

## **=DJ 2nd UPDATE: Australia Pension Review Recommends Scrapping Performance Fees**

(Adds detail, industry response)

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SYDNEY (Dow Jones)--Australians should be able to opt for low-fee funds for their retirement savings and the prudential regulator should be given more oversight to enforce greater transparency and efficiency, a government-commissioned review recommended Monday.

Australia's A\$1.4 trillion managed funds industry is the fourth largest globally. That is due mainly to a compulsory retirement savings scheme, known locally as superannuation, which requires employers to redirect 9% of employees' salaries into pension funds. Plans are afoot to increase the contribution rate to 12% by 2020.

The government is worried a chunk of those savings are wasted in high-fee accounts and through a lack of disclosure. It commissioned a wide-ranging review in May 2009, led by Jeremy Cooper, former deputy chair of Australia's securities watchdog.

Among 10 core recommendations, the Cooper review recommended scrapping commission-based fees on insurance and financial advice in place of a standard fee. Anticipating a regulatory crack down, two of the largest fund operators, AMP Ltd. (AMP.AU) and National Australia Bank Ltd.'s (NAB.AU) investment management unit MLC, already have either lowered or dropped commissions in recent times.

The review also recommended a series of measures that, if adopted, could tighten governance in the sector, making it subject to the same governance standards that currently apply to listed companies.

Many of the review's findings have already been released in draft form, and markets will now be awaiting a detailed response from the ruling Labor government to see which recommendations it adopts.

The government has repeatedly said it wants saving for retirement to be simpler and more efficient, although a response to the Cooper Review may not come any time soon, with a general election expected to be called within weeks.

An election is due by April 2011 at the latest, but is more likely to be held as soon as next month to capitalize on a lift in polls since Julia Gillard replaced Kevin Rudd as prime minister on June 24. That will likely sap Canberra's appetite for regulatory reform, at least for now.

Financial Services Minister Chris Bowen declined to put an exact timetable Monday on the government's response, saying only that the report provides the basis for deeper consultation with industry.

"I'm not interested in a battle with the (pension fund) industry for the sake of it," Bowen told reporters in Canberra.

Adding to the cautious tone in Canberra is the government's recent back down on a planned new tax regime for the mining industry. That reform, unveiled May 2, was vigorously opposed by the industry, contributing to a hemorrhaging of support for Labor and Rudd's sudden ouster. Gillard announced a watered down proposal Friday, making major concessions to the mining industry.

The pension system review found several aspects of industry oversight will need to be improved upon, ranging from governance and due diligence through to advisory fees and individual investor control.

"There is presently a lack of transparency, comparability and, ultimately, accountability in the Australian superannuation system that can only be effectively improved through targeted and proportionate regulation," the review said in its findings.

In particular, the Australian Prudential Regulatory Authority should be beefed up to oversee reporting standards of fund performance, some of which can be achieved through cooperation with other regulatory agencies.

"APRA must have a standards-making power in relation to superannuation to allow it to take on the significant tasks of overseeing and promoting industry efficiency as well as its existing prudential role," the review said.

It also pushes for the creation of a simple easy-to-understand default pension fund, to be known as MySuper. Treasury estimates the MySuper fund would cut fees for the average member by 40% and lift their life time pension fund balance by around 7%.

John Brogden, chief executive of the Investment & Financial Services Association, welcomed the review as "a far-reaching, comprehensive blueprint for strengthening superannuation governance, safety and efficiency."

The recommendation for funds to hold capital is a "critical step in improving the safety of the system", Brogden said. "Superannuation funds, like banks, should be required to hold appropriate levels of capital to protect fund members," he said.

But Brogden warned against the "paternalistic nature" of the review's MySuper proposal, which he

argues will "entrench disengagement and disinterest" among Australians toward their retirement savings.

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