

APPENDIX H:

LETTER FROM HON. PAUL ELLIOTT, MP



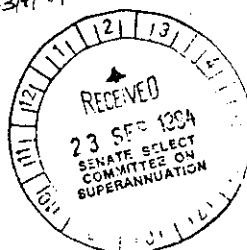
SISREG-31 (23.9.94)
PARLIAMENTARY SECRETARY TO THE TREASURER
Contact: The Hon. Paul Elliott, MP
Phone: - (06) 277 4387
Fax: - (03) 277 8549

The Hon. Paul Elliott, MP
PARLIAMENTARY SECRETARY
TO THE TREASURER

PARLIAMENT HOUSE
CANBERRA ACT 1400

*Public - now see SS Regn
Succ.
23/9/94*

Senator John Watson
Chair
Senate Select Committee on Superannuation
Parliament House
CANBERRA ACT 2600



Dear Senator Watson

Thank you for your letters of 19 July 1994 to the Treasurer and to the Insurance and Superannuation Commissioner in which you expressed concern over an arrangement (reported in *The Australian*, 13 July 1994) involving the Australian Workers Union-Federation of Industrial, Manufacturing, and Engineering Employees (AWU-FIMEE), the Nationwide Superannuation Fund (NSF) and NSF's administrator, PSI Superannuation Management (PSI). The article reported that AWU-FIMEE received 20% of the administrative charges paid by the NSF to PSI as a commission.

In order to fully address your concerns, and in order to clarify conflicting statements within the article, ISC officers met with the trustees of NSF, along with officials from the administrator and FIMEE.

The ISC has provided me with the information that follows. In the course of those discussions, it was ascertained that the article contained many factual inaccuracies.

A brief summary of the arrangement is as follows:

- The agreement is between PSI and FIMEE, rather than between the NSF and FIMEE, and it relates to subcontracting of administration and promotional services to FIMEE. Although the trustees of NSF were aware of the agreement, they were not a party to it and were not concerned by it.
- The administration fee earned by FIMEE is a commercial arrangement made on an arm's length basis. The existence of a financial benefit for FIMEE was disclosed to NSF members in material accompanying the application form to join NSF. This material also contained a declaration of interest by one of the member representative trustees, an employee of FIMEE on the basis that FIMEE receives a financial benefit for the promotion of NSF.

- The link between union scholarships and the fee derived by FIMEE was made to assuage possible fears of union members that union officials would personally derive a benefit from the services provided by the union. This link has nothing to do with arrangements between NSF and PSI and is not a concern to either NSF or the ISC because the arrangement with FIMEE is on commercial terms.
- The Industrial Relations Commission (IRC) did not "approve" the arrangement as was alleged in *The Australian* article. The arrangement was in fact raised in argument by unions in competition with FIMEE, in the process of the IRC hearing an application for an amendment to certain awards so that members could have some freedom of choice in relation to the superannuation fund that their award contributions would be directed to.

On the basis of the information and documentary evidence provided by NSF and FIMEE, the fees earned by FIMEE, and the linking of union scholarships and other benefits for union members, in return for services provided by FIMEE is not seen as inappropriate or a threat to the retirement incomes of NSF members.

As a final point, the article also gave the impression that the arrangement with FIMEE was "unique". While such an arrangement with a union may well be unusual, there is nothing unusual about administrators entering into agreements with third parties for promotion of a particular superannuation fund. Such agreements are acceptable provided they are conducted on a commercial basis and provided there is adequate disclosure to superannuation fund members where such disclosure is appropriate (for example, as in this case, where there is a connection between a third party and the superannuation fund).

The SIS legislation requires that all transactions entered into by a trustee or an investment manager of a superannuation fund be on an arm's length basis (commercial terms) and disclosure of commissions is required in certain circumstances. In light of this case, ISC staff are currently investigating whether an amendment to the disclosure requirements would be appropriate.

If you or other members of the Select Committee on Superannuation have any further concerns on this, or related matters, please do not hesitate to contact me.

Yours sincerely



Paul Elliott