

15 November 2001

Productivity Commission
P.O. Box 80
Belconnen ACT 2616

Review of the Superannuation Industry (Supervision) Act 1993, and certain other legislation.

Some proposals have been put forward lately, that would add to the cost and complexity of superannuation, without an equivalent benefit.

One aim of any wide review is to improve the safety or security of superannuation but to do so in a simple and effective manner.

Licensing of Trustees

It has been suggested that all trustees should be licensed; that there should be annual meetings of beneficiaries; and that capital adequacy should be a general requirement. These measures would add costs and achieve very little result in the long term apart from pushing people into costly master funds. Commercial Nominees was a licensed trustee, met capital adequacy requirements, and must have had an investment strategy somewhere in the files.

Appropriate Assets the Foundation for Sound Superannuation

The safety of superannuation depends on there being a foundation of appropriate assets. This means there should be a diversity, and no concentration of assets. The assets should also be able to be realised within a reasonable period without material loss. If those requirements are not met, it is irrelevant whether trustees have a piece of paper to say that they are recorded as licensed.

APRA has been reluctant to interfere with investment decisions, provided a fund had some kind of investment strategy recorded and that that strategy was being more or less followed. With a few exceptions, under SIS, a trustee is not subject to direction. There are also practical reasons why APRA remains aloof from influencing investment decision making.

There is no impediment to a small fund (larger than a Small APRA Fund) managing everything with no professional assistance whatever. The only professional involved could be the auditor, who must be a registered company

auditor. The scope of the audit is limited to a conventional financial audit and compliance with a list of sections and regulations.

The following suggestion is not new, but should I believe be considered. Should a fund with assets less than \$MX be required to have professional advice (not direction) in regard to the suitability of the investments? I am not suggesting investment direction but compelling the trustees to receive a periodic professional opinion on the suitability of the investment portfolio profile. SIS contains whistle blower sections for auditors and actuaries. A similar clause could apply to an investment adviser.

Periodical Returns

APRA has complained that by the time they receive an annual report at the end of October, and by the time they have an opportunity to examine the data, they are looking at material that is very much historical.

Other institutions regulated by APRA file quarterly returns. There is little justification for superannuation funds to file quarterly returns. The cost might not be warranted. However, a very short report, limited to investments only, would help APRA to monitor the risk element on a timely basis. APRA would be able to identify, with ratios, on an early warning basis, any unfavourable trend.

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