

Voluntary Pilot Report on Compliance with the AIST Governance Code

Governance Code Monitoring Panel Report

March 2019

Background

In April 2017 AIST published the [Governance Code](#). The purpose of the Code is to:

- Promote the continuous improvement of governance in the profit-to-member super sector;
- Ensure that the culture of the profit-to-members concept is fully supported by governance structures; and
- Improve accountability and transparency.

The Code adopts an 'if not why not' approach. 'If not why not' means that to comply with the Code funds are required to report in clear terms how, in practice, each standard is met or why it cannot be met. The approach recognises the differences that exist in the structure, size, complexity and operating parameters of funds. "If not, why not" also recognises that there may be a good reason why a fund is not compliant with a requirement of the Code, and that its governance may nevertheless be consistent with the eight overarching principles of the Code.

Existing governing rules may constrain compliance with the requirements for some funds. The latter is particularly significant for funds whose governing rules are established in legislation.

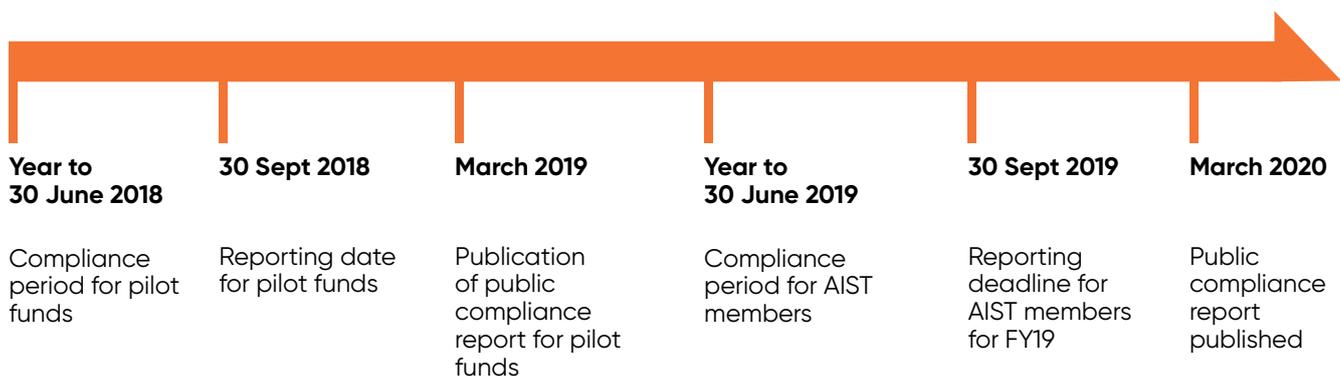
AIST members were required to adopt the Governance Code by 1 July 2018 with funds to report against the 21 requirements in the Code by 30 September 2019.

As part of the Code’s implementation, AIST appointed a three-member [Governance Code Monitoring Panel](#) in early 2018. The Panel is responsible for monitoring, engagement, reporting and other Code-related activities. The objective of the Panel is to assist superannuation funds to implement good governance standards in line with the Governance Code.

In 2017, the Panel invited AIST funds to take part in a voluntary reporting pilot to test the reporting approach and identify leading practice. A diverse group of eleven funds participated in the pilot which included both large and small members. The pilot group comprised seven industry funds, three public sector funds and one corporate fund.

The timeline below identifies key milestones over the period June 2018 to March 2020.

Governance Code Milestones



Key findings

Pilot funds reported a high level of compliance with the 21 requirements of the Code.

This was based on self-assessment for the year ending 30 June 2018.

The assessment found that:

- Nine funds reported compliance with 17 or more of the 21 requirements. One of two funds which reported compliance with fewer than 17 requirements was a public sector fund which was constrained by its legislation. Taking this into account, ten funds complied with at least 80 per cent of the requirements that they could be expected to comply with.
- As per the 'if not why not' approach, funds that do not or cannot meet a requirement are to provide an explanation. Seven of the 11 funds provided clear explanations on why they could not meet a requirement.

The Panel noted that in the case of public funds, state-based legislation can constrain compliance with four requirements. These relate to the appointment of directors being outside the control of the fund because of legislative provisions as well as requirements for:

- a written agreement with each director and senior executive;
- a diversity policy with measurable objectives; and
- a committee responsible for board renewal.

The Panel found that the three participating public sector funds reported that they engage with the relevant government department, ministers or union organisations to promote good governance standards aligned to the Governance Code.

The Panel made specific comments on the following requirements:

- **Requirement 5.1** obliges funds to develop and implement a stakeholder engagement program, which provides beneficiaries with two-way engagement with senior management and fund directors. Based on the pilot reports, it appears that funds are in a transition phase with this requirement. Some funds intend to hold a public forum where senior executives and trustee directors engage directly with members in an annual general meeting style engagement. Other ways of achieving the same end could include on-line engagement with a video message and an accompanying electronic Q&A forum.
- **Requirement 6.1** provides that funds have a risk culture that provides robust oversight of material risks and explicitly addresses factors that may erode the fund's member-first culture. Although the Panel is confident that the funds in the pilot have a strong member-first culture some funds could more clearly articulate how their risk management approach addresses members' best interests in practice.
- **Requirement 8.1** obliges funds to design and manage investment strategies to have regard to member demographics and circumstances during accumulation and decumulation phases. This is also an area where there is scope for some funds to provide clearer explanation on how this is achieved in practical terms.

Conclusion

The assessment of the pilot reports indicates a high level of compliance with the Governance Code. The Panel was pleased with this high level of engagement with the spirit of the Code during a transitional, voluntary year of reporting. This suggests the Code will serve its purpose of improving transparency, accountability and continuous improvement in governance. Compliance with the Code will also ensure that the profit-to-member culture is supported by appropriate governance structures.

In 2019, AIST member funds will benefit from having a [reporting template](#) and an [evaluation framework](#) to guide the preparation of their reporting. These documents are designed to provide greater clarity on reporting and, ultimately, to facilitate excellence in superannuation fund governance.