



FSC Standard No. 20 *Superannuation Governance Policy*

March 2013

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| FSC Membership this Standard is most relevant to: | This Standard is relevant to FSC Members broadly. However, it is of particular relevance for and binding upon FSC Members who are trustees holding a public offer or extended public offer licence to operate a registrable superannuation entity (RSE) under the provisions of the <i>Superannuation Industry (Supervision) Act 1993</i> and Regulations (collectively, SIS) in relation to each public offer fund that the FSC Member operates. |
| Date of this version: | 26 March 2013. |
| History (prior versions) of this Standard: | No prior versions. |
| Main Purpose of this Standard: | The purpose of this Standard is to promote strong governance arrangements by trustees of superannuation entities. |

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1. **Title**

This Standard may be cited as **FSC Standard No 20: Superannuation Governance Policy**. In this Standard, this Standard is also referred to as “**this Policy**”.

2. **Date of Issue (and history)**

This Standard was issued on 26 March 2013.

3. **Effective Date**

This Standard commences operation on 1 July 2013 on a voluntary compliance basis. Full compliance with this Standard from **1 July 2014** is mandatory. Earlier compliance with this Standard is nonetheless permitted and encouraged.

4. **Application**

General Principle

This Standard applies to FSC members who are trustees (relevant licensees) holding a public offer or extended public offer licence (relevant licence) to operate an RSE under the provisions of SIS (relevant RSE) in relation to each public offer fund that the FSC Member operates. In this Standard, RSE Member refers to the member of the RSE (that is, the superannuation entity) and FSC Member refers to the relevant licensee which is a member of the Financial Services Council Limited (FSC) and thereby bound by FSC’s Standards.

Pooled Superannuation Trusts (PSTs)

4.2.1 Subject to the ***exceptions*** set out below, this Standard however does ***not*** apply on a mandatory basis to a licensee who operates an RSE which is a PST holding a public offer or extended public offer licence (***PST licensee***). However, a PST licensee if it so wishes may comply ***voluntarily*** with all of the requirements of this Standard.

The ***exception*** is that a PST licensee nevertheless must comply with the provisions set out in summary form in paragraph 5.1 (e) of this Standard, dealing with a relevant licensee’s voting policy, record and disclosure of same. For this purpose, references in those paragraphs and the more detailed parts of this Standard relevant to those principles are to be read as follows-

- (a) for ***relevant licensee***, read ***PST licensee***;
- (b) for ***RSE***, read ***PST***;
- (c) for ***RSE Members***, read the reference as a reference to PST ***members*** or ***unitholders***.

4.2.2 The reason for the non-application of all of the provisions of this Standard is that investors in a PST by definition are other regulated superannuation entities. In a number of cases, these superannuation entities themselves may be FSC Members who are required to comply with this Standard. If those investors are not FSC Members but are for example, the trustees of self-managed superannuation funds, those trustees do not have to comply with this Standard. In other cases, it may be that entry into a PST is restricted to superannuation entities holding a significant amount of assets so that the Corporations Act rules treating

investors in superannuation products as retail clients, do not apply.¹ It is felt that the vast majority of PST investors would be significant and sophisticated investors and thus not be retail clients for Corporations Act purposes. It is acknowledged that in some cases investors may not meet this description. However, it would be cumbersome and difficult to draw distinctions so that all of the provisions of this Standard applied in some cases but not others. The application of all such provisions to PST licensees would create difficulties for potentially little benefit. Other protections would be available to investors in such a PST, such as regulatory provisions and the presence in the PST of sophisticated, wholesale investors.

FSC Members operating PSTs however previously may have complied with the former Standard 13 Proxy Voting and the extension of that Standard is consistent with openness and transparency in investor relations. This is seen as desirable. Hence, relevant provisions of this Standard and revised Standard 13 should apply to PST operators who are FSC Members.

- 4.2.3 In the case of any inconsistency between this Standard and any statutory obligation binding upon an FSC Member, an FSC Member must comply with that statutory obligation in priority to this Standard. In such a case, this Standard will be treated as being modified or varied to the extent of the inconsistency.

5. Summary of Standard

5.1 In summary, this Standard:

- (a) outlines the governance arrangements necessary to satisfy an **independence** criterion for relevant licensees. This has the following distinct elements (which require **disclosure** to RSE Members):
 - (i) a requirement that the Chair of the entity's Board be independent;
 - (ii) a requirement that a majority of directors of that Board be independent; and
 - (iii) a requirement that a quorum for proceedings of the Board (when acting as the Board) is satisfied only if independent directors constitute a majority of directors present and entitled to vote at those proceedings;
- (b) particularises a requirement that directors of a relevant licensee should not accept or hold multiple and competing positions on RSE Boards;
- (c) requires a relevant licensee to develop and implement (and disclose to RSE Members) in relation to each RSE it operates, an ESG risk management policy.
- (d) requires a relevant licensee to develop and implement in relation to each RSE it operates, a policy concerning diversity of Board membership and disclose to RSE Members the policy or a summary of that policy (with the policy including a requirement for the Board to establish measurable objectives for achieving gender

¹ See Section 761G(6) Corporations Act. However, if a trustee of a PST provides a financial product that is an interest in the trust to a superannuation fund, ADF, PST, retirement savings account provider or public sector superannuation scheme that has net assets of at least \$10m, these entities are not treated as a retail client of the PST (section 761G(6)(aa)).

diversity and for the Board to assess annually both the objectives and progress in achieving them and to disclose to RSE Members that information); and

- (e) requires a relevant licensee to develop and publicly disclose to RSE Members in relation to each RSE it operates, its voting policy and to publish its Australian proxy voting record in accordance with FSC Standard 13 *Voting Policy, Voting Record and Disclosure*.

More information and details concerning these requirements are set out in the following sections of this Standard.

6. Statement of purpose

General

- 6.1 The purpose of this Standard is to promote strong governance arrangements applicable to relevant licensees.

Transition

- 6.2 Wholesale changes to governance arrangements in large organisations must occur in a prudent manner. Implementation of rules concerning restructuring of Board composition and altering systems and public disclosures and documentation cannot occur immediately and care must be taken when doing so.

The FSC's Superannuation Governance Policy requires many of Australia's largest companies to undertake significant changes to their superannuation governance structures.

As with all significant financial services reforms, these changes will be implemented with a prospective application and a transitional period.

- 6.3 The transitional arrangements recognise the range of significant changes to be implemented by relevant licensees under this Standard, who must implement a number of legislative-mandated changes, including:

- APRA Prudential Standards;
- MySuper;
- Elements of SuperStream; and
- the Future of Financial Advice legislation.

- 6.4 This Policy involves two broad elements which give rise to the need for transition arrangements:

- (a) restructuring Board composition to meet the independence requirements of this Standard and the requirements prohibiting competing positions on RSE Boards; and
- (b) enhanced RSE Member disclosures and transparency through proxy voting, Environmental and Social Governance (ESG) and diversity provisions.

This Policy requires that a Board consist of a majority of independent directors and an independent Chair. This is one of the Policy's elements which necessitate transitional arrangements as a number of superannuation Boards may need to be restructured to meet this requirement.

The new independence requirements will require some superannuation Boards to use independent directors for the first time. Recognising that the appointment of new directors is an important decision, given the trustee's fiduciary responsibility to RSE Members, trustees need reasonable timeframes to make these changes.

6.5 In terms of enhanced disclosures, FSC Members will be required to disclose more information about their corporate behaviour and structure.

6.6 **(Transition Period)** A two-year transition period applies from 1 July 2012. This Standard commences from 1 July 2013 on a voluntary compliance basis. The mandatory obligation for all relevant licensees to comply with this Standard commences from 1 July 2014.

This means, when this Standard is read with FSC Standard 13 *Voting Policy, Voting Record and Disclosure*, that:

(a) as from the **start** of the financial year commencing 1 July 2014 and ending on 30 June 2015 (the **initial year**), a relevant licensee must comply with the requirements of **this Standard** in relation to the following matters:

- (i) composition of its Board;
- (ii) the quorum for Board meetings;
- (iii) the rules preventing the holding by directors of a relevant licensee of competing RSE Board positions;
- (iv) development and implementation of an ESG risk management policy in relation to a default fund or product for the purposes of the superannuation guarantee charge choice of fund rules (including a MySuper product) offered by that licensee; and
- (v) development and implementation of a Board diversity policy (with the policy including a requirement for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them),

and disclose its policies in these matters for the **initial year** on 1 July 2014 (or as near that date as is reasonably possible); and

- (b) for the initial year, a relevant licensee **must formulate** as required by **FSC Standard 13** a Voting Policy **and disclose** for that financial year on 1 July 2014 (or as near that date as is reasonably possible) that Voting Policy (including whether or not the relevant licensee has engaged the services of a proxy advisor); and
- (c) within three months of the end of the initial year ending 30 June 2015, a relevant licensee must disclose, as required by **FSC Standard 13**, its voting record; and

- (d) if not already disclosed, within three months of the end of the initial year ending 30 June 2015, disclose, as required by this Standard, the Board's annual assessment of the gender diversity objectives under its diversity policy and the Board's progress in achieving those objectives; and
- (e) the obligations set out above will apply as required in respect of each subsequent financial year following the expiration of the initial year ending 30 June 2015.

Presentation and templates

- 6.7 It is important that this Policy delivers a clearer picture for superannuation fund members – given that one of the key objectives of this Policy is to increase transparency of the superannuation industry.

Transparency as well as comparability of fund information will be vastly improved under this Policy as a standard template for the new disclosures will be included in the Standard. Use of the template however is ***not mandatory*** (see paragraph 6.9 below).

As disclosures of this nature have not previously been required, the industry should seek to communicate with fund members in a consistent and easy to understand format.

- 6.8 In particular, a template form of standard disclosure has been developed in relation to:

- (a) identity of directors; director independence and related disclosures;
- (b) proxy voting records;
- (c) ESG reporting; and
- (d) a Diversity Policy.

Disclosure of director and senior management remuneration is not dealt with by this Standard, given such matters are proposed to be introduced in legislation.

- 6.9 A form of a model Governance Policy is set out in the Appendix (the **Model**). ***The use of this Model is not mandatory. The Model is a suggested form only.*** The circumstances of FSC Members may well differ. Accordingly, mandatory use of the precise wording of the Model is impractical and inappropriate. ***Accordingly, although it is a requirement of this Standard that a relevant licensee must formulate and adopt policies to implement the requirements of this Standard and make the disclosures mandated by this Standard, a relevant licensee is free to choose the precise form of wording which is most suitable for the licensee. A relevant licensee for example may choose to adopt the text of the Model, modified or amended as might be appropriate or required having regard to its particular circumstances or any specific legislative obligations. Alternatively, a relevant licensee may choose to make disclosure by reference to its own template.*** These approaches are acceptable provided that in all cases the actions and disclosures mandated by this Standard are undertaken and made in the manner and within the timeframes set out or referred to in this Standard.
- 6.10 A relevant licensee if it wishes or thinks appropriate may provide further or more detailed information than that prescribed by this Standard or contained in the Model.

6.11 Subject to any relevant legislative requirements, relevant licensees may choose to disclose this information in a manner the licensee chooses. For example, a licensee may choose to make **all** of the information available on its website, or alternatively provide details of its Voting Policy in the annual report to RSE Members under a specific “Governance” section (with a reference to its website for details of the exercise of its Voting Policy, that is, its Voting Record for the relevant financial year). At a practical level, and depending on the volume of information to be disclosed, it is likely that most licensees will choose to rely on website disclosure of Voting Records at least.

7 General principles and comments

7.1 This Standard applies to FSC Members who hold a **relevant licence** as defined in paragraph 4 above (**relevant licensee**) in relation to each public offer fund RSE that the FSC Member operates (i.e. a **relevant RSE**).

7.2 The terms of this Standard have been developed by reference to a number of sources, including:

- (a) *Blue Book: FSC Guidance Note 2, Corporate Governance: A Guide for Fund Managers and Corporations, 2004, re- issued 2009 (Blue Book)*;
- (b) the *Corporate Governance Principles and Recommendations*, 2nd edition, issued by the ASX Corporate Governance Council (effective 1 January, 2011) (**ASX Corporate Governance Principles**); and
- (c) *APRA’s Prudential Standard SPS 510 Governance* (generally effective 1 July 2013) and *Consolidated Prudential Standard 510 Governance*, (generally effective 1 July 2012); (**SPS 510/CPS 510 respectively**).

The FSC envisages that the mandatory requirements of this Standard will be incorporated into a broader governance policy of a relevant licensee. This Standard requires various matters to be disclosed by a relevant licensee in relation to each public offer fund RSE it operates and to make this disclosure available to RSE Members. This disclosure could be included in an RSE annual report or alternatively on the licensee’s website or both. FSC encourages FSC Members to have regard to not only this Standard but the source materials referred to above in formulating governance policies generally.

7.3 Compliance with this Standard for relevant licensees is mandatory from 1 July 2014. Earlier compliance is permitted and encouraged.

7.4 Where there is a conflict between the requirements of this Standard and any applicable legislation or other instrument binding on an FSC Member (such as SPS 510), the requirements of this Standard should be modified appropriately, having regard to the purpose and spirit of this Standard, so that, as far as is practicable, an FSC Member complies with both the legislation and this Standard. However, it should be emphasised that where this Standard contains requirements that are additional to, expand upon or supplement another binding requirement (such as legislation or an APRA prudential standard), this is not to be treated as an inconsistency and an FSC Member is expected to comply with both the other binding

requirements and this Standard. An example of this is provided by SPS 510 which does not address issues such as composition of the Board of an RSE licensee. This is to be compared with this Standard which directly addresses this matter.

- 7.5 Where there is a conflict between this Standard and the company constitution of an FSC Member subject to this Standard or any other internal processes or procedures of the FSC Member, it is anticipated that the FSC Member will take the steps necessary to achieve consistency with this Standard.

8 The Independence Criterion

Requirement: the key elements

- 8.1 The following are the **key elements** of the independence requirements of this Standard:
- (a) a majority of directors of the Board of a relevant licensee must be independent directors;
 - (b) the quorum for Board proceedings (acting as the Board) of a relevant licensee must be that of the Directors present and entitled to vote, there is present a majority of independent Directors (which may include the Chair); and
 - (c) the Board of a relevant licensee must be chaired by an independent director.

These are requirements under this Standard which a relevant licensee must comply with and satisfy in relation to each relevant public offer fund RSE which it operates.

Further explanation of these elements and background to the concept of independence (and some recent developments) are set out below.

Details of the independence requirements of this Standard

- 8.2 Below are the details of the independence requirements of this Standard.

Independent Director: Differing formulations in various regulatory contexts

- 8.2.1 There are a number of different formulations in the Australian regulatory context of the concept of an external or independent director.² Each of these is expressed in slightly different terms.

The Test of Independence under this Standard

- 8.2.2 FSC appreciates that an RSE licensee impacted by this Standard potentially may be subject to a number of different governance requirements. This is particularly the case where an FSC Member is part of a corporate group, with a parent company being a listed entity and various subsidiaries offering different financial products (such as

² For example, the definition of “independent director” in section 10 SIS in relation to equal representation requirements; the definition of “external director” in Section 601JA (2) Corporations Act, where a compliance committee is required if less than half of the directors of the responsible entity are external directors; Blue Book; SPS 510/CPS 510 and ASX Corporate Governance Principles, Principle 2 and Box 2.1.

superannuation, life and general insurance and managed fund products). In addition, a listed parent as a matter of policy also may have extended the ASX Corporate Governance Principles (or a variant of them) to each of its operating subsidiaries. However, for the reasons noted below, it is felt more appropriate to remove any perception of conflict and adopt a modified version of the Blue Book, ASX Corporate Governance Principles and SPS 510/CPS 510 concepts. Under this modified formulation, as a general proposition, and subject to a no conflicts rule, an independent director cannot hold office in nor have employment with another relevant entity in the group, as detailed in the following paragraph.

8.2.3(a) **Primary Rules:** Accordingly, for the purposes of this Standard, **subject to the no conflict rule set out and defined in paragraph 8.2.4(b) below**, a director will qualify as an independent director of the relevant licensee where the director is **not** an employee (and thus a non-executive director) of the relevant licensee or a related body corporate³ or a related entity⁴ of either (other than being an employee of the relevant entity or having a relationship with a relevant entity by virtue of the holding of office as a director) (such licensee, body corporate and related entity is referred to as a **relevant entity**) and who:

- (i) does not have a substantial holding⁵ in the relevant licensee or any of its related bodies corporate⁶ (**relevant entity**) or is not an officer of such a relevant entity, or otherwise associated directly or indirectly with, a person having a substantial shareholding in a relevant entity;
- (ii) within the last three years, has not been employed in an executive capacity by a relevant entity or been a director of a relevant entity after ceasing to hold any such employment
- (iii) has not within the last three years been a principal or employee of a material professional adviser or a material consultant to a relevant entity;
- (iv) is not a material supplier or customer of a relevant entity or an officer of or otherwise associated directly or indirectly with, a material supplier or customer of any relevant entity;
- (v) has no material contractual relationship with a relevant entity, and;
- (vi) is free from any interest and any business or other relationship which could, or reasonably could be perceived to materially interfere with the director's ability to act in the best interests of the relevant RSE's beneficiaries.⁷

³ As defined in Ss.9 and 50 of the *Corporations Act*.

⁴ As defined in Section 9 of the *Corporations Act*.

⁵ As defined in Section 9 of the *Corporations Act*.

⁷ The last paragraph is a general, over-arching provision taken from the Blue Book formulation. This requires an RSE licensee to be mindful of any situations, which, whilst not contrary to the preceding, more technical definitions of independence could be seen, objectively to run counter to the purpose and objectives of this Standard as outlined at Section 5.

The concept of what is material for these purposes is discussed in more detail below at paragraph 8.7.

A parent company director cannot be treated as independent on a subsidiary RSE licensee board under any circumstances

Under this Standard, an independent director of a parent company of the RSE licensee cannot also be treated as an independent director of the related RSE licensee. If such a director sits on both the parent company and the RSE licensee Boards, the director will fail the independence test (at the RSE licensee level) of this Standard.

A non-parent, related entity, non-conflicted, independent director *may* be treated as independent on a RSE licensee board

An independent director on the Board of a related entity (but not a parent company) of an RSE licensee may only be treated as an independent director of the RSE licensee, if the ***no conflicts rule*** is satisfied).

Whether or not an independent director of a sibling entity (but not a parent company) of the RSE licensee may also be treated, under this Standard, as an independent director on the related RSE licensee Board, is determined in accordance with the ***no conflicts rule***.

Where the ***no conflicts rule*** fails to be satisfied, then, an independent director of a sibling entity will not be treated under this Standard as an independent director of the related RSE licensee. If the ***no conflicts rule*** is satisfied, such a director may be treated as an independent director on the RSE licensee (assuming that director would otherwise meet the independence requirements of this Standard).

8.2.3(b) **No Conflicts Rule:** Holding of a directorship in both an RSE licensee and another relevant group entity, in the particular circumstances, may not give rise to any real or sensible conflict or the possibility of such a conflict. For example, there may be an entity within the group that provides external services (such as insurance) to retail customers and is a sibling entity of the RSE licensee. In this instance, provided the sibling entity did not provide (or propose to provide) insurance services to the RSE Licensee, an independent non-executive director of the RSE licensee normally would have no conflict of duty and/or interest in also acting as an independent non-executive director of the sibling entity (and vice versa).

By way of contrast, it is likely to be difficult to contend that there would be no such conflict, or the real, sensible possibility of it, if an independent non-executive director of the parent entity (of the RSE licensee) were sought to be appointed in that capacity to the board of an RSE licensee. This is because generally the role of a director of a parent is to maximise returns to the parent in dividend or capital growth. The role of a director of an RSE licensee is to ensure that ultimately the RSE

licensee acts in the best interests of the RSE beneficiaries. This is where an insoluble conflict of duty may arise.

Accordingly, for the purposes of this Standard, and despite anything to the contrary in paragraph (a) above, a non-executive, independent director of a related entity of an RSE licensee, also may act as a non-executive, independent director on the Board of the RSE licensee (and vice versa) if and only if in holding each of these positions there is no conflict of duty (or interest) in the sense outlined and there is no real, sensible possibility of that conflict arising (the *no conflicts rule*).

The Test of Independence and Structural Issues

8.2.4 This Standard adopts similar (but not identical) approaches to those set out in CPS 510 in relation to the following structures:

- (a) RSE licensee is a subsidiary of another APRA-regulated institution or an overseas equivalent (**regulated institution**);
- (b) RSE licensee is a subsidiary of a non-prudentially regulated parent;
- (c) joint ventures.

Further comments on and explanation of these topics are provided in the following paragraphs.

8.2.5 **RSE licensee a subsidiary of prudentially regulated parent.** In order to achieve compliance with the Standard a majority of Directors **must** be independent and there **must** be an independent Chair of the Board.

8.2.6 **Subsidiaries of a non-regulated parent.** The Board of an RSE licensee falling into this category must have a majority of independent directors and an independent chair. Consistent with the above comments, independent directors on the parent’s Board and subsidiaries may **not** sit as independent directors of the RSE licensee⁸.

8.2.7 **Joint ventures.** Where an RSE licensee conducts its operation by way of a joint venture, the RSE licensee should be treated as part of the group of each “parent” entity. This means that independent directors of the Board of each “parent” may **not** sit on the Board of the RSE licensee and qualify as independent directors⁹.

8.2.8 **Other structural matters.** Both CPS 510 and SPS 510 deal with other structural issues relevant for Boards. These matters include in the context of SPS 510-

- (a) Board assessment processes;
- (b) tenure and renewal policies;
- (c) remuneration policy;

⁸ Compare paragraph 32 of CPS 510

⁹ Compare paragraph 33 of CPS 510

- (d) the requirement to have a Board Remuneration Committee.
- (e) a Board Audit Committee¹⁰.

Under legislation implementing the Stronger Super and MySuper reforms (such as the MySuper 3 tranche) there also are references to matters, such as disclosure of an RSE licensee's proxy voting policy and proxy records. Given these matters are the subjects of existing and proposed regulatory requirements, this Standard contains additional obligations for an RSE licensee only to the extent to which it is felt that it is necessary to achieve consistency with the objectives and purpose of this Standard. Accordingly, for the purposes of this Standard, where consistent and achievable in a practical sense with any applicable group policy (where relevant) and subject always to any relevant regulatory direction, approval or rule, the Committees referred to in SPS 510, should be chaired by a director who is not the chair of the RSE licensee Board. The Model outlines some of the disclosures which could be made in this context when taking into account the anticipated legislative requirements.

Independent Director to be Chair of RSE Licensee Board

- 8.3 **It is a requirement of this Standard** that the Chair of an RSE Licensee is an independent director. A director will qualify as an independent director if the Standard set out at paragraph 8.2.4 above is satisfied. For clarity, a director will **not** be an independent director, and thus able to act as Chair, if that director is a director (whether independent or not) of another group entity¹¹, **unless** the exception outlined in paragraph 8.2.4 (b) applies.

Proceedings of Directors

- 8.4 **It is a requirement of this Standard** that the quorum for proceedings of directors,(sitting as the Board as distinct from a Committee of the Board), of a relevant licensee be the presence of a majority of directors, having the right to vote, who are characterised as independent directors under this Standard. This may require a relevant licensee to review its Constitution and any existing Board Charter and effect changes as might be required.

Vacancies in office of Director, etc.

- 8.5 It is accepted that there may be occasions where for reasons outside the control of the RSE licensee, the office of an independent director (including the independent Chair) may be vacated and strict compliance with this Standard is not achievable. In such cases, provided that vacancy is filled within 180 days of it occurring, then the relevant licensee will be taken to have complied with this Standard.
- 8.6 It is preferable in cases where there is a vacancy in the office of the Chair that the interim Chair be an independent director as defined in this Standard. However, it also is accepted that in some instances this may not be feasible or appropriate. In this event, it is accepted that the interim Chair may be an executive director; provided this does not extend beyond the 180 day period referred to above.

Materiality and the concept of independence

- 8.7 The concept of "material" and thus "materiality" is relevant to paragraphs (c) to (f) inclusive of the paragraph 8.2.2 definition of independence for the purposes of this Standard. FSC Members should carefully consider various relationships and contractual arrangements and

¹⁰ The FSC encourages members to consider whether the adoption of other committees, to the extent they do not already exist, such as an investment and a benefit claims committee would be desirable.

¹¹ Compare paragraphs 32 and 33 of CPS 510.

take their own advice on whether the relationship is such that it is material. The FSC does note however that one measure in determining materiality is set out in Accounting Standard AASB 1031 *Materiality (AASB 1031)*. Thus, an amount which is equal to or greater than 10 per cent of the “appropriate base amount” within a 12 month period may be presumed to be material **unless** there is evidence or convincing argument to the contrary. An amount which is equal to or less than 5 per cent of the “appropriate base amount” may be presumed **not** to be material **unless** there is evidence or convincing argument to the contrary. This may be a useful starting point for determining levels of materiality in terms of any relationship.

It should be noted that although a particular relationship may not be “material” having regard to AASB 1031, it may also be useful and appropriate to take into account the qualitative aspect of the relationship as a whole in determining materiality. As stated in the Blue Book

This Guideline uses the word ‘material’ in a number of places. The word ‘material’ has not been defined as it will depend on the circumstances of each person as to whether their interests result in a material relationship with the company. It is important that the board addresses these issues appropriately to ensure that there is no perception that a particular relationship provides a possible conflict of interest that will interfere with the director's responsibility to act in the best interests of the company.¹²

These comments equally are applicable in the case of directors of a relevant licensee and their ability to act in the best interests of the RSE Members.

In the absence of any APRA guidance on this topic, one area which may be useful for an RSE licensee and its directors to consider in the context of independence is the **tenure** of independent directors. SPS 510 does require that the Board have in place a formal policy on Board renewal.¹³ However and additionally, it may be the case that a long-standing director, by reason of that longevity and relationship with the RSE licensee, ceases to be independent. This must necessarily be determined by the circumstances and it may be the case of course, where the longevity of the relationship cannot be said to lead to this conclusion.

These are matters which directors and the relevant licensee should consider carefully.

Disclosure to Members

8.8 **It is a requirement of this Standard** that relevant licensees disclose to RSE Members their compliance or otherwise with this Standard at least once each financial year of the relevant RSE and on such other occasions as may be appropriate. As mentioned previously and subject to any specific legislative requirements, this may be way of specific inclusion in an Annual Report to RSE Members or via website or other means of readily accessible information. The Model set out at Appendix A contains a suggested form of disclosure.

9. Multiple Directorships etc. of RSE Licensees

9.1 Directors of an RSE licensee are fiduciaries in relation to the licensee. Given that the licensee is acting as a trustee of a superannuation entity, directors effectively also have fiduciary obligations to beneficiaries of the superannuation entity, as well as a range of statutory obligations.

¹² at paragraph 11.4.

¹³ at paragraph 18.

- 9.2 One particular issue which may arise in this context is where a person holds directorships in more than one RSE and those RSEs operate in an identical market or segment of the same market; i.e. those RSEs compete to attract the same membership. There is a wealth of writing and case law on this topic. Little benefit would be gained by analysing in detail the material here relating to “conflicts” (whether of interest or duty).

It may well be the technical (as distinct from the practical) position that provided a director does not misuse confidential information of an entity to the detriment of another or be placed in a position of actual conflict (whether of interest or duty), a director may hold potentially competing and conflicting positions. Nevertheless, the FSC views such an outcome as inconsistent with the current trends in corporate governance in Australia. Apart from raising perception issues as to the independence of a director in such a situation, it is felt that such a practice runs counter to the openness and transparency RSE Members are entitled to expect in the superannuation industry.

- 9.3 Although conflicts of interest and duty *may* be addressed by disclosure and non-participation in the proposed decision, conflicts of duty are difficult, if not in some instances, impossible for a fiduciary to resolve. This is because a fiduciary in such a conflict, by acting in the interests of one is not complying with duties owed to the other. If the fiduciary fails to act at all, there will be a failure to conform to duties owed to each principal without “absolution” from each principal. In these circumstances, good governance requires that it is better to avoid conflicts of this kind entirely.

- 9.4 Accordingly, **it is a requirement of this Standard** that a relevant licensee take such steps as are reasonable and practicable in the circumstances to ensure that none of its directors holds a directorship or any other position with another relevant licensee where the licensees objectively, reasonably and sensibly can be seen to be competing to attract the same membership.

An example may be where a public offer fund A, operated by A1 Ltd, competes to attract retail members with public offer fund B, operated by B1 Ltd. A1 Ltd and B1 Ltd are not members of the same corporate group. C currently is a non-executive director of A1 Ltd. In this instance, B1 Ltd, with knowledge of C’s directorship of A1 Ltd, should not offer C a directorship of B1 Ltd.

- 9.5 A relevant licensee for the purposes of this Standard should review Board appointment and termination arrangements so that it can demonstrate that it has taken all reasonable and practicable steps to achieve compliance with this Standard. For example, it may be expressed as a term of appointment that the director does not hold and will not during the term of appointment hold any directorship or other position which would cause the RSE licensee not to comply with this Standard. Similarly, the arrangement could also include a provision that if this were to occur, the appointment would be terminated.

10. **Environmental, Social and Governance (ESG) Risk Management Policy**

Background

- 10.1 Many superannuation entities (and other investment entities) now integrate ESG factors into investment analysis and decision making concerning investments. A commonly-stated rationale in this context is that poor management of ESG issues can lead to financial risks as well as a decline in the long term value of investments. It follows that an analysis of ESG exposures and risks may offer investors potential long-term performance advantages.

- 10.2 Accordingly, monitoring the ESG activities of investee companies is an important aspect of trustees discharging their duties to members. Thus, the development and implementation of an ESG Risk Management Policy is considered to be a critical for superannuation trustees. Ideally, such an ESG Policy should document processes regarding engagement with investee entities on environmental, social and corporate governance activities and ensuring that voting rights are managed with due care and diligence.
- 10.3 In August 2011, the FSC and the Australian Council of Superannuation Investors launched an *ESG Reporting Guide for Australian Companies (GN 31)* to assist companies in identifying and reporting their ESG risks. GN 31 provides superannuation funds and investors with comparable information and data to more easily evaluate and manage ESG risks. GN 31 provides useful background for relevant licensees considering ESG issues and potential application to their operations.
- 10.4 Consideration has been given to whether this aspect of the Standard should apply to all relevant licensees and the RSEs which they operate. Although there are good reasons as outlined above why an ESG Policy should apply to all licensees, on balance, it is felt that **this requirement should be limited in its application to an employer's default superannuation products offered by relevant licensees (MySuper)**. This decision has been arrived at on the basis that RSE Members who have chosen in which fund to invest, have made an active investment decision and determined that the attributes of the chosen fund are acceptable to them. However, in the case of a MySuper product, as it is a "default fund", an RSE Member is less likely to have engaged in an active or fulsome decision making process and accordingly, is more reliant on the trustee for forming investment views and taking appropriate action. However, for funds which do not offer a MySuper product, compliance with the requirement is permitted and indeed encouraged, (as indeed is any extension of this element of the Standard to non-MySuper or default products).
- 10.5 Consistent with openness and transparency, a relevant licensee in order to comply with this Standard must disclose and make publicly available its ESG Risk Management policy. As mentioned previously, this may occur in the Annual Report, on a section of the RSE licensee's website or a combination of both.

A form of disclosure of an ESG Policy and its role in risk management is set out in the Model at Appendix A.

Requirement

- 10.6 **It is a requirement of this Standard** that a relevant licensee which offers a default fund or product for the purposes of the superannuation guarantee charge choice of fund rules (including a MySuper product) implement and develop an ESG Risk Management Policy for that fund or product (and address in the formulation and development of that policy the questions outlined in paragraph 10.9). **In addition, it is a requirement of this Standard** that such a relevant licensee also must disclose that policy to RSE Members of the particular fund or product. In the following paragraphs of this Section, some comments are made concerning the formulation and implementation of an ESG policy.

Implementing an ESG policy

- 10.7 The management of ESG issues of a company can have a major influence on its ability to generate long term shareholder value and as a result the performance of superannuation funds.

A new member joining the workforce today will expect to work for over 40 years. Over that time the risk and returns on their superannuation investments will be influenced by environmental, social and governance factors. Therefore it is imperative that superannuation funds manage these risks with a view to maximising shareholder value and increasing shareholder returns over the long-term.¹⁴

- 10.8 Relevant licensees will need to consider the ESG issues that are most important and material to the investor, which may depend on the ESG risks and opportunities faced by the fund and potentially by sector or geography. For illustrative purposes, potential ESG issues that may be relevant to a fund include, but are not limited to, the following:

| Environmental | Social | Governance |
|-------------------------|-------------------------------------|----------------------------|
| Air and water pollution | Diversity and equal opportunities | Anti-competitive behaviour |
| Biodiversity | Employee engagement | Audit committee structure |
| Climate Change | Government and community engagement | Board composition |
| Deforestation | Human rights | Bribery and corruption |
| Energy efficiency | Indigenous rights | Compliance |
| Waste management | Labour standards | Executive remuneration |
| Water scarcity | Product safety and liability | Stakeholder dialogue |

Developing an ESG policy for a MySuper investment strategy

- 10.9 **Accordingly, it is a requirement of this Standard** that in developing an ESG policy relevant to a MySuper investment option, a relevant licensee **must disclose**, at least, the questions put in the table below (the **possible** focus points in that table are set out for convenience).

¹⁴ ‘A Guide for Superannuation Trustees on the Consideration of Environmental, Social & Corporate Governance risks in Listed Companies’, Australian Council of Super Investors, October 2009

| Question | Possible ESG policy points of focus |
|---|--|
| <p>1. How will the fund incorporate a consideration of ESG in the investment decisions that it makes?</p> | <p>Address ESG issues in investment policy statements</p> <p>Develop procedures to identify ESG risks or opportunities</p> <p>Undertake ESG due diligence for investments where ESG risks are likely to be material</p> <p>Develop sector or risk limits based on ESG factors</p> <p>Assess the capabilities of internal and external investment managers to incorporate ESG issues</p> <p>Request investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis</p> |
| <p>2. How will the fund monitor the ESG exposure across its portfolio of investments?</p> | <p>Periodic monitoring of key ESG trends across sectors within portfolio</p> <p>Periodic reporting by investment service providers on:</p> <ul style="list-style-type: none"> A thematic basis A sectoral basis An asset by asset basis |
| <p>3. How will the fund act on ESG risks?</p> | <p>Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)</p> <p>Communicate ESG expectations to investment service providers</p> <p>Engage with companies on ESG issues</p> <p>Participate in collaborative engagement initiatives with other investors</p> <p>Exercise voting rights or monitor compliance with voting policy (if outsourced)</p> <p>Participate in the development of policy, regulation, and standard setting</p> <p>File shareholder resolutions consistent with long-term ESG considerations</p> |

| Question | Possible ESG policy points of focus |
|--|---|
| 4. How will the fund report to its members on the actions it has taken in relation to ESG issue? | <p data-bbox="580 271 1230 338">Ask investment managers to undertake and report on ESG-related engagement</p> <p data-bbox="580 344 1230 412">Disclose where a signatory to ESG related initiatives such as the UN Principles of Responsible Investment.</p> <p data-bbox="580 450 1230 517">Disclose active ownership activities (voting, engagement, and/or policy dialogue)</p> <p data-bbox="580 555 1230 620">Report on progress to members in relation to the actions taken</p> |

10.10 While this list is extensive, a relevant licensee prudently should advise investors that the licensee will focus on material ESG risks that have the potential to impact companies, and hence investor returns, during the expected investment horizon of the RSE.

11. Voting and proxy voting record

Requirement

11.1 **It is a requirement of this Standard** that a relevant licensee **in accordance with FSC Standard 13 Voting Policy, Voting Record and Disclosure:**

- (a) develop and implement a voting policy, (**Voting Policy**);
- (b) in that Voting Policy, address the issue of whether or not proxy advisers are engaged to advise as to the exercise of voting rights by the licensee;
- (c) disclose the Voting Policy, and;
- (d) publish its proxy voting record in relation to Australian investments held by it in relation to each relevant public offer fund RSE it operates.

Explanation and Background

11.2 Trustees of superannuation entities, directly or indirectly, are significant asset holders of Australian equity and other investments. As the pool of superannuation funds grows, this ownership concentration and influence will increase exponentially.

In order to maintain market integrity and the health of the economy and our capital markets, it is important that superannuation members and other market participants are aware of the voting behaviour of superannuation funds and the principles guiding decision making.

12. Diversity Policy

Requirement

12.1 **It is a requirement of this Standard** that a relevant licensee in relation to each relevant public offer fund RSE it operates:

- (a) develop and implement a Board diversity policy, (**Diversity Policy**);

- (b) include in that Diversity Policy, requirements that the Board establish measurable objectives for achieving gender diversity and for the Board to assess annually both the objectives and progress in achieving them;
- (c) disclose to RSE Members, as required by this Standard the Diversity Policy, and;
- (d) if not already disclosed as part of disclosure of the Diversity Policy, disclose, as required by this Standard, the Board's annual assessment of the gender diversity objectives under its Diversity Policy and the Board's progress in achieving those objectives.

Explanation and Background

- 12.2 The ASX Corporate Governance Council encourages companies in Australia to foster a governance culture that embraces diversity in the composition of corporate boards, with a focus on the participation of women.¹⁵ The Governance Principles note that:

Diversity is an economic driver of competitiveness for companies. Research has shown that increased gender diversity on boards is associated with better financial performance, and that improved workforce participation at all levels positively impacts on the economy. The promotion of gender diversity broadens the pool for recruitment of high quality employees, enhances employee retention, encourages greater innovation, and improves corporate image and reputation.

Reporting on the diversity profile of the company facilitates greater transparency and accountability in relation to the policy that has been put in place, together with the objectives to be achieved by the company.¹⁶

- 12.3 These principles of diversity, in the view of the FSC, should extend to the Boards of relevant licensees. By the same process of reasoning, a Diversity Policy potentially should benefit a relevant RSE's Members and the "talent pool" for directors (whether independent or executive) expanded. In cases where a relevant licensee already applies the ASX diversity policy (for example, it has been adopted on a group-wide basis), then this may be adopted as the Diversity Policy by the relevant licensees.

Developing and Implementing a Board Diversity Policy

- 12.4 **It is a requirement of this Standard** that a relevant licensee, in relation to each relevant public offer fund RSE it operates, develops and implements a Board Diversity Policy in accordance with this Standard.
- 12.5 The Diversity Policy must include a requirement for the Board of a relevant licensee to establish measurable objectives for achieving gender diversity and for the Board to assess those objectives and progress in achieving the objectives on an annual basis.

Disclosure of Board Diversity Policy and Progress in achieving Objectives

- 12.6 **It is a requirement of this Standard** that a relevant licensee, in relation to each relevant public offer fund RSE it operates, disclose to RSE Members within the timeframes set out in

¹⁵ Recommendation 3.3 of the Governance Principles at page 25.

¹⁶ Commentary to recommendation 3.4 at page 25 and reference therein cited.

paragraph 6.5 its Board Diversity Policy and the progress which has been made in achieving or attaining the gender diversity objectives of that Policy.¹⁷

12.7 Accordingly, for the initial year (defined in paragraph 6.5), a relevant licensee must disclose its Board Diversity Policy on 1 July 2014 (or as near that date as is reasonably possible). Within three months of the conclusion of the initial year (30 June 2015) it must disclose, as required by this Standard, the Board's annual assessment of the gender diversity objectives under its Diversity Policy and the Board's progress in achieving those objectives.

12.8 As is the case with the other governance policies outlined in this Standard, a relevant licensee if it wishes or thinks appropriate may provide further or more detailed information than that prescribed by this Standard or contained in the Model. As mentioned previously and Subject to any relevant legislative requirements, Operators may choose to disclose this information in the manner the Operator chooses. For example, an Operator may choose to make all of the information available on its website or alternatively, provide details of its Board Diversity Policy in the annual report to RSE Members under a specific "Governance" section. At a practical level, and depending on the volume of information to be disclosed, it may be more convenient and effective in terms of disclosure for an Operator to make all disclosures on its website.

13. Definitions

13.1 Where an expression used in this Standard is also used in any legislation, but that expression is not defined in this Standard, then that expression will have the meaning it has in any relevant legislation

¹⁷ FSC Members may find it useful to refer to Principle 3.2 and Box 3.2 of the ASX Corporate Governance Principles, at page 24 for the content of a diversity policy.

NOTE TO FSC MEMBERS: THIS MODEL IS AN EXAMPLE ONLY AND IS NOT INTENDED TO BE PRESCRIPTIVE. FSC MEMBERS ARE FREE TO ADAPT THIS FORM OF DISCLOSURE OR USE A DIFFERENT FORM OF DISCLOSURE PROVIDED THE SUBSTANTIVE REQUIREMENTS OF THIS STANDARD ARE SATISFIED.

APPENDIX

Model Governance Statement for a Relevant Licensee

A. BOARD GOVERNANCE

Introduction

The main elements of <RSE Licensee's> governance frameworks are set out in this part of this <Report>.

<RSE Licensee> complies with the Financial Services Council Standard No 20: *Superannuation Governance Policy (the FSC Standard)*, and in relation to voting policy and records, the requirements of FSC Standard 13 *Voting Policy, Voting Record and Disclosure (FSC Standard 13)*. We also comply with SPS 510, issued by APRA November 2012 as well as legislative requirements in that regard. The <RSE Licensee's> governance arrangements satisfied all of these requirements during the reporting period.

More details and copies of relevant documents, including charters for the Board and Committees of the <RSE Licensee> are available on the <RSE Licensee> website: <www.>.

The Board of Directors of <RSE Licensee>

Role of the Board

The <RSE Licensee> has a Board of Directors who are required to act in the best interests of members at all times and ensure that <RSE name> is administered according to the Fund's Trust Deed, other governing rules and superannuation legislation. The Board has adopted a charter that sets out its role and responsibilities in administering the Fund. These include:

< detail role and responsibilities >

The charter has been reviewed for consistency with the FSC Standard. The make-up and proceedings of the Board also are governed by the Constitution of the <RSE Licensee>.

The Board has established the following Committees to assist it in its functions:¹⁸

1. an Audit and Risk Committee;
2. a Nomination Committee, and;
3. a Remuneration Committee.

Each of these Committees operates under a charter.

¹⁸ In the case of a group, this statement and other aspects of the model report may require modification to accommodate the adoption by the Board of group policies and charters.

Appendix – Model Governance Statement for a relevant licensee

Copies of the documents referred to in this section are available at <www.>

Board Size and Composition

The number of Directors of <RSE Licensee> at the date of preparation of this <Report> is <5>.

At the date of preparation of this Report, the following were members of the Board:

| Name | Position | Date Appointed |
|-------------|--|-----------------------|
| AB | Chair, independent, non-executive Director | 01.01.12 |
| CD | CEO, <RSE Licensee>, executive Director | 01.01.12 |
| EF | CFO, < RSE Licensee>, executive Director | 01.01.12 |
| GH | Independent, non-executive Director | 01.01.12 |
| IJ | Independent, non-executive Director | 01.01.12 |

The Board has formed the view that the skills, experience and industry expertise of its constituent members are such that the Board is able to effectively fulfil its role and responsibilities. All Board members have extensive financial services industry experience. A synopsis of each Director's experience is set out below-

<Insert relevant details>

Independence of Chair and Majority of Directors

Independence

In accordance with the FSC Standard, the Board consists of a majority of independent, non-executive directors and the Chair of the Board is an independent, non-executive director. The Board confirms that all current non-executive directors are independent (as that expression is used in the FSC Standard and the FSC's Guidance Note 2-Governance-the "Blue Book"). GH and IJ are not to be considered independent because of the executive positions (i.e. employed positions) they hold with <RSE Licensee/Service Entity> as %% and ## respectively.

In addition to the more specific requirements of these documents (e.g., whether a director is a substantial holder of an interest in <RSE Licensee> or a related entity), the Board has acted in accordance with its charter and guidelines in determining the independence of directors having regard to any of their and <RSE Licensee's> previous and current relationships with members, professional advisers, consultants, and other persons. The Board has formed the view for the reporting period that < there are no relationships/none of the relationships> could reasonably be perceived to materially interfere with the director's ability to act in the best interests of the relevant RSE's beneficiaries. In arriving at this position, the Board used as an appropriate reference point **AASB 1031 Materiality**. Applying this accounting standard to relationships, in the absence of contrary evidence, a relationship is characterised as immaterial if it generates less than 5% and characterised as material when it generates more than 10% of the total revenue in question.¹⁹

¹⁹ An example may be where a director is a current or former member of the accounting firm which provides audit services to < RSE Licensee>. If the firm's total revenues from < RSE Licensee> exceed 10% of its total revenues the relationship would be considered material and the director would not be considered independent.

Appendix – Model Governance Statement for a relevant licensee

Other less tangible elements of any relevant relationship also are considered by the Board.

At this stage, the Board has placed a time frame on the years a director may serve on the Board before the continuing appointment may be perceived on reasonable bases to impact on the independent judgment of a director. This is in accordance with the Board Renewal Policy and is subject to an element of discretion in the Board pursuant to the Board Renewal Policy, discussed below at [].

The Chair

The Chair of the Board of < **RSE Licensee**> is an independent, non-executive Director, in accordance with the FSC Standard. The current Chair is< **AB**>.The role of the Chair is to facilitate effective discussion and decision-making at the Board level and to ensure that the committees under the control of the Board are fulfilling their functions and that in their respective processes relevant decisions are made in the best interests of < **RSE Licensee's**> members and beneficiaries.

Board Performance Assessment

Consistent with the intent of the FSC Standard and its Charter, as well as complying with SPS 510, the Board formally “self-assesses” its performance in light of its functions and roles at least once in each reporting period. The Chair meets separately with each non-executive director to discuss performance and suggestions for Board proceedings. There is a separate and similar meeting with the Chair conducted by < **CEO? Secretariat**>.

Board Renewal Policy and Succession Planning

The Board views its renewal and succession planning as a central component of its core governance procedures, consistently with the objectives of the FSC Standard.

The Board has established as required by SPS 510, a Board Renewal Policy (**BRP**).

The BRP is as follows-

Renewal Policy

The Board approved policy on Director Tenure is:

1. *Maximum tenure of Directors (other than the Chair) of 5 years from date of first appointment;*
2. *Maximum tenure of Chair of 7 years (inclusive of any term as a Director prior to being appointed as Chair) from date of first appointment;*
3. *The Board, on its initiative and on an exceptional basis, may exercise discretion to extend the maximum terms specified in paragraphs 1 and 2 where it considers that such an extension would be in the best interests of beneficiaries of the <RSE>, and;*

Appendix – Model Governance Statement for a relevant licensee

4. *Re-appointment of any Director should be made only after peer review and in accordance with Board’s annual self-assessment process.*²⁰

NOTE TO MEMBERS-THESE ARE BROAD GUIDELINES ONLY

The Board reviews its succession planning processes consistent with its charter, BRP, the FSC Standard, SPS 510 and other “good governance” processes.

The appointment and retirement of directors is governed also by the Constitution of < *RSE Licensee* >, the Board Charter as well as the charters of the Nomination and Remuneration Committees. Copies of all of these documents are available for review on the website of < *RSE Licensee* > at < *www.* >. Non-executive directors generally are appointed for a term of < **** > years.

Board Meetings

The following table details the meetings held and directors’ attendances in the reporting period.

Board and Committee Meetings Attended by < *RSE Licensee* > Directors in the < *Reporting Period* >

Director < *RSE Licensee* > Audit and Risk Committee/ Nomination Committee/ Remuneration Committee

AB (Chair)
CD (NED)
EF (NED)
GH (ED)
IJ (ED)

Notes – set out details for all Board meetings and all Board Committee meetings

Remuneration

NOTE TO FSC MEMBERS-AT THE TIME OF PREPARATION OF THIS STANDARD IT WAS ENVISAGED THAT FOLLOWING MYSUPER TRANCHE III, THE RELEVANT REGULATIONS WOULD CONTAIN REQUIREMENTS SIMILAR TO THOSE SET OUT IN AND PRESCRIBED BY SECTION 300A CORPORATIONS ACT-GIVEN IT IS EXPECTED THAT AMENDMENTS TO THE LAW WILL BE MADE TO PRESCRIBE THE REQUIREMENTS IN RELATION TO REMUNERATION, THIS MODEL DOES NOT DEAL WITH REMUNERATION. FSC MEMBERS MUST OF COURSE COMPLY WITH ANY LEGISLATIVE OR OTHER BINDING REQUIREMENTS IN RELATION TO THE DISCLOSURE OF REMUNERATION.

²⁰ The policy may require revision dependent on the Constitution of the RSE Licensee, any group structure and other relevant considerations.

B. PROXY VOTING POLICY

REFERENCE ALSO SHOULD BE MADE IN THIS CONTEXT TO THE MODEL PROVIDED IN FSC STANDARD 13 VOTING POLICY, VOTING RECORD AND DISCLOSURE

<RSE LICENSEE> adheres to principles of appropriate governance in the conduct of its operations in relation to <RSE>. It looks to its service providers and entities in which it invests (**investee entities**) to follow similar principles. Accordingly, we have established, in accordance with the FSC Standard and FSC Standard 13 *Voting Policy, Voting Record and Disclosure*, a policy set out in this section, relating to the exercise of our voting rights in investee entities.

We have established this policy having regard to relevant legislative requirements and to principles and statements of policy as representative of “best practice” as outlined by a number of bodies and publications, including –

- The FSC Standard;
- the Blue Book;
- ASX Corporate Governance Principles (ASX);
- International Corporate Governance Network Principles and;
- The Australian Council of Superannuation Investors Governance Guidelines.²¹

<RSE LICENSEE> considers that

- the voting rights it holds as rights to be held by it and exercised in the course of its duties as trustee of <RSE>;
- its voting rights are critical for it in communicating its views to investee entities, and;
- its mandated investment managers should not support any proposals or governance that have the potential for adversely impacting the legitimate interests and expectations of investors, and;
- the overall fairness of any proposal impacting on investor rights should be judged by reference to the obligations of the investee entity to all parties and the prospect of the proposal generating a reasonable rate of return to investors, measured against the matrix of best practice as noted above.

Transparency and Disclosure

The view of <RSE LICENSEE> is that any transaction or proposal which potentially puts at risk the capital or investment of investors in an entity should be considered carefully and subjected to an appropriate level of rigorous scrutiny. The following matters in particular should be examined:

1. Changes to Capital Structures

As a matter of principle, investors should be entitled to expect that there is a return of profit in exchange for the risk capital invested. Structures or proposals which impede the proper flow of

²¹ These are examples only. Members may wish to modify relevant “source material” for their purposes as they think relevant.

Appendix – Model Governance Statement for a relevant licensee

profits to investors or otherwise “clog” or damage capital structures from this perspective should not be supported. Arrangements which restrict or impair the sale value of equity interests should not be supported.

2. ***Voting Rights***

Within the rules set by relevant regulation, such as the Corporations Act or the ASX Listing Rules, investors have a right to determine the composition of the board of directors of an investee entity and to scrutinise capital transactions to the extent permitted by law. Transactions or proposals which impact upon these principles should not be supported.

3. ***Management and Board Compensation***

<RSE LICENSEE> considers that the compensation scheme for management and directors of an investee entity should be reasonable having regard to investor interests and performance measurement principles.

An investee entity should report appropriately on remuneration, from both the perspective of compliance with the “black letter law” and the spirit of remuneration disclosure, with a particular emphasis on how in the longer term remuneration impacts on the investee entity’s performance.

It is anticipated that remuneration levels and policy are reported in a form that is easily accessible and understandable format.

4. ***Appointment of Directors***

It is fundamental that directors of an investee entity bring relevant skills and to their roles. Directors also should ensure that management performs at least to expectations satisfactorily.

It is anticipated that all directors should have reasonable experience for their role. No director of an investee entity should have any material or significant conflicts of interest or duty.

It is important that the investee entity demonstrate directors have appropriate skills and commitment by appropriate disclosure of attendance at board and committee meetings.

Appropriate succession planning and strategy policies should also be fully disclosed by investee entities.

Board or directors who do not meet these requirements should not be supported.

5. ***Business Conflicts of Interest***

All external dealings by an investee entity should be on an arm’s-length basis and proper disclosure made of any conflicts in all dealings with suppliers and the public.

Implementation of <RSE Licensee's> Proxy and Voting Policy

Responsibility for Policy

The <Chief Investment Officer> is responsible for implementation of this policy.

<RSE Licensee's> preference is to support and vote in favour of a Board or management recommendation. However, where a recommendation is not consistent with our policies, the recommendation will not be supported.

In some instances, as part of an investment mandate, <RSE Licensee> will authorise our investment managers to exercise our voting rights in accordance with the best practice principles outlined above.

Nevertheless, <RSE Licensee> at all times retains its voting and other rights in relation to its investments and reserves the right to override a manager's ability to exercise such rights as it thinks fit.

<RSE Licensee's> ESG Manager is involved in the review and implementation of <RSE Licensee's> proxy and voting policies from the perspective of identifying proposals which are inconsistent with the ESG components of <RSE's> risk management policy or otherwise give indications of systemic risk.

<RSE Licensee> applies its policy wherever possible in a flexible manner so as to accommodate the wide variety of circumstances which may arise.

Listed Australian Equities

<RSE Licensee> has provided mandates to its investment advisers and managers to notify <RSE Licensee> of voting recommendations whenever a recommendation is to vote **against** a Board or management recommendation.

<RSE Licensee's> ESG Manager takes into account any advice received from investment managers and voting advisory services in the implementation of <RSE Licensee's> proxy voting policy for listed Australian equities.

Further investigation may be required before exercising voting rights if a particular issue is not addressed by best practice material or the situation is unusual

Listed International Equities

<RSE Licensee's> investment managers have a mandate to exercise its voting rights in relation to international equities holdings wherever possible and consistent with the best practice standards outlined above. <RSE Licensee> monitors these activities and retains the ability to override any voting instructions provided by a manager to the custodian of the assets.

Collective investments and Interposed Entities

In a number of cases, <RSE Licensee> will not hold direct and immediate voting rights because of the interposition of a trust or other structure between it and the ultimate investments (e.g., an investment by <RSE Licensee> in a pooled superannuation trust or a managed investment scheme which then

Appendix – Model Governance Statement for a relevant licensee

invests pooled or collective moneys). In such cases, <RSE Licensee> requests that the interposed entity exercise its voting rights in a manner consistent with this voting policy and to report to <RSE Licensee> on the exercise of voting rights.

Disclosure

Disclosure of <RSE Licensee's> voting record in respect of the reporting period is set out below.

Refer to the Model set out in Standard 13 Voting Policy, Voting Record and Disclosure for examples of suggested forms of disclosure.

Note re platforms--where the relevant licensee offers interests in an RSE through a product platform, application of Standard 13 is not mandatory. However, wording along the following lines may be appropriate if the relevant licensee decides to adopt voluntarily the Standard 13 requirements-

Nature of the RSE- Platform/Wrap

As members would be aware your interest in <RSE> is provided through <Platform/Wrap Product>. In this case, there are a number of broader corporate actions which have an impact on the <RSE>. These may extend beyond voting rights. Examples include

- notices of meetings,
- dividends or distributions,
- bonus issues and rights issues.

In accordance with the disclosure made in <Disclosure Doc/IBR doc>, if these actions are announced by an investee entity, the <RSE Licensee > determines the action to take and if at all practicable, will give members an opportunity to participate in the relevant action or activity. However, the <RSE Licensee > is not obliged to do this or take into account the approval or otherwise of members. If <RSE Licensee > does permit members to participate in the action, then notification is provided to <members/advisers>, of the details and the steps to be taken for participation in the particular action. If no instructions are received as required by the details provided, then the <RSE Licensee > will take its default action depending on the nature of the action. In summary, these are as follows-

- (a) voting-in accordance with the principles outlined above;
- (b) dividends-
- (c) bonus and right issues-
- (d) other-

C. Environmental, Social and Governance (ESG) Risk Management Policy

This section sets out the ESG Policy of *<RSE Licensee>* and its application in terms of risk management to *<RSE>* in compliance with the FSC Standard. This Policy involves

- the active exercise of voting rights by *<RSE Licensee>* in investee entities to strengthen governance;
- the application of clearly-articulated investment-driven strategies, and;
- the exclusion of investments in businesses or activities that are unlawful under any law applying in Australia.

Objectives

<RSE Licensee's> investment objective is to maximise long-term real returns for members whilst keeping risk to an acceptable level. *<RSE Licensee>* assesses and manages all foreseeable risk factors effectively. ESG factors are viewed as investment related risks.

<RSE Licensee> views the ESG profile and performance of assets in which *<RSE>* invests to be directly material to the investment performance of *<RSE>*.

In our view, poor management of ESG issues can lead to financial risks as well as a decline in the long term value of investments. Accordingly, an analysis of relevant ESG exposures and risks forms a part of *<RSE's>* risk management policy and plan.

Implementation of ESG Practices

<RSE Licensee> implements ESG practices in the following ways:

1. *<RSE Licensee>* interacts with a range of investment managers, advisers and shareholder groups to influence companies and other investee entities to adopt appropriate ESG practices.
2. *<RSE Licensee>* has adopted the voting policy discussed in section \$\$ and actively exercises its voting rights in the manner indicated in that policy. If necessary, *<RSE Licensee>* engages with investee entities directly or collaboratively with other shareholders, on matters that give rise to ESG risks.
3. *<RSE Licensee>* discloses its ESG policy and practices and related risk management activities.

Implications for investment approach

<RSE Licensee> believes that a trustee of a superannuation entity:

- (a) either directly or through its service providers, should take steps to understand the relevant ESG issues in assets and the assets' capabilities, systems and structures to manage ESG issues before they escalate into events that can threaten the value of investments; and

FSC Standard No. 20: *Superannuation Governance Policy*

Appendix – Model Governance Statement for a relevant licensee

- (b) may risk breaching fiduciary and statutory obligations if material ESG concerns that may affect the long-term value of their investments are disregarded. Accordingly, a trustee should pursue any such concerns and ensure that same are dealt with by the trustee or its service providers.

<RSE Licensee's> ESG Principles

In accordance with FSC Standard No. , in developing and formulating our ESG policy, we address the questions set out in the table below. A summary of our approach to each of these questions is also contained in the table.

| Question | Our response in formulating and implanting our ESG policy |
|--|--|
| 1. How will the fund incorporate a consideration of ESG in the investment decisions that it makes? | Address ESG issues in investment policy statements |
| | Develop procedures to identify ESG risks or opportunities |
| | Undertake ESG due diligence for investments where ESG risks are likely to be material |
| | Develop sector or risk limits based on ESG factors |
| | Assess the capabilities of internal and external investment managers to incorporate ESG issues |
| 2. How will the fund monitor the ESG exposure across its portfolio of investments? | Request investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis |
| | Periodic monitoring of key ESG trends across sectors within portfolio |
| | Periodic reporting by investment service providers on: |
| | A thematic basis |
| 3. How will the fund act on ESG risks? | A sectoral basis |
| | An asset by asset basis |
| | Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate) |
| | Communicate ESG expectations to investment service providers |
| | Engage with companies on ESG issues |

Appendix – Model Governance Statement for a relevant licensee

| Question | Our response in formulating and implanting our ESG policy |
|---|--|
| | <p>Participate in collaborative engagement initiatives with other investors</p> <p>Exercise voting rights or monitor compliance with voting policy (if outsourced)</p> <p>Participate in the development of policy, regulation, and standard setting</p> <p>File shareholder resolutions consistent with long-term ESG considerations</p> <p>Ask investment managers to undertake and report on ESG-related engagement</p> |
| <p>4. How will the fund report to its members on the actions it has taken in relation to ESG issue?</p> | <p>Disclose where a signatory to ESG related initiatives such as the UN Principles of Responsible Investment.</p> <p>Disclose active ownership activities (voting, engagement, and/or policy dialogue)</p> <p>Report on progress to members in relation to the actions taken</p> |

Particular Investment Issues and ESG

Implementation across different investment structures

<RSE Licensee> invests in a number of different assets and not only in listed equities (where ESG principles most directly and effectively can be applied). The following comments relate to the various investments methods adopted by <RSE Licensee>

External investment managers

If an external investment managers is appointed by <RSE Licensee> to invest on its behalf the manager

- Must monitor ESG issues that are reasonably seen as material to <RSE's> investments;
- Must provide details of investment management policies and procedures in relation to ESG issues;
- Report as agreed concerning ESG matters such as ESG activities, including research, voting and engagement; how ESG issues are integrated into its investment decision processes and how voting rights referable to the <RSE> have been exercised and reasons for its voting decision.

<RSE Licensee> will monitor the progress of compliance by and attention to ESG principles by a manager.

Passively Managed Vehicles

If <**RSE Licensee**> invests in a passively managed vehicles, where ESG-related risks are not considered then a different approach is required. Generally, <**RSE Licensee**> will request that the manager consider ESG principles if that is relevant to an appropriate review of the investment.

Pooled Superannuation Trusts (PSTs) etc.

<**RSE Licensee**> may invest directly in pooled vehicles (such as PSTs or registered schemes). These entities will be controlled by a Trustee or Responsible Entity. In this instance, RSE's ESG Manager and Chief Investment Officer will monitor the RSE's investment in the pooled vehicle for consistency with the ESG policy.

D. BOARD DIVERSITY POLICY

Diversity vision

[RSE Licensee] recognises that a Board which has talented and diverse members is a key competitive advantage. Our Board’s success is a reflection of the quality and skill of its members. [RSE Licensee] is committed to seeking out and retaining the best talent for its Board to ensure high performance which will ensure that the Board is acting in the best interests of RSE members.

[RSE Licensee] recognises that each Board member brings their own distinct capabilities, experiences and characteristics to their role. We value such diversity.

Diversity may involve, for example, ethnicity, gender, language, age, sexual orientation, religion, experience, and thinking styles.

[RSE Licensee] believes that a wide array of perspectives that results from diversity promotes innovation and business success. Such diversity makes our Board more creative, flexible and productive competitive.

Board Recruitment

[RSE Licensee] believes that appropriate candidates for the Board should be considered for appointment by reference to the merits of each candidate and in particular the skills having regard to life experiences the candidate will bring to the Board.

[RSE Licensee] has set an objective that by 20XX, at least 40% of our Board positions should be filled by women. Appointments will be merit based.

The ways in which [RSE Licensee] proposes to meet this objective include the following-

Progress in meeting this objective will be reviewed periodically and reported and disclosed to RSE members in accordance with FSC Standard No. 20.

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REPORT TO MEMBERS – BOARD DIVERSITY

During the financial year ended 20XX, the Board continued to implement its Board Diversity Policy. One of the objectives of that Policy is that by 20XX, at least 40% of [RSE Licensee] Board positions should be filled by women. Nevertheless, appointments must be merit based. The steps taken in achieving this objective and progress in the financial year were as follows-