



THE HON JOSH FRYDENBERG MP
TREASURER

Dr Philip Lowe
Governor
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Governor

I am writing to you in your role as Chair of the Council of Financial Regulators, the coordinating body for Australia's main financial regulatory agencies.

The Government recently undertook several rounds of consultation as part of finalising the portfolio holdings disclosure regime that will apply to superannuation funds. This process identified that some superannuation funds appear to be engaging in a large number of derivative transactions.

While the use of derivatives can be an appropriate risk management tool used by superannuation funds, such transactions also have the potential to expose superannuation funds to large liabilities if not prudently managed.

With more than \$3.3 trillion managed by Australia's superannuation funds, they are a systemically important part of our financial system. It is therefore important that the extent and nature of the use of derivatives is examined, including the implications for the operation of our financial system during times of stress.

In this context, I ask the Council to advise me on whether the current use of derivatives by superannuation funds raises any concerns, particularly in terms of:

- operational capability of funds to properly manage large volumes of derivative transactions;
- prudential implications for the operation of individual funds and the outcomes for members of those funds; and
- any broader implications in terms of financial system stability.

I seek this advice by 30 June 2022.

Yours sincerely

A handwritten signature in blue ink, appearing to be 'Josh Frydenberg', written over a horizontal line.

THE HON JOSH FRYDENBERG MP

11 / 11 /2021