



FINANCIAL
SERVICES
INSTITUTE
of Australasia

5 October 2012

Dr Richard Grant, Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Dr Grant,

**Superannuation Legislation Amendment (Further MySuper and Transparency Measures)
Bill 2012**

Thank you for the invitation to make a submission to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the Further MySuper Bill 2012.

Finsia welcomes the measures outlined in the Bill, particularly those identified in Chapter 3 relating to the collection and disclosure of information. In its submission, Finsia wishes to restrict its comments to those reforms outlined in Chapter 3 of the Explanatory Memorandum (EM).

In Finsia's view, the committee's review correctly identified that superannuation fund members often rely inappropriately on historical investment return data as regards to risk. Forthcoming research from Finsia shows that it is not the accumulated average of investment returns but the realised sequence of those returns that largely determines the sustainability of retirement incomes. Sequencing risk — the risk of experiencing investment returns in an unfavorable order — is a significant policy challenge for a maturing compulsory superannuation system.

Finsia will launch the research, titled *Sequencing risk — a key challenge to creating sustainable retirement income*, on 22 October, and will make a copy of the research paper available to the committee.

The research proposes a lifecycle strategy to minimise the negative impact of sequencing risk for superannuation fund members. Under a whole-of-life approach, asset allocation is adjusted over a member's working life to achieve high portfolio exposure to growth assets such as shares in the early and middle years, and switch towards less volatile assets such as term deposits when approaching retirement.

APRA's data collection and publication

Finsia supports the proposal at [3.20] of the EM that APRA be empowered to collect information about the costs associated with downstream investment vehicles. It encourages APRA to develop a reporting standard that requires registrable superannuation entities (RSEs) to report investment costs incurred by investment managers and managed investment schemes. The APRA standard should capture any similar arrangement that is capable of obscuring transparent and comparative information about investment returns being made available to members.

Finsia believes it is important for members to have confidence in the investment data they receive from their funds and supports a common reporting standard to APRA that displays investment returns that are net of costs.

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The Bill establishes a regime requiring APRA to report quarterly returns, fees and costs relating to all MySuper products: [3.36]–[3.39] of the EM. Finsia welcomes this measure as a means of promoting competition between funds and making comparative information about MySuper funds centrally available.

Finsia believes this is a great first step towards raising member engagement in superannuation, but more needs to be done to improve the education of investors about managing their superannuation and APRA's role as an information collector.

Product dashboard and other disclosures

Product dashboard

Finsia supports the product dashboard at [3.40]–[3.46] of the EM to improve the visibility of underlying superannuation fund investments to members. Finsia sees that the dashboard will provide clear information to members to manage investment risk as they approach retirement. It is vitally important that members are able to have a clear and concise understanding of where their superannuation is invested and information about those underlying investments. This knowledge will enable members to make better decisions about whether their investments meet their own risk profile.

Extrapolated from Finsia's research on minimising sequencing risk, members should be educated about the importance of undertaking a lifecycle investment approach. We commend the ambition for each MySuper product to consist of a single diversified or lifecycle investment strategy. As a tool to engage fund members, Finsia believes the dashboard will facilitate informed decision-making about asset allocation over the course of a fund member's working life.

At [3.45] of the EM, it is suggested that regulations may be prescribed to regulate how information in the product dashboard is displayed. Finsia supports the adoption of such regulations to standardise the methodology for calculating and reporting information in the product dashboard. Standardised reporting ensures that the product information available to fund members is transparent and comparable. This is critically important, both to foster fund member engagement and to reinforce the credibility of the dashboard as a tool to assist members to make decisions on the most appropriate investment vehicle to secure sustainable retirement income.

Remuneration and other information

Finsia supports the proposal outlined in [3.55] of the EM to require remuneration disclosures for RSE licensees similar to those required for listed entities under s 300A of the Corporations Act 2001 (Cth). This, and the public disclosure of the financial and corporate governance documents recommended in [3.57] of the EM, will also improve the transparency and accountability of MySuper funds.

I look forward to presenting a copy of Finsia's sequencing risk research to the committee when it is released. If the committee has any queries relating to Finsia's submission, please contact Samuel Bell, Senior Policy Advisor:

Yours sincerely,

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Russell Thomas F Fin

CEO and Managing Director

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