



# Discussion Paper

## **Fund level disclosure from the APRA superannuation statistics collections**

November 2008

## Copyright

© Commonwealth of Australia

This work is copyright. You may download, display, print and reproduce this material in unaltered form only (retaining this notice) for your personal, non-commercial use or use within your organisation. All other rights are reserved.

Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright Administration  
Copyright Law Branch  
Attorney-General's Department  
Robert Garran Offices  
National Circuit  
Barton ACT 2600  
Fax: (02) 6250 5989

or submitted via the copyright request form on the website <http://www.ag.gov.au/cca>

## Disclaimer

While APRA endeavours to ensure the quality of this Publication, APRA does not accept any responsibility for the accuracy, completeness or currency of the material included in this Publication, and will not be liable for any loss or damage arising out of any use of, or reliance on, this Publication.

## Executive summary

APRA is a national statistical agency, as well as a prudential regulator. In its statistical role, APRA has for many years collected and published statistics, including statistics on the superannuation industry.

APRA's banking and insurance statistical publications include both aggregate material on the industry, and certain information about individual entities. Currently APRA's superannuation publications include no information at the individual fund or trustee level.

In recent years, APRA's statistical publications and research on fund performance including return on assets, has attracted considerable interest. Several groups, including industry representatives, media, and academics have suggested there is merit in APRA expanding its publications to include performance information about individual superannuation funds. Recently the Minister for Superannuation and Corporate Law, Senator Nick Sherry, also requested that APRA consider how it might publish performance data which is disaggregated to the individual fund level.

APRA has concluded that there would be benefit in expanding our publications to include data on individual fund performance, while further investigating options for performance measures at the investment option level. This discussion paper outlines the issues and questions to be resolved in creating a new fund performance publication, and seeks comments and suggestions from interested parties.

This paper's focus is on creating a new publication based on APRA's current data collections. The target date for this publication is around April 2009, using annual data provided to APRA from our June 2008 and prior collections.

APRA is separately considering a broader update to both its superannuation statistical collections and its publications. Consultation on the broader initiative will proceed separately from this discussion paper, and is intended to lead to an updated collection in 2010, with new publications to commence from 2011. That consultation process will include, among many other matters, consideration of how APRA might collect and publish more detailed and useful material about individual fund and trustee performance.

APRA welcomes comments on the proposed collection and publication.

Written submissions should be forwarded by 23 January 2009, preferably via email, to:

Manager, Superannuation Statistics  
Australian Prudential Regulation Authority  
GPO Box 9836  
Sydney NSW 2001  
Email: [superstats@apra.gov.au](mailto:superstats@apra.gov.au)

# Part 1: Questions for consultation regarding the new superannuation publication

APRA intends to expand its publications covering the superannuation industry, to include fund level disclosure of returns and other data items relevant to returns. Having established this intent, APRA is seeking public comment in three areas, as outlined in the following box.

**Question 1: Which data items and calculations should be included in the comprehensive reference publication? How should these items be presented?**

**Question 2: Should APRA publish compilation tables, in addition to the reference table?**

**Question 3: If APRA publishes compilation tables, what should be included in the compilation(s)?**

APRA's expanded publications are intended to include an annual comprehensive reference table at the individual fund level, which will allow informed observers to calculate their own comparisons of superannuation fund performance. APRA may or may not include additional compilation tables, which would present a subset or subsets of the reference table material.

To assist respondents with the above questions, we make the following additional points:

1. The publication would most readily originate from data already collected by APRA. This data includes high quality information on the net income of superannuation funds, and gross assets held by the funds.
2. The current collection does not capture all investment expenses for some entities and therefore gross income is not consistently measured.

3. While our current collections include asset allocation information for default options, they do not include information on the returns of these options. The material is not collected in a way which currently allows a comparison of default option returns, or returns relative to a benchmark.
4. Therefore the publication will need to focus upon whole of fund net returns. The publication will also include an appropriate clarification of how whole of fund net return data should be interpreted.

Some industry participants have suggested that APRA should consider the feasibility of publishing asset allocation and investment option data for each fund. Expanding the publication in this fashion would require APRA to back-capture five years of relevant data from all reporting funds. It would also require APRA to determine that this data is non-confidential. Although APRA is willing to consider this expansion, we note that doing so would require a material amount of new data from the industry. APRA intends to consider asset allocation and investment option level collections in a separate consultation exercise planned for 2009. This 2009 consultation will address the totality of APRA's superannuation collections and publications. Any changes from this consultation, which are not further addressed in this note, would be for 2010 implementation and 2011 publication.

## Part 2: The reference publication

APRA intends to expand its current publications to include a disaggregated fund level publication on longer term returns. In this part we outline some technical issues which require resolution prior to publication.

### Coverage and frequency

APRA intends to provide performance information on every APRA registered fund that exists at the time of publication, except Small APRA Funds (SAFs) and single member approved deposit funds. We intend to aggregate SAF performance at the trustee level, for the small number of trustees offering a SAF service.

The publication will not include any material from self managed superannuation funds, which are regulated by and provide data to the Australian Taxation Office.

APRA collects both quarterly and annual data from the superannuation industry. We are proposing to limit our fund level publications to the annual data, which among other advantages is audited, and is collected from all prudentially regulated funds. It follows that APRA should update its fund performance publications annually.

On the presumption that APRA issues this publication annually, it is likely to be issued at about the same time as our current annual superannuation publication, which is typically scheduled for the end of March.

### Classification

APRA intends to continue its classifications of funds as corporate, public sector, industry, and retail. We are seeking views as to any other sub-groups which might be separately classified and possibly reported separately. Candidates include, for example, SAF trustees and Eligible Rollover Funds.

### Reference publication

APRA intends to publish, as a minimum, a reference publication which contains the information necessary to construct fund level returns, and some measures of risk associated with these returns.

The reference publication is intended to include the following information and calculations for each fund (items in brackets refer to APRA reporting forms that contain the data items):

1. Fund name. The reference publication is proposed to be ordered alphabetically by fund name
2. ABN
3. Fund business name(s)
4. Fund trustee (SRF 250.0, item 2.1)
5. Fund public offer status (SRF 250.0, item 6.1.1)
6. Year end total assets for each of the past six years (SRF 210.0, item 5)
7. Net earnings after tax for each of the past five years. (derived from items collected in SRF 200.0 and SRF 210.0, refer to Attachment 1)
8. Return on assets (ROA) for each of the past five years
9. Average ROA for the five years concluding in June 2008
10. Minimum ROA over the five years concluding in June 2008

APRA seeks input on the data items and calculations to be included in the reference publication. Please note that:

- Item 3 is intended to provide the business name or names under which a superannuation fund is marketed, which should be particularly useful when the official fund name differs from the marketing names. This item will allow trustees, or alternatively APRA, to nominate the names under which a superannuation fund is marketed to members.
- Items 8 through 10 are proposed to be calculated as shown in Attachment 1.
- There are two alternatives for calculating average returns outlined in Attachment 1.
- Item 10 is proposed as a measure of risk of a fund over the period. APRA seeks comment on other possible indicators such as those outlined in Attachment 1 (e.g. volatility and Sharpe Ratio).

To assist reference publication users, APRA's inclination is to provide the publication as an Excel worksheet, as well as in PDF format.

### **Outlier explanations**

Most superannuation funds invest in a diversified manner, with somewhere between 50 and 75 per cent of assets in equities and property, and the remainder spread among cash, fixed interest, and other assets.

Some funds, however, invest outside this profile. Accordingly, APRA is considering ways in which funds with unusual asset allocations might be identified or self-identified in the new publication.

As an example, funds with more than 50 per cent of assets in one asset class might be invited to note this concentration in the publication.

Similarly, it may be appropriate to allow funds to note unusual items which may have distorted their performance in a given reference period.

APRA seeks views from interested parties as to whether, and if so how, APRA should identify asset class outliers or other outlier funds in the proposed publication.

## Part 3: Should APRA also publish compilations?

The reference publication will allow parties external to APRA to construct their own analyses of fund level performance. In addition to the reference publication, APRA is considering the potential benefits associated with providing compilation tables of fund level performance. We are seeking views on whether or not APRA should provide such tables, and if so, how many such tables and in what format.

APRA compilations would allow interested observers to access an official and reasonably comprehensible publication on superannuation fund performance, without the need to construct their own analysis from the reference publication.

### Potential compilation publication issues

#### Defining the compilations

The compilations would extract and present a subset of the data contained in the main reference publication. The compilations would therefore be defined based upon:

- the funds that are included in a given compilation;
- the time horizons that are chosen; and
- the data items and calculations that are reported.

#### Included funds

Including all 600 APRA registered funds in a table is likely to materially reduce readability. APRA is seeking comment as to whether a compilation table might be limited, for example, to public offer funds (of which there are approximately 220), or funds with more than \$1 billion in assets (of which there are approximately 120).

#### Time horizon

The reference publication will allow users to construct any time horizon from one to five years for their analyses. For an APRA compilation, we would tend to favour a five year time horizon. Superannuation is a multi-decade proposition for the average fund member, and measuring short term returns is likely to be irrelevant at best, and counter-productive at worst, if such measurements encourage trustees to take an unduly short term approach to their duties.

#### Risk calculations

APRA does not propose to rank funds based upon risk calculations. With a return based table, however, it would seem sensible to include relevant risk measures. One approach might be to simply include one or more of the risk calculations from the reference publication in any shorter compilation.

#### Constructing the returns tables

In a return-focused compilation table, it makes sense to rank funds by achieved returns. Broadly speaking, we have two choices in presenting such a ranking:

1. Ordinal. A simple list of funds ranked from highest return to lowest return.
2. Groups, such as quartiles, quintiles, or deciles. Separating the ordinal list into smaller groups, and showing each subgroup in some order (such as alphabetical or asset size) which is not keyed to return.

APRA is not attracted to the simple ordinal approach. Such an approach would tend to give undue credit to the fund ranking highest, and undue detriment to the fund ranking lowest, and may over-state the usefulness of particular rankings. In a statistical sense, for example, the fund ranking 153<sup>rd</sup> on the ROA table is not reliably better than the fund ranking 154<sup>th</sup>, or worse than the fund ranking 152<sup>nd</sup>. We seek views as to the best way to proceed here.

## Part 4: Legal and cost/benefit considerations

### Statutory matters

APRA's consideration for an expanded superannuation publication suite touches upon the following Acts:

- the *Superannuation Industry (Supervision) Act 1993* and associated regulations, referred to in this paper as "SIS" and the "SIS Regulations";
- the *Financial Sector (Collection of Data) Act 2001* and the reporting standards determined under this Act and
- the *APRA Act 1998* (the "APRA Act"), notably sections 56 and 57.

These Acts collectively define APRA's aspirations and powers in regard to our superannuation statistics publications.

### The APRA Act

Under the APRA Act, APRA is required to balance safety with efficiency, competition, and contestability. We are also constrained under sections 56 and 57 of this Act not to publish confidential material about individual regulated entities absent clear statutory authority to do so. APRA needs to be satisfied that the new publication would not harm, and would preferably enhance, the above mandates and that there are no reasons why the underlying data should remain confidential.

APRA's preliminary view is that the above conditions can be met, but meeting them will require some judgment in selecting the specific data items to be disclosed in the publication.

### What data is public?

Under regulation 2.33 of the SIS Regulations, all APRA regulated superannuation trustees must provide audited accounts for funds under their stewardship to a member of the public (other than a "concerned person") who requests the accounts. This means that material which is in fund annual accounts meets the "in the public domain" test outlined in section 56 of the *APRA Act*. A substantial majority of APRA regulated trustees also provide additional public data on fund performance through product disclosure statements, member reports, and data releases to private sector superannuation research firms.

It seems clear that basic data about superannuation fund assets, income, and returns are already in the public domain, so APRA is relatively unfettered in publishing fund level return information.

We nevertheless intend to write to all potentially affected trustees, inviting them to nominate any data items from our existing statistical collections which might be confidential. As will be further detailed in these letters, the relevant information is likely to be concentrated in the following APRA annual reporting forms:

- SRF 200.0, *Statement of Financial Performance*. This form contains income and cash flow items; and
- SRF 210.0, *Statement of Financial Position*. This form reports balance sheet items.

We also intend to include some data items which are not in these forms, but which are in the public domain, where this data will help identify and classify funds, for example the business name or names under which each fund operates.

### Assessing the costs and benefits of publication

#### Costs

The budgetary costs associated with the proposed publication are minimal. The main costs associated with statistics are their collection, and in particular changes to regulated entity reporting systems to provide the collections. In this instance, APRA is proposing to publish from material already collected for other purposes, so there are no additional costs to industry.

Given that data extraction and publication will occur electronically, using systems already built and in place, the marginal costs to APRA are also small.

APRA does not consider that budgetary costs associated with this publication are a material consideration in its development.

## **Benefits**

By providing fund level performance data, APRA will increase the official statistics available to the superannuation industry. A number of private sector entities provide data and research services to the industry, and APRA is not seeking to compete with these services. Rather, we propose to provide a comprehensive, statutorily collected and defined publication, which is based upon audited returns from all prudentially regulated superannuation funds.

This publication will improve disclosure in the superannuation industry in several ways:

- trustees will be able to assess their relative success at generating member returns at the whole fund level, compared to other funds and trustees;
- policy analysts, financial planners, consultants, accountants and other informed observers will benefit from a disinterested, comprehensive, and authoritative source of fund performance data; and
- interested members of the general public will also have access to a new source of fund performance data. However, investors would be advised to also seek performance information at the investment option level, which reflects their preferred asset allocation.

## **Balance of costs and benefits**

APRA expects that this new publication will generate worthwhile improvements to disclosure about fund level performance in the superannuation industry, at near zero cost. APRA welcomes views from interested parties as to likely costs and benefits. We would be particularly interested in any quantitative estimates of costs and benefits.

## Part 5: Summary

The proposed fund level superannuation performance publication outlined in this paper is intended to improve the disclosure of fund level performance data.

APRA looks forward to comments and suggestions on this publication. Our intent is to seek comments until 23 January 2009. We then expect to produce a detailed note on the intended publication in February 2009, for a brief consultation period focused upon any technical details which might benefit from amendment.

In addition to this consultation process, APRA intends to write to each potentially affected trustee, to seek views on the confidentiality (or lack thereof) of the data which might potentially be included in the publication.

The first edition of the new publication is expected around April 2009.

# Attachment 1: Calculation methods

## Return on Assets (ROA)

**Return on assets** is net earnings after tax divided by the average assets for the period.

**Net earnings after tax** is net earnings generated during the period less tax expense on earnings. (SRF 200.0: items 10.7, 11.3, 12.11, 13.4, 14.1 and 15.1 less items 17.6, 18.8 and 20)

**Average assets** is the average of the opening and closing balance of total assets over the period. (SRF 210.0: item 5)

## Average ROA over five years

There are two alternatives to calculate the average return on assets over multiple years: using the *arithmetic mean* or the *geometric mean*.

The geometric mean method calculates the return that an investor has earned over a period. The calculation for five years of geometric return is:

$$ROA_{geom} = \left[ (1 + ROA_1)(1 + ROA_2)(1 + ROA_3)(1 + ROA_4)(1 + ROA_5) \right]^{1/5} - 1$$

The geometric mean takes into account the effect of compounding returns and is a closer measure of realised earnings. It is by nature a backwards-looking approach.

By contrast the arithmetic mean over five years is calculated:

$$ROA_{arith} = \frac{ROA_1 + ROA_2 + ROA_3 + ROA_4 + ROA_5}{5}$$

The arithmetic mean is a forward looking measure that calculates the expected return that a fund will earn in future periods. It is less affected by volatility of return and is generally greater than the compounded return.

## Volatility of return

A common indicator of risk for an investment is the volatility, or standard deviation, of returns which measures the variability of returns over time.

The formula for volatility applied to a five year data series is:

$$vol = \sqrt{\frac{1}{4} \left[ (ROA_1 - ROA_{arith})^2 + (ROA_2 - ROA_{arith})^2 + (ROA_3 - ROA_{arith})^2 + (ROA_4 - ROA_{arith})^2 + (ROA_5 - ROA_{arith})^2 \right]}$$

A large volatility would normally indicate that the ROA in any year will often vary well above or well below the average ROA, whereas a small volatility indicates that the ROA each year tends to be close to the average ROA. Volatility is measured in per cent per year.

Volatilities calculated on a small number of observations are disproportionately affected by outlier observations.

## Sharpe Ratio

The Sharpe Ratio is a composite measure to evaluate the performance of a portfolio. It was developed by William Sharpe in 1966<sup>1</sup> and is given by the following formula:

$$S = \frac{ROA_{geom} - R_{riskfree}}{vol}$$

The risk premium is the geometric mean ROA earned over a specified time period in excess of the geometric mean return on risk-free assets during the same time period. The denominator is the volatility of the ROA, indicating the risk of the fund.

Investors prefer higher Sharpe Ratios, as these indicate that a fund delivers higher excess return per unit of risk. A negative Sharpe Ratio indicates that an investment earned less than the risk free rate over the relevant comparison period.

Should APRA include a Sharpe Ratio in the publication, we will need to select the relevant risk free rate, and also determine any tax adjustment to apply to this rate. As an example, should APRA select a one year rolling government securities rate, then multiplying the realised return on this rate by 85 per cent might produce a more useful risk free benchmark.

<sup>1</sup> William F. Sharpe, (1966) "Mutual Fund Performance", Journal of Business 39, p 119-138. See also William F. Sharpe (1994) "The Sharpe Ratio" Journal of Portfolio Management 21, p 49-59.



Telephone  
1300 13 10 60

Email  
[contactapra@apra.gov.au](mailto:contactapra@apra.gov.au)

Website  
[www.apra.gov.au](http://www.apra.gov.au)

Mail  
GPO Box 9836  
in all capital cities  
(except Hobart and Darwin)