

13 September 2006

Committee Secretary

Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO BOX 6100
Parliament House
CANBERRA ACT 2600

Via email to: corporations.joint@aph.gov.au

Dear Sir/s,

**RE: PARLIAMENTARY INQUIRY INTO THE STRUCTURE AND OPERATION
OF THE SUPERANNUATION INDUSTRY**

Please find attached a submission into the above inquiry, on behalf of the Australian Retailers' Association (ARA), a national employer organisation for retail employers in Australia.

This submission was authorised at Council level, and will address the Terms of Reference numbers 1 and 11.

My contact details are as follows:

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If you have any queries, please do not hesitate to contact me.

Kind Regards,
AUSTRALIAN RETAILERS' ASSOCIATION



Naomi James
Employee Relations Officer

On behalf of the Australian Retailers' Association (ARA) and our retail members, I wish to provide this submission to the committee for its consideration on the following:

1. Whether uniform capital requirements should apply to trustees

The ARA is a national employer association representing the retail industry in Australia, which consists of more than 100,000 retail businesses and employs hundreds of thousands of Australians. The majority of our members have their superannuation invested with REST, which is the largest industry fund in Australia. REST have 1.6 million members Australia-wide and manage over \$10 billion in assets.

Essentially, the ARA is opposed to the proposal that uniform capital requirements should apply to all trustees as we do not believe it to be beneficial. Obviously, the issue of capital adequacy is highly important as it shows the fund's level of commitment to members and their investments, but in the case of industry funds, which exist solely for the profit of their members, it is quite redundant.

Random phone surveys show that ARA members are happy with REST and its services, and we in turn are happy to support REST and promote them within our membership. Ways in which we do this are through our national website, where REST occupies a permanent position under the heading "useful links." We also promote REST through various publications like our "Special Wages Edition" and "Employment Handbook," both of which REST has financially contributed to the production of. The Employment Handbook also contains information about REST, and these two publications go out to all ARA members upon membership. The contributions REST have made to the ARA have been quite significant in educating our members on their services. It has also enabled us to produce and distribute these publications, all which show their high level of support and commitment to the retail industry and members of their Fund.

In addition to this, the ARA perceives the trustees of REST to behave in a highly responsible and conscientious manner. Every month, their eight-member Board of Directors meet to discuss issues ranging from the management of the Fund to the investment of their members' money. Furthermore, REST ensures that employees and employers are equally represented by appointing four Directors as employee representatives from the Shop, Distributive and Allied Employees' Association (SDA) (the largest trade union in Australia), and four Directors on behalf of employers – three from major employers and one from the ARA. These Directors are also supported by external advisors and expert Trustee staff, who handle the Fund's daily management. The investments of all Options are managed by carefully selected external managers and REST's wholly owned investment manager (Super Investment Management Pty Ltd). An investment consulting firm assists the Trustees to select other investment managers, whose knowledge and expertise are used by the Trustees in meeting their investment objectives.

Annually, the Trustee reviews the investment objectives and strategy of the Trust and each Option. On a quarterly basis, the Trustee reviews the performance of each investment manager, the Trust and each Option, and compares this with the objectives. The Trustee's investment advisor also

provides a comprehensive report to assist with this review. In addition, REST's Investment Committee meet monthly to review the performance of their investment managers and any other relevant aspects of REST's investment strategy and portfolio.

To further illustrate REST's commitment to their members and their investments, their Directors are required to attend special training courses to further their knowledge and better represent the interest of the Fund's members. In June 2006 two of REST's Directors attended an intensive 4-day "*Comprehensive Trustee Investment Training*" course run by the Centre for Investor Education (CIE), where attendees were spoken to on the responsibilities of trustees and the Board of Directors, what makes a successful Trustee Board and how to ensure effective corporate governance. Speakers discussed how to best manage funds to their members' benefit, stressing the importance of *member choice* and how these choices drive the fund's product range. These seminars, along with the monthly board meetings demonstrate the high level of involvement by REST's Directors and their continual commitment to the success of the Fund and its members' investments.

Finally, trustees of superannuation funds must comply with their obligations under the *Superannuation Industry (Supervision) Act 1993* and provisions of trust law, which are already quite stringent and impose personal liability on the trustees in the event of any breaches. Furthermore, with the introduction of the APRA licensing regime, trustees have to meet higher competency standards in regards to their levels of technical qualifications, knowledge, skills experience and character before they can become licensed. These competency standards and legal requirements ensure trustees uphold their obligations with the appropriate level of commitment and dedication. This, along with REST's demonstrated commitment to the ongoing monitoring, training and development of their trustees makes the proposed uniform capital requirements unnecessary.

11. Whether promotional advertising should be a cost to a fund and, therefore, go to its members

Advertising is an essential part of attracting and retaining members – it can educate both current and prospective members about the benefits of the Fund and its services in relation to its competitors. Especially with new Choice of Fund legislations, the public have the right to know which superannuation funds are available and how these funds will benefit themselves.

APRA have specified that there should be a "reasonable, direct and transparent connection between...trustee action and the core, ancillary purpose" of the Fund in order for the Fund to satisfy the Sole Purpose Test. Therefore we suggest that as long as REST's advertising is for the sole purpose of educating new, existing and prospective members, advertising costs should not be considered a cost to the fund and subsequently be passed on to its members.