**Senate Economics Legislation Committee**
ANSWERS TO QUESTIONS ON NOTICE
**Treasury Portfolio**
Budget Estimates 2014
3 June to 5 June 2014

**Department/ Agency:** APRA
**Question:** BET 51-55
**Topic:** Financial System Inquiry
**Reference:** Written – 5 June 2014
**Senator:** Bishop

51. In the executive summary of APRA's submission to the Financial System Inquiry, you make the following statement: "APRA has substantial independence from Government in most respects but, over time, constraints on its prudential, operation and financial flexibility have eroded its independence. As a consequence, Australia falls short of global standards in this area." Could you please elaborate on what you mean here?

52. In what areas do you believe APRA's powers could be strengthened to better assist it to do its job?

53. What is APRA's view on directed investment by superannuation funds, for example, on infrastructure projects?

54. Do you believe the existing covenants in the SIS Act are sufficient guidance for investment decisions?

55. Could you explain what Eligible Rollover Funds do?

    a) Why they are exiting the super industry and why you suggest consideration be given to the ATO being a central collection point?

    b) Would there be further industry efficiencies and fee reductions as a result of reform in this area?

**Answer:**

51. The Australian Prudential Regulation Authority (APRA) elaborates on the statement in Chapter 2 of its submission to the Financial System Inquiry which is located at: http://www.apra.gov.au/Submissions/Pages/2014-FSI-Submission.aspx

52. APRA's ability to respond effectively to financial distress could be strengthened.

    As part of an ongoing review of the efficiency and operation of financial sector legislation, APRA has worked closely with the Treasury to develop proposals to further strengthen APRA's ability to respond to financial distress. The review culminated in the release in September 2012 of a Government Consultation Paper which provides a range of options to enhance APRA's supervision and resolution powers. The Paper is available at: http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2012/APRA

    Although many of the options proposed are of themselves relatively minor, cumulatively their implementation would significantly enhance APRA's resolution 'toolkit', and align APRA's crisis resolution powers more closely with international standards and best practice.

53. APRA does not support the prescription of asset allocation for superannuation investment, such as directed investment by funds on infrastructure projects.

    A mandated approach to investment would undermine the Registrable Superannuation Entity (RSE) licensee's overarching obligation to act in the best interests of beneficiaries.

    This obligation is paramount as it is consistent with the objective of the Government's retirement income policy to ensure that individuals have an adequate income in retirement. Mandated investment may lead to investment into a specific asset class that might not meet the risk/return objectives that the trustee determines is appropriate for the membership of the fund or the needs of fund members.

54. APRA's view is that the existing covenants in the Superannuation Industry (Supervision) Act 1993 relating to investments, as well as APRA's prudential requirements under Prudential Standard SPS 530 Investment Governance and the associated guidance material, establish appropriate requirements and provide sufficient guidance for an RSE licensee to implement a sound investment governance framework and to manage investments in a manner consistent with the interests of beneficiaries.

55. Eligible Rollover Funds (ERFs) are maintained for the single purpose of being a temporary repository for the interests of members who have lost connection with their superannuation accounts. ERFs are intended to hold these superannuation interests for a relatively short period and generally preserve their value until they can be reconnected with the member. The amounts transferred to ERFs are typically small inactive amounts or other amounts for members that cannot continue to be a member of their original fund. Lost accounts can materially impact on the adequacy of many individuals' retirement incomes, particularly where accounts remain unclaimed at retirement, are eroded by unnecessary fees or charges, or receive poorer investment returns than other retirement savings.

    a) APRA has recently been given power to authorise ERFs, with ERF trustees now required to meet higher trustee obligations. These enhanced trustee obligations require trustees to comply with a duty to promote the financial interests of members of the fund. APRA expects that the heightened trustee obligations will result in ERFs naturally transitioning out of the superannuation industry over time, potentially leaving just a single central repository for 'lost funds' held with the Australian Taxation Office.

    b) Further reform in this area will achieve industry efficiencies through the reduction or removal of the fees or charges that are incurred while amounts remain in ERFs. Such fees or charges can materially impact the adequacy of the individuals' retirement incomes, particularly where members hold multiple accounts across the superannuation system (which can lead to multiple fees being charged) or funds remain in ERFs for extended periods.