

The Association of Superannuation Funds of Australia Limited
ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 1300 926 484
w: www.superannuation.asn.au



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Ms Amanda Harkness
Group General Counsel
ASX Limited
Bridge Street
Sydney NSW Australia 2000
Sent via e-mail to: Diane.Lewis@asx.com.au

Dear Amanda

ASFA SUBMISSION: CODE OF PRACTICE FOR CLEARING AND SETTLEMENT OF CASH EQUITIES IN AUSTRALIA

Thank you for the opportunity to provide comment in relation to the ASX's *Code of Practice for Clearing and Settlement of Cash Equities in Australia (Code)*.

The Association of Superannuation Funds of Australia (ASFA) welcomes the Code and agrees that the Code will increase transparency and accessibility in the provision of clearing and settlement services for cash equities in Australia. The Code is consistent with ASFA's focus on whole of system issues; ASFA's core strategies are aimed at encouraging industry best practice, advocating for a system that plays a productive role in the Australian economy, and ensuring the industry delivers on its primary purpose of delivering decent retirement incomes.

ASFA, in particular, welcomes the establishment of the Forum in accordance with Section 2 of the Code; however, we note that the Forum does not currently include a representative of the superannuation industry in its composition. ASFA recommends that the ASX include a representative of the superannuation industry on the Forum.

About ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds (SMSFs) and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

General Comments

After more than a decade of compulsory contributions, Australia's superannuation pool has grown to approximately \$1.50 trillion in assets; this ranks Australia fourth in terms of superannuation assets on a global basis. Based on a typical asset allocation of around 40 – 50% of fund assets into Australian equities, then approximately \$650 - \$750 Billion of the Australian superannuation pool is invested in Australian equities – this represents around 40 – 50% of Australian market capitalisation as at 30 April 2013. Further, it is anticipated that Australian superannuation pool will grow to around \$3.2 trillion by 2022 – fuelled by asset value growth and strong contribution flows underpinned by the increase in the superannuation guarantee levy from 9 – 12 per cent over the next 7 years.

A significant share of the growth described above will flow directly through to the Australian share market - this will provide the market with critical liquidity and underpin a vibrant and efficient capital market.

The Australian superannuation market is witnessing several significant shifts, including:

- *Market consolidation:* regulatory changes, competition and the drive for scale have driven a significant increase in the amount of merger activity in the Australian superannuation industry. ASFA expects that this activity will continue and that several very large players will ultimately emerge in the market place.
- *Increase in-house investment activities:* historically, Responsible Superannuation Entities (RSEs), outsourced investment related activities to external parties such as fund managers, custodians and asset consultants. Due to scale and cost, several RSE's have insourced investment activities such as stock selection and research; as a result, these RSE's are evolving into asset managers - this brings the RSE significantly closer to the real assets of the fund – including Australian equities. As a result the RSE requires a different and appropriate internal skill set. RSEs need to have a deeper understanding of capital markets including the execution, clearing and settlement functions provided by the ASX.
- *Retail shift to Self Managed Superannuation Funds (SMSF's) and the development of Individually Managed Accounts (IMAs):* the Australian SMSF market has grown significantly over the last 10 years, it now accounts for approximately one third of the total Australian superannuation pool. In response, several RSEs have developed IMAs to provide members with the 'look and feel' of direct share ownership with the fiduciary overlay that an RSE will provide. This development also brings the RSE closer to capital markets and the requirement to develop an understanding of a broader range of investment related activities.

The evolution in the operating models of ASFA's members and merger activity will continue, this will result in a smaller number of participants controlling a larger pool of assets – including Australian shares. ASFA's members will continue to be drawn closer to the actual assets and the importance of appropriate corporate governance will increase accordingly. Given the scale, growth and responsibility of ASFA's members, it is imperative that an Australian superannuation 'voice' contributes to the efficiency and transparency commentary. Based on the factors set out above, ASFA is seeking to be represented on the Forum in accordance with Section 2 of the Code.

Specific Comments

We have reviewed the Code and notwithstanding our General Comments above, consider that the Code will achieve its objectives.

Recommendations

ASFA recommends that a representative of the Australian Superannuation industry be a member of the Forum in accordance with Section 2 of the Code.

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Should you have any further queries with respect to this, please do not hesitate to contact Chris Donohoe on 02 8079 0824 or via cdonohoe@superannuation.asn.au.

Yours sincerely

A handwritten signature in black ink that reads "Pauline B Vamos". The signature is written in a cursive style with a large initial 'P' and 'B'.

Pauline Vamos
Chief Executive Officer