

## House of Representatives Standing Committee on Economics

### ANSWERS TO QUESTIONS ON NOTICE

Review of the APRA Annual Report (Second Report) 2019

**Division/Agency:** Australian Prudential Regulation Authority

**Question No:** APRA12QON

**Topic:** Superannuation fund practices

**Reference:** Hansard, 23 October 2020, p. 48-49

**Member:** Tim Wilson MP

#### Question:

**CHAIR:** ... I want to raise some issues. We've asked a series of questions—many, many questions—of superannuation funds in the context of this crisis and some of the issues that it raises. To what extent has APRA looked at some of the revaluations, particularly of unlisted assets, in super funds over this period and whether they have integrity?

**Mrs Rowell:** We engaged closely with many of the funds across the industry from March until now, understanding how they were approaching responding to the crisis, including their approach to valuation adjustments and the like. That included engagement with [inaudible], engagements with investment committees and engagements with investment teams to understand the processes they went through, the nature and size of the adjustments that they made, both in the short term in response to the market movements and then, subsequently, as they moved through their normal end-of-year processes leading up to finalisation of 30 June accounts and unit prices. We got a reasonable degree of comfort through that process. We weren't necessarily looking at the individual asset adjustments or the valuation adjustments that were made. We were trying to understand the process that had been followed, the information sources and the people that were involved in that process to satisfy ourselves as to the robustness of the process.

**CHAIR:** I raise concerns because I take for instance that Cbus has 30 per cent of its assets in unlisted assets. If I go off an answer given by UniSuper, they've had up to a 45 per cent—at a particular time, I need to stress—writedown of one of their investments, which is quite considerable. If I go to one answer that came from Colonial First State, they're talking in the vicinity of about a 16 per cent reduction or writedown in their assets. Yet when I go to a question put to ISPT, Industry Super Property Trust, which of course has exposure to a lot of funds, in some cases they say reductions only amounted to 2.23 per cent. That seems like quite a big variation. Now, each asset is different and sits in a different class, but to say: 'Oh, we've only had a little bit of a knockdown of 2.23 per cent. Office retail is 10,' suggests to me that there are some pretty wild variations in either pre-COVID-19 valuations or during and post—what do we call it now?—COVID normal valuations. What work is being done to address whether there is going to be some integrity around that? I'll give those to the secretariat and they can provide them to APRA to review.

**Mrs Rowell:** At the moment we are actually doing a thematic review of evaluation practices and management of assets with a view—again, not necessarily looking at specific adjustments but to assess the range and quality of practices across the industry and where there is need for improvement. One particular area that we did identify in our engagement with industry through the COVID period was that there was room to improve some of those processes, and in particular the triggers and criteria used to determine when out-of-cycle valuation adjustments should be made, how they should be made and what the process was then for reverting back to a normal cycle of valuation adjustments. We're very happy to look at the information you provide on notice and incorporate consideration of that as part of that thematic review work. What we are intending to do in the early part of next year is come out with better practice guidance and a review of our

prudential standard around investment governance, with a particular focus on lifting practice within this area.

**CHAIR:** I appreciate that. In fact, I encourage you to go and look at the answers to a lot of the answers that have been submitted as part of our inquiry into the four major banks and other financial institutions, because there's some quite interesting information but also, in addition to that, a lot of times funds are refusing to provide information. If they're not prepared to provide it to the parliament of the Commonwealth of Australia, perhaps they might be prepared, if you ask questions, to get that information.

I've raised with you previously concerns I have where there have been examples of super funds having auditors who cross-reference their own work. I raised an example explicitly with CareSuper, which has an internal audit firm of KPMG and then, when it comes to their proprietary limited company, their external audit team is also KPMG. I will provide that to the secretariat to provide to you as well.

Then I had a concern about what I have raised with you previously. You said that if I had examples I should bring them to your attention. This is a concern around quasi insider trading where, during the period at the start of the COVID-19 pandemic, there was of course a point where the ASX bottomed out. But there was obviously a lag until unlisted assets were revalued in light of the circumstances and the potential that money could be moved between different funds to effectively game and gain the benefits of the highs and lows in both sectors based on the delay between the two. I raised this with ASIC as well and I'm providing it to you.

All funds were asked the same question: what volume of switching between funds occurred in that time between the highest and lowest period by trustees of the fund that are also the member of the fund? To their credit, CareSuper, who I referenced before, said investment choices of individuals are treated with confidence—fair enough. However, CareSuper has in place a comprehensive conflict management policy and they have blackout periods which apply during that period to make sure that people didn't game the system. I can't say the same, for instance, with UniSuper's answer, where they said one member, who is also an executive of the fund, had one or more switch requests processed during this period to a total value of \$445,368. There were 93 members at \$13,644,974. NGS Super had something not dissimilar, where they had 15 staff members and three trustees who were moving money during that time within their fund. Cbus refused to provide information to us. We had in the case of AustralianSuper six trustees move money. One fund manager and 78 staff did during that time. And then we have Rest, where not only did they have trustees move \$2.1 million; they had fund managers moving 465 and staff moving \$10,234,000. In light of the fact that you've said you'll take an investigation if we provide this information, we've now provided it as well as other answers to other questions. I'm hoping, like ASIC, you will look into this matter.

**Mrs Rowell:** Very happy to look into it.

**Mr Wilson has provided the following responses from superannuation funds for his question regarding unlisted assets:**

- [CBUS40QW](#)
- [ISPT02QON](#)
- [CFS97QW](#)

**Mr Wilson has provided the following response from CareSuper for his question regarding internal and external auditors:**

- [CARE03QW](#)

**Mr Wilson has provided the following responses from superannuation funds for his question regarding possible quasi insider trading:**

- [CARE96QW](#)
- [CBUS98QW](#)
- [REST111QW](#)
- [NGS96QW](#)
- [AS103QW](#)

**Answer:**

As committed to the Committee, APRA will examine the cases provided and consider whether any further action by APRA is warranted.