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16 February 2018

Hon Kenneth Hayne AC QC
Royal Commissioner to the Royal Commission into Misconduct in the Banking, Superannuation and
Financial Services Industry (Commission)

Dear Commissioner

**Royal Commission into Misconduct in the Banking, Superannuation and Financial Services
Industry (Commission)**

I write in response to the Commission's letter dated 8 January 2018.

As Chief Executive Officer, I am pleased to provide the attached submission on behalf of
TelstraSuper.

I am confident that the attached response satisfactorily addresses each of the Commission's
questions. However if you have any queries regarding our submission, please contact me on [REDACTED]
[REDACTED] or via email at [REDACTED]. You can alternatively contact Steve Miller on
[REDACTED] or via email at [REDACTED].

Yours sincerely

A handwritten signature in black ink, appearing to read "Chris Davies".

Chris Davies
Chief Executive Officer

Royal Commission - Misconduct in the Banking, Superannuation & Financial Services Industry
Response to questions asked of Telstra Super Pty Ltd by letter of 8 Jan 2018

Executive Summary

Telstra Super Pty Ltd was established in June 1990 as a wholly owned but not controlled subsidiary of Telstra Corporation Limited, and is the Trustee of the Telstra Superannuation Scheme (**TelstraSuper/the Fund**).

TelstraSuper is Australia's largest corporate super fund with over \$20 billion in assets invested on behalf of close to 100,000 members.

We appreciate the invitation to contribute an early written submission to this Royal Commission and to specifically address the questions set out in the letter from the Royal Commission dated 8 January 2018.

Industry context

In recent decades, funds under management in the superannuation system have grown rapidly, and funds have responded with increasingly sophisticated operational and governance practices. This growth has been accompanied by increasingly complex legal requirements and regulatory oversight as well as enhanced governance expectations being placed upon the industry.

Regulatory change has become a constant feature of the superannuation landscape and implementing and operationalising these changes has become a feature of TelstraSuper's core business activities. As the corporate super fund for Telstra Corporation Limited, TelstraSuper operates on a profit for member basis and the Board and Management of the Fund are mindful of their overriding duty to act in the best interests of beneficiaries.

Due diligence undertaken by TelstraSuper

The matters of enquiry which are the subject of the Royal Commission's letter cover a substantial time period, during which there have been significant personnel changes within TelstraSuper. For example, I became CEO of the Fund in October 2013, whereas my predecessor became CEO in July 2008.

In order to be satisfied as to the completeness of responses provided to the Royal Commission, we have developed an internal process to identify and assess any information that may be relevant to the enquiries made of the Fund.

TelstraSuper has undertaken a comprehensive review of internal records in relation to the matters outlined in the 8 January 2018 letter from the Royal Commission. The review was undertaken by the Executive General Managers responsible for the functional areas concerned, with the support of experienced Fund staff members.

This review covered the Fund's internal records over the period from 2008 until 2017, encompassing both TelstraSuper and its financial planning subsidiary company, TelstraSuper Financial Planning Pty Ltd. References to TelstraSuper or the Fund should be read as including Telstra Super Financial Planning Pty Ltd.

The review included consideration and analysis of:

- Complete breach reporting records
- Regulatory correspondence

- Records of all Fund member complaints
- Board minutes
- Employee personnel records
- Fund general ledger expenditure records

The Fund's approach in the responses below has been to consider any matter which may be the subject of the questions in the 8 January 2018 letter. We have made reference to a small number of matters which on our reading, do not appear to be the subject of these questions. For completeness however, we consider it appropriate to make the Royal Commission aware of these matters.

Responses to specific questions

Question 1

TelstraSuper considered all of the records which were the subject of our due diligence approach to identify any misconduct by the entity (including by its directors, officers or employees, or by anyone otherwise acting on our behalf) which occurred at any time since 1 January 2008. We did not identify any such incidences of misconduct.

In reaching this conclusion, we took the following steps. The Chief Risk Officer (**CRO**) reviewed the Fund's internal breaches and incidents register across Telstra Super Pty Ltd and Telstra Super Financial Planning Pty Ltd for the relevant period. The CRO analysed the detail of each breach or incident to identify any with a potential inference of misconduct. The breaches and incidents register covers a much wider range of activity than breaches and also addresses internal process matters. The Fund encourages the reporting of breaches and incidents as a source of information for business improvements. As such, a review of the breaches and incidents register covers a very broad range of operational matters.

Following internal examination, none of the breaches or incidents reviewed related to conduct matters, arose from deliberately misleading or deceptive conduct, breach of trust, breach of duty, unconscionable conduct or breaches of professional standards or widely adopted benchmarks for conduct.

The Fund's CRO also reviewed the member complaint records of Telstra Super Pty Ltd and Telstra Super Financial Planning Pty Ltd for the relevant period and analysed the subject matter of each complaint to identify any with an inference of misconduct. Following internal examination, we are satisfied that none of the complaints reviewed are related to misconduct.

Finally, the CRO reviewed correspondence with the Australian Prudential Regulatory Authority (**APRA**) over the relevant period and again was satisfied that there were no matters with an inference of misconduct. For completeness, we have noted below one staff related matter which, while not found to relate to misconduct, was the subject of correspondence from APRA in 2014.

The Fund's Company Secretary considered all of the Board meeting minutes for the relevant period to identify any topic of discussion which carried an inference of misconduct. Following examination, there was no matter identified in the Board meeting minutes which related to misconduct.

The Fund's Executive General Manager – People & Culture (**EGM – P&C**) reviewed the Fund's personnel records to identify any misconduct matters. Like many organisations, the Fund occasionally needs to address internal personnel matters such as workplace bullying or harassment. The EGM – P&C identified occasions where the Fund has done so over the last ten years and confirmed that these matters have been addressed in accordance with internal processes and policies. The Fund also has a variety of internal controls, including ongoing staff training, to ensure a positive organisational culture as well as ensuring that staff understand the standards of behaviour that are expected in the workplace.

We consider that the number of occasions where the Fund has been required to address such staff matters over the 10 year period is within the normal frequency of an organisation with up to 250 employees, and is not indicative of any broader issue. We have also had regard to the purpose and focus of the Royal Commission and expect that the staffing matters referred to are not an area of focus for the Royal Commission.

As an employer, we are also mindful of our ongoing legal obligations towards staff who have left the organisation, particularly with regard to confidentiality and non-disparagement. While the Royal Commission has made reference to staff and customers being free to air any concerns they may have, we note that the employer itself may also be bound by such obligations.

Whilst we have not identified any matters in our personnel records which we consider would constitute misconduct within the focus of the Royal Commission, for completeness, we wish to specifically note three employee related matters over the ten year period. Two of these were the subject of coverage by the media and the other was brought to our attention by APRA.

2013 employee matter

In July 2013, there were media reports regarding the expenditure by the Fund's then Chief Executive Officer to host corporate hospitality at a Rugby related sporting event.

The expenditure was permitted within the Fund's annual administration budget and incurring the expense did not constitute misconduct. We have noted this expenditure item in our response to Question 4(a).

We have noted in our response to Question 4(b) that we are satisfied that all member funds have been applied in a manner which is consistent with the purposes outlined in Question 4(a). We have also noted that in the latter part of 2013, the Board reviewed the Fund's Gifts, Prizes and Hospitality policy and that one of the revisions made at this time was to prescribe that any external hospitality to third parties or suppliers of services to the Fund must be pre-approved by the Board. No external hospitality expenses have been incurred by the Fund since this change to the Board's approach in 2013.

2014 employee matter

In January 2014, the Fund received an enquiry from APRA relating to a particular Fund employee. APRA asked the Fund to consider, investigate and respond to APRA on matters relating to conflicts management, but specifically regarding the acceptance of gifts and hospitality and the review process undertaken to appoint a particular investment manager.

The Fund initiated an independent investigation, which was concluded with no finding of misconduct being reached. Furthermore, the Fund was satisfied that the investment manager appointment was not impacted by the matters raised. The Fund co-operated fully with APRA in addressing its queries and APRA took no further action in relation to this matter. The employee concerned left the Fund in mid-2014.

In the latter part of 2013, the Board had already reviewed its Gifts, Prizes and Hospitality Policy, albeit the changes were not in effect as at the date when this employee matter occurred. Before the changes, the receipt of gifts, prizes and hospitality was reportable retrospectively on a twice yearly basis. Following the review, a new pre-approval process was adopted, which also ensured the prompt reporting of Gifts, Prizes and Hospitality to Directors.

2015 employee matter

Between November 2015 and January 2016, the Australian Financial Review reported that a Fund property portfolio manager:

“..had neglected to tell his bosses when he went bankrupt in April 2011, owing money to his former employer”. The article states that the portfolio manager “..had previously been allowed to continue in his duties .. while an undisclosed and undischarged bankrupt for almost three years”

The article acknowledges that *“there is no imputation that..(the portfolio manager)..did not always perform his duties in the best interest of Telstra Super members.”*

Whilst an earlier media article asserted that the portfolio manager’s bankrupt status had been the subject of an earlier investigation by the Fund, this media assertion was not substantiated. The Fund kept APRA advised of its progress in dealing with this matter and that matter was not subject to any further enquiry or investigation by APRA.

The portfolio manager concerned commenced employment with the Fund in 2010 and was not subject to any express requirement to advise as to the April 2011 bankruptcy noted in the media report. As the role concerned was not an executive role, it was not subject to the requirements of the Fund’s Fit & Proper Policy at the time. The portfolio manager concerned left the Fund in December 2015.

The Fund subsequently enhanced its internal controls to introduce periodic ongoing probity checks and declarations, including bankruptcy checks, for certain roles in the organisation, including investment portfolio managers.

We have outlined the above matters with a view to providing transparency. However, we reiterate that we have not identified any incidences of misconduct for noting to the Royal Commission.

Question 2

The Fund considered all of the records which were the subject of our due diligence approach to identify any conduct, practice, behaviour or business activity it has engaged in (including by its directors, officers or employees or other person acting on its behalf) since 1 January 2008, which has fallen below community standards and expectations. We did not identify any such incidences.

The benchmark of community standards and expectations is inherently subjective. As noted in the introduction to this response, the level of regulation and scrutiny in the industry has increased over time, together with the level of oversight of industry participants.

As a Fund, we apply stringent standards to the way we operate, noting that the Fund’s core mission is to ensure that its members achieve a secure financial retirement outcome. We have embedded core values throughout our organisation which are consistent with this mission. In common with other profit to member funds, we do not pay commissions to our financial advisers or those of other organisations.

For completeness, we refer the Royal Commission to the Fund’s responses to Question 1 and Question 4 respectively in relation to the key items which the Fund wishes to make the Royal Commission aware of.

Question 3

As noted in the responses to Questions 1 and 2, we have not identified any incidences of misconduct for noting to the Royal Commission. However, we have noted in our responses a small number of employee related matters which we wish to make the Royal Commission aware of. Where applicable, we have also noted steps taken by the Fund in response to the matters outlined.

Question 4(a)

The Fund considered all of the records which were the subject of our due diligence approach to identify any application of members’ funds other than for the investment of those funds, the

administration of the superannuation fund and the payment of member benefits, over each of the last 10 years.

We are satisfied that all member funds have been applied consistently with these purposes. However, with a view to providing a fulsome response, we wish to note a small number of representation expenditure items other than ordinary staff engagement expenditure (such as staff team lunches and the staff Christmas function).

In reaching this conclusion, we took the following steps. Our Chief Financial Officer reviewed the general ledger records of the Fund and Telstra Super Financial Planning over a 10 year period and identified any expense items worthy of further consideration having regard to the subject of the Royal Commission's question. These items were then peer reviewed and the outcomes of this review are noted below.

The incurring of advertising expenditure has previously been the subject of discussion in the industry. TelstraSuper is a corporate superannuation fund with its membership comprised of current and former Telstra Group employees and their families. As such, the Fund does not incur advertising expenditure and promotional activity is limited to ensuring that members are fully informed about the benefits of their membership, as well as that arising from member education events. We have assessed that this expenditure falls within the ordinary administration costs of the Fund.

Financial year	Representation expenditure (\$)	Total Fund administration expenditure (\$)	Description of representation expenditure
2016/17	0	48,969,000	N/A
2015/16	0	47,154,000	N/A
2014/15	0	43,826,000	N/A
2013/14	0	41,376,000	N/A
2012/13	52,884	40,365,000	Hosting hospitality at two sporting related events for key suppliers and stakeholders. Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.
2011/12	32,882	34,808,000	Hosting hospitality at one sporting related event for key suppliers and stakeholders. Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.
2010/11	23,467	35,781,000	Hosting hospitality at one sporting related event for key suppliers and stakeholders. Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.
2009/10	32,500	32,296,000	Hosting hospitality at one sporting related event for key suppliers and stakeholders. Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.

2008/09	11,764	28,673,000	Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.
2007/08	21,043	27,295,000	Hosting hospitality at one sporting related event for key suppliers and stakeholders. Hosting hospitality at one sporting related event for internal staff as well as key stakeholders and suppliers.

Question 4(b)

As indicated above, we are satisfied that all member funds have been applied in a manner which is consistent with the purposes outlined by the Royal Commission. However we wish to comment on the application of members' funds noted in the above table.

We note our view that the level of expenditure noted above is not significant in its own right when considered relative to the overall administration expenditure of the fund.

Nevertheless, in the latter part of 2013, the Board reviewed the Fund's Gifts, Prizes and Hospitality policy and a number of revisions were made at this time. One of these revisions was to prescribe that any external hospitality to third parties or suppliers of services to the Fund must now be pre-approved by the Board. As noted above, no external hospitality expenses have been incurred by the Fund since this change to the Board's approach in 2013.

Prior to this time, the Fund periodically hosted hospitality at events as noted in the table above, the intent being to maintain deep and effective business relationships with key suppliers and other key fund stakeholders, the benefit of which would flow to members in the form of the provision of better member services.

Question 4(c)

The cost centres that make up costs attributed to administration in each of the last ten years were:

Telstra Super Financial Planning

- 500 Financial Planning
- 501 Head Office
- 502 Super Advisors
- 503 Para-Planners
- 506 Perpetual Income
- 510 Sydney Office
- 520 Brisbane Office
- 540 Adelaide Office

Member Services & Projects Division

- 600 Member Services
- 601 Benefits & Data Administration
- 625 Insured Benefits Group
- 644 Project Services

Finance

- 610 Finance

Corporate Services Division

- 617 Business Intelligence (BI)
- 618 Risk & Compliance
- 619 Legal and Company Secretary
- 621 Board
- 623 Human Resources
- 624 CEO Office

Investments Division

- 630 Investments
- 632 Investment Operations

Technology Solutions Division

- 639 Acurity Support
- 640 Technology Solutions
- 641 Network Services
- 642 Application Services
- 643 Architecture

Distribution & Business Development

- 650 Business Support & Development
- 654 Communications
- 655 Marketing
- 657 Client Relations
- 603 Member Education

Projects

- 285 2013 Legislative Program
- 290 New Product Program
- 300 Digital Project
- 301 SuperStream
- 302 Insurance Remediation
- 303 Member Experience
- 304 IT Transformation
- 305 Custody Transition