

The Association of Superannuation Funds of Australia Limited
ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 02 9264 8824
w: www.superannuation.asn.au



File Name: 2013/35

19 July 2013

Neil Grummitt
General Manager, Policy Development
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email: superannuation.policy@apra.gov.au

Dear Mr Grummitt

**Re: Draft Superannuation Reporting Standards SRS 700.0 Product Dashboard,
702.0 Investment Performance and 703.0 Fees Disclosed**

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the consultation draft Superannuation Reporting Standards SRS 700.0 Product Dashboard, 702.0 Investment Performance and 703.0 Fees Disclosed, released on 1 July 2013.

ABOUT ASFA

ASFA is a non-profit, non-political national organisation whose mission is to protect, promote and advance the interests of Australia's superannuation funds, their trustees and their members. We focus on the issues that affect the entire superannuation system. 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% of the 12 million Australians with superannuation.

GENERAL COMMENTS

We consider it critical to ensure that the data is reported on a consistent basis across funds, to ensure comparability when appropriate. As such, every effort should be made to minimise the risk of unintended outcomes, and a number of our specific recommendations are with respect to the ensuring consistency of outcome.

SPECIFIC COMMENTS ON THE DRAFT REPORTING STANDARDS

1. Issues common to draft SRS 700.0, 702.0 and 703.0

1.1 Audit requirements

A number of licensees have expressed to ASFA a level of confusion about the audit requirements for SRF 700.0, 702.0 and 703.0 – in particular, whether the forms are required to be subject to specific audit prior to lodgement, and if so, whether that audit is to be limited assurance or reasonable assurance. In this respect, we note that SRS 700.0, 702.0 and 703.0 are not currently listed in Attachment B to SPS 310 Audit and Related Matters as standards for which the annual information is required to be subject to either limited or reasonable assurance audit. However, it is unclear whether that is simply because these three standards are not yet finalised.

Recommendation 1:

That APRA clarify – perhaps in a Frequently Asked Question on the website - whether annual lodgements of SRF 700.0, 702.0 and 703.0 will be required to be subject to specific audit and, if so, the basis of that audit (for example, limited assurance versus reasonable assurance).

1.2 Definition of ‘administration fee’

The instructions for each SRS include the following definition of ‘administration fees’ (see page 5 for SRS 700.0, page 6 for SRS 702.0 and page 3 for SRS 703.0):

Represents a fee within the meaning given in s. 29V(2) of the SIS Act, gross of tax obligations, that relates to the administration or operation of the fund. Fees which are not offset against concessional contributions must be grossed up from 85 per cent to 100 per cent.

The reference to grossing up is unclear and potentially confusing.

Recommendation 2:

That APRA clarify the reference to grossing up of administration fees.

2. Draft SRS 700.0 Product Dashboard

2.1 ‘Reporting days and due dates’ - SRS 700.0, paragraphs 8-11 and 19:

- a) Paragraph 8 provides that an RSE licensee is required to lodge SRS 700.0 in respect of 31 December 2013, 30 June 2014 and each subsequent 30 June, and the date on which the licensee is authorised to offer a MySuper product after 31 December 2013. Where a licensee receives authorisation to offer a MySuper product, but does not intend to immediately commence offering the product, it appears that the licensee will be required to lodge a return within 28 calendar days of authorisation, despite there being no obligation under section 1017BA of the *Corporations Act* to publish a product dashboard. This would be followed by an ‘ad hoc’ lodgement of SRS 700.0, under paragraph 11, when the product commenced to be offered and a product dashboard was required to be published. It is not clear what policy purpose this serves.
- b) While paragraph 8 refers specifically to 31 December 2013 and to 30 June, the instructions to SRS 700.0 use the terms ‘financial year’ and ‘financial years’ in some places, while elsewhere referring specifically to 30 June and 31 December. It is unclear how the standard is intended to apply to RSEs with financial years ending on dates other than 30 June and 31 December.

- c) 'Due date' is defined as "the relevant date under paragraph 8 or, if applicable, paragraph 11". It appears the first cross reference should be to paragraph 10, which states the time by which the information required by SRS 700.0 must be provided to APRA, rather than paragraph 8, which states the end of the reporting period for SRS 702.0.

Recommendation 3:

That APRA:

- Revise the lodgement requirements for SRS 700.0 so they are not triggered until a licensee commences to offer the MySuper product for which authorisation has been granted; and
- Replace the reference to paragraph 8 in the definition of 'due date' with a reference to paragraph 11; and
- Review SRS 700.00, SRF 700.0 and the related instructions, to ensure clarity about how the standard applies to RSEs with financial years ending on dates other than 30 June or 31 December.

2.2 'Reporting basis and unit of measurement' – instructions, page 1:

The fourth paragraph under the heading 'reporting basis and unit of measurement' states: "Report percentages as percentages of the assets adjusted for cash flows as they occur (i.e. time-weighted)" unless otherwise specified. The use of the concept 'time-weighted' in this context is potentially ambiguous and requires clarification. Where an adjustment is made for cash flows, this is typically taken to describe a 'money-weighted' rate of return – unless it is a chain linked, time-weighted rate.

Recommendation 4:

That APRA specifies in its instructions whether the return is to be reported as a 'time-weighted', 'money-weighted' or 'chain-linked time-weighted' return.

2.3 'Return target' - SRS 700.0 item 1 and instructions, page 2:

The definition of 'return target' refers to "an annualised estimate of the percentage rate of net return that exceeds the growth in the CPI over ten years". It is unclear on what basis this annualised estimate should be determined – for example whether it should be based on a mean expectation or a median expectation.

The instructions define the 'starting date' for a return target as "the date the return target was approved by the RSE licensee". We note that while a return target may be approved on one date, it will typically come into effect on a later date.

Recommendation 5:

That APRA:

- Clarify the basis on which the 'return target' should be determined; and
- Amend the definition of 'starting date' to refer to the date a return target approved by an RSE licensee takes effect.

2.4 Definition of 'representative member' - instructions, item 2, page 5

The definition of 'representative member' refers to a member "with an account balance of \$50,000 at the end of the financial year". While this implies a \$50,000 *closing* balance, we understand from consultation meetings that APRA's intention is that the 'representative member' has had a *constant* balance of \$50,000 throughout the year.

Further, the use of a constant \$50,000 balance makes the concept of 'representative member' used in SRS 700.0 different to that used in the 'example of annual fees and costs' used in Schedule 10 of the Corporations Regulations for product disclosure purposes – for example, that concept provides for a \$5,000 contribution during the financial year.

Recommendation 6:

That APRA:

- Specifically indicates in the instructions that the 'representative member' is to be taken to have had a constant balance of \$50,000 throughout the financial year; and
- Includes an explicit statement in the instructions to SRS 700.0 that the concept of 'representative member' set out in the standard applies for product dashboard purposes only, and is unrelated to the concept used for the 'example of annual fees and costs' for Product Disclosure Statement purposes.

2.5 'Comparison of return target and return' - instructions, item 2, pages 2 - 5:

- a) The example in the third complete paragraph on page 3 should refer to item 2, not item 4.
- b) The definition of 'predecessor product' should be clearly defined, and the impact of legacy products and mergers should be considered and addressed. This will become a more significant issue going forward as funds with MySuper products merge.
- c) The cross references to the *Corporations Regulations* in footnotes 5 and 6 should be switched – that is, footnote 5 should refer to regulation 7.9.07U(2)(c) (moving average return) and footnote 6 to 7.9.07U(2)(b) (moving average return target).
- d) It is unclear why the return is calculated net of advice fees, as the definition of 'representative member' does not imply that an advice fee would be payable. A 'representative member', as defined, has a static \$50,000 balance and no 'activity' during the financial year, it is unclear why advice fees are being deducted or on what basis this should be done.
- e) The instructions for 700.0 specifically state that calculation of the return "must be consistent with the equivalent requirements for calculating the net return in Reporting Standards SRS 702.0 Investment Performance using the representative member to convert fees charged on a flat dollar basis into fees charged on a percentage of assets". However, the description on page 3 of the instructions regarding how to calculate the return appears not to take into account the tax expenses/benefits on administration fees and advice fees.
- f) The return is to be calculated as the net investment return for a representative member less administration fees and costs and advice fees and costs of a representative member. Ideally the instructions should make it clear that the fees and costs to be used in the calculation are those that relate to the generic product, without any entitlement to a fee 'discount'.
- g) The term 't' is defined as "the year reported in item 4 column 1". This should instead refer to "item 2, column 1".

- h) The 'moving average return target' must be specified relative to CPI. Further guidance should be provided in relation to how a licensee should report a previous year's return target that was not specified relative to CPI. For example, if a licensee simply had an approved return target for a balanced option of 8% for a year, should the licensee report the target as 8% less the growth in CPI for that year?
- i) The example showing calculation of the 'moving average return target' applies the same target return (3.5%) for each year. It may be more useful if the example reflected a change of target during the relevant period.
- j) The definition of 'net investment returns' should specify the investment fees and costs that should be considered. For example, it would be clearer to state "Represents the time-weighted rate of return on investments, net of all Investment fees, Indirect costs ratio investment costs and Other investment costs".
- k) The requirement to specify the difference between the administration portion of the ICR and the investment portion of the ICR on a look through basis requires further clarification. Ideally APRA should specify that ICRs reported by third party investment managers are to be considered only within the investment portion of the ICR.

Recommendation 7:

That APRA reviews the instructions for SRS 700.0 prior to finalising them, taking into account the points raised in (a) – (k) above.

2.6 'Level of investment risk' – SRS 700.0, item 3 and instructions, page 6:

The instructions reference the Standard Risk Measure guidance issued on specific dates. This degree of specificity may lead to issues in future, should the guidance be updated.

Recommendation 8:

That instead of referencing specific dates, APRA refer to the "most recent" guidance on Standard Risk Measure issued by ASFA and the Financial Services Council and as published on their websites.

3. SRS 702.0 Investment Performance

3.1 'Reporting periods and due dates' - SRS 702.0, paragraphs 7 and 9:

Section 348A of the *Superannuation Industry (Supervision) Act* ("SIS Act") imposes an obligation on APRA to publish information about the net returns to beneficiaries of regulated funds who hold MySuper products. This information must be published on a quarterly basis, with effect from the quarter beginning 1 July 2013. ASFA understands that the primary purpose of draft SRS 702.0 is to facilitate publication of this data by APRA.

SRS 702.0 has a proposed commencement date of 30 September 2013, and in accordance with paragraph 9(a) it will first be due for lodgement by 28 October 2013. ASFA notes that the current draft of SRS 702.0 differs from the 'proposed final' version released in March 2013 in a number of respects. Accordingly, even leaving aside the possibility of further changes in the final version of SRS 702.0, licensees will be required to undertake further analysis and rework in preparation for lodgement. It is not yet clear when a final version of SRS 702.0 will be released, however, it appears that licensees will have relatively little time to complete this work before 28 October 2013.

ASFA notes that the obligation imposed on APRA under section 348A is to publish the specified data “[a]s soon as practicable after the end of each quarter”. We submit that this obligation would not preclude APRA providing a one-off extension of time for those licensees who will be required to lodge SRS 702.0 for the quarter ended 30 September 2013.

Recommendation 9:

APRA should provide a one-off extension of the due date for lodgement of SRS 702.0 for the quarter ended 30 September 2013, from 28 calendar days to 29 November 2013.

3.2 ‘Reporting basis and unit of measurement’ – instructions, page 1:

Please see recommendation 4 in relation to SRS 700.0 – the same issue arises in relation to SRS 702.0.

Recommendation 10:

That APRA clarifies its instructions around reporting of returns – see recommendation 4.

3.3 ‘Investment fees’ - SRF 702.0 item 1.1:

Items 1.1.1 – 1.1.4 require a licensee to distinguish between direct and underlying investment manager fees, and base fees and performance based fees. This information will generally be provided to the licensee by the fund’s custodian, and is unlikely to be available within the 28 business days allowed for quarterly lodgements of SRS 702.0.

While APRA has indicated during industry consultations that licensees may need to use a degree of estimation in their quarterly reporting of investment manager fees, with an audited figure to be supplied as part of the annual reporting, this is not apparent from the reporting standards and instructions. As a result, many licensees remain concerned about the acceptability of estimates.

To address these concerns, it would be helpful if APRA could specify in the instructions to SRF 702.0 – and other relevant forms - that estimation (or “soft close” data) is acceptable in relation to some data items for quarterly and ad hoc lodgements. In the event that APRA has a considered view on how such estimates should be performed, this should also be publicly stated. To assist industry, it may also be useful to address this matter in a Frequently Asked Question.

Recommendation 11:

APRA should provide public confirmation that the use of estimates, or ‘soft close’ data, is acceptable where final data is not available in time for lodgement of a quarterly or ad hoc reporting form.

3.4 ‘Investment fees, costs and taxes’ - SRF 702.0 item 1 and instructions, pages 2-4:

- a) Item 1.1 requires a breakdown of ‘investment fees’ into ‘direct investment manager: base fees’, ‘direct investment manager: performance based fees’, ‘underlying investment manager: base fees’ and ‘underlying investment manager: performance based fees’. Many funds do not charge these amounts specifically to member accounts as a fee– rather, they incur such amounts as costs, which are then included in their indirect cost ratio.

Under the current drafting of SRF 702.0, such funds would disclose these amounts at item 1.2 ‘indirect cost ratio investment costs’, without any breakdown. In contrast, funds which do charge such amounts directly to member accounts would provide the more granular breakdown at item 1.1 – 1.4. This will impair the consistency of reporting between funds, and result in less transparency. Replicating the subcategories shown at items 1.1 – 1.4 in item 1.2, with clear guidance that funds should include the detail under either item 1.1 or item 1.2 as most appropriate, would improve clarity and consistency.

- b) For clarity, ‘investment costs’ should be stated to specifically exclude costs that are recovered through the buy/sell spread.
- c) For clarity, the instructions should specify that where a cost relates to an investment manager, it is to be treated as an ‘investment management cost’.
- d) The instructions should clearly state that the intention is for ‘administration fees’, ‘indirect cost ratio administration costs’ and ‘other administration costs’ to be mutually exclusive. The same clarification should be given in respect of investment and advice costs.

Recommendation 12:

That APRA reviews the instructions for SRS 702.0 prior to finalising them, taking into account the points raised in (a) – (d) above.

3.5 ‘Advice fees, costs and taxes’ – SRF 702.0 item 4 and instructions, pages 6-7:

Items 4.1 – 4.3 require a licensee to report information about advice fees, costs and taxes “that would be charged for a representative member”. Further guidance is required on how licensees are to complete these items. The charging structure will vary between licensees, and even within licenses there may be a number of advice related fees that may potentially be payable, depending on the circumstances of a given member. For example, some licensees may provide an initial advice consultation free or at a reduced rate, with fees (or higher fees) applying to subsequent consultations.

Recommendation 13:

As advice fees can be charged on different bases, APRA may need to consider specifying the basis on which a representative fee received advice – for example, a single consultation of one hour per year.

4. SRS 703.0 Fees Disclosed

4.1 ‘Fees’ Vs ‘costs’

SRS 703.0 is titled ‘fees disclosed’, however the scope of the reporting extends also to ‘costs’, by virtue of the inclusion of a disclosure item for the ICR disclosed in the PDS.

Recommendation 14:

That APRA:

- Consider changing the title of the SRS to ‘fees and costs disclosed’; and
- Make it clear that ‘fees’ are those amounts charged directly to members’ accounts whilst ‘costs’ are those amounts incurred by the licensee which are not recovered directly from members. As such, any given amount will be either a fee or a cost, but cannot be both. In particular, it would be useful if this distinction was spelled out explicitly in the instructions for item 1.

4.2 'Fees disclosed' – SRF 703.0 item 1 and instructions, pages 2-3:

- a) In the first sentence on page 2 of the instructions, the reference to reporting activity fees should be to item 5, not item 4.
- b) In the fifth paragraph on page 2 of the instructions, the reference to reporting other fee levels should be to item 3, not item 2.
- c) In the 12th paragraph on page 2 of the instructions, the references to items 2, 3 and 4 should be to items 3, 4 and 5 respectively.
- d) In the first paragraph at the top of page 3 of the instructions, the two references to item 4 should be to item 5.
- e) Definition of 'fee cap' on page 3 of the instructions - for clarity, this should cross-refer to section 29VE of the SIS Act.
- f) The definitions of 'administration fee', 'advice fee' and 'investment fee' on page 3 of the instructions refer to those fees being 'gross of tax obligations', however, no guidance is provided as to the taxes that are to be considered (for example, GST).

Recommendation 15:

That APRA reviews the instructions for SRS 703.0 prior to finalising them, taking into account the points raised in (a) – (f) above.

4.3 'Activity fees disclosed' – SRF 703.0 item 5 and instructions, pages 5-6:

The definition of 'activity fee' in subsection 29(7) of the SIS Act specifically excludes amounts that are charged as an advice fee or a switching fee (amongst others). However:

- Item 5 requires the licensee to indicate whether any activity fees disclosed there are charged in relation to the provision of financial product advice; and.
- The instructions include an example where the 'activity fee' field is used to disclose information about switching fee arrangements.

This is confusing and unclear. These fees are determined on a variety of different bases. This has the potential to lead to inconsistent reporting and will impede comparability.

Recommendation 16:

That APRA clarifies the instructions in relation to the reporting of 'activity fees', taking into account the points raised above.

4.4 'Insurance premiums disclosed' – SRF 703.0 item 6 and instructions, pages 6-7:

We understand that the intention of item 6 is to allow APRA to capture a specific 'comparative slice' of insurance premiums across the industry, and is not intended to capture all worker or age categories. However, this intent is not clear from the instructions to SRF 703.0 and this disclosure item has caused considerable concern amongst ASFA members.

In particular:

- a) Item 6 does not cater for the relatively common situation where a fund utilises multiple insurers to provide different types of cover, or to provide cover to different categories of members.

- b) Item 6 utilises a concept of ‘total and permanent disability insurance’ that references the definition of ‘permanent incapacity benefit’ in new section 68AA of the SIS Act and, by extension, the definition of ‘permanent incapacity’ in section 10(1) and new regulation 1.03C of the *Superannuation Industry (Supervision) Regulations* (“SIS Regulations”). These new provisions support the new operating standard in SIS regulation 4.07D, which prohibits a trustee from providing insured benefits for ‘permanent incapacity’ unless the insured event is consistent with the condition of release specified in item 103 of Schedule 1 of the regulations. However, as regulation 4.07D does not apply until 1 July 2014, the default TPD cover provided by many licensees to new MySuper members will not be aligned with the new definition of ‘permanent incapacity’ before that date. In addition, regulation 4.07D includes ongoing grandfathering for members who joined a fund before 1 July 2014. It is unclear how these issues are to be addressed within SRS 703.0, particularly in respect of lodgements prior to 1 July 2014.
- c) It is not clear that the use of ‘blue collar worker’ and ‘white collar worker’ insurance categories is appropriate. These categories will not be relevant to all funds, and even where they do apply, their scope – and the level of risk they cover - may vary significantly between funds. As currently drafted, the requirement for licensees to map their own insurance categories to the ‘blue collar worker’ and ‘white collar worker’ work category options used in item 6 will lead to inconsistent reporting.
- d) The definition of ‘insurance premium’ on page 7 of the instructions should specify that this is an *annual* premium.
- e) The definition of ‘life insurance’ on page 7 of the instructions requires clarification. In particular, there appear to be some words missing from the sentence: “Includes: life insurance policies offered through superannuation only and insurance premiums are commissions.”
- f) Some licensees provide bundled TPD and life insurance, rather than offering – and charging premiums for – these types of cover separately. It is unclear how bundled cover is to be reflected in item 6.
- g) It should be clarified that the reporting of death and TPD cover should be limited to the default level of cover provided to members and should not include any additional cover that may be able to be accessed by MySuper members.
- h) It should be clarified whether the wording ‘provided to members’ in the definition of ‘income protection insurance’ is intended to limit disclosure to income protection cover that is provided as default cover, and does not capture cover that is only accessible to a MySuper member through underwriting.
- i) A licensee may offer different levels of temporary incapacity cover to members, based on different benefit periods (ie ‘short term’ and ‘long term’ cover) as well as different waiting periods. It is unclear how a licensee would reflect this in item 6.

Recommendation 17:

That APRA review item 6 of SRS 703.0, taking into account the points raised in (a) – (i) above.

* * * *

I trust that the information contained in this submission is of value. If you have any queries or comments regarding the contents of our submission, please contact senior policy adviser Julia Stannard on (03) 9225 4027 or by email jstannard@superannuation.asn.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Fiona Galbraith', is centered on the page.

Fiona Galbraith
Director, Policy