

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates, 16 & 17 February 2005

Question: Add 20

Topic: APRA – Diversification of Superannuation Assets

Hansard Page: E106

Senator Sherry asked:

Could you give some examples of where you have not been successful in persuasion to ensure that trustees ensure members' super assets are diversified, with an acceptable trade-off between risk and expected return?

I would be interested to know the real-life areas where this has occurred?

Answer:

In many instances, where APRA has identified the absence of a suitably diversified asset portfolio within a superannuation fund, it has been successful in persuading the trustees to revisit their investment strategy. The objective has been to ensure an acceptable trade-off between risk and expected return for beneficiaries. APRA has also focussed on ensuring that trustees do not see that making investment choice available to members means they can abdicate their responsibilities in relation to investment strategy in favour of members/their financial planners.

There are however certain instances where, for differing reasons, APRA has been unsuccessful in this endeavour. Examples of these situations are as follows:

- A common investment practice in small family superannuation funds is to invest close to 100% of the fund assets into units in related unit trusts where the related unit trusts are often heavily geared against the underlying assets of real estate which are leased back to the employer sponsor (thereby magnifying the risks and returns).
- Within the retail superannuation segment a number of trustees believe that they have fulfilled their fiduciary and *Superannuation Industry (Supervision) Act 1993* "sole purpose" test responsibilities by ensuring that potential members may only enter the fund through an approved financial planner. The basis of this belief by trustees is that the financial planner is then responsible for advising on the member's entire portfolio including assets outside the superannuation environment. This can give rise to highly concentrated superannuation holdings for the member which the trustee justifies on the basis of the financial planner

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having the 'whole of member' view. APRA is presently reviewing this advice before proceeding further on this particular matter.

- APRA also has experience of trustees of both retail and small APRA funds (SAFs) directly, or indirectly, facilitating asset concentrations of close to 100% within broad asset classes (equities, cash, property and so on) and over 90% to asset sub-classes (such as the shares in an individual company or packaged income products). In certain instances these trustees are also placing undue reliance upon the advice provided to members by financial planners (refer above). Some of the trustees facilitating these high asset concentrations have provided opinions that their approach is not in breach of the *Superannuation Industry (Supervision) Act 1993* and/or Superannuation Circular II D1 – in certain instances supported by independent legal advice. APRA is presently reviewing this advice in the light of its prudential consequences before proceeding further on this matter.
- Superannuation funds on occasions service a group of individuals with a common linkage. One example is a fund formed for beneficiaries sharing a given religious background and where the belief (and/or associated risk tolerances) preclude certain types of investments. Such beneficiaries with a common linkage may affect the ability of the trustee to ensure adequate investment diversification. A second example of such a linked group is small superannuation funds where the beneficiaries are all at, or approaching, retirement age. Typically the investment strategy for these funds is narrow and concentrated in capital secure products – reflecting the preparedness of beneficiaries to accept potentially lower returns in exchange for capital security. APRA treats such instances with appropriate sensitivity.