

AIST Governance Code 2022

Principles, requirements, and commentary

Principle 1: Lay solid foundations for management and oversight

A profit-for-member superannuation fund must determine the respective roles and necessary skill profile of the Board and management and set these out in writing. They must also determine how the respective performance of the Board and management will be measured and evaluated.

Requirement 1.1

A profit-to-member superannuation Board must:

- 1.1.1 Conduct all appropriate enquiries to ensure that nominees have the appropriate skills and experience before appointing a person as a trustee director.
- 1.1.2 For the appointment of representative directors, this includes engagement with sponsoring organisations and;
- 1.1.3 Informing nominating organisations and potential trustee directors of the expected time commitment to fulfil their Board and Committee duties recognising that the Chair's time commitment will be greater than that for other directors.

Commentary:

The primary responsibilities of the Board are to:

- To provide leadership; oversee and implement CEO succession and
- To determine, review, ratify and oversee the implementation of the fund's strategies and risk management framework.

Trustee Boards need to develop and support:

- A culture fostering accountability;
- Commitment to members' best financial interests duty, business integrity, innovation and transparency; and
- Clear processes and policies to ensure relevant and effective disclosure and communication.

SPS 510 *Governance* (2017) requires that:

The Board must ensure that the directors and the senior management of the RSE licensee, collectively, have the full range of skills needed for the effective and prudent operation of the RSE licensee's business operations, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes. This includes the requirement for directors, collectively, to have the necessary skills, knowledge and experience to understand the risks of the RSE licensee's business operations, including its legal and prudential obligations, and to ensure that the RSE licensee's business operations are managed in an appropriate way taking into account these risks.

AIST Governance Code 2022

It follows that AIST registered funds should effectively engage with the fund's sponsoring organisations to ensure that the right individual and collective skills and experience are represented on the fund's Board, while also ensuring maintenance of the member-first culture and that there is regard to the Board's diversity objectives. It is imperative that funds inform nominating organisations and potential trustee directors of the anticipated time commitment with being a director.

Funds should ensure that sponsoring bodies are aware and fully supportive of the role of the Board in providing benefits to the membership of the fund. A program of regular engagement between the Board and its sponsoring bodies which includes highlighting future vacancies on the Board, ideally at least a year in advance.

The Board should work closely with sponsoring organisations to help them identify appropriate candidates that meet the criteria of the fund's fit and proper policy, and in particular that:

- Fit the identified skill needs of the Board in implementing its strategy and objectives;
- Meet the fund's identified Board skills requirements;
- Identify with the fund's values and culture;
- Are consistent with the Board's diversity objectives;
- Are committed to achieving the best outcomes for the fund's members; and
- Can meet the necessary time commitment.

Before trustee directors are appointed, there should be review of actual or potential conflicts of interest and duty. Any potential conflicts should be assessed by the Board and a determination made about whether they might be appropriately managed or whether the candidate does not meet the requirements to effectively serve as a trustee director due to the conflict.

For some registered funds, the governing rules provide a unilateral power for the sponsoring organisations to nominate directors. In practice, there is generally consultation between the sponsoring organisation and the Board (or Chair) regarding nominees for Board membership.

Nevertheless, for Boards to be able to meet their obligations under the prudential standards, it is highly desirable that they engage with their sponsoring organisations to review the governing rules to ensure that:

- When nominating directors to the fund, sponsoring organisations have regard to requirements of fitness and propriety, the Board's identified skills and experience requirements and its policies around diversity and Board renewal; and
- The Board has the power to not accept one or more nominees from a sponsoring organisation if it reasonably believes that the nomination fails any of those criteria.

If more than one person is nominated to the fund Board from the same representative organisation, in considering SPS 520 *Fit and Proper* the Board renewal committee should have regard to the relationship of

AIST Governance Code 2022

influence between the two, to ensure that each can effectively exercise independent judgement in the decision-making processes of the Board.

Before accepting the nomination, the Board should be clear about the person's qualifications and experience and the skills they bring to the Board. It may be appropriate to task the Board renewal committee to establish a process for undertaking such a review and ensuring that it is carried out.

Requirement 1.2

A profit-to-member superannuation fund must have a written agreement with each trustee director and senior executive setting out the terms of their appointment.

Commentary:

For the purpose of this requirement, the term "senior executive" includes, but is not necessarily limited to, any fund employee who meets the definition of a responsible officer in section 10 of the *Superannuation Industry (Supervision) Act 1993* (the SIS Act).

AIST registered funds must have a written agreement for each trustee director and senior executive, setting out their roles and responsibilities, to provide them with a clear understanding of the expectations. This usually forms part of the letter of appointment or contract of employment.

The form of written agreement need not be the same for directors as for senior executives, and may vary between senior executives.

In a document signed by either the Chair or the company secretary, trustee directors should be advised of:

- The duration of their appointment, and any relevant maximum tenure in line with the fund's policy;
- Details of any remuneration payable;
- The circumstances in which the fund will reimburse costs incurred by the director in fulfilling their role as director;
- The requirement to disclose, on an ongoing basis, any interests or duties the trustee director may have that could impact their ability to exercise independent judgement, or be perceived as such;
- The duty of the director to familiarise themselves with their obligations as a trustee director, and including the fund's governing rules, code of conduct, and policies on conflicts, risk management and investment governance;
- The requirement to comply with the fund's code of conduct, the fund's conflicts of interest and duties policies and any other fund policies affecting directors;
- Any obligation of the director to undertake relevant professional development and how that obligation may be satisfied;
- The fund's policy on seeking independent professional advice;
- The circumstances in which the trustee director's role becomes vacant;
- The fund's policy for renewing a trustee director's term on the Board;

AIST Governance Code 2022

- The fund's indemnity policy and insurance cover for trustee directors;
- The trustee director's ongoing rights of access to the fund's company records, trust deed, insurance policies and other relevant information; and
- The trustee director's ongoing confidentiality obligations and if relevant, what this means in relation to sponsoring organisations or other stakeholder groups.

It is good practice for the fund to require the director to sign a copy of the agreement as an acknowledgement of receipt, and to retain a copy. In the event of any material change in circumstances or in expectations of the director, an updated agreement should be signed.

Contracts of employment for the CEO and company secretary would ordinarily be signed by the Board Chair. Contracts for other senior executives would ordinarily be signed by the manager of the person to whom the executive would report.

A letter of engagement or contract for a senior executive should contain at least:

- Their position description outlining their duties and responsibilities;
- The name of the person or body to whom they report;
- Details about their remuneration arrangements and work patterns;
- The requirement to comply with the fund's code of conduct, risk management framework, the fund's conflicts of interest and duties policies and any other relevant fund policies;
- The circumstances whereby their employment might be terminated; and
- Confidentiality obligations.

It is good practice for the fund to require the senior executive to sign a copy of the agreement as acknowledgement, and to retain a copy.

Requirement 1.3

The fund's company secretary is accountable directly to the Board, through the Chair, on all matters concerning effective Board operations and must provide every assistance to the Board to fulfil their obligations in acting in the best financial interests of members. Neither the Chief Executive Officer (CEO) nor the Deputy CEO of the fund should be the company secretary.

Commentary:

The role of the company secretary is to ensure a Board meets all its regulatory obligations including member's best financial interests, while understanding the regulatory environment. A company secretary must perform their responsibilities under section 1.5.5 of the Corporations Act.

In addition to those responsibilities the company secretary roles include:

AIST Governance Code 2022

- Understand and check that the fund complies with its statutory obligations, ensuring requirements of APRA, ASIC and other regulators are met;
- Development, communication and implementation of compliance policies, processes and procedures;
- Understand and ensure that the fund's governing rules, including its constitution and trust deed are upheld;
- Advise the Board and its committees on good practice;
- Ensure the Board has the information it needs to make informed decisions;
- Manage the Board and committee processes and relevant policies;
- Be responsible for the timely completion and distribution of the Board and committee papers;
- Ensure Board meetings are held at the instruction of the Board and maintain a forward schedule of Board meetings for the current and following calendar years that includes the expected agenda items and the Board obligations for a rolling one-year period;
- Record accurate minutes of meetings;
- Facilitate the induction of new trustee directors and coordinate the professional development needs of all trustee directors;
- Organising regular Board performance reviews; and
- Be available, and provide requested assistance, to all trustee directors.

The company secretary's primary role is to be the chief advisor to the Chair and the Board on governance matters, and to manage the mechanics of Board and Committee meetings. The CEO's role is to be chief advisor to the Board on the business of the fund, and to ensure that the Board's strategic plan is implemented. The two roles are thus quite distinct, and could on occasion be in conflict. Similarly, the role of the Deputy CEO can conflict with the responsibilities of the company secretary.

The appointment or removal of a company secretary should be approved by the Board and the performance review of the company secretary would generally be carried out by the Chair.

Depending on the nature and scale of the fund, the company secretary may also perform other duties. It is common practice for the company secretary to report to the CEO, or another senior executive, in relation to those duties.

The Board should ensure that the CEO and other executives respect the company secretary's independence in relation to his or her corporate responsibilities.

Some funds may not be in a position to have an internal company secretary who is not an executive of the fund and, in this case, funds should consider outsourcing the role.

Requirement 1.4

Profit-to-member superannuation funds must have a written diversity policy which sets out clear and measurable processes to promote diversity and to provide for annual reporting to the Board and members.

AIST Governance Code 2022

The processes may include diversity targets for the Board, management and employees to ensure that the fund taps the broadest talent pool and is responsive to the needs of its members.

Commentary:

In addition to any reporting requirements a registered fund may have as a “relevant employer” under the Workplace Gender Equality Act 2012 to report to the Workplace Gender Equality Agency, the Governance Code requires all AIST registered funds to have diversity policies and disclose relevant diversity objectives and progress against initiatives undertaken.

Diverse thinking and differing perspectives are widely recognised as:¹

- Contributing to improved decision-making;
- Resisting groupthink;
- A broad talent pool;
- Correlating with increased financial returns;
- Contributing to leading governance practice; and
- Fostering a closer connection with, and understanding of, the fund’s members.

Diversity comes in many forms and funds could consider diversity in the context of:

Gender and gender identity	Ethnicity or cultural background	Religious beliefs
Age	Language	Abilities or disabilities
Sexual orientation	Geography	Politics
Economic status or socio-economic background	Marital or family status	Retirement status
Skills	Interests	Work experience

It does not follow that Boards should endeavour to have each category of potential difference represented as directors or in senior management. The above list is intended to illustrate the breadth of characteristics which might be considered in promoting diversity on the Board and in senior management.

Boards should actively strive to achieve gender balance and in consultation with the fund’s sponsoring organisations, aim to achieve a minimum of 40% of each gender represented around the Board table. Diversity considerations beyond gender balance should also be considered.

¹ The Business Case for Gender Equality, Workplace Gender Equality Agency, 2013:
https://www.wgea.gov.au/sites/default/files/business_case_for_gender_equality.pdf

AIST Governance Code 2022

One of the benefits of equal representation on Boards is the diversity it can bring to super fund Boards. The Boards of profit-to-member superannuation funds generally have far greater occupational, cultural, gender and age diversity than corporate Boards because they draw their directors from a wider pool of talent than commercial entities traditionally do.

Boards should, where possible, consult with their sponsoring organisations to develop a pipeline of candidates whose career paths are enabling them to acquire the relevant professional expertise to be valuable superannuation trustee directors.

At all times, the Board and sponsoring organisations must ensure that primacy is given to the Board's obligation to act in the best financial interests of members and the promotion of diversity, while inherently valuable, should be addressed in that context. The first consideration in the selection of a Board member should always be that they satisfy the skills requirement of the role, as identified by the Board. If sufficient attention is paid to the development and recruitment processes, it should be possible to satisfy both the skills and the diversity criteria.

Processes adopted to enhance diversity at both Board and senior executive levels can include:

- Developing recruitment, mentoring and professional development practices that would attract and retain a broader talent pool from which candidates for senior executive and Board roles could be drawn, without compromising merit-based appointments; and
- Advising sponsoring organisations of the diversity criteria the Board is seeking to achieve. Highly functioning Boards:
 - Disclose their policies and processes;
 - Disclose any measurable targets they have set, or initiatives they are implementing; and
 - Monitor and (publicly) report on their progress/outcomes in each reporting period.

AIST recognises that some industries and functional operational areas have significantly higher rates of participation for one gender over another. The fund's gender diversity reporting should reflect this if applicable.

Requirement 1.5

A profit-to-member superannuation funds must have:

1.5.1. annual procedures to evaluate the collective performance of the Board and the committees. This will consider member outcomes the board is seeking to achieve and Board dynamics and culture; and

1.5.2. annual procedures to evaluate individual trustee director performance. The outcomes of individual director evaluations must be linked to future professional development and board succession planning considering the fund's strategic objectives.

1.5.3 The fund must disclose a summary of those procedures;

AIST Governance Code 2022

1.5.4 confirm annually that the performance evaluations were undertaken during the reporting period; and;

1.5.5 that there is an implementation process for actions arising.

Commentary:

Board dynamics and culture refers to the team orientation of the Board and its ability to collaborate and constructively challenge each other and management whilst maintaining Board cohesion and collegiality. The Board is responsible, with the CEO, for setting and leading culture and ensuring it is ingrained through the organisation. Board performance reviews include assessment of the effectiveness of the board in delivering the strategic objectives of the fund and the desired culture. The reviews typically include assessing:

- whether the board focuses on strategic and other critical issues;
- the quality of leadership;
- if directors hold each other to account and practice constructive challenge; and
- how effective directors are at meetings.

Consistent with SPG 510 (2017), a well-functioning Board would:

- Be clear about its objectives and the performance standards it expects of directors and document this in writing;
- Provide the document both to existing Board members and potential trustee directors;
- Ensure regular performance evaluation at both whole of Board and individual director levels;
- Be consistent with its policy on fitness and propriety and with SPS 520, have a process for managing non-performing directors and act on it when required;
- Disclose whether the performance evaluation of the Board and individual trustee directors took place during the reporting period;
- Disclose whether the performance evaluation was conducted internally or by an entity independent of the trustee;
- Consider disclosing any insights and changes it intends to make as a result of the process, bearing in mind the sensitive nature of such disclosure; and
- Consider evaluating committee performance, if appropriate.

Trustee directors should:

- Be self-aware of their own contribution to the Board;
- Participate fully in the performance evaluation process;
- Be open to criticism; and
- Be prepared to make changes if required.

AIST Governance Code 2022

Requirement 1.6

The Board of a profit-to-member superannuation fund must:

1.6.1 have a documented process for evaluating the performance of the senior management and;

1.6.2 disclose a summary of the process as well as whether such a performance evaluation was undertaken during the reporting period.

Commentary:

A formal performance review process for the management team must be in place, and any issues arising from such reviews should be appropriately dealt with.

The Board's responsibility is to ensure that the framework for annual performance reviews is in place, to approve the categories of staff who will be subject to performance review (if reviews do not apply to all staff), and to arrange for the performance review of senior management with direct reporting lines to the Board or the Chair.

The Board should consider publishing a listing of those positions which it considers makes up its senior management team, and whether the performance review was undertaken internally, by the Board (or a Board committee) or by a third party.

The CEO and fund senior management are responsible for the performance review of those staff who do not report directly to the Board or the Chair.

Principle 2: Structure the Board to add value and be effective

A profit-to-member superannuation fund Board must have a diverse Board composed of highly competent and committed directors. Representation of member and employer interests must be ensured, and the Board must be of an appropriate size, composition and have the skills to be able to discharge their duties effectively.

Requirement 2.1

The Board of a profit-to-member superannuation fund must:

2.1.1 have a committee responsible for Board renewal that has at least three members;

2.1.2 the committee must have a charter that is publicly disclosed; and

2.1.3 it should meet at least annually.

2.1.4 For each reporting period the fund must disclose the members of the Board renewal committee and;

2.1.5 attendance records for any meetings during that period.

AIST Governance Code 2022

Commentary:

In addition to the requirements in revised SPS510 (2017), AIST registered funds are required to have a Board committee responsible for Board renewal.

The purpose of requiring the committee to meet at least annually is to ensure that the Board actively monitors its membership and undertakes succession planning to ensure that the Board is aware of a pool of potential trustee directors who, either currently or with planned development, would meet the Board's skills, experience and diversity objectives.

At a minimum a Board renewal committee should:

- Maintain engagement with the sponsoring organisations so that they remain aware of:
 - The fund's business and strategic plans and the skills and capabilities required in a nominated director to effectively oversee the implementation of that strategy;
 - The Board's diversity objectives;
 - The circumstances under which a nomination for a trustee director position may be declined; and
 - The circumstances under which a trustee director can be removed from the Board.
- Identify suitable potential trustee directors and non-director Board committee members if required;
- Plan for departures in unforeseen circumstances;
Meet at least annually, even if there are no vacancies to fill at the time, to mitigate the risks from unforeseen departure; and;
Have a set of documented principles or evaluation criterion including desired skills, experience and diversity to guide succession planning and promote board effectiveness including diversity of thought and quality decision-making. These principles should include guidance on when extended board tenure is acceptable. The latter may include factors such as board stability, institutional knowledge and depth of capacity to mentor. Individual director performance will be evaluated annually (as per Requirement 1.5) to ensure that tenure is not extended beyond what is in the interests of a fund's members.

It is open to the Board to decide that the committee responsible for Board renewal could also be responsible for other functions; for example, remuneration or nomination (for Boards which include one or more non-representative directors and/or committee members).

While not deviating from the primacy of the equal representation principle, in certain circumstances it may be appropriate to consider the appointment of one or more non-representative directors. Such consideration should be in the context of the fund's strategic and business plans and having regard to the skill sets needed to implement those.

A highly functioning Board would ensure that the fund's governing rules provide for the refusal to appoint a nominee who fails the requirements of fitness and propriety, noting that the skills, knowledge and

AIST Governance Code 2022

experience of a director relate closely to the concept of “fitness”. If a Board considered that a nominee or potential nominee from a sponsoring organisation may not meet its requirements in terms of skills and experience, it would be expected that the Board would engage with the sponsoring organisation to secure a mutually acceptable nominee rather than relying on a capacity to formally refuse a nomination.

Requirement 2.2

A profit-to-member superannuation fund must:

2.2.1. maintain a matrix showing the skills, relevant experience and diversity of the Board and acknowledge gaps it is looking to fill in order to effectively fulfil its strategic plan.

2.2.2 the matrix must include requirements for additional skills and experience for the Chair (and Deputy Chair if the role exists).

2.2.3. It must disclose annually a representation of the existing collective skills, experience and diversity of the Board.

Commentary:

SPS510 requires that the directors and senior management of the fund collectively have the full range of skills needed to effectively and prudently manage the operations of the fund. It also requires each director to have skills that allow them to make an effective contribution.

A soundly functioning Board would ensure:

- An appropriate balance of skills and experience exists across the Board and senior management team;
- The suitability, complementarity and continuity in the Board, taking into account education, personality, gender, length of service and age;
- The continuous assessment of directors’ suitability throughout their term and any additional term;
- There is a skills matrix that identifies the existing individual and collective skills and competencies of the Board;
- Any skills gaps are identified so that they can be addressed through training or the next round of appointment of new directors; and
- They disclose the existing skills matrix.

It is appropriate for the Board to consider the individual skills required for certain key positions; in particular, there are certain skills that the Chair should possess to lead the Board well, in addition to the skills required of a director generally. This includes skills such as emotional intelligence, restraint, patience, collaboration, listening, capacity to engage, ability to facilitate collective decision making focused on strategic issues and mentorship skills.

The skills matrix should reflect the required skills, experience and diversity to deliver the fund’s strategy. It should anticipate future gaps in skills, experience and diversity in light of likely future retirement of trustee

AIST Governance Code 2022

director(s), change of fund strategic direction and emerging new skill requirements in light of industry change and regulatory expectations.

The identification of skills gaps is an important governance measure for a Board promoting the best interests of fund members. Used properly, it is an important safeguard against complacency while providing direction for individual and collective professional development as well as informing the selection of new directors and Board committee members.

The skills matrix should be reviewed annually to ensure that not only the current needs in relation to supervising the fund and its operations are being met but also so that any skills can be identified that may be sought as the fund's strategy is implemented and the environment in which it operates changes.

Requirement 2.3

In disclosing the names of its directors, a profit-to-member superannuation fund must identify for each director whether they are a member representative, an employer representative or a non-representative member. In each instance, the name of the nominating body must also be disclosed.

Commentary:

In addition to the legal requirements to disclose director names, registered funds must be transparent about the affiliations with sponsoring organisations of the fund.

Profit-to-member superannuation funds should have an equal number of member and employer representative trustee directors on the Board, and no more than one-third non-representative directors at any time. The identity of the respective sponsoring organisations for individual directors should be clearly disclosed to ensure transparency. It would not meet reasonable expectations for such disclosure to be in an obscure location such as a conflicts register.

Requirement 2.4

The voting rights of all trustee directors on the Board must be equal, regardless of their status as a member or employer representative director, or non-representative director. The voting majority for any Board decision should be no less than two-thirds of all trustee directors.

Commentary:

In addition to the requirement to have a minimum voting majority of two-thirds of directors, AIST registered funds are required to give equal voting rights to all directors of the Board. Consistent with the expectation that all directors act in the interest of members, the two-thirds majority requirement means that any decision requires the support of both member-nominated and employer-nominated directors.

Boards make decisions collectively, and not as individuals. All directors have the same legal duties and obligations, and share the same liability. For this reason, trustee directors must all have an equal vote on

AIST Governance Code 2022

the Board. When taken with the requirement for decisions to be taken by a two-thirds majority, it follows that it is neither necessary nor desirable for the Chair to have a casting vote.

It may be necessary for registered funds to seek amendment to their governing rules to comply with this requirement.

Trustee directors should not vote on matters where they have a material conflict of interest or of duty.

Profit-to-member superannuation fund Boards should:

- Aim for consensus decision-making;
- Consider the mix of representative and non-representative directors on their Boards in determining appropriate voting ratios, ensuring they do not fall below the legislative requirement of a two-thirds majority;
- Where there are one-third non-representative directors on their Board, increase their voting majority to 75%, to discourage voting blocks from forming; and
- Have deadlock breaking mechanisms in the fund's rules.

If a decision is not made with the consensus of the whole Board, the minority must respect the majority decision and observe their duty of confidentiality. Strong objections can be minuted, but final decisions need to be clearly recorded.

Recommendation 2.5

The Chair of a profit-to-member superannuation fund Board must be appointed by the Board, and must satisfy all the requirements of skill and experience identified in the fund's skills matrix for the role of Chair.

Commentary:

The Chair:

- Leads the Board;
- Steers discussion; and
- Through leadership and example, strongly influences the culture of the Trustee and hence the culture of the organisation as a whole.

It requires a significant time commitment.

This key role should be undertaken only by a person possessing all the skills identified under Requirement 2.2 as being necessary for the role of Chair regardless of whether they are a member or employer representative director, or non-representative director.

It is highly desirable that more than one director should possess the skills to be Chair. Should that not be the case, both sound governance principles and addressing key person risk would require the Board to

AIST Governance Code 2022

address the issue as a matter of priority. This could be done through defining the requirements for the next director(s) to be appointed, through the professional development of existing directors or a combination of these.

The Board should appoint an appropriate Chair for a fixed term. It is open to a Board to renew the appointment of a Chair, though in doing so it should have regard to issues of Board renewal and the capacity of the Board as a whole.

The Chair's role should be clearly defined in writing and should be understood by all trustee directors.

Boards may consider appointing a Deputy Chair to assist with succession planning, to take over the Chair's responsibilities when he or she is unavailable, or to step in should the Chair have a conflict with any Board matter under discussion.

Requirement 2.6

The CEO must not be a director of the fund.

Commentary:

The roles of the Board and the CEO are complementary rather than overlapping.

The Board is directly responsible for the hiring and firing of the CEO, and is charged with general oversight of the fund's affairs and its management. As a result, installing the CEO — the one person directly responsible for that management — as a Board member would create an inherent conflict of interest that does not lend itself to appropriate management.

Requirement 2.7

A profit-to-member fund must have:

2.7.1 An induction program for new trustee directors. Funds must set and disclose a timeframe for new trustee directors to undertake induction and other training to achieve a depth of understanding of the industry and the fund.

2.7.2 Provide appropriate ongoing professional development and training opportunities to continuously enhance their skills and knowledge.

Commentary:

While recognising that it is the collective skills and experience of the board that is relevant, all trustee directors are expected to have a minimum level of skills and understanding across relevant knowledge areas (as specified in the fund's skills matrix). The Board or Board renewal committee must ensure that an appropriate induction process for new directors of the Board takes place in a timely manner. To this end, funds must set a timeframe for new trustee directors to undertake induction and other training to achieve

AIST Governance Code 2022

a depth of understanding of the industry and the fund . Good practice suggests that this is as soon as practicable but no later than 6-12 months after joining.

An induction for a new trustee director should provide rigorous and comprehensive training specific to the fund and the industry including:

- The mission, vision and values of the fund;
- The legal and regulatory framework of the fund and industry;
- Governance principles, expectations, duties and obligations of a trustee director;
- The fund's strategic objectives and long-term aspirations;
- The investment philosophy of the fund;
- The risk management framework;
- The Board's roles and responsibilities regarding financial governance of the fund and the trust entity and
- The fund and industry history.

Trustee directors must undertake ongoing professional development in the legal, regulatory, investment and other financial areas as well as any new areas of importance to the Board and ensure that it is always aware of the changes in its operating environment.

Boards or Board renewal committees should formulate and document training plans for trustee directors. Where a trustee director has a skill gap on joining the Board, this shortfall should be addressed with appropriate training within the first six to twelve months. All trustee directors are required to maintain a level of ongoing professional development throughout their tenure on the Board to maintain the requisite level of skill and knowledge to discharge their duties effectively and respond to the changing environment.

While recognising the demands on the time of directors who also maintain other professional roles, AIST considers that a person should not accept the role as trustee director unless they are prepared to commit the time necessary both to fully prepare for Board and committee meetings, and to undertake ongoing professional development to continuously grow into the role and expand their relevant skills. On that basis, AIST considers that a minimum of thirty hours of relevant professional development should be completed each year by every trustee director.

Principle 3: Act ethically and responsibly

A profit-to-member superannuation fund must act ethically and responsibly.

Requirement 3.1

A profit to member superannuation fund must develop and disclose a statement of values which is aligned with the fund's purpose and strategic goals. The fund strategy and member outcomes the board is seeking to achieve must take into account the stated values of the fund.

AIST Governance Code 2022

Commentary:

Values define the type of organisation that a fund aspires to be and articulate what is required from its trustee directors, senior management, and employees to achieve those aspirations. Values form a link between the fund's purpose and its strategic goals by expressing the standards and behaviours it expects from its directors, senior management, and employees to fulfill its purpose and meet its goals.

The Board should approve the fund's statement of values and, while giving responsibility to management to embed these, the board should lead by demonstrating them.

Requirement 3.2

3.2.1 A profit-to-member superannuation fund must have a code of conduct for its Board, senior management and employees. This code, or a summary of it, must be disclosed.

3.2.2 The code must cover both relevant legal and ethical standards of behaviour required of the Board and all employees.

3.2.3 The Board must receive reports on metrics related to the code including activities to proactively promote expected behavioural standards as well as reports on material breaches and whistleblowing incidents.

Commentary:

In addition to providing guidance to employees regarding legal duties and obligations, a code of conduct should set expected behavioural standards and offer practical examples of how employees should behave to meet and go beyond legal compliance. The Code enables employees to understand and model the fund's values and to fulfil community and regulator expectations of how staff should behave.

A code should clearly and transparently articulate behavioural standards and provide practical guidance on how employees should manage workplace incidents or issues that they might encounter such as those relating to:

Health and safety	Cybersecurity and intellectual property	Equality and inclusion (including protection from gendered violence and harassment)
Travel, gifts, and hospitality	The environment	Human rights
Procurement policies	Competition	Conflicts of interest

Proactive communication and training about expected behaviours should be undertaken by both the Board, senior management, and employees. For example, training should be undertaken about the fund's mandatory processes required before switching investment by both board members and investment team members who may have access to sensitive investment information. There should also be relevant policies

AIST Governance Code 2022

in relation to investment switching (noting that funds may include such provisions in their conflict of interest policy).

Where incidents arise or weaknesses in standards or behaviours become apparent in the workplace, or at board level, specialised training should be undertaken. An example is unconscious bias training or pay equity reviews undertaken in response to poor equality and inclusion metrics.

A whistleblowing process with a formal escalation system which protects those raising issues must be established. Employees should be able to raise issues with an individual who is not their manager. For example, breaches by a person who reports directly to the CEO should be reported to the Chair or a Chair of a relevant Board committee. All issues raised should be taken seriously and addressed in a reasonable time frame.

Principle 4: Safeguard financial integrity

A profit-to-member superannuation fund must have appropriate and rigorous processes for financial governance.

Requirement 4.1

The Board of a profit-to-member superannuation fund must ensure the financial integrity of both the fund and the trustee entity including by meeting legal, prudential, and other regulatory requirements.

Commentary:

In ensuring the financial integrity of the fund and the trustee itself, it is expected that the Board would:

- Keep assets, income and financial records of the two entities separate;
- Have procedures in place to ensure that assets, income and liabilities (including tax liabilities) attributable to various sub-plans, investment options and any reserves are clearly identifiable and appropriately recorded;
- Have procedures in place to ensure that transactions are properly authorised, and are undertaken on an arm's length basis; and
- Have procedures in place to ensure that financial records are subject to independent validation.

The Board should ensure that it has adequate skills within its own ranks and in senior management to question advisers and make an informed judgement on their advice.

The Board, management and auditors must undertake sufficiently detailed analysis and enquiries into the fund's accounts to ensure that all Australian accounting standards and audit and assurance standards have been met, and the accuracy of the fund's accounts is protected.

AIST Governance Code 2022

A well-functioning Board would:

- Have direct access to the fund's auditors, actuaries, valuers, custodian and other appointed experts;
- Ensure that third-party experts have the appropriate skill, competence and diligence for the role and that their commitment is in line with the fund's relevant service standards;
- Satisfy themselves that the consultants are free of conflicts and can provide independent advice; and
- Assess the quality of the advice before relying on it.

Requirement 4.2

A profit-to-member superannuation fund must ensure due process in all transactions, and ensure that any related party transactions are conducted under market conditions with full transparency and disclosure.

Commentary:

In addition to the legal requirements for arm's length contracting, Boards should be confident in the integrity of all material transactions and their benefit for members of the fund. The fund's process for safeguarding such transactions should be relative to transaction complexity and size and should be disclosed.

If the deal is with a related party to the fund, the trustee or a sponsoring organisation of the fund, then the importance of transparency in the process is even more significant. Related party transactions should be disclosed.

Requirement 4.3 The Board of a profit-to-member superannuation fund must receive an attestation from the fund's CEO and CFO that both the fund's and trustee entity's accounts are a true and accurate reflection of the financial positions and that the financial records have been properly maintained, before approving the financial statements.

Commentary:

It is expected that the audit committee of a registered fund would provide diligent oversight of the fund's financial reporting and disclosures and provide the necessary assurances to the fund's Board.

The Board should be satisfied that the declaration from the CEO and CFO is based on a robust system of internal controls and risk management. It is also good practice for the Chief Investment Officer to provide a declaration on the robustness of the system of investment valuation.

While the views of the audit committee are an important factor in Board consideration of the accounts, directors cannot rely on them without giving their own independent consideration to the accounts. It is

AIST Governance Code 2022

important that all directors have the skills and confidence to review fund accounts and ask pertinent questions about them.

Principle 5: Open and transparent member engagement

A profit-to-member superannuation fund must be committed to open and transparent engagement with members. Scheme participants must be provided with opportunities to participate in direct dialogue with the fund's Board and management.

Requirement 5.1

A profit-to-member super fund must undertake activities to engage members openly and transparently including by meeting requirements of the Annual Member's Meeting to promote direct two-way communication between members and directors, senior managers and other fund representatives.

Commentary:

Members have a legitimate interest in the fund's sound governance and performance and they have the right to ask direct questions of the fund's board and management.

In addition to the requirements to hold an Annual Member's Meeting and disclose a range of information, AIST registered funds should give thought to the quality, readability and ease-of-access of information relevant to their members and employers.

All information disclosed should be accurate and plainly drafted, accepting that not everyone has high levels of understanding of complex financial issues and investment matters. Funds should have regard to the usability of the information contained in their communications including on their website, considering their material stakeholders and their interaction with such information. Depending on the fund's membership demographic, it may be desirable to provide access to key information in languages other than English.

Engagement with members provides a benefit to them collectively, in that more engaged members are more likely to make well-informed decisions about remaining with the fund, making additional contributions and tailoring their insurance to their needs.

Engagement goes beyond the simple provision of information to enabling an understanding of the fund's philosophy, culture and planned strategic direction.

Representation of members and employers on the fund's Board is a key facilitator of dialogue with members and employers and creates an accountability mechanism in the heart of the governance structure.

AIST Governance Code 2022

In addition, a program for engaging with member and employer sponsoring organisations can create opportunities for two-way communication. While the Board is not specifically accountable to the sponsoring bodies, or required to disclose information to them, mechanisms for continuous communication should be encouraged as this leads to improved mutual cooperation and understanding. These relationships should not only exist through the relevant nominated directors, but through the Chair and management of the fund.

Providing a capacity for Board members and senior management to interact directly with stakeholders, and for stakeholders to ask questions and make comment (for example using webinars or social media), is a good way to identify those issues which are of most interest to stakeholders and to help pitch communications in a way which members can understand.

Complaint procedures should be clear and accessible for members and all complaints should be treated seriously by the fund. The Board should receive reports on complaints, and any actions arising from them should be disclosed at an aggregated level (in a way that protects confidentiality).

Principle 6: Recognise and manage risk

In accordance with SPS 220, a profit-to-member superannuation fund must establish a robust risk management framework, monitor, and regularly review the effectiveness and continuing appropriateness of that framework. The risk management framework must consider the maintenance and prioritisation of a member-first culture.

Requirement 6.1

A profit-to-member superannuation fund must have:

- 6.1.1 a strong risk culture with a Board that provides robust oversight of the fund's material risks and;
- 6.1.2 a risk management framework to ensure that the best financial interests of members are served.

Commentary:

Risk culture refers to an entity's attitudes and behaviours towards risk management. Specifically, it is the behavioural norms and practices of individuals and groups that shape an entity's ability to identify, understand, openly discuss, escalate and act on its current and emerging risks.

A strong risk culture creates an environment where employees are comfortable speaking up and voicing concerns with their leaders. It produces better decisions by ensuring a broader range of views are considered, and allows ideas that present heightened risks to be appropriately challenged during decision-making. It incentivises boards and senior executives to prioritise effective risk management. In doing these things, a strong risk culture helps to deliver better business and customer outcomes for organisations

AIST Governance Code 2022

Legal and regulatory requirements surrounding risk management frameworks support profit-to-member superannuation funds' risk culture.

The members-first culture of AIST registered funds provides a clear point of difference from other superannuation funds. Preserving it is integral to the values and performance of a profit-to-member fund. Any threat to that point of difference would put at risk the fund's ability to deliver its business strategy. There have been examples in the past of organisations which have been established for the mutual benefit of members, but which have subsequently changed so that benefits were disproportionately captured by the governing body and management.

AIST registered funds should therefore be diligent in identifying and monitoring risks (including environment, social and governance risks) that could weaken the profit-to-member model or erode member's best financial interests and put in place appropriate risk mitigation strategies.

Principle 7: Remunerate fairly and responsibly

A profit-to-member superannuation Board must have responsibility for the design and oversight of the implementation of a remuneration policy and framework. The Board must ensure its design and application is in the best financial interests of the members of the fund.

Requirement 7.1

7.1 A profit-to-member superannuation Board must be responsible for the remuneration policy and framework. The policy and framework must be aligned with the fund's purpose, values, strategic objectives and risk appetite, and be assessed relative to the size, nature and complexity of the fund.

7.1.1 The Board should take a pragmatic view on when and if variable remuneration is appropriate. If variable remuneration is employed, the Board must obtain independent advice from expert advisors with experience in the design and have it reviewed at least every three years to assure itself that it is designed appropriately, operates effectively, and provides a net benefit to fund members.

Commentary:

The Board must oversee the development, monitoring and review their remuneration policy and framework. These should:

- Reflect the size and complexity of the fund;
- Reflect the long-term interests and strategy of the fund;
- Promote ethical behaviour in line with the fund's values;
- Be consistent with the risk appetite approved by the Board;
- Be aligned with delivering on members' best financial interests and in line with members' expectations;
- Be sustainable and not negatively impact on culture, attitudes and behaviour; and

AIST Governance Code 2022

- Be transparently disclosed and available to members and other scheme participants.

Trustee director and senior management remuneration must be disclosed and the way in which it is presented should be easy for members and other stakeholders to understand.

Principle 8: Strong investment governance practices

A profit-to-member superannuation fund must establish an investment framework to deliver appropriate retirement outcomes for its members and continually monitor and review the effectiveness and continuing appropriateness of that framework.

Recommendation 8.1

A profit-to-member superannuation fund must design and manage appropriate investment strategies having regard to member demographics and circumstances during both the accumulation and decumulation phases.

Commentary:

In addition to the legal and regulatory requirements such as Design, and Distribution Obligations and the Retirement Income Covenant, AIST registered funds should ensure that their members-first culture is always at the heart of their investment decision-making.

A super fund should:

- Have a good understanding of its current and prospective member demographics;
- Understand the employment and retirement pathways and expectations of different member cohorts; and
- Understand how these inform the investment choices of members and investment strategies of the fund.

These understandings should inform the design and investment strategy of the fund's MySuper option, as well as the selection of other choice investment options to be offered to members.

A super fund should consider a range of factors in determining appropriate investment strategies to be offered to members of the fund, including but not limited to:

- Age of members and likely length of stay with the fund;
- Occupational profiles and associated retirement ages;
- Gender and ethnicity considerations;
- Members' risk appetites over the length of their stay with the fund;
- Accumulation versus decumulation phases;
- Inflows versus outflows trends; and

AIST Governance Code 2022

- Costs, risk and return characteristics of different investment types, including taxation and investment management costs.

These considerations should inform fund decisions about the number and characteristics of investment options to be offered to members in the accumulation phase and to those drawing an income stream from the fund. Funds should note that the investment horizon and taxation considerations are materially changed if members near retirement age are likely to transition to an income stream from the fund rather than withdraw a lump sum at that point.

AIST Governance Code 2022

Glossary

AIST registered fund means a fund, determined by the AIST Board to be eligible for registered fund status, being a representative superannuation fund within the meaning of the AIST constitution.

Disclosure means to make publicly available, and when disclosing care should be given to ensure the particular item is worded, and presented, in a clear and effective manner.

Material issue means an issue, the disclosure of which is likely to influence the decision-making of the person to whom it is disclosed.

Material transaction means a transaction:

- Whereby the fund commits the lesser of 1% or more of the assets of the fund, 20% of the assets of a single investment option or A\$100 million;
- Whereby the fund gains or exits a controlling interest in any investment; or
- Which may expose the fund to reputational risk.

Non-representative director means a director of the fund who is not nominated by a sponsoring organisation as a representative of the members or employer sponsors of the fund.

Representative director means a director of an equal representation Board who is nominated by a sponsoring organisation as a representative of either the members or employer sponsors of the fund.

Scheme participants means members, beneficiaries, employer sponsors, fund staff and sponsoring organisations of the superannuation fund.

Senior executive includes but is not necessarily limited to any person who meets the definition of a responsible officer in section 10 of the *Superannuation Industry (Supervision) Act 1993* (the SIS Act).

SIS Act means the *Superannuation Industry (Supervision) Act 1993* (Cth).

Sponsoring organisations means the organisations that have rights under the superannuation fund's governing documents to nominate or appoint trustee directors to the Board.

SPS means superannuation prudential standard.