BETTER REGULATION AND GOVERNANCE, ENHANCED TRANSPARENCY AND IMPROVED COMPETITION IN SUPERANNUATION—FOCUS QUESTIONS

Part 1: A Better Approach to Regulation

1. The Government has committed to identifying (in dollar terms) measures that offset the cost impost to business of any new regulation. What suggestions do you have for how the regulatory compliance burden can be reduced?

General: REST was established over 25 years ago and has achieved significant benefits for its members and their beneficiaries. REST considers that the Discussion Paper (DP) raises important issues which are critical to ensuring these benefits are maintained and enhanced. In addressing these issues, REST is putting forward its views in the context of its own experience as a large industry fund with a long and demonstrable record of success and achievement for its beneficiaries, see Annexure A and Annexure B.

Response:

The DP dated 28 November 2013 is based on three premises:

1. *That "significant regulatory change in the superannuation sector over recent years has added to uncertainty and increased compliance burdens" and*
2. *That any changes to superannuation regulation must "maximise benefits to members, whilst minimising disruption and compliance costs to the sector."*
3. *The default position in relation to further regulation is no change to the current position.*

The significant regulatory changes which have been imposed on the Australian superannuation sector over the last two years, arising from "Stronger Super", have imposed substantial financial and administrative burdens on all superannuation funds in Australia and these are still being implemented and costs are still being incurred and absorbed. The imposition of additional costs and processes for no identifiable and measurable benefit to members will only serve to exacerbate those already imposed on all funds and their members who bear the ultimate costs.

Whilst the direct costs of REST's compliance with the Stronger Super changes are significant with further direct costs still to be incurred to implement SuperStream, the indirect costs and risks which may be generated by the impact of changes to governance arrangements on the retirement benefits to members, over the longer term, must be identifiable, as such changes may have detrimental longer term consequences when measured against the benefits of the current arrangements which are empirically justified. The recent APRA survey,[1] of short, medium and long

[1] Australian Prudential Regulation Authority (APRA), *Superannuation Fund-Level Rates of Return*, June 2013 (issued 8 January, 2014, where REST was ranked 5th out of 187 superannuation funds for five year fund-level rates of return and 11th out of 153 superannuation fund for ten year fund-level rates of return.

term returns to members of all types of superannuation fund structures provides some evidence of this justification.

Part 2: Better Governance

What should 'independent' mean for superannuation fund trustees and directors?

2. What is the most appropriate definition of independence for directors in the context of superannuation boards?

"Independence" is not a distinct personal or professional attribute which arises from a director's qualification, skills or experience, it is a "state of mind" which every director, regardless of their mode of appointment, is legally required to bring to the performance of their duties and obligations. That "state of mind" or independence of thinking must be specifically focussed on the interests of beneficiaries. REST's fundamental submission is that the mere requirement to be "independent" or "non-affiliated" according to a definition or rule based on current or prior commercial relationships is no assurance that the appointee will bring an independent state of mind or thinking to the board room. Rather, true "independent thinking" reflects a director's willingness and acknowledgement of their duty to formulate his or her own views in respect of any matter for consideration and be freely able to express those views, motivated solely by the interests of fund beneficiaries.

In addressing the issues raised in the DP on the currently operating superannuation governance frameworks, it is necessary to acknowledge that they are all underpinned by long standing statutory, regulatory and common law corporate and trust regulation principles. There are no lesser standards of duties, responsibilities or governance, nor lower level of liability imposed on directors across all corporate models, within or outside superannuation. The assumption that independent judgement can be compromised without compromising a director's legal duties and responsibilities is unsupportable.

The Stronger Super legislative changes introduced in 2013 have, it is strongly arguable, imposed higher trustee director legal standards and exposure to direct liability specifically for directors of superannuation trustee entities than for all other directors of Australian corporate entities, including those directors who are responsible for the governance of major publicly listed entities. The empirical justification for these higher standards and liability have not been made out and may well result in changes to director attitudes and behaviours resulting in lowering the risk and return trade-offs.

Proposed Governance Changes – Operation of Superannuation Trustee Boards

The DP states that "Australia's superannuation governance framework must be strengthened to ensure a stable and efficient system that improves the wellbeing of all Australians." This position assumes that the stability and efficiency of the current governance systems cannot somehow manage the expected growth in size and complexity of superannuation funds in the future.

It is not clear that this assumption is supported by the Industry Fund evidence of stability and efficiency (measured by the structural longevity, investment returns and lower costs to members) and despite significant growth in size and complexity of Industry Funds over the past 25 years. By way of example, REST commenced business in 1988 and over the period to 2013 has grown to close to $30 billion of FUM and 1.9 million members whilst being in the top quartile in terms of investment returns and bottom quartile in fees to members, compared to Retail, Corporate and

Government funds which have been operating for a considerably longer period, see Annexure A and Annexure B.

This unsupported assumption is, however, apparently the sole basis in the DP for proposing a change to Industry Funds governance arrangements to provide for so-called "independent directors". The basis proposed is that this change will automatically enhance their historically strong performance, by introducing individuals who can provide a more "dispassionate perspective" and "diversity of views" and this will, per se, provide a more stable and efficient governance system. This position is not supported by strong empirical research, nor by a comparison of the performance, efficiency and benefits of those funds with "independent directors" and those Industry Funds which operate under an equal representation model.

Major research by University of New South Wales[2] *has established that a majority of "independent" directors of major Australian public companies have "destroyed shareholders wealth of $69 billion for no discernible benefit," compared to those companies with few "independent" directors. Further, "independence constructed on the basis of structural tests will not automatically produce the type of behaviours that the proponents of independence and diversity think it will. If such behaviours result, (it is) by chance rather than governance mechanisms."*[3]

By reason of the fact that the DP has not made out the case for there being a lack of independent thinking on Industry Fund Superannuation Boards either requires the Government to make that case or otherwise to abide by its own foundation principle that the default position is that there be no change to the current position.

The DP and APRA Prudential Practice Guide SPG 510, Governance, paragraph 5, also express an assumption that Industry Fund directors are not "free from relationships that could materially interfere with their judgement (so) they can (better) provide an objective assessment of issues." These misunderstand and potentially misrepresent the nature of their legal and ethical duties and obligations to their members and suggests that, by such directors being amenable to such interference and lack of objectivity, may well have historically, and continue to breach their legal obligations. The more so with the SIS Act changes to provide a primary duty of superannuation directors to act, "in the best interests of members", as opposed to the interests of those to whom it is suggested they have some overriding personal or commercial commitment. This fundamental misunderstanding of all trustee directors' duties and responsibilities undermines justification for any artificial distinction between those directors.

In making a case, the Government must be able to demonstrate that there is a lack of independent thinking on boards, not merely an unsubstantiated, perceived lack of independent thinking or a lack of so-called "independent directors", being a term that traverses many different definitions. For example, the DP itself acknowledges the inadequacies of the definition of "independent" in the SIS Act.

It is also, and has always been, open to Industry Fund equal representation Boards to appoint directors who are not employees or representatives of any affiliated organisations. The

[2] "***Does Board Independence Improve Firm Performance? Outcome of a Quasi-Natural Experiment***," Marc-Oliver Fischer and Peter L. Swan, Australian School of Business, University of New South Wales, August 19, 2013, p1.

[3] ***"Independent Directors and Corporate Governance***," Professor Sally Wheeler, 27 Australian Journal of Corporate Law (2012), No 2, p 168.

composition of the Board, as a whole, with an appropriate mix of skills, knowledge and experiences is the critical focus. REST has adopted this approach in its recent director appointments and independent expert consultant review of individual and total Board performance procedures.

Definition of "Independence"

Given the uncontestable fact that all superannuation trustee directors have identical strict legal and regulatory obligations, the only justification for establishing a distinction between directors initially nominated for appointment by representative bodies and then appointed by the whole Board compared to those appointed directly by the Board, without being nominated, is by way of a similar distinction in ASX listed companies between executive and non-executive directors on corporate Boards outside superannuation.

In this respect, the distinction should more properly require that current or immediate past employment in the nominating organisations or the Fund's major suppliers to be the guiding factors. The current APRA position that being a member of the fund of which the person is a director makes that person less likely to act in the best interests of all members is not logical and contradicts the ASX Principles of listed public company directors which encourage such shareholding.

As the existing directors, unanimously or by majority, themselves vote to appoint all new directors, regardless of how they may be identified for appointment as potential directors, consideration of the appointment of any so-called "independent directors" must satisfy the existing directors view as to their fitness and propriety and their skills, experience and expected contributions, and once appointed, they bear the same duties, obligations and responsibilities.

A Proposed Approach to Improved Standards for Superannuation Trustee Directors.

Any rule about "independent directors" is merely a proxy for achieving the true objective of "independent thinking". Any definition of "independent director" which is rules based and not robust and adaptable is readily open to manipulation and would potentially fail to achieve the desired objective, at the expense of members and their beneficiaries' best interests.

In rejecting the arbitrary and demonstrably ineffective approach of creating an artificial "class" of "independent" directors, by reference to how they are identified, as opposed to how they are required to perform their duties, it is nevertheless possible to improve the overall standards of superannuation trustee governance.

This can be achieved by enforcing more strict standards on the requirement for pre-appointment, APRA-accredited qualifications, as a condition of appointment as a superannuation trustee director. This APRA governed qualification would emphasise the legal and ethical standards required of superannuation trustee directors and would be objectively assessed. It is, or should be manifestly clear to all current trustee directors that their duties and obligations have been significantly increased under the Stronger Super legislative and APRA Standards and Guidelines.

The Government's focus should be to ensure Trustee Boards mandate a procedure which would be placed on all trustee directors being required to meet the new qualification standards and ongoing performance which would be supported by an arm's length expert consultant review and report to the Fund Board, on a three yearly cycle, of the continued performance by each individual trustee director and by the Board as a whole, as part of the APRA Standards requirement as to "Fitness *and Propriety". This is roughly equivalent to the ASX requirement for Australian publicly listed company directors to resign and resubmit for election every three years.*

Fitness and propriety would expressly include the need for directors to bring "independent thinking" to the Board in all of their decision making and discharge of their duties.

As a consequence, the initial establishment of a minimum standard of knowledge and skill together with the ongoing independent testing as to the performance to the minimum standards, would provide a higher level of assurance to APRA and to superannuation fund members as to the level of skills and knowledge and the commitment to superior performance by those entrusted to govern their superannuation fund.

Proportion and role of independent directors

3. What is an appropriate proportion of independent directors for superannuation boards?

The arbitrary establishment of a fixed number of so-called "independent directors", assumes that there is a difference between the way in which they will perform their duties as directors from the other members of the Board. For the reasons stated above, this assumes that their ethical standards and legal obligations differ from those of other directors. This is not supported by numerous statutory or regulatory recent examples of judicial interpretation of these basic legal presumptions.

The perception of a different set of standards and obligations for "independent directors", only reinforces the misguided presumption that they exist. Unfortunately, many commentators perpetuate this view by making the error of assuming that directors are required to bring a different approach (and have a different set of legal and ethical standards) to their duty to act in the best interests of (all) members, if they are regarded as not having any, or any recent affiliation, with specified entities.

The consequence of this might be that directors who are not "independent" might mistakenly perceive that they are accountable to some lesser standard.

4. Both the ASX Principles for listed companies and APRA's requirements for banking and insurance entities either suggest or require an independent chair. Should superannuation Trustee Boards have independent chairs?

See comments above regarding definition of independence. The ASX Principles also set out that, where the chairperson is not an independent director, it may be beneficial to consider the appointment of a lead independent director. This approach seems more flexible.

Process for appointing directors on superannuation trustee boards

5. Given the way that directors are currently appointed varies across funds, does it matter how independent directors are appointed?

The SIS Act requires that directors should be appointed using the same process that their appointment is terminated. Accordingly any process of appointing directors must satisfy the SIS requirements.

6. Should the process adopted for appointing independent directors be aligned for all board

appointments?

Appointment of all directors is ultimately by a resolution of the Board so this process is already aligned. Further, all directors are required to meet the Fit and Proper requirements of SIS.

Management of conflicts of interest

7. Are there any other measures that would strengthen the conflict of interest regime?

The APRA Standard and Guide on Conflicts Management as well as legislative requirements in the SIS Act and Corporations Law are already sufficiently strong to monitor and deal with conflicts of interests of Trustee Boards.

Ongoing effectiveness of superannuation trustee boards

8. In relation to board renewal, should there be maximum appointment terms for directors? If so, what length of term is appropriate?

Whilst APRA already recommends a maximum tenure period in its APRA Prudential Guide, the more appropriate measure of individual director effectiveness is by way of a regular, say three yearly, reviews of each director's contribution by an independent expert consultant whose report would be provided to the whole Board for action, if necessary, to remove or improve directors not achieving the required standard. APRA would monitor these reports and any follow up actions. It is also important to remember that any benefits gained from regular turnover of directors through maximum tenure may be outweighed by loss of experience and knowledge from the Board.

9. Should directors on boards be subject to regular appraisals of their performance?

Yes, as set out above, to meet the APRA Standard and Guide on Governance. It is also a necessary part of superannuation trustee directors meeting the "Fit and Proper" requirements which are prescribed by SIS. The independent review would also consider the performance of the Board, as a whole against peer benchmarks.

Implementation issues

10. Would legislation, an APRA prudential standard, industry self-regulation, or a combination be most suitable for implementing changes to governance? What would the regulatory cost and compliance impacts of each option be?

Superannuation fund trustee obligations have been significantly increased and are required to comply with the Superannuation Industry (Supervision) Act 1993, Corporations Act 2001, and APRA Standards on governance requirements. In addition, the APRA Guide on Governance provides best practice recommendations. Funds may also choose to comply with the governance standards set out by organisations such as the FSC and ASFA. Accordingly, there is already a substantial mix of law and best practice currently in place regarding superannuation trustee governance.

11. What is the appropriate timeframe to implement the Government's governance policy under each option?

Any major legislated change regarding governance should always be given a long lead time to allow for implementation and amendments to a fund's governing rules, constitution, charters and *policies.*

12. Given that there will be existing directors appointed under a variety of terms and conditions, what type of transitional rules are required?

Any major legislated change regarding governance should always be given a long lead time to allow for implementation and amendments to a fund's governing rules, charters and policies.

Part 3: Enhanced transparency—choice product dashboard and portfolio holdings disclosure

Part 3A: Choice product dashboard

13. Should a choice product dashboard present the same information, in the same format, as a MySuper product dashboard? In answering this question you may wish to consider, if the choice product dashboard is to present different information, what should it include and why?

One of the key objectives of the reforms introduced by Stronger Super was easy comparison of MySuper products. This requirement necessarily meant that information was presented in a simple way and that each fund used consistent methodology to ensure the comparison was meaningful.

The Cooper Review operated on the premise that a large number of fund members were disengaged and that their interests needed to be considered taking into account this assumption. It follows that the product dashboard created for MySuper products was intended to allow disengaged members an easy introduction to the concept of risk by way of into self-education.

REST encourages self-education and believes that simple, effective and accurate information about the fundamental financial factors relating to superannuation is a primary way to engage members and promote awareness of the importance of their fund in retirement.

The product dashboard provides such information and we consider it one of the tools that new and disengaged members will seek to understand before they look further into the other factors that relate to their super. We believe that one consequence of greater education will be greater engagement and as a result engaged members will more than likely move to a choice product.

If a choice product dashboard is introduced we therefore believe that the information contained in the MySuper dashboard should be the same to allow comparison, not only between funds, but between MySuper and choice products within the same fund. We believe that having consistent information in the dashboards will also contribute to a cumulative understanding as members continue to educate themselves about super and believe that having non-comparable information will be confusing, particularly for new or poorly educated members. Having a consistent format and methodology will allow for funds to produce multiple product dashboards across its various options in a cost efficient and readily comparable manner.

In addition to the information already contained in the MySuper product dashboard, we believe there are key measures that should be included to assist members in comparing different investment options. We believe these measures are the investment objective (as distinct from the Return Target which is required to be calculated in a specific way which will generally lead to a different outcome than the traditional investment objective) and the investment time horizon. Stating the investment objective allows members to understand what an investment option aims *to achieve and provides a basis for assessing an option's performance. Correspondingly, the investment time horizon provides guidance to members on how long they should be invested in an investment option to have a reasonable chance to achieve the stated investment objective.*

Net investment return versus net return

14. Is it appropriate to use a single benchmark (CPI plus percentage return) for all choice product return targets?

REST does not think it is appropriate to use a single benchmark for all choice products. Depending upon the nature of the individual choice option a Return Target, either in the form of an absolute benchmark (e.g. CPI+ target) or a relative benchmark (e.g. ASX300 Accumulation Index) are appropriate. REST believes that the long term objectives of all superannuation savings should be to enhance purchasing power of the members' savings. Although the CPI+ measure would suit our investment philosophy, not all our members think in similar terms with regards to their investment objective. There are members who have specific investment objectives targeted around preference for certain asset classes or sectors within those asset classes. For those choice options and members, a relative benchmark would be a more appropriate measure of performance. Applying a CPI+ measure in addition to an existing relative benchmark for those options would add complexity and confusion for members.

15. Should both net investment return (investment return net of investment costs only) and net return (investment return net of all associated costs) be used to measure a product's investment return on the choice product dashboard? In considering this question, you may wish to consider:

- If including an additional measure for a product's investment return would add unnecessary complexity.
- If both net investment return and net return are used on the choice product dashboard, whether they should also be used on the MySuper product dashboard.
- Whether it is appropriate to use a single time horizon, for example 10 years, when calculating target net return and net return for the range of possible choice products.

REST does not believe that the inclusion of an options' net investment return in addition to the net return provides additional value for a member who is looking for a tool to compare across different investment options. Whilst it would not add unnecessary complexity for funds to include this figure, as it is already produced for other member disclosure purposes, we believe it would only cause greater confusion for members who are looking for a simple comparative tool.

REST also believes that a consistent approach to reporting returns should be applied across MySuper and choice product dashboards.

A single time horizon may be appropriate if that time horizon covered the duration of a full economic cycle. On this basis, REST believes a time horizon of no less than 10 years is appropriate.

Measuring a product's investment risk

16. Should the choice product dashboard include both a short-term (volatility) and long-term (inflation) risk measure? In considering this question, you may wish to consider:

- Is the SRM model the best measure of short-term investment risk?

- What would be the most suitable measure of long-term risk to include on the product dashboard?

- Is it possible to present a long-term risk measure in a similar format to the short-term risk measure (that is High/Medium/Low)?

- Would including an additional risk measure add unnecessary complexity to the product dashboard?

REST believes that the inclusion of a long term (inflation) risk measure in addition to a short term (volatility) measure is appropriate given REST's belief that superannuation is a long term investment. A long-term (inflation) risk measure should be based on a CPI+ measure rather than AWOTE, as the latter is a measure that most members may not understand.

While REST thinks that it is possible to present a long-term risk measure in a similar format to the short-term risk measure (that is High/Medium/Low), it is important that the product dashboard includes this information in conjunction with the investment objective and time horizon of an investment option.

Additional carve outs

17. Are additional carve outs from the choice product dashboard obligations required? If so, why are these additional carve outs required? In considering this question, you may also wish to consider identifying where the gaps in the current carve out provisions are.

A carve out might be necessary for funds with life cycle and /or post -retirement products or other more complex options for which the current prescribed product dashboard products would be difficult to report for.

A liquidity measure

18. Should a measure of liquidity be included on the choice and/or MySuper product dashboard? If so, what would a suitable measure be?

REST does not believe that an inclusion of a liquidity measure would be meaningful and could be a detriment to an average members' decision making. A Trustee has the responsibility to manage liquidity of each investment option and the fund as a whole. Relevant regulatory requirements and oversight are already established to ensure that liquidity risk is being managed.

We are concerned that any form of illiquidity of the underlying assets would be perceived negatively by members without sufficient consideration or understanding of overall liquidity management and processes applied by the fund as a whole.

Moreover, the focus on liquidity risk without highlighting the investment merits of illiquid assets such as stable income, a hedge against inflation and diversification benefits may compromise a member's decision making and ability to compare products.

Implementation issues

19. Should the commencement date for the choice product dashboard be delayed beyond 1 July 2014? If so, what date would be suitable for its commencement? What would be the benefits and costs to such a delay?

It appears that widely different interpretations and approaches have been taken by funds to provide for the information displayed in the MySuper Product Dashboards, specifically the Return Target. Whilst some funds appear to have used its traditional investment objective as the Return Target, others have calculated this figure to be the estimated mean annualised return over a rolling ten year period (as prescribed in APRA SRS 700.0). As the Return Target used by funds are not all on the same basis, it undermines the intention of the product dashboard as being a useful comparative tool for members and could lead to poor member decision making.

Therefore, a delay in the commencement date for the choice product dashboard is recommended to allow the industry sufficient time to review the requirements and reconcile the different approaches taken by various funds. A suitable commencement date should be at least 6 months following the finalisation of such a review and confirmation of the requirements for the choice product dashboard.

Part 3B: Portfolio holdings disclosure

Presentation of portfolio holdings

20. Which model of portfolio holdings disclosure would best achieve an appropriate balance between improved transparency and compliance costs? In considering this question, you may wish to consider the various options discussed above:

    - Should portfolio holdings disclosure be consistent with the current legislative requirements (that is, *full* look through to the final asset, including investments held by collective investment vehicles)?

- Should the managers/responsible entities of collective investment vehicles be required to disclose their assets separately?

- Should portfolio holdings disclosure be limited to the information required to be provided to APRA under *Reporting Standard SRS 532.0 Investment Exposure Concentrations*?

It is not clear as to the primary reasons for establishing a regime for presentation of holdings. It is not sufficiently clear to industry, as a whole, whether this is being promoted as:

- *It is seen to be a right of members, regardless of the use that they may use that right*
- *It will assist the member in making decisions about the risk profiles of individual investment products*
- *It is a form of transparency on Trustees and so acts as a further instrument against poor governance*
- *It will enable a member to make decisions as to the quality of governance of the Trustee or the style of management of the Trustee.*

Until these reasons are clearly articulated, then it is difficult to assess the most effective and efficient way of achieving these objectives. The current disclosure requirements meet only some of the above objectives, and then only to a greater or lesser extent.

Further, once these objectives have been properly articulated, then it will be possible to assess whether the benefits of achieving the objectives are material in the context of the costs and complexity required to deliver them.

REST does not believe that the current legislative requirements, which require full look through of *the final assets, is appropriate for funds as it requires public disclosure of commercially sensitive information with no practical benefit and likely detriment to our members. While we are supportive of greater transparency, the managers/responsible entities of collective investment vehicles would also face the same concerns with regards to disclosing portfolio details that are considered sensitive.*

Moreover, the granularity of portfolio disclosure on a full look through basis is unlikely to be useful for virtually all members as a typical fund with a highly diversified investment strategy will be invested in thousands of securities which vary constantly. Alternatively, a more useful approach may be to summarise and group information into categories that are more meaningful and easily understood, for example rather than list individual Australian shares, holdings could be listed by individual Global Industry Classification Standard (GICS) sectors.

The portfolio holding disclosure required to be provided to APRA under Reporting Standard SRS 532.0 Investment Exposure Concentrations does not resolve the concerns expressed above. However, this approach would be appropriate if it was coupled with an allowance for Trustees to exercise discretion to exclude disclosure of underlying assets that would be to the detriment of members, in essence a "Detriment Test".

21. What would be the compliance costs associated with each of these models for portfolio holdings disclosure?

There will be ongoing additional compliance costs arising from any model for portfolio holdings disclosure as it is something the industry is not currently producing. However, the current APRA reporting requirements model based on a partial look through of assets will likely be a lower cost model to other suggested alternatives.

22. Should portfolio holdings information be presented on an entity level or at a product (investment option) level?

Information presented on a product (investment option) level would be more useful to a member.

Materiality threshold

23. Is a materiality threshold an appropriate feature of portfolio holdings disclosure?

REST does not believe a materiality threshold as proposed is an appropriate feature of portfolio holdings disclosure. Limiting a materiality threshold to 5% would still require certain funds, who may have greater than 5% of its assets that are commercially sensitive, to disclose information to the detriment of its members. A "Detriment Test", as suggested in an earlier point, would be a more appropriate feature.

24. What is the impact of a materiality threshold on systemic transparency in superannuation fund asset allocation?

REST believes that the introduction of a threshold at the proposed level would not significantly dilute the intention of greater transparency. However, as expressed in the previous point, REST does not believe a materiality threshold is an appropriate feature as it still requires funds to disclose commercially sensitive information to the detriment of its members.

25. What would be the most appropriate way to implement a materiality threshold?

REST does not believe a materiality threshold as proposed is an appropriate feature of portfolio holdings disclosure. A "Detriment Test" as suggested would be a more appropriate feature.

Implementation issues

26. Should the commencement date for portfolio holdings disclosure be delayed beyond 1 July 2014? Is so, what date would be suitable for its commencement? What would be the benefits and costs to such a delay?

REST believes that the commencement date for portfolio holdings disclosure be delayed beyond 1 July 2014. A suitable commencement date should be at least 6 months following finalisation of portfolio holdings disclosure requirements.

Part 4: Improved competition in the default superannuation market

27. Does the existing model (which commences on 1 January 2014) meet the objectives for a fully transparent and contestable default superannuation fund system for awards, with a minimum of red tape?

REST believes the Treasury Discussion paper presents an opportunity to increase the level of understanding of decision-makers and the general community about the superannuation sector. It is hoped that this increased understanding will, in turn, assist governments to make better decisions regarding the framework that governs default superannuation funds in modern awards.

Therefore, it is critical that the findings of this inquiry confirm a best practice process for the selection of default funds in modern awards and, by doing so, support funds to continue to develop and deliver the significant benefits already enjoyed by members of these funds, employers and the broader community into the future with absolute certainty.

Any model adopted by the Government needs to have transparent and objective criteria to drive long- term performance and member outcomes.

Treasury is tasked with ensuring the design of key, relevant, transparent and objective criteria for the selection and ongoing assessment of superannuation funds eligible for nomination as default funds in modern awards. Further, it is essential that the default fund supports and reflects the needs of the underlying core demographic default member base.

This criterion might include:

- *MySuper compliance as a first stage filter.*
- *A number of other criteria which act as a second stage quality filter:*
    - *Medium to long term net-of-costs investment performance of the default investment option;*
    - *Level of fees incurred by members*
    - *Scale of the fund and the level of services provided to fund members*

- *Suitability and cost of insurance provided by the fund*
- *Governance of the fund*
- *Fees incurred and other impacts on members if they cease employment with an employer. There*

should also be a periodic review and assessment of the selected default funds for the awards. Further, stakeholders to the default fund, i.e., employers and employees representatives, are able to participate in the selection process.

28. If not, is the model presented by the Productivity Commission the most appropriate one for governing the selection and ongoing assessment of default superannuation funds in modern awards or should MySuper authorisation alone be sufficient?

See comments above.

29. If the Productivity Commission's model is appropriate, which organisation is best placed to assess superannuation funds using a 'quality filter'? For example, should this be done by an expert panel in the Fair Work Commission or is there another more suitable process?

Appointments to any expert panel should consist of one or more superannuation specialists drawn from the different sectors of the superannuation industry, i.e., public offer and industry funds. Accordingly an expert panel which features some members of the Fair Work Commission and some independent superannuation experts would be appropriate.

30. Would a model where modern awards allow employers to choose to make contributions to any fund offering a MySuper product, but an advisory list of high quality funds is also published to assist them in their choice, improve competition in the default superannuation market while still helping employers to make a choice? In this model, the advisory list of high quality funds could be chosen by the same organisation referred to in focus question 29.

Offering MySuper products as default funds without a two stage filtering process will not produce a satisfactory outcome for employers or members.

Not all MySuper products are tailored to particular industries. For instance, REST's MySuper product is tailored particularly to employees in the retail industry and its benefit design reflects this specific member demographic. REST was established in 1988 to exclusively meet the superannuation and insurance expectations of the unique nature of retail employees and continues the process of monitoring and assessing the superannuation requirements of its members. Generic default superannuation funds such as MySuper compliant funds, cannot be tailored to particular industry employees. Those funds do not have the history or capability of servicing the needs of a unique membership. They also do not have initial scale, or are able to offer tailored benefits to employees of particular industries. Other funds can duplicate products with the use of MySuper but they cannot reproduce REST's capability and focus on retail employees, particularly for default members. The most fundamental criterion for a default fund is the ability to support and reflect the needs of the underlying core demographic of its default members. While there may be a view that, generically the criteria of MySuper compliance is sufficient, REST believes there are fundamental differences in the way in which a default fund designs and executes the benefits to be derived from each product – even though they may be outwardly designed to be comparable. The nature and performance of a MySuper product should depend on the particular demographic of the relevant part of the award they are supposed to reflect. By definition, only those funds whose default members are *predominantly drawn from the industries covered by the relevant modern awards can meet these key criteria.*

31. If changes are made to the selection and assessment of default superannuation funds in modern awards, how should corporate funds be treated?

Corporate funds should be treated the same as other superannuation funds, particularly given that some have now MySuper status.

Annexure A

Issuer	Award
2014	
SuperRatings	• Fund of the year • Pension of the year • Super (Super and Select products) finalist • Platinum rating 2014: REST Super – MySuper
Money magazine	• Best Super Fund Manager 2014 • Best Pension Fund Manager 2014
Canstar	• 5 stars starters category REST Select • 4 Stars Low and Medium Balance category Account based pensions
Morningstar	REST Super Core Strategy ranked #1 in the 7 years Multi Sector Growth. Also several investment options have a rating category of 5 and 4 stars.
2013	
Customer Service Institute of Australia (CSIA) 'ESi' Award – Superannuation	REST was awarded the 'easy to do business with' award. 2013
SelectingSuper	REST Super was named the Long Term Performance Award winner (2013)
Heron Partners	• '5 Heron Quality Stars' • REST Super, Personal, Acumen and Pension • 'Top Ten Products' for Investment Features • REST Super, Personal, Acumen and Pension
SuperRating	• Finalist in 'Pension of the Year' • 10 Year Platinum Performance - Personal & Industry Plans • 7 Year Platinum Performance - Personal & Industry Plans • 5 Year Platinum Performance - Pension Plan • Platinum Rating for 2013
Money magazine	Best Balanced Super Fund
ChantWest	5 Apples out of 5 for 2013 for: • REST • REST Acumen • REST Pension
2012	
ChantWest	5 Apples out of 5 for 2012 for REST, REST Personal, REST Pension, Acumen
Heron Partnership	• 5 out of 5 Quality Star Rating 2012 – REST Industry Super, REST Industry Super Personal & Acumen

	• REST Industry Super and REST Industry Super Personal – classified as a Top Ten Personal Product • REST Acumen – classified as a Top Ten Corporate Product
Money magazine	Best Balanced Super Fund for the 2012 Best of the Best Awards
SuperRatings	• 5 Year Platinum Performance for 2007-2012 • 7 Year Platinum Performance for 2005-2012 • Pension Platinum Rating for 2012 • Acumen Super Platinum Rating for 2012 • Platinum Rating for 2012 - Acumen, REST Industry, REST Personal, REST Pension
SelectingSuper	• Retirement Product of the Year – REST Pension • Deluxe Choice 2011 • 'Pension Fund of the Year' • Long Term Performance Award Winner 2011 - REST Industry Super • Personal Super Product of the Year – REST Personal Super • Deluxe Choice Finalist 2011 • Workplace Super Product of the Year – REST Industry Super • Deluxe Choice Finalist 2011 • Super Fund of the Year Finalist 2011 • AAA Quality Rating - REST, Personal & Acumen
2011	
SelectingSuper	• AAA Quality Rating 2011 – Industry, Personal, Pension, Acumen • Retirement Product of the year Deluxe Choice 2011 (REST Pension) • Long Term Performance Award Winner 2011 REST Industry Super
Money magazine	Best Growth Super Fund 2011
SuperRatings	• 7 Year Platinum Performance for 2004-2011 • SuperRatings Super Of the Year Finalist for 2011 • Pension Platinum Rating for 2011 • Platinum Rating for 2011 • Acumen Super Platinum Rating for 2011
ChantWest	• 5 Apples out of 5 for 2011 for REST, REST Personal, REST Pension, Acumen in small plans • 4 Apples out of 5 for Acumen in medium and large plans divisions
Heron Partnership	5 out of 5 Quality Star Rating 2010 – REST, REST Personal, & Acumen
2010	
SelectingSuper	• Personal Super Product of the Year – Deluxe Choice Finalist 2010

	• Fund of the Year Finalist 2010 • Workplace Super Product of the Year – Deluxe Choice 2010 (Industry) • Retirement Product of the Year – Deluxe Choice 2010 (REST Pension) • AAA Quality Rating 2010
AFR Smart Investor Magazine	Industry Fund of the Year 2010
SuperRatings	• Fund of the Year 2010 • 7 Year Platinum Performance 2003-2010 • Platinum Rating 2010
Heron	5 out of 5 Quality Star Rating 2010 – REST, REST Personal, REST Pension & Acumen
ChantWest	• 5 Apples out of 5 for 2010 for REST, REST Personal, REST Pension, Acumen in small and medium plan divisions • 4 Apples out of 5 for Acumen in large plan division
Money magazine	• Best Superannuation Fund Manager 2010 • Best Growth Super Fund 2010
2009	
AFR Smart Investor Magazine	Industry Fund of the Year 2009
SuperRatings	• Platinum Rating 2009 • 5-Year Platinum Performer 2009 • Fund of the Year 2009 • AAA Quality Rating 2009
ChantWest	• 5 Apples out of 5 for 2009 for REST, REST Personal, REST Pension, Acumen in small plans and medium plans divisions • 4 Apples out of 5 for Acumen in large plans division
Heron	5 out of 5 Quality Star Rating 2009 – REST, REST Personal, REST Pension & Acumen
2008	
SuperRatings	• Fund of the Year Finalist 2008 • Platinum Rating 2008 • 5-Year Platinum Performer 2008
Selecting Super	AAA Quality Rating 2008

ChantWest	• 5 Apples out of 5 for 2008 for REST, REST Personal, REST Pension, and Acumen in small plans and medium plans divisions • 4 Apples out of 5 for Acumen in large plans division
Heron	5 out of 5 Quality Star Rating 2009 – REST, REST Personal, & Acumen
2007	
SuperRatings	• Fund of the Year – Finalist 2007 • Platinum Rating 2006/2007
ChantWest	5 Apples out of 5 for 2007 for REST, REST Personal, & REST Pension
Money magazine	• Best Capital Stable Super Fund – Silver 2007 • Best Growth Super Fund – Silver 2007
2006	
SuperRatings	• Fund of the Year - Runner-Up 2005/2006 • Platinum Rating 2005/2006
Asset Magazine	Industry Fund of the Year 2006
Money magazine	• Best Superannuation Fund Manager 2006 • Best Conservative Super Fund – Gold REST Balanced option 2006 • Best Growth Super Fund – Gold REST High Growth option 2006 • Best Balanced Super Fund – Gold REST Diversified option 2006
2005	
SuperRatings	Platinum Rating
Personal Investor Magazine	Industry Fund of the Year
Money magazine	• Best Superannuation Fund 2005 • Best Capital Stable Fund - REST Capital Stable option 2005 • Best Balanced Fund - REST Core Strategy option 2005 • Best Growth Fund - REST High Growth option 2005 • Best International Shares Fund REST Shares option 2005

SuperRatings Fund Crediting Rate Survey - SR50 Balanced (60-76) Index

June 2013

Option Name	Product Type	Growth Asset Ratio	Size		Monthly Return		Quarterly Return		FYTD		Rolling 1 Year		Rolling 3 Year		Rolling 5 Year		Rolling 7 Year		Rolling 10 Year	
			$Mil	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank
AMIST Super - Balanced *	Ind-PO	70	854	45	-0.51	21	1.65	38	14.13	31	14.13	31	8.10	22	3.88	25	4.14	21	7.59	9
AMP FLS - AMP Balanced Growth	MT-Pers	74	4,086	11	-0.73	30	2.45	19	16.05	12	16.05	12	7.14	40	1.97	44	2.20	39	5.88	26
AMP SS - Future Directions Balanced	MT-Corp	73	3,763	13	-0.56	24	2.65	16	15.41	18	15.41	18	7.68	29	2.76	40	2.64	35	-	
Aon MT - Balanced - Active	MT-Corp	70	960	40	-1.01	39	2.89	10	17.89	3	17.89	3	8.24	20	3.70	28	3.18	32	5.82	28
ASGARD Emp Super - SMA Balanced	MT-Corp	66	437	49	-0.68	28	1.66	37	15.09	20	15.09	20	8.47	14	4.98	8	4.24	18	-	
Aust Catholic Super & Ret - Balanced	Ind-PO	75	3,371	15	0.03	5	2.02	29	13.69	38	13.69	38	6.93	43	3.09	38	3.32	30	-	
AustralianSuper - Balanced Option	Ind-PO	68	38,027	1	-0.17	10	2.72	12	15.63	17	15.63	17	8.79	9	4.20	17	4.53	15	7.64	7
AustSafe Super - Balanced	Ind-PO	70	1,009	37	-0.03	7	3.21	6	16.15	11	16.15	11	8.34	16	4.31	15	4.34	16	7.06	18
BT Bus Super - Westpac Balanced Growth *	MT-Corp	68	2,577	20	-0.88	34	1.20	46	13.65	39	13.65	39	6.69	45	3.65	29	2.38	38	4.85	36
BT Lifetime Super Emp - BT Multi-manager Balanced *	MT-Corp	66	1,309	32	-0.91	36	1.21	45	14.16	30	14.16	30	7.17	38	2.52	42	1.51	43	4.31	37
BUSSQ - Balanced Growth	Ind-PO	65	1,863	25	-0.25	13	2.70	13	16.15	9	16.15	9	8.63	11	4.20	18	4.96	6	7.70	6
CareSuper - Balanced	Ind-PO	76	5,013	9	-0.03	6	3.18	7	16.15	10	16.15	10	9.32	4	5.19	4	5.16	4	7.76	5
Catholic Super - Balanced	Ind-PO	70	2,963	17	-		-		-		-		-		-		-		-	
Cbus - Growth *	Ind-PO	67	20,155	3	0.37	2	2.70	14	15.91	14	15.91	14	8.58	12	4.10	20	4.63	12	7.59	8
CFS FC Emp - FirstChoice Moderate	MT-Corp	60	2,140	21	-1.17	44	1.26	43	13.44	43	13.44	43	7.15	39	3.74	26	3.01	33	5.16	33
Club Plus Super - Balanced Option *	Ind-PO	75	1,238	33	-0.64	27	1.52	40	14.72	26	14.72	26	7.31	35	4.43	13	5.02	5	7.42	13
Commonwealth Bank Group Super - Mix 70	Corp	70	2,802	19	-1.01	38	0.91	47	13.93	33	13.93	33	8.96	6	5.74	2	5.87	2	8.00	2
CSC PSSap - Trustee Choice	Gov	61	3,993	12	-0.40	17	3.64	2	14.47	28	14.47	28	7.64	30	3.19	36	4.23	19	-	
EISS Accum - Diversified	Ind-NPO	75	569	48	-0.41	18	2.59	17	13.39	45	13.39	45	7.89	26	3.47	31	-		5.86	27
Energy Super - Balanced Option	Ind-PO	75	1,589	29	-0.71	29	2.10	25	15.04	22	15.04	22	8.08	23	3.71	27	3.96	24	7.06	17
equip Corp - Balanced Growth	Ind-PO	70	1,849	26	-0.61	26	3.22	5	16.02	13	16.02	13	8.92	8	5.17	5	4.75	9	7.49	11
First State Super - Diversified	Ind-PO	70	12,935	5	-0.48	20	3.30	4	16.19	8	16.19	8	8.31	17	4.64	12	4.15	20	6.97	19
First Super - Balanced	Ind-PO	60	1,440	30	0.13	4	2.25	22	13.39	44	13.39	44	7.35	34	-		-		-	
GESB Super - Balanced Growth Plan	Gov	70	1,153	34	-0.97	37	2.16	24	14.79	24	14.79	24	8.58	13	4.65	11	-		-	
HOSTPLUS - Balanced *	Ind-PO	76	9,586	6	-0.16	9	2.95	9	16.59	7	16.59	7	9.04	5	4.02	22	4.62	14	7.49	12
Intrust Core Super - Balanced	Ind-PO	75	966	39	-0.54	23	2.87	11	15.06	21	15.06	21	7.77	28	3.60	30	4.12	22	7.16	14
LGsuper Accum - Balanced	Gov	63	925	42	0.35	3	1.30	42	10.08	49	10.08	49	8.25	19	4.89	9	4.92	7	6.90	20
Local Government Super Accum - Balanced Growth	Ind-NPO	66	949	41	-0.77	32	1.44	41	13.84	34	13.84	34	6.96	42	2.55	41	2.55	36	5.79	29
LUCRF Super - Balanced *	Ind-PO	78	2,896	18	-0.81	33	1.83	36	13.82	35	13.82	35	8.16	21	3.27	34	3.52	28	6.79	22
Media Super - Balanced	Ind-PO	69	1,711	27	-0.18	11	2.09	26	14.70	27	14.70	27	7.17	37	3.47	31	3.58	27	6.56	24
Mercer Super Trust - Mercer Growth	MT-Corp	70	4,960	10	-0.90	35	1.90	33	14.20	29	14.20	29	7.50	31	3.40	33	3.30	31	6.40	25
MLC MKey - Horizon 4 - Balanced Portfolio	MT-Corp	70	1,894	24	-1.32	46	1.91	31	13.82	37	13.82	37	7.01	41	2.79	39	2.66	34	5.50	30
MTAA Super - Balanced *	Ind-PO	71	5,431	8	0.49	1	3.39	3	11.90	48	11.90	48	4.94	49	-1.94	48	0.80	45	5.48	31
NGS Super - Diversified	Ind-PO	70	3,472	14	-0.60	25	1.87	35	13.82	36	13.82	36	7.37	33	4.07	21	4.62	13	7.14	15
OnePath Corp - OnePath Managed Growth	MT-Corp	69	1,322	31	-1.57	47	0.78	49	13.59	41	13.59	41	5.73	47	1.77	45	1.53	42	-	
OnePath Corp - OptiMix Balanced	MT-Corp	69	1,899	23	-1.75	48	0.86	48	13.62	40	13.62	40	5.35	48	2.43	43	2.15	40	5.39	32
Plum - Pre-mixed Moderate	MT-Corp	70	663	47	-1.10	43	2.05	28	15.03	23	15.03	23	8.35	15	4.35	14	3.95	25	-	
QANTAS Super - Growth	Corp-Pers	70	2,983	16	-0.30	14	1.90	32	13.48	42	13.48	42	7.84	27	3.89	24	3.81	26	6.85	21
RecruitmentSuper EasyChoice - Growth *	Ind-PO	67	1,056	36	-1.05	40	1.87	34	14.73	25	14.73	25	9.83	1	4.84	10	4.73	10	-	

* Interim rate

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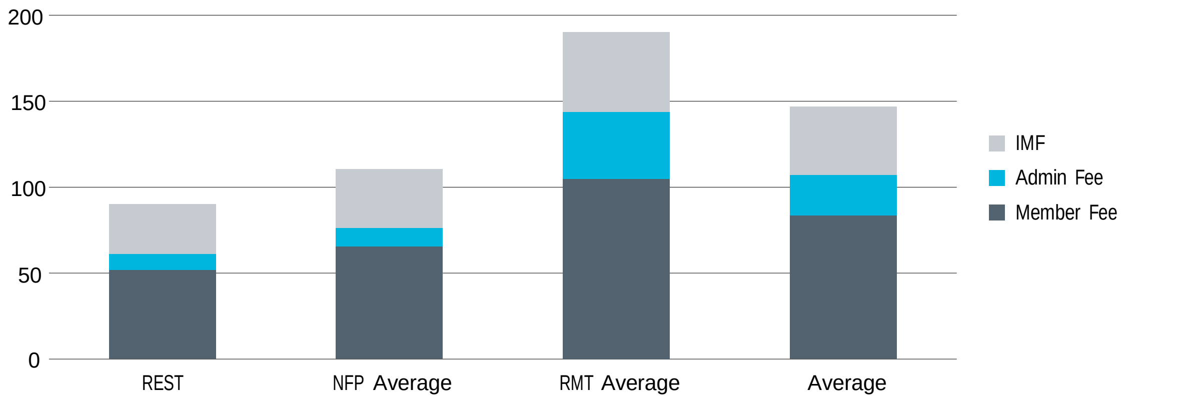
SuperRatings Fund Crediting Rate Survey - SR50 Balanced (60-76) Index

June 2013

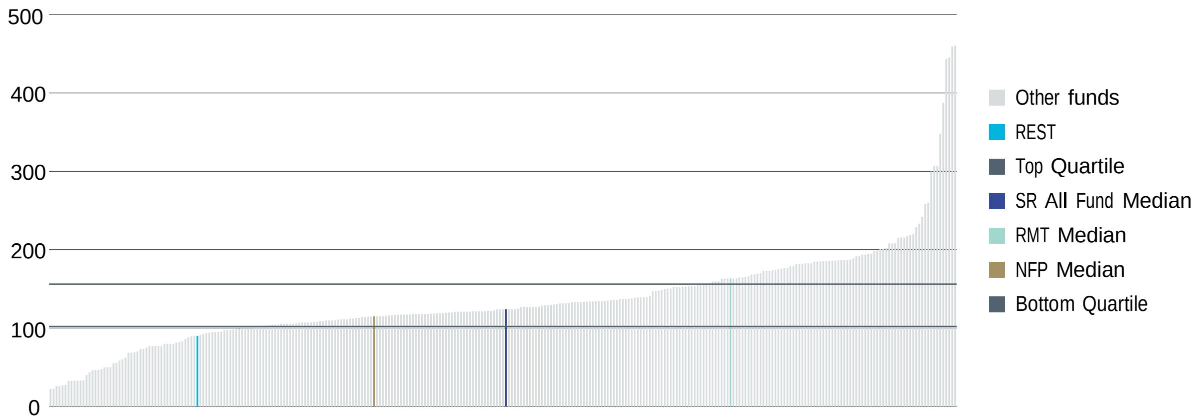
Option Name	Product Type	Growth Asset Ratio	Size		Monthly Return		Quarterly Return		FYTD		Rolling 1 Year		Rolling 3 Year		Rolling 5 Year		Rolling 7 Year		Rolling 10 Year	
			$Mil	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank	%	rank
REST - Core Strategy	Ind-PO	75	22,994	2	-0.06	8	3.80	1	18.42	2	18.42	2	9.37	3	6.09	1	5.88	1	8.11	1
Russell SS Emp - Russell Balanced Portfolio	MT-Corp	70	903	43	-2.42	49	1.23	44	16.86	5	16.86	5	7.42	32	4.26	16	3.52	28	-	
SD Bus - Multi-manager Balanced	MT-Corp	69	870	44	-1.31	45	2.66	15	16.74	6	16.74	6	7.23	36	3.11	37	2.51	37	4.85	35
Spectrum Super - IOOF MultiMix Balanced Growth Trust	MT-Corp	72	421	50	-0.75	31	2.48	18	15.27	19	15.27	19	6.07	46	1.44	46	0.92	44	4.25	38
StatewideSuper - Balanced	Ind-PO	69	1,604	28	-0.30	14	2.28	21	14.02	32	14.02	32	6.80	44	0.17	47	1.55	41	5.09	34
StatewideSuper - Marketlink - Growth Option	Ind-PO	74	1,147	35	-0.39	16	2.20	23	18.49	1	18.49	1	9.79	2	5.24	3	5.35	3	7.79	3
Sunsuper for Life - Balanced	Ind-PO	69	16,194	4	-0.18	12	3.00	8	15.90	15	15.90	15	8.00	24	4.10	19	4.30	17	7.10	16
Telstra Super Corp Plus - Balanced	Corp	74	1,001	38	-1.08	42	1.92	30	16.91	4	16.91	4	8.95	7	5.10	6	4.84	8	7.77	4
UniSuper Accum (1) - Balanced	Ind-NPO	70	7,911	7	-0.53	22	2.07	27	15.88	16	15.88	16	8.66	10	5.02	7	4.71	11	7.57	10
VicSuper FutureSaver (EmployeeSaver) - Balanced Option	Ind-PO	60	717	46	-1.06	41	1.56	39	12.68	47	12.68	47	7.99	25	3.99	23	-		-	
Vision SS - Balanced Growth	Ind-PO	75	2,104	22	-0.42	19	2.32	20	12.85	46	12.85	46	8.28	18	3.21	35	3.98	23	6.59	23
Number of Investment Options Ranked	-	0	-	**50**	-	**49**	-	**49**	-	**49**	-	**49**	-	**49**	-	**48**	-	**45**	-	**38**
Top Quartile	-	74	3,690		-0.25		2.70		16.02		16.02		8.58		4.48		4.63		7.55	
Median	-	70	1,856		-0.60		2.10		14.73		14.73		7.99		3.89		3.98		6.94	
Bottom Quartile	-	68	1,003		-0.97		1.66		13.82		13.82		7.17		3.17		2.66		5.80	
Not for Profit Fund Median	-	70	1,863		-0.41		2.22		14.73		14.73		8.21		4.10		4.43		7.15	
Master Trust Median	-	70	1,322		-1.01		1.90		15.03		15.03		7.17		3.11		2.64		5.27	
SR50 Balanced (60-76) Index	-	0	-		-0.60		2.10		14.73		14.73		7.99		3.89		3.98		6.94	

Fees on a $5,000 account balance



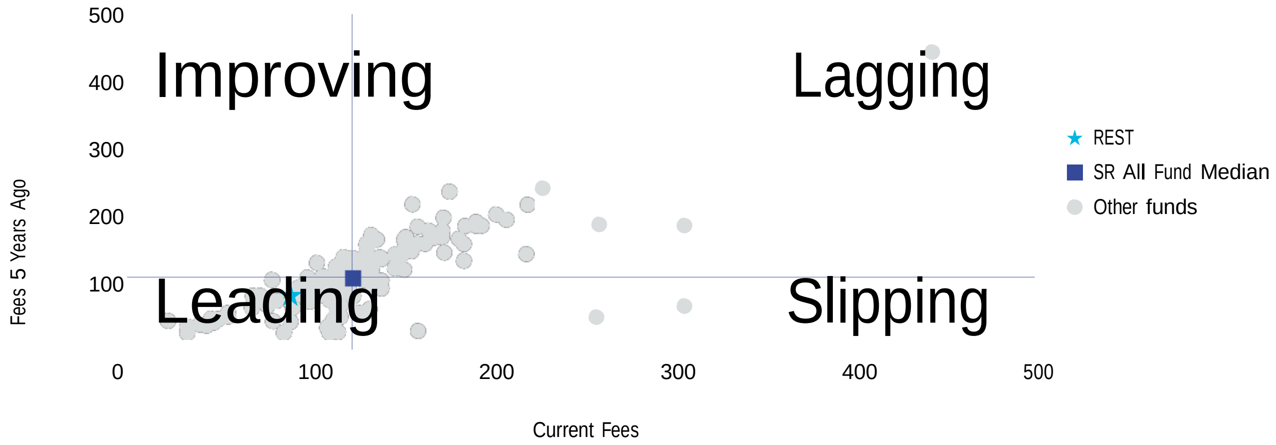
Fixed dollar member fees have the biggest impact on members with lower account balances. REST's fee of $90 on a $5,000 account balance sits below the Not For Profit average of $110, the Industry average of $147, and the Retail Master Trust average of $190. These averages are based on the 346 accumulation products that were assessed by SuperRatings in 2012.

Fees on a $5,000 account balance



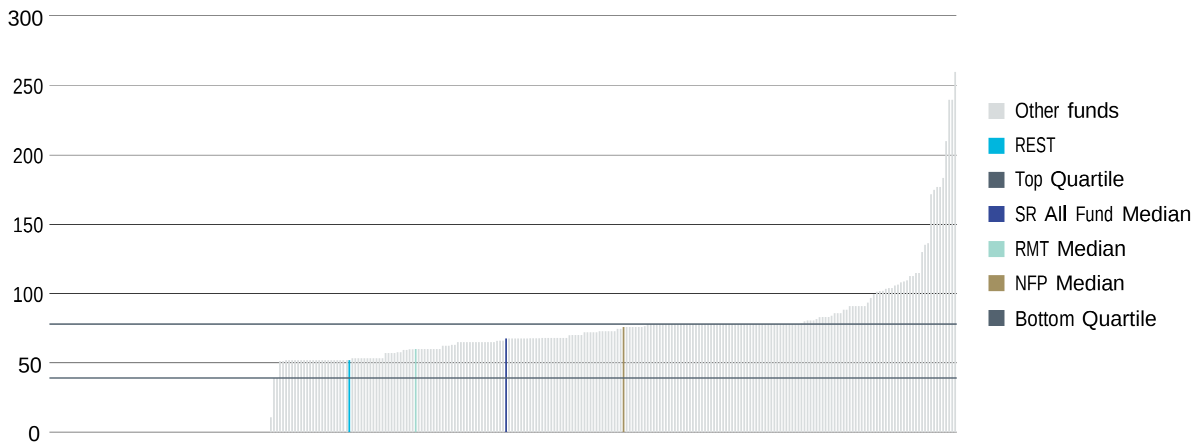
REST's fee of $90 on a $5,000 account balance sits below the Not for Profit Median of $115, the SR All Fund Median of $124 and the Retail Master Trust Median of $163, and is positioned within the top quartile of funds.

Fees on a $5,000 account balance



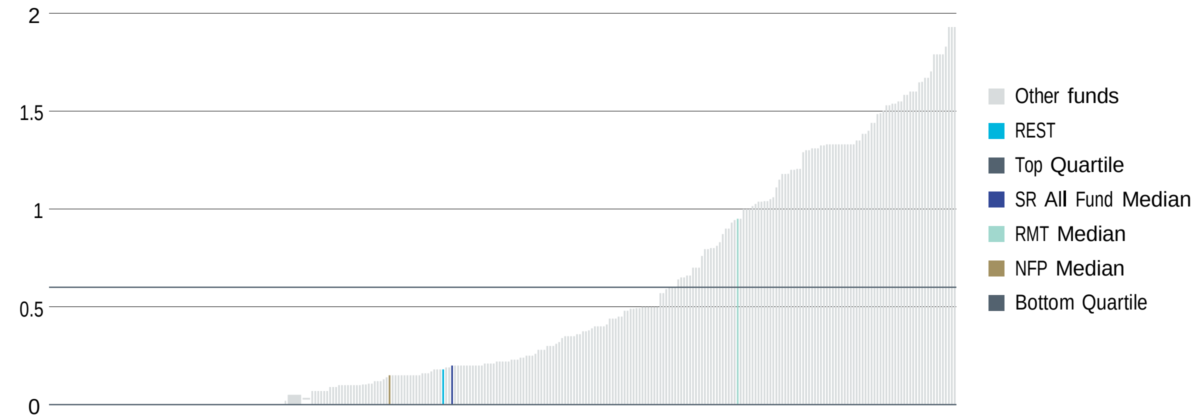
On a lower account balance of $5,000 REST is positioned within the Leading quadrant, as a result of below median fees in both 2007 and 2012.

Member account fee $pa



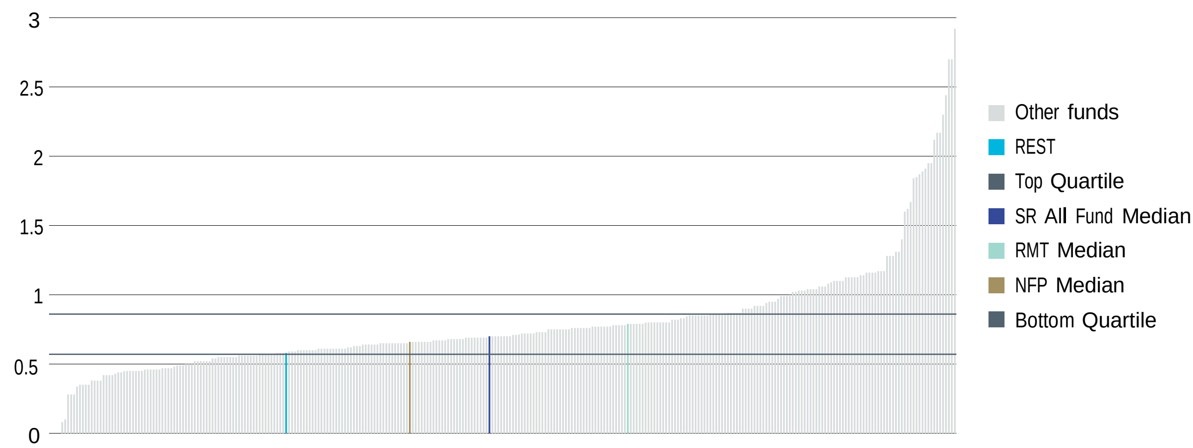
REST's member account fee of $52 is below the Not for Profit Median of $75.96, the SR All Fund Median of $67.60 and the Retail Master Trust Median of $60.00.

Asset based administration fee (%)



Asset based administration fees continue to be varied across the super funds in our analysis. REST's administration fee of 0.18% sits above the Not for Profit Median of 0.15%, but below the SR All Fund Median of 0.20% and the Retail Master Trust Median of 0.95%.

Investment management fee of Balanced option (%)



REST's investment management fee of 0.58% for its Core Strategy option sits below the Not for Profit Median of 0.67%, the SR All Fund Median of 0.70% and the Retail Master Trust Median of 0.79%.