Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
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Submission: Legislating the objective of superannuation

This is a joint submission from Saul SMSF and SDG Align Pty Ltd.

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About Saul SMSF

David Saul is the Founder and Managing Director of Saul SMSF, an independent auditor of Self-Managed Superannuation Funds. Established in September 2007, the firm foresaw the unique value delivered to SMSF Trustees with a truly independent audit.

Committed to best practice and supported by a highly competent team of 12, with over 55 years of combined SMSF experience, the firm's approach is encapsulated in the following quote:

> *At Saul SMSF we don't view SMSF Trustees as a nameless commodity. To us, each SMSF contains the unique retirement dreams and aspirations of their Members. The independent Auditor plays an important role in protecting their retirement savings.*

Auditing over $6.4 Bn of SMSF assets in the 2021/2022 year, the firm has been appointed an officer of the NSW Supreme Court, to independently audit an increasing trend of SMSFs challenged by stakeholders.

Professionally, David is a Chartered Accountant and Fellow of the SMSF Association of Australia. David was one of the first to achieve the SMSF Specialist Advisor Accreditation from SPAA (now the SMSF Association of Australia). David is also a member of the SMSF Association's Professional Standards Committee. In 2018, David was awarded SMSF Auditor of New South Wales, and Australian finalist in 2019 and 2020.

Saul SMSF has been built on the following core values:

- Fearless Independence
- Quality
- Integrity, Objectivity & Professional Behaviour
- Professional Ethics, Experience and Expertise
- Effective internal supervision and review
- Environmental sustainability in Auditing

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About SDG Align

Founded by a Tasmanian (David Morgan and Jeremy Rose) and Dutch (Willem Overbosch) team, SDG Align was virtually hatched in 2020 during Covid. While working together on a Commonwealth Government report into the macro trends in the Built Environment, the team combined its skills in strategy, data, technology, training and change management, to establish a for purpose company - SDG Align formed to help improve business sustainable development outcomes.

Our customers told us that a tool that helps a business put sustainable development on its business horizon would be a game changer. We developed a prototype which was recognised by the Good Design Awards and the NSW Sustainability Awards. From that we've put a team of experts together from data science, cloud IT, behavioural economics, training, community development and online publishing.

SDG Align is a software as a service company that now services large corporates such as CHU Underwriting Services, Microsoft The Netherlands and industry associations such as Building Designers Association of Australia and Strata Community Association of Australia.

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Consultation questions

1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

Sustainable development reporting is coming, driven by compliance and market demand. We believe that legislating an objective of Australia's superannuation system and being explicit about sustainability *(as defined '**Sustainable**' signifies that the system should be robust to demographic, economic and social change, and should be cost-effective for taxpayers in achieving retirement outcomes)* provides great opportunity for this system to support the broader objectives of Government and society.

This robustness will be tested by its applicability to support the outcomes sought for the planet and our futures as well as the financial outcomes of an effective superannuation scheme. Given the importance of superannuation to all Australian's the greatest risk is of not leveraging this opportunity to achieve necessary demographic, economic and social change – in other words – better sustainable development outcomes.

We believe all businesses, including investors, want to do 'better business, with less harm' but don't know how. Knowing where to start is the first step to improving sustainable development outcomes and positively impacting the planet, society, and business. We believe you need to measure to change – you must know where you are now to understand where you need to get to.

2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

Yes and we approve of this objective, in particular the inclusion of the terms dignified, sustainable and equitable.

3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

This would appear to be a robust way of enshrining change, but to be transformational must be coherent with other frameworks that support and provide measurement. We believe the UN Sustainable Development Goals, as well as other supporting international frameworks such as Global Reporting Initiative and its non-financial disclosures (GRI-2 General disclosures 2021) , can be applied to business behaviour to provide that measure and support progress with the ongoing evolution of superannuation. All 193 nation signatories to the UN SDGs must report on their 2030 targets.

As of 30 June 2022, the Australian superannuation sector recorded total assets of $3,312.5 billion (per the Australian Taxation Office), recorded against the following superannuation sectors:

	Assets on 30 June 2022 ($b)
• Corporate Superannuation	$56.3
• Industry Superannuation	$1,076.6
• Public Sector Superannuation	$467.5
• Retail Superannuation	$638.2
• Self-Managed Superannuation	$868.7
• Other Superannuation	$205.2
Total	$3,312.5 Bn

As an independent auditor in the Self-Managed Superannuation Fund ("SMSF") sector, Saul SMSF notes there is a KEY and FUNDAMENTAL obligation (per **Superannuation Industry Supervision ("SIS") Regulation 4.09(2)**) on SMSF trustees to:

> *"… **formulate**, **review regularly,** and **give effect** to an investment strategy that **has regard to the whole of the circumstances** of the entity including, but not limited to, the following:*
>
> *(a) **the risk involved** in making, holding and realising, and the likely return from, the entity's investments, having regard to its objectives and expected cash flow requirements;*
>
> *(b**) the composition** of the entity's investments as a whole, including the extent to which they are diverse or involve exposure of the entity to risks from inadequate diversification;*
>
> *(c) **the liquidity** of the entity's investments, having regard to its expected cash flow requirements;*
>
> *(d) **the ability of the entity to discharge** its existing and prospective liabilities;*
>
> *(e) **whether the trustees of the fund should hold a contract of insurance that provides insurance cover for one or more members** of the fund".*

SIS Regulation 4.09(2) is essentially the requirement for SMSF Trustees to implement a **valid and considered** investment strategy. Once decided within the framework of SIS Regulation 4.09(2), it determines how trustees allocate their superannuation assets to various investments to achieve their sole purpose (per **SIS Act Section 62**) of providing superannuation benefits to any or all of the following:

- Fund members on their retirement,
- Fund members upon reaching a prescribed age,
- The dependents of a fund member in the case of the member's death before retirement.

Jointly Saul SMSF and SDG Align see enormous potential in the proposed Objective of Superannuation, namely:

> *To deliver income for a **dignified retirement**, alongside government support, in an **equitable** and **sustainable** way.*

Given the requirement on SMSF Trustees to **formulate**, **regularly review** and **give effect** to an investment strategy, where there are $868.7 billion in self-managed superannuation assets alone, we propose there is an opportunity to ask SMSF Trustees to **consider** the superannuation objective of **sustainability** when building their investment strategy.

We understand the meaning of ***Equitable*** *and* ***Sustainable*** within the proposed superannuation objective means:

"… that the system should provide similar outcomes for people in similar circumstances and government support should be targeted to those in need. Superannuation also needs to fit within the broader fiscal strategy".

Beyond financial sustainability, we believe there is a unique and powerful opportunity to influence Trustees' investment behaviours, by asking them to annually ***"consider sustainability on an environmental level"*** when making their investment decisions.

Practically, this requirement *"to consider* ***sustainability on an environmental level"***, might be enshrined by an amendment to SIS Regulation 4.09(2), as an additional requirement.

The self-managed superannuation sector is the one area, where Trustees have the "choice" to make their own investment decisions, thereby having control over how $868.7 billion in superannuation resources are allocated. We do not propose that the Trustee(s) must invest all or a portion of their superannuation assets in **environmentally sustainable investments**, as this may diminish retirement savings or lead to sub-optimal returns in achieving retirement objectives. However we do envisage that a new requirement on SMSF Trustees to "consider environmental sustainability of investments" as an initiative that could influence investor behaviours and the allocation of very substantial superannuation resources.

As time progresses, we believe their will be improved tools and accreditation mechanisms to assess the environmental impacts of various types of investments. With this emerging information, investors and Trustees within the superannuation sector can make improved decision making that aligns with their investment strategy, including environmental sustainability.

4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

No comment.