

2014: Superannuation. Beyond the Fringe



Stronger Super: Regulating Risk Through Transparency

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- Portfolio holdings disclosure
- MySuper product dashboard
- Disclosure of executive remuneration

Product dashboard disclosure

- Reasons for portfolio holdings disclosure
 - promotes better analysis of superannuation funds
 - aligns with global practice

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International Disclosure Scorecard

A	USA								
A-									
B+	Taiwan								
B	Belgium	Canada	China	Denmark	Korea	Netherlands	Singapore	Spain	Sweden
B-	Germany	India	Norway	Switzerland	Thailand				
C+	France	Italy	Japan	UK					
C									
C-									
D+	Australia								
D	NZ								
D-	Hong Kong								
F	South Africa								

Source: Morningstar, Inc. 2013 Global Fund Investor Experience Report

The US Experience

- Mutual funds are required to:
 - file detailed portfolio holdings quarterly with SEC (Form N-Q)
 - semi-annual reports to shareholders must contain summary portfolio holdings
- Money market funds are required to:
 - file monthly detailed portfolio holdings with the SEC (Form N-MFP), which are publicly available after 60 days
 - monthly posting a summary schedule of investments on its website
- ERISA summary plan description / annual report does not require drill down into underlying securities
- No look-through reporting

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Inconsistent application of look-through rules

	Portfolio holdings	APRA reporting	Indirect cost ratio
<i>Regulator</i>	ASIC	APRA	ASIC
<i>Look-through rule</i>	Assets derived from assets	Assets derived from assets	Amount that directly or indirectly reduces returns
<i>Limits on look-through</i>	No limits, but statutory defences are quasi-limits	Look through persons connected with the RSE licensee	No limits
<i>Liability</i>	Criminal and civil	Criminal only	Criminal and civil
<i>Statutory defences</i>	Due diligence defences	None	Due diligence defences

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Inconsistent application of look-through rules (cont)

	Portfolio holdings	APRA reporting	Indirect cost ratio
<i>Notice obligation</i>	Legislation requires notification to look through vehicles	Legislation implies term to notify look through vehicles	none
<i>Failure to notify</i>	Criminal offence	Perhaps contract law remedies	N/A
<i>Need to notify overseas entities</i>	No. Limited to assets acquired in Australia	Determined by rules of private international law	N/A
<i>Provision of information</i>	Directly to trustee	To person who gave notice	N/A

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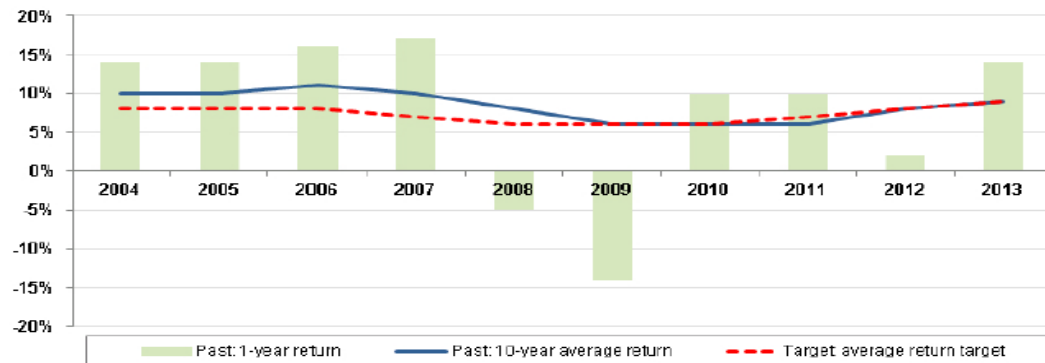
Return

10 year average return of 7.1% as at 30 June 2013.

Return target

Return target for 2014-2023 of 3% per year above inflation, after fees and taxes. Future returns cannot be guaranteed. This is a prediction.

Comparison between return target and return



Past performance is not necessarily an indication of future returns.

Level of investment risk

High

Negative returns expected in 5 out of every 20 years

The higher the expected return target, the more often you would expect a year of negative returns.

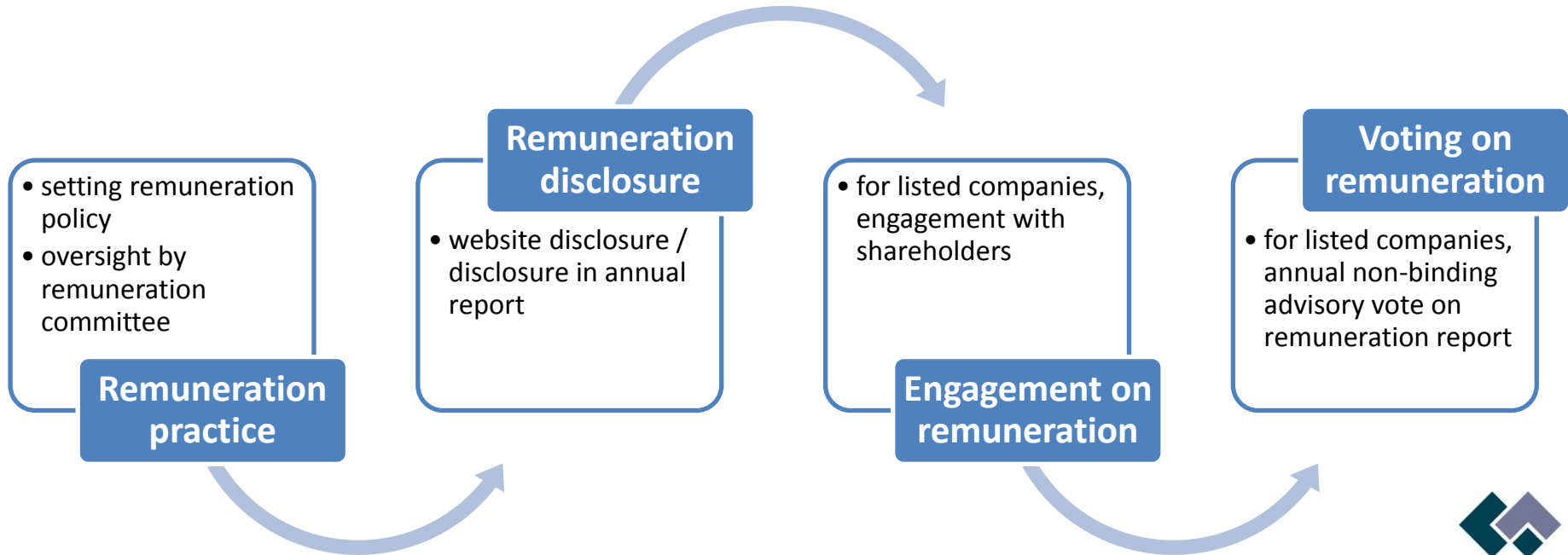
Statement of fees and other costs

\$437 per year

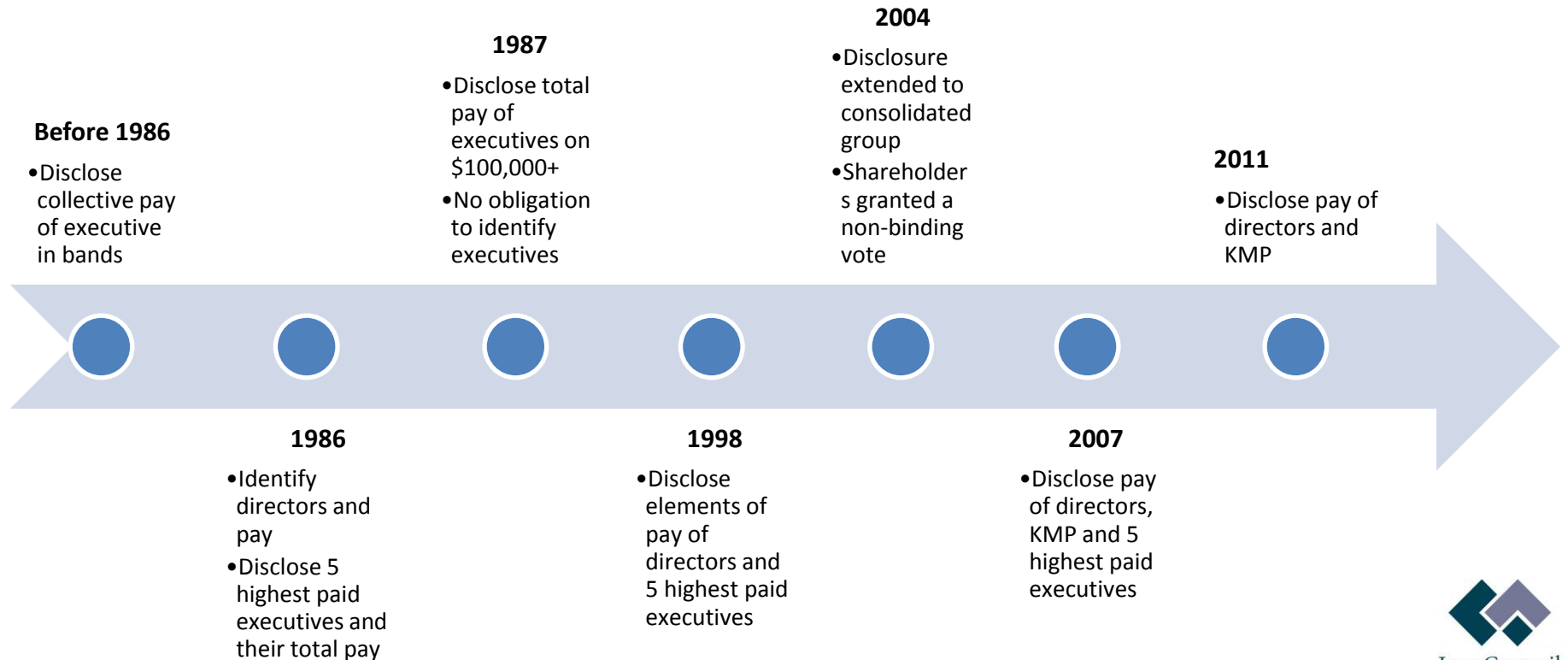
Fees and other costs for a member with a \$50,000 balance.

Source: ASIC MySuper
product dashboard
example

Executive Remuneration Cycle



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Benefits of remuneration disclosure

- adequate disclosure is the “lynch pin” in effective regulation of director / executive remuneration
- reduces the possibility of concealing abuses through excessive pay
- contributes to investor confidence that there are no abuses
- ensures greater accountability to shareholders
- promotes shareholder participation in the remuneration decision
- shareholders can determine:
 - any divergence between interests of management and shareholders
 - degree to which remuneration packages attempt to align those interests
- means of achieving fair and reasonable remuneration by allowing shareholders to pressure the board

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Concerns with remuneration disclosure

In the absence of a means of acting on the information, disclosure could inflate remuneration

"Lake Wobegon" effect

remuneration information becomes a "bargaining tool"

Compliance burden and compliance costs

"Disclosure requirements are not expected to place unreasonable administrative or cost burdens on enterprises."
OECD, 2004

"... the benefits of transparency need to be balanced against compliance costs and possible adverse consequences for a company's commercial position."
Productivity Commission, 2009

Comparison of disclosure regimes

Superannuation funds

- Disclose pay of directors
- Disclose pay of “executive officers”, as defined in SIS Act
- Disclose elements of pay
- Publish on website
- Ongoing obligation to update information
- Issues of apportionment

Listed companies

- Disclose pay of directors
- Disclose pay of “key management personnel” as defined in accounting standards
- Disclose elements of pay
- Publish in annual report
- No obligation to update information
- No issues of apportionment

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