

CORPORATE SUPER ASSOCIATION

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Senator Mathias Cormann
Shadow Assistant Treasurer and Shadow Minister for Financial Services and
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Dear Senator Cormann

SUPERANNUATION FUNDS: STRONGER SUPER PROPOSALS EQUAL REPRESENTATION ON TRUSTEE BOARDS

At the Corporate Superannuation Association, we have noted your interest in trustee board composition and would welcome an opportunity to discuss this issue further with you. We have set out below some background on our organisation and have then outlined overleaf the reasons why corporate superannuation sponsors are in support of equal representation for employer and employee groups on superannuation trustee boards.

Background – Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate superannuation funds and their employer-sponsors. The Association represents a total of 46 funds controlling 39 billion dollars of member funds. In general, these funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus.

Our funds are established without shareholder interests in the governing body, and no profit is derived from the operations of our funds. The funds are run as mutual entities, where the decisions are the responsibility of a trustee board. The boards typically provide equal representation for employer and employee interests. There is a high level of trustee integrity and an alignment of the interests of the trustee with those of the members.

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Fund governance: equal representation

Governance and trustees are the subject of Chapter 2 of the Cooper Report, and the Government has provided responses to Cooper's recommendations for this area, in the Table provided as Attachment to the Stronger Super paper published on 16 December 2010.

Cooper's Recommendation 2.4, the proposed abolition of the equal member/employer representation on trustee boards, has given rise to considerable concern, with all groups of funds that use this system of governance. We believe that there is considerable value in equal representation, where it can practically be retained. We believe that it strengthens the governance standards in a fund and we do not believe that it has given rise to weaknesses, rather the reverse. The Government has indicated that it would prefer to see the current equal representation rules retained because of their role in ensuring that members are able to participate in the management and protection of their retirement savings. We welcome this view.

Unions and equal representation

We understand that you may have a concern that the Government's approach favours union influence over the governance of superannuation funds. We would like to indicate our interest and views on this matter. Our role involves supporting employers who sponsor stand-alone corporate funds, or who participate in multi-employer funds and in master funds which incorporate sub-funds supporting the employees of those employers. Our corporate and multi-employer funds play a different role from industry super funds, and we would like to share with you our views on the role of equal representation. In brief, we believe that in corporate funds, equal representation assists in maintaining the integrity of the trustee system. The equal representation system requires the members of the trustee board of a standard employer-sponsored fund (i.e. a fund where the employer contributes under an arrangement with the trustee) to be selected equally from employee representatives and from employer representatives. In our stand-alone employer-sponsored funds, these arrangements have worked consistently well in ensuring that employees and employee groups have had a voice in running the funds.

As regards the role of unions, we acknowledge that by arrangement, it often happens that the interests of a group of employees of an employer are represented by a person who also represents union interests, in other words that on trustee boards, union representatives occupy some of the employee representative positions. However, we are of the view that approach does achieve representation of large blocs of employee interests and is superior, through diversity of interests represented, to the situation where the interests represented on the trustee board are those of the employer alone or, much more remote, those of a board of independent or professional trustees. We also note that in the case of broader membership based funds, the employer is usually represented by a member of the relevant employer association, and it has been our experience that the union and employer nominees have worked harmoniously in the best interests of members.

Maintaining the interest of employee representatives on trustee boards brings at least two major benefits. One is that as noted above, the interests of employees are

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maintained. Another strength is the greater diversity of views brought to the table. A member representative may not have the technical investment expertise brought to the table by a professional trustee, but he or she may actually be able to contribute a broader view and to raise questions about the fund as a result of a wider perspective. We are aware that "fit and proper" criteria and issues of overall technical competence and training will become increasingly demanding, but we believe that with appropriate training and overall balance in the selection of trustee boards, the governance of funds can be enhanced by striking a balance between the parties represented.

We believe that a situation where trustee boards are composed substantially of non-associated or professional trustees is appropriate for public offer funds, where the link between employer-sponsor and fund has been lost or is weak. However, where it is possible to maintain the interest of the employer and the employees in the running of the fund, we believe that the benefits brought from involvement of the interested parties far outweigh the benefits of having the fund run by external parties (however great their technical expertise) who have less comprehension of the situation of the sponsoring employer and employees.

A review of long term fund performance demonstrates that the equal representation model of employer sponsored, public sector and industry funds has consistently delivered a superior return to the independent director retail model. In addition fees are generally not paid to directors of public sector and employer sponsored funds: the need to pay independent directors would be a direct cost against member benefits.

We would be very happy to share an opportunity to discuss these issues with you when convenient.

Yours sincerely



Bruce McBain
Chief Executive
Corporate Superannuation Association