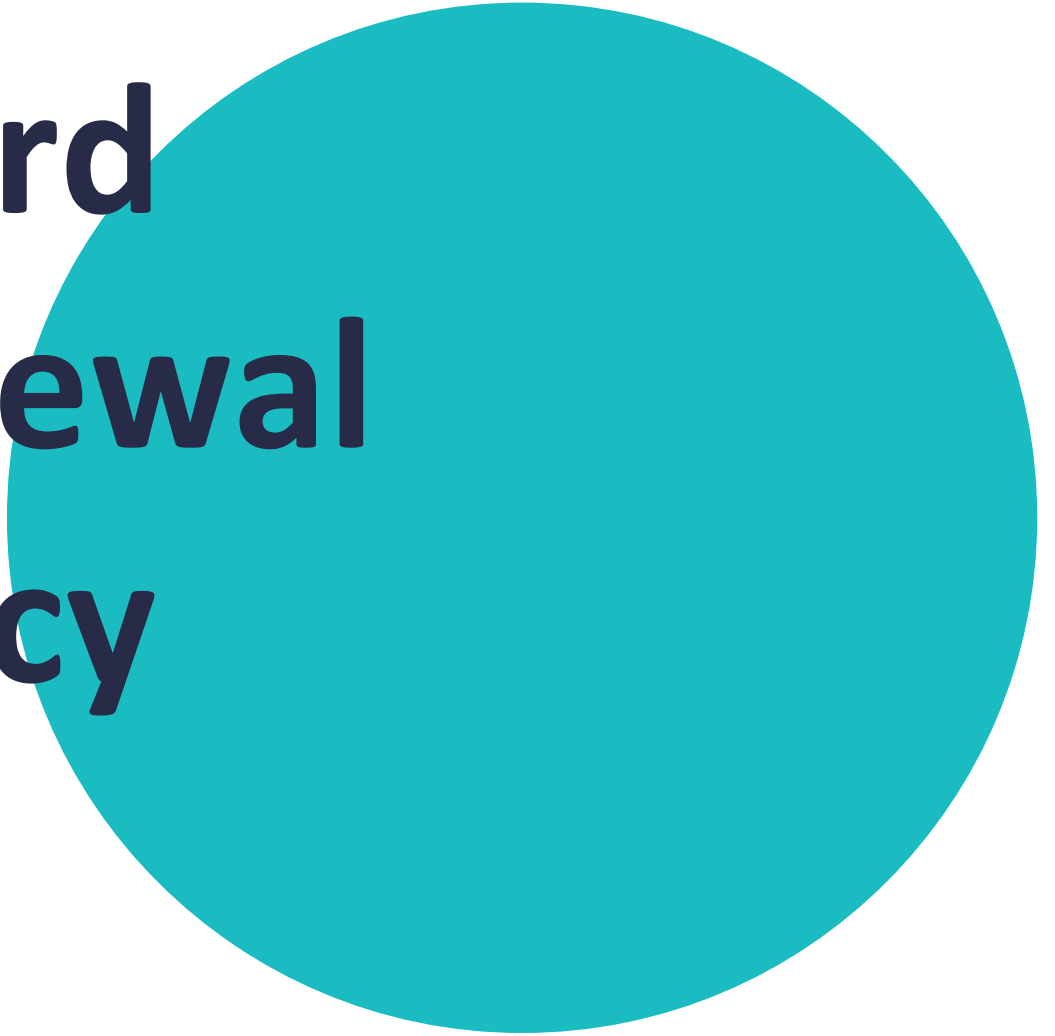




Australian Government

Commonwealth Superannuation Corporation

Board Renewal Policy



Commonwealth
Superannuation
Corporation

This Board Renewal Policy sets out how the CSC Board considers renewal and the protocols that will be employed by CSC in communicating with those individuals and organisations that are responsible for nominating Board directors pursuant to the *Governance of Australian Government Superannuation Schemes Act 2011 (Cth)* (the GAGSS Act). The GAGSS Act places responsibility for the composition of the CSC Board with the Minister for Finance, who directly makes certain nominations and who also is required to accept certain nominations from the ACTU and the Chief of the Defence Force.

As an entity regulated by the Australian Prudential Regulatory Authority (APRA), CSC must adhere to the requirements of APRA's *Superannuation Prudential Standard 510 – Governance* (SPS 510). This Policy is required under SPS 510.18.

The Board values a degree of continuity while also seeking to refresh its membership. Its approach sees value in openness to new ideas and independent thinking, while retaining adequate expertise. The Board seeks balance by encouraging diversity of, inter alia, gender, age, experience, skills and qualifications.

This Policy lays out how the CSC Board will seek to communicate with the Minister and those who are able to nominate directors in order to achieve Board renewal objectives.

Background and Purpose

Good governance matters and the Board aspires to incorporate good governance policies and practices at all levels within CSC. In so doing, the Board aspires to be a leader in Board governance policy and practice. This is consistent with CSC's expectations of the entities in which it invests.

CSC is unique. It is a corporate Commonwealth entity, whose directors are appointed by the Minister for Finance under CSC's governing legislation¹. It is also the trustee of regulated superannuation funds and is therefore required to comply with all prudential laws and standards for governance. This Policy aims to ensure that CSC's governance obligations can be accomplished within a framework that does not impinge on the rights and obligations of nominating bodies and the Minister for Finance under CSC's governing legislation.

The Board seeks to assist in the renewal and reappointment process by communicating with nominating bodies and the Minister for Finance. In doing so, the Board aims specifically to:

- optimise the composition of the Board in terms of collective experience, knowledge and skills, taking CSC's strategic and corporate plans into account,
- note any specific skill requirements identified through the Board skills matrix
- participate in succession planning strategies for the Chair and the Board
- ensure that organisational knowledge and continuity is preserved through staggered terms of office for directors
- outline the Board's expectations regarding time commitments for service and continuity of tenure, and

¹ More information on the legislative background is set out in CSC's Board Charter.

- seek balance by encouraging diversity in relation to inter alia gender, age, experience, skills and qualifications through merit-based appointments.

CSC's Directors

Board composition

The composition of the Board is specified in the *Governance of Australian Government Superannuation Schemes Act 2011 (Cth)* (the GAGSS Act)², CSC's governing legislation. In accordance with that Act, the Board consists of 9 directors comprising an independent Chair and 8 other directors.

The directors are nominated in the following manner under the GAGSS Act:

- two directors nominated by the President of the Australian Council of Trade Unions (ACTU),
- two directors are nominated by the Chief of the Defence Force,
- the Minister for Finance (the 'Minister') chooses the remaining directors, and
- the Chair is appointed by the Minister in consultation with the other directors.

In accordance with the GAGSS Act, before nominating a person, the President of the ACTU and the Chief of the Defence Force must consult with one or more "relevant organisations"³.

In the case of a director who has been nominated by the President of the ACTU or the Chief of the Defence Force (together the 'nominating bodies'), the Minister for Finance must appoint the person who has been nominated for the period specified in the nomination⁴. In the case of any other director, the Minister must consult the Defence Minister before making an appointment⁵.

Fit and Proper Requirements

The GAGSS Act specifies that "a person is not eligible for appointment as a director if the person's appointment would result in a contravention of a SIS fitness and propriety standard". This refers to the *Superannuation Industry (Supervision) Act (Cth) 1993* and the fitness and propriety standards set out by APRA in *Superannuation Prudential Standard 520 – Fit and Proper (SPS 520)*.

CSC's *Fit and Proper Policy* sets out in detail the attributes required of directors in order for them to be considered fit and proper. These include attributes that relate to character,

² GAGSS Act s12 as amended by the *Public Sector (Superannuation) Legislation Amendment Act 2018 (Cth)*

³This is defined in s4 of the GAGSS Act as either: an organisation a substantial number of whose members are members of a superannuation scheme administered by CSC or eligible employees within the meaning of the *Superannuation Act 1976* and whose principal purpose is to protect and promote the interest of its members in matters concerning their employment; OR an organisation that has as one of its principal purposes the protection and promotion of beneficiaries under a superannuation scheme administered by CSC in matters concerning their entitlements as beneficiaries.

⁴ GAGSS Act s12(3)

⁵ GAGSS Act s12(4)

competence, diligence, experience, integrity, honesty, judgement and relevant technical qualifications, knowledge and skills.

The Board is required to apply prudent judgement in determining whether a person should be considered fit and proper.

It is a legal requirement (as set out in SPS 510) for a board to ensure that the directors and the senior management of the RSE licensee, collectively, have the full range of skills needed for the effective and prudent operation of the RSE licensee's business operations, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes. This includes the requirement for directors, collectively, to have the necessary skills, knowledge and experience to understand the risks of the RSE licensee's business operations, including its legal and prudential obligations, and to ensure that the RSE licensee's business operations are managed in an appropriate way taking into account these risks⁶.

Individual directors are not expected to have all of the competencies the Board collectively requires. However, every director should have specific competencies which complement those of other directors and contribute to the collective capability of the Board. In accordance with CSC's *Fit and Proper Policy*, this means that a prospective director who may otherwise be suitable for a board position may not be considered fit and proper where they do not have skills or experience that meet the current requirements of the board. The Chair of CSC will seek to work co-operatively with the Nominating Bodies to give effect to this arrangement.

In keeping with this requirement, the basic experience and knowledge requirements expected of all directors on appointment, are:

- Awareness of superannuation and its regulatory framework
- Financial literacy
- Understanding of directorship, governance and trusteeship principles
- Understanding of risk factors
- Sound business judgement
- Critical thinking and ability to provide constructive challenge

In order to meet its obligations under SPS 510, the Board will seek to have Directors appointed who collectively have the skills as set out in the Board skills matrix. To achieve this, the Board seeks that nominating bodies consider the following framework when making their nominations:

- For directors nominated by the ACTU: optimally, at least one director nominee would be skilled in the needs and requirements of members (past and present) of the Australian Public Service. The other director/s (in addition to an understanding of member needs) should be able to contribute to the collective skills/experience requirements of the Board.

⁶ Per SPS 510.10

- For directors nominated by the Chief of the Defence Force: optimally, at least one director nominee would be particularly skilled in the needs and requirements of members (past and present) of the Australian Defence Force. The other director (in addition to an understanding of member needs) should be able to contribute to the collective skills/experience requirements of the Board.
- For directors appointed directly by the Minister: optimally, at least one director nominee would be skilled in government business and government operations, at least one other director would be appropriately qualified and willing to be the Chair of the Audit Committee if that skill requirement is not otherwise satisfied, and the other nominees should be able to contribute to the collective skills/experience requirements of the Board.

The legal requirements that apply to CSC's directors, their responsibilities and the expected time commitment are set out in CSC's Board Charter. It is expected that all prospective directors will have read and understood the Board Charter prior to accepting their appointment.

Appointment Process

In order to ensure that appointments are made in consideration of CSC's legislative and regulatory requirements in relation to the Board and good governance, CSC will seek to assist the nominating individuals and organisations in the appointment process.

CSC to Provide Information Prior to Term Expiry

CSC aims to provide formal advice to the relevant nominating body(ies) and to the Department of Finance advising that the term of a director it has nominated is due to expire and advise on the skills/experience capability that a prospective appointee would ideally be able to provide (by reference to CSC's skills matrix as set out in the *Fit and Proper Policy*).

Approximately six months prior to a director's term expiring (and the director will be leaving the Board) CSC aims to provide advice to either the nominating body or directly to the Minister via the Department of Finance and/or the Minister's Office as appropriate on the skills/experience capability that a prospective appointee would ideally be able to provide (by reference to CSC's skills matrix as set out in the *Fit and Proper Policy*).

Where an existing director is being considered for reappointment, the Chair may also provide to nominating body(ies) details of the director's:

- contribution to the Board and committees
- current disclosed interests and appointments
- current skills
- date of initial appointment, and
- where appropriate, the Board's view of an incumbent if that director is seeking reappointment, including advising if the Board is dissatisfied with the performance of the director.

The Chair will also seek to meet with relevant representatives of the nominating body(ies) to discuss the skills requirements of the Board and the commitment required of CSC's directors.

The Chair may advise of any known potential candidates that have been identified by the Board as capable of meeting any skills/experience gaps on the Board.

To ensure a fit and proper assessment is undertaken (see *Fit and Proper Policy*) in a timely manner, noting the possibility that a candidate may not meet the fit and proper requirements if they do not have suitable skills or experience to fill a skills requirement on the board, CSC will seek to liaise with nominating bodies as early as practicable during the appointment process. This will, inter alia and as appropriate, include:

- After receiving advice of candidate/s under consideration, the Chair and/or other appropriate directors will seek the agreement of the relevant nominating body to meet with the candidate/s under consideration.
- After receiving required documentation as set out in the *Fit and Proper Policy*, the Board Governance Committee will complete a fitness and propriety assessment of the candidate/s and the Chair will advise the relevant nominating body whether the Board considers the candidate to be suitably fit and proper for appointment to the Board. After a fit and proper assessment is completed, if a nomination of a director is considered unsuitable, the Chair will communicate immediately, and seek to resolve this issue, with the relevant nominating body.

Once the fit and proper assessment process has been completed, it is the responsibility of the nominating body to advise the Department of Finance of their nomination to enable an instrument of appointment to be prepared. To assist, CSC will also advise the Department of Finance of the outcome of the fitness and propriety assessment

APRA Expectations

To meet the expectations of APRA as set out in Prudential Practice Guide, SPG 510 Governance, nominating bodies and the Minister for Finance are expected to assess:

- the current and past associations of candidates, including conflicts of interest
- the appropriateness of other directorships held by the candidate director, especially directorships of other RSE licensees
- the skills and capabilities of nominated candidates against the role and responsibilities of the vacancy and the collective skills/experience requirements of the Board as a whole, including consideration of committee vacancies, and
- the fitness and propriety of nominated candidates, taking the CSC *Fit and Proper Policy* into account.

The Board will assist nominating bodies by communicating APRA's expectations in this regard and ensure that nominating bodies are made aware of how they can support this *Board Renewal Policy*.

Other Expectations

Renewal: The Board seeks, where feasible, to ensure that over any three-year period no more than three directors reach the end of their terms in any one year. Further, the Board seeks to influence where it can that appointments should be constructed so that these term ends are distributed as evenly as possible across the three nominating bodies.

Appointment terms: To provide an orderly process of appointment and renewal, it is proposed that all appointments to the Board be made for a term of three years commencing on 1 July of the relevant year. Where a director vacates their position during their term, it is preferred that the replacement director be appointed initially for the balance of the retiring director's term. CSC will seek to liaise with the Minister and the nominating bodies to achieve this.

Diversity: CSC values diversity. CSC expects that nominating bodies and the Minister for Finance will consider the importance of diversity and will consider the existing Board composition when nominating or appointing directors.

Conflicts: Nominating bodies and the Minister for Finance should consider potential conflicts of interest for nominees, particularly where a nominee holds a board position on more than one superannuation entity and where one or more of those entities competes to attract the same members.

Time commitments and continuity of tenure: CSC expects that nominating bodies and the Minister will consider the Board's expectations regarding time commitments for service and continuity of tenure.

Role of the Board Governance Committee

The Board Governance Committee provides oversight of key governance matters. In relation to board renewal and appointment, the Board Governance Committee has responsibility for:

- review of the skills of the Board against the needs of the organisation and regulatory requirements (based on the Board Skills Matrix);
- development of succession planning strategies for the Chair and the Board;
- identifying and recommending to the Board individuals who are considered to meet the criteria for selection in light of succession planning for the Board and committees; and
- conducting fit and proper assessments of nominees.

Committee renewal

Standing committees

The Board has established the Audit Committee, the Risk Committee, the Board Governance Committee and the Remuneration and HR Committee as standing committees. Members of these committees are appointed by the Board.

The target size for standing committees is achieved and maintained by monitoring upcoming appointment expiry dates. When new directors are appointed, committee composition is considered and approved by the Board. This ensures committee composition is considered at least biennially.

The term of appointment of members of the Audit Committee and the Risk Committee is set at a period of three years, which may be extended, at the discretion of the Board.

Committees established under scheme legislation

The Board has established the MSB (Military Super) Reconsideration Committee and the Defence Force Case Assessment Panel, pursuant to scheme legislation, to reconsider certain decisions under scheme legislation.

The target size of each of these committees is achieved and maintained by monitoring upcoming appointment expiry dates and adhering to scheme legislative requirements.

Review of policy

This policy will be reviewed by the Board Governance Committee biennially or as required, in particular in light of relevant regulatory initiatives or any significant changes to CSC's constituent legislation or business objectives, to assess its continuing currency. The Committee will recommend to the Board for its approval any necessary or desirable amendments to ensure the policy remains current and consistent with best practice and applicable law.

Date	Author	Comments
December 2012	General Counsel Group	Establishment of document
April 2013	General Counsel Group	Regular review to assess continuing currency.
February 2014	General Counsel Group	Regular review to assess continuing currency.
17 June 2015	General Counsel Group	Regular review to assess continuing currency, the GAGSS Act, APRA Prudential Standard SPS 510 and clarify nomination and appointment processes as discussed by the Board on 27 February 2015. Board Governance Committee review 5 May 2015 meeting; Board approval 17 June 2015.
15 June 2017	General Counsel team	Updated APRA governance requirements: Prudential Standard SPS 510, Governance, and Prudential Practice Guide SPG 510, Governance. Reviewed by Board Governance Committee meeting 22 March 2017; Board meeting 15 June 2017.
19 December 2020	General Counsel team	Reviewed and updated. Reviewed by Board Governance Committee meeting 18 November 2020; approved by Board meeting 19 December 2020.
11 November 2022	General Counsel team	Reviewed and updated with minor amendments. Reviewed by Board Governance Committee meeting 11 November 2022.