexity that provides little or no value. Funds are required to transfer benefits in most cases within 3 days. |
| Implementation issues | |
| 19. Should the commencement date for the choice product dashboard be delayed beyond 1 July 2014? Is | Yes, 1 July 2015 provides additional time to perhaps |

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| so, what date would be suitable for its commencement? What would be the benefits and costs to such a delay? | develop a more meaningful dashboard. |
| Part 3B. Portfolio holdings disclosure<br><br>Presentation of portfolio holdings<br><br>20. Which model of portfolio holdings disclosure would best achieve an appropriate balance between improved transparency and compliance costs? | Our corporate fund currently discloses 100% of its portfolio holdings to members. |
| Should portfolio holdings disclosure be consistent with the current legislative requirements (that is, full look through to the final asset, including investments held by collective investment vehicles)? | For consistency with other disclosure requirements at a minimum a Fund should be required to provide disclosure which is currently required to be reported to APRA. |
| Should the managers/responsible entities of collective investment vehicles be required to disclose their assets separately? To give effect to this requirement, legislation would require all collective investment vehicles to disclose their asset holdings, regardless of whether some of its units are held by a superannuation fund. | |
| Should portfolio holdings disclosure be limited to the information required to be provided to APRA under Reporting Standard SRS 532.0 Investment Exposure Concentrations? | |
| 21. What would be the compliance costs associated with each of these models for portfolio holdings disclosure? | We have not increased costs as a result of our current disclosure regime. |
| 22. Should portfolio holdings information be presented on an entity level or at a product (investment option) level? | Product level. |
| Materiality threshold<br><br>23. Is a materiality threshold an appropriate feature of portfolio holdings disclosure? | No we support transparency. |
| 24. What is the impact of a materiality threshold on systemic transparency in superannuation fund asset allocation? | Restricts disclosure. |
| 25. What would be the most appropriate way to implement a materiality threshold? | We do not support a materiality threshold. |
| Implementation issues<br><br>26. Should the commencement date for portfolio holdings disclosure be delayed beyond 1 July 2014? Is so, what date would be suitable for its commencement? What would be the benefits and costs to such a delay? | As we already disclose our portfolio holdings, 1 July 2014 is an appropriate start date. |

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| Part 4: Improved competition in the default superannuation market | |
| 27. Does the existing model (which commences on 1 January 2014) meet the objectives for a fully transparent and contestable default superannuation fund system for awards, with a minimum of red tape? | Does not apply to this entity, however limiting the number of Funds that can be nominated as a default does not provide a fully transparent and contestable default superannuation system. |
| 28. If not, is the model presented by the Productivity Commission the most appropriate one for governing the selection and ongoing assessment of default superannuation funds in modern awards or should MySuper authorisation alone be sufficient? | Employers should be able to select a default fund based on that fund holding a MySuper authorisation. |
| 29. If the Productivity Commission's model is appropriate, which organisation is best placed to assess superannuation funds using a 'quality filter'? For example, should this be done by an expert panel in the Fair Work Commission or is there another more suitable process? | |
| 30. Would a model where modern awards allow employers to choose to make contributions to any fund offering a MySuper product, but an advisory list of high quality funds is also published to assist them in their choice, improve competition in the default superannuation market while still helping employers to make a choice? In this model, the advisory list of high quality funds could be chosen by the same organisation referred to in focus question 29. | |
| 31. If changes are made to the selection and assessment of default superannuation funds in modern awards, how should corporate funds be treated? | |