

Portfolio Holding Disclosure – Draft regulations

August 2021

HESTA welcomes the opportunity to make a further submission on the draft regulations for portfolio holding disclosure by superannuation funds. We appreciate the Government has chosen to consult further on these important regulations; however, we are concerned that fundamental issues previously raised by HESTA and other stakeholders have not been addressed. These concerns were articulated in the joint letter to the Treasurer on 23 July 2021 (**attached**).

Background

HESTA holds over \$60 billion of assets on behalf of 880,000 members in the health and community services sector, 80% of whom are women. The performance of those assets and our members' financial wellbeing can be materially impacted by even small changes to the retirement system. Our members rely on us to ensure that their retirement story is told, and their working life is considered in complex policy deliberations.

Portfolio Holdings Disclosure

HESTA supports transparency and meaningful disclosure of superannuation fund investments that can benefit members. However, the proposed presentation of information by these regulations still mandates disclosure that will damage member returns by virtue of sensitive commercial information being made public.

We reiterate that physical unlisted assets such as infrastructure, real property and private equity are (by definition) sensitive to disclosure of their market value. A requirement to provide an exact value for each unlisted asset will inevitably jeopardise the chances of obtaining the best possible price for those assets in the event they are offered for sale to the market.

Any potential buyer is unlikely to ever pay more for an unlisted asset than an exact value that has been disclosed compulsorily. We do not believe this push for transparency outweighs the member detriment that may occur from this approach. Essentially, the proposed disclosure regime risks harming members' best financial interests.

A requirement to disclose the information is also likely to make Australian superannuation funds less attractive partners in consortiums for unlisted transactions, as international partners may fear the disclosures that will be made by Australian superannuation funds. This greatly reduces the opportunities available to Australian superannuation funds and promotes foreign ownership of Australian assets.

We again suggest that disclosure of a value range would satisfy the Government's desire for transparency without interfering in areas of commercial sensitivity.

We acknowledge the change that removes the requirement to disclose maturity dates and counterparty name for derivatives; however, this does not address the issues that were previously identified. Firstly, we query the value to members of disclosing each derivative position (representing thousands of line items), which is likely to be unhelpful to members and consumes substantial resources to prepare.

Secondly, the obligation to disclose derivative positions held by HESTA and other funds (e.g. FX contracts used to hedge foreign currency exposure, options and swaps) creates additional risk, as these positions are generally commercially sensitive and not known in the market. Where the market becomes aware of derivative positions held by a fund, particularly where that position is less liquid and/or material, it could lead to other market participants offering less favourable pricing or taking active positions that create adverse outcomes for HESTA members.

HESTA Recommends:

- **Members' best financial interests will not be served by funds disclosing:**
 - **the individual values for unlisted assets - an alternative approach would be to disclose a value range instead of a single dollar value.**
 - **derivative positions – we recommend the removal of the requirement for funds to disclose their derivative positions.**