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Dear Mr Grummit,

**RE: Discussion paper: reporting standards for select investment options**

The Association of Superannuation Funds of Australia (ASFA) would like to provide this submission in relation to APRA's Discussion Paper: *Reporting Standards for select investment options* (Discussion Paper), proposed reporting standards SRS 533.1 *Asset Allocation and Members' Benefits Flows* and SRS 702.1 *Investment Performance*, and the associated forms and instructions.

**About ASFA**

ASFA is a non-profit, non-politically aligned national organisation. We are the peak policy and research body for the superannuation sector. Our mandate is to develop and advocate policy in the best long-term interest of fund members. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90 per cent of the 12 million Australians with superannuation.

**General Comments**

We recognise that the timing of this consultation was scheduled with a view to finalising the reporting requirements for select investment options (SIOs) in time for their scheduled commencement from 1 July 2015.

Regrettably, however, the consultation has been conducted during what is the busiest time of the year for those in the industry who would be best placed to provide comment, as it has coincided with RSE licensees' fourth quarter and annual data reporting for 2013-14, as well as the preparation and audit of annual financial statements. This has significantly impeded RSE licensees' ability to engage with this consultation, and has limited our ability to provide the detailed cost-benefit information requested in the Discussion Paper.

We note that ASFA members have raised strong concerns about the industry's ability to implement the SIO reporting requirements in time for a 1 July 2015 commencement, given APRA's indication that the requirements will not be finalised until February 2015. Members have raised genuine concerns that the quality of the data reported under these requirements for the September 2015 quarter – and potentially also the December 2015 quarter – is likely to be significantly compromised, impacting its accuracy and comparability. We have commented further on these concerns below under the heading 'transition to new reporting standards'.

Members have also raised with ASFA concerns regarding the volume of data proposed to be collected via SRF 533.1 and 702.1, and the frequency with which those forms are required to be lodged. Given that much of the data will not change materially from quarter to quarter, quarterly lodgement would in ASFA's view appear to be excessive. We consider that annual lodgement would be more appropriate for at least some of the data, particularly around strategic asset allocation (on proposed SRF 533.1) and fees (on proposed SRF 702.1).

We acknowledge that this is likely to require that the two forms currently proposed will need to be split, creating one set of forms to be lodged annually, and another to be lodged quarterly.

## **Comments on specific aspects of the Discussion Paper and draft reporting standards**

### **1. Chapter 1 - Introduction**

#### ***Section 1.5 – Transition to new reporting standards***

We note that while APRA intends SRF 533.1 and 702.1 to take effect from 1 July 2015, with the first lodgement due for the quarter ended 30 September 2015, it does not expect to release the final reporting standards until February 2015.

In ASFA's view, this timeframe does not provide RSE licensees with a reasonable period within which to implement the requirements:

- As a matter of practice, RSE licensees generally will not be in a position to commence implementation of regulatory change until there is a high level of certainty as to its scope and content - commencing implementation based on a consultation package carries with it the risk of rework and wasted expenditure which is inconsistent with an RSE licensee's fiduciary duty to act in the best interests of members.
- Licensees understandably may be reluctant to commence implementation of the SIO reporting requirements in particular until they are finalised. These requirements have been deferred in the past and there is also the prospect of further changes - potentially before the commencement date - to address any developments arising from the Government's consultation on the choice product dashboard.
- Members have indicated to ASFA that the process of analysis, development, testing and implementation of reporting requirements would typically take around nine months, but is likely to take longer for the SIO requirements, given the volume of data to be reported. Members have also advised that, again due to the volume of data involved, it will not be feasible to adopt a manual reporting solution as a short term measure.

- Requiring RSE licensees to implement the reporting requirements and commence reporting in such a constrained timeframe necessarily will have a significant impact on the quality of the data reported, particularly for the September 2015 and December 2015 quarters. It is likely that the completeness and accuracy of the data reported for these quarters will be significantly compromised, to the extent that it may provide little value to APRA in terms of its prudential supervision. ASFA would also question whether such data could be considered reliable enough for publication.

Taking all of these matters into account, the proposed implementation timeframe in our view involves a level of risk that would be inconsistent with the stated risk tolerances for many RSE licensees. We strongly recommend that the proposed commencement date for the SIO reporting requirements be deferred for 12 months, to provide RSE licensees with an adequate timeframe for implementation, while minimising the risk of any rework – for RSE licensees and for APRA - to incorporate developments in relation to the choice dashboard.

If, having taken these concerns into account, APRA is unable to countenance a deferral of 12 months, we strongly recommend that the requirements be deferred for at least 6 months, to take effect no earlier than 1 January 2016. In ASFA's view, this is the earliest time by which RSE licensees can reasonably be expected to have fully implemented the reporting requirements to be able to commence providing reliable data to APRA.

**Recommendation 1:**

APRA should defer the proposed commencement date for the SIO reporting requirements for 12 months, to provide RSE licensees with an adequate timeframe for implementation and to align these requirements with the proposed commencement of the choice product dashboard. Proposed SRF 533.1 and 702.1 should first apply for the quarter ended 30 September 2016.

ASFA members have also reported concerns regarding the timeframe for lodging SRF 533.1 and 702.1, once implementation has been completed, given that these forms are effectively a sub-fund reporting requirement. Members have indicated the following:

- The collection of any data below the RSE level requires the application of apportionment and allocation models, and cannot commence until the RSE level reporting has been finalised.
- As some of the data requested from APRA is not data which the RSE licensee prepares for any other purpose, it will be necessary to conduct specific APRA reporting reconciliations to ensure that the reported data is correct.
- It will not be possible to utilise sub-fund data which is prepared by the RSE for other purposes, as this is not available within 28 days of the end of quarter due to the complicated apportionment models which are required and the fact that the work cannot commence until RSE reports - the source data - have been finalised.

Given the above practical difficulties, the compliance burden for RSE licensees would be reduced if the lodgement deadline for SRF 533.1 and 702.1 was set at 7 days after the deadline for RSE-level reporting.

**Recommendation 2:**

The lodgement deadline for SRF 533.1 and 702.1 should be set at 7 days after the deadline for RSE-level reporting.

## 2. Chapter 2 – Definition of select investment option

### *General comments regarding the SIO definition*

In terms of proposed amendments to the definition of SIO, the Discussion Paper focusses on existing paragraphs (c) – (e), and notes that APRA intends to consider other aspects of the SIO definition once the outcomes of the Government’s consultation in relation to choice product dashboard requirements are finalised.

ASFA has recommended above that commencement of the SIO reporting requirements be deferred to allow incorporation of any changes arising from the finalisation of the choice product dashboard requirements. In our view, however, there is value in beginning to consider now what ‘carve-outs’ from the SIO definition might be appropriate. Accordingly, our comments below are not simply limited to paragraphs (c) – (e) of the SIO definition.

As a preliminary matter, we note that some statements in SRS 533.1 and 702.1 about the application of those standards, and in the instructions to SRF 533.1 and 702.1, are somewhat difficult to reconcile with the definition of SIO. In particular:

- Paragraph 3 of each Standard states that it is applicable to an **RSE licensee** with respect to “each select investment option **within its business operations**” (our emphasis), and a footnote attached to paragraph 3 indicates that where an RSE licensee has more than one select investment option within its business operations, the RSE licensee must separately provide the information required by the form for each select investment option within its business operations”.
- In contrast, the definition of SIO in paragraph 17 of each Standard states that “select investment option means an investment option in an **RSE**” (our emphasis). The ‘specific Instructions’ for SRF 702.1 state (on page 3) that SRF 702.1 “collects information about the actual experience of **the RSE** with respect to those fees and costs that were disclosed in a Product Disclosure Statement” (our emphasis). The instructions appear to be consistent with the SIO definition, but inconsistent with the wording in SRS 533.1 and 702.1 regarding the RSE licensee’s “business operations”.

We recommend that the wording of the Standards and instructions be amended to clarify whether SIO status is to be determined at the RSE licensee level or the RSE level.

APRA’s Frequently Asked Question 11 on the reporting framework appears to suggest that the assessment of SIO status is at the RSE licensee level. FAQ11 states as follows:

**FAQ 11:** *If an investment option is offered through multiple product channels or with multiple fee structures, with no change to the underlying investment strategy, and several of these versions of the investment option pass the threshold, how many times should the investment option be classified as a select investment option and reported to APRA?*

**A:** *APRA expects an RSE licensee would consider the content of the reporting forms, and the purpose of the data collection, applying to select investment options to determine what should be classified as a select investment option for their circumstances. If all the information required on the select investment option reporting forms would be identical for multiple versions of the investment option, APRA will require the select investment option information to be reported only once. If, however, the forms would contain different information, each version of the investment option that meets the threshold criteria must be reported as a select investment option.*

However, we note that FAQ 11 appears on the APRA website in relation to SRF 001.0, which was recently amended to remove all references to SIOs. This has led some members to question whether it remains APRA's current policy.

We understand from discussions with APRA representatives that it is intended that the position stated in FAQ 11 will continue to apply. We recommend that the definition of SIO, and all relevant paragraphs in the Reporting Standards and instructions, be amended to make this clear.

It is also unclear how an RSE licensee is to treat an investment option which underlies both pension and accumulation products, given the differing tax treatment that applies within those products. Is the RSE licensee required to:

- Measure the values of underlying assets of the pension and accumulation products invested in the option against the 5 per cent/\$50 million thresholds separately? or
- Aggregate the values of underlying assets of the pension and accumulation products invested in the option and measure the total value against the thresholds?

**Recommendation 3:**

- The Reporting Standards and instructions should be amended to clarify whether the SIO definition is to be applied at the RSE licensee level or the RSE level.
- The Reporting Standards and instructions should be amended to clarify how RSE licensees are to treat investment options which support both accumulation and pension products.

**Comments on the specific paragraphs of the existing SIO definition**

*Paragraph (a) - options underlying a defined benefit pension or interest*

SRF 320.1 and 330.1 already capture detailed reporting on the financial position and performance of Defined Benefit (DB) funds. It is not clear that reporting on all investment options that underlie a DB interest, regardless of the amount invested, is reasonable or justifiable on a cost/benefit basis.

We note that *material* investment options underlying a DB interest - those which are at least five per cent of the total assets of the RSE - would be caught under existing paragraph (e) of the SIO definition.

In ASFA's view, it is not necessary to separately and specifically designate investment options underlying DB pensions and interests as SIOs. ASFA submits that this paragraph should be removed from the definition.

*Paragraph (b) - options underlying pre-MySuper products which include Accrued Default Amounts*

Para (b) captures an investment option which "underlies a pre-MySuper default product that includes at least one accrued default amount". ASFA submits that this paragraph should be removed from the definition. As explained below, it is our view that the 5 per cent threshold (paragraph (e) of the definition), and an increased dollar threshold (under amendments to paragraph (d) of the definition) should capture all material investment options.

Further, we note that as all ADAs are required to be transitioned into a MySuper product before 1 July 2017, they would be subject to SIO reporting requirements only for two years (1 July 2015 – 30 June 2017). While we acknowledge that APRA will wish to monitor investment options containing default monies in the transition to MySuper it is, in ASFA's view, difficult to justify the implementation effort and cost that RSE licensees will incur in order to provide specific reporting for such a short period of time. We recommend that existing paragraph (b) be removed from the SIO definition.

*Paragraph (c) - option underlying a reserve*

ASFA supports the proposal to remove the current limb in the SIO definition referring to investment options underlying a reserve.

However, member feedback suggests that it will only result in a small reduction in the number of investment options which qualify as SIOs and as such will not be a significant reduction in the compliance burden. For example, one member has indicated to ASFA that they would have two fewer SIOs as a result of this amendment, while another has indicated that the amendment will make no difference to the number of SIOs it will be required to report.

*Paragraphs (d) and (e) - options underlying non-MySuper interests, subject to materiality thresholds*

As noted above, there is some uncertainty regarding how paragraphs (d) and (e) are to be applied where an RSE licensee offers multiple variants of an investment option, through multiple product channels or with multiple fee structures.

Turning to the current thresholds in paragraphs (d) and (e) - \$50 million and 5 per cent of total RSE assets - the Discussion Paper notes that APRA is considering the prudential and practical implications of altering the thresholds and is seeking views on their appropriate levels.

ASFA members have indicated that the current \$50 million threshold will result in an excessive reporting burden for providers. Particular concerns raised with ASFA include:

- Setting an absolute amount of \$50 million as the threshold for treating an investment option as a SIO means that providers will be required to lodge SIO returns for a very large number of investment options. For example, one large provider has indicated that they have around 200 SIOs under the current definition. Taking into account the proposed quarterly and annual lodgement requirement for SRF 533.1 and SRF 702.1, this provider will be required to lodge around 2,000 SIO returns every year.

- Many of the investment options required to be reported on under the current definition represent a very small percentage of a large RSE and cannot, under any reasonable assessment, materially affect the operations of the RSE. For example, the licensee for one large RSE with net assets of around \$30 billion has indicated that the SIO threshold of \$50 million would require reporting of investment options which represent less than 0.2 per cent of the total RSE.
- We understand that APRA also views this limb of the definition through a ‘member lens’ – that is, as providing an indication of how many members are potentially exposed to the option. We would question whether that information could not more be provided in a simplified and less onerous manner, for example by requiring RSE licensees to simply list their investment options and the number of members who have benefits invested in them, as at the end of the reporting period.
- The \$50 million threshold was set many years ago and does not incorporate any provision for indexation as RSE assets – and the assets invested within particular option – increase.

One possibility would be to entirely remove the current \$50 million threshold be removed from the SIO definition, by deleting current paragraph (d) of the definition and amending current paragraph (e) to remove the words “that are less than \$50 million but”. Feedback provided by ASFA members on the potential impacts of this is as follows:

- For one member, the number of SIOs would be reduced from 289 (under the current definition) to 23. This would achieve a tenfold reduction in the member’s SIO reporting burden while still providing detailed SIO reporting on its key investment options.
- For one member, the SIOs captured would constitute around 81 per cent of RSE assets, at only 40 per cent of the reporting cost (when compared to the current definition).

However, we note that when it comes to large RSEs, the five per cent threshold might nevertheless represent a material dollar value in an investment option. Accordingly, we understand that APRA may wish to retain a dollar threshold in addition to the five per cent threshold. If so, we strongly recommend that any dollar threshold be set at no less than \$250 million.

Feedback from ASFA members indicates that the five per cent materiality threshold is broadly appropriate and sufficient to capture all material investment options. In ASFA’s view, the five per cent threshold should be retained.

*Additional clarity and carve-outs required for some investment in certain types of underlying assets:*

We note that the current SIO definition does not exclude investments in certain types of underlying assets which are now commonly offered by RSE licensees via wraps or member-directed investment options, including term deposits (TDs), exchange traded funds (ETFs), listed investment companies and direct share portfolios. It is unclear how these items are to be treated for SIO reporting purposes.

To take TDs as an example, when testing for SIO status it is unclear whether the RSE licensee should:

- Aggregate all TDs and test the combined total against the \$50 million/5 per cent threshold; or
- Group all TDs based on their duration (eg 30 days, 60 days) and test each group against the threshold; or
- Group all TDs based on their interest rate and test each group against the threshold; or

- Group all TDs based on their provider and test each group against the threshold; or

Other comments raised by members include:

- Many wrap products would hold more than \$50 million in certain shares (such as BHP, or the major banks). Reporting on the strategic and actual asset allocation for such holdings would be meaningless, as they would always match.
- The asset allocation for ETFs is already available via the ASX, so reporting again via SRF 533.1 would appear to involve unnecessary duplication.
- An insurance policy sold through superannuation has no ‘investment fund’ per se, but may have assets above the thresholds. It is unclear how the RSE licensee would report the asset allocations for such an investment.

In our view, the definition of SIO should be amended to provide clarity and/or carve-outs for the items noted above.

**Recommendation 4:**

The definition of SIO should be amended as follows:

- Existing paragraph (a) (investment options that underlie a DB pension or DB interest) should be removed.
- Existing paragraph (b) (pre-MySuper investment options containing at least one ADA) should be removed.
- Existing paragraph (c) (investment options underlying a reserve) should be removed as proposed.
- Existing paragraph (d) (the current \$50 million threshold) should be reviewed. If a dollar threshold is retained, this should be set at no less than \$250 million.
- Existing paragraph (e) (the current 5 per cent materiality threshold) should be retained and amended to reflect the outcome of the review of paragraph (d).
- Additional clarity and/or carve-outs from the SIO definition should be provided in respect of investment in certain types of underlying assets, such as term deposits, exchange traded funds, listed investment companies and direct share portfolios.

**3. Chapter 3 – Asset allocation (SRF 533.1 items 1 and 2)**

**General comments**

*Frequency and volume of reporting*

As a preliminary matter, we note that some items which were previously to be reported via SRF 330.1 have been moved to SRF 533.1 for SIOs. While the data on SRF 330.1 was to be lodged annually, SRF 533.1 is required to be lodged both quarterly and annually, thereby resulting in an *increase* in reporting.

As noted above, the Discussion Paper acknowledges that SIO reporting is an onerous requirement for industry. Given the current focus of the Government and of APRA on reducing the regulatory burden, we would ask APRA to consider whether there is a compelling need for this information to be lodged on a quarterly basis.

In our view, annual reporting would be sufficient for at least some of the data, particularly those fields relating to strategic asset allocation as this would not be expected to change materially from quarter to quarter.

In addition, ASFA members have expressed concern that the volume of data to be reported for asset allocations under the proposed SRF 533.1 is still extremely large – over 150 potential lines of data per SIO.

#### *Identifying details for SIO*

SRF 533.1 contains the fields ‘ABN’, ‘institution name’, ‘reporting period’ and ‘scale factor’, all of which will be identical for each SIO offered by the RSE licensee. The only field which appears to allow licensees to distinguish between SIOs is the ‘reporting consolidation’ field. It is unclear how this field is to be completed (or will be completed, in the event it is pre-populated by APRA in D2A).

This is a particular issue where the RSE licensee offers variants of the same SIO through different products (as noted above in relation to the definition of SIO, it appears the intention is a single SRF 533.1 will be lodged, covering all variants of the SIO). It is also unclear, for RSE licenses offering multiple variants of an SIO, how APRA will reconcile the number of SRF 533.1 lodgements against the number of SIOs reported on SRF 601.0 (at item 6.2) and, ultimately, on SRF 001.0, when it has been revised to re-incorporate SIOs.

#### **Recommendation 5:**

- SRF 001.0 should be amended to require RSE licensees to report the ‘name’ of each SIO as used in the PDS. The SIO ‘name’ should only be ‘as determined by the RSE licensee’ where there is no PDS applicable to the SIO.
- The details identifying each SIO for which SRF 533.1 is lodged should correlate with the SIO ‘name’ reported on SRF 001.0.

#### ***Comments on specific aspects of the asset allocation reporting***

##### *Item 1 – Strategic asset allocation*

The volume of data to be reported for a balanced option appears to be excessive. For example, a (not atypical) balanced growth option may include allocations to international shares, Australian shares, alternative assets (growth), direct property, listed property, alternative assets (defensive) international fixed interest, Australian fixed interest, and cash. Item 1 would require this to then be broken down by three domicile types (Australia, international and ‘not applicable’) and three asset listing types (listed, unlisted and ‘not applicable’), resulting in 63 lines of data for that option. At this point in time it is not known how APRA intends to publish this data. ASFA members have expressed concern that the data will be aggregated back up to the key asset classes for publication purposes, which calls into question the need to report such a detailed breakdown of data.

Further, we note that it would be uncommon for the strategic asset allocation to change during a year, although it might change when a new PDS is issued. As noted above, it would in our view be more appropriate to require RSE licensees to report this data on an annual basis, rather than quarterly.

We note that, while the strategic allocation reported at item 1 is 'forward looking', the actual allocation reported at item 2 is 'backward looking'. Where an asset allocation changes during the reporting period, this will make comparison between the strategic asset allocation and the actual asset allocation for that period difficult.

**Recommendation 6:**

- The reporting frequency for data relating to the strategic asset allocation should be reduced from quarterly to annual.
- APRA should consider whether there is any scope to reduce the volume of data required to be reported for item 1.

*Item 2 – directly held and indirectly held investments (actual asset allocation)*

ASFA members have indicated support for APRA's proposal to remove fixed income currency type from the breakdown of actual asset allocation in item 2, but have recommended a number of additional changes in relation to item 2. In particular:

- ASFA members have indicated to us that their 'actual asset allocations' will vary throughout the year, but not to such an extent that they consider quarterly reporting to be warranted. Members have indicated that they consider annual reporting to be more appropriate for this data.
- We understand that one intended purpose of SRF 702.1 may be to assist APRA in monitoring whether investment options offered by RSE licensees are 'true to label', however, we question whether SRF 702.1, as proposed, will achieve that objective. Certainly it is not clear that it will allow for comparison of 'like' SIOs between RSEs, as the form does not provide any scope to report a descriptor or 'label' (such as 'high growth'), it contains only a 'reporting consolidation' field (see above for our comments in relation to this field) and numeric values. In order to facilitate comparison, it is critical to ensure that the descriptor/label is clear – see recommendation 5 above.

**Recommendation 7:**

- APRA should consider whether there is scope to reduce the reporting of actual asset allocation data from quarterly to annual.
- To minimise the risk of the reported data being used inappropriately for comparison purposes, the SIO descriptor/label used on SRF 533.1 should correlate to that reported on SRF 001.0 (see recommendation 5).

#### 4. Chapter 4 – Investment movements [item 3 SRF 533.1]

ASFA members have indicated that they strongly support APRA’s proposal to remove the asset class and type breakdown for movements reported on SRF 533.1, and acknowledge that this will result in some simplification of the reporting process.

However, ASFA members have indicated that reporting of investment movements on a look-through basis between net transactions, investment income, unrealised and realised gains and losses is problematic.

The apportionment of investment movements is required to be conducted at a level which is not carried out for any purpose other than APRA reporting, and will add cost and complexity to the reporting process. Concerns raised by ASFA members include:

- For APRA reporting purposes the custodian must apportion investment income and realised and unrealised returns by calculating average holdings and applying to the actual year to date movement on the investments. This apportionment will never represent an exact allocation of actual movements experienced by an investment option.
- In multi-tiered investment structures, the extent of look-through determines the nature of the movement and hence how it is reported. For example, what is an unrealised gain at one level becomes a realised gain at another level once investments are bought and sold, while amounts that are ‘income’ at one level and distributed upwards may then be offset by carried forward losses and not distributed further.
- The attribution of a movement in an underlying investment up the multi-tiered structure to a specific investment option is complex and requires multiple layers of apportionment based on FUM holdings.
- The solution required to fully implement the proposed requirements would add significant expense to any reporting solution for little, if any, apparent benefit as the movement information becomes meaningless at the investment option level.

In ASFA’s view, the movements in investments and members’ benefits flows shown in items 3 - 6 could more simply and meaningfully be shown as follows:

Assets at beginning of period [pre-populated by APRA from previous return]  
 PLUS  
     Flows into the SIO this period  
 PLUS OR MINUS  
     Change in Investment value [ie gain or loss]  
 MINUS  
     Flows out of the SIO this period  
 EQUALS  
     Assets at the end of the period

We have recommended above that investment options underlying DB interests be removed from the SIO definition (see recommendation 4). If this does not occur then we note that, to the extent that the SIO is an investment option underlying a DB interest or pension, these movements are already reported in the SRF 160 series. It would therefore appear unnecessary for them to be reported again on SRF 702.1. The only data to be reported on SRF 702.1 that is not reported elsewhere for an investment option underlying a DB pension or interest would be the actual asset allocation (that is, item 2). ASFA would question whether this is sufficient to require lodgement of SRF 702.1 for these options.

**Recommendation 8:**

- That APRA considers removing the look through requirements and restricts reporting of movements to the first level of investments.
- That proposed items 3.2 – 3.6 be replaced with a single ‘total gains/losses’ figure.
- That - if investment options underlying DB pensions/interests are not removed from the SIO definition, they are exempted from the requirement to lodge SRF 702.1.

**5. Chapter 5 – Financial performance and members’ benefits flows [items 4-6 of SRF 533.1]**

ASFA supports APRA’s proposal to remove the requirement to report a detailed breakdown of the financial performance of a SIO under SRF 330.1.

We have recommended above that existing paragraph (a) of the SIO definition (investment options underlying DB pensions/interests) be removed (see recommendation 4). In the event that this recommendation is not adopted, we note that members’ benefit flows for DB funds are already reported under SRF 330.1, therefore reporting them again on SRF 533.1 in relation to investment options underlying DB pensions/interests would appear to be an unnecessary duplication.

We have also recommended above (in relation to item 3 of SRF 533.1) that, under a first level of look through in relation to investment movements, total net transactions could be used as a proxy for net members’ benefits flows (see recommendation 8). In ASFA’s view, this would provide sufficient insight into the current and future liquidity profile of an investment option (the stated objective for reporting members’ benefit flows).

Should those recommendations not be adopted, we note that in our view the following aspects of items 4-6 of proposed SRF 330.1 require modification and/or clarification:

- On page 6, the instructions state that the RSE licensee should “report contributions **gross** of contributions tax and any other tax” (our emphasis). This appears to be inconsistent with page 7 of the instructions, which states that total member’s benefits flows should be reported as “the total of contributions **net** of contributions tax and contributions surcharge...” (our emphasis).

Page 6 of the instructions further state that, in reporting gross contributions, the RSE licensee should not deduct entry fees; deferred entry fees; commissions; management fees or any other ongoing fees or charges”. It should be noted that the administration systems of most RSE licensees will, as a matter of course, deduct fees, charges and taxes before applying the *net* amount toward the member’s nominated investment option (or the default option if no nomination has been made).

For example, a \$100 contribution is received for a member who has made an investment choice of 40 per cent balanced, 60 per cent growth. The RSE licensee deducts \$3 in fees and \$12 as 'contributions tax', leaving a net \$85 to be invested, which is applied \$34 to the balanced option and \$51 to the growth option.

To comply with the instructions on page 6, the RSE licensee would be required to pro-rate the deductions for fees, charges and taxes across the options selected by the member. However, assuming that both options in this example are SIOs, in ASFA's view the appropriate amounts to be reported are \$34 and \$51, which is more consistent with the wording of the instructions on page 7. We would submit that this net figure represents the flow of members' benefits into the option, and is more relevant for SIO reporting purposes.

- As noted above, current APRA FAQ 11 indicates that a RSE licensee may be able to lodge a single return where an investment option which falls within the SIO definition is offered through multiple product channels, provided there is no change to the underlying investment strategy.

We understand from discussions with APRA representatives that it is intended that this position will continue to apply in relation to proposed new SRF 533.1. As a result, it will be necessary to clarify in the instructions how items 4-6, regarding members' benefits flows, are to be completed. In particular, the instructions should make it clear that members' benefits flows will need to be aggregated across each of the investment option variants covered by the return.

**Recommendation 9:**

If existing paragraph (a) of the SIO definition (investment options underlying DB pensions/interests) is not removed as recommended (see recommendation 4), reporting of members' benefits flows for DB funds should be removed from SRF 533.1 to avoid duplication of reporting already provided on SRF 330.1.

**Recommendation 10:**

If total net transactions is not adopted as a proxy for net members' benefits flows as recommended (see recommendation 8):

- The requirement to report contributions gross of taxes and fees should be removed; and
- The instructions should make it clearer how items 4-6 are to be completed where multiple variants of an investment option are reported on a single SRF 533.1.

## 6. Chapter 6 – Investment performance and net return [SRF 702.1]

### **General comments on SRF 702.1**

#### *Frequency of reporting*

As with SRF 533.1, we would ask APRA to consider whether there is a compelling need for all of the data on proposed SRF 702.1 to be lodged on both a quarterly and annual basis.

In our view, annual reporting would be sufficient for at least some of the data on SRF 702.1, particularly those fields relating to fee scales (items 1 – 4), as these would not be expected to change materially from quarter to quarter.

We acknowledge that items 5 and 6 (net investment return for the quarter and for the year to date) will vary from quarter to quarter, and these variations will flow through to the derived calculations in items 7 – 10 (net return dollar value and percentage value; example members fees and costs; example member fees, cost and taxes). It therefore may be appropriate to report these data items more frequently than annually.

#### *Fee and cost definitions*

As a preliminary matter, we note that significant concerns have been expressed regarding a number of the fee definitions and also the concepts of ‘indirect cost’ and ‘indirect cost ratio’ as contained in Schedule 10 of the *Corporations Regulations 2001*. In particular, there are genuine concerns regarding the comparability of the data currently being disclosed by RSE licensees, due the scope for different interpretations to be applied. ASIC has stated that it will consult with industry in this current financial year to address these concerns, and there is an expectation that the disclosure requirements will be modified in some manner.

If these modifications have not taken full effect before the commencement date for SRF 702.1, we submit that it may be necessary for APRA to either delay the requirement to report the affected fee-related items, or at a minimum to ensure that this data is not published.

#### *Impact of the choice product dashboard*

We also note the statement in the Discussion Paper that the outcomes from the Government’s consideration of the inclusion on the choice product dashboard of net return and net investment return will be relevant to APRA’s final position on the items required to be reported under SRS 702.1.

We have recommended above that APRA defers the commencement of the SIO reporting requirements to allow RSE licensees a reasonable time for implementation and also to allow any developments in relation to the choice product dashboard to be incorporated (see recommendation 1).

#### *Use of the term “directly charged”*

The second paragraph of the ‘specific instructions’ for proposed SRF 702.1 states that a ‘fee’ is “an amount **directly charged to members**” (our emphasis).

While this terminology is broadly consistent with ASIC’s interpretation of the term ‘fee’, as noted above ASIC has recently acknowledged that industry has concerns about the disclosure requirements for fees and costs, and will be consulting over this financial year to address those issues.

We note that members can bear fees both directly and indirectly. For example, in a unitised fund a ‘fee’ can be charged by deduction from a members account by selling units (directly charged), or deducted when unit prices are determined (indirectly charged). The explicit use of the term ‘directly charged’ in the instructions is, in our view, inappropriate.

#### *Highest/lowest fee scale*

The approach adopted in SRF 702.1, showing the highest/lowest fee scale for an example member, raises a number of issues. These are addressed below in relation to item 1.

### *Identifying details for SIO*

We noted above in relation to SRF 533.1 issues regarding the completion of the ‘reporting consolidation field’ and reconciliation of the number of SIOs between SRF 533.1, 601.0 and 001.0 (see recommendation 5). These issues apply equally to SRF 702.1.

### *Purpose of SRF 702.1*

The ‘objective of this reporting standard’ section of proposed SRS 702.1 indicates that it “must be read in conjunction with *Prudential Standard SPS 530 Investment Governance*”. Paragraph 2 of SRS 702.1 states that the information collected via SRF 702.1 is used for “the purposes of prudential supervision, including assessing compliance with *Prudential Standard SPS 530 Investment Governance*, and publication.” In our view, this stated connection with SPS 530 is not clear.

The primary value of SRF 702.1 appears to be the determination of investment return information and translation of that return to a hypothetical ‘example member’ on a basis prescribed by APRA. While there is a requirement within SPS 530 for the RSE licensee to monitor performance of each investment option and regularly report to the Board, no specific basis is prescribed for that reporting.

The current wording of proposed SRS 702.1 potentially could be interpreted as implying that the concepts it prescribes are somehow to be applied by RSE licensees as part of their approach to investment performance monitoring. If that is APRA’s intention, we submit that it is inappropriate for it to be effected in this manner – any prescription regarding the manner in which RSE licensees comply with SPS 530 would more appropriately be effected via an amendment to SPS 530, or effected as guidance via an amendment to *SPG 530 Investment Governance*.

Alternatively, if that is not the intended interpretation, we recommend that the ‘objective’ and paragraph 2 of SRS 702.1 be revised to more clearly explain the intended purpose of the reporting standard.

### *Application of 702.1*

As noted above, an RSE licensee may offer multiple variations of an investment option. SRF 702.1 effectively requires the RSE licensee to identify each ‘variant’ of an SIO and then report on the highest and lowest fee scales applicable to those variants. We note that many long-established RSEs may have numerous variants of SIOs, many of which may now be off market, and some of which may never have been offered under a PDS.

Given the emphasis throughout the instructions to fee and cost amounts having been disclosed in a PDS, further clarity is required as to whether SRS 702.1 is intended to apply to investment options which might fall within the definition of SIO, but are now closed.

For example, page 3 of the instructions states that:

*SRF 702.1 collects information about the actual experience of the RSE with respect to those fees and costs that were disclosed in a Product Disclosure Statement.*

This paragraph could be interpreted as indicating that only those investment options which were offered under a PDS should be considered for reporting on SRF 702.1, however, this is difficult to reconcile with paragraph 3 of SRS 702.1, which states that:

*This Reporting Standard applies to each registrable superannuation entity (RSE) with respect to each select investment option within its business operations.*

In addition, we note that further complications arise where the same investment option underlies both pension and accumulation products, which are subject to different tax treatment. We recommend that APRA confirms that the same investment option underlying a pension and an accumulation product can be treated as two different variants of the same SIO for SRF 702.1 reporting.

**Recommendation 11:**

- APRA should consider whether there is scope to reduce the reporting frequency for any of the data on SRF 702.1 from quarterly to annual.
- Developments arising from the ASIC consultations on fees and costs should be monitored to ensure any modifications are properly reflected in SRF 702.1 – depending on the timing of any modifications, this may require a deferral of SRF 702.1 or an undertaking from APRA not to publish any data which may be compromised as a result.
- The commencement of the SIO reporting requirements should be deferred pending finalisation of the choice product dashboard framework (see recommendation 1).
- The instructions should recognise that a ‘fee’ can be charged directly or indirectly.
- The proposed ‘highest/lowest fee scale for an example member’ approach in SRF 702.1 should be reconsidered (see recommendation 12 below).
- The application of the Reporting Standard to variants of investment options, including closed (‘off market’) variants and variants underlying both pension and accumulation products, should be clarified.

**Comments on specific aspects of SRF 702.1**

*Item 1 – investment fees, costs and taxes*

ASFA supports APRA’s proposal to remove the requirement to report a breakdown of investment base and performance fees between direct and underlying investment managers under SRF 702.1.

We do, however, have a number of concerns in relation to the reporting required at item 1 for ‘investment fees, costs and taxes’:

- The definition of ‘indirect cost ratio’ includes a reference to a ‘MySuper product or investment option’. As MySuper products are not reported via SRF 702.1, it would be preferable for the instructions to refer to ‘investment options’ only.
- The definition of ‘other investment costs’ refers to amounts “which were not explicitly disclosed in the Product Disclosure Statement”, however:
  - It is unclear what is meant by the use of the term ‘explicitly disclosed’. Many of the amounts in question may have been disclosed in the PDS under a more general description, such as ‘other costs’. To avoid confusion, or the potential for the word “explicitly” to be read against the intent of SRF 702.1, we recommend that the word “explicitly” be removed.

- Where a SIO is closed to new investors, it may not have a current PDS.

The issues above are also relevant to items 2, 3 and 4.

- The approach adopted for reporting of the product fee structure results in the highest and lowest fee scales being reported. This raises in the following issues:
  - Reporting (and potentially publishing) a range of fees for an investment option without any context as to whether the particular product variant is currently open or closed to new members, and without specifying related product features, potentially may be misleading.
  - There is no explanation as to which group of members or which product to which the highest/lowest scale applies. Accordingly, the data will not permit APRA – or other users, once the data is published - to make informed decisions or comparisons. We note that while fee information is included on SRF 702.0, that form clearly identifies the particular MySuper product to which the data relates.
  - While the highest/lowest fee scale concept would seem to be broad enough to cater for variation in fee rebates, the instructions specifically indicate that fee rebates should not be taken into account when determining scales. Where fee rebates are a feature of products which utilise the SIO, this will add further artificiality to the 'example member' calculations, as it will impact the net return figures derived from the fee and cost data. ASFA recommends that the lowest fee rebates that are given in practice should be included as appropriate to each SIO.
  - We have submitted above that both options underlying DB products and options containing ADAs should be excluded from the definition of SIO. We note that the approach to reporting fees for an example member of a DB fund is not clear, as fees may be charged at the fund level and vary between DB sub-funds. Where a DB fund is invested in an option the lowest scale will typically be zero for these and the publication of that data by APRA may be misleading.
  - We have noted above the issues raised where variants of an investment option are offered, and the lack of clarity around how they are to be reported for the purposes of SRF 533.1 and 702.1. This is exacerbated where an option underlies both pension and accumulation products, which receive differing tax treatment, and it is unclear how these are to be reported for items 1-4 on SRF 702.1.

**Recommendation 12:**

SRF 001.0 and/or item 1 of SRF 702.1 should be modified taking into account the above comments.

*Item 2 – administration fees, costs and taxes*

As SRF 702.1 is to be lodged at the SIO level, rather than the product level, it is unlikely that 'administration fees' will be applicable. The purpose of item 2 is therefore unclear.

In addition, we note that comments made in relation to item 1 regarding amounts "which were not explicitly disclosed in the Product Disclosure Statement" and the highest/lowest fee scale apply equally to item 2.

**Recommendation 13:**

APRA should reconsider item 2, taking into account the above comments.

*Item 3 – advice fees, costs and taxes*

As SRF 702.1 is to be lodged at the SIO level, rather than the product level, it is unlikely that ‘advice fees’ will be applicable. The purpose of item 3 is therefore unclear.

In addition, we note that comments made in relation to item 1 regarding amounts “which were not explicitly disclosed in the Product Disclosure Statement” and the highest/lowest fee scale apply equally to item 3.

**Recommendation 14:**

APRA should reconsider item 3, taking into account the above comments.

*Item 4 – other fees, costs and taxes*

Item 4 requires the RSE licensee to report other fees, costs and taxes not captured in the definition of an investment fee, an administration fee or an advice fee. It is unclear what APRA anticipates would be reported in these fields.

Specific fee definitions apply under the *Superannuation Industry (Supervision) Act 1993* and *Corporations Regulations 2001* across both MySuper and choice investment options, including buy-sell spread, switching fees, exit fees and insurance fees. An ‘example member’ who does not incur any activity fees should therefore not incur any additional fees other than investment fees, administration fees, advice fees and associated indirect costs (and these will all be captured at items 1 – 3).

Without further clarity as to its purpose, retention of the ‘other fees, costs and taxes’ fields may cause some RSE licensees to populate them in error with amounts that should have been reported at items 1 – 3. This would jeopardise the comparability of the fee and cost data and also the net return data on SRF 702.1, since the latter is automatically derived from the items preceding it. It will also make comparison of net returns across MySuper and select investment options problematic.

In addition, we note that comments made in relation to item 1 regarding amounts “which were not explicitly disclosed in the Product Disclosure Statement” and the highest/lowest fee scale apply equally to item 4.

**Recommendation 15:**

APRA should reconsider the purpose of item 4 in light of the above comments and either remove it or – if it is still considered to be valid and meaningful – clarify the instructions to prevent confusion.

*Items 5 - 10 – net investment return – for the quarter; net investment return – year to date; net return – dollar value; net return – percentage value; example member fees and costs; example member fees, costs and taxes*

As noted above, in some cases an SIO will be reported as the aggregate of various ‘like’ investment options. In practice, the performance of these investment options is often measured based on movements in the unit price. While movements in the unit prices will reflect the market performance of the underlying assets, which will be the same for each investment option variant, the net investment return may differ between each variant depending on the impact of fees and costs that are reflected in the calculation of each unit price.

Items 5 & 6 of SRF 702.1 require the reporting of a single ‘net investment return – for the quarter’ and ‘net investment return – year to date’ for the SIO. It is not clear how the RSE licensee is expected to report this where the SIO is an aggregate of different investment options with differing investment returns.

ASFA has previously raised concerns regarding the deduction of administration fees from net investment returns. In our view, the meaningful metric is investment returns net of investment fees and tax. Our concerns were outlined in our response to the Treasury Discussion Paper: Better regulation and governance, enhanced transparency and improved competition in superannuation (see [Better regulation and governance, enhanced transparency and improved competition in superannuation](#), at pages 28 - 32).

**Recommendation 16:**

The concept of ‘net investment return’ should be the return net of investment fees and taxes, and should not also deduct administration fees.

*Item 11 – ‘start date of reporting period for new investment options only’*

It is not clear how APRA intends item 11 to be completed by RSE licensees.

Under paragraphs (d) and (e) of the current definition of SIO, assessment of whether an investment option meets the \$50 million or 5 per cent thresholds is made based on the assets of the RSE (or the option) “at the most recent 30 June”.

We have submitted above that both options underlying DB products and options containing ADAs should be excluded from the definition of SIO. We note that as RSE licensees are unlikely to offer a new DB product, and new ADAs should not arise, item 11 will have little or no application to paragraphs (a) and (b) of the existing SIO definition. APRA has already indicated in the Discussion Paper that existing paragraph (c) (investment options underlying a reserve) will be removed. This effectively limits the practical scope for item 11 to investment options covered by existing paragraphs (d) and (e) of the SIO definition (the \$50 million/5 per cent thresholds).

The instructions for item 11 of proposed SRF 702.1 appear to imply that lodgement of SRF 702.1 will be required where an investment option begins to meet the SIO definition during the period, regardless of whether it met the requirement as at the most recent 30 June. However, the wording of paragraphs (d) and (e) of the SIO definition refers to assessing SIO status “at the most recent 30 June” and could be interpreted as meaning the status of an investment option is determined annually, and will not change throughout the year.

Further, the reference in the instructions to “a new select investment option”, together with the example referring to a licensee which “first offers a select investment option” from a specific date, appear to contemplate that an investment option will qualify as an SIO (by virtue of asset size) by the end of the first quarter for which it is offered. This may not necessarily be the case - an investment option may take some time to reach the asset size threshold.

In ASFA’s view, the intent of item 11, and how it interacts with the definition of SIO, should be clarified.

**Recommendation 17:**

The intent of item 11 – and its interaction with the definition of SIO - should be clarified.

## 7. Chapter 7 – Cost-benefit analysis information

As noted above, the timing of this consultation has coincided with the busy year end reporting period for RSE licensees. As a result, RSE licensee personnel who would be able to provide the most insight into the costs and other impacts of these proposals (and our recommendations) have simply not had the capacity to engage with this consultation process.

A number of ASFA members have provided high level indications of the costs of the current SIO reporting proposals. In particular:

- One large RSE licensee has estimated that the savings from APRA’s decision to remove SRF 330.1 will be around \$1 million upfront and \$100, 000 pa ongoing. We note, however, that this saving will be offset – and potentially exceeded, for some RSE licensees – by the costs associated with proposed new SRF 533.1 and 702.1.
- We understand that two other large RSE licensees have has estimated that their implementation costs for SRF 533.1 and 702.1 – as currently proposed - would be around \$2 million.
- There would also be ongoing annual costs, with estimates ranging from \$200,000 - \$400,000, representing the additional FTE resources required to provide assurance on the data being submitted and to resolve any queries. ASFA members have estimated that these costs could potentially be reduced by 50 – 80 per cent through the combined effect of amendment to the thresholds in the SIO definition, reduction of the lodgement frequency from quarterly to annual for some of the data, and amendments to the forms.
- One externally administered RSE licensee has indicated that, in addition to development and implementation time and costs (which will be incurred by the administrator and passed on under the administration contract), they anticipate an ongoing work effort of around a week per lodgement cycle for RSE licensee staff to prepare, review and lodge the returns. This estimate does not include internal and external audit.

A number of members who have raised concerns regarding the ongoing effort and cost involved with proposed SRF 533.1 and 702.1 (and indeed the existing data reporting returns) have indicated that significant savings in time and effort, and therefore resource cost, potentially could be achieved if the D2A system were enhanced to reduce the level of manual data entry that is currently required.

\* \* \* \*

I trust that the information contained in this submission is of value. If you have any queries or comments in relation to the content of our submission, please contact Senior Policy Adviser, Julia Stannard, on (03) 9225 4027 or by email [jstannard@superannuation.asn.au](mailto:jstannard@superannuation.asn.au).

Yours sincerely

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