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The Manager  
Superannuation Unit  
Financial System Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

By email: [strongersuper@treasury.gov.au](mailto:strongersuper@treasury.gov.au)

Dear Sir/Madam

## **EXPOSURE DRAFT: SUPERANNUATION LEGISLATION AMENDMENT (FURTHER MYSUPER AND TRANSPARENCY MEASURES) BILL 2012**

### **SCHEDULE 3 – COLLECTION AND DISCLOSURE OF INFORMATION**

CPA Australia welcomes the opportunity to comment on the Exposure Draft: Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 (ED). CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 139,000 members in finance, accounting and business in 114 countries throughout the world. Our vision is to make CPA Australia the global professional accountancy designation for strategic business leaders.

We commend the government initiative to address concerns about current reporting by the superannuation industry through proposals in this ED. We believe these proposals represent an important step in achieving effective reporting by the superannuation industry. We make this submission on behalf of our members and in the broader public interest. In making this submission we have restricted our comments to the proposals in Schedule 3, Collection and Disclosure of Information.

The compulsory contributions that fund Australia's superannuation industry are set to rise in the coming years. These contributions are invested in a range of assets and managed on behalf of members by the superannuation industry. Any losses that may arise from the investments made are ultimately borne by superannuation members. This unique feature of compulsion imposed on members, combined with the risk of loss of returns and capital, point to a strong need for accountability by the superannuation industry to its members. Members have a right to know what they have invested in, how well their investments are performing, and how the entity and its trustees responsible for the management of their investments have discharged their obligations.

Trustees of superannuation entities have a fiduciary duty to act in the best interest of their members and they have an obligation to do this in a transparent manner. They have a responsibility to provide the necessary information for proper scrutiny, and be held accountable for their actions. The primary driver for financial reporting by superannuation entities should therefore be accountability. In addition, financial reporting should also provide information to users for economic decision making purposes.

CPA Australia's involvement and interest in the superannuation industry stems from our public interest remit and the significant role our membership plays within this industry. As part of our remit we are currently involved in a research initiative to explore the effectiveness of reporting in the superannuation industry. One of the preliminary findings identified through our research initiative is the need to establish a conceptual framework for reporting built upon a set of high level principles that support the reporting framework.

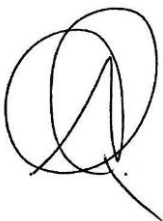
Whilst the ED proposals represent an important step in achieving effective reporting by the superannuation industry, their design does not really reflect a principles based framework approach. Such an approach in our view would provide better reporting outcomes from the regulations and standards setting process. For example, a principle requiring layered information that allows for summarised simple reporting with the ability to look through to detail if required could enable users to access further detail if so required. Applying such a principle to the proposal for a product dashboard for example, would result in a richer information set where users would be able to choose to either look at the summary information presented on the main dashboard or click through to further detail if required. The proposals for disclosure of investment portfolio information may satisfy such a principle. A further example of a principle could be that information should adequately demonstrate the discharge of responsibilities by trustees and other key management personnel.

We recommend that the government devote resources towards establishing a principles driven framework of reporting that recognises and caters for the information needs of the members, and for a level of transparency that demonstrates accountability by superannuation entities and their trustees. CPA Australia's research initiative is a work in progress and we look forward to sharing our findings with the government and other stakeholders, as our project develops further. We aim to provide input from our project to government before the Bill is presented to Parliament, which we presume will occur at the winter sitting of 2012.

In respect of the specific proposals within the ED relating to collection and disclosure of information, we consider it will be necessary for further regulations and guidance to ensure the disclosure objectives of these requirements are met. Our specific comments to the proposals are provided in the attached Appendix.

If you require further information on any of our views, please contact Dr Mark Shying, CPA Australia by email at [mark.shying@cpaustralia.com.au](mailto:mark.shying@cpaustralia.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to be 'Alex Malley', written over a light blue circular stamp.

Alex Malley FCPA  
Chief Executive Officer

cc: M Shying

## APPENDIX

### Product Dashboard

The proposals do not at present require the disclosure of actual investment returns earned by the product. There is also no requirement to disclose the portfolio mix and value that relates specifically to that product within the product dashboard. Whilst we note that the proposals include a separate requirement to disclose investment portfolio information on the superannuation entity's website, we believe such information would provide further value if presented within the product dashboard. In addition to the proposed requirements to disclose information, we believe these additional requirements should be included, as they represent important performance measures relevant to the product.

As stated above, we believe that all information presented within the product dashboard should be summary information with a facility to look through to the detail if required by the member. However, in designing such a "look through" facility, further thought needs to be given to how this requirement would work in practice. There has to be an ultimate floor in terms of the final level of detail that is required to be disclosed. Similarly, there may be scenarios where it is not practical to unravel further layers of detail due to their complex nature. We believe further regulations and guidance is necessary in respect of this proposed requirement to ensure the provision of meaningful information

To ensure consistent and comparable reporting, we consider it necessary to standardise the terms "investment return target", "investment risk" and "liquidity" for the purposes of the product dashboard. This can be achieved through regulations that expand and set out the information that is expected to be presented through the product dashboard. Guidance in the form of illustrative examples would also assist preparers in the preparation and presentation of information on the product dashboard.

Whilst further guidance would assist in providing comparable information, different business models adopted by the industry could still result in information that is not easily comparable. An example would be the use of "crediting rates of return" and "unit price". Regulations that require the disclosure calculations that underpin the returns applied to fund balances would assist in a better understanding and aid comparability.

### Investment Portfolio Disclosure

As stated above, we believe investment portfolio information would be better presented within the product dashboard.

We interpret the disclosure of "assets derived from assets" to result in a requirement for superannuation entities to look through multiple layers of investments to the underlying asset investments and disclose these asset investments, segregated by product. Similar to our comments in respect of the product dashboard, we believe further consideration needs to be given to how this requirement would work in practice. There has to be an ultimate floor in terms of the final level of asset investments that is required to be disclosed. For example, disclosure of the investment in shares held by a unit trust in which the entity has invested may be appropriate, but disclosure of the assets held by the company in which the shares are held may not be appropriate. Similarly, there may be scenarios where it is not practical to unravel further layers of investment due to their complex nature. The adoption of opaque multi-layered investment strategies by the industry is in itself a concern. As before, we believe further regulations and guidance is necessary in respect of this proposed requirement to ensure the provision of meaningful information.

We do not support the exemption from publication of information relating to asset investments that are not acquired in this jurisdiction (overseas investments). We believe the superannuation entities should ultimately bear the responsibility for obtaining and disclosing investment portfolio information, regardless of whether the acquisition is made in Australia or elsewhere.

We note from paragraph 3.68 of the Explanatory Memorandum that whilst the current requirements for “look through” information of underlying asset investments only apply to financial products, an additional obligation will be included in the Bill to also cover other asset investments. We consider this to be an important requirement given the range of investments held by the superannuation industry, and therefore recommend the final Bill presented to Parliament include requirements that cover not only financial products but also other asset investments.

#### Disclosure of Trustee/Director and Executive Officer Remuneration

We note from Explanatory Memorandum paragraph 3.49 that further regulations will prescribe the details surrounding disclosure of information relating to remuneration. We look forward to providing our comments about that detail once these draft regulations are published.

#### Other

We note from Explanatory Memorandum paragraph 3.51 that regulations yet to be drafted will require the publication of a number of documents on the superannuation entity website. In addition to the proposed documents, we also recommend requirements to disclose:

- costs incurred by the superannuation entity categorised by function (example administrative costs, fund management costs); and
- methods and formulae for calculating returns, average cost allocations etc.