

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Prudential Regulation Authority

Question No: 72

Topic: CFSIL Dividend Questions

Reference: Written

Senator: Ketter, Chris

Question:

In Estimates, Senator Gallagher referred to the Colonial First State Investments Limited Annual Financial Report for the year ended 30 June 2016 (“the report”).

1. Is this report for a trustee entity/RSE that is responsible for some Commonwealth Bank super funds?
2. Does the report make up some of the required reporting for this RSE entity?
3. Was APRA aware that this report contains a \$268,000,000 dividend? Has APRA investigated this?
4. Does APRA review financial reports from RSE entities?
5. Do other RSE entities deliver dividends? If so, which ones?
6. Where was the CFSIL dividend funded from? Does it represent profit taken from the super funds that the RSE operates?
7. Who was the dividend paid to?
8. Who is the decision to pay a dividend made by? Is it made or signed off by the trustee?
9. Is APRA satisfied that dividend payments such as this are in line with member interests and trustee duties as provided for in the SIS Act, including S 52(2)?

Answer:

Colonial First State Investments Pty Limited (CFSIL) is the Responsible Superannuation Entity (RSE) licensee for the following RSEs:

- Colonial First State FirstChoice Superannuation Trust;
- Colonial First State Pooled Superannuation Trust;
- Colonial First State Rollover and Superannuation Fund; and
- Commonwealth Essential Super.

The principal activities of CFSIL are the administration, management and investment of funds on behalf of superannuation members (as an RSE licensee) and similar activities on behalf of non-superannuation investors (as a Responsible Entity). This structure is typical of a number of commercial models within the superannuation industry, whereby services are provided to and from various parties within a broader group structure on an arm’s length basis. CFSIL generates revenue from its business, which must be sufficient to allow it to meet its operating expenses, including regular overheads, investment in technology, regulatory and compliance costs, marketing activities and other business initiatives.

All RSE licensees must act in the best interests of their beneficiaries, regardless of the business model they choose to adopt, because of the obligations in Part 6 of the *Superannuation Industry (Supervision) Act 1993*, including s. 52(2). That means that RSE licensee directors must seek to ensure the delivery of appropriate outcomes to beneficiaries –

high quality, value for money benefits and services – notwithstanding the potential conflicts that may arise from the relationships between the RSE licensee and other parties; in this example, the profit objectives of their parent entity. These potential conflicts must be identified and managed.

Where there is an operating surplus, RSE licensee directors decide the most appropriate manner for applying the surplus, either by retaining earnings to reinvest into the business or by paying a dividend to the parent company. It is not possible to directly equate the dividend amount paid to the parent company with ‘profit’, as it is common for the parent entity to reinvest some or all of this dividend into the broader business, e.g. technology and digital platforms that may be used by the RSE licensee’s business operations, rather than retaining it in the parent company.

CFSIL as a holder of an Australian financial services (AFS) licence, is required to lodge its annual profit and loss statement and balance sheet with the Australian Securities and Investments Commission on an annual basis (refer to s. 989B of the *Corporations Act 2001*). These financial statements comprise the Colonial First State Investments Limited Annual Financial Report for the year ended 30 June 2016 (“the CIFSL Annual Financial Report”).

As part of APRA’s annual analysis of each RSE licensee, APRA considers the financial reports prepared by RSE licensees. APRA’s annual review also considers the financial statement information required to be reported with respect of each RSE within the RSE licensee’s business operations. APRA’s objectives when undertaking this annual review are to:

- identify new or potential prudential risks/issues arising from the information;
- ensure the information aligns with APRA’s understanding of the profile and business operations of the institution; and
- assess the consistency of the publicly available financial statement information included in the RSE licensee’s annual report with the information provided to APRA.

Whilst APRA does not specifically collect data about dividend payments as part of its regular data collection, information about dividend payments is generally disclosed in RSE licensee annual financial statements.

The CIFSL Annual Financial Report notes that the dividend of \$268m was determined by the directors of CFSIL and paid to Capital 121 Pty Ltd, the immediate Parent and sole owner of CFSIL out of CIFSL’s net profits after tax (NPAT). It is important to note that the NPAT, from which the dividend is paid, is derived from both the superannuation and non-superannuation business of CFSIL. Capital 121 Pty Ltd is a wholly owned subsidiary of Commonwealth Bank Australia. The dividend of \$268m represents 0.3 per cent of all funds under administration (FUA)¹ managed by CFSIL.

CFSIL’s dividend payments have varied over previous years, historically sitting below the 2016 figure. It is APRA’s understanding that this reflects a decision of CFSIL’s directors to retain prior surpluses in the business to cover regulatory and compliance costs arising from the implementation of recent superannuation reforms.

¹ Per the CFSIL Annual Financial Report, Note 17 shows total FUA of \$90.7 billion.