

**Senate Economics Legislation Committee**

**ANSWERS TO QUESTIONS ON NOTICE**

**Treasury Portfolio**

Budget Estimates 30 May – 1 June 2006

**Question: bet 115 (APRA)**

**Topic: Conditions of licenses**

**Hansard Page: E119**

**Senator SHERRY asked:**

Okay, they are licences with conditions. A raw number could be a bit misleading, because it might be a relatively minor condition that you think has to be dealt with. Do we have any sense of substantial conditions versus minor conditions?

**Mr Jones**—This is purely top-of-the-head stuff. I can think of one or two where I would describe the conditions as being reasonably moderate where we have some concerns.

**Senator SHERRY**—What are those reasonably significant concerns? What sorts of issues are they?

**Mr Jones**—To be truthful, I cannot give you the detail about exactly what those concerns were. I can probably give you more information if I took it on notice.

**Senator SHERRY**—Yes, take it on notice.

**Answer:**

All RSE licences irrespective of class carry the conditions required by Section 29E of the *Superannuation Industry (Supervision) Act 1993*.

**Non Public Offer Licences**

APRA issued 183 licences of the non public offer class.

Each licence has General Additional Condition A that requires the trustee to:

- notify APRA within 14 days of any change in fund secretary or executive officer;
- provide annual information to APRA within 4 months of the close of the relevant financial year;
- respond to APRA questionnaires as requested from time to time; and
- not enter into any other business or commercial activity.

Consistent with APRA policy, each non public offer licence restricts the licensee to operate particular superannuation entity or entities, and licences appropriate to the funds' circumstances include the:

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- requirement that the licensee maintains an administration reserve within the superannuation entity to assist it to meet the Adequacy of Resources Operating Standard;
- requirement that if a Key Person named on the licence retires or resigns from the trustee, he/she must be replaced with a person of equal or superior skills. This was applied to ensure that the trustee continues to meet the Fit and Proper Operating Standard;
- requirement that the board of the licensee must not have any executives as members; and
- condition that restricts the membership of the fund to families and employees of the employer sponsor.

#### **Public Offer and Extended Public Offer Licences**

APRA issued 106 public offer licences and 16 extended public offer licences.

Each licence has General Additional Condition A as described above.

In addition, each licence carries General Additional Conditions that require the trustees to:

- only offer life insurance benefits that are supported with appropriate policies written by a licensed life insurer; and
- meet the Net Tangible Assets requirement of \$5 million in their own right or by guarantee from an ADI. Alternatively, the licensee may maintain a minimum of \$100,000 Net Tangible Assets and have the assets of the entity custodially held or hold the assets of the entity in ADI deposits or life policies with an entity with at least \$5 million in Net Tangible Assets.

Consistent with APRA policy, each public offer licence or extended public offer licence restricts the licensee to operate particular superannuation entity or entities unless the licensee holds the Net Tangible Assets in its own right.

Additional general conditions on public offer licences included:

- a requirement for some independent directors on the board of the trustee;
- key persons nominated on the licence;
- a requirement to hold Net Tangible Assets greater than \$100,000 where the assets of the entity were custodially held;
- a requirement of prior APRA consent where more than 15 per cent of the ownership of the licensee is to change hands;
- condition that allows the trustee to employ more than one custodian;
- a requirement that the trustee employs the services of an APRA-approved actuary in relation to its self insurance;
- restrictions on the investments of the entities;

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- restrictions on the manner in which the trustee can transfer members to different funds within the same group; and
- a requirement for the trustees to consolidate their operations to a single entity within the current financial year.

Additional general conditions on extended public offer licences were:

- restrictions on the investments of the entities;
- requirement to hold Net Tangible Assets greater than \$100,000 where the assets of the entity were custodially held;
- condition that allows the trustee to employ more than one custodian;
- limits and restrictions placed on self insurance;
- additional reporting and consultation requirements; and
- requirement to implement and maintain an internal audit function and an independent review into the performance of the related administrator.