Governance Framework
This document sets out how the Board oversees and exercises its authority in relation to Commonwealth Superannuation Corporation’s (CSC’s) business operations, which encompasses the totality of systems, structures, policies, processes and people that underpin accountability within CSC’s business operations.

An effective governance framework supports CSC in making objective business decisions in the best interests of beneficiaries. The Board aspires to achieve best practice and to be a leader in governance policy and practice.

The Board is ultimately responsible for the establishment, implementation and oversight of the governance framework.

About CSC

The objectives and activities of CSC and the Board are guided by its vision, mission, strategic objectives and its legislative functions and requirements.

Vision

CSC’s vision is to build, support and protect better retirement outcomes for all our members and their families.

Mission

We’re here to be the trusted and valued partner who achieves long-term investment objectives, guides informed retirement decisions, and gives our members peace of mind that their families and futures are in safe hands.

Strategic objectives

1. Achieve investment excellence:
   - offer investment options and services appropriate to member needs
   - for default funds, achieve an average investment return of the Consumer Price Index (CPI) + 3.5% per annum over 10 years with negative returns expected in three to four out of every 20 years.

2. Achieve industry best practice in member interaction:
   - provide useful education and financial advice services for members
   - support employers to assist service delivery
   - work with administrators to achieve best possible scheme administration services.

3. Be a capable, efficient and sustainable organisation:
   - achieve excellence in Board governance policy and practice
   - attract and retain high quality people
   - retain existing members and attract eligible employees.
Legislative functions and requirements

CSC’s primary function is to administer, manage and invest the Funds of which it is trustee, in the best interests of all members and in accordance with the provision of the acts and deeds that govern the schemes. These provisions require CSC to:

- administer the five regulated and six exempt public sector schemes
- manage and invest the Funds in accordance with Board approved investment strategies
- receive payments from employers in accordance with scheme legislation
- pay superannuation benefits to or in respect of members, and
- provide information about scheme benefits or potential benefits.

CSC was established under the Governance of Australian Government Superannuation Schemes Act 2011 (GAGSS Act). CSC must have regard to the unique nature of military service, as recognised by the schemes established by or under the ADF Super Act, the ADF Cover Act, the MilitarySuper Act, the DFRB Act, the DFRDB Act and the Defence Act 1903.

CSC is a corporate commonwealth entity for the purposes of the Public Governance, Performance and Accountability Act 2013 (PGPA Act). It is the holder of a Registered Superannuation Entity (RSE) licence and an Australian Financial Services (AFS) licence. Accordingly, it is regulated by the Australian Securities and Investments Commission under the Corporations Act 2001, and the Australian Prudential Regulation Authority under the Superannuation Industry (Supervision) Act 1993 (SIS Act). CSC must uphold the conditions of both licences and comply with financial services law.

Regulated schemes

Each of CSC’s schemes is established under Commonwealth legislation.

CSC is trustee of five regulated superannuation schemes:

- the Commonwealth Superannuation Scheme (CSS) established on 1 July 1976 by the Superannuation Act 1976 (the CSS Act)
- the Public Sector Superannuation Scheme (PSS) established on 1 July 1990 by the Superannuation Act 1990 (the PSS Act)
- the Military Superannuation Benefits Scheme (MilitarySuper) established on 1 October 1991 by the Military Superannuation and Benefits Act 1991 (the MilitarySuper Act)
- the Public Sector Superannuation Accumulation Plan (PSSap) established on 1 July 2005 by the Superannuation Act 2005 (the PSSap Act), which also offers under its trust deed an account–based pension product called Commonwealth Superannuation Corporation retirement income (CSCri), and
- the Australian Defence Force Superannuation Scheme (ADF Super) established on 1 July 2016 by the Australian Defence Force Superannuation Act 2015 (the ADF Super Act).

Regulated superannuation schemes must comply with the SIS Act so as to be entitled to concessional tax treatment.
Exempt public sector schemes

CSC administers six exempt public sector schemes that are not regulated under the SIS Act:

- the 1922 scheme established under the *Superannuation Act 1922* (the 1922 Act)
- the Defence Forces Retirement Benefits Scheme (DFRB) established in 1948 by the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act)
- the Defence Force Retirement and Death Benefits Scheme (DFRDB) established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act)
- the Papua New Guinea Scheme (PNG Scheme) constituted under the Superannuation (Papua New Guinea) Ordinance 1951 and administered in accordance with section 38 of the *Papua New Guinea (Staffing Assistance) Act 1973* (the PNG Act)
- the Defence Force (Superannuation) (Productivity Benefit) Determination (DFSPB), issued under the *Defence Act 1903*. It is paid for by the Department of Defence and has accrued on behalf of ADF members since 1 January 1988, and
- the Australian Defence Force Cover Scheme (ADF Cover) established on 1 July 2016 by the *Australian Defence Force Cover Act 2015* (the ADF Cover Act).

CSC’s scheme members

CSC’s scheme members are employees, or former employees, of the Australian Commonwealth government, its agencies, and the Australian Defence Force.

The PSSap and ADF Super are open to new members. They are the default schemes for eligible Australian Government employees and new entrants to the ADF. Eligible members automatically join the PSSap and ADF Super, unless they elect to join another superannuation scheme. The CSCri, an account–based pension product, is also available to eligible Australian Government superannuation scheme members through PSSap. All other schemes are defined benefit superannuation schemes that are closed to new members.
CSC values and behavioural expectations

The CSC Board has a strong ethical outlook and is committed to promoting a culture which fosters accountability, commitment to long-term member returns, business integrity, innovation, transparency and relevant and effective disclosure and communication. The following set of values and behaviours are expected of CSC directors and employees (referred to as ‘we’).

Focus on members

Members’ interests are our business: We put the interests of our members at the centre of CSC’s business, whether that’s in the way we handle an enquiry, resolve a case, the quality of the information we provide to allow decisions to be made, or our investment performance.

Think boldly

We improve business outcomes by encouraging creativity and innovation: By thinking creatively, by asking questions and looking for outcomes outside of what we’ve done before, we create improved outcomes for members.

Be fair

We treat others how we wish to be treated: We treat each other as we wish to be treated; we listen; we support each other; we participate constructively and treat each other with integrity and respect.

Listen openly and talk straight

We communicate respectfully and honestly: We understand that by communicating clearly with each other we can get to the heart of issues more quickly, we can improve the quality of our relationships and outcomes. We are open and honest.

Work together

We work in a supportive and collaborative way: Collaboration will result in better outcomes; we accept that a diversity of input and thinking will generate richer discussions and improved results for our members.
Board diversity

The CSC Board supports the vision of the Australian 30% Club which is “to achieve 30% of ASX 200 seats held by women by end–2018”. This is important to CSC as we believe that Boards that genuinely embrace cognitive diversity, as manifested through appropriate gender representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for members.

Importantly, increased diversity on the CSC Board is likely to reduce the potential for entrenchment and groupthink, and will further widen the potential talent pool for appointments. A higher standard of corporate governance, improved financial performance and an enhanced capacity to attract and retain female talent is a strong business case for diversity on Boards. This business case is supported by research. Several studies, with a focus on gender diversity from different geographies, have supported the intuitive view that diversity at board and management levels improves financial performance.

As an asset owner and manager CSC is responsible for the stewardship of the investments it makes. Part of this responsibility includes the assessment of the boards of CSC’s investee companies. To conduct this assessment and convey the high level of importance that CSC places on this issue, CSC encourages its investment managers to actively engage with investee companies on corporate governance issues including the processes boards use to identify suitable candidates. CSC will disclose its progress towards achieving this vision in the CSC Annual Report to Parliament.

The nomination, appointment and reappointment of CSC’s Board is governed by the GAGSS Act. A key role and objective of the Board is to liaise with the Minister for Finance and nominators to discuss Board composition, including nominating and appointing individuals of high calibre with the ability to make a valuable contribution to Board deliberations. A key aspect of this communication is seeking balance by having diversity in relation to gender, age, experience, skills and qualifications through merit based appointments.

Relationship with management

The Board advocates constructive and respectful relations between directors and management. It aims to encourage frank and collegial discussions in order to achieve the Board’s objectives through open governance and communication.

Directors lead by example and where appropriate, provide guidance and assistance to management.

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1 30% Club Growth Through Diversity, Investor Group, https://30percentclub.org/initiatives/investor-group
2 30% Club Growth Through Diversity, Business Leadership: the catalyst for accelerating change.
**Decision–making**

Under section 10 of the GAGSS Act, the function of the Board is to ensure that CSC performs its functions in a proper, efficient and effective manner. The Board has the power to do all things necessary or convenient to be done for or in connection with the performance of its function.

**Delegated authority:** The Board may delegate its powers and has determined to delegate certain of its powers in relation to corporate and investment matters, and scheme administration. All delegations made by the Board are in writing and are regularly reviewed to ensure currency. The Board remains ultimately responsible for all delegated functions.

**Executive management responsibility:** Executive managers have responsibility for the day–to–day management of CSC’s business operations. This includes the implementation and monitoring of systems, structures, policies, processes, information and oversight arrangements used in managing CSC.

**Board Committees:** The Board has established committees to assist it in carrying out its responsibilities. Committee members are appointed by the Board. Each committee has its own documented and Board–approved terms of reference, which are reviewed from time to time.

The Board has four standing committees:
- the Audit Committee
- the Risk Committee
- the Remuneration and HR Committee, and
- the Board Governance Committee.

The Board has also established two reconsideration committees and the Defence Force Case Assessment Panel, pursuant to scheme legislation, which reconsider certain decisions made under scheme legislation on the application of affected members. The two reconsideration committees are:
- the APS (Australian Public Sector schemes) Reconsideration Committee
- the MSB (MilitarySuper) Reconsideration Committee.

The Board may establish other committees from time to time.

Attachment A provides an overview of the responsibilities of the Board, Board Committees, independent assurance, the CEO, CIO and General Managers. More information on the roles, responsibilities and objectives of the Board, including delegated authority and Board Committee structures, is outlined in the **Board Charter**.
Policy framework

The Board has developed a Board governance policy framework to manage the development, maintenance and review of key governance documents, policies, plans and procedures. This framework is designed to meet APRA Prudential Standard SPS 510, Governance (SPS 510) and includes the Board Charter and Board renewal policy. The documents that make up the Board governance policy framework are incorporated by reference into this Governance Framework.

Regular review: All policies are subject to a regular cycle of review to ensure their continuing currency and effectiveness.

Review and approval process: Board policies typically are reviewed initially by the relevant committee and senior management before being provided to the Board for approval. Key operational policies may be referred to the Board for final approval. Independent reviews are conducted as required.

Governance risks: The Board governance policy framework also outlines CSC’s policies and processes in relation to the management of governance risks. The management of governance risks includes risks associated with the fitness and propriety of responsible persons, the management of conflicts of interest, remuneration arrangements, the accountability and transparency of decision–making processes and the delegation of roles and responsibilities.

The management of these risks is outlined in the Fit and proper policy, the Conflicts management framework and Conflicts management policy, the Risk management strategy (RMS) and Risk appetite statement (RAS), the Remuneration policy, the Board Charter and within this document.

The Board and strategy

Board responsibility: The Board is responsible for setting, reviewing and overseeing CSC’s strategic direction, including its vision, mission and strategic objectives.

Corporate and Strategic Plans: The Corporate Plan, in accordance with the PGPA Act, is CSC’s principal planning document for delivering on its purpose.

A Board approved Strategic Plan is also used to deliver on CSC’s vision, mission and strategic objectives. The Strategic Plan is a rolling three year plan comprising a set of specific and measurable outcomes at the end of the three year period that are supported by annual milestones.

Reporting on the achievement of CSC’s Corporate Plan performance targets, the specific targets related to each Strategic Plan milestone, and other key operational objectives, is provided to the CSC Board on a quarterly basis.
The Board and investment strategy

The Board is responsible for setting, reviewing and overseeing CSC’s core investment beliefs, and approving and monitoring investment strategies having regard to investment risk, cash flow and liquidity requirements.

Investment governance: CSC’s investment governance is focused on managing risk and is driven by the primary objective to achieve stated investment objectives within strictly defined risk limits. The CSC Board has agreed and established a comprehensive investment governance framework, which includes a clear statement of Board and Executive responsibilities. The matrix below outlines responsibilities and approval processes that have been adopted by the Board in line with global best practice. Yellow highlights high level issues the Board is responsible for, and blue highlights the areas executive management are responsible for.

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Investment strategy factors: To approve CSC’s investment strategy, regard is had to factors such as CSC’s size as measured by funds under management and scheme membership, perceived competitive advantages, member demographics and the broader investment environment.

To approve an investment strategy for an individual investment option, the Board considers the objective in terms of return and risk measures and the investment horizon.

Management of investment activities: The management of investment activities is delegated by the Board to the CIO. Reports are provided to the Board on approved investment policies. Reports are also presented to each Board meeting on investment performance, liquidity, risk, manager and portfolio activity, portfolio structure, capital allocation and the risk budget.

Risk management

The Board is responsible for reviewing, ratifying and overseeing systems of risk management, including establishing and communicating the risk appetite for CSC and enabling a positive risk culture. It does this through the RMS and RAS in compliance with APRA Prudential Standard SPS 220, Risk Management, which is overseen by the Risk Committee which reports directly to the Board.
Compliance management

The Board is responsible for reviewing, ratifying and overseeing internal controls and compliance. The **Breach and compliance policy**, satisfying the requirements of CSC’s AFS licence, outlines the processes that will be followed when incidents and breaches are identified. Staff and service providers must submit positive certification that they are compliant with all relevant legislative requirements, contractual provisions, regulatory policy and service standards, as well as any relevant licence conditions.

The Audit Committee oversees compliance reporting, including remediation if a breach has occurred. Any instance of non-compliance must be reported.

Fitness and propriety management

Directors are not eligible for nomination or appointment if they do not meet a fitness and propriety standard under the SIS Act.

The Board has developed a **Fit and proper policy** which sets out the required fitness and propriety standards. It expects all directors to participate in available professional development and assesses individual and collective fitness and propriety on a regular basis.

The **Fit and proper policy** outlines Board professional development practices. On appointment and annually thereafter, directors are asked to undertake a skills audit and develop individual training objectives over a rolling three year time frame to provide comprehensive and appropriate training and development.

Board performance evaluation

Board performance evaluation is conducted annually and examines the Board as a whole, its committees, the performance of the Chair and individual directors. The form of the evaluation may vary from year to year. Details of the Board performance evaluation process are outlined in the **Board performance evaluation policy**.

Financial management

CSC’s finances are managed in accordance with the PGPA Act. A Board approved budget is in place and the Board has delegated authority to make and implement certain financial decisions to individual staff.

Internal audit

The Audit Committee agrees an annual internal audit plan. In drawing up the plan, the committee takes into account previously identified risks, the results and recommendations of previous internal and external audits, legislative and regulatory changes and requirements, and anticipated business changes. Audits can be initiated at any time by the Board or the Audit Committee to address changes to business priorities or to CSC’s risk profile.
Review of statement

The Governance Framework will be reviewed by the Board Governance Committee biennially or following a trigger event, in particular in the light of relevant regulatory initiatives or any significant changes to CSC’s constituent legislation, 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 consistent with best practice and applicable law.

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<td>April 2013</td>
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<td>Biennial review to assess continuing currency. Board Governance Committee meeting 12 February 2015; Board meeting 24 March 2015.</td>
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Board decision-making structure

CSC Board: The Board is to ensure that CSC performs its functions in a proper, efficient and effective manner. Primary responsibilities include:

- setting and overseeing CSC’s strategic direction
- approving investment strategies
- determining appropriate delegations
- establishing Board committees and terms of reference
- systems of risk management and legal compliance
- approving strategy for member and employer services
- appropriate insurance management framework
- monitoring director and executive management performance
- appointing, removing and setting KPIs for the CEO
- approving and monitoring financial and other reporting

Delegation accountability

Board Committees

Audit Committee: Purpose is to assist the Board by providing an objective non-executive review of CSC’s financial reporting framework. Functions include assessment of:

- integrity of financial reports
- significant financial and accounting issues and policies
- regulatory requirements and compliance
- assurances on internal control and compliance systems
- Commonwealth performance reporting requirements
- audit effectiveness, independence, scope and planning

Risk Committee: Purpose is to assist the Board in discharging its responsibilities by overseeing risk culture, the frameworks and management of risk. Functions include assessment of:

- business operations; technology and cyber security; fraud; insurance; business continuity and recovery; liquidity; investment governance and counterparty risk compliance

Board Governance: Purpose is to assist the Board by advising and making recommendations on issues relevant to the corporate governance of CSC and the identification, education and evaluation of directors. Functions include:

- review of Board governance policies and procedures
- review of the skills of the Board and its committees
- review performance and re-appointment of directors
- identifying and recommending potential new directors
- succession planning for the Chair, Board and directors
- overseeing induction and ongoing education for directors
- evaluation processes for Board, committees and directors

Remuneration and HR: Purpose is to assist the Board by advising and making recommendations to the Board on issues relevant to its Remuneration Policy and human resources obligations. Functions include:

- review and recommendations on the Remuneration policy
- recommendations on certain remunerations
- compliance with relevant law and regulations
- setting and monitoring CEO key performance objectives
- Reconsideration and ad hoc committees

Executive management

Chief Executive Officer
The CEO is responsible for the operational management of CSC, including providing advice to the Board, implementing Board decisions and the ongoing management of the Board’s functions and responsibilities as delegated by the Board.

Chief Investment Officer
The CIO provides investment advice.

General Managers
- Finance
- Corporate
- Member and Employer Services
- Investment Operations
- Scheme Administration
- Technology

Board governance policies
Examples include:
- Conflict management policy and framework
- Fit and proper
- Board performance evaluation
- Board renewal