

December 2022

Superannuation Data Transformation Project Minor Amendments

Super Consumers Australia strongly supports APRA's Superannuation Data Transformation project and the greater collection of granular data. Proper data allows APRA to identify risks, intervene to prevent consumer harm and hold the industry to account.

APRA is proposing to make minor amendments to the reporting standards to ensure they are more consistent and clear. We are supportive of the majority of the minor amendments proposed by APRA as part of this consultation. However, we are concerned that the expense reporting proposals may significantly reduce the value of the data APRA receives and weaken its goal of improved super fund transparency.

Clarifications to Reporting Standard 332.0 Expenses (SRS 332.0)

Materiality threshold

APRA is proposing a materiality threshold be applied to identifying small recipients of fund spending. Super Consumers Australia is concerned that the threshold will allow funds to not report the name of recipients in two key areas:

- Marketing and sponsorship related spending of less than \$10,000
- Large spending to recipients in categories classified as 'other' like travel, entertainment and conferences

Without full disclosure in these areas it will be harder for APRA to determine if spending is appropriate.

Risk of missing inappropriate marketing and sponsorships

Any dollar spent not in a member's best financial interests is a member's dollar wasted. Transparent disclosure which includes how much was paid and who it was paid to is central to APRA's ability to identify poor fund behaviour and undertake their supervisory functions.

APRA proposes that funds will only need to name the recipients of marketing and sponsorship related expenses if they total more than \$10,000. APRA's 2021 thematic review of marketing and sponsorship expenditure found some instances where funds lacked sufficient evidence to show their expenditure was in the best financial interests of members. Marketing sponsorship arrangements included instances where super funds provided executives, directors and staff with benefits like corporate tickets, merchandise and other hospitality benefits.¹ This behaviour costs members money. It also indicates poor governance, decision making and oversight processes which can have a material impact on fund performance. Given the thematic review found evidence of super funds not showing sufficient evidence for their marketing and sponsorship spending, providing opportunities for non-disclosure is not appropriate.

When determining if spending is appropriate APRA must determine whether it is in the best financial interests of members. This is difficult to determine without knowing the recipient of the spending. For example, it was reported that Energy Industries Superannuation Scheme (EISS) sponsored two surf-lifesaving clubs, a list of small junior sports clubs in an area close to where the CEO lives and a golf tournament linked to the CEO's brother-in-law.² It is not clear on the evidence what size these sponsorships were but due to the small size of community clubs it is common for this to be for small amounts, potentially under \$10,000. APRA investigated this spending and directed EISS to cease all sponsorships that are not in members' best interests.³ Without knowing the name of the local clubs it would have been difficult to know that this spending was unlikely to be beneficial to members and that the CEO and his family were likely to benefit.

On the limited public information available the \$10,000 threshold may also see some smaller funds escape proper transparency. The difference between marketing and sponsorship isn't always clear. Prime Super's Annual Member Meeting Notice detailed 16 marketing recipients of which 12 were under \$10,000. These included the Shearing Contractors Association of Australia and the Australia Workers Union National Office.⁴ These recipients indicate sponsorship arrangements rather than direct marketing suppliers.

Without transparent recipient disclosure, funds may transact in a series of similar small payments to hide the identity of recipients. Together this may add up to larger amounts. This will frustrate the regulator's attempts to determine if the payment was in members' best interests. Due to the high potential for misuse and mischaracterisation in marketing sponsorship we recommend all marketing and sponsorship recipients be reported to APRA.

¹https://www.apra.gov.au/sites/default/files/2021-10/Findings%20from%20APRA%E2%80%99s%20superannuation%20thematic%20reviews_1.pdf

²<https://www.afr.com/companies/financial-services/eiss-super-merger-on-ice-after-spending-scandal-20211011-p58z0i>
and

<https://www.afr.com/policy/tax-and-super/eiss-super-funds-celebrity-golf-day-despite-apra-warning-20211118-p599zf>

³<https://www.apra.gov.au/news-and-publications/apra-imposes-additional-licence-conditions-on-trustee-of-energy-industries>

⁴ <https://www.primesuper.com.au/amm-2022/#accordion-122>

Recommendation

All marketing and sponsorship recipients are reported to APRA

Other recipients

Super funds will be required to report the recipient of spending when it is paid to service providers, related parties, certain marketing spending, industry bodies and associations and political donations. But spending which does not meet these definitions will be listed as 'other'. In these cases super funds will not be required to detail who money was spent on, regardless of the spending size.

There is likely to be a wide range of spending functions that fit into the 'other' category. Spending on items such as travel, entertainment and conferences can be significant and costly to members. They also have a higher risk of personal benefit and misuse. For example a major superannuation fund conference dinner contracted Jimmy Barnes and his rock band to perform for super fund attendees.⁵ This was likely to be an excessive use of member money for the select few who attend these events.

At a certain level, spending on these categories goes beyond being a small supplier. We expect APRA to be in a position to analyse and identify inappropriate spending with the data it receives. This becomes more difficult if funds are not required to report who the recipient of their large spending is. We encourage APRA to review its current 'other recipient' data and ensure that funds are required to report recipient data for large 'other' expenses.

Recommendation

APRA review 'other recipient' spending to determine an appropriate level for where further reporting data is necessary.

Related party assessment

Super funds pay a significant amount of money to related parties. The Productivity Commission found that the use of related parties is associated with higher costs.⁶ Proper scrutiny on these payments is essential to ensure super funds are getting value for money for their members.

⁵ <https://www.bkcon.com.au/asfa-conference-2016/>

⁶ Productivity Commission Inquiry report - Superannuation: Assessing Efficiency and Competitiveness, Finding 7.3, page 59



APRA proposes to amend the definition of 'related party' to align with the updated regulations for the Annual Member Meeting. APRA is also proposing to include their own specific related party reporting framework for expenses which is likely to pick up different types of related party transactions.

In the absence of public information about these proposals, determining the impact of these definitions and how many related party transactions will be reported to APRA is difficult to assess. We recommend APRA provide detailed information on the impact of the related party definitions and the transactions super funds will be required to report.

Recommendation

APRA provide detailed information on the impact of the related party definitions and the transactions super funds will be required to report.