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SELECT COMMITTEE ON SUPERANNUATION

Reference: Planning for retirement

FRIDAY, 16 MAY 2003

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SENATE
SELECT COMMITTEE ON SUPERANNUATION

Friday, 16 May 2003

Members: Senator Watson (*Chair*), Senator Sherry (*Deputy Chair*), Senators Buckland, Chapman, Cherry, Lightfoot and Wong

Senators in attendance: Senators Buckland, Lightfoot, Sherry, Watson and Wong

Terms of reference for the inquiry:

To inquire into and report on:

Planning for retirement.

In conducting the inquiry the Committee is to examine in particular:

- (a) the effects of ageing on workers' productivity;
- (b) the continuing relevance of the concept of a fixed retirement age;
- (c) the potential to encourage progressive transitions from work to retirement, including through possible new benefit access and contribution arrangements, and part-time work;
- (d) any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people;
- (e) ways to assist older workers plan for their retirement;
- (f) the short and long term effect on the Budget of any proposals for change; and
- (g) any issues for the Federal or State workplace relations systems.

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Committee commenced at 9.06 a.m.

BRUNNER, Mr Greg, General Manager, Policy Development, Australian Prudential Regulation Authority

CHAIR—I declare open this fifth public hearing of the Senate Select Committee on Superannuation as part of its inquiry into planning for retirement. The committee has held previous hearings in Sydney, Melbourne, Adelaide and Canberra. Under its terms of reference, the committee will focus on mechanisms to assist people to plan for and to make the transition from work to retirement, with particular reference to exploring the opportunities available for older people to plan for their retirement.

Today we are taking evidence from Mr Greg Brunner, who represents APRA. Thank you, Mr Brunner, for appearing. As a witness before the committee, you are protected by parliamentary privilege with respect to the evidence you shall give. This means you are given a broad protection from any action that may arise as a result of what you say, and the Senate does have power to protect you from any action which disadvantages you on account of evidence given before the committee. The committee prefers to conduct its hearings in public. However, if you wish to discuss any matters with the committee in private, we will consider your request. We note you do not have a submission but you have an opening statement.

Mr Brunner—I would like to make a very brief opening statement this morning. As you are aware, APRA did not make a submission to this inquiry. This is not because we have little interest in the subject but because many of the key issues are matters for government rather than of prudential policy. APRA sees its main role as fostering a safe and secure financial and superannuation environment where people planning for their retirement can have confidence in the soundness of APRA regulated entities. As you are aware, APRA has been doing a great deal in recent times to improve the way in which it supervises superannuation entities. APRA is adopting a proactive and risk based approach to supervision. We expect trustees to be able to demonstrate that they are working in the best interests of fund members and fulfilling the requirements set down in the SIS legislation. In cases where we detect weaknesses, funds can expect very close scrutiny and, where necessary, enforcement action.

As you are aware, some further significant changes designed to enhance the safety of superannuation are in train following recommendations of the superannuation working group. Key among these are the introduction of a requirement for all trustees of APRA-regulated superannuation funds to obtain a superannuation trustee licence, and for all superannuation funds to be registered with APRA prior to accepting contributions; and a requirement for trustees to prepare and submit to APRA a risk management plan for each fund outlining how relevant risks will be managed and monitored, including a fraud control plan. APRA has been working closely with Treasury to develop legislation and standards to give effect to these.

Finally, I would like to briefly mention an issue which seems germane to the committee's examination of any scope for older workers to access their superannuation to finance retraining to continue work that is more suitable for older people. While the predominant role of APRA is providing prudential supervision, its role in administering the SIS legislation also encompasses broader responsibilities. One such responsibility is maintaining the integrity of the government's retirement income policy by ensuring, for instance, that superannuation funds comply with all of

the operating standards contained in the SIS legislation, including early release provisions. Treasury retains policy responsibility for the function of early release of superannuation benefits.

APRA has noted that there have been further calls for early release or extension of sole purpose provisions to facilitate retraining or to finance financial planning. Whilst some of these are matters of government policy, APRA would like to say that any changes to current rules have the potential to create significant administrative difficulties and/or to erode retirement incomes. For example, how could APRA determine whether a payment for financial advice was for retirement planning purposes or for current tax planning purposes?

CHAIR—SIS has been operating for quite a number of years now—for over a decade—and it has been suggested to us that parts of it need overhauling, such as the monitoring of the 10-hour per week rule for people over 65. There is the increasing likelihood of people continuing to work or coming back to work after age 65. If people want to do so, we do not want to put impediments in their way. But this rule does seem to be a bit of an impediment. What is APRA's view?

Mr Brunner—I suppose that is more a government policy issue rather than a prudential matter.

CHAIR—But you must be aware that there are problems or difficulties with monitoring and there is that impediment. Surely you can admit that.

Mr Brunner—That is certainly true. One difficulty that APRA faces is in monitoring these types of requirements. I think a number of people who have made submissions to the inquiry have indicated that they recognise difficulties with monitoring this. If requirements of SIS are changed, APRA would have to work as best it could to ensure that the requirements were followed. But we are always mindful of some of these administrative difficulties that funds face in a whole range of areas in monitoring the requirements of SIS.

CHAIR—Some of Australia's largest financial providers do have trouble interpreting the requirements for hardship and compassionate grounds. There have been a number of cases where, despite the initial lodging and apparent fulfilling of the requirements, people have been told they have to get another certificate from a doctor saying that they will never work again. That is not in the act. Why can APRA not have available on its web site a template for what is required and how people can satisfy the requirements? I can understand the need to have a doctors certificate as proof that someone has not worked, for example, for 26 weeks and that sort of thing, but can we not simplify the system? Even some of Australia's largest financial institutions seem to be frustrating people by sending letters back ad infinitum wanting additional information, and it is often information that I do not think is required under the act. Why can APRA not put up on its web site a template for what is required so that it can be accessed by these people claiming on either compassionate or financial hardship grounds? They have really been given the run-around.

Mr Brunner—We have certainly available on our web site some information dealing with these matters. At the moment I have before me the document on early release of superannuation benefits, which is a fairly detailed document on the web site. It provides not only an outline of the provisions within the act or within the regulations but also a check list. That check list is broken down according to various grounds: medical treatment, medical transport, modifications

to the home, funeral and palliative care type requirements, and also mortgage assistance. It basically has a tick box approach to that. Sitting behind these boxes are further instructions and explanations. This is obviously a good way of getting information to the public, and this particular one is obviously available on the APRA web site. It seems to me to be a very useful, simple and effective way of getting our message across.

Senator SHERRY—Mr Brunner, I am sorry to interrupt, but I do not think that is what the chair is getting at. That is fine. I have seen it. It is good. Everything that you would need to know is there. The difficulty arises because funds have different forms, different formatting and different letters. That creates confusion when consumers apply for this or for quite a number of other matters. The forms differ from company to company, fund to fund. I am not blaming you for that. Would having a standard form be a good idea? It seems to me this regulation requires a standard form, with standard formatting, that consumers can access so that a standard procedure is in place to prevent the toing-and-froing that goes on to some extent now.

Mr Brunner—I can see some merits in giving greater guidance and clarity in that area.

CHAIR—That would be good as a start.

Senator SHERRY—Mr Brunner, the last issue you mentioned in your opening submission was the effective early release of superannuation contributions to finance financial planning, which is an issue that interests me. I am not going to go into whether or not we should have commission products, but let us assume there is a commission paid on superannuation contributions in the accumulation stage and that commission is paid to planners for providing advice, whatever that may be. Also, in many cases planners are paid, whether it be by way of a commission or fee for service, for advice on post-retirement products. How do you distinguish between planners' advice with respect to superannuation pre retirement or post retirement and that for other purposes, such as lifestyle planning? Some advice can be not directly but indirectly related to superannuation matters or can be drawn up in a plan which overlaps lifestyle and other forms of advice. What I am getting at is that it seems to me financial planners can debit through a commission against a superannuation guarantee contribution anyway. They can effectively charge the whole cost or most of the cost for all financial planning advice against the superannuation contribution. Could you comment on that for me.

Mr Brunner—It is potentially a grey area. APRA made some changes to its circular on the sole purpose test a couple of years back and specifically introduced a section on financial planning. I will read from that, because I think it gives us some feel about where APRA is coming from. It basically says that money can be used under the sole purpose test for fund-sponsored member awareness education and financial advice programs targeted at fund-specific issues such as benefit features or investment choices offered by the fund. It says that they may be appropriate. But then it goes on to say that fund-sponsored programs, including financial planning services, which are targeted at broader non-superannuation savings and investment opportunities or products or services, such as investment or tax advice, and health insurance are inappropriate.

Senator SHERRY—How do you enforce this, though? It seems to me there is a big crossover in the sort of information gathering planners need for, let us say, additional contributions. They gather all this information on budgeting, income and all that sort of thing. That is the same

information, or much of it, planners would need for other planning purposes, and they can debit the cost against the super.

Mr Brunner—Again, it is difficult to distinguish those two characteristics. I would say that there is some potential for perhaps differences in treatment in one fund compared to another. Our on-site inspectors and our supervisors would have to examine each case on its merits and come to some sort of decision as to how much is being used for fund-specific purposes and how much appears to be being used for broader financial and tax planning purposes. But it is certainly a grey area.

Senator SHERRY—That is one reason why I raised it. It seems to me, whether we have so-called choice or not, planners have a position to effectively cost shift. They can get involved in all sorts of other non-superannuation issues and at least shift part or all of the cost onto superannuation. It is impossible for you to physically check all of these advices, is it not?

Mr Brunner—That would be correct; it would be impossible to check all of these advices. All I can say is it is a matter specifically mentioned in an APRA circular, it is an issue that we were aware of and dealt with only a couple of years ago to make clear our policy in this area. If as part of our inspections and our other supervision activities we become aware of funds engaging in activities which fall outside what we believe are appropriate uses of superannuation moneys, we would be drawing that very clearly to the attention of the trustees and be asking them to stop undertaking those sorts of activities.

Senator SHERRY—But you do not check planners' individual plans to see whether there is a commission, or fee for service for that matter, debited against the super contribution, do you?

Mr Brunner—No, we do not.

Senator SHERRY—So how could you enforce this with respect to planners? It would be up to ASIC, would it not?

Mr Brunner—I would imagine that would be the case, yes.

CHAIR—ASIC would not have the resources to do that.

Senator SHERRY—I agree with the chair. Have you had any liaison with ASIC on this point?

Mr Brunner—No, not that I am aware of.

Senator SHERRY—You might follow that through and perhaps let us know at estimates. We will have another opportunity then to ask you about this. In relation to changes to superannuation, benefits, regulation et cetera, you have touched on and a lot of the submissions have referred to the issue of early access to superannuation benefits for education purposes. I gather from what you have said that this adds complexity and makes it harder to administer and check on these provisions?

Mr Brunner—Yes, it does. I think we have made it clear in previous inquiries and as part of our policy statements that we follow the requirements of SIS in relation to sole purpose and early release, and that some of these other ancillary type things do make it very difficult for us to administer the legislation and regulations.

Senator SHERRY—Clearly that means you need additional resources for additional scrutiny, checking et cetera?

Mr Brunner—That certainly would be one way—

Senator SHERRY—That is one outcome?

Mr Brunner—Yes, that is right.

Senator SHERRY—From your observation, it means greater costs to the funds themselves because they have to change their existing systems?

Mr Brunner—I think any added administrative complexity increases costs for the funds.

Senator SHERRY—I have had feedback from a number of funds about the potential administrative cost of splitting contributions between spouses. Have you looked at this proposal from a regulatory point of view?

Mr Brunner—It is not something that we have examined, no.

Senator SHERRY—I am surprised you have not. The funds have said to me that the administrative complexity of splitting contributions would be very significant, perhaps second only to the surcharge. Are you sure you have not looked at the administrative implications of it?

Mr Brunner—I am not aware that we have looked at this, but I could take that on notice.

Senator SHERRY—Frankly, I am surprised—take it on notice for estimates—because I have had so much feedback about the problems administratively, putting aside the policy.

Mr Brunner—Yes.

Senator SHERRY—On the regulatory side, you have received additional resources over the last year or two. Is APRA able to segregate the resource allocation with respect to the prudential supervision of superannuation versus other activities of APRA?

Mr Brunner—Yes, we are. As part of the setting of our levies we allocate our resources to each of the sectors that we determine. As you are aware, we are required to broadly charge levies according to the money that we spend in each of the sectors supervised. As a consequence, we monitor exactly what resources we are devoting to each of our sectors: superannuation, banking, life insurance, general insurance. In recent times we have improved our systems to collect that information by introducing, certainly at this stage, into our various front-line supervision areas, those specialised and diversified institutions divisions, systems to collect that information much more accurately. That automated system, a computer based system, is being introduced into the

policy areas of APRA as well. So we are in a much better position to collect information—not that we did not do it in the past, but we have, I suppose, improved the systems for collecting that information.

Senator SHERRY—What is your time line on that improved system?

Mr Brunner—It is already in place in the front-line divisions, which is where the main supervisory effort takes place. It will be introduced into the policy and consulting areas I believe in the next couple of months.

Senator SHERRY—I do not want to sidetrack the hearing today into this area too much, but again could you take on notice for estimates to provide us with some sort of breakdown of responsibilities, super versus non-super, in some detail and what additional moneys are for, whether they are for existing programs or new programs. This is in the area of superannuation. Obviously with respect to insurance and other matters there are probably some changes as well. But if you could perhaps have something prepared for estimates on that.

Mr Brunner—Sure.

Senator SHERRY—Have you been checking on children's superannuation accounts administratively with superannuation funds?

Mr Brunner—I would have to take that on notice. I am not familiar with the practices that have been taking place in the front-line supervision area.

Senator SHERRY—A fund may or may not offer a children's superannuation account.

Mr Brunner—Yes.

CHAIR—Put that on notice for estimates, I think.

Senator SHERRY—Yes. I will not pursue it any further, except to say that this is just another example of administrative changes and complexity. Take it on notice. I do not think it would surprise APRA or Treasury to know I will pursue that at estimates as well. You mentioned proposals are in train with regard to trustee licensing, registration of funds and risk management plans. What is the time frame?

Mr Brunner—That is a matter for government. The Superannuation Safety Amendment Bill is currently being drafted by Treasury, so it is very much in their hands. We have been working quite closely with Treasury in drafting that legislation and also providing drafting instructions for the regulations for the operating standards which we would like to see introduced as well.

Senator SHERRY—I gather from what you are saying it is at an advanced stage of preparation—the bill and the regs are being written?

Mr Brunner—They are. That is correct, yes.

Senator SHERRY—That is fair enough. I will not press you any further on that. There was an article in the *Australian Financial Review* some months ago about APRA investigating whether or not Bernie Fraser had a conflict of interest. I do not know whether the article in the *Financial Review* was an accurate description or just a beat-up. Can you comment and shed some light on this alleged APRA investigation?

Mr Brunner—No, I cannot. Again, it is something I would have to take on notice. If there were any activities there it would be something—

Senator SHERRY—It is prudential regulation.

Mr Brunner—It would be out of our enforcement area, I should imagine. We can take that on notice as well.

Senator SHERRY—Fine. As you are here—this will save me writing, through the committee, to estimates—can you take on notice providing an update on the HOST-PLUS difficulties.

Another important area is forecasting superannuation savings—forecasting, projections. You would be aware that individuals at the moment can obtain a forecast usually through a planner of what the value of their superannuation will be, given certain assumptions, in 20, 30 or whatever years time. It is reasonably common. Do you have any observations to make about forecasting? Do you scrutinise this area?

CHAIR—Treasury did give us a response on this issue last night.

Mr Brunner—Yes. I am not aware of any work that we would be doing in that area.

Senator SHERRY—I am not talking about national projections about—

CHAIR—Product forecasts.

Senator SHERRY—total savings. I am talking about the individual product forecast that is available usually, as I say, from a planner. It is not available generally as a standard feature of super funds except for a defined benefit. I am just surprised you cannot make any comments about that.

Mr Brunner—I suppose it primarily falls into disclosure to the fund member or to the potential client. It is perhaps more an ASIC matter than an APRA issue. I suppose we are talking about the conduct of a financial planner in their providing forecasts to a potential client, so that is taking us quite a long way away from a prudential supervision function more to a disclosure function.

Senator SHERRY—What about a fund providing a forecast? For example, a defined benefit fund will give a forecast. It is very clear. They say, ‘This is the benefit. It is underwritten or guaranteed, but this is what you will get with X years of service,’ et cetera. You are obviously involved in ensuring that that forecast so-called guarantee is underwritten in terms of the capital adequacy or the moneys in the fund to fund the forecast.

Mr Brunner—Obviously in the defined benefit sense there are actuarial requirements where actuaries are required to determine the appropriate funding levels of the fund. So they would be involved in that sense, and that is something that we would have an interest in to ensure that those projections are consistent with our assessment of the fund's financial strength. But when it comes to defined contributions and just providing broad projections of financial returns, again I would see it more as a disclosure issue that falls into ASIC's area.

CHAIR—It is very hard to predict market fluctuations at a particular point in time, though.

Mr Brunner—That is true.

CHAIR—You can say over a 20-year period the Stock Exchange might have improved. That is not to say that at year 19 it might have had a collapse or at year 21 it might have had a collapse. This is the problem that people fall into, I think.

Mr Brunner—I was aware of the discussion that took place on the first day of evidence, I think, when there was some discussion about this. I think ASFA also indicated that they provide some tables on their web site that allow people to access some information about prudential projections.

Senator LIGHTFOOT—Would you be kind enough to give me your opinion on what appears to be the slow evolution of laws relating to superannuation? Because of superannuation's compulsory nature, a whole tidal wave of funds have been floating around, but the protection of those funds and superannuants seems to have evolved and still is evolving rather slowly. Did APRA use a pro forma from another country as a basis for protecting those funds and superannuants, or is it still evolving as I have said: on a trial and error basis?

Mr Brunner—I do not know that 'trial and error' would be the term that I would use, but—

Senator LIGHTFOOT—There have certainly been a few errors, though, have there not, Mr Brunner?

Mr Brunner—As you are aware, we are currently in what I would consider to be probably one of the most significant periods of change for supervision of superannuation with the outcome of the Superannuation Working Group and the government's acceptance of most of the recommendations of that working group. That working group specifically was charged with recommending measures to strengthen the safety of superannuation; that was the name of the inquiry. As I mentioned in my opening statement, there are a couple of major initiatives which we believe will significantly improve the safety of super. Those involve licensing, and the requirement for risk management strategies at the trustee level and risk management plans at the fund level.

I can speak a little about the Superannuation Working Group as well because I was APRA's representative on that working group. We did not look extensively at the systems that are in place overseas when we were deciding on our recommendations, although that is not to say that we did not do a brief survey of some of the things that were happening. We certainly looked at the way that we go about supervision in some of the other sectors here, and particularly in relation to licensing we came to the view that superannuation seemed the odd person out in that

people were able to start up a super fund and start accepting moneys from the public without a licence.

Senator LIGHTFOOT—They did not need one, did they?

Mr Brunner—No, they did not, and that made superannuation seem to us to be very much like the odd person out, particularly given the reason that superannuation is so important—it is long-term retirement savings—and also given things such as the substantial tax benefits that are in place. It seemed to us very odd that licensing was not required because APRA sees licensing as a very important means of ensuring that there are high standards within any of the industries that we supervise. So it was more looking to what happens in some of our other sectors rather than looking to overseas models. Superannuation is difficult to compare on an international basis because so many different systems are operating, but some difficulties that have arisen, for example, in the 401K models in the US, have alerted us to some of the problems that can arise.

Senator LIGHTFOOT—That was my point.

Mr Brunner—Yes.

Senator LIGHTFOOT—Have you used those as a pro forma for establishing some of your regulatory controls?

Mr Brunner—Not really. It was more a matter of looking at some of the weaknesses in overseas systems rather than looking at using them as a pro forma for us and more basing what we are doing in superannuation, particularly in relation to licensing and risk management, on what we are doing in some of our other sectors where the types of requirements we believe have been extremely beneficial in ensuring better and more sound systems. As I mentioned, the two big issues I think are licensing and this requirement for risk management strategies whereby we will be asking trustees to focus very closely on the whole range of risks that funds have, to identify those risks and to indicate to us how they will deal with them and how they will mitigate them.

Senator LIGHTFOOT—Australia is relatively isolated in this part of the world, with our nearest English speaking neighbour with similar law, certainly common law, being New Zealand. New Zealand produces some things out of the hat in terms of law that we have emulated, and should somewhat emulate. But the UK system of superannuation has been tried perhaps longer. Certainly in volume it is far more significant than what it is in Australia. They have 10-, 20- or 30-year actuarial projections of superannuation as a matter of course. It may even be a matter of law. What do you think about having projections of that nature in Australia?

Mr Brunner—I am just not clear; projections in relation to what?

Senator LIGHTFOOT—Projections in relation to, say, the FSA having allowed for projected statements that should go out to financial services giving a projection based on a decade process rather than on an annual or biannual process, and by ‘biannual’ I mean every two years or so.

Mr Brunner—Yes, I think this goes back to the point that we were discussing a little while ago.

Senator LIGHTFOOT—The chairman also mentioned the 20 years.

Mr Brunner—Yes. Obviously giving people some indication about the types of moneys that they will build up in their superannuation I think has some merit. But people always need to be very mindful of the extreme uncertainty in investment markets. Particularly in Australia, in what is largely a defined contribution system, providing those types of forecasts is very problematic because you are really projecting what investment returns will be over the next 20 or 30 years, which is a very difficult task to do.

Senator SHERRY—Treasury do that at the moment.

Mr Brunner—Yes; and certainly giving people a range of options about where they might end up would be useful. I would see that as being quite beneficial. People could then make some sort of assessment of their position relative to others and make some sort of judgment about whether the amount of money that they are building up in their superannuation fund will be adequate to support them in their retirement. I read in the *Hansard* the interesting example mentioned I think on the first day of hearings about the 53-year-old who thought the \$25,000 they had would be sufficient to support them in retirement. Clearly that is alarming. If people are given information which indicates to them they will have \$100,000 or \$150,000 based on certain assumptions about investment returns, and I think that needs to be made clear to people as well, they are in a much better position to assess how they will be able to support themselves in retirement.

Senator LIGHTFOOT—I take it, then, Mr Brunner, from what you have said that there is no system in place whereby our regulatory authority allows for actuaries to project those prognoses for 10, 20 and 30 years to allow superannuants to determine whether or not they wish to stay with an organisation based on those projections. Is it the case that there is nothing in place?

Mr Brunner—Certainly nothing that APRA has in that area. Again, it is probably more a disclosure type of issue rather than a prudential issue, and again perhaps something more in ASIC's area rather than in our area. But, as I also indicated, I am aware that organisations such as ASFA do provide some information about how people's balances might build up under certain investment scenarios. It is not to say that there is no information available, and certainly some financial planners would provide those types of projections as well. But there is not, as far as I am aware, a mandated system for doing that.

Senator LIGHTFOOT—Going back to the issue of possibly borrowing a template or a pro forma rather than working this out on a trial and error basis, the UK Financial Services Authority in conjunction with the UK Institute of Actuaries allows the setting of standard assumptions. I guess they set certain guidelines for the administrators to calculate these projected potential benefits, based on the decades rather than the annual—

Mr Brunner—As I said, I can see some merit in people having that information, but I think you would have to also be a little wary of giving people a false impression about how their retirement savings may build up because particularly in a defined contribution environment it is investment returns which become the key to this and they are relatively uncertain.

Senator SHERRY—You have a similar type of problem in defined benefits, haven't you ? You have to make some long-term assumptions about the funding levels as well as an annual assessment about the funding levels.

Mr Brunner—You do. The difference there, of course, is that the risks are borne by the employer rather than the employee.

Senator SHERRY—On the same basis you could have a defined benefit that says you get X at Y age, but if the employer closes down you will not get the benefit. So there is still a risk.

Mr Brunner—There is a risk, but—

Senator SHERRY—Despite the projected benefit in a DB. Ansett is a classic example.

Mr Brunner—You are probably aware that APRA has been undertaking a health check of DB funds. We made a public announcement about that. The outcome of that is that we have been talking very closely with a number of funds where we felt their funding position was not satisfactory.

Senator SHERRY—At estimates could you give me an overview of that investigation?

Mr Brunner—Yes, we could do that.

Senator SHERRY—I would not have expected you to have brought a detailed analysis along today.

Mr Brunner—Yes. We can certainly do that.

Senator LIGHTFOOT—Mr Brunner, am I to infer from what you have told the committee that you do see some merit in the projection of assumptions for long-term benefits to superannuants similar to the UK line that I have explained to you where the actuaries in the UK and their Financial Services Authority give a framework in which you can project those benefits decades forward?

Mr Brunner—I would be wary of going to such a sort of mandated approach because of my concerns that it may give people a false impression about how much money they might have. With all due respect to actuaries, the uncertainty that exists within the investment markets makes it very difficult to predict that. Who would be the best provider of this information? As I have indicated, some of it is already made available through organisations such as ASFA. Some of the larger financial planning organisations would provide that type of information, calculators, as to what returns people would end up with if they invested so much money. So it is not information that is not available. But I would be very wary that, because it was mandated, because a government actuary was involved and because the regulator or government had specified a set of assumptions about returns, people might be given a false impression about the returns that they may receive. So I think there are dangers involved in that.

Certainly education does not go astray. I would be loath to suggest that the information that is given by some of the others was false. I think they do it in the best of faith. It is pretty easy to

put together a table which says, ‘If you contribute this much and your returns are this much, this is how much you will end up with after 20 years or 30 years.’ It does not require a rocket scientist to calculate that. That information is available for people—perhaps it could be more widely available—but I would be reluctant to give the impression that ‘this will be the number’ simply because some authority had mandated the rates of return.

CHAIR—This committee played a role in the evolution of SIS and the drafting of its legislation. We used as a template the Maxwell weaknesses in the UK, which formed quite a useful basis, and we made sure in the way the SIS legislation was drafted that such things as custodianship and a lot of those weaknesses in the Maxwell case would not be repeated in Australia.

Mr Brunner—We are pretty much of the view that with the changes coming in with the Superannuation Safety Amendment Bill we will have a very robust system of prudential regulation of superannuation in Australia.

Senator LIGHTFOOT—Australia has throughout its varying industries—and if I can group together the commercial industries and those more manifest industries that produce something of a three-dimensional nature—an Australian standards specification. We borrowed that from the UK, the US and parts of continental Europe. Should we develop something along the same lines—we have had a submission on this—using Standards Australia to set the standard specifications for the superannuation industry?

Mr Brunner—I do not have a particular view about a specific standard for superannuation, but I am aware that there are a range of Standards Australia standards which have relevance to superannuation. APRA has been involved in one of the committees that have been working on some of the governance standards for Standards Australia. There are a range of standards in that area. There is also a risk management standard, which we believe is a useful reference point for superannuation funds when they are putting together their risk management plan. When we draw up our prudential standards, operating standards, for superannuation it is likely that we will make reference to those Australian standards on risk management governance.

In some ways it is a bit of a cascading type effect in that the standards that Standards Australia put together tend to be fairly generic but often contain many useful pointers to people, whether they be in banking, superannuation or insurance. We think it is more useful to refer to those general standards but then develop either operating standards on the superannuation side or prudential standards in banking and life and general insurance which pick up the specifics. I think that provides us with a pretty robust model of standards setting, particularly given that the operating standards for superannuation are disallowable instruments. So it gives the parliament an opportunity to make some comment on the types of standards that APRA or others might come up with covering the superannuation industry. The Standards Australia standards are a very useful starting point, but I think developing the specific standards as disallowable instruments is a more effective way of providing standards for superannuation than developing a specific Standards Australia standard for superannuation.

Senator LIGHTFOOT—The conditions that are in place now are robust enough to withstand anything and particularly something that Standards Australia would not improve on? There is no

mitigation then in introducing Standards Australia to the protective armour of the superannuation industry?

Mr Brunner—As I said, we will be referring to some of the broad Standards Australia standards in some of our more specific standards dealing with super. So they will be picked up, but they will be picked up in a much more tailored fashion, and I think that is probably the better way to go. As I said, because they are disallowable instruments, it gives the parliament an opportunity to have a role in ensuring that they are happy with the standards that APRA is putting together.

Senator BUCKLAND—The Australian Bankers Association has suggested there needs to be a broad inquiry into superannuation and has even suggested it might be at royal commission level. What are APRA's views about that?

Mr Brunner—APRA has been involved in a number of inquiries—

Senator SHERRY—That question is a bit close to home!

Mr Brunner—The safety of super inquiry I think was the most relevant one for us because it focused on prudential matters. I read the evidence that was given by the ABA. They have a view about the need for a broad inquiry. I do not think APRA has a particular view on that, because a lot of those areas really are beyond the scope of prudential supervision. They are matters that go to government policy, retirement incomes policy.

CHAIR—They did not actually prepare it; they farmed it out to an outside group who prepared their submission.

Mr Brunner—Yes.

CHAIR—Perhaps that should also be taken into account.

Mr Brunner—APRA would argue that there has been a major inquiry, as you know, headed by Mr Mercer into the safety of super. So we are fairly confident that the prudential side of supervision is being looked after pretty well as a result of the recommendations of that, and most of the other issues I think that the ABA were referring to were broader retirement income issues, which I do not think APRA would like to comment on.

Senator BUCKLAND—Would you like to comment on any other comments in their submission?

Mr Brunner—Not really, no.

Senator BUCKLAND—I can understand why you cannot audit all advice given to clients by their financial planners or advisers. Does APRA do any spot checks?

Mr Brunner—Again, this issue, the conduct of financial planners, is more an ASIC issue rather than an APRA issue.

CHAIR—It comes under consumer protection.

Mr Brunner—It comes under consumer protection, and financial planners need to be licensed depending on their activities. Again, you will have to raise with ASIC the actual requirements there. Our focus is more at the trustee and fund level rather than on financial planners.

Senator BUCKLAND—Do you have any role in monitoring those funds which advertise on TV their products and what their products will do for people if they give them their money?

Mr Brunner—Again, that is an ASIC matter. There are a whole range of issues about funds needing to be licensed under the Australian financial services licensing regime if they are providing investment advice to the public.

Senator BUCKLAND—They are not really providing advice, are they? They are providing a suggestion that their product—

Mr Brunner—Again, it is more an ASIC issue than an APRA issue.

CHAIR—Obviously there is a big overlap with ASIC on policy relating to the sorts of matters that Senator Buckland has raised. You are in charge of policy issues. How often do you meet with ASIC to discuss these sorts of matters?

Mr Brunner—There are quite regular meetings with ASIC, and they happen at a number of different levels. They happen at the senior executive level. I would have to take on notice their frequency, but I believe they meet every quarter at the senior executive level.

CHAIR—What about at your level? You know how often you meet.

Mr Brunner—I am talking more of the chief executive type level. We have a regular monthly meeting with ASIC as well, and we also have meetings with them in some of the states. Melbourne has its ASIC liaison group. Brisbane has an ASIC liaison group, I believe, as well. So there is quite a lot of liaison at different levels on different matters. I suppose one of the big issues that we have been involved with recently is financial services licensing and how we can exchange information there as well to make it easier for applicants.

CHAIR—I think the thrust of Senator Buckland's question was that, in relation to matters that are drawn to your attention but are technically outside your jurisdiction, people would like to be assured that APRA has some mechanism whereby those matters are carried through to, say, ASIC or the provider who has particular jurisdiction over them. It is quite easy to say, 'We have this inquiry, but that is not our responsibility.' I think this is the basis of our worry, because the feedback sometimes is, 'They were disinterested. They just said it was not their responsibility.'

Mr Brunner—I think that is a misleading impression. I suppose we are particularly talking about where we see matters arising on a fairly regular basis and we believe they are significant issues. They would certainly be put on the agenda. Particularly at the more regular liaison meetings that we have with ASIC not only do they pick up the policy matters but also they involve people who are involved in front-line supervision activities. So it gives them the opportunity to draw to the attention of ASIC any matters which may be of more relevance to

ASIC than to APRA. I know that it is often said that APRA and ASIC are not talking, but I can assure you that the agendas for these meetings are very full and that we draw in people from all parts of APRA to attend these meetings and get down to some of these quite nitty-gritty operational issues as well. At those meetings there may also be discussions under our memorandum of understanding relating to some specific fund activities in addition to some of these broader issues.

CHAIR—You take minutes and those minutes are fed to people upstairs?

Mr Brunner—Yes, those minutes are circulated certainly quite widely within APRA. All the senior management team would have those minutes available.

Senator BUCKLAND—Am I correct in inferring from what you have just said about your meetings that one of the issues you are looking at is licensing and making it simpler to obtain a licence?

Mr Brunner—We are putting in place a framework, again under the memorandum of understanding that we have with ASIC, for exchange of certain information. So, if ASIC receive applicants for financial services licences, in the first instance ASIC will ask APRA whether those applicants are APRA regulated entities, because their legislation has certain requirements which say that if they are APRA regulated as a carve-out they do not need to concern themselves so much with the financial strength and risk management aspects of those applicants because those matters would already have been dealt with by APRA. So it avoids duplication between ASIC and APRA on those two key issues of risk management and financial strength, because ASIC take the view that risk management and assessment of financial strength are prudential matters which APRA will be dealing with. So that is in the legislation. But we also have in place a protocol which specifies in which circumstances we would exchange information in cases where APRA may have some fairly high-level concerns about the position of applicants for financial services licences.

Senator WONG—Is this whether or not they are APRA regulated entities?

Mr Brunner—No, for just APRA regulated entities, because it is only APRA regulated entities that we have information on. That works in reverse as well. If ASIC were aware of something going on with an applicant for an APRA licence, they would inform us as well. There is an exchange of information so that we can each be aware of potential problems that may exist within entities that are seeking a licence.

Senator BUCKLAND—So it is the case, is it not, that some of those seeking licences would be dealing in more than one area of regulation?

Mr Brunner—Yes, that is true.

Senator BUCKLAND—You were talking about simplification. Was that about simplifying that line of communication between the two bodies or making it simpler for the applicant to obtain a licence, making it easier to get? I have a calculator, I have a computer; I could set up shop tomorrow, I guess.

Mr Brunner—No, it is more an exchange of information between APRA and ASIC to ensure that we are both on the same wavelength, although, as I indicated, the legislation requires ASIC to pay regard to certain aspects of the application in relation to risk management and financial strength for APRA regulated entities, which does simplify the process if an APRA—

Senator WONG—Mr Brunner, we are talking about FSR here, aren't we ? That is not the only criteria to which ASIC has regard. The only carve-out is in respect, is it not, of those two aspects in relation to APRA regulated entities, as I understood it?

Mr Brunner—Yes, that is true.

Senator WONG—So they still have to jump other hurdles in order to get the licence?

Mr Brunner—Yes, they do.

Senator WONG—While we are on FSR, the issue of the quality of financial advice has been raised in these hearings. I noticed you were not particularly supportive of the idea of imposing any standards. I think the question from Senator Lightfoot was about superannuation standards. Do you think there is a case for, over and above the FSR regime, a standard of retirement financial advice?

Mr Brunner—That is more a matter for ASIC because it is a disclosure issue rather than a—

Senator WONG—Is it a disclosure issue only? I understand that is how the legislation is currently framed, but I think that is a moot point.

Mr Brunner—As you say, the legislation is currently framed in that way. Presumably ASIC pay regard to looking at the accuracy and quality of advice when they are licensing people. You would have to ask them more about their assessment processes, but my understanding is that one of the things they have to ensure is that the people they licence will be competent and have the ability to provide the advice.

Senator WONG—Do you think the development of an Australian standard in that respect would be useful?

Mr Brunner—Again, it is this balance between creating an Australian standard and having the standards that already exist, the rules that already exist, that ASIC may have covering these areas. I have looked at some of the material that relates to financial services licensing and it seems to be fairly comprehensive.

Senator WONG—A reasonably consistent theme in the submissions has been the obvious desirability of encouraging a greater take-up of income stream products on retirement as opposed to lump sums, and a variety of mechanisms have been suggested. One of them is altering your RBLs to treat more generously income stream products as opposed to lump sums. Would APRA have any view about changing the release of benefit rules in that way?

Mr Brunner—They are more matters for government policy rather than prudential matters.

Senator WONG—Do you see any prudential issues arising out of those? I would have thought there were some in respect of the sorts of income stream products there are and who offers them.

Mr Brunner—Again, there certainly would be issues about the competence and ability of superannuation funds to offer those products. I think on the first day of hearings there was some discussion about—and it was an issue that Senator Sherry raised—whether funds should be providing those types of income stream products as part of their normal business as superannuation funds. There was some discussion about whether that was appropriate. Clearly for larger funds, maybe yes; for smaller funds it would be very difficult to do that. If they were offering that type of product, then APRA would certainly have some interest in ensuring that funds were competent to do the things they were doing. But, as to whether or not it is a good thing, that is more a government policy issue.

Senator WONG—Has APRA considered the current income stream products and the providers of these products? Have you looked into that at all and made some judgment about where the market is on that at the moment?

Mr Brunner—I am not aware that we have looked at that. It is a bit outside our normal area of operation.

Senator WONG—Would you see any prudential issues arising from government policy encouraging the development of these products, essentially trying to force the market to develop and provide and the consumers to purchase more of these products?

Mr Brunner—Yes, I can see some interest in that area in the sense that you would want to ensure the people who are providing those products will remain financially viable and will continue to provide those products. At the moment, if they happen through a life insurance type of conduit, which many of them probably would, they fall under the life insurance regime. They would be subject to the capital requirements there. Some of these annuity products, particularly when you are getting into the area of guaranteed returns and the like, become capital intensive. We have a fairly intense prudential interest in that area to ensure that people who are offering those products that fall under the APRA umbrella are properly capitalised, remain financially viable and continue to pay the income streams that they promise people they will pay.

Senator WONG—If there were a change to government policy which resulted in a much more significant uptake of income stream products, would the existing regulatory regime be sufficient to deal with that or would there need to be a relook at it to see what more could be done?

Mr Brunner—I am not entirely sure how or through whom those products would be offered. It would seem to me to be a reasonable requirement that the people who are offering those products are appropriately regulated. The people who offer those products at the moment are likely to be either the larger financial conglomerates or the life insurance companies. So there is a pretty high chance that they would be appropriately regulated and have capital requirements. If businesses developed outside the current regulatory framework, I could see some merit in ensuring that they were brought inside it so that their safety and soundness were secured.

Senator WONG—What about if they were offered by existing superannuation funds?

Mr Brunner—Again, it is a matter of ensuring that the superannuation funds have the ability, the competence, the systems to offer those products.

Senator WONG—Would that require any change to the regulatory regime?

Mr Brunner—It depends a bit on the nature of the guarantees given. If they are entering into guaranteed returns, then we may need to look at that. I would have to look at it a bit more closely. I am not particularly familiar with the existing requirements in that area. Certainly we would have to ensure they were able to properly offer those products, were competent and had the systems to do it.

CHAIR—I welcome to the hearing students from the University of Technology Sydney. We are conducting a hearing into retirement incomes. We have before us a representative of the regulator, APRA, the Australian Prudential Regulation Authority.

A year or so back the government instituted legislation to enable superannuation to be split on divorce. What is beginning to emerge is that a number of divorcees from the mid-1990s are making applications to access superannuation. Was that the intention? Was the superannuation on divorce to be effected at a point in time after the legislation was passed?

Mr Brunner—I will have to take that question on notice. I am not particularly familiar with those requirements.

CHAIR—My office is increasingly being contacted, particularly by men. They feel that this was never an intended consequence of that particular application. They could understand this process operating after the legislation came in in respect of the initial proceedings, but was it intended to be used some years subsequent as a means of accessing additional cash from one of the parties?

Mr Brunner—It seems you are asking me to make an interpretation of the intention of government policy—

CHAIR—No. We just want to know what the act really meant according to APRA.

Mr Brunner—I will take that on notice and get back to you.

CHAIR—We do not want that question of policy coming into it at all. We want to know what the law is. An earlier question related to reasonable benefit levels, as you know, to ensure that people do not use superannuation to accumulate excessive wealth by using the concessions of the taxation system. We have reasonable benefit levels. To some people they appear quite high, to others they are low, depending on where your asset wealth lies. Given that we want to encourage people to take income streams in retirement as opposed to getting a lump sum and then blowing it, what is your view about mandating a fixed retirement benefit—for instance, it is mandated that a third must compulsorily go into some sort of income stream rather than people using the RBL mechanism type concessions? Wouldn't that simplify the administration of lump sum payments?

Mr Brunner—APRA would not have a particular view on this area. There are clearly two sides to the argument. One side is giving people the responsibility to do as they want with their moneys, to invest it, and the other side is forcing them into taking income streams perhaps through models that they are not particularly happy or comfortable with. But it is not really a matter that APRA would have a view on.

CHAIR—That does surprise me because the rules are very tight in terms of the sole purpose test. Money must be put aside essentially for superannuation and retirement benefits, and cannot be accessed for a number of purposes unless you meet the very tight tests of financial difficulty or compassionate grounds. But, from your answer, it would appear that once they have their lump sum they can do what they like with it. Is that a responsible attitude? If we spend all this time over 40 years of accumulation trying to protect this money using the sole purpose test and then give it to people and they can do what they like with it, it just seems to be an abrogation of what we have been about for 40 years. I can understand people wanting an amount of money to, say, pay off a mortgage, the home mortgage, or pay off a number of credit card debts so that when they go into retirement they are relatively debt free. But at the same time I would have thought APRA would be pretty concerned about ensuring there will be some money left for the benefit of retirement.

Mr Brunner—That would be a reasonable assumption, but these are more matters for government policy rather than prudential policy.

CHAIR—Are you feeding these sorts of concerns into government? We do not want there to be a vacuum and nothing happening. What are we all about if we are just collecting money and allowing it to be dissipated? These people are going to automatically fall back on the pension. We know there are going to be difficulties in the future in financing pensions unless people are encouraged or made to save for their retirement. You are one of the vehicles to make sure that there is security and there are safeguards in terms of the build-up.

Mr Brunner—I think government would be well aware of the issues involved here. I am sure it is not a matter that APRA needs to draw to their attention.

CHAIR—But here again you are the front-line regulator. You are in the front line for giving advice on these issues. We want to make sure these sorts of matters are being regularly brought to government's attention so that appropriate action can be taken. We do not mind what sort of action is taken, but there does seem to be a need to focus on these issues.

Mr Brunner—It is also probably an area where APRA is not in a strong position to provide any further advice or information to government. In a sense, we probably are not aware of what happens once the moneys are paid to people. Some people may be squandering their money and others may be investing it wisely and making very reasonable returns. So, again, it is weighing up this option of how much you rely on people's own responsibilities in this area. It is not information that APRA would have available, but there may be other work done through Treasury that provides information on that.

CHAIR—APRA must increasingly be aware of the problem, or aren't you?

Mr Brunner—I cannot see how it would be something we have become particularly aware of. Once a fund has made a payment to a member, a quite legitimate payment that it makes to a member when that member retires—

Senator BUCKLAND—Has it ever been raised at one of these meetings you have with ASIC?

Mr Brunner—I think we are getting beyond—

CHAIR—We are not suggesting you should try to implement that which is not in the law. But, where you see deficiency in the law or the intention of the legislators not being entirely fulfilled, we see the regulator—whether it be Consumer Affairs, whether it be ASIC, whether it be APRA—having the responsibility to feed this information to government: ‘We have very good laws up to a point in time. After this payment has been made, naturally we are out of it, but it does not help Australians meet their retirement needs.’

Mr Brunner—I do not necessarily disagree with your point, but once the money leaves an APRA regulated fund it is not something that we have further responsibility for. I can certainly see where you are coming from and I can see the quite legitimate concerns that you may have in that area, but I do not think it is an APRA matter.

CHAIR—What about a responsibility to advise government in this area?

Mr Brunner—Again, it is more a retirement incomes policy matter than a prudential supervision matter.

CHAIR—But, with respect, if we look at some of the history of APRA, we see that APRA has formed the view, ‘Yes, this product fell between the cracks.’ That was the case in CNAL, and you did not have responsibility. The other regulator said, ‘Yes, it did fall, but it was not our responsibility.’ There has to be somebody who will say to government, ‘Yes, there are products out here or there are issues that really do need some further refinement or legislative attention. We believe this can be done or that can be done or governments should take note of that,’ if we believe these are real issues. Our committee believes they are real issues. So it is really a question of priorities.

Senator SHERRY—Quite a number of the submissions focus on the issue of a phase-down into retirement, as distinct from a sharp break: you have a full-time job, then you finish one day, whether it is voluntarily or through redundancy, and then you go into retirement. The work test is currently 10 hours or more per week. If you do not meet that work test and you are over 65, then you cannot contribute to super. How do you regulate that? How do you check that a person is working more than 10 hours a week?

Mr Brunner—I am not particularly familiar with the front-line supervision work in this area, so I will take that on notice and get back to you. I could speculate that it is very difficult to do. I know some evidence was given, I think on the first day, about how ASFA believe it is very difficult for their funds to monitor and, as a consequence, it would be difficult for APRA to monitor as well.

Senator SHERRY—Exactly: if the funds cannot do it, how can you do it?

Mr Brunner—That is precisely the point. Clearly we would be relying on the systems that a fund has in place to monitor that. There are obviously some difficulties there.

Senator SHERRY—With the trends in employment towards more and more casual/part-time work, hours moving up and down, you quite conceivably could have a person working more than 10 hours one week and less than 10 hours the next. That would not be unusual, particularly today. Anyway, if you take it on notice—

CHAIR—I think Treasury have a committee working on the application of this particular 10-hour rule, do they not?

Mr Brunner—I am not aware of that. Again, it is something I will look into.

Senator SHERRY—You will have the opportunity at estimates to come back to us on that.

Mr Brunner—Yes.

Senator SHERRY—Earlier we touched on the issue of forecasting. The UK has done some work on that. You might be able to liaise with the UK Financial Services Authority and at estimates give us an update and a view about the advantages and disadvantages, the parameters, the safety checks and those sorts of issues in relation to a fund making a forecast as distinct from a financial planner, although I would argue it is probably a bit safer and cheaper from a fund rather than from a financial planner. Have you, as a regulator, been regularly liaising with pension fund regulators in other jurisdictions? Most countries call them pension funds, not superannuation.

Mr Brunner—Direct liaison tends to happen more on an ad hoc basis. APRA is a member of a number of groups where regulators get together. I am APRA's representative on the OECD Working Party on Private Pensions. About three years ago the OECD created a new group called the International Network of Pensions Regulators and Supervisors, INPRS. I represent APRA on that network and also sit on the technical committee of that network. That network is considering its future. It is looking at options of making itself into a broader organisation including not just OECD countries. From time to time the OECD invites countries outside the OECD to join those meetings. The network is looking at options of making itself into an organisation to cover pensions, an organisation similar to the Basel Committee on Banking Supervision or the International Association of Insurance Supervisors. That provides a forum. It is an area where the OECD in particular is becoming more active in getting pension regulators together. In fact a meeting is coming up in about three weeks time where there will be a specific meeting of pension supervisors and regulators prior to the working party to begin an examination of the system of pension regulation and supervision in a number of key countries across the world.

Senator SHERRY—You are talking about private pensions, I assume, as distinct from government social security pensions?

Mr Brunner—These are mainly private; that is right.

Senator SHERRY—I seem to have struck gold; I did not know you were involved in this area. Are these public or private meetings, or a mixture of both?

Mr Brunner—They are a mixture of both. The International Network of Pensions Regulators and Supervisors has a web site, and it makes some of its information available on that web site. I imagine that, if it makes itself into an international organisation, it will have both public and private sessions. The IAIS, the insurance regulatory body, has public members in addition to the regulators. They can become sort of ex-officio members of the association. The INPRS may go down that route as well.

Senator SHERRY—I was going to ask you about any reports. Do they have a secretariat of some sort?

Mr Brunner—Not at the moment. The secretarial support is provided by the OECD through the Working Party on Private Pensions. But, again, that is one of the options being considered. One of the things we have been involved in—and it is something that I am working on at the moment—is providing them with a comprehensive outline of the system of supervision of private pensions in Australia. I think about six countries have been asked to do a detailed outline of their systems, and those outlines will be used for a comparative study over the next little while.

Senator SHERRY—You indicated earlier we do not have private pensions, we have private lump sum accumulations, largely.

Mr Brunner—Yes. Again, it was a point that I made earlier. There is a range of different pension systems around the world. Almost every country has something slightly different. Australia straddles that. We are seen as a bit of a hybrid but tend to fit more into the private pensions side of things because of the fact that the accounts are not run by government, they are run by funds and individuals.

Senator SHERRY—Could you follow up the issues raised not just by me but also by some of the other committee members. It will save us a bit of time if we can get straight into those issues at estimates with hopefully all of the information that has been asked for.

Mr Brunner—Okay.

CHAIR—Senator Sherry raised the 10-hour rule issue. We did raise it earlier. You have the ultimate supervision of the 10-hour rule whereby a person working after 65 is required to work at least 10 hours with an employer in order for that employer to make superannuation contributions on behalf of that particular person. Do you not find it strange that APRA, which have the responsibility for overseeing the application of this 10-hour rule, do not appear to be on the Treasury committee which is looking at the application of the 10-hour rule? Here you are, the first-line regulator, and from your answer to us you do not seem to be aware of that Treasury committee. If you, being the head of policy, are not aware of it, obviously you do not have a representative on that Treasury committee or you are not giving advice to it. I find that rather strange, that there is that lack of coordination coming from a front-line regulator.

Mr Brunner—I am not aware of our involvement, but that is not necessarily saying there is not an involvement. I draw a distinction here. This is a front-line supervision matter. The people who do the on-site visits and the front-line supervision would be involved in that. So there may well be some involvement there, but I will look into that and get back to you.

CHAIR—But Treasury would not be drawing on the front-line people to give it advice; it would be drawing on people at least at your level to give that advice, because that is how the system works. You would feel rather affronted if Treasury said, ‘We do not want to speak to Mr Brunner, head of policy. We want to speak to the clerks who are doing the auditing.’ Treasury does not work that way. It is surprising that you, one of your colleagues or somebody above you is not on this sort of task force or committee that is looking into the application of the rule because you are the people who know all the weaknesses.

Mr Brunner—I am not saying we do not have any involvement; I am saying I am not aware of it. Again, particularly in relation to our knowing the weaknesses, that sort of knowledge would come from the front-line supervision people rather than from our policy area.

CHAIR—But it is being fed up to the policy people. It has to be.

Mr Brunner—Possibly, but we also—

Senator SHERRY—You hope it is.

Mr Brunner—We also have some other mechanisms to deal particularly with operational matters through the superannuation cross-divisional group. I think you have met Mr Venkatramani at times; he is the chair of that. So it possibly could be handled in a slightly different way, more because it can be best monitored at the front line through the front-line supervision rather than as a pure policy matter. But, again, I will take it on notice.

CHAIR—I am not worried about its administration at the moment, but obviously there is a weakness there. Treasury have identified it or it has come through to Treasury. They have a committee. I am surprised you do not appear to have a top-ranking person feeding information in to that Treasury committee. Take it on notice and let us know.

Mr Brunner—Yes. It certainly may well be the case. Mr Venkatramani is General Manager of the Diversified Institutions Division, so he may have some involvement there. But I will get back to you on that.

Senator SHERRY—If you do not, we can touch along Treasury. It is not necessarily your fault. It is probably Treasury’s fault, knowing the things they get up to. So we will give them a touch along, if necessary.

CHAIR—There being no further questions, thank you very much for your attendance today.

Mr Brunner—Thank you.

CHAIR—We trust the technology students have gained some insight into how the committee system works in parliament.

Senator SHERRY—They are inspired!

CHAIR—You will get top marks! Thank you.

Committee adjourned at 10.39 a.m.