UNITED SERVICES UNION SUBMISSION:

Inquiry into the Fair Work (Registered Organisations) Amendment Bill 2014 [No. 2]

Response from:

New South Wales Local Government, Clerical, Administrative, Energy, Airlines, and Utilities branch of the Australian Services Union

Introduction

The *Fair Work (Registered Organisations) Amendment Bill 2014 [No.2]* (***"the Bill"***), is unnecessary, ill-conceived, and motivated by political rather than legislative reasons.

The Senate should reject the Bill in its entirety.

The Bill is virtually identical to the *Fair Work (Registered Organisations) Amendment Bill 2014*, and is similar to the *Fair Work (Registered Organisations) Amendment Bill 2013*.[1] Accordingly, the United Services Union (***"the Union"***) supports and restates the submissions made by the Australian Council of Trade Unions (***"ACTU"***) on 22 November 2013 in response to the 2013 Bill. A copy of the ACTU submissions from 22 November 2013 are enclosed herewith and marked **Annexure "A"**.

Further, should the ACTU choose to make further substantive submissions in response to this Bill, the Union supports and restates those submissions.

In addition, the Union chooses to make some brief submissions regarding the attempts to apply corporate standards of regulation and governance to registered organisations.

[1] J Murphy and A Holmes, *Fair Work (Registered Organisations) Amendment Bill 2014 [No. 2]*, Bills digest, 91, 2014-15, Parliamentary Library, Canberra, 2015, p 2, accessed 21 May 2015

Submissions

The Bill is predicated on two distinct, and to a certain extent, conflicting notions:

1. That existing regulations of registered organisations are not sufficiently strong to protect members' interests particularly in relation to financial management;[2] and
2. That the community and members' expectations of financial management will be addressed by subjecting registered organisations to a corporate model of governance.[3]

[2] Explanatory Memorandum, *Fair Work (Registered Organisation) Amendment Bill 2014*, p. viii
[3] *Ibid, p. xii*

Existing regulations and financial management

In support of one (1) above, the Explanatory Memorandum relies on two main examples which are said to indicate the shortcomings of the existing regulatory framework:

1. Statements by the Fair Work Commission to the effect that 20 per cent of registered organisations do not complete their financial reporting obligations on time; and
2. An inquiry conducted into HSU East by that union's governing council.

With respect to late filing of financial reports, this figure was taken from financial reporting compliance data for the year 2010-11. Since that time voluntary compliance with the financial reporting obligations under the Act have increased to 98 per cent, with only 9 per cent of reports being lodged late.[4] Given that the current system of reporting was only implemented in the 2009-10 financial year, and has since that date been amended, it is unsurprising that there were some initial difficulties in strictly complying with these requirements. However, it is clear that there is a rapid trend of increasing compliance, and that outdated statistics should not be relied upon as a reason to further amend the reporting obligations of organisations. If anything, further amendments to the reporting obligations of registered organisations would see a *decrease* in compliance rates, as organisations are forced to grapple with yet another set of reporting standards.

As to the Bill's attempt to bring reporting requirements in line with corporate reporting standards, it is worth noting that there are significant issues with corporate reporting compliance, and that oftentimes rates of compliance are much lower for corporations than they are for registered organisations. For example, ASIC has estimated that there is inappropriate disclosure of financial accounts and company solvency in nearly 15 per cent of all prospectuses lodged with the regulator, and improper disclosure of forecast financial information in about 11 per cent of instances.[5]

With regards to the inquiry into the conduct of HSU East, it is worth noting that any financial

[4] Fair Work Commission, *Compliance* Trends, <https://www.fwc.gov.au/registered-organisations/compliance-governance/compliance-trends>
[5] Australian Securities and Investment Commission, *ASIC Regulation of Corporate Finance: July to December 2014*, Report 423

malfeasance was discovered by an investigation 'commissioned by that union's governing council.'[6] This is not surprising given that employee organisations have typically been given discretion to investigate and handle their affairs pursuant to their own internal rules. In fact, this *right* of self-governance is well recognised in international law, in particular by Article 2 of the *Freedom of Association and Protection of the Right to Organise Convention*[7], which states that '[w]orkers and employers, without distinction whatsoever, shall have the right to establish and, *subject only to the rules of the organisation concerned*, to join organisations of their own choosing without previous authorisation' [emphasis added]. In total, 153 countries have ratified this convention, including Australia who did so in 1973. It is therefore possible that the further regulation of registered organisations proposed by this bill will 'fall foul of international labour laws that allow trade unions to conduct their activities free from intrusive state supervision.'[8]

[6] Above n 2.
[7] *Freedom of Association and Protection of the Right to Organise Convention*, opened for signature 9 July 1948, ILO C807 (entered into force 4 July 1950)
[8] A Forsyth, *Trade Union Regulation and the Accountability of Union Office-Holders: Examining the Corporate Model,* (2000) 13 AJLL 28, p 9

Difference between the corporate model and the trade union model

The Bill attempts to apply corporate governance requirements to registered organisations. However, the aim, structure, and operation of a registered organisation is so distinct to the aim, structure, and operation of a corporation that the corporate model is not an appropriate regulatory framework to apply to a registered organisation.

While nominally both corporations and registered organisations are financed by, and run for the benefit of their members, this is the extent to which the two organisations are similar. Unlike members of a company (commonly called shareholders) who have a *property* right in a company that can be traded for commercial or pecuniary gain, no such easily definable right can be applied or assigned to a member of a registered organisation.

Company directors are required to act in the 'best interests of the company'[9], and almost without exception what will be in the best interest of the company will be what increases the value of the member's *property* right in the company the most. If one were to apply the same standard to Union officials, which appears to be the overarching aim of the Bill, a similarly simple result cannot be reached. This is because registered organisations have a 'myriad of competing interests'[10] which cannot be distilled into the advancement of a non-existent *property* right for members. While it could be said that a Union official should make decisions which increase or improve the employment conditions of workers, and this would broadly speaking be correct, it also places an impossibly high burden upon Union officials and is in contrast to the conciliatory and cooperative approach of modern industrial relations instruments in Australia.[11]

For example, during negotiations for a new award or enterprise agreement, a Union official may have to agree to concessions to the employer in a particular area in order to obtain increases in employment conditions in other areas. While this bargain may see an improvement in employment conditions on the whole, certain employees may be effected by

[9] *Corporations Act 2001* (Cth) s 180(2)(d)
[10] Above n 8, p. 7
[11] See for example *Industrial Relations Act 1996* (NSW) s 3(h) & *Fair Work Act 2009* (Cth) s 3(a) and the emphasises on a co-operative industrial relations system between employer and employee

the concessions more than others. This arises as each individual member within the Union will have a unique set of circumstances, and will be affected by any change in wages and conditions in a different way. This is contrasted with corporate members who have largely identical interests in their company, that being the unit price of a share.

Further, the suggestion that subjecting registered organisations to a corporate governance model would have the effect of 'rebuild[ing] member and community confidence through stronger governance and increased penalties'[12], would appear to run counter to evidence which suggests that fraud, bribery and corruption is most common in the Corporate sector. Ninety-eight per cent of all reported instances of fraud between 1997 and 2012 occurred in either the Corporate or Financial services sector.[13] Moreover, analysis indicates that fraud is more likely to occur in organisations with over 1,000 employees, and that 'the size of the fraud is proportionate to the size of the organisation, [with] the complexity of larger organisations making[ing] them vulnerable to fraudulent activity.'[14] No registered organisation who would be subject to this Bill would have anywhere near those employment numbers. This Union has approximately eighty employees, with 35 per cent of registered organisations having less than fifteen employees.[15] The only organisations which can approach the employee numbers which are indicative of systemic fraud and corruption are large transnational *corporations*.

[12] Above n 2, p. xii
[13] KPMG Forensic, *A survey of fraud, bribery and corruption in Australia & New Zealand 2012,* KPMG (2013), p. 7
[14] ibid
[15] Above n 2, p. x

Conclusion

Despite the above, this Bill seeks to subject registered organisations to the corporate governance model in an attempt to rebuild and improve member and community confidence even though the corporate community is far and away responsible for more fraud, corruption and financial malfeasance than registered organisations as a whole and trade unions in particular.

It would appear that this Bill is politically motivated and serves no extant public purpose. For these reasons, and the reasons set out in any relevant ACTU submission, the Senate should reject this bill in its entirety.

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FAIR WORK (REGISTERED ORGANISATIONS) AMENDMENT BILL 2013

SUBMISSION TO THE SENATE STANDING LEGISLATION COMMITTEE ON EDUCATION AND EMPLOYMENT

22 November 2013

ACTU
australian council of trade unions

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CONTENTS

Introduction

About the ACTU

Since its formation in 1927, the ACTU has been the peak trade union body in Australia. There is no other national confederation representing unions. For over 86 years the ACTU has played the leading role in advocating in the Fair Work Commission, and its statutory predecessors, for the improvement of employment conditions of employees. It has consulted with governments in the development of almost every legislative measure concerning employment conditions and trade union regulation over that period.

The ACTU consists of affiliated unions and State and regional trades and labour councils. There are currently 43 ACTU affiliates. They have approximately 2 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector. All but 7 of the ACTU affiliates are organisations registered as employee organisations under the *Fair Work (Registered Organisations) Act* 2009 ("the *RO Act*"). When account is taken of federated structures adopted by unions, all but 6 small unions of the 45 organisations registered as employee organisations under that Act are ACTU affiliates.

General View of the Bill

The Bill is poorly conceived, badly motivated, and entirely unnecessary.

The Senate should reject the Bill in its entirety. It is a transparently political Bill in an area where there is no extant public policy problem.

We note that the 43rd Parliament, in mid-2012, considered and adopted a Bill that traverses much of the same ground. The ACTU supported the *Fair Work (Registered Organisations) Amendment Act* 2012 ("the *2012 Act*") which dealt with, in a precise and effective way, the issues of substance.

The *2012 Act* tripled the penalties that apply for breaches, introduced new standards in relation to financial management and mandates formal training for officers with financial responsibilities. We also note that the *2012 Act* dealt with all of the issues which were

raised by the matters which have come to light in relation to the HSU (including limitations on the power of the regulators).

The *2012 Act* strikes an appropriate balance. While a post-implementation review after a period of some years of operation may be appropriate, re-visiting these matters now, when no substantive issue with their operation has been identified is inappropriate and unnecessary.

The current Government is said to be committed to a reduction in unnecessary regulation and duplication of Government responsibility. This commitment is, on the evidence of this Bill, to be honoured in the breach. The Bill creates a large volume of new regulation (without evidence of its necessity), and a new Commonwealth regulator (where one already exists).

The timeline adopted by the Government for the development and proposed passage of this Bill is entirely unsatisfactory. While the Parliament can accelerate its own processes (and conduct only a perfunctory review of the design, specific terms and effects of a Bill) the affected organisations are left to deal with the consequences, usually for many years.

Nevertheless, we have assessed the Bill on its merits and we offer as detailed a discussion on its specific provisions as the condensed and unreasonable time limit has permitted.

General Approach to Union Governance and Regulation

The ACTU supports a legislative regime that promotes the operation of accountable, democratic and effective trade unions that are member-governed. Consistent with those objectives, as noted above, the ACTU and its affiliates supported the passage of the *2012 Act*.[1]

The ACTU has also contributed to the adoption of improved governance standards in unions including by commissioning an Independent Panel on Best Practice for Union Governance[2], and by developing a Best Practice Governance Handbook. To implement a key provision of the *2012 Act* (which requires all union officers with financial decision-

[1] https://senate.aph.gov.au/submissions/comittees/viewdocument.aspx?id=e19156de-bf73-4b7f-9089-170fec521f01

[2] http://www.actu.org.au/Publications/Other/GovernancePanelReportIndependentPanelonBestPracticeforUnionGovernance.aspx

making responsibilities to undertake Fair Work Commission approved training) the ACTU developed an approved training course and has resourced a national roll-out.

The Regulation of Registered Organisations

The federal industrial relations system was built on a foundational compact between organised labour and government: Organised labour submitted to a level of external regulation of its affairs in exchange for the rights that came with registration under the legislative scheme. Recent decades have seen a shift in the balance of that compact. Whilst registration still carries with it particular rights, such as bringing proceedings on behalf of members and representing them at the workplace, other features of the industrial relations system have either passed into history (such as conciliation and arbitration of industrial disputes and union preference) or have ceased to be exclusive to registered unions (such as the right to make industrial agreements). The paradox of this "labour market deregulation", has been that it has carried with it an increase in the level of regulation of registered unions' internal affairs – Australia's international obligation of non-interference with industrial organisations notwithstanding[3].

A trend in the mode of regulation of registered unions in Australia is to attempt to adopt some elements of corporate regulation into the scheme for regulating unions, and the Bill now before the Committee is a further example of this. Corporate regulation of course is directed toward the protection of the economic interests of investors and creditors (and, to an extent, consumers), and serves a different purpose than the protection of the interests of union members.

There are some aspects of good governance that are universal (such as honesty, openness and accountability) and some lessons have been learned from regulation (including self-regulation) of other types of entity.

While the rhetoric of "regulate unions like corporations" has some superficial appeal, in reality it is based on a false-equivalence. Unions are different to corporations (and to charities and clubs) and Australia rightly regulates each type of entity differently.

[3] Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87).

Unions do not believe that it is appropriate that unions be regulated in the same way as corporations because the nature of the rights and interests that union members have in their union and its activities are not the same as the economic interests that shareholders have in companies.

We also not that in corporate regulation, the regulatory regime, investigatory powers and maximum penalties need to be sufficient to cover all types of corporations, including the largest multi-billion businesses and largest and most complicated corporate structures and transactions. In contrast, registered organisations are relatively small, simple organisations with non-commercial purposes.

Existing Parallels with Corporate Regulation

The reality is that current regulation of trade unions in Australia is among the toughest and most intrusive in the world and is largely based on the way companies are regulated. The existing laws include fiduciary style obligations and duties of care similar to those that apply to directors of corporations.

We note that the law that regulates the conduct of unions and officers of unions today substantially reflects that introduced by the previous coalition government, but substantially strengthened by the Gillard Government.

In the Second Reading speech on the *Workplace Relations (Registration and Accountability of Organisations) Bill 2002*, the Prime Minister (the then Minister for Workplace Relations) said:

> *"Generally speaking, what the government has sought to do with these Bills is to ensure that the same standards of conduct and behaviour which the law imposes on company directors and on corporations should be imposed and expected of registered organisations and the officers of those organisations"*[4]

Since the passage of that Bill, the law has contained legal duties of union officers that mirror those of company directors. This includes the duty to act in good faith, in the best interests of the union and for proper purposes and a duty of care and diligence that is subject to the same kind of business judgement rule that applies to company directors. The law also prohibits union officers from abusing their position to gain a benefit or from misusing the union's information.

[4] Hansard House of Reps 27/08/2001 p 30318

The provisions of the 2002 legislation, coupled with the systematic improvements made in the *2012 Act*, implement all the appropriate parallels with corporate regulation. It is clear, as a matter of commence sense, that an Act designed to regulate trading companies and the efficient operation of capital markets will not provide a suitable regulatory foundation for organisations of a fundamentally different purpose. In any event, Registered Organisations are already subject to higher standards than most companies in key areas such as the election of their officers, expenditure controls, disclosure of interests and disclosure of related party dealings.

Differential Application of Provisions

The burden of this regulation will fall on unions and is likely to be avoided by employer organisations. One consequence of registration as a union is the ability to access the very limited immunities form civil liability for the organisation of industrial action (where that action is "protected") under the Fair Work Act ("*FW Act*"). This immunity is important to unions and their members. No equivalent need exists for employer organisations, as the equivalent immunity (for "protected" lockouts) is vested in the individual employer.

The passage of this Bill is likely to see many employer organisations de-register and adopt a corporate structure (for example by forming a company limited by guarantee) that avoids the disclosure, training, rules and oversight provisions of this Bill. We note that several prominent employer organisations (including for example AMMA) are not registered organisations.

Possible Anti-democratic outcomes

Continual (and unnecessary) increase in the regulatory burden is likely to have perverse consequences in the context of the internal structures of registered organisations.

The Committee should be cognisant of the fact that the burden of this regulation falls not just on the full-time salaried leadership of unions, but on many rank and file members who are elected as delegates to governing bodies. The ACTU is already aware of anecdotal evidence of a reluctance of rank and file members to participate in governing bodies where they are (notionally) exposed to large fines. Many ACTU affiliates (at a branch or national level) have large democratic governing bodies to direct the business of the union, where the delegates are rank and file members of the union. Factors such as risk-management and cost in an environment of increased regulation seem to mitigate in

favour of an organisation reducing the size and / or limiting the remit of some or all governing bodies. The possible anti-democratic and anti-participation effects of this Bill are a powerful reason for its rejection.

Provisions contained in Schedule 1

General Comments

Schedule 1 of the Bill establishes the Registered Organisations Commissioner ("ROC") and assigns functions to that Office.

As a result of these provisions, the ROC will acquire the following functions which were hitherto the functions of the General Manager of the Fair Work Commission ("General Manager") and its statutory predecessors (such as the Industrial Registrar):

- The power to apply to the Federal Court under section 28(1A) for de registration on the grounds of non compliance with an order to comply with a rectification notice under section 336;
- All inquires and investigations dealt with in Part 4 of Chapter 11;
- Determining applications for exemption from the requirement that the AEC conduct elections, arranging for the AEC to conduct elections and receiving declarations and reports in respect of elections (Part 2 of Chapter 7);
- Assisting the Court in election inquiries (Part 3 of Chapter 7);
- Making applications for declarations as to whether a person is disqualified from holding office in an organisation (section 215(5));
- Receiving lodgement of and applications in respect of annual returns and particulars of loans, grants & donations (Chapter 8, Part 2);
- Approving/declining applications for exemption from Australian Accounting Standards (section 241);
- Determination of reporting guidelines (sections 255, 253, 270);
- Receiving auditors reports of suspected breaches (section 257);
- Determining extensions of time for reporting requirements (section 265, 266);

- Receiving general purpose financial report, operating report, auditors report etc (section 268);
- Determination of reduced reporting requirements (Division 6 of Part 3 of Chapter 8);
- Applications for information from reporting units (section 272);
- Receiving notice from FWC regarding suspected contraventions (section 278);
- Issuing Certificates as to membership and officeholders (section 348, 349).

In addition, the ROC will be subject to Ministerial oversight, to the extent that Minister will be empowered to direct the ROC to give him "specified reports relating to the Commissioner's functions". There is no qualifier that such directions be general in nature and not relate to a specific matter.

The General Manager's functions are largely reduced to the determination of reporting units (which now must be done in consultation with the ROC) and the maintenance of the register of organisations.

It is to be recalled that the Coalition policy indicated that the ROC would "become part of (but not responsible to) the Fair Work Ombudsman"[5] and "will operate within the office of the Fair Work Ombudsman"[6]. This is not expressed in the legislation, save in respect of staff assisting the ROC[7], but presumably can be given effect to notwithstanding.

We are unconvinced that there is any necessity to establish a new statutory office to regulate Registered Organisations. Firstly, it seems counter intuitive to split the existing functions of a regulator into two and re-allocate staff across different agencies to achieve reform in this area. This is clearly is not an efficient structure and one suspects that it will (perhaps by design) constitute low hanging fruit for the recently announced commission of audit[8]. A more thorough enquiry along these lines would look also to the substantial duplication of ASIC's investigative powers in Schedule 2 of the Bill and query why two agencies should been tasked with administering them.

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[5] The Coalition's Policy for Better Transparency and Accountability of Registered Organisations, p6.
[6] The Coalition's Policy for Better Transparency and Accountability of Registered Organisations, p2.
[7] c. 329CA, 329DB
[8] Consider in particular the items on page two of the terms of reference: http://www.financeminister.gov.au/docs/NCA_TERMS_OF_REFERENCE.pdf

Secondly, it is important to recall that when the law in this area was last amended, Coalition Senators were circumspect about the need for immediate reform. In their additional comments to the report of the Education, Employment and Workplace Relations Committee Legislation Committee regarding the *Fair Work (Registered Organisations) Amendment Bill* 2012, they were critical of the then government, asserting that "..this bill has been rushed together to meet a political end rather dealing with the substantive problems"[9] and they were very critical of the short time frame provided for the Committee process. Coalition Senators suggested that:

> ".. the bill should be delayed from further debate until the August 2012 sittings. This would allow the Minister and the Parliament to benefit form the KPMG review which is scheduled to be concluded by the end of July before making changes to the Act"[10].

The deficiencies ceased on in KPMG report focussed almost entirely on investigation standards, process and procedure. The report, marked "confidential" but widely available on line, contained the following in its executive summary:

> "The key opportunity for improvement is for FWA to develop a formal set of procedures under which it conducts inquiries and investigations. The Australian Government Investigation Standards 2011 would be an appropriate and minimum 'standard' from which these procedures could be developed. These procedures should also take into consideration the specific legislative framework under which FWA conducts its inquiries and investigations."[11]

Following the KMPG report, the Fair Work Commission did in fact develop and publish policies concerning:

- Regulatory compliance (including inquiries and investigations);
- Litigation (in respect of breaches of the *RO Act*);
- Media concerning inquiries and investigations; and
- Offences (including referring matters to police).

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[9] The Senate Education, Employment and Workplace Relations Legislation Committee, "Fair Work (Registered Organisations) Amendment Bill 2012 [Provisions]", page 22
[10] *Ibid.* page 23.
[11] KMPG, "Process review of Fair Work Australia's investigations into the Health Services Union", page 5.

It is unclear whether these developments, clearly envisaged and considered of some import at the time of the last Senate inquiry, have informed the process of developing the Bill.

Also emanating from the Coalition Senator's comments in last Senate inquiry report was a request that there be an express power to prepare a brief of evidence[12]. None of the provisions now proposed (including section 329G at Item 212 of Schedule 2) provide this.

Comments on particular provisions

Items 67-70

These items provide an example of the inefficiency in establishing a second regulator for Registered Organisations. They will require consultation between the General Manager and the ROC as a jurisdictional pre-requisite for the exercise of powers to divide organisations into reporting units on an alternative basis, or revoke such certified divisions. This seems to do no more than create risk for the invalid exercise of the power, exposing registered organisations concerned to legal uncertainty concerning whether they have or have not complied with reporting requirements since the certification of reporting units was made or revoked (as the case may be).

Item 88, clause 329AC

Whilst it is not uncommon for the powers of statutory corporations or office holders to be expressed in an expansive way, our preliminary view (in the limited time available) is that it is uncommon for these expressions to be provided where the office or organisation concerned exercises coercive investigative powers or is an enforcement agency, particularly where the functions themselves are expressed without any clearly defined limits. However, the combination of clause 329AB and 329AC is such that the ROC has the power to "do all things necessary or convenient" to be done for the purposes of "monitoring acts and practices to ensure they comply with the provisions of this Act providing for the democratic functioning and control of organisations".

[12] The Senate Education, Employment and Workplace Relations Legislation Committee, "Fair Work (Registered Organisations) Amendment Bill 2012 [Provisions]", Recommendation 4 on page 21.

There is no parallel to this combination of provisions in, for example, the *Australian Securities and Investment Commission Act* 2001 (*"ASIC Act"*), from which many of the provisions in Schedule 2 appear to be drawn. We are concerned that the combined effect of these provisions might be to authorise, for example, covert surveillance of union meetings. Should this not be the intention, we would invite the Committee to revisit the breadth of these provisions and their combined impact.

Item 88, clause 329EA-329EC

These provisions seem to tie the financial performance of the Registered Organisations Commission to the amount of money it is able to recover as penalties from prosecuting Registered Organisations. We are concerned that this creates incentives for the Commission and the ROC to act otherwise than as a model litigant. There are no comparable legislative provisions applying either to the Fair Work Ombudsman or the Australian Securities and Investment Commission. However, in the available time we have not been able to ascertain whether the same position prevails in practice by virtue of any instruments issued by the Finance Minister under the *Financial Management and Accountability Act* 1997.

Item 88, clause 329FB

We are concerned that this provision in effect permits Ministerial interference in the operations of the Registered Organisations Commission. It is not clear why this desirable or required, particularly given the policy commitments that the new inspectorate would be independent[13]. Were this provision to be retained at all, it would be less unreasonable were it subject to the same qualifier as appears in clause 329FA(2) that the direction must be of a general nature only. Absent such a qualifier, it must be concluded that Ministerial interference is intended.

Item 88, Clause 329FC

It is concerning that the annual reports are not required to address the use of the coercive powers set out in Schedule 2. This is in contrast to the requirements contained in Regulation 8AAA of the *Australian Securities and Investments Commission Regulations* 2001 (referable to section 136 of the *ASIC Act*). Whilst we note the clause does enable

[13] The Coalition's Policy for Better Transparency and Accountability of Registered Organisations, pages 2, 5 & 6.

additional matters for annual reports to prescribed by regulations, there is no barrier to including these requirements in the legislation itself should the intent be such reporting will be provided.

Provisions contained in Schedule 2

General Comments

The provisions of Schedule 2 are the substantive content apparently intended to give effect to the commitments that a coalition government will:

- amend the law to ensure that registered organisations and their officials have to play by the same rules as companies and their directors

- ensure that the penalties for breaking the rules are the same that apply to companies and their directors, as set out in the Corporations Act 2001[14].

Whilst on closer examination the provisions achieve neither of these objectives (as explained in the following section below), we believe that those objectives are fundamentally flawed.

The push to introduce greater harmony between the regulation of registered organisations and the regulation of companies has its origin in reform process instigated in 1998 when the then Minister for Workplace Relations Peter Reith, commissioned law firm Blake Dawson Waldron to conduct a review of the regulation of registered organisations, rather than relying on the expertise of the Commonwealth Public Service in policy development. This ultimately lead in 2001 and 2002 to Bills being introduced which shared some features with that now advanced. Those Bills were substantially amended to reach what Mr Reith's successor as Minister (now the Prime Minster) described as a sensible consensus. That consensus is the basis of the current laws.

The Bill also shares features with a Bill recently advanced in the prior Parliament on behalf of Senator Abetz[15]. In its submission to a Senate Committee Inquiry concerning that Bill, the Department of Education, Employment and Workplace Relations said as follows:

> "The policy rationale underpinning the amendments in the Bill is that registered organisations should be regulated in the same manner as

[14] The Coalition's Policy for Better Transparency and Accountability of Registered Organisations, page 2.
[15] *Fair Work (Registered Organisations) Amendment (Towards Transparency) Bill* 2012

> corporations. This fails to recognise the differences between registered organisations and corporations.
>
> While there are some similarities, registered organisations are not, for the most part, comparable to corporations. Corporations are designed to generate wealth and protect the financial interests of shareholders. In contrast, registered organisations are established to represent their members in the industrial relation system with special rights under the FW Act, including in relation to collective bargaining and right of entry, and are an important element in ensuring the right to freedom of association.
>
> Further, the officers of registered organisations are often individuals who do not perform the role on a full time basis or for remuneration; as opposed to directors of corporations who in most cases are remunerated for their work.
>
> The Department believes that while the key concepts, principles and structures of corporate governance overlap with and provide a useful starting point for regulating registered organisations, rules that account for the unique constitution of registered organisations, including their central purpose and the context in which they operate, is required."[16]

We respectfully concur with the views then expressed by the Department.

Comments on particular provisions

Item 4, definition of "serious contravention"

We note that this provision draws on section 1317G of the *Corporations Act* 2001 (*"Corporations Act"*). A notable distinction is that, in the *Corporations Act*, the provision conditions whether any pecuniary penalty may be awarded *at all*. In the Bill, it is proposed that penalties be available irrespective of whether the conduct concerned meets the definition of a "serious contravention" – the function of the definition is to make a *higher level* of penalty available.

Where the definition is met, penalties of up to 1200 penalty units will be available. Where it is not met, penalties of up to 100 penalty units will remain available. Further, under section 1317G the *Corporations Act*, the quantity of civil penalty is fixed at $200,000 and that limit applies equally to persons and bodies corporate. Under the proposed amendments, the quantity of penalty is expressed as penalty units, thus is subject to review every three years pursuant to section 4AA of the *Crimes Act* 1914.

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[16] Department of Education, Employment and Workplace Relations, "Submission to the Senate Standing Committee on Education, Employment and Workplace Relations Inquiry into the Fair Work (Registered Organisations) Amendment (Towards Transparency) Bill 2012," at paras 36-39.

Further, under the proposed amendments, the penalty units applicable to these contraventions is five fold for bodies corporate (including registered organisations). On current figures this translates to a maximum penalty of $204,000 for an individual and $1,020,000 for a registered organisation. The penalties are in our view excessive and clearly inconsistent with the expressed policy.

In addition, the provision does not translate well into the sphere of regulating registered organisations. The first limb ("a serious contravention is ...a contravention that materially prejudices the interests of the organisation or branch, or the members of the organisation or branch") is problematic because its function in the *Corporations Act* is to address conduct which impinges on the capacity of the company to achieve profit for the company and deliver a financial return to shareholders (i.e. "members" of the Company). These are not the bases of association that underpin unionism. The second limb ("a serious contravention is ...a contravention that materially prejudices the ability of the organisation or branch to pay its creditors") has little relevance where registered organisations are under no general obligation to generate profit or indeed remain solvent. The third limb is ("a serious contravention is ...a contravention that is serious") is circular in this context given the result and function the definition serves – is the necessary implication the legislature intends to impose penalties of 100 or 500 penalty units for contraventions that a Court would not regard as serious?

Item 19

This item would require registered organisations rules to keep minutes of all meetings of committees of management. Whilst registered organisations clearly already do so, we merely point out that there is no comparable provision in the replaceable rules contained in the *Corporations Act*.

Item 163

The proposed section 290A would introduce offences relating to the duties which currently appear as civil penalty provisions in sections 286-288 of the *RO Act*. The proposed amendments are closely modelled on those appearing at section 184(1)-(3) of the *Corporations Act.* The proposed penalties are also in line with those set out in Schedule 3 of the *Corporations Act* for those analogous offences.

Whilst we recognise that the conduct that would amount to breaches of the proposed duties are sufficiently serious to attract criminal sanctions, we question whether the amendments would add any value to the existing legal framework.

In this regard, the history of the corresponding duties in corporations legislation is instructive. The *Corporations Act* was relevantly amended twice in respect of the duties placed on directors, and the reasons for those amendments bear repeating. The reforms introduced to directors' duties by the *Corporate Law Reform Act* 1992 were largely reactive to the "Company Directors' Duties" report of the Senate Committee on Legal and Constitutional Affairs[17] ("Senate Reform Report") and the Government's response thereto[18] ("Government Reform Response").

At the time of the Senate Reform Report, the relevant duties were cast only as criminal offences in the *Companies Code* and the *Corporations Act,* save that a civil action could be brought by the company itself for breach of those duties in order to recover losses suffered by the corporation, or profits derived by the director, as a consequence of their non-compliance with the statutory duties[19]. The duties as at that time were:

- To act honestly in the exercise of powers and the discharge of duties;
- To exercise a reasonable degree of care and diligence in the exercise of powers and discharge of duties;
- To not make improper use of information acquired by virtue of their position to gain (directly or indirectly) an advantage for themselves or for any other person or to cause detriment to the corporation; and
- To not make improper use of their position to gain (directly or indirectly) and advantage for themselves or for any other person or to cause detriment to the corporation.

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17 Commonwealth of Australia, Senate Standing Committee on Legal & Constitutional Affairs, "Company Directors Duties", Australian Government Publishing Service, November 1989, ISBN 0 644 10716 2.

18 November 1991

19 See generally section 229 of the *Companies Code*, section 232 of the *Corporations Act*, circa 1989.

The Senate Reform Report was cast against a background where traditional thinking about corporate power and the capacity of company members (shareholders) to control companies, was under challenge. Put simply, corporations had a lot of power, and were not subject to sufficient control. The report's introduction contained the following:

> *"The corporate culture we know today is not the corporate culture of a century ago. The balance between ownership and control of companies has shifted towards the controllers. Management has great power over the assets which it pursues with vigour through takeovers, mergers and buy-outs...*
>
> *The modern corporate sector has a profound effect on life in Australia. It has achieved a high public profile and, with it, a high level of public scrutiny. The corporate sector is crucial to the creation of the nation's wealth. Society looks to it to produce that wealth in accordance with community values...*
>
> *Directors are the mind and soul of the corporate sector. They are crucial to how it operates and how its great power is exercised. They determine the character of corporate culture. Their actions can have a profound effect on the lives a great number of people, be they shareholders, creditors and consumers, and to the environment..*
>
> *Some say that companies are now so dominated by directors that their owners, the shareholders, are denied any effective say in their control. They advocate a different balance. Some argue the law should move to meet the reality that the corporate sector is now central not only to the economic well being of society, but to most dimensions of community life. They advocate the imposition of wider duties on directors".*

The points of difference to the modern status of unions in Australia should be glaringly obvious.

In terms of control, unions have been subject to increasing levels of regulation – the amendments now proposed being the third tranche of additional regulation in the last 18 months. A common thread throughout the various regulatory changes has been the requirement that unions (as a condition of their registration) be formed for the furthering or protecting of their member's interests, that they function democratically and that they be free from employer control. Likewise, the State has had the long-standing power to intervene in and/or cancel a union's registration if the union no longer effectively represents its members, has become subject to employer control or has ceased to function effectively. Officers of unions must be elected by and represent their members' interests, and have no power to refuse membership to persons eligible to become members under union Rules. The Rules of organisations cannot be changed without

external approval[20] and must provide for management committees (including at branch level) to be controlled by members, failing which the State may ultimately re-write union Rules to give effect to that requirement. Further, notwithstanding the union amalgamations of the 1980s and 1990s, branches, divisions, divisional branches and other units continue to exist within unions which are predominantly self-governed by their respective members. With the exception of comparatively very few staff (who report to elected officers), unions are member-managed and controlled and supervised by the State, from the workplace delegate to the national secretary.

Further, it is self evident that there is no parallel between the nature of the power exercised by corporations and the power exercised by unions. Increasing restrictions have been imposed on unions through amendments to industrial relations regulation in recent decades, most significantly concerning their setting in the award system. Beyond the award safety net, changes to employment conditions must be negotiated on an enterprise-by-enterprise basis and this occurs without resort to industrial action except where the unions members and the Commission so approve in accordance with legislative provisions that stifle whole of industry standards and which the International Labour Organisation has described as "excessive"[21].

The picture of unions today is thus far different to the position of corporations in the hangover of the corporate excesses of the 1980s that were alluded to in the Senate Reform Report. Australia is not confronted with a union movement that is an unbridled force that threatens the nation's economic security or the proper functioning of its capital markets. In truth, aside from a handful of matters that have attracted media attention, including for political reasons, union governance has been a non-issue for 30 years.

One of the principal concerns ventilated in the Senate Reform Report about the then current regime of directors' duties was that it imposed too low a standard on those economically powerful actors:

> *"The corporate sector possesses most of Australia's assets, employs most of its workers, and is the sector most capable of injuring the environment. Given this it is of vital concern to the community and the community is entitled to impose appropriate restrictions on it."*[22]

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20 Compare to the process of changing company constitutions by special resolution and the scheme of "replaceable rules" under the Corporations Act.

21 ILO Freedom of Association Case Report No 357, June 2010.

22 *Senate Reform Report*, p. 17

Chief among the concerns was that the courts, on the rare occasions that they were called upon to rule on whether a director had met his or her statutory and general law duties, had imposed a subjective rather than an objective standard. The courts had not assessed directors' conduct on the basis of a standard that all individuals would be expected to meet, regardless of their capacity or circumstances, but rather had looked to what could be expected of the particular director, in the particular circumstances. The Senate Reform Report adopted the following as a summary of the position as it then was:

> "*..the fewer a director's qualifications for office, the less time an attention he devotes to his office, and the greater the reliance he places on others, legally the less responsible he is*".[23]

The Senate Reform Report accordingly recommended that an objective duty of care be provided in companies legislation[24]. Tempering this somewhat, it also recommended that a "business judgement rule" be introduced to absolve directors of liability for decisions made in good faith, absent of personal interest, where they are appropriately informed about the subject matter of the decision at issue and rationally believe that it is in the best interests of the company.[25]

Importantly, the Senate Reform Report recommended that a raft of provisions be de-criminalised, along with dual criminal and civil liability in respect of director's duties. In doing so it noted that the criminal law aside from companies law *already dealt with* most offences involving fraud or dishonesty, and cited the Victorian Crimes Act offences of false accounting, obtaining financial advantage or property by deception and falsifying books of account. The Committee reported :

> "*Generally the submissions made to the Committee approved of penalties where they had acted fraudulently or dishonestly but not otherwise. The criminal law will deal with most offences involving fraud or dishonesty. An auditor who gave evidence to the Committee said that the criminal penalties helped to 'focus the view of directors', although he also expressed the view that civil remedies were probably more important.*
>
> *Although many sections of the Companies Code and Corporations Act provide for gaol terms, in lieu of or in addition to monetary penalties, it appears that courts are reluctant to impose them. When gaol terms are provided for breach of the law but the courts are disinclined to impose them because they seem too draconian, the law tends to fall into disrepute...*" (emphasis added)

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23 *Senate Reform Report, p.27-28.*

24 *Senate Reform Report*, Recommendation 1.

25 *Senate Reform Report,* Recommendation 2.

Against a backdrop of the regulator's evidence concerning its difficulty of securing convictions, the Committee was attracted to making director's duties enforceable by way of civil penalty where the breach did not involve criminal fault or intent elements:

> *"Where a breach of the law does not involve criminality, a civil penalty may be appropriate. Proof of the breach would have to be established on the civil onus (that is, on the balance of probabilities)...In appropriate circumstances, people who suffered a loss as a result of the breach could simultaneously bring a claim for damages in the proceedings taken to recover the penalty."*[26]

The *Government Reform Response* also focussed on these factors in accepting the recommendations of a dual liability regime:

> *"The Government agrees with the Committee that a mere failure to comply with a fiduciary duty should not attract a criminal sanction. It notes that a company officer may contravene section 232, and thus be subject to criminal sanction, without having committed any fraud against the company, its members or creditors. Further, because section 232 attracts the criminal law standard of proof, the regulatory authorities cannot succeed in any action under the section against a director for breach of duty unless they are able to establish the elements of breach beyond reasonable doubt. To a certain extent, this could inhibit recovery action where a breach, though not committed with any dishonest intent, has caused significant loss to the company.*
>
> *In the light of these factors, and in response to Committee's recommendations, the Government proposes to amend section 232 with the intention of confining the criminal liability of directors to conduct involving a dishonest intent. Civil penalties will be introduced into the Corporations Law in relation to breaches of section 232, falling short of dishonest intent."* (emphasis added).

Indeed, by the time the Government Reform Response was delivered, the problems associated with securing criminal convictions were becoming glaringly apparent. The use of criminal sanctions had made enforcement problematic: ASIC generally failed to bring or conclude successful criminal cases, including in relation to matters in areas it identified as areas of "national priority" and in its dealings with the corporate excesses of the 1980s.[27]

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26 *Senate Reform Report*, p. 190-191.

27 Comino, V., "Civil or Criminal Penalties for Corporate Misconduct – Which Way Ahead?", University of Queensland Research Paper 09-01, 2009.

The resultant *Corporate Law Reform Act* reflected the government's position: Civil penalties became the default enforcement option for directors' duties (with the attendant advantage of being easier to prove), save where criminal elements were present:

> "1317FA.(1) A person is guilty of an offence if the person contravenes a civil penalty provision:
> (a) knowingly, intentionally or recklessly; and
> (b) either:
> (i) dishonestly and intending to gain, whether directly or indirectly, an advantage for that or any other person; or
> (ii) intending to deceive or defraud someone.
> "(2) A person who contravenes a civil penalty provision is not guilty of an offence except as provided by subsection (1)."[28]

The duties themselves became:

> " 232. (1) In this section:
>
> "officer", in relation to a corporation, means:
> (a) a director, secretary or executive officer of the corporation;
> (b) a receiver, or receiver and manager, of property of the corporation, or any other authorised person who enters into possession or assumes control of property of the corporation for the purpose of enforcing any charge;
> (c) an administrator of the corporation;
> (ca) an administrator of a deed of company arrangement executed by the corporation;
> (d) a liquidator of the corporation; and
> (e) a trustee or other person administering a compromise or arrangement made between the corporation and another person or other persons;
> (2) An officer of a corporation shall at all times act honestly in the exercise of his or her powers and the discharge of the duties of his or her office.
> (4) In the exercise of his or her powers and the discharge of his or her duties, an officer of a corporation must exercise the degree of care and diligence that a reasonable person in a like position in a corporation would exercise in the corporation's circumstances.
> (4A) A reference in subsection (2) or (4) to the exercise of powers, or the discharge of duties, of an officer of a corporation is a reference to the exercise of those powers, or the discharge of those duties:
> (a) in any case - in this jurisdiction; or
> (b) if the body is a local corporation - outside this jurisdiction; or
> (c) otherwise - outside this jurisdiction but in connection with:
> (i) the corporation carrying on business in this jurisdiction; or
> (ii) an act that the corporation does, or proposes to do, in this jurisdiction; or
> (iii) a decision by the corporation whether or not to do, or to refrain from doing, an act in this jurisdiction.
> (5) An officer or employee of a corporation, or a former officer or employee of a corporation, must not, in relevant circumstances, make improper use of information acquired by virtue of his or her position as such an officer or employee to gain, directly or indirectly, an advantage for himself or herself or for any other person or to cause detriment to the corporation.
> (6) An officer or employee of a corporation must not, in relevant circumstances, make improper use of his or her position as such an officer or

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28 *Corporate Law Reform Act* 1992, Item 17.

> employee, to gain, directly or indirectly, an advantage for himself or herself or for any other person or to cause detriment to the corporation.
> (6A) A reference in subsection (5) or (6), in relation to a corporation, to doing an act in relevant circumstances is a reference to doing the act:
> (a) if the body is a local corporation - in this jurisdiction or elsewhere; or
> (b) otherwise - in this jurisdiction.
> (6B) Subsections (2), (4), (5) and (6) are civil penalty provisions as defined by section 1317DA, so Part 9.4B provides for civil and criminal consequences of contravening any of them, or of being involved in a contravention of any of them.
> (11) This section has effect in addition to, and not in derogation of, any rule of law relating to the duty or liability of a person by reason of the person's office or
> employment in relation to a corporation and does not prevent the institution of any civil proceedings in respect of a breach of such a duty or in respect of such a liability."

As introduced, the civil penalty regime for directors' duties was criticised for placing criminal and civil enforcement on an equal footing[29]. The legislation was cast such that ASIC needed to make an election between civil and criminal proceedings because criminal proceedings could not be taken after civil proceedings, irrespective of whether the civil prosecution had succeeded. But this was a product of a conscious choice by legislators: civil penalties clearly were seen as the better enforcement option; indeed they were the major component of the reforms. However, internally ASIC investigators were required to liaise with the Director of Public Prosecutions over significant enforcement matters. The need for the DPP to satisfy itself that there was no criminal element in a matter was productive of delays and led to a situation where the DPP had an effective veto over the use of civil penalties.[30] ASIC investigators also reported that because the same conduct might breach both the Corporations Law and state-based criminal laws, it was preferable for charges under state law to be pursued because there was more certainty in the law and a perception that courts tended to hand down more severe penalties for the general criminal law than breaches of the Corporations Law.[31] In this environment, ASIC commenced only 14 applications for civil penalties between 1993 and 1999. The interrelationship between civil penalties, specific corporations offences and the general criminal law was leading to a degree of regulatory indecision and paralysis.

Further reforms were achieved by *Corporations Law Economic Reform Program Act ("CLERP Act").* The economic focus of the reform effort was made plain in the government report which precipitated the amending legislation:

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29 Comino *Op. Cit.*

30 Gilligan, G., Bird, H. & Ramsay, I., "The Efficacy of Civil Penalty Sanctions under the Australia Corporations Law", Trends & Isssues in Crime & Criminal Justice (No. 136), Aust. Institute of Criminology, November 1999.

31 *Ibid.*

> *"In light of more recent judicial decisions which appear to increase the responsibility of directors and create a degree of uncertainty regarding their potential liability, concerns have been expressed that directors' attentions are increasingly being focussed on compliance issues rather than on wealth creation for shareholders. In particular, concerns have been expressed that the Corporations Law contributes to risk-averse behaviour on the part of directors.*
>
> *If this is the case, the losers are not only directors personally, but also shareholders, whose returns on company capital will ultimately be diminished. The nation also loses as behaviour that is unnecessarily risk-averse distracts from behaviour that could expand the enterprise and therefore wealth and employment.*
> ...
> *While regulatory requirements are usually placed on directors as a means of protecting investors, or the general public, such protection may well be achieved at the expense of investors themselves. Accordingly, it is vitally important that any measures put in place as a means of promoting investor protection are properly assessed from an economic perspective to ensure that they do not ultimately act to the detriment of shareholders as a whole"*[32]

The *CLERP Act*, which took effect from 2000, removed the bar on Criminal Proceedings after Civil Proceedings[33] - no doubt giving the regulator some comfort in proceeding with civil matters. It further removed the statutory general duty to act honestly in favour of an expanded duty of care and diligence underwritten by a business judgement rule, and a duty to act in good faith in the best interests of the corporation for a proper purpose. These were civil penalty provisions, separate provisions were retained for criminal liability where recklessness or dishonesty were involved (being a long-standing basis of criminal responsibility), however the duty of care and diligence was decriminalised entirely. The report which precipitated those amendments stated that:

> "As a matter of principle, criminal sanctions on directors should only apply in exceptional circumstances and not from a failure to exercise sufficient care and diligence"[34].

While acknowledging that CLERP resulted in a further roll-back of corporation specific criminal offences, a puzzling aspect of the CLERP reforms was the retention of *any* specific criminal provisions relating to directors duties. It is unclear why

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[32] Commonwealth of Australia – Corporate Law Economic Reform Program, "Directors' Duties and Corporate Governance: Facilitating Innovation and protecting investors", Paper No. 3, 1997, ISBN 0 642 26117 2, page 9-10

[33] *Schedule 1, Item 6, s. 1317P*

[34] Commonwealth of Australia – Corporate Law Economic Reform Program, "Directors' Duties and Corporate Governance: Facilitating Innovation and protecting investors", Paper No. 3, 1997, ISBN 0 642 26117 2, page 50.

recommendations made to the Standing Committee of Attorneys General by its Model Code Officers Committee were seemingly ignored. Specifically, after noting that:

> *"...the Corporations Law was prepared under great pressure and the relationship between the Corporations Law offences and the Crimes Act offences is not well worked out."*[35]

the Model Code Officers Committee recommended in its final report:

> *"Fraud involving corporations should be prosecuted under normal criminal law. The Corporations Law should not include a separate fraud offence"*[36]

On this view, at the very least the specific provisions concerning the dishonest use of information or position to gain an advantage or to subject the corporation to a detriment ought not have been retained (either in amended form or otherwise).

Outside of government, the *CLERP* process was subject to academic criticism for the lack of attention it paid to the overlap with the existing criminal law:

> "The latest version of the *Corporations Law* offences have come about through the Corporate Law Economic Reform (CLERP) process. But, as appears to have been the history over the last 100 years, such changes are being made without detailed consideration of the civil regulation of companies to the existing provisions Crimes Acts. As an example of this, the 1997 CLERP 3 paper, in outlining the liability of directors, discussed their liability under *Corporations Law* and then concluded:
>
> > *'Legislation other than the Corporations Law may also impose duties on directors. For example, environmental control legislation in a number of States and Territories places obligations on directors as well as companies'*
>
> It is of concern that such a statement suggests that the peak corporate reform committee did not examine the relevant provisions of the Crimes Acts. Despite this, the Crimes Act provisions remain powerful and flexible weapons in enforcing corporate honesty, and it is timely to review their scope and operation"[37]

The learned author of the article referenced above pointed out that at around the time the CLERP reforms took effect, the criminal law outside of Corporations Law was a powerful tool. Not only were offences of general application apt to prosecute directors, such as larceny, obtaining by deception, fraudulent conversion and making false instruments, but there were a series of offences in State and Territory Laws that were specific to officers of

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35 Model Criminal Code Officers Committee of the Standing Committee of Attorneys-General, "Model Criminal Code Chapter 3 Report – Theft, Fraud, Bribery and Related Offences", December 1995, ISBN 0 642 208 48 4

36 *Ibid.*

37 Steel, A., "From Hard Labour to Spies v. The Queen: Prosecuting Corporate Officers under the Crimes Act", (2001) 75 Australian Law Journal 479.

a body corporate. Since then, it has also been accepted that the elements of the offence in 184(2)(a) concerning improper use of information are indistinguishable from the offence of fraud at common law[38], and it has been made clear that test for dishonesty used in section 184 is no different to that ordinarily applied in criminal cases[39].

Consistent with the above criticisms and indeed the acknowledgement in the Senate Reform Report over 12 years ago concerning the coverage of the criminal law, the trend in corporations law clearly is an increased emphasis on *civil* penalties as a tool for enforcement. Post the *CLERP Act*, the civil directors' duties have been located in sections 180-183 of the *Corporations Act* and the criminal duties at section 184 thereof. In the first four years of the operation of the *CLERP Act,* ASIC issued 25 Civil Penalty applications and concluded 19 of them, and had been unsuccessful in only one[40]. Based on ASIC annual reports, in the last 10 years it completed 806 Civil Proceedings versus 490 criminal proceedings[41]. A review of Austlii reported sentencing judgements and appeals over that period indicated that only 16 cases so reported involved a sentence for a breach of the criminal directors' duties in section 184 of the *Corporations Act*. It was also evident that charges were routinely pursued under other criminal laws for the same course of conduct alleged in the laid pursuant to the section 184 duties – cases were effectively brought in the alternative and sometimes jointly prosecuted by both State and Commonwealth Directors of Public Prosecutions. Meanwhile many of the corporate misdeeds which in recent years have generated a great deal of public interest and condemnation have resulted in civil penalty proceedings only, such as *Vizard*, *Water Wheel, One.Tel, James Hardie, Citigroup* and *AWB.* Further, the allegations concerning former officials of the Health Services Union which in large measure have fanned the media and political interest in union governance in recent times have been (and are being) addressed in least in part by the application of State based criminal law[42].

It is in this context that we view the proposed section 290A as a retrograde step. There is no trigger for further regulation. The appropriate response if there were such a trigger now evident would be to do what already has been done – introduce a civil penalty regime that enables the regulator to punish and deter and that provides for losses to be

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38 *Howarth v. ASIC* [2008] AATA 278

39 *S A J v. The Queen* [2012] VSCA 243

40 Comino *Op.Cit*

41 Based on a review of the ASIC annual reports from 2001/2 to 2011/12

42 See *General Manager of the Fair Work Commission v Thomson* [2013] FCA 380, http://www.hsu.asn.au/message-from-secretary-gerard-hayes-in-relation-to-michael-williamson-2/

compensated; and let the criminal law continue to do its job. On the issue of general duties, it is the regulation of corporations, not registered organisations, that is out of step.

Further, we wish to remind the Committee of what was said to the Senate Standing Committee on Education, Employment and Workplace Relations by the Department of Education, Employment and Workplace Relations when, similar provisions were proposed (on behalf of Senator Abetz) in November of 2012:

> "To introduce criminal sanctions for breaches of the RO Act would be a significant change in the regulation of registered organisations.
>
> Officers and employees of registered organisations are subject to general criminal laws, for example in relation to theft or fraudulent conduct. However, the RO Act does not generally provide for imprisonment for breaches of their obligations. The only circumstance in which the RO Act provides for imprisonment is in relation to the victimisation of whistleblowers (section 337C).
>
> Given that officers of registered organisations often perform their role in a voluntary or part time capacity, there is a significant risk that introducing more severe penalties could negatively impact on registered organisations in relation to their ability to attract appropriately qualified individuals to become officers. This risk was highlighted by Mr Stephen Smith (Director, National Workplace Relations) of the Australian Industry Group (AIG), who has indicated to the Committee that the introduction of criminal liability would act as a "deterrent" to people giving up their time to sit on committees of employer groups (Senate Education, Employment and Workplace Relations Legislation Committee, Inquiry into the Fair Work (Registered Organisations) Amendment Bill 2012, 22 June 2012, Committee Hansard, p.5).
>
> This has the potential to diminish the ability of registered organisations to adequately represent their members."[43]

Finally, it would be remiss to fail to point out that what is now proposed is certainly not new. In 2001, the then government introduced the *Workplace Relations (Registered Organisations) Bill*. It contained at proposed sections 272-275 the civil obligations that now appear at sections 285-288 of the *RO Act*. However, it also went on at proposed section 277 to include criminal duties in almost identical form to those now proposed (save for the ten fold increase in penalties now sought):

> "277 Good faith, use of position and use of information--criminal offences
>
> *Good faith–officers*
>
> (1) An officer of an organisation or a branch commits an offence if he or she intentionally or recklessly fails to exercise his or her powers and discharge his or her duties:

[43] Department of Education, Employment and Workplace Relations, "Submission to the Senate Standing Committee on Education, Employment and Workplace Relations Inquiry into the Fair Work (Registered Organisations) Amendment (Towards Transparency) Bill 2012", para 40-43.

(a) in good faith in what he or she believes to be in the best interests of the organisation; or

(b) for a proper purpose;

and he or she does so dishonestly.

Maximum penalty: 200 penalty units.

Use of position--officers and employees

(2) An officer or employee of an organisation or a branch commits an offence if he or she uses his or her position:

(a) dishonestly with the intention of directly or indirectly gaining an advantage for himself or herself, or someone else, or causing detriment to the organisation or to another person; or

(b) reckless as to whether the use may result in him or her or someone else directly or indirectly gaining an advantage, or in causing detriment to the organisation or to another person.

Maximum penalty: 200 penalty units.

Use of information--officers and employees

(3) A person who obtains information because he or she is, or has been, an officer or employee of an organisation or a branch commits an offence if he or she uses the information:

(a) dishonestly with the intention of directly or indirectly gaining an advantage for himself or herself, or someone else, or causing detriment to the organisation or to another person; or

(b) reckless as to whether the use may result in himself or herself or someone else directly or indirectly gaining an advantage, or in causing detriment to the organisation or to another person.

Maximum penalty: 200 penalty units.

(4) It is a defence to an offence against this section if another provision of this Act or the Workplace Relations Act required the officer or employee to do the act in question."

Proposed section 277 was removed after amendments proposed by the opposition were agreed to by the government. In so accepting those amendments, the then Minister (now Prime Minister) said:

> "As has been said on previous occasions in the course of debating the Workplace Relations (Registered Organisations) Bill 2001, the government's intention all along was not to introduce a bill on contentious matters but to introduce a bill which is, as far as is humanly possible, an expression of the consensus of all the people with an interest in the regulation of registered organisations. For that reason, the government has been prepared at every step in this process to consider and, as far as is humanly possible, to take into account all the various concerns that have been put to us by trade unions and others and, most recently, by members opposite".[44]

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[44] Hansard House of Reps 27/08/2001 p 30318

Ultimately the Bill did not pass, owing to an intervening election. The *Workplace Relations (Registration and Accountability of Organisations) Bill* 2002 relevantly reproduced the *Workplace Relations (Registered Organisations) Bill* 2001 as amended by the previous Parliament. In his second reading speech in support of the 2002 Bill, the Prime Minister (then Minister for Workplace Relations) said:

> "This legislation is perhaps somewhat unusual in that it is a sign that, notwithstanding the differences between the parties, some of which I have just noted, we do have many things in common. I guess two of those great values that we have in common are our commitment to democracy and our commitment to accountability in the great institutions of Australian society. This bill is designed to enshrine those great values of democracy and accountability in the registered organisations which comprise our workplace relations system. There is quite a long history to these particular bills. They originated well back in the life of the previous parliament as a discussion paper put out by my distinguished predecessor, Peter Reith. They then became an exposure draft bill. As a result of a constant process of consultation and dialogue between employer organisations, union organisations and members opposite some of the more controversial parts were taken out of the exposure draft of the bill. Eventually a bill did go through the lower house of the parliament just prior to the last election with consent of the opposition, and the bill would have gone through the Senate I am sure but the election intervened and so now we are doing the same thing again. I have to say that there have been further amendments to the bill post-election in part to take account of constructive suggestions made by the shadow minister for workplace relations, the member for Barton, and in part to restore some of the earlier constructive suggestions of the former shadow minister, the member for Brisbane.
>
> This is a genuine exercise in finding common ground. This is a genuine exercise in trying to find those things which unite us rather than dwelling on the things that divide us, which is perhaps an inevitable part of the political process—but we should not be allowed to obscure those fundamental things that we have in common. Given all the changes which have taken place over the last few years in workplace relations, it is appropriate that the technical rules governing registered organisations should be updated. The last significant amendments to those rules took place under the Hawke government in 1988 and, indeed, some of the regulatory provisions have been unchanged for many decades.
>
> Essentially this bill proposes to modernise the financial and reporting requirements and improve the disclosure of financial information to the members of registered organisations and to improve the democratic control of those organisations through ensuring the better integrity of industrial elections. Generally speaking, what the government has sought to do with these bills is to ensure that the same standards of conduct and behaviour which the law imposes on company directors and on corporations should be imposed and expected of registered organisations and the officers of those organisations"[45].

The passage of the *Workplace Relations (Registration and Accountability of Organisations) Bill* 2002 led to Schedule 1B of the *Workplace Relations Act,* which was essentially unchanged by the *WorkChoices* or *Fair Work* amendments since, save for those most recent amendments effected by the *2012 Act*. We see no good reason to disrupt the sensible consensus position.

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[45] Hansard House of reps 17/9/2002 p6497-8.

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These provisions largely overlap with the provisions due to come into force on 1 January 2014 as Division 3A of Part 2 of Chapter 5 of the *RO Act*. A new procedural requirement, attracting significant penalties, is that the relevant disclosures be lodged with the ROC.

In accordance with transitional provisions and in the lead up to the commencement of the anticipated requirements in Division 3A of Part 2 of Chapter 5, the ACTU has developed a training package on financial management and had that package approved by the General Manager. The roll-out of the training is well under way. Further, our affiliates have being going through the internal governance processes necessary to give effect to Rule changes which will comply with the anticipated requirements, and applications have been made to the FWC for approval of those Rule changes. Because the requirements of Division 3A of Part 2 of Chapter 5 were designed to align with the timing of reporting requirements in Division 5 of Part 3 of Chapter 8 of the *RO Act*, and because the definition of "reporting unit", other than exceptional cases, aligns with the definition of branches, unions are intending to comply with those provisions by including the required disclosures in the reports which must be prepared, presented, made available to members and lodged with the General Manager. Accordingly, little will be achieved in practice by the reforms now proposed, save for frustration and complexity in relation to the matters of detail (such as the number of branch officers for which disclosure may be made) where the Rules adopted by unions in accordance with the anticipated requirements differ from the proposed legislative requirements. There will be additional uncertainty in the "limbo period" where unions have submitted their applications for Rule changes and are awaiting determination thereof, particularly in the absence of any transitional rules (foreshadowed by Item 246) being made.

Further, it is important to note that this level of oversight of the operations of registered organisations is unparalleled when like for like is compared in the *Corporations Act*. For example:

- Disclosures under these provisions (and other requirements elsewhere in the *RO Act* where it places obligations on "Reporting Units") must be made at Branch level. The overwhelming majority of most branches of most unions would meet the "small proprietary company" test in section 45A(2) of the *Corporations Act* and/or the "small company limited by guarantee definition" at section 45B thereof such that

they would not be required even to prepare annual reports or directors reports. Consequently, none of the related requirements under the Australian Accounting Standards for the preparation of such reports would lead to disclosure either to members or the regulator, nor any risk of a penalty for non-compliance;

- Director's disclosure obligations under the *Corporations Law* regarding material personal interests do not clearly extend to the interests held separately by relatives[46];

- Director's disclosure obligations under the *Corporations Law* regarding material personal interests are required to be made to other directors only[47]; and

- Director's are not obliged by the *Corporations Law* to disclose material personal interests relating to dealings that are subject to member approval[48]

We also point out that there is an interaction between the requirements of union rules[49], the content of the general duties in sections 285-288 of the *RO Act* and the investigative powers at section 331(1)(d) thereof. This interaction facilitates investigation and the bringing of proceedings for poor financial management based on the notion that non-compliance with relevant rules, in a given set of circumstances, evidences a lack of care and diligence or good faith or an improper use of an officer's position. Indeed this is the basis upon which some allegations against a former HSU official are being pursued by the General Manager.

Item 209

This provision would permit the Court to order disqualification from office on account of a contravention of a civil penalty provision. Whilst the text of the provision is a reasonably faithful adaptation of section 206C of the *Corporations Act*, its practical effect is significantly different and ill suited to regulation of registered organisations.

Firstly, much of the conduct which is capable of attracting a disqualification order under section 206C has no counterpart in the activities of registered organisations, for example:

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[46] Section 191
[47] Section 191(1)
[48] Section 191(2)(a)(iii)
[49] Including the compulsory requirements effective from 1 January 2013 under sections 141(1)(ca) and Division 3A of Part 2 of Chapter 5.

- Failing to disclose proposed demutualisation[50];
- Contraventions by the Company Secretary[51];
- Contraventions in dealing with redeemable preference shares[52];
- Insolvent trading[53];
- Contravention of duties and responsibilities applicable to the management of a registered managed investment scheme[54]; and
- A responsible entity for a management investment scheme acquiring an interest in the scheme on uncommercial terms[55].

Secondly, the *RO Act* (including as now proposed to be amended) subjects officers to civil penalties for conduct that has no counterpart in the activities of Corporations or within the scope of section 206C of the *Corporations Act*, for example:

- False or misleading statements about membership or resignation[56];
- Causing a contravention of an order or direction[57]; and
- Failure to disclose material personal interest of relatives, or relating to dealings that are subject to member approval[58]

Thirdly, as the reporting scheme under the *RO Act* requires reporting at branch and "reporting unit" level, it demands reporting at a level which would not be demanded were those branches instead established as small proprietary companies or small companies limited by guarantee. Accordingly, were the current branch officials instead directors of such companies of the same scale, they would not be subject to particular requirements (partially traversed in accounting standards), the non-compliance with which would leave them amendable to disqualification orders[59].

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[50] *Corporations Act* subclause 29(6) of Schedule 4
[51] *Corporations Act,* section 188
[52] *Corporations Act,* sections 254L(2), 265D(3), 259F(2), 260D(2).
[53] *Corporations Act,* section 588G(2)
[54] *Corporations Act*, section 601FC, 601FD
[55] *Corporations Act*, section 601FG(2)
[56] *RO Act*, section 175, 176
[57] *RO Act*, sections 297-303.
[58] Proposed section 293C
[59] For example section 267 of the *RO Act*, proposes sections 293B and 293C.

Items 215-230

These provisions seek to adopt the investigative framework under the *ASIC* Act. The impetus for that framework was the *Rae Report*[60] of 1974, a report prompted by (and detailing) substantial manipulation of and misconduct in securities markets, particularly in the mining industry. The report recommended the creation of a national statutory authority, with strong investigative powers, in response to the identified problems. Early versions of the scheme were evident in the *National Companies and Securities Commission Act* 1979 and were built upon through amendments to uniform schemes and the transition to the Australian Securities Commission and ultimately the Australian Securities and Investment Commission in the late 1980s, such reforms also responsive to the corporate conduct and regulatory failures evident in that period.

The investigative framework in the *ASIC Act* is focussed on the regulator's power to prosecute contraventions of the law, including offences[61]. The investigative framework under the *RO Act* is not intended for the investigation of offences. Whilst it does apply to the investigation of contravention of civil penalties, it also serves other purposes, such as:

- Internal management according to the Rules of organisations[62];
- Irregularities evident from Auditors reports[63]; and
- General finances and financial administration[64].

Many of those investigations may not reveal any contravention of the law, however they may reveal a need for an organisation or a reporting unit thereof to improve its practices in some way. The outcome of an investigation therefore may be a requirement to improve those practices[65], or a re-definition of reporting units[66], rather than a prosecution. An investigative framework that is focussed solely on prosecution and enforcement is ill suited to these aims.

It is to be recalled also that, because of the expansive reporting requirements of "reporting units" as compared to corporations of the same size and purpose, the scope of

[60] Senate Select Committee on Securities and Exchange, "Australian Securities Markets and their Regulation".
[61] See generally Division 1 and Division 5 of Part 3 of the *ASIC Act*.
[62] Section 331(1)(d) of the *RO Act*.
[63] Section 332 of the *RO Act*.
[64] Section 333 of the *RO Act*.
[65] Section 336(2) of the *RO Act*.
[66] Section 247 of the *RO Act*.

investigations for civil penalty matters under the *RO Act* is broader than would exist if those units were established as (for example) companies limited by guarantee. The heavy handed investigative powers will therefore be now targeted at matters they were not developed to address.

In addition, the enforcement framework in the *RO Act* permits registered organisations to commence proceedings for compensation for losses suffered by breaches of civil penalty provisions[67], and permits (with the regulator's permission), union members to prosecute civil penalty matters as against their union[68]. They also operate in an overall framework designed to ensure democratic control. The framework in the *Corporations Act* provides no rights to shareholders or any person other than the Regulator to seek penalties for breaches of civil penalty provisions[69]. To the extent that stronger investigative powers in the corporations sphere might be justified by concerns about the disempowerment of company members or shareholders (as alluded to in the Senate Reform Report), those concerns are not applicable here.

It is unclear why the first level of recourse to investigative powers now includes the public at large, rather than being limited to the current and former officers, employees and auditors of the organisation. Given that the civil penalty provisions relate almost exclusively to internal governance requirements, it is almost inconceivable that any person outside this group (such as a rank and file union member) could provide any information of value to investigators. However, informing the union member that the very fact of their association might subject them to coercive investigative powers might (and is presumably intended to) cause them to think twice about whether to associate with a union at all. The current separation (as of June 2012) as between the first level of investigation (internal management, non compliance an offence) and the second level of investigation (any person, non-compliance a civil penalty) provides a sufficient investigative framework without the potentially stigmatising effects.

There are a number of subtle differences between the scheme proposed and that which exists under the *ASIC Act*, which are unexplained are ought to be rectified, as follows:

[67] Section 310(3) of the *RO Act.*
[68] Section 3010(1) of the *RO Act.*
[69] Section 1317J of the *Corporations Act.*

- There is no requirement in the Bill that an examination notice be in a prescribed form[70];

- There is no requirement in the Bill that the questions which a person may be required to answer on oath (on pain of criminal prosecution), be relevant to an investigation[71];

- There is no power in the Bill for the Investigator to provide copies of record of examination to a lawyer or other person[72]. As there is also no requirement to inform a person of their right to request a copy themselves, it is likely that the majority of unrepresented persons will not receive such copies and will accordingly be prejudiced in the preparation of any defence to any allegations ultimately brought. This is particularly the case given that unrepresented persons will be unaware that they need to assert the privilege against self exposure to a penalty prior to any disclosure in order to rely on it at any later stage[73];

- The interplay between section 335 of the *RO Act* and clauses 335K and 335L of the Bill creates a broader power for the issue of search warrants than exists under the *ASIC Act*. Under the latter, warrants may only be sought for books whose production could be required under Division 3 of Part 3 of the *ASIC Act*. In the context of investigations, this effectively limits the power to require production of books relate to the affairs of a company relevant to a suspected contravention[74]. Under the Bill, the proposed power to issue warrants covers "particular documents whose production could be required under section 335"[75]. Accordingly, the documents that could be required for the purposes of an investigation aimed securing better practices, rather to address unlawful conduct, will be within scope. It is extraordinary to authorise the issue of a warrant where no unlawful (let alone criminal) conduct is suspected. This unjustness also consequentially infects clauses 335P, 335Q, 337AB, 337AC and 337AE of the Bill.

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[70] Compare section 19 of the *ASIC* act and Item 217 of the Bill.
[71] Compare section 21(3) of the *ASIC* Act and clause 335D(3) of the Bill.
[72] There is no provision in the Bill comparable to section 25 of the *ASIC Act*.
[73] See clause 387AD(2)(a) of the Bill.
[74] Sections 13, ,28(d) ,30, 35 of the *ASIC Act*.
[75] Clause 335L(1) of the Bill.

Items 243 (and clause 2)

We are concerned the insufficient time is permitted for transition to the new disclosure rules. Unions may well need to revisit the existing provisions in their rules to ensure they are in harmony with the new scheme in this respect. Internal procedures for the changing of Rules are, by virtue of union's democratic control requirements, very time consuming.

As we alluded to in our comments concerning the provisions in Schedule 1, there is significant uncertainty surrounding the details of transition to the new scheme which require detailed attention and a sufficient lead time to facilitate compliance.

D No.105/2013

ACTU
australian council of trade unions

level 6 365 queen street
melbourne victoria 3000
t 03 9664 7333
f 03 9600 0050
w actu.org.au

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