CORPORATE SUPERANNUATION ASSOCIATION Inc.

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Mr Pat Brennan
General Manager
Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
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Email: superannuation.policy@apra.gov.au.

Dear Mr Brennan

GOVERNANCE REQUIREMENTS FOR RSE LICENSEES: PROPOSED AMENDMENTS

I refer to APRA's letter dated 26 June 2015 to RSE licensees.

The Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors. The Association represents a total of 25 funds controlling $65 billion in member funds, held in a total of 695,396 individual accounts. In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership several multi-employer funds with similar employer involvement and focus.

Given the nature of our funds and their corporate sponsorship, we feel strongly about the current proposals, which will result in very dramatic changes to the equal representation system. We have consistently defended this system, which continues to provide significant benefits to the members and sponsoring employers, because it provides a robust system of governance, with the interests of the interested parties balanced and safeguarded.

A copy of our letter to Treasury, about the reforms proposed in the draft legislation made public on the 26 June 2015, has been e-mailed to you.

APRA's proposed prudential standards

Against the background of the proposed legislation, we have further concerns regarding APRA's proposed approach to independence on boards and board committees, as outlined on pages 2 to 3 of APRA's letter.

Definition of "material relationship"

We understand the drive to minimise conflicts. We stress, however, as outlined in our attached letter to Treasury, that conflicts are of particular concern in public offer and retail funds, where the members and employer-sponsors are less closely involved in the structure and governance of the fund and where the trustee has been retained by the fund to perform its role for reward. In this context we do understand the concern to reduce involvement of parties related to the trustee.

In situations where the trustee does not provide its services for gain, we see the potential important attributes of an external member of a trustee board as being the ability to supplement the skills of the member and employer representatives with additional skills. We therefore believe that the focus should not be on the exclusion of all material relationships with members, employers and suppliers, but on the securing of required skills.

Majority membership of board committees

We are concerned about a proposed requirement for majority independence on the audit and remuneration committees of a board that is itself subject to proposed requirements for one-third independent directors. We believe that the smooth running of a main board comprised of, say, one-third member representatives, one-third employer representatives, and one-third independents, may be prejudiced by the adoption of a committee structure which is weighted towards external voices, many of them initially unfamiliar with the particular situation of the fund.

Costs

In the context of our funds and their available resources, it is not clear how the members of our funds will be served by these restrictions. Our members tell us that an independent main board chair commands an estimated fee of $100,000 per annum, other main board members fees of $50,000 to $65,000, and members of board committees $35,000 to $40,000, with the additional expense of travel and accommodation expenses for external members.

As argued in our submission to Treasury, copy provided to you, there is value in the recruitment of external assistance for funds as the need arises, but an automatic blueprint requiring hugely increased external resources is not necessarily in the best interests of members.

There may be no additional benefit, and there will obviously be a reduction in member benefits, or increased sponsor expenses, as a result of the increase in costs.

In addition, the importation of a significant proportion of parties who are will take time to become familiar with the fund, its members and the related employment relationships, and the removal of resources with valuable experience, may be to the detriment of the fund.

Our objectives

As set out in our letter to Treasury, our very strong preference would be for non-public offer corporate employer sponsored funds to continue to operate the equal representation trustee system, being exempted from the requirement for one-third independent directors. The ability should exist, however, to make use of external directors, not necessarily constrained by the exclusion of all material relationships with members, employers and suppliers. The emphasis should instead be on the securing of required skills.

Yours sincerely

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