

Proposed governance changes run counter to international best practice

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Proposed changes to the governance framework of not-for-profit superannuation funds run counter to international best practice in pension fund governance, **The Australian Institute of Superannuation Trustees (AIST)** said today.

In its submission to the **Senate Economics Legislation Committee on reforms to superannuation governance**, AIST argues that the move to impose quotas around independent directors is a backward step for Australia that will cause significant disruption to the boards of outperforming not-for-profit super funds, without any evidence that the changes will deliver better outcomes for members.

AIST CEO Tom Garcia said AIST was not opposed to independent directors, but strongly opposed forcing high-performing boards to change their governance framework for no good reason.

“These changes are not about genuine reform. This is ideologically-driven policy that is not based around evidence and has nothing to do with improving returns for members,” Mr Garcia said.

AIST is also concerned that removing guaranteed member representation from the board of not-for-profit super funds - by abolishing the requirement for equal representation in the legislation – removes a vital consumer protection measure.

“The OECD has concluded that member representatives should be encouraged to ensure a better alignment of interests between the fund and the members,” Mr Garcia said. “Removing the legislative requirement for member representation takes Australia in the opposite direction to the rest of the world.”

AIST’s submission notes that the majority of top performing pension funds in the world (including those in Australia’s APRA-regulated superannuation industry) have an equal representation model, or at a minimum, member representation on the board. This is evident from the strong correlation between the Mercer Melbourne Global Pension Index ‘integrity’ scores for individual countries and pension governance structures in which equal - or member - representation is prevalent. Of the ten countries rated highest for pension governance in the 2014 Melbourne Mercer Global Pension Index, seven countries have pension funds with an equal representation governance model.

AIST’s submission – lodged today - also argues that proposed changes do nothing to address the real and demonstrated conflicts associated with board structures and the vertical integrated commercial model in the retail super sector.

“It will still be possible for the staff of the bank to form the majority of the bank superannuation fund board, where those directors with responsibility for maximising profits for the bank’s shareholders are required to also act in the best interests of members. This is a glaring conflict.”

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AIST is the peak industry body for the \$650 billion not-for-profit super sector which includes industry, corporate and public sector funds.