

# 2014: Superannuation. Beyond the Fringe



## Stronger Super: Regulating Risk Through Transparency

Nathan Hodge

Special Counsel, Minter Ellison Lawyers

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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+	<b>Australia</b>								
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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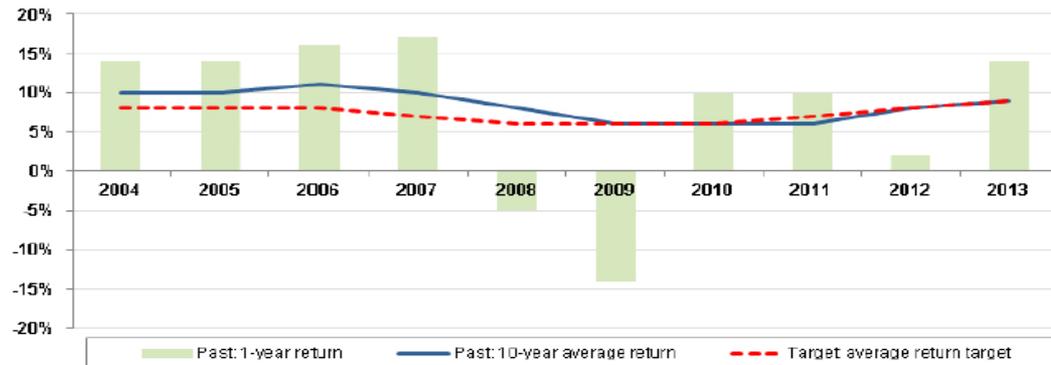
## Return

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.*

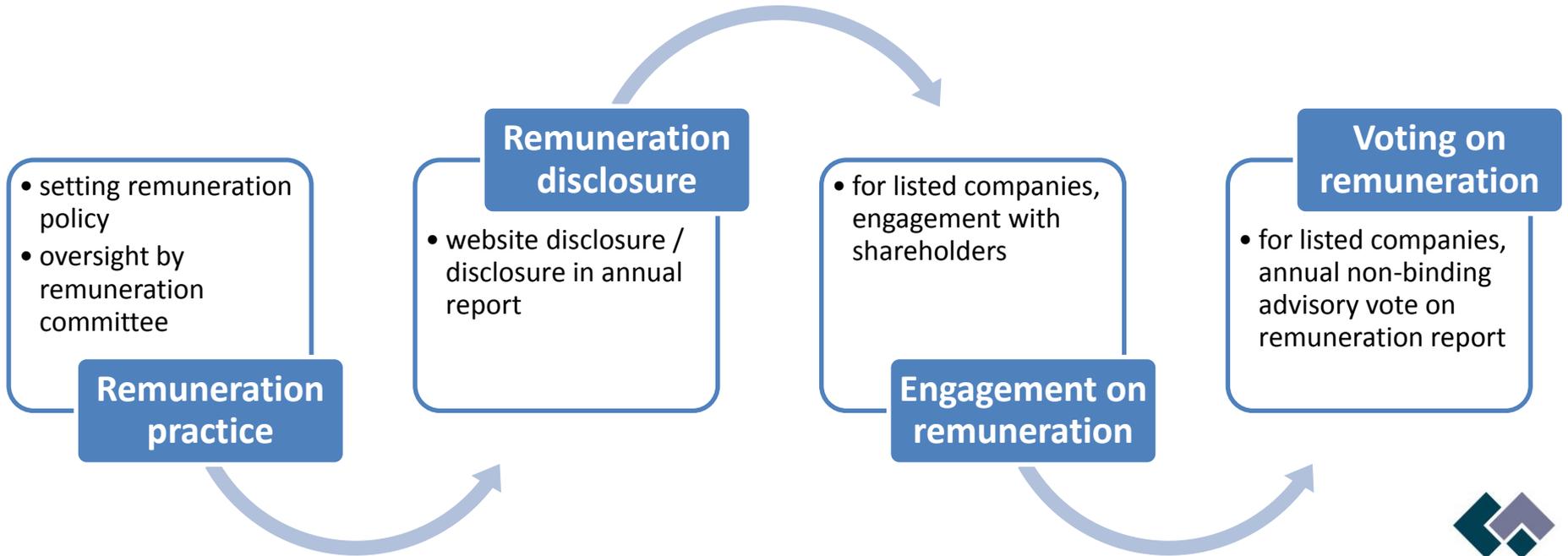
## Statement of fees and other costs

**\$437** per year

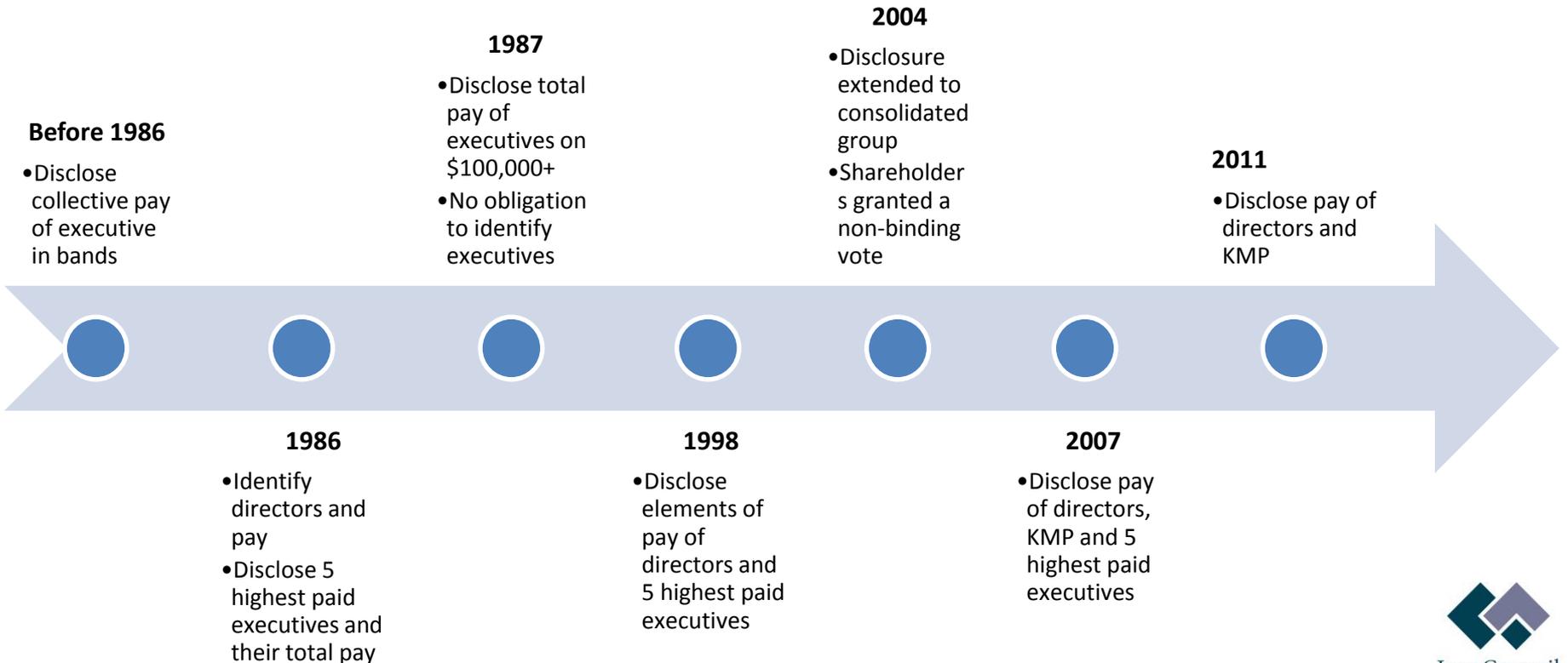
*Fees and other costs for a member with a \$50,000 balance.*

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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