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General Manager
Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority

By email: superannuation.policy@apra.gov.au

Dear General Manager

Consultation on *Strengthening Financial Resilience in Superannuation*

Thank you for the opportunity to provide a submission in relation to APRA's Discussion Paper, *Strengthening Financial Resilience in Superannuation* (November 2021).

Preliminary

By way of introduction:

Dr Scott Donald is an Associate Professor in the School of Private and Commercial Law in the Faculty of Law and Justice at UNSW Sydney. He is also retained on a part-time basis as an External Consultant by Herbert Smith Freehills. His research has been predominantly directed towards the regulation of the Australian superannuation industry. In the past decade he has consulted to a number of industry associations in the superannuation field, to RSE licensees and to The Treasury in matters related to the governance of superannuation entities.

Dr Rodney Brown is a Senior Lecturer in the School of Accounting, Auditing and Taxation in the UNSW Business School. He is an empirical archival researcher of issues at the intersection of taxation and financial accounting with a specific interest in the extent to which increased transparency of firms' financial arrangements has real effects. Prior to academic life, he gained over 20 years industry experience working as a Chartered Accountant and financial planner in public practice (including PwC and EY). He is Program Director of the Master of Taxation and teaches the Taxation and Regulation of Superannuation course.

Dr Thulaisi Sivapalan is a Research Associate conducting research focused on superannuation, pension funds and retirement incomes. He recently joined D3P Global Pension Consulting as an external consultant to provide his expertise to global projects. His research interests are at the intersection of superannuation, taxation, investment management and behavioural economics.

The views expressed in this submission are informed by our experience and research but they are our own and ought not be taken to reflect the views of UNSW, Herbert Smith Freehills or D3P Global Consulting, nor any of their clients, employees, interns or associates. We make this submission in our personal capacity and not on anyone's behalf or at anyone's instruction.

Submission

Questions 7 – 14 of the Discussion Paper relate to the policies, practices and plans of RSE licensees in relation to fund reserves. Fund reserves are an arcane area of superannuation fund administration and as a result the regulatory issues arising from the use of reserves in superannuation funds have traditionally been underestimated. Although there have been initiatives to remedy this over the past decade,¹ we believe more needs to be done to ensure the integrity of the prudential regulatory regime overseen by APRA.

Where relevant, our submission draws on a collection of fund-specific data compiled by the authors of this submission in their private capacity. The collection comprises 17 profit-for-member funds, which in total serve almost 9.5 million member accounts and as at 30 June 2021 managed approximately \$779bn in assets.² The funds have been de-identified in the Tables and Appendices. We do not represent that this relatively small sample is representative of the RSE licensee universe as a whole. It is however sufficient for the limited propositions they illustrate in this submission.

The data was hand collected from general purposes financial reports (GPFRs) prepared in accordance with *AASB 1056 Superannuation Entities*. This data set is unique because GPFRs are difficult to obtain for superannuation funds since these unincorporated entities fall outside the scope of the *Corporations Act 2001* (Cth) regarding the preparation and dissemination of GPFRs.³ Accordingly, GPFRs of superannuation funds are not lodged with the Australian Securities and Investments Commission (ASIC) and thus are not publicly available for purchase. In addition, there is currently no requirement that GPFRs be provided to superannuation fund members. This is surprising given the public interest,⁴ the need for public transparency of industry superannuation funds, and the likely demand for such reports to enable stakeholders to scrutinise fund health, governance and performance.

Our submission advances three main propositions:

1. Heightened supervision of reserves is crucial for prudential supervision to be effective;
2. The regulatory measures currently in place require extension and intensification; and
3. Community expectations need to be reset.

These propositions are elaborated below. Recommendations designed to address or alleviate the issues are also presented below.

1. Heightened supervision of reserves is crucial for prudential supervision to be effective

RSE licensees have little discretion in relation to contributions made by or on behalf of members.⁵ Contributions are to be applied to members accounts unless they are directed towards authorised

¹ These include APRA, *Prudential Standard SPS 114 Operational Risk Financial Requirement* (November 2012); APRA, *Prudential Practice Guide SPG 114 - Operational Risk Financial Requirement* (July 2013); APRA, *Prudential Standard SPS 515, Strategic Planning and Member Outcomes* (January 2020); APRA, *Prudential Practice Guide SPG 515 - Strategic and Business Planning* (August 2019) and AASB, *AASB 1056 - Superannuation Entities* (June 2014).

² Data drawn from APRA, *Annual Fund-level Superannuation Statistics* (June 2021).

³ Part 2M.3 of the *Corporations Act 2001* (Cth) omits superannuation funds.

⁴ Department of Treasury, Australia, *Options for Improving the Safety of Superannuation – Report of the Superannuation Working Group* (2002).

⁵ Part 5, *Superannuation Industry (Supervision) Regulations 1994* (Cth).

payments (for instance for the purchase of insurance on behalf of the member, or for other costs associated with the administration of the trust), or reserves. The amounts held on reserve in a fund then have a peculiar status. They are held on trust by the RSE licensee, even though they are not 'members' money'.⁶ In theory, then, RSE licensees' application of reserves comes within the scope of the regulatory regime. The problem is that:

- i. use by the trustee of monies allocated to a reserve is governed by general law principles but, as detailed below, only loosely by the statutory regime⁷ with which most participants are more familiar; and
- ii. there is little disclosure about the use of monies allocated to a reserve, undermining the possibility of the RSE licensee being held accountable by a relevant stakeholder (APRA, ASIC or a member).

The decision by an RSE licensee to allocate fund monies to a reserve account, and the use by the RSE licensee of monies allocated to such accounts, are therefore, we submit, important prudential matters.

The importance of reserves is heightened by the quantum of assets currently held in reserves, and by the volume of transactions that appear to pass through the reserves. Appendix A presents balances for the largest reserves of the 17 sample funds for the period 2016-2021. The net movement in the reserves is presented as a percentage of the beginning reserve balance to demonstrate the size of movements. Overall, there is material variation in the size of the reserves and in the year-to-year movement in the reserves relative to the assets of each fund. Unfortunately, due to the limited amount of information provided in GPFRs, it is not possible to determine the constituents of the net movement amounts. That is, movements are disclosed on an aggregated *net* basis, so stakeholders cannot ascertain the volume or nature of the transactions that comprise the movements.

For example, Panel A reveals a balance of \$1.888 trillion in the Operational Risk Financial Reserve at the end of the 2021 financial year. The net increase of \$356.644 billion is significant in dollar terms and represents 23.28% of the reserve's beginning balance. The balance in this reserve has increased in each of the six years and the annual net movements represent approximately 18% of the reserve's beginning balance. The results in Panel A are consistent with those in the remaining panels except Panel E, where the Self Insurance Reserve has relatively smaller balances and has experienced net balance decreases over the period. In Panel H, Other Reserves includes the balances of eight reserves including Undistributed Earnings Reserve, Unallocated Surcharge Reserve, Regulator Reserve, Residual Reserve, RSE Reserve, Foreign Benefit Reserve, Disability Reserve, and Other Reserve.

Anecdotal evidence obtained by the authors also indicates differences in how the reserves are used by different RSE licensees. That variation is not of itself a reason to suspect that fund reserves may have been used inappropriately but the amounts involved are in some cases large and are reported as net movements, potentially masking the volume of transactions that have occurred over the reporting period.

⁶ *APRA v Kelaher* [2019] FCA 1521, [133].

⁷ For simplicity, reference to the statutory regime in this submission is intended to connote both the relevant statutes (including most pertinently the *Superannuation Industry (Supervision) Act 1993* (Cth) ('SIS Act') and *Corporations Act 2001* (Cth)) and the Regulations and legislative instruments (such as Prudential Standards) attendant on those statutes.

2. The regulatory measures currently in place require extension and intensification.

At present the regulatory regime in relation to reserves is not prescriptive but rather devolves responsibility for determining the desirability and adequacy of reserves almost entirely to the RSE licensee. The exception is the Operational Risk Financial Reserve ('ORFR') where SPG 114 expresses the view that:

'APRA expects a soundly run RSE licensee that has implemented an effective risk management framework to have an ORFR target amount that is equivalent to at least 0.25 per cent of funds under management.'⁸

Notably, however, even that requirement is not enforceable, both because it is made within a Prudential Practice Guide, rather than a Prudential Standard, and because it is expressed to be an expectation rather than a strict rule. Interestingly, Figure 1 demonstrates that most funds within the sample appear to be treating the percentage amount of guidance much more strictly. They also appear to be aiming for 0.25% of net assets rather than the total asset. Appendix C provides further analysis and a comparison between the interpretation of FUM that considers net and total assets.

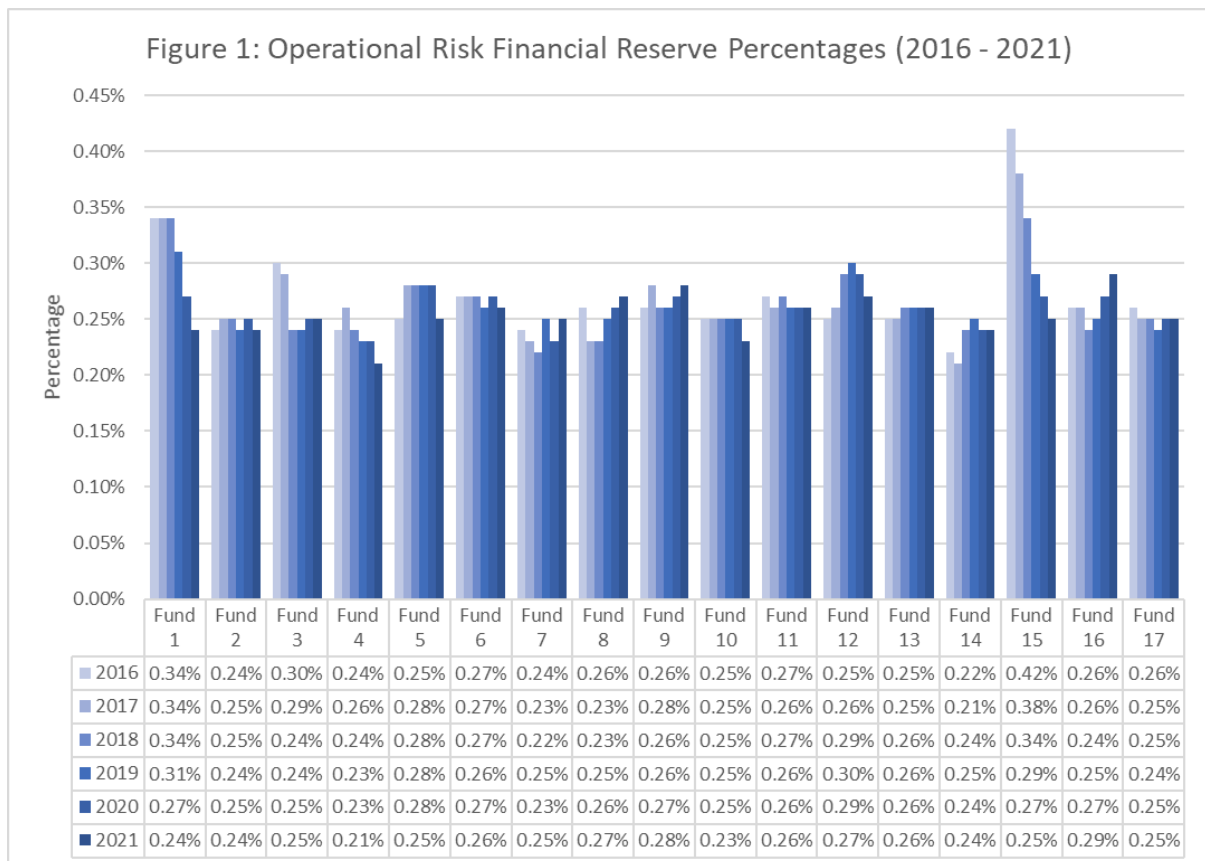


Figure 1 suggests that fund trustees within this sample have strong conviction that the minimum expectation of 0.25% is an appropriate level for the ORFR policy of the fund. Broadly, we observe an anchoring trend over the five years depicted in Figure 1 towards the minimum expectation of 25 basis points. Interestingly, over the sample period from 2016 – 2021 the superannuation landscape has witnessed substantial change where funds have been exposed a greater degree of operational

⁸ APRA, *Prudential Practice Guide SPG 114 - Operational Risk Financial Requirement* (July 2013), [9].

risk. This is primarily due but not limited to, merger activity, a result of insourcing investment activities and administration and a greater deal of regulatory burden.

Further, there is a lack of variation of ORFR percentage amongst funds. APRA has expressly signaled that it would expect RSE licensees to calibrate the size of their ORFRs to the circumstances of the fund.⁹ The lack of variation is surprising given the diversity in business models of the funds in the sample (some for instance have financial advisory and other subsidiaries) and the number of fund mergers (the disruption from which we would expect would increase the probability of an operational risk event occurring) even in this small sample. Figure 1 would suggest that the guidance provided in SPG 114 is anchoring RSE licensee conduct to a greater extent than APRA intends. We submit that APRA needs to encourage RSE licensees more actively to adopt an ORFR policy that clearly reflects each fund's unique operational risk environment and accordingly set an appropriate percentage that may be higher than 25 basis points.

Further, we suggest that when determining the RSE licensee's ORFR/reserve policy that there be link to the fund's strategic plans outlined yearly Business Performance Review as part of *Prudential Standard SPS 515*.

SPG 114 is not the only element of the regulatory regime that allocates responsibility for substantive judgment to RSE licensees. A similar lack of direct regulatory prescription is evident in the main regulatory rules. For instance:

- Section 52(2)(i) of the *SIS Act* specifically requires an RSE licensee to formulate, review regularly and give effect to a strategy for their prudential management.
- Section 52(2)(8) of the *SIS Act* requires an RSE licensee to maintain financial resources, potentially as a reserve of the fund, to cover the operational risk of the fund.
- *SPS 114* requires that RSE licensees have a documented strategy for determining, implementing, managing and maintaining the ORFR target amount that reflects reflect the size, business mix and complexity of the RSE licensee's business operations¹⁰ as well as suitable policies as well as procedures to manage the financial resources held to meet the ORFR target amount.¹¹
- *SPG 114* provides guidance on APRA's expectations in regards to how an RSE licensee might determine the target amount to be held in an ORFR (or as capital, or both) to satisfy the obligation created by section 52(2)(8) of the *SIS Act*. However, (and noting the discussion above in relation to the 0.25% guidance) as statements in a Prudential Practice Guide, such statements do not directly¹² impose legally enforceable obligations on RSE licensees.
- *SPS 515* requires RSE licensees to demonstrate how use of a reserve to fund expenditure accords with the strategy it formulated pursuant to section 52(2)(i) of the *SIS Act*.¹³

⁹ Ibid, especially [10], [47].

¹⁰ APRA, *Prudential Standard SPS 114 Operational Risk Financial Requirement* (November 2012), [18]-[19].

¹¹ Ibid.

¹² It is possible that these expectations could be relevant as expressive of contemporary community practice in litigation brought under either the covenants expressed by section 52(2)(b) or (c) of the *SIS Act*, or s912A(1)(a) of the *Corporations Act*. As far as the authors know, this possibility has not hitherto been considered by a court.

¹³ APRA, *Prudential Standard SPS 515, Strategic Planning and Member Outcomes* (January 2020), [14].

- *SPG 515* contains a list of measures APRA regards as sound practice regarding reserves generally.¹⁴ It also expresses the view, shared by the authors, that RSE licensees ought to be clear on the purpose of each reserve before the reserve is established¹⁵ and the reserving strategy ought to address the ‘equitable’ attribution of reserves across current and future members.¹⁶ Again, however, as statements in a Prudential Practice Guide, such statements do not directly impose legally enforceable obligations on RSE licensees.
- *AASB 1056* requires the level and changes in the level over the reporting period of any reserves be included in the Annual Financial Statements of the fund.¹⁷ In our data set, most RSE licensees include a Note in relation to reserves. However, our review of the Financial Statement Notes for the past six years for each fund in the sample suggests these disclosures do not typically go beyond aggregate measures of level and change for each reserve. There is currently no requirement for publication or disclosure of the Annual Financial Statements by the RSE licensee, although we note that a number of RSE licensees do in fact provide links to these documents on their websites, and that there is currently an exposure draft of a Bill¹⁸ that would require such disclosure in the future.

This brief description highlights that the regulatory requirements stop short of establishing substantive rules. Instead, they mostly require governance processes in which the RSE licensee must form its own view on what is appropriate given the circumstances of the fund. We submit that it is appropriate that the governance processes of the RSE licensee engage with the desirability and adequacy of reserves. It is also appropriate that decisions taken in respect of any fund have close regard to the interests of members and the circumstances of the fund. However, we submit that, consistent with its approach in relation to other prudential matters, it would be appropriate for APRA to be more prescriptive in relation to minimum expectations regarding reserves and that those minimum prescriptions be legally enforceable and not merely advisory. Moreover, the financial reporting in relation to reserves needs to be more detailed both quantitatively and qualitatively.

The shortcomings of the regulatory regime are exacerbated by two additional factors. Specifically:

- It is difficult for interested stakeholders, including members, to know how each fund’s reserves are to be used. As Appendix B highlights, although the names applied to reserves are often similar across funds,¹⁹ there is no standard set of names nor is it usually possible to discern the precise objective of each reserve from public disclosures so it would be rash to assume that similarly titled reserves have identical scopes. In total, 15 different types of reserves are maintained at any one time by the 17 funds over the 2016-2021 period. Appendix B presents a summary of the reserves used by 17 funds over the period. Although we recognise the value in permitting RSE licensees to employ such measures, including the creation and maintenance of reserves, as are optimal for the circumstances of the fund, we

¹⁴ APRA, *Prudential Practice Guide SPG 515 - Strategic and Business Planning* (August 2019), [58] – [64]. These requirements replaced SPG 221 in January 2020.

¹⁵ Ibid, [58].

¹⁶ Ibid, [61], [62].

¹⁷ Australian Accounting Standards Board, *AASB Standard 1056. Superannuation Entities* (June 2014).

¹⁸ *Treasury Laws Amendment (Financial Reporting and Auditing Requirements for Registrable Superannuation Entities) Bill 2021* (Cth).

¹⁹ We have ignored minor semantic differences in the titles given to reserves by different RSE licensees for the purposes of Tables 1 and 2.

submit that disclosure to members of the strategies formulated pursuant to the covenant in section 52(2)(i) and section 52(2)(e) ought to be required.

- Regulators and other stakeholders cannot monitor compliance because the data disclosed is inadequate. For example, superannuation funds are required, under the *Financial Sector (Collection of Data) Act 2001* and its reporting standards, to provide certain data to APRA. *Inter alia*, this includes information regarding the Statement of Financial Position under Reporting Standard SRS 320.0. Item 22 requires information concerning movements into reserves including the type of reserve, transfers into each reserve (includes earnings on reserve), transfers out of each reserve (includes losses on reserve), and the closing balance of each reserve. This limited data is unlikely to provide APRA with sufficient information to ascertain whether the types of reserves being maintained are appropriate and whether they are being managed effectively (for the members' benefit). Similarly, items 19 and 20 of Reporting Standard SRS 330.0 Statement of Financial Performance only require information about transfers into reserves affecting net assets available to pay members' benefits and transfers out of reserves affecting net assets available to pay members' benefits, respectively.

3. Community expectations need to be reset

In addition to the current shortcomings in the regulatory regime, there appears to be misunderstanding in the industry and the community about the function of fund reserves in the superannuation context. Some of this is manifested publicly, for instance in the mainstream Press. At a minimum this inspires public commentary that unsettles community confidence in the superannuation system. It is also possible that misunderstandings may be contributing to innocent (and possibly deliberate) misapplication of fund assets, to the detriment of member interests. Some of the misconceptions include:

- *That the amounts allocated to reserves are 'members' money'.* As noted above, this is not an accurate description of the legal position. Reserves are funded from member contributions (and/or balances) and they are part of the trust. They are also often used to replenish member accounts after a triggering event (such as an operational risk). However, they are not available for distribution to members directly except in the event of the trust terminating and even then, the distribution of any unused reserves will depend on the governing rules of the fund.
- *That investment strategies are formulated specifically in respect of the reserves.* Anecdotal evidence suggests there is a variety of practices in respect of this across the industry because fund reserves are essentially accounting entries and are not necessarily mapped across to specific assets. Although requiring RSE licensees to invest assets in liquid, stable securities would potentially introduce a performance drag on member accounts (because the lower-performing reserves would on average have to be continually topped up to maintain a target percentage weighting), it would seem to us that investment of reserves in illiquid assets in particular ought to be prohibited as being inconsistent with the concept of a reserve capable of being drawn on to smooth the adverse impact of triggering events on member account balances.

- *That reserves can be applied to discharge the personal liabilities of the RSE licensee.* The first constraint on RSE licensees using the assets in a reserve to meet personal liabilities²⁰ is that reserves can only be applied in a manner consistent with the purpose of the reserve. For a ‘general’ reserve, in which there is no tight definition of the purposes to which the assets can be applied, the RSE licensee equally has no right provided by the governing rules to apply the assets to its own liabilities and is therefore subject to the covenant in section 52(2)(d) to prioritise the interests of members, which would appear to severely constrain the availability of self-interested payments. Finally, the provisions of the governing rules of a fund are also subject to section 56 of the *SIS Act*.

As noted at the outset of our submission, the law pertaining to fund reserves in the superannuation context is complicated and arcane. Our experience in the industry is that the superannuation industry is familiar with the formal regulatory regime under which it operates, including the *SIS Act* and *SIS Regs*, the Corporations Act and APRA’s Prudential Standards and Guides. However, the industry is considerably less familiar with the important general law principles that apply, and on the complex interaction between the general law principles and the formal regulatory regime. We would therefore welcome a more detailed and sophisticated set of rules and guidance documents from APRA to remedy this and to ensure that fund reserves are used appropriately (and not inappropriately).

Reserves and their use

We collect our recommendations in the next section. However, we believe it is appropriate to disclose that although our recommendations are inspired by the observations communicated above, they are also predicated by the following views about the nature of fund reserves:

- Reserves exist to smooth the impact of liabilities across members and across time in circumstances where it would be inequitable to impose those liabilities narrowly on a specific set of beneficiaries at a particular point in time.²¹
- Reserves ought to exist only for disclosed purposes. Truly general reserves, in which the trustee enjoys a near-unfettered discretion on how to use the assets, ought to be prohibited as they expose members to the risk that the trustee can lawfully apply trust assets to transactions that would not otherwise be in members best financial interests. This position arises because of the way that section 52(2)(c) of the *SIS Act* (and the analogous general law position) applies to conduct of the RSE licensee.
- Certain types of liability arise in the course of administering a trust that are personal to the trustee even though they would not arise but for the trustee playing its role. The most

²⁰ In one sense, all liabilities incurred in the administration of a trust are personal liabilities of the trustee. See M Scott Donald, ‘The ‘proper’ approach to a trustee’s right to indemnity out of trust assets’ (2014) 8 *Journal of Equity* 283. It is however appropriate, as we note below, to distinguish between those liabilities properly incurred in the administration of the trust (and in respect of which the RSE licensee will be entitled to an indemnity out of trust assets) and other ‘personal’ liabilities that either do not relate to the trust or else arise by virtue of the trustee’s role but are not indemnifiable. Examples of this latter category of liability are certain regulatory sanctions, payments for trustee indemnity insurance and liabilities to remediate breaches of trust.

²¹ We note in this regard that APRA helpfully distinguishes ‘reserves’ used in this sense from other accounting devices involving unallocated amounts; APRA, *Prudential Practice Guide SPG 515 - Strategic and Business Planning* (August 2019), [63].

obvious example of these are regulatory sanctions imposed on the trustee and orders for remediation for breach of trust. These ought not to be indemnifiable out of trust assets either directly or indirectly via application of reserve assets. Similarly, payments of premiums for trustee indemnity insurance policies are for the personal benefit of the RSE licensee²² (even if the insolvency of an under-capitalized trustee would almost certainly be contrary to the interests, broadly understood, of members).²³

- The regulatory regime accommodates a range of ways in which a trustee can be effectively excused from financial liability for some or all of the losses suffered by a trust fund that were caused by maladministration of a trust by the trustee. These include exoneration clauses, permissively-drafted rights of indemnity and purchase of indemnity insurance. The circumstances in which trustee ought to be excused (e.g., for innocent acts) is a matter for public policy and we express no view here on that. However, the integrity of the regulatory regime requires that the regulation of each of these devices be calibrated to ensure that the regime overall achieves a coherent and consistent result.
- The law recognises an important distinction between acts undertaken by the party (usually a company) acting in its capacity as trustee and acts undertaken by that same party in other capacities.²⁴ This distinction inheres to the role of trustee notwithstanding the fact that the trust is not usually²⁵ recognised at law as having a separate legal identity.
- The regulatory regime expressly accommodates RSE licensees to employ different operating models. The disclosure regimes designed to permit regulators and stakeholders to make accurate comparisons confidently between RSEs must respond to this diversity. The lack of attention to reserves historically has allowed certain transactions to escape attention and also allowed certain distortions in representation to persist.

In order for APRA to safeguard its prudential supervision by ensuring that reserves are only used for appropriate purposes, we submit that in the absence of specific legislative reform, APRA ought to:

- Consider prohibiting ‘general’ reserves, in which the trustee enjoys a near-unfettered discretion on how to use the assets, as they expose members to the risk that the trustee can lawfully apply trust assets to transactions that would not otherwise be lawful. This does not mean that reserves applying to categories of liability (such as administration reserves, or the ORFR) ought to be prohibited. It is also consistent with section 115 of the *SIS Act* which refers only to reserves created for a ‘particular’ purpose.
- Impose hard minima on the quantum of assets to be held in certain types of reserves (and most pertinently the ORFR) in a way that is enforceable against a party not inclined to comply;
- Consider the introduction of hard maxima on the quantum of assets to be held in other reserves in a way that is enforceable against a party not inclined to comply;

²² It is unclear whether this is the basis of APRA’s nomination of such payment as an inappropriate use of ORFR assets in *SPG 114*. See above n 8, [43]. APRA’s view may also reflect the fact that payment from an ORFR must be triggered by an actual operational risk event.

²³ *Application by NGS Super Pty Ltd atf NGS Super* [2021] NSWSC 1694, [77] (Henry J), *Re QSuper Board* [2021] QSC 276 [38] (Kelly J).

²⁴ *Carter Holt Harvey Woodproducts v Cth* [2019] HCA 20.

²⁵ It is worth noting that although parts of the *SIS Act*, the *Corporations Act* and the taxing regime are expressed in ways that suggest a distinction, those regimes do not operate to remove the distinction. See Edelman J in *Agricultural Land Management Ltd v Jackson (No 2)* [2014] WASC 102, [302].


- Re-define the information it currently collects from RSE licensees in relation to reserves, ensuring that it gets information on all transactions of a particular type (such as remediation and regulatory sanctions) or with a particular materiality;
- Ensure that external auditors include the management of reserves as a matter they review in the preparation of each RSE's Annual Financial Statements;
- Require enhanced disclosure to members and potential members, to assist other stakeholders to monitor compliance, thereby enrolling them in the regime of prudential supervision. In particular, there ought to be disclosure:
 - of the reserving and risk management strategies formulated by the RSE licensee; and
 - in the Annual Financial Statements of amounts paid for member remediation and for regulatory sanctions out of reserves (including in circumstances where those payments were entirely lawful).


Concluding Comments


APRA has a crucial role to play in regulating the superannuation sector in Australia. By design, the sector accommodates RSE licensees with different business models. There are moreover differences even within the broad business models customarily recognised (retail, profit-for-member, public sector and corporate). As this submission demonstrates, this diversity is manifest in the way RSE licensees structure and use reserves. It does seem to us, however, that it is incumbent on APRA given its mandate as prudential supervisor to come to grips with the detail from all of the legal, accounting and financial perspectives, and not to rely as heavily as it currently does on regulating trustee governance and on enforcing principles drawn from the general law.

Please do not hesitate to contact us if you have any questions or require any further information or elaboration.

Yours sincerely


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APPENDIX A

Net movements in reserves

Panel A: Operational Risk Financial Reserve (ORFR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	760,414	145,264	905,678	19.10%
2017	905,678	167,605	1,073,283	18.51%
2018	1,073,284	197,691	1,270,975	18.42%
2019	1,270,975	207,337	1,478,312	16.31%
2020	1,478,312	53,396	1,531,708	3.61%
2021	1,531,708	356,644	1,888,352	23.28%

Panel B: Administration Reserve (ADR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	383,701	-3,926	379,775	-1.02%
2017	379,775	38,954	418,729	10.26%
2018	500,541	71,168	571,709	14.22%
2019	571,709	47,016	618,725	8.22%
2020	535,247	77,203	612,450	14.42%
2021	612,450	232,277	844,727	37.93%

Panel C: General Reserve (GR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	229,724	55,442	285,166	24.13%
2017	285,166	25,310	310,476	8.88%
2018	310,477	142,513	452,990	45.90%
2019	452,990	-40,292	412,698	-8.89%
2020	694,983	-147,443	547,540	-21.22%
2021	547,540	427,312	974,852	78.04%

Panel D: Insurance Reserve (INSR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	64,723	103,046	167,769	159.21%
2017	167,769	153,155	320,924	91.29%
2018	320,923	90,551	411,474	28.22%
2019	411,474	-54,548	356,926	-13.26%
2020	356,926	-91,452	265,474	-25.62%
2021	265,474	4,175	269,649	1.57%



APPENDIX A (continued)

Panel E: Self Insurance Reserve (SINSR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	32,206	-8,867	23,339	-27.53%
2017	23,339	-5,391	17,948	-23.10%
2018	17,948	-6,491	11,457	-36.17%
2019	11,457	-1,457	10,000	-12.72%
2020	10,000	-8,38	9,162	-8.38%
2021	9,162	1,764	10,926	19.25%

Panel F: Investment Reserve (INVR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	349,740	-43,660	306,080	-12.48%
2017	306,080	-288,538	17,542	-94.27%
2018	73,856	148,450	222,306	201.00%
2019	222,306	34,514	256,820	15.53%
2020	186,248	-106,384	79,864	-57.12%
2021	79,864	150,802	230,666	188.82%

Panel G: DB Surcharge Reserve (DBR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	3,841,547	461,604	4,303,151	12.02%
2017	4,303,151	847,430	5,150,581	19.69%
2018	5,150,581	1,364,103	6,514,684	26.48%
2019	6,514,684	1,910,731	8,425,415	29.33%
2020	8,425,415	-2,376,451	6,048,964	-28.21%
2021	6,048,964	2,682,980	8,731,944	44.35%

Panel H: Other Reserve (OTHR)

Year	Opening Balance	Net movement	Ending balance	Net movement as a %
2016	507,015	-4,629	502,386	-0.91%
2017	502,386	200,048	702,434	39.82%
2018	702,434	246,847	949,281	35.14%
2019	949,280	-99,093	850,187	-10.44%
2020	721,952	-230,107	491,845	-31.87%
2021	491,845	516,935	1,008,780	105.10%

APPENDIX B

Superannuation Fund Reserve Categories

	Year	Operational Risk Reserve	Admin Reserve	General Reserve	Insurance Reserve	Self Insurance Reserve	Investment Reserve	Defined Benefit Surcharge	Undistrib. Earnings Reserve	Unallocated surcharge	Regulatory Reserve	Residual Reserve	RSE Reserve	Foreign Benefit Reserve	Disability Reserve	Other Reserve
1	2016	✓	✓		✓											
	2017	✓	✓		✓											
	2018	✓	✓		✓											
	2019	✓	✓		✓											
	2020	✓	✓		✓											
	2021	✓	✓		✓		✓									
2	2016	✓	✓		✓		✓									
	2017	✓	✓		✓		✓									
	2018	✓	✓		✓		✓									
	2019	✓	✓		✓		✓									
	2020	✓	✓		✓		✓									
	2021	✓	✓		✓		✓									
3	2016	✓														✓
	2017	✓														✓
	2018	✓														✓
	2019	✓														✓
	2020	✓		✓												
	2021	✓		✓												
4	2016	✓		✓												
	2017	✓		✓												
	2018	✓		✓												
	2019	✓		✓												
	2020	✓		✓												
	2021	✓		✓												
5	2016	✓		✓	✓											
	2017	✓		✓	✓											

Year	Operational Risk Reserve	Admin Reserve	General Reserve	Insurance Reserve	Self Insurance Reserve	Investment Reserve	Defined Benefit Surcharge	Undistrib. Earnings Reserve	Unallocated surcharge	Regulatory Reserve	Residual Reserve	RSE Reserve	Foreign Benefit Reserve	Disability Reserve	Other Reserve
2018	✓		✓	✓											
2019	✓		✓	✓											
2020	✓		✓	✓											
2021	✓	✓	✓	✓											
6	2016	✓	✓					✓		✓					
	2017	✓	✓					✓		✓					
	2018	✓	✓					✓		✓					
	2019	✓	✓					✓							
	2020	✓	✓					✓							
	2021	✓	✓					✓							
7	2016	✓	✓								✓	✓			
	2017	✓	✓								✓	✓			
	2018	✓	✓								✓				
	2019	✓	✓								✓				
	2020	✓	✓								✓				
	2021	✓	✓								✓				
8	2016	✓													✓
	2017	✓													✓
	2018	✓													✓
	2019	✓													✓
	2020	✓													✓
	2021	✓													✓
9	2016	✓													
	2017	✓													
	2018	✓	✓												
	2019	✓	✓												
	2020	✓		✓											
	2021	✓		✓											
10	2016	✓	✓						✓						✓

Year	Operational Risk Reserve	Admin Reserve	General Reserve	Insurance Reserve	Self Insurance Reserve	Investment Reserve	Defined Benefit Surcharge	Undistrib. Earnings Reserve	Unallocated surcharge	Regulatory Reserve	Residual Reserve	RSE Reserve	Foreign Benefit Reserve	Disability Reserve	Other Reserve
2017	✓	✓							✓						✓
2018	✓	✓							✓						✓
2019	✓	✓							✓						✓
2020	✓	✓							✓						✓
2021	✓	✓							✓						✓
11	2016	✓	✓				✓								
	2017	✓	✓				✓								
	2018	✓	✓				✓								
	2019	✓	✓				✓								
	2020	✓	✓		✓		✓								
	2021	✓	✓		✓		✓								
12	2016	✓	✓		✓	✓	✓								
	2017	✓	✓		✓	✓	✓								
	2018	✓	✓		✓	✓	✓								
	2019	✓	✓		✓	✓	✓								
	2020	✓	✓		✓	✓	✓								
	2021	✓	✓		✓	✓	✓								
13	2016	✓	✓		✓	✓	✓								✓
	2017	✓	✓		✓	✓	✓								✓
	2018	✓	✓		✓	✓	✓								✓
	2019	✓	✓		✓	✓	✓								✓
	2020	✓	✓		✓	✓	✓	✓							
	2021	✓	✓		✓	✓	✓								
14	2016	✓		✓											
	2017	✓		✓											
	2018	✓		✓											
	2019	✓		✓											
	2020	✓		✓											
	2021	✓		✓											

Year	Operational Risk Reserve	Admin Reserve	General Reserve	Insurance Reserve	Self Insurance Reserve	Investment Reserve	Defined Benefit Surcharge	Undistrib. Earnings Reserve	Unallocated surcharge	Regulatory Reserve	Residual Reserve	RSE Reserve	Foreign Benefit Reserve	Disability Reserve	Other Reserve
15	2016	✓	✓			✓			✓			✓			
	2017	✓		✓		✓			✓			✓			
	2018	✓		✓	✓		✓		✓						
	2019	✓		✓	✓		✓		✓						
	2020	✓		✓	✓		✓		✓						
	2021	✓		✓	✓		✓		✓						
16	2016	✓			✓		✓								✓
	2017	✓			✓		✓						✓		✓
	2018	✓			✓		✓								✓
	2019	✓			✓		✓								✓
	2020	✓			✓		✓						✓		✓
	2021	✓			✓		✓						✓		✓
17	2016	✓	✓		✓				✓			✓			
	2017	✓	✓		✓				✓			✓			
	2018	✓	✓		✓				✓						
	2019	✓	✓		✓				✓						
	2020	✓	✓		✓				✓						
	2021	✓	✓		✓				✓						
Total	17	10	7	8	2	5	4	1	3	1	1	3	1	1	4

'Total' represents the total number of firms who used this category of reserve in at least one financial year across the 2016-2021 period.

APPENDIX C
Basis for the calculation of the Operational Risk Financial Reserve (ORFR)

Fund	Year	Basis for ORFR calculation (denominator)	SPG114 guide	ORFR based on net assets	ORFR based on total assets
1	2016	Net assets available for members	0.25%	0.34%	0.30%
	2017	Net assets available for members	0.25%	0.34%	0.29%
	2018	Net assets available for members	0.25%	0.34%	0.29%
	2019	Net assets available for members	0.25%	0.31%	0.25%
	2020	Net assets available for members	0.25%	0.27%	0.27%
	2021	Net assets available for members	0.25%	0.24%	0.23%
2	2016	Net assets as appropriate for the fund	0.25%	0.24%	0.24%
	2017	Net assets as appropriate for the fund	0.25%	0.25%	0.24%
	2018	Net assets as appropriate for the fund	0.25%	0.25%	0.24%
	2019	Net assets as appropriate for the fund	0.25%	0.24%	0.23%
	2020	Net assets as appropriate for the fund	0.25%	0.25%	0.24%
	2021	Net assets as appropriate for the fund	0.25%	0.24%	0.23%
3	2016	Net assets of the fund	0.25%	0.30%	0.23%
	2017	Net assets of the fund	0.25%	0.29%	0.23%
	2018	Net assets of the fund	0.25%	0.24%	0.20%
	2019	Net assets of the fund	0.25%	0.24%	0.20%
	2020	Net assets of the fund	0.25%	0.25%	0.23%
	2021	Net assets of the fund	0.25%	0.25%	0.23%
4	2016	Net assets available for members	0.25%	0.24%	0.22%
	2017	Net assets available for members	0.25%	0.26%	0.23%
	2018	Net assets available for members	0.25%	0.24%	0.22%
	2019	Net assets available for members	0.25%	0.23%	0.20%
	2020	Net assets available for members	0.25%	0.23%	0.20%
	2021	Net assets available for members	0.25%	0.21%	0.19%
5	2016	Net assets of the fund	0.25%	0.25%	0.24%
	2017	Net assets of the fund	0.25%	0.28%	0.26%
	2018	Net assets of the fund	0.25%	0.28%	0.26%
	2019	Net assets of the fund	0.25%	0.28%	0.26%
	2020	Net assets of the fund	0.25%	0.28%	0.27%
	2021	Net assets of the fund	0.25%	0.25%	0.24%
6	2016	Funds under management	0.25%	0.27%	0.27%
	2017	Funds under management	0.25%	0.27%	0.26%
	2018	Funds under management	0.25%	0.27%	0.26%
	2019	Funds under management	0.25%	0.26%	0.26%
	2020	Funds under management	0.25%	0.27%	0.27%
	2021	Funds under management	0.25%	0.26%	0.26%
7	2016	Net assets available for members	0.25%	0.24%	0.23%
	2017	Net assets available for members	0.25%	0.23%	0.22%
	2018	Net assets available for members	0.25%	0.22%	0.22%



Fund	Year	Basis for ORFR calculation (denominator)	SPG114 guide	ORFR based on net assets	ORFR based on total assets
	2019	Net assets available for members	0.25%	0.25%	0.25%
	2020	Net assets available for members	0.25%	0.23%	0.22%
	2021	Net assets available for members	0.25%	0.25%	0.25%
8	2016	Fund assets	0.25%	0.26%	0.25%
	2017	Fund assets	0.25%	0.23%	0.22%
	2018	Fund assets	0.25%	0.23%	0.23%
	2019	Fund assets	0.25%	0.25%	0.25%
	2020	Fund assets	0.25%	0.26%	0.26%
	2021	Fund assets	0.25%	0.27%	0.26%
9	2016	Net assets of the fund	0.25%	0.26%	0.26%
	2017	Net assets of the fund	0.25%	0.28%	0.27%
	2018	Net assets of the fund	0.25%	0.26%	0.25%
	2019	Net assets of the fund	0.25%	0.26%	0.26%
	2020	Net assets of the fund	0.25%	0.27%	0.27%
	2021	Net assets of the fund	0.25%	0.28%	0.27%
10	2016	Funds under management as appropriate for the Trust	0.25%	0.25%	0.24%
	2017	Funds under management as appropriate for the Trust	0.25%	0.25%	0.24%
	2018	Funds under management as appropriate for the Trust	0.25%	0.25%	0.24%
	2019	Funds under management as appropriate for the Trust	0.25%	0.25%	0.24%
	2020	Funds under management as appropriate for the Trust	0.25%	0.25%	0.25%
	2021	Funds under management as appropriate for the Trust	0.25%	0.23%	0.23%
11	2016	Net assets	0.25%	0.27%	0.26%
	2017	Net assets	0.25%	0.26%	0.26%
	2018	Net assets	0.25%	0.27%	0.26%
	2019	Net assets	0.25%	0.26%	0.26%
	2020	Net assets	0.25%	0.26%	0.26%
	2021	Net assets	0.25%	0.26%	0.25%
12	2016	Funds under management	0.25%	0.25%	0.24%
	2017	Funds under management	0.25%	0.26%	0.26%
	2018	Funds under management	0.25%	0.29%	0.28%
	2019	Funds under management	0.25%	0.30%	0.30%
	2020	Funds under management	0.25%	0.29%	0.28%
	2021	Funds under management	0.25%	0.27%	0.26%
13	2016	Total member entitlements	0.25%	0.25%	0.25%
	2017	Total member entitlements	0.25%	0.25%	0.25%
	2018	Total member entitlements	0.25%	0.26%	0.26%
	2019	Total member entitlements	0.25%	0.26%	0.26%
	2020	Total member entitlements	0.25%	0.26%	0.26%

Fund	Year	Basis for ORFR calculation (denominator)	SPG114 guide	ORFR based on net assets	ORFR based on total assets
	2021	Total member entitlements	0.25%	0.26%	0.25%
14	2016	Net assets	0.25%	0.22%	0.22%
	2017	Net assets	0.25%	0.21%	0.21%
	2018	Net assets	0.25%	0.24%	0.23%
	2019	Net assets	0.25%	0.25%	0.24%
	2020	Net assets	0.25%	0.24%	0.24%
	2021	Net assets	0.25%	0.24%	0.23%
15	2016	Not disclosed	0.25%	0.42%	0.41%
	2017	Not disclosed	0.25%	0.38%	0.37%
	2018	Not disclosed	0.25%	0.34%	0.33%
	2019	Not disclosed	0.25%	0.29%	0.28%
	2020	Not disclosed	0.25%	0.27%	0.27%
	2021	Not disclosed	0.25%	0.25%	0.24%
16	2016	Invested assets	0.25%	0.26%	0.25%
	2017	Invested assets	0.25%	0.26%	0.24%
	2018	Invested assets	0.25%	0.24%	0.23%
	2019	Invested assets	0.25%	0.25%	0.24%
	2020	Invested assets	0.25%	0.27%	0.26%
	2021	Invested assets	0.25%	0.29%	0.28%
17	2016	Funds under management as appropriate for the Scheme	0.25%	0.26%	0.25%
	2017	Funds under management as appropriate for the Scheme	0.25%	0.25%	0.24%
	2018	Funds under management as appropriate for the Scheme	0.25%	0.25%	0.24%
	2019	Funds under management as appropriate for the Scheme	0.25%	0.24%	0.24%
	2020	Funds under management as appropriate for the Scheme	0.25%	0.25%	0.24%
	2021	Funds under management as appropriate for the Scheme	0.25%	0.25%	0.24%
Avg				0.26%	0.25%