

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Supplementary Budget Estimates

2016 - 2017

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

**Question:** 502

**Topic:** Independent directors in Super Funds

**Reference:** Hansard page no. 14 - 20 October 2016

**Senator:** Bushby, David

**Question:**

**Senator BUSHBY:** Would you have any data available on the statistics about super funds moving to recruit a greater proportion of independent directors?

**Mrs Rowell:** We would have statistics on independent directors and how that has shifted over time. I do not have them to hand.

**Senator BUSHBY:** Is it correct that nearly all, if not all, retail funds now have a 50 per cent independent director component?

**Mrs Rowell:** A very high proportion of retail superannuation entities have a majority of independent directors. The Financial Services Council code of conduct requires a majority independent directors. So any of the retail funds that are members of that body would meet that requirement. There are other funds that also meet that, but there are a handful of retail funds that do not.

**Senator BUSHBY:** I would appreciate it if you could get the information on that and also how the other industry funds and corporate funds compare as well. Do you have the current figure for the industry funds?

**Mrs Rowell:** I do not, off the top of my head. It is lower, but there are some. There has been a bit of movement in that direction, but it is a small proportion.

**Senator KETTER:** I am aware that there are some that have voluntarily moved that way.

**Answer:**

APRA collects registerable superannuation entity (RSE) licensee information on *Superannuation Reporting Form 600.0 Profile and Structure (RSE Licensee)* (SRF 600.0). SRF 600.0 is reported to APRA by RSE licensees for annual reporting periods effective on (or after) 1 July 2013.

*Item 2 'Details of directors, individual trustees and alternate directors'* on SRF 600.0, collects information for each individual who is a director, individual trustee or alternate director of the RSE licensee, including the director type.

For each RSE under the trusteeship of an RSE licensee, APRA determines the RSE's segment, or fund type, to be used in APRA statistical publications, on the basis of the RSE licensee's profit status and the RSE membership base. These fund types are: corporate, industry, public sector, or retail.

An 'independent director' as currently defined by the *Superannuation Industry (Supervision) Act 1993* is a director who:

- is not a member of the fund;
- is not an employer-sponsor of the fund or an associate of an employer-sponsor (or employed by the employer-sponsor or associate of an employer-sponsor);

- is not a representative of a trade union or other organisation representing the interests of members; and
- is not a representative of an organisation representing the interests of employer-sponsors of the fund.

This definition of ‘independent director’ is narrowly defined and is only relevant to equal representation board structures because it forms part of the equal representation requirements. It is not relevant for boards that do not have an equal representation structure.

As a result, where an RSE licensee reports a board structure of ‘equal representation’ on *Superannuation Reporting Form SRF 000.1 Profile and Structure (Baseline)* (SRF 001.0), the RSE licensee is instructed to report only director types of ‘member representative’, ‘employer representative’ or ‘independent director’ in the relevant item on SRF 600.0.

Where an RSE licensee reports a board structure of ‘non-equal representation’ on SRF 001.0, the RSE licensee is instructed to report only director types of ‘executive director’, ‘non-executive director’ or ‘non-affiliated director’ in the relevant item on SRF 600.0.

APRA does not collect information about directors who meet the definition of independence as outlined in *FSC Standard No. 20 Superannuation Governance Policy* (March 2013). In APRA’s view, a reasonable proxy for directors that might be considered broadly independent are directors who report as ‘non-affiliated’ or ‘independent’; APRA’s experience is that most, but not all, directors who report as ‘non-executive’ could also be considered to be independent.

Of the 127 RSE licensees authorised at 30 September with at least one RSE with more than four members under their trusteeship, 82 reported a board structure of ‘equal representation’ and 45 trustees reported a board structure of ‘non-equal representation’ on SRF 001.0.<sup>1</sup> Table 1 below summarises data available the proportion of each director type reported by these RSE licensees. It should be noted that most retail funds do not have an equal representation structure.

| Table 1: Director representation for trustees of equal representation board structure |  |   |   |  |
|---|--|---|---|--|
| at 30 September 2016  |  |   |   |  |
| Fund type   | Number of trustees of equal representation board structure | Proportion of 'Member representative' director type (%) | Proportion of 'Employer representative' director type (%) | Proportion of 'Independent director' director type (%) |
| Corporate   | 28   | 49%   | 47%   | 4%   |
| Industry  | 39   | 43%   | 46%   | 11%  |
| Public sector   | 14   | 43%   | 41%   | 16%  |
| Retail  | 1  | 0%  | 50%   | 50%  |
| All funds   | 82   | 44%   | 45%   | 10%  |

Table 2 below summarises data available the proportion of each director type reported for RSE licensees with a board structure of ‘non-equal representation’. It should be noted that corporate funds, public sector funds and most industry funds do not have a non-equal representation structure.

<sup>1</sup> Director information for RSE licensees authorised at 30 September is sourced from the latest available annual submission of SRF 600.0, for most RSE licensees this is for year ended 30 June 2016. This data was due at the end of September 2016 and has not yet been published.

Table 2: Director representation for trustees of non-equal representation board structure

at 30 September 2016

| Fund type        | Number of trustees of non-equal representation board structure | Proportion of 'Executive director' director type (%) | Proportion of 'Non-executive director' director type (%) | Proportion of 'Non-affiliated' director type (%) |
|------------------|--|--|--|--|
| Corporate        | 0  |  |  |  |
| Industry         | 2  | 0%   | 50%  | 50%  |
| Public sector    | 0  |  |  |  |
| Retail           | 43   | 22%  | 60%  | 18%  |
| <b>All funds</b> | <b>45</b>  | <b>21%</b>   | <b>59%</b>   | <b>20%</b>                                       |