

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates, 31 May to 2 June 2005

Question: Bud 107

Topic: APRA - Class Action against founders of the Lifetrack Superannuation Fund

Page: Written

Senator Watson asked:

1. In relation to the class action being brought by 737 aggrieved investors in the NSW Supreme Court against the founders of the Lifetrack Superannuation Fund claiming it was mismanaged and failed in its promise to provide secure, stable returns, what action does APRA propose to take to ensure that a similar situation does not occur again?
2. Given that after an investigation, APRA banned former directors of AM Corporation, David Smith and Alan Rich in 2003 from acting as directors or officers of a company holding an Australian financial services licence for 10 years, can you tell me whether the investigation revealed any fraud committed on their part?
3. What action has been taken by APRA to recoup the lost funds?

Answer:

1. APRA's Circular II.D1 titled "Managing Investments and Investment Choice" is being revised. The draft circular addresses, among other matters, the role and responsibilities of the Trustee when providing member investment choice, with particular emphasis on the importance of prudent diversification of fund investments. Trustees that apply to APRA for an RSE licence must meet risk management requirements that include addressing risks to the investment strategy of each fund.
2. APRA's investigation did not identify fraud, but did highlight some areas of concern at the time including conflicts of interest, lack of diversification and poor liquidity management. These matters are amongst those that are required to be addressed in APRA's licensing processes.
3. APRA's investigation did not quantify a loss to members. To the extent there was a loss, APRA considers it would predominantly reflect investment market movements and the consequential revaluation of assets, and the compounding effect of a loss of confidence in, and a partial 'run' on, the Fund. Due to poor

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liquidity management resulting in a freeze on fund assets, members were unable to withdraw funds for some months.

It should be noted that the value of their investments was eventually recovered by members who remained in the Fund during the subsequent period.