Australian Institute of Superannuation Trustees

18 July 2013

Dr Patrick Hodder
A/g Senior Research Officer
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
PO Box 6100
Parliament House Canberra ACT 2600

Via email: p.hodder@aph.gov.au

Dear Dr Hodder,

Gatekeeper roundtable - Questions on notice to AIST

AIST is pleased to provide its responses to the Parliamentary Joint Committee's questions on notice arising from the Gatekeeper roundtable.

Question 1 – What measures do trustees undertake to assess the source and adequacy of valuation data, particularly if parts of its unit pricing process are conducted off-shore?

In assessing the source and adequacy of valuation data, trustees may typically examine groupings of assets:

i. Listed assets in discrete portfolios

Listed assets within discrete portfolios happen where the fund appoints an investment manager and the custodian holds the account. In these cases, the trustee uses industry accepted standards of valuing these assets.

ii. Unlisted assets such as direct property and infrastructure

There is a formal process for the appointment and review of valuers by Investment Committees and Boards. As noted at the Sydney roundtable on 21 June, the custodian is not involved in this valuation process and therefore does not have information regarding these valuations. In addition to the formal processes of appointing valuers, a fund may also appoint a suitably qualified expert to undertake a due diligence process in terms of valuation practices. Directly held assets are valued by qualified experts.

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Question 2 – The committee understands that reforms proposed in the Further MySuper bill last year will be introduced via regulation and not through the enactment of the bill. Treasury has begun to consult on the draft regulations. One of the proposed changes concerns reporting obligations when a managed investment scheme (MIS) invests funds from a superannuation fund into a second MIS. The committee understands that the second MIS would be required to report back to the RSE trustee on its portfolio holdings.

a. **Could you tell the committee whether that obligation would apply if the second MIS was an unregistered overseas fund?**

Australian super funds use a "best endeavours" basis of gaining the underlying exposures, given that Australian law does not cover these jurisdictions.

Question 3 – Mr Thomas of van Eyk told the committee that 'the largest [expectation] gap that you have at the moment would be around the regulation of self-managed super funds and how people are being licensed to establish those in the first place' (Proof Hansard, p.19).

b. **Can you comment on this claim that the largest expectation gap is around the licensing and establishing of SMSFs? Do you see this as an area in need of reform and if so do you have any suggestions as to how the licensing system could be improved?**

Superannuation savings are critical to Australia's prosperity. Safety of superannuation moneys is needed so that fewer fall back on the Age Pension. It is therefore imperative that all superannuation moneys are required to be governed in a rigorous way. Expectations of and behaviours within SMSFs should, so far as possible, be placed on a level playing field with the rigorously governed APRA regulated funds. To this end, AIST recommends the following changes:

Stage 1 – Decision making phase of establishing an SMSF

i. The current accountant's licensing exemption of 3 years to 1 July 2016 to provide advice regarding SMSFs should be removed, or at a minimum brought back to 6 months.

ii. AIST welcomes the Moneysmart Self Managed Super June 2013 fact sheet. AIST recommends investigating how to ensure that distribution of this fact sheet to a client is a requirement where an accountant or financial planner is recommending establishment of an SMSF. AIST notes that the current requirement that potential SMSF new trustees must sign a form saying they are aware of their responsibilities insufficiently highlights the lack of regulator coverage. A warning from the regulator would have more weight.

iii. SMSF trustees must be required to have accredited training prior to establishing an SMSF.

Stage 2 – SMSF up and running

i. *SMSFs will be a major recipient of the efficiency reforms which SuperStream will bring. While AIST believes that these efficiencies will be forthcoming, it is estimated that the cost of implementing these reforms is $467 million. However, it is APRA regulated funds which will bear these costs. AIST recommends that SMSFs should also be required to bear some of these costs, since they participate in the system.*

ii. *SMSF trustees must be required to continue accredited training each year while managing an SMSF.*

AIST thanks the Parliamentary Joint Committee for both being invited to the roundtable and with the opportunity to respond to these questions on notice. If you have any further questions, please contact Karen Volpato, Senior Policy Adviser, on either 0419127496 or kvolpato@aistn.asn.au

Yours sincerely

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