SUBMISSION

Submission to Treasury – Economic Reform Roundtable

25 July 2025

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To whom it may concern,

Economic Reform Roundtable

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to Treasury's consultation for the Economic Reform Roundtable.

About ASFA

ASFA has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

ASFA is keenly focussed on ensuring operational effectiveness of the superannuation system – in particular, that it delivers, at a reasonable cost, services of a type and standard that meet the needs and expectations of fund members and fosters trust and confidence in the system.

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If you have any queries or comments in relation to our submission, please contact Andrew Craston, Economic Specialist, by email acraston@superannuation.asn.au.

Yours sincerely

James Koval

Chief Policy & Advocacy Officer

Economic Reform Roundtable: Recommendations

A core role of Australia's financial system is to allocate funding and manage risk efficiently, and facilitate the flow of financial capital to its most productive ends. From a macroeconomic perspective, the financial system's ability to allocate funding efficiently to the real economy – that is, to activities with the highest potential economic returns – is central to promoting higher long-term economic growth for the Australian economy, and higher living standards for the Australian population. The superannuation sector – as a major component of Australia's financial system with $4.1 trillion under management – is a key enabler of long-term productivity gains for the Australian economy.

APRA-regulated superannuation funds diversify their allocation of financial capital to deliver the best possible risk-adjusted returns to members. To this end, superannuation funds allocate financial capital across the range of public and private markets, both in Australia and offshore. Within the Australian economy, individual entities – across the business and government sectors – actively seek superannuation (and broader institutional) capital. In particular, and of crucial importance, is the capacity of entities to formulate and undertake (fixed capital) investments that have the greatest potential to generate high, sustainable economic returns.

For the Australian Government, a key opportunity is to ensure that policy and regulatory settings support superannuation's role in supporting Australia's economic advancement. This includes addressing unnecessary impediments to the efficient allocation of financial capital across the economy, and implementing policy reforms to address the consequential long-term challenges facing Australia and guide funding accordingly.

ASFA's recommendations to the Economic Reform Roundtable focus on constraints on, and distortions to funding from the superannuation sector to the real economy.

Recommendation 1: Codify policy stability for long-term investment vehicles, which will reduce regulatory volatility that can deter capital deployment

Stable superannuation policy settings help support superannuation's role in funding the Australian economy. Policy stability provides funds with greater confidence when undertaking long-term investment decisions, and reduces the risk to investment returns from unforeseen policy change.

With respect to the Government's national investment priorities, coherent and stable policy settings provide superannuation funds – and other institutional investors – with the necessary frameworks to anchor and guide investment decisions. Decarbonising Australia's economy, and addressing the broader degradation of natural systems, will require commitment of long-term institutional capital including from superannuation funds. From a macroeconomic perspective, stable policy settings will help support investment in innovation capacity (to develop and commercialise new technologies) and broader fixed capital investment that rolls-out new technologies across the economy.

With respect to required regulatory change, ASFA welcomes the recent publication of the financial sector Regulatory Initiatives Grid, which lists the reform priorities and initiatives affecting the financial sector over the next two years, and is expected to help the financial sector to better manage and sequence regulatory change.

Recommendation 2: Government should seek to create structured pathways for public-private investment coordination, including streamlined approvals and co-investment mechanisms for nationally significant projects – with particular relevance to Australia's energy transition

Australia's journey to achieving net zero emissions will require a fundamental transformation of Australia's capital stock – such that the emissions generated from the production of all goods and services in the economy (in a given period) nets to zero, and all within a timeframe of little more than a single generation.

For Australia, as is the case globally, this structural shift will require higher, sustained levels of new fixed capital investment in the real economy than otherwise would be the case. Future fixed capital investment will be concentrated among a set of key sectors – most notably the energy sector.

New investment for Australia's energy transition will involve scaling-up low emissions real energy assets to meet both the demands of a larger population, and to replace existing high-emissions capacity with low/zero-emissions capacity that will need to accommodate more extensive electrification across the economy.

Of course, any new potential investment opportunity must stack-up – whether this is a direct investment in an energy infrastructure asset, or an indirect stake via an unlisted investment platform.

In this regard, accommodative policy settings will be crucial to facilitate superannuation fund investments. Aside from relevant reforms to the superannuation performance test (Recommendation 3), other reforms include:

- greater role for government in coordinating public and private development and investment
- better coordination of government funding mechanisms for private sector projects
- streamlining approvals – that can involve different levels of government – for new projects.

For details, see the *ASFA discussion paper: Towards an Energy Transition Accord*.[1]

Recommendation 3: Consider how the superannuation performance test can best support forward-looking sectors such as clean energy, digital infrastructure, and advanced manufacturing

The annual performance test in superannuation plays an important role in protecting members' retirement savings. It holds trustees accountable for investment outcomes and fees, helping to identify underperforming products that may erode member balances. By promoting transparency and comparability across funds, the test encourages continuous improvement and supports informed decision-making by members. Ultimately, it reinforces confidence in the superannuation system and helps safeguard long-term financial wellbeing.

The performance test is conducted annually by the Australian Prudential Regulation Authority (APRA) to assess whether superannuation products are delivering value to members. Introduced under the Your Future, Your Super reforms in 2021, the test compares a product's net investment returns (after fees and taxes) against a benchmark portfolio tailored to its strategic asset allocation.

If a product underperforms the benchmark by more than 0.5 percentage points per year over an eight-year period, it fails the test. Products that fail two years in a row are prohibited from accepting new members until performance improves. The test currently applies to MySuper products and trustee-directed products.

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[1] ASFA 2024, *Discussion Paper: Towards an Energy Transition Accord*
https://www.superannuation.asn.au/policy/research-papers/

Application of this test involves detailed data collection, reporting governance and oversight. The introduction of the test was a major administrative exercise for funds and service providers.

The application of the performance test risks the unintended consequence of limiting investment allocations to 'greenfield' investments such as infrastructure, energy-transition assets, private equity, and property.

In order to manage portfolios against the current performance metric, funds invest with regard to their budget for tracking-error vis-à-vis the prescribed test benchmarks. While products with a relatively large performance buffer can tolerate a larger tracking error budget in the short-term, all products are subject to a (sustainable) long-term tracking error budget.

The effects of needing to manage tracking error on asset allocation decisions are likely to be more consequential for assets/asset classes that are not well-represented by the existing set of benchmarks. This includes the broad range of unlisted assets, but particularly unlisted 'greenfield' investments in energy-transition infrastructure, private equity, and non-residential housing.

Given the consequences of failure against the performance test – where a product is not permitted to accept new members – the need to manage tracking error tends to limit allocations to such asset classes.

Of particular relevance to Australia's energy transition, the current settings risk constraining allocations to real energy-transition assets.

- In particular, the infrastructure benchmarks reflect the mix of current assets and thus are heavily weighted to conventional energy generation (and so are 'backwards looking'). Renewable energy assets comprise a very small allocation.
- For a fund, being overweight in renewable assets – which would be consistent with energy transition – is a potential source of tracking-error risk vis-à-vis the benchmarks, and an additional source of risk vis-à-vis the performance test.

With respect to 'greenfield' investments more broadly – particularly in infrastructure, private equity, and non-residential housing – up-front capital costs mean that assets are likely to underperform benchmarks early in the investment life cycle.

Conversely, increased sensitivity to benchmarks, as it relates to investment decisions, will tend to drive overall strategic asset allocation towards asset classes that are more readily benchmarked – listed equities for example (at the expense of unlisted asset classes).

With respect to broader government policy, the current settings potentially are at odds with key long-term objectives.

- Australia's decarbonisation will require investment in innovation to potentially bring about step-changes in technologies, and (more consequentially) new fixed capital investment to roll-out new technologies.
- This also applies to increasing Australia's capacity in advanced ICT technologies and advanced manufacturing.
- The Government is seeking to attract institutional capital to deliver more housing investment – notably via the Housing Australia Future Fund.

ASFA understands that the Government is currently considering potential changes to the performance test regime. ASFA made a submission to the related consultation process (*Submission to Treasury - Annual*

Superannuation Performance Test: Design Options),[2] which recommended potential reforms. Government should account for the unintended consequences of the performance test on the allocation of financial capital to key asset categories.

Recommendation 4: Potential reforms to the regulation of private markets should not unduly hinder participation by superannuation funds

For business entities, having a broad range of different potential funding mechanisms supports higher allocative efficiency, which the superannuation sector at its current level of maturity is well placed to support.

For any business entity, decisions around the preferred form of financing, at a particular point in time, reflects a range of factors – including the maturity of business entity, the particular purpose of any tranche of financing, the relative cost and availability of different forms of financing, and the entity's current (and expected) mix of debt and equity. This includes relative preference for private sources of financing such as private equity or private debt.

Superannuation funds invest in private assets as part of a wholistic portfolio approach designed to deliver the best possible risk-adjusted returns to members. In this regard, private assets can provide particular benefits to diversified investment portfolios, which compliment investments in public assets.

- Private assets offer significant diversification benefits, encompassing a broad range of asset classes such as unlisted infrastructure, unlisted property, private equity, and private debt or credit.
- Each of these asset classes has distinct risk and return profiles, spanning the growth spectrum – from high-growth opportunities like private equity to mid-risk investments such as property and infrastructure, and low-risk options like private credit, depending on portfolio credit rating.

In this regard, superannuation investments in private markets support a broad range of sectors, and business models and structures.

Undue barriers on superannuation investments in private markets, regulatory or otherwise, risks limiting and/or raising the cost of financing for business.

ASFA acknowledges ASIC's current work on Australia's evolving capital markets and the future of private markets. ASFA understands that ASIC expects to announce potential reforms later this year.

ASFA considers that potential reforms should recognise the superannuation industry's robust and improving investment governance practices and sophisticated approach to investment decision making, including with respect to private markets. ASIC has noted that superannuation is a mature investment force in Australia and a significant and structural influence in markets and investment.[3]

Potential reforms should avoid regulatory overlap and duplication of existing reporting and compliance. With APRA already applying heightened scrutiny, further regulation by ASIC may risk duplication – which would add complexity and divert resources from delivering returns for members. Effective coordination between regulators will support efficient oversight.

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[2] ASFA 2024, *Submission to Treasury, Annual Superannuation Performance Test: Design Options* *https://www.superannuation.asn.au/policy/submissions/*

[3] ASIC 2025, *The Future of Australia's Public and Private Markets : ASIC Shares Industry Feedback and Next Steps* https://www.asic.gov.au/about-asic/news-centre/find-a-media-release/2025-releases/25-094mr-the-future-of-australia-s-public-and-private-markets-asic-shares-industry-feedback-and-next-steps/

Recommendation 5: Remove stamp duty from those transaction costs that need to be disclosed under RG97

For superannuation funds, the requirement to disclose stamp duty under ASIC's Regulatory Guide (RG) 97 reduces the attractiveness of Australian residential property compared with international residential property, and Australian non-residential property.

RG 97 provides guidance to superannuation funds, and other relevant entities, for disclosure of investment, administration, and transaction costs on a comprehensive and comparable basis.

For direct purchases of Australian property assets, RG 97 requires funds to disclose stamp duty – which can be up to 6 per cent of the purchase price. This requirement does not apply to similar purchases made in other jurisdictions.

Where a fund purchases a property asset indirectly via another entity, such as a managed investment trust (MIT), generally stamp duty is not considered a transaction cost. While non-residential property assets are typically held through MITs, residential property assets are often direct investments or held through closely-controlled trusts.

Thus, from a fund perspective, investments in Australian residential property have greater reporting requirements than international residential property, or Australian non-residential property.

- As noted in Recommendation 3, residential property investment is also disadvantaged due to the performance test benchmarks.

Removing stamp duty from the transaction costs that need to be disclosed under RG97 would improve the relative attractiveness of residential property, thereby boosting supply, and help support the Government's objective to attract institutional capital to deliver more housing investment – notably via the Housing Australia Future Fund.

Recommendation 6: Consider modernisation of taxation arrangements for capital gains tax (CGT), which would reduce inefficiencies and facilitate the flow of financial capital.

Superannuation funds are currently unable to restructure investment holdings without triggering capital gains tax (CGT) events, even when there is no change in beneficial ownership.

This restriction limits post-merger integration, prevents trustees from rationalising legacy structures (in members' best interest, including where newer products would provide lower fees, better customer service and improved accessibility), and increases compliance costs – all of which are sources of inefficiency.

Reform would comprise rollover relief and CGT neutrality for internal restructures and mergers where beneficial ownership remains unchanged.