



**IFSA'S DRAFT SUPER
CHARTER:**

**A NEW COMMITMENT TO
SUPER MEMBERS**

17 June 2009

CEO Foreword

IFSA members recognise the responsibility they have as managers of a substantial proportion of Australia's retirement savings and as such wish to see continuous improvement of the industry, for the benefit of superannuation members.

IFSA's Draft Super Charter: A new commitment to super members is underpinned by the principles of full value, choice, transparency, comparability and competition.

IFSA's member companies are committed to offering superannuation members access to competitively priced funds where they only pay for the level of service they receive and clearly understand what they are paying for. Under the draft Charter, super members will only pay for the adviser services they receive.

The draft Super Charter also lays out a framework that will ensure members have access to more credible and comprehensive information about how their investments are performing and how this performance compares to other like investments. They will also have confidence in the information presented by super funds through advertising and promotional material.

The draft Super Charter sees IFSA's members and, we hope the rest of the industry, provide improved value and greater control to superannuation members. It also recognises that the industry alone can only do so much and that to deliver maximum benefits to superannuation members, the policies outlined in the draft Super Charter will require government and regulatory support.

Under IFSA's draft Super Charter there are policies outlined in four key areas:

1. Increased transparency and control in payments to advisers

- 1.1 Member Advice Fee: Super members that receive personal financial advice will be asked to agree both the amount and method of payment. If members wish to cease their relationship with their financial planner they will be able to turn this fee off. No member will be charged for personal advice unless they actually receive that advice and agree to the charge.
- 1.2 Plan Service Fee: In recognition of the levels of services provided by financial planners to corporate plan members, those members will be able to see the fee they pay for the support services provided by their corporate plan's financial planner. After an initial period of time the member will be able to opt out of receiving these services and therefore paying for them.

2. Enhanced competition through more informed choice

- 2.1 Investment Option Performance Comparisons: Super members will be able to confidently compare the performance and fees of investment options with other like investment options available – and will have access to enough information to help them understand why the performance and fees of seemingly like options may vary.
- 2.2 Advertising and Promotion: Super members will know that the data presented in fund advertising or promotion is based on the past performance of an actual investment option that is available to them. Performance or fee estimates/forecasts will be prohibited in all promotional material.

3. Improved regulation of the superannuation industry:

Super members will better understand their responsibilities in relation to their superannuation decisions and have confidence in a regulatory system that applies consistently across all superannuation funds and in relation to the advice given in respect of all funds.

4. Partnership approach with regulators and government:

The policies introduced by IFSA's Super Charter will improve transparency in the industry, give members greater control and will allow for more informed decision making to facilitate further competition in the superannuation industry. This member driven competition in the super industry will ensure that products and services continue to improve. The effective implementation of the Charter requires a partnership between industry, regulators and government.

It is envisaged that IFSA's Super Charter will be successfully delivered in two ways: first through IFSA's Standards; and second via appropriate government and regulatory support.

The policies outlined in the draft Charter were developed by the IFSA Board and will be open for discussion and comment until Monday 14 September 2009. The IFSA Board hopes to formally adopt IFSA's Super Charter at their meeting on Wednesday 28 October 2009.

While IFSA's member companies will be encouraged to implement IFSA's Super Charter as soon as practicable, once adopted the policies outlined in this document will formally come into effect on 1 July 2010. There will be a managed transition period to ensure full implementation is completed by 1 July 2012.

IFSA anticipates that companies will become compliant as they roll out new Product Disclosure Statements and review their operational systems. However it should be noted that the length of the transition period has been developed taking into account:

- the extensive liaison required with financial planners to ensure there is continued support of superannuation members;
- the time required to amend IFSA's Standards;
- the regulatory and legislative drafting process; and

- the substantial capital investment and significant operational systems changes required by member companies to implement the Charter.

During the transition period, IFSA's Standards Oversight and Disciplinary Committee will monitor progress towards full compliance in 2012.

IFSA acknowledges the recent discussion paper published by the FPA, aimed at encouraging financial planners to transition to fee based remuneration by 2012.

The policies outlined within IFSA's Super Charter have complementary objectives to those outlined by the FPA. We look forward to working with the FPA and all members of the financial planning community to provide improved outcomes for all superannuation members.

Over the coming months, the IFSA Board and Secretariat look forward to constructive dialogue with all superannuation stakeholders – member representatives, the industry, financial planners, super funds, regulators and government.



Richard Gilbert
Chief Executive Officer
Investment and Financial Services Association

1. Increased transparency and control in payments to advisers

1.1 Member Advice Fee (MAF):

When an individual receives personal financial advice from a financial adviser in respect of a superannuation account, they will be asked to agree the amount they will pay and how the payment will be made. It also allows super members to turn the payment off if they cease the relationship with their adviser.

The introduction of this policy means that no fees will be paid by super members to financial advisers in respect of personal financial advice, unless the service is received and the payment agreed by the member.

a. Application of the MAF policy:

The MAF policy applies to all new personal superannuation accounts (both pre retirement and post retirement) and all new corporate plans.

The policy does not apply retrospectively to existing superannuation accounts or to the provision of new or existing life insurance cover that relates to an individual member or group of members.

Members transferring out of new or existing corporate plans will not pay an MAF unless they receive personal advice and agree to the amount and method of payment.

b. How the MAF will work:

Members will be asked to agree to the amount payable as the MAF and the mechanism of payment.

The mechanism of payment may be either one or a combination of the following:

- An agreed ongoing dollar or percentage based fee paid by the member from either their super account or outside the super account (the member will be able to 'turn the fee off' if they wish to cease the relationship with their adviser).
- An agreed up-front dollar or percentage based fee paid by the member from either their super account or outside their super account.

c. Disclosures of the MAF:

All new superannuation product disclosure statements and all communications to members leaving existing corporate plans must give clear explanation of:

- the fact that receiving personal financial advice will trigger the MAF;

- how the superannuation product provider will administer the fee if they select to have all or part of the MAF paid from their superannuation account; and
- how they can 'turn the fee off'.

IFSA will work with stakeholders to introduce guidelines for disclosure in all documents to ensure consistency in delivery of the new MAF policy and to facilitate superannuation member understanding of the policy.

d. Removing tax barriers to effective choice:

At present the decision about the mechanism of paying the MAF will impact on how much the member will pay for advice as the income tax and GST payable on advice both vary depending on how advice is paid for.

Tax neutrality is essential to ensure that investors are effectively able to exercise choice as to how they wish to structure their payment for financial advice – be it up-front or ongoing, paid from their super account or outside their super account.

As long as differential tax treatment applies, investors that choose to pay for their advice outside their super account will pay more for the same service as those that choose to pay from their super account.

e. SIS Act – providing funds with confidence and certainty

In order to allow superannuation funds to offer members a real choice in the way they decide to pay for any advice they receive, the government and regulators should support companies in becoming confident that a decision to pay for personal superannuation advice out of the product does not contravene the sole purpose test.

f. Disclosure – providing regulatory support and supervision

Regulatory support and supervision will be required to ensure appropriate amendments to the disclosure regime are made to reflect the inclusion of the MAF in Product Disclosure Statements, Financial Services Guides and other communications to super members.

1.2 Plan Service Fee (PSF):

When a corporate plan is established by a financial adviser, ongoing support and administration services are often provided by that adviser to the corporate plan members. The PSF is applicable only where those adviser services are paid from corporate plan member super accounts.

Under IFSA's Super Charter, the annual statements provided to plan members will include the value of the PSF being paid to a financial adviser. After an initial period of time, members that wish to will be able to opt out of receiving the additional adviser services and therefore from paying the PSF.

a. Application of the PSF policy:

The PSF policy applies to all new corporate superannuation plans – that is any new plans entered into between plan providers and employers following implementation of the Charter.

The policy does not apply retrospectively to existing corporate plans or in respect of new members joining an existing corporate plan.

b. How the PSF will work:

The value of the PSF and the length of the initial payment period will be agreed between the employer and the corporate plan adviser when the corporate plan is established.

After the initial payment period, corporate plan members will be able to opt out of receiving the additional adviser services and therefore paying the PSF once a year within a specified period from receiving their annual statement.

c. Disclosures for the PSF:

All new corporate plan product disclosure statements must give a clear explanation of how the PSF will be charged, what it covers and how members may opt out of receiving the services and therefore paying the fee.

The PSF paid by corporate plan members will be disclosed every year within annual superannuation statements. The statements will also include information on how members may opt out of receiving the services and therefore paying the PSF.

IFSA will work with stakeholders to introduce disclosure guidelines to ensure consistent communication of the PSF and to facilitate superannuation member understanding of the policy.

2. Enhanced competition through more informed choice

2.1 Investment Option Performance Comparisons

To support super members in making informed decisions in the Choice of Fund and investment option choice environment, super members must easily compare the past performance of their particular investment with other 'like' investments and ideally would have access to 'up to date' investment option league tables.

This policy aims to ensure all super members, regulators and researchers have access to actual performance and fee data that is up to date and readily comparable.

Under the Super Charter super members will also have access to information relevant to performance outcomes via a standardised web-based disclosure regime for super funds.

a. Application of the policy:

IFSA members that provide superannuation products will be required to publish on their websites and make available to research houses or regulators performance data for all investment options on a monthly basis. The default investment option must be tagged accordingly.

Past performance must be disclosed once a month based on end of month data. Super members will be able to see the percentage return the investment options have experienced, with the focus being medium to long term returns (3, 5 and 7 years), as well as how these percentages apply to a indicative member account balances.

b. Consistency in calculating past performance and comparing like with like:

The past performance of investment options must be calculated consistently across the industry – net of all maximum non discretionary dollar and percentage based fees.

IFSA will work with third party researchers, industry, regulators and government to ensure that all investment options are categorised consistently and only compared with other options within that category e.g. balanced, growth, Australian equities, International equities, etc.

c. The disclosure of relevant information:

Ideally the reporting of all investment option performance should be accompanied by standard and relevant information that will help members understand performance differentials.

Super funds will therefore implement their own web-based disclosure regime for this information so it is readily available to super members, researchers, regulators and government.

Such a regime will lead to the full disclosure of:

- Redemption policies and pricing policies – these policies should be consistent e.g. superannuation product providers with daily applications should also have a redemption policy based on daily pricing.
- The asset allocation for each investment option – including the percentage given to listed vs. unlisted assets (or liquid vs. illiquid assets).
- Valuation policies that relate to unlisted assets (or illiquid assets) – including the frequency, methodology and approach used.

d. Consistency – regulatory support and supervision:

Regulatory support, including supervision, will be required to ensure that the industry calculates and communicates performance information in a consistent and effective way.

The industry welcomes the opportunity to work with regulators and policy makers to secure consistency with respect to:

- How underlying assets are defined and how those definitions are applied across the industry.
- How funds are categorised into peer groups.
- How the web based disclosure regime is complied with.
- The methodology and frequency for the valuation of unlisted (illiquid) assets.
- How unit pricing methodology is applied across the industry.
- The matching of application/redemption policies and pricing policies.

2.2 Truth in Advertising and Promotion

To assist super members to engage with their accounts, exercise informed choice and promote a competitive market, the disclosure of past performance, whether to researchers or through advertising must always be based on actual investment option performance.

While it is currently common practice for some in the industry to use performance data based on averages to promote or advertise products, IFSA believes that average hiding should be banned.

IFSA also believes that the use of “actual” performance or fee forward estimates (projections/forecasts) in promotional material should also be banned. The use of average or aggregated performance and fee data risks misleading super members and does not support sound super decisions.

As has been illustrated by the Global Financial Crisis and recent market movements, the use of past performance to forecast future returns over 30-40

years is misleading. Likewise, current fee levels will inevitably change markedly over time.

Under IFSA's Super Charter all super members can be confident that the information they see relates to an actual investment option that is relevant to them.

a. Application of the policy:

Superannuation funds and industry organisations will no longer be able to use performance and fee data based on averages within advertising or promotional material.

All promotional and advertising material will use actual past performance data, for real investment options which are available for members to invest in.

The performance and fee information published must be calculated in accordance with the policy outlined for investment option performance comparisons and league tables.

All super funds and industry organisations will need to review their advertising and promotional material to ensure that it complies with this policy.

b. Consistency – government and regulatory support and supervision:

Government and regulator support will be required to oversee the implementation of the Charter's commitment to truth in advertising and promotion.

Using past performance and fee information as the basis of projecting a future investment outcome risks misleading super members. Super returns in the last eighteen months have illustrated the unpredictable nature of investment returns and highlights the risks of making projections over any future period.

The industry welcomes the opportunity to work with government and regulators in the implementation and supervision of policies to:

- Ban "average hiding" (the use of aggregated performance and fees data in advertising or promotional material)
- Prohibit the use of performance or fee estimates/forecasts in all promotional material.

3. Improved regulation of the superannuation industry

The policies introduced by IFSA's Super Charter will improve transparency in the industry, help reduce costs, give members greater control and will allow more informed decision making to facilitate further competition in the superannuation industry.

Member driven competition will ensure that all service providers in the superannuation industry continue to improve the products and services available to super members.

IFSA hopes to rely on government and regulators to support and supervise the policies that will facilitate member driven competition.

The government should support competition in all areas of the industry and the industry welcomes the opportunity to work with government to ensure that there is always open and active competition in the industry whereby any fund is able to compete for business.

In addition there are a number of areas where the regulatory framework should be improved to provide for greater consistency and certainty for all public offer funds and their super members.

To fully support the policies within the Super Charter, the government should also provide super members with clarity about the obligations they have in relation to their superannuation investments, formally acknowledging the responsibilities of super members in respect of their choice of fund and investment choice decisions.

In addition, IFSA calls on the government to require regulatory consistency in the supervision of all superannuation public offer super funds and in relation to the advice given in respect of all funds. This includes, for example, requiring uniform licensing of providers of financial services to and in respect of self managed super funds.

a. SIS Act – support for the Super Charter:

The asset allocation, pricing and valuation policies of all public offer funds should be aligned to the level of access members have to their accounts.

Where public offer superannuation products allow daily applications and redemptions, they should be required to implement a uniform daily unit pricing methodology for allocation of investment returns.

Where investment options have a strategic allocation of more than 25% of funds under management in illiquid assets they should be required to have application/redemption policies, possibly beyond the SIS 30 day rule.

The industry welcomes the opportunity to work with government and regulators to ensure that the pricing and valuations policies of all public offer funds are in superannuation members' best interests given the level of access members have to their accounts.

b. SIS Act - Acknowledging the responsibilities for super members:

The Act and relevant regulations should provide greater certainty for super members and the industry by formally acknowledging the responsibilities of super members in respect of their choice of fund and investment choice decisions.

The superannuation product provider is responsible for:

- Providing an appropriate default investment option for those superannuation members that do not make an active decision;
- Formulating and documenting one or more investment options, depending upon the type of trust, the products offered within the trust and the number and range of superannuation members;
- Managing the available investment options in a prudent manner; and
- Acquiring, redeeming and reporting on the investment options offered and selected by superannuation members in accordance with their disclosed policies.

Superannuation members are responsible for:

- Their selection of investment option (s) within the product.

c. Licensing requirements – consistency in approach:

There must be consistency in member protection measures across all superannuation products. As such, the government should take steps to ensure all members have access to improved member protection measures by requiring uniform licensing of providers of financial services to and in respect of Self Managed Superannuation Trusts.

4. Partnership approach with regulators and government

Once the draft Charter is endorsed, IFSA intends to amend its Standards and Guidance Notes to reflect the policies.

Compliance with IFSA's Standards is a requirement of membership and through the Standards IFSA members demonstrate commitment to developing policies and processes that go beyond the baseline requirements of the legislative and regulatory requirements.

However, the effective implementation of the Charter requires a partnership between industry, regulators and government. Regulatory support and supervision are required in the implementation of several of the policies outlined in the Charter and legislative changes are likely to be required in a number of areas.

a. The timetable for implementation:

The policies outlined in the draft Charter were developed by the IFSA Board and will be open for discussion and comment until Monday 14 September 2009. The IFSA Board hopes to formally adopt the IFSA's Super Charter at their meeting on Wednesday 28 October 2009.

While IFSA's member companies will be encouraged to implement IFSA's Super Charter as soon as practicable, once adopted the policies outlined in this document will formally come into effect on 1 July 2010. There will be a managed transition period to ensure full implementation is complete by 1 July 2012.

The timetable for implementation has been developed in recognition of several factors including the time required to amend IFSA's Standards as well as the regulatory and legislative drafting process.

b. The process for implementing IFSA's Super Charter – IFSA Standards:

The principles outlined in this document will be established within IFSA's Code of Ethics as outlined in IFSA Standard No.1. In addition, the components of the Charter that require technical guidance must be incorporated into IFSA Standards. All Standards will be updated or developed by 1 March 2010, coming into effect on 1st July 2010.

The table below indicates how various elements of the Charter may be incorporated within IFSA’s existing Standards and two new Standards (Standard No. 19 and Standard No. 20):

	IFSA Standard
<i>Member Directed Adviser Service Fee and Plan Service Fee</i>	<ul style="list-style-type: none"> • New Standard No. 19: Adviser remuneration, choice in super funds.
<i>Comparing investment options – a policy to support super league tables</i>	<ul style="list-style-type: none"> • Revised Standard No. 6: Calculation of past performance • Revised Standard No. 10: Disclosure (and advertising) of past performance. • Revised Guidance Note No. 26: Asset valuation and unit pricing for infrequently valued assets. • New Standard No. 20: Framework for investment option league tables.
<i>Truth in advertising and promotion</i>	<ul style="list-style-type: none"> • Revised Standard No. 10: Disclosure (and advertising) of past performance.

c. The process for implementing IFSA’s Super Charter – regulatory and legislative enhancements:

Throughout this Charter the areas where government and regulatory support are required have been flagged.

IFSA looks forward to a constructive dialogue with all parties on how these changes may be implemented.

Glossary of Industry Terms

Below is a glossary of the terms used within this document. It also indicates the hierarchy that operates within the industry and illustrates the importance of being true to label.

Industry The Australian superannuation industry valued at \$1145.1bn at September 2008 ¹ (\$752bn of which is segmented by APRA into Sectors).

Sector APRA segments the industry by 'fund' type:²

Corporate	\$58.9bn
Industry	\$196.9bn
Public	\$164.6bn
Retail	\$331.6bn

The remaining \$393.1bn consists of small and self managed superannuation funds, not regulated by APRA.

'Fund' (Trust) The company or brand that is responsible and registered as a super 'fund or trust. APRA and other stakeholders use these terms interchangeably. The following are examples of 'funds' or trusts:

Licensees/trustees	'funds' or trusts
Sunsuper Pty Ltd	Sunsuper Superannuation Fund Sunsuper Pooled Superannuation Trust
ING Custodians Pty Ltd	ING Masterfund Retirement Portfolio Service ING Corporate Superannuation Master Trust

Product (fund) While some 'funds' only have one product, others offer a range of products to customers. The industry often uses the term fund to describe product. Many 'funds' provide access to personal superannuation products, corporate superannuation products and pension products. Some 'funds' include legacy products that are closed to new business. The following are examples of products:

'funds' or trusts	product (s)
Sunsuper Superannuation Fund	Sunsuper Solutions Sunsuper Pension Options Sunsuper Corporate
ING Masterfund	OneAnswer Personal Super Select OneAnswer Pension Select Corporate Super ANZ Personal Super ANZ Pension

Investment option Within each super product there may be 100s of investment options that are available to superannuation members within the products. The number of options will vary from one product to another (even within the same 'fund'). Superannuation members may choose from this range of options, one of which will be the 'default' option.

Default option Those superannuation members that do not make a decision are automatically placed in the 'default' option. The asset profile will vary from one product to another.

Corporate Plan Employers are required to offer their employees' access to their corporate superannuation plan, which will be invested within a corporate superannuation product available from a 'fund'. Employees may decide to join that plan or to nominate another product for their contributions to be sent to.

Member Superannuation members are those people invested in superannuation products. Whether they select their own product and 'fund' or are part of a corporate plan, the investment performance of their account depends on the investment performance of the investment option(s) they choose.

Account Each superannuation member invests within their account and their account is invested within the investment option(s) they choose, within the product they choose.

¹ APRA, Statistics: Quarterly Superannuation Performance, September 2008, Page 7

² APRA, Statistics: Quarterly Superannuation Performance, September 2008, Page 7