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The Secretary
Parliamentary Joint Committee on Corporations and Financial Services
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10 September 2007

ASFA SUBMISSION ON THE INQUIRY INTO SHAREHOLDER ENGAGEMENT & PARTICIPATION

The Association of Superannuation Funds of Australia Ltd (ASFA) is pleased to make this submission to the Parliamentary Joint Committee on Corporations and Financial Services' inquiry into shareholder engagement and participation.

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. Our members, which include corporate, public sector, industry and retail superannuation funds, account for more than 5.7 million member accounts and over 80% of superannuation savings.

Superannuation fund trustees have a duty to make investment decisions in the best interests of the members and other beneficiaries of the fund. Superannuation funds currently hold around \$325 billion in Australian equities. This represents close to a quarter of Australia's equity market capitalisation.

As significant shareholders, superannuation funds have a keen interest in the performance of listed companies and the efficient operation of our capital market. Poor governance of companies can lead to poor financial performance, as well as fraud and failure. Good corporate governance, conversely, can have a positive impact on the earnings of superannuation funds and consequently the incomes Australians can expect in retirement.

ASFA has been proactive in issues related to governance, which includes shareholder engagement and participation issues. The Association has been involved in the ASIC Corporate Governance Roundtable, in the development of the original and later revisions of the IFSA "Blue Book" Standards, is an active member of the ASX Corporate Governance Council and participates in the IFSA Proxy Voting Roundtable. Further, ASFA has issued best practice guidance to superannuation trustees on becoming "active share owners" and has also developed guidance on best practice governance for superannuation funds.

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ASFA has existing policy on active share ownership. Specific policy principles that are of relevance to the Parliamentary Committee's Terms of Reference are:

- 24.22 ASFA 's view is that it is best practice for fund trustees to be active share owners which we define as including not only proxy voting but engagement with companies. The objective of any activity is protecting and enhancing shareholder value.
- 24.23 ASFA supports a requirement that trustees develop and disclose written policies on how they will behave as shareowners. Funds should be permitted to determine as their policy that they are not best placed to take action and are prepared to rely on the activities of their fund managers.
- 24.24 The depth of detail and the approach taken in the written policy should depend on many factors, including the size and nature of the fund and its access to resources. However, it should clearly set out the reason for activity and its scope; the allocation of responsibility; the standards against which companies will be monitored and assessed; modes of intervention (corporate engagement and/or voting); outsourcing procedures; and the disclosure mechanism.
- 24.25 Where the trustee invests in a pooled arrangement the trustee should develop a written policy which sets out how the trustee evaluates pooled fund managers' voting policies in the selection process and how it monitors any selected manager's activity against the manager's policy.
- 24.26 Voting is important, as it is one of the mechanisms by which shareholders can directly impact on company decisions. In ASFA's view trustees should not remain "passive" shareholders, as their voting rights are a valuable asset of the fund. Trustees should seek to exercise their voting rights on important matters, even if they actively choose to abstain on a particular motion.
- 24.27 If compulsory voting was to be introduced, ASFA would support requirements that encourage real participation by the trustee, not mere compliance. To this end, ASFA supports requirements that recognize that consideration of voting on a matter, and then deciding not to vote, as acceptable. ASFA also supports the provision of a materiality test on resolutions to allow trustees to focus their action on significant issues.

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ASFA's best practice guidance to superannuation trustees also includes guidelines that are of particular relevance to the Inquiry's Terms of Reference. These guidelines are to assist trustees to develop their own Active Shareownership Policy. The relevant guidelines include:

Guideline B3 - Allocation of Responsibility

The Active Share Ownership Policy should address to what degree Active Share Ownership activities will actively involve the trustee (including fund secretary or trustee staff) and to what degree they will be delegated to external fund managers or other service providers.

Guideline B4 - Monitoring - Adoption of Standards

The Active Share Ownership Policy should refer to standards used to assess companies.

Guideline B5- Intervention - Engagement with Companies

The Active Share Ownership Policy should address the way in which direct contact with companies will be managed, including constructive communications with both senior management and board members about performance, governance and other matters affecting shareholders' interests. The trustee should determine to what degree these activities are conducted by the trustee or by an external fund manager or other service provider.

Guideline B7 - Outsourcing Issues - Selection of Managers

The Active Share Ownership Policy should outline that in appointing an external fund manager, the trustee should seek information in relation to the fund manager's own policy and practices.

Guideline B8 - Outsourcing Issues- Investment Management Agreements

The Active Share Ownership Policy should outline what happens if the trustee uses external investment managers. Specifically, the Investment Management Agreement should deal with the allocation of responsibility for Active Share Ownership issues related to the companies in which the fund's assets are invested.

Guideline B9 - Outsourcing Issue - Arrangements with Custodians

If the trustee uses a custodian, the Active Share Ownership Policy should ensure custodial arrangements enable the objectives of the trustee's Active Share Ownership policy, particularly in regards to proxy voting, can be met.

Guideline B10 - Outsourcing Issue - Reporting Back to Trustee

The Active Share Ownership Policy should outline how agreements with external service providers should provide for adequate reporting back to the trustee.

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Guideline B12 - Reporting - Documenting, Reviewing and Assessment

The Active Share Ownership Policy should outline how the trustee will document Active Share Ownership activities and review their effectiveness on a regular basis.

Thank you for inviting ASFA to make a submission to the Parliamentary Joint Committee on Corporations and Financial Services' inquiry into shareholder engagement and participation. If you have any questions or comments on this submission, please feel free to contact Anne Whittaker, Senior Policy Adviser or me at the ASFA Secretariat on 02 9264 9300.

Yours sincerely,

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