Speech to ACTU Superannuation Trustees Forum 2012

A speech by Greg Medcraft, Chairman,
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ACTU Superannuation Trustees Forum 2012

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Good morning everyone.

It is great to be here speaking to this audience and engaging with the labour movement and its members.

As a group that represents 35% of Australia's $1.4 trillion superannuation assets with around $488 billion under management across 95 different entities, the industry and public sector superannuation community is truly substantial and plays, arguably, the most important role in the long-term well-being of the men and women who are its members.

Ladies and gentlemen, today I will focus on disclosure in relation to superannuation. There are three key issues I want to touch on.

They are:

- portfolio holdings disclosure;
- asset allocation; and
- executive remuneration.

I will start with portfolio holdings disclosure.

Portfolio holdings disclosure

What is the issue?

ASIC's first strategic outcome is confident and informed investors and financial consumers. Disclosure and transparency is fundamental to achieving this.

The compulsory nature of superannuation and its significant role in the retirement of all Australians arguably raises the threshold of what the community expects in terms of disclosure and transparency.

Superannuation is a key pillar of Australia's retirement income system and super funds have obligations to their investors to be accountable for their investments.

ASIC considers that disclosure of the portfolio holdings of superannuation funds is a key part of the sector's transparency. We want Australians to engage with their superannuation.

The investor has the most skin in the game, so they should be entitled to know where their money is actually invested. Portfolio information will also help investors assess their level of diversification across their superannuation and non-superannuation assets. They may find themselves heavily exposed to banking stocks.

Portfolio holdings are already being disclosed in other countries such as the UK and US.

The March 2011 Morningstar Report on the global funds industry rated Australia equal 15th out of 22 countries in terms of disclosure, which includes portfolio holdings disclosure.

It is important that Australians are able to access portfolio holdings information for their superannuation. And this includes knowing the economic exposure of their investments that may be obtained through the use of derivatives.

What is ASIC doing?

Tranche 3 of the MySuper reforms is currently before Parliament. The Bill requires trustees to publish portfolio holdings information on its website within 90 days of the two reporting dates: 30 June and 31 December.

The information must remain on the website until it is replaced with the new information for the next reporting date.

Subject to the Bill passing through unchanged, this requirement will apply from 1 July 2013 with the first reporting date to fall on 31 December 2013.

ASIC will provide regulatory guidance on how to comply with the portfolio holdings disclosure requirement.

These new reforms propose that underlying managed investment schemes will need to make portfolio holdings information available to an investing superannuation fund on a ‘look-through’ basis.

However, there will be no obligation on managed investment schemes to publish this information themselves.

ASIC is supportive of portfolio holdings disclosure requirements applying to managed investment schemes.

The idea is to give those investors who want more information about their investment, the ability to get that information.

Some might argue that there is little demand by members to obtain this information.

However, ASIC is helping people become more engaged with their superannuation through our website, MoneySmart.gov.au.

MoneySmart has more than 400 pages of content, covering a wide range of topics including superannuation and retirement. It has a number of interactive tools and calculators such as a retirement planner and a superannuation contributions optimiser.

Since it was launched in March last year, it’s received 2.9 million unique visitors. But most importantly, our surveys tell us that 89% of visitors have taken specific action with their finances as a result of visiting MoneySmart.

As Australians become more engaged with their superannuation, they will want to know more details about their investments and this will increase the demand for information about portfolio holdings.

Asset allocation

Asset allocation in Australia is an issue which receives a lot of commentary—usually discussing our relatively high allocation to equities when compared to other countries.

While some have called for mandating a certain level of exposure to fixed income, this is a rather drastic measure. Traditionally, the philosophy behind our regulatory system has been to allow freedom of choice for investments.

What would help inform the debate is better disclosure. If the Australian public better understood their current asset allocation and how this compares with other countries, they would be better informed and able to decide for themselves whether they are comfortable with how their assets are allocated.

Firstly, periodic member statements could include a simple chart showing their current asset allocation. This would help engage the public and make them think about this issue.

The next step would be to establish an OECD benchmark showing how funds in other countries with the same objective (for example CPI + 3%), have allocated their assets. This could be disclosed in periodic member statements alongside the member’s current asset allocation.

If the funds’ asset allocation is significantly different to the OECD benchmark, the fund trustee should have the opportunity to explain why it’s different.

This will assist investors in understanding the strategy of how the stated objective is being achieved by the fund. It will highlight any differences in approach between the fund and other OECD funds. After all, if the aim is to outperform CPI by 3%, investors should know whether their fund is taking an approach that is different to others.

A related disclosure issue is the stated objective of the fund itself.

Too often, funds disclose how they are performing in comparison to other funds, but they don’t disclose how they are meeting their stated objective.

If the fund’s long-term aim is to outperform CPI by 3%, then it should be reporting against this aim.

Essentially, investors should know whether their investment is meeting its objective.

ASIC encourages industry to be proactive and consider these issues to improve member engagement through better disclosure.

Executive remuneration

The third point I’d like to make today is on executive remuneration.

Tranche 3 of the MySuper reforms will require the remuneration of responsible officers to be disclosed. We expect the standard of disclosure to be comparable to the standard that applies to listed companies.

In addition, other information will also be disclosed. For example:

- the biographies of directors of the fund;
- details of directors’ attendance at board meetings;
- the fund’s proxy voting policies and voting behaviour; and
- key fund documents, such as the fund’s trust deed, annual report, actuarial report and audited financial report.

ASIC will provide regulatory guidance once the legislation is finalised.

One reform that may not be widely understood is section 29QC of the MySuper Bill that is before Parliament. This section requires consistency between disclosure to the public and what is reported to APRA under their data collection requirements.

This means that if you provide information about returns on a net basis to APRA, all returns disclosed in your PDS and advertising also have to be on a net basis.

Starting from next week, ASIC and APRA will be conducting roadshows to explain the new disclosure requirements that are being introduced.

The roadshows will be hosted by the AIST (Australian Institute of Superannuation Trustees), and they will be in most capital cities (not Darwin). You can find out more information about these roadshows on the AIST’s website. We encourage you to attend.

This is all part of the Government's commitment to improving transparency in the superannuation system.

As I said earlier, superannuation is a key pillar of Australia's retirement income system, so super funds need to be transparent and accountable to their members.

Portfolio holdings disclosure, asset allocation and executive remuneration are all aimed at improving transparency in the superannuation system.

They go towards ASIC's strategic priority of promoting confident and informed investors and consumers.

As the Australian public becomes more engaged with their superannuation, these issues will become increasingly important.

ASIC will continue to educate the public through our MoneySmart website, and we encourage industry to be proactive in doing the same.

One final point I'd like to make is on advertising. Following the release of our regulatory guide on advertising in February, ASIC will be monitoring advertising to ensure that it is accurate and appropriate. This includes mail-outs from super funds to their members. We will make some public messages about our expectations in this regard in the next month or so.

Thank you for your time. I'm happy to take any questions.