



# Reporting Practice Guide

## **SRPG 700 – Superannuation Disclosure Reporting**

September 2013

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## About this Guide

Reporting Practice Guides (RPGs) provide guidance on particular areas of APRA's reporting requirements to assist completion of the reporting forms. RPGs discuss requirements from legislation, regulations or APRA's reporting standards, but do not themselves create enforceable requirements.

*Reporting Standard SRS 700.0 Product Dashboard (SRS 700.0), Reporting Standard SRS 702.0 Investment Performance (SRS 702.0) and Reporting Standard SRS 703.0 Fees Disclosed (SRS 703.0)* set out APRA's requirements in relation to reporting information that is also required to be disclosed under the *Corporations Act 2001 (Corporations Act)* and *Corporations Regulations 2001 (Corporations Regulations)*. This RPG aims to assist an RSE licensee in complying with APRA's requirements.

For the purposes of this guide, and consistent with the application of SRS 700.0, SRS 702.0 and SRS 703.0:

- 'RSE licensee', 'MySuper product' and 'lifecycle exemption' have the meaning given in the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*; and
- 'product dashboard' and 'product disclosure statement' (PDS) have the meaning given in the *Corporations Act* and *Corporations Regulations*.

Not all guidance outlined in this RPG will be relevant for every RSE licensee.

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## Reporting period versus reporting day

1. As information required by SRS 700.0 and SRS 703.0 relates to information disclosed by an RSE licensee on the product dashboard or in the PDS, APRA requires information as it exists on the day at the end of the reporting period to be reported. This is because disclosure materials may be updated during a reporting period. To apply a requirement in respect of the reporting period would create confusion as to which version of the disclosed material to report to APRA.
2. In SRS 700.0 and SRS 703.0, the requirements are therefore expressed in relation to a 'reporting day' to ensure reporting of the most up-to-date information by an RSE licensee.
3. SRS 702.0, however, has requirements expressed in relation to a 'reporting period'. This is because net investment return, fees, costs and taxes accrue over the reporting period.

## Starting date for product dashboard items

4. APRA expects that the 'return target', 'level of investment risk' and 'statement of fees and other costs' reported on *Reporting Form SRF 700.0 Product Dashboard* (SRF 700.0) would be values that have been approved by the board of the RSE licensee.<sup>1</sup> These values may be approved at a point in time to apply over the upcoming period.
5. Where the board approves an update to these items, making the previously reported items no longer current, SRS 700.0 requires that SRF 700.0 be reported to APRA to reflect the updated information.

6. An RSE licensee may receive authorisation to offer a MySuper product but not make the MySuper product available to members until a later date. An RSE licensee is nevertheless required to report the information on SRF 700.0 within 28 days of authorisation. If the product dashboard changes between the date of authorisation and the date when the MySuper product is offered to members, an RSE licensee is required to provide updated information to APRA on SRF 700.0.

## Calculating the moving average return and moving average return target

### Moving average

7. Item 2 on SRF 700.0 requires a 10-year moving average return to be reported.
8. If the history of the MySuper product (and predecessor product, if relevant) is shorter than 10 full years, a 10-year moving average return cannot be calculated or reported. This is because 10 annual returns need to be used in calculating the average.
9. Years are measured from 1 July to 30 June for the purposes of calculating the average.
10. The examples below demonstrate how to calculate the moving average return and moving average return target. In Example 2, the moving average return target reflects the fact that the return target changes over the 10-year period.
11. Where the return target is not constant over a 12-month period (1 July to 30 June), an RSE licensee may consider using a weighted average return target over that period.

<sup>1</sup> A reference to the 'board' is to be read as a reference to the Board of directors or group of individual trustees of an RSE licensee.

**Example 1: Item 2 on SRF 700.0 for a MySuper product and predecessor product (no return target)**

In this example, the reporting day is 30 June 2014 for a MySuper product and a predecessor product which has been offered since 1 July 1999. The MySuper product has a return target of 3.5. As the predecessor product did not have a return target, the current return target of 3.5 would be used for all periods.

The RSE licensee reports the returns from 2004 in item 2, column 2.

The RSE licensee uses the returns from 2000 to calculate 10-year moving average returns in column 3. The first 10-year moving average return would be reported for 2009 (using the ten returns from 2000, 2001... 2009).

Using a return target of 3.5 per cent for each year (reported in item 1), and the growth in CPI from ABS publication 6401.0, item 'Percentage change from corresponding quarter of previous year; All Groups CPI; Australia', Table 1 illustrates the calculation of the actual return target.

The items that are shaded in grey indicate the numbers that would be reported in item 2. The non-shaded items are used in the calculations.

**Table 1: Calculation of 10-year moving average return (MySuper product and predecessor product, no change in return target)**

Year ending 30 June (reported in column 1)	Average Return (reported in column 2)	Moving average return (reported in column 3)	CPI growth from ABS 6401.0	Actual target	Moving average return target (reported in column 4)
30/6/2014	6.72	1.50	1.0	4.5	6.01
30/6/2013	18.52	1.37	2.0	5.5	6.17
30/6/2012	5.67	0.62	1.2	4.7	6.23
30/6/2011	2.43	-0.45	3.5	7.0	6.39
30/6/2010	10.33	0.04	3.1	6.6	6.64
30/6/2009	-21.22	-1.14	1.4	4.9	6.64
30/6/2008	-15.78		4.4	7.9	6.60
30/6/2007	10.52		2.1	5.6	6.23
30/6/2006	-3.58		4.0	7.5	6.05
30/6/2005	8.67		2.5	6.0	5.96
30/6/2004*	5.40		2.5	6.0	6.16
30/6/2003*	10.00		2.6	6.1	
30/6/2002*	-5.00		2.8	6.3	
30/6/2001*	7.50		6.1	9.6	
30/6/2000*	-2.00		3.1	6.6	
30/6/1999*			1.0	4.5	
30/6/1998*			0.7	4.2	
30/6/1997*			0.3	3.8	
30/6/1996*			3.1	6.6	
30/6/1995*			4.5	8.0	

\* (not reported in item 2 but used in calculation of moving average)

**Example 2: Item 2 on SRF 700.0 for a MySuper product and predecessor product (change in return target)**

In this example, the reporting day is 30 June 2014 for a MySuper product and a predecessor product which has been offered since 1 July 1999. The predecessor product had a return target of 2.0 above CPI from 1999 to August 2006, and then 3.0 above CPI from August 2006 to 2012. The current return target of 3.5 above CPI.

As there was no product prior to 1999, an RSE licensee uses the return target that applied in the years closest in proximity to those years (i.e. 2.0) for the prior periods (refer to Table 2). The items that are shaded in grey indicate the numbers that are reported in item 2. The non-shaded items are used in the calculations.

**Table 2: Calculation of 10-year moving average return (MySuper product and predecessor product, change in return target)**

Year ending 30 June (reported in column 1)	Average return (reported in column 2)	Moving average return (reported in column 3)	CPI growth from ABS 6401.0	Actual target	Moving average return target (reported in column 4)
30/6/2014	6.72	1.50	1.0	4.5 (CPI + 3.5)	5.42
30/6/2013	18.52	1.37	2.0	5.5	5.42
30/6/2012	5.67	0.62	1.2	4.2 (CPI + 3.0)	5.32
30/6/2011	2.43	-0.45	3.5	6.5	5.39
30/6/2010	10.33	0.04	3.1	6.1	5.54
30/6/2009	-21.22	-1.14	1.4	4.4	5.44
30/6/2008	-15.78		4.4	7.4	5.30
30/6/2007	10.52		2.1	5.1	4.83
30/6/2006	-3.58		4.0	6.0 (CPI + 2.0)	4.55
30/6/2005	8.67		2.5	4.5	4.46
30/6/2004*	5.40		2.5	4.5	4.66
30/6/2003*	10.00		2.6	4.6	
30/6/2002*	-5.00		2.8	4.8	
30/6/2001*	7.50		6.1	8.1	
30/6/2000*	-2.00		3.1	5.1	
30/6/1999*			1.0	3.0	
30/6/1998*			0.7	2.7	
30/6/1997*			0.3	2.3	
30/6/1996*			3.1	5.1	
30/6/1995*			4.5	6.5	

\* (not reported in item 2 but used in calculation of moving average)

12. Where a predecessor product did not have a return target expressed as an estimate of the mean net return in excess of CPI growth over 10 years, the previous return target cannot be used.

## Product dashboard for merged products

### Calculating historical returns for merged products

13. Where a MySuper product has merged with another MySuper product<sup>2</sup>, APRA expects an RSE licensee to develop and implement an appropriate methodology to calculate historical returns and return targets for the merged product.

14. As each merger will have different characteristics, APRA accepts there will not be one methodology that is appropriate in all cases. However, APRA expects an RSE licensee, when developing an appropriate methodology, to consider a range of issues including, but not limited to:

(a) where one product has a significantly larger amount of assets than the other, maintaining the investment performance of the larger entity as the historical performance;

(b) where both products have assets of similar size, calculating an asset-weighted average investment performance from both products; and

(c) where the merged product is not sufficiently similar to either pre-merged product for the historical performance to be relevant, calculating performance without consideration to any history.

15. In addition to the consideration of asset size, an RSE licensee might also consider the similarity in investment approaches of each pre-merger MySuper product, and whether it is reasonable to combine the performance in light of any differences in those approaches. Where the historical investment approaches have diverged widely, a combined historical return may not be appropriate.

16. APRA expects that, where a merger between two or more MySuper products has resulted in changes to fees and/or return targets over time, an RSE licensee would apply the historical fees and return targets, as relevant, when calculating historical investment performance.

<sup>2</sup> As the definition of a predecessor product in the Corporations Regulations only relates to non-MySuper default products prior to 1 July 2013, where two MySuper products merge, the pre-merger MySuper products are not predecessor products.

### Example 3: Item 2 on SRF 700.0 for a merger between two similar-size MySuper products

In this example, MySuper product 1 (\$5.5 billion in assets, return target 3.4) and MySuper product 2 (\$4.5 billion in assets, return target 3.6) merge in 2016. As both products have a 70/30 growth/defensive approach, the RSE licensee determines that it is appropriate to calculate historical performance based on the prior products as the investment approach was similar and is not changing going forward. As such, a weighted average (0.55 and 0.45) is used to convert the historical performance of the previous MySuper products into the new MySuper product.

Table 3: Historical performance calculation based on the weighted-average of two prior MySuper products

Year ending 30 June	Return (MySuper 1, 0.55 weight)	Return (MySuper 2, 0.45 weight)	Return (New MySuper)
30/6/2017			5.69
30/6/2016	7.3	6.9	7.12
30/6/2015	5	4.2	4.64
30/6/2014	3.6	2.9	3.285
30/6/2013	-1.5	-4.8	-2.985
30/6/2012	4.7	5	4.835
30/6/2011	2.2	2.8	2.47
30/6/2010	5.8	7	6.34
30/6/2009	12.7	15.2	13.825
30/6/2008	-3.6	-6	-4.68

## Calculating representative member returns, fees, costs and taxes

### Start date of reporting period

- Calculations of representative member returns, fees, costs and taxes on *Reporting Form SRF 702.0 Investment Performance* (SRF 702.0) are assumed to apply for the whole period (i.e. 1 July – 30 September; 1 July – 31 December; 1 July – 31 March; and 1 July – 30 June each year).
- When a MySuper product is new, it may not start as at 1 July of a particular year. In this situation, in order to indicate to APRA that the net investment return, fees, costs and taxes reported do not cover the full reporting period, item 10 on SRF 702.0 indicates the relevant start date.

### Example 4: Start date for a new MySuper product

In this example, a MySuper product first started earning an investment return on 3 November 2013. To indicate this non-standard start date, the RSE licensee would report '03/11/2013' in item 10 on SRF 702.0 for the reporting periods ending 31 December 2013, 31 March 2013 and 30 June 2013.

## Representative member

19. The purpose of using a representative member for calculation of net return is for comparability across MySuper products. The representative member is therefore not expected to reflect actual member experience, as an actual member may have regular contributions and/or incur activity fees.
20. In the definition of representative member in the instructions to SRF 700.0 and SRF 702.0, a constant \$50,000 account balance over the reporting period is used. This constant figure cannot reflect the experience of an actual member, who would earn investment gains/losses on this \$50,000 amount.
21. APRA accepts that the representative member methodology may result in the year to date net return not being the same as the quarterly net returns compounded over the same time period.

## Timing of fee charging

22. Fee, cost and tax items are required to be reported on SRF 702.0 as year to date amounts each quarter.
23. Where fees are not charged quarterly, APRA expects an RSE licensee would report the accrued amount of fees, costs and taxes for the year to date on SRF 702.0.
24. Where an RSE licensee considers that the accrued amount of fees, costs and taxes for the year to date would appropriately result in a revised accrual for prior reporting periods in that year, APRA expects an RSE licensee would revise and resubmit the reporting forms submitted for prior reporting periods.
25. Although the fee-charging approach of an RSE licensee may not be undertaken on a quarterly basis, for the purpose of calculating comparable net returns, APRA considers it appropriate to incorporate quarterly charging of fees into the net return calculation.
26. This results in a representative member being charged fees at the same frequency for each MySuper product. APRA accepts the experience of a member in a particular MySuper product may be different to the representative member if the fee charging frequency is not undertaken quarterly.

27. The calculations to convert fees to representative member fees at the end of each reporting period are:

- (a) flat dollar fees convert to a percentage:  $\text{fee} / 50000 * 100$ ; and
- (b) percentage fees convert to a dollar amount:  $\text{fee} / 100 * 50000$ .

### Example 5: Calculating year to date net returns

In this example, a MySuper product charges \$250 in administration fees annually. For the purposes of reporting on SRF 702.0, these administration fees will be accrued and reported quarterly as \$62.50 per quarter. Assume no other fees, costs or taxes.

For the March quarter, the administration fee reported would be \$187.50. APRA's derived calculation of the representative member administration fee is 0.375 per cent (i.e.  $187.50 / 50000 * 100$ ). If the year-to-date net investment return is 7.2 per cent, APRA's derived calculation of the representative member net return is 6.825 per cent.

### Example 6: Accruals of year to date performance-related costs

In this example, a MySuper product pays performance-based investment fees to investment managers. In the first two quarters of the year, the investment manager out-performs the performance benchmark and thus the RSE licensee reports 1.1 per cent and 2 per cent of accrued performance-based investment fees for the year to date (first quarter and second quarter respectively).

In the third quarter, the investment manager severely under-performs its benchmark so that, on a year to date basis, the RSE licensee now considers that no performance-based investment fee will be paid for the year.

The RSE licensee may report this change to APRA as either a negative performance-based investment fee of -2 per cent for the year to date (third quarter) or decide to revise and resubmit the three year to date reporting forms with 0 per cent performance-based investment fees across the three reporting forms.

### Investment fees, costs and taxes

28. APRA expects that, where an RSE licensee charges a buy-sell spread, costs recovered through the buy-sell spread would not be included in the investment fees, indirect cost ratio investment costs or other investment costs for the calculation of net return of a representative member. This is because the representative member is assumed to be inactive and thus does not perform any transactions that incur the buy-sell spread.
29. A direct investment manager is an investment manager through which assets of the fund are invested, where the investment has not been passed on via another investment manager.
30. An underlying investment manager is an investment manager through which assets of the fund are invested, where the investment has been passed on via another investment manager.

#### Example 7: Allocation of investment fees

In this example, a MySuper product has a disclosed investment fee of 250 basis points: 100 basis points are paid to the direct investment manager for their own activities (70 basis points for base fees and 30 basis points for performance), 120 basis points are paid to the direct investment manager to be passed through to underlying investment managers (50 basis points for base fees and 70 basis points for performance) and 30 basis points are other investment fees. For reporting in item 1 on SRF 702.0, as all items are charged as a percentage value, only column 2 would be completed: report 2.50 in item 1, 0.70 in item 1.4.1, 0.30 in item 1.4.2, 0.50 in item 1.4.3 and 0.70 in item 1.4.4. Note that the sum of item 1.4.1 to item 1.4.4 does not need to equal item 1.1, but needs to be less than or equal to item 1.1.

### Administration fees, costs and taxes

31. The instructions to SRF 700.0, SRF 702.0 and *Reporting Form SRF 703.0 Fees Disclosed* (SRF 703.0) define administration fees and costs to be gross of tax.<sup>3</sup>

<sup>3</sup> Refer to item 2 on SRF 700.0, item 2 on SRF 702.0 and item 1 on SRF 703.0.

32. Where an RSE licensee quotes administration fees to a member that are net of contributions tax, APRA expects that the net administration fees would be converted to gross amounts by dividing the net fee by 0.85 (i.e. 1 – the rate of contributions tax).

### Advice fees, costs and taxes

33. A representative member is not expected to incur any activity fees. However, where an RSE licensee collectively charges an advice fee to all members in a MySuper product, in addition to, or rather than, charging activity-based advice fees, APRA expects that the representative member would incur this collectively charged advice fee.
34. Advice fees, costs and taxes that are collectively charged but do not relate to individual activity must be included in the calculation of the net return for a representative member.
35. Where an RSE licensee quotes advice fees to a member that are net of contributions tax, APRA expects that the net advice fees would be converted to gross amounts by dividing the net fee by 0.85 (i.e. 1 – the rate of contributions tax).

#### Example 8: Collectively-charged advice fees versus activity-based advice fees

In this example, an RSE licensee charges 0.1 per cent to all members of a MySuper product to cover the cost of maintaining a call centre for the provision of general advice. This is a collectively-charged advice fee and thus would be included in the calculation of the net return for the representative member.

Where the RSE licensee also charges \$100 for a 30 minute discussion with a financial advisor, this is an activity fee and would only be incurred by a member who requests this service. This fee would not be included in the calculation of net return for a representative member.

## Taxes

36. Investment, administration and advice fees and costs must be reported to APRA gross of tax on SRF 702.0. APRA specifies this tax treatment in the instructions to SRF 702.0 to ensure comparable reporting of fees and costs across all MySuper products.
37. Taxes, including any GST payable, are reported as separate items on SRF 702.0.
38. Refer to Attachment A for a worked example of tax calculations on SRF 702.0.

## Representative member calculations

### Example 9: Investment fees and costs

In the example provided in Table 4, a MySuper product has the following investment fees and costs:

- (a) the investment fee is a combination of a \$112 flat dollar charge and a 50 basis point fee;
- (b) the indirect cost ratio investment costs are 150 basis points; and
- (c) other investment costs are 100 basis points.

The representative member investment fees and costs, therefore, are:

- (a) \$1612 in dollar terms; and
- (b) 3.22 per cent of member balance.

### Example 10: Representative member investment-related taxes calculation

In this example, a MySuper product has investment-related taxes of 1.50 per cent of member balance. The representative member investment-related taxes reported in item 1.7 on SRF 702.0 are:  $1.5 * 50,000 / 100 = \$750$  in dollar terms (column 1) and 1.50 per cent of member balance (column 2).

### Example 11: Representative member administration fees and costs calculation

In the example provided in Table 5, a MySuper product has the following administration fees and costs:

- (a) the administration fee is a combination of a \$76 flat dollar charge and a 20 basis point fee;
- (b) the indirect cost ratio administration costs are 80 basis points; and
- (c) other administration costs are 36 basis points.

The representative member administration fees and costs, therefore, are:

- (a) \$756 in dollar terms; and
- (b) 1.51 per cent of member balance.

Table 4: Reporting investment fees and costs in item 1 on SRF 702.0

SRF 702.0	(1)	(2)
Item 1.1	\$112	0.50
Item 1.2		1.50
Item 1.3		1.00
Item 1.4	$\$112 + (0.5 + 1.5 + 1.0) * 50,000 / 100 = \$1,612$	$112 / 50000 * 100 + 0.5 + 1.5 + 1.0 = 3.22$

**Table 5: Reporting administration fees and costs in item 2 on SRF 702.0**

SRF 702.0	(1)	(2)
Item 2.1	\$76	0.20
Item 2.2		0.80
Item 2.3		0.36
Item 2.4	$76 + (0.2 + 0.8 + 0.36) * 50,000/100 = 756$	$76/50,000 * 100 + (0.2 + 0.8 + 0.36) = 1.51$

**Example 12: Representative member advice fees and costs calculations**

In the example provided in Table 6, a MySuper product has the following collectively-charged advice fees and costs:

- (a) the advice fee is a combination of a \$200 flat dollar charge and a 10 basis point fee;
- (b) the indirect cost ratio advice costs are 23 basis points; and
- (c) other advice costs are 50 basis points.

The representative member advice fees and costs, therefore, are:

- (a) \$615 in dollar terms; and
- (b) 1.23 per cent of member balance.

**Table 6: Reporting advice fees and costs in item 3 on SRF 702.0**

SRF 702.0	(1)	(2)
Item 3.1	\$200	0.10
Item 3.2		0.23
Item 3.3		0.50
Item 3.4	$200 + (0.1 + 0.23 + 0.5) * 50000/100 = 615$	$200/50000 * 100 + (0.1 + 0.23 + 0.5) = 1.23$

39. Refer to Attachment A for a complete worked example for SRF 702.0.

**Activity fees**

40. Some activity fees may be based on the specified fee categories, specifically exit fees, switching fees or buy-sell spreads. Where these fees are otherwise not charged as one of the fee categories specified in s. 29V, s. 29V(7)(b) of the SIS Act allows them to be charged as an activity fee.

41. APRA expects that the base-level exit fee, switching fee and buy-sell spread are reported in

their respective fee categories in item 1 on SRF 703.0 irrespective of whether these are reported to members as the specified fee type or as an activity fee.

42. Where an RSE licensee chooses to structure activity fees based on these fee types, APRA expects that the variations from the base fee are reported as activity fees in item 5 on SRF 703.0.

43. APRA considers that, as the exit fee, switching fee and buy-sell spread are charged when a member undertakes a certain action, an RSE licensee may determine that it is appropriate to charge fees in this manner.

### Example 13: Exit fees charged on method of exit

In this example, an RSE licensee charges \$60 for a withdrawal from the RSE where the request is made via electronic means and the payment is electronic. Where the withdrawal request is made via other means but the payment is electronic, the exit fee is \$80. Where the withdrawal request is made via other means and the payment is not electronic, the exit fee is \$150. Where the withdrawal request is electronic but the payment is not, the exit fee is \$120.

The RSE licensee would report an exit fee of \$60 in item 1 on SRF 703.0 and report the four other exit fee variants as activity fees in item 5 on SRF 703.0. Descriptive names for the three variants would explain the purpose of each activity fee: 'exit fee, non-electronic request, electronic payment' (\$80), 'exit fee, non-electronic request and non-electronic payment' (\$150) and 'exit fee, electronic request, non-electronic payment' (\$120).

### Example 14: Switching fees only charged when there are multiple switch requests

In this example, an RSE licensee allows a member up to two switches during the period 1 July to 30 June each year free of charge. The RSE licensee charges \$40 for each subsequent switch.

The RSE licensee would report a switching fee of \$0 in item 1 on SRF 703.0 and report the switching fee variant as an activity fee in item 5 on SRF 703.0. A descriptive name such as 'switching fee, first two free' would explain the purpose of the activity fee.

## Indirect cost ratio

44. For the purposes of reporting on SRF 700.0 and SRF 702.0, APRA requires an RSE licensee to split the indirect cost ratio into three sub-categories<sup>4</sup>:
  - (a) indirect cost ratio investment costs;
  - (b) indirect cost ratio administration costs; and
  - (c) indirect cost ratio advice costs.
45. APRA does not expect that the sum of these three sub-categories will always equal the indirect cost ratio as they may, in total, only represent a portion of the indirect cost ratio.
46. APRA expects an RSE licensee would have a process for determining the indirect costs that relate to investments, administration or advice respectively and allocate the costs to the appropriate sub-category accordingly.
47. APRA expects that indirect cost ratios reported to an RSE licensee by third party investment managers would typically be allocated to indirect cost ratio investment costs.

## Cash-flow adjusted assets

48. The instructions to SRF 700.0, SRF 702.0 and SRF 703.0 state 'Report percentages as percentages of the assets adjusted for cash flows as they occur (i.e. time-weighted), unless otherwise specified. Cash flows include, but are not limited to, contributions, switches, transfers, rollovers or benefit payments.'
49. There are several ways to calculate returns (e.g. money-weighted or time-weighted) and these are appropriate in different circumstances.
50. APRA's view is that time-weighted returns are appropriate for APRA's reporting requirements. A time-weighted return is a method of calculating period-by-period returns that negates the effects of external cash-flows.

<sup>4</sup> Refer to cl. 104(1) of the Corporations Regulations for the definition of indirect cost ratio. Refer to item 1.2, item 2.2 and item 3.2 on SRF 702.0.

51. An RSE licensee may consider the Global Investment Performance Standards (GIPS) issued by the CFA Institute to be a useful reference for calculation methodologies.<sup>5</sup> For example, the GIPS standards provide further information on a standard approach for calculating returns for various asset classes and combining these returns into a portfolio return.

## Insurance

52. Item 6 on SRF 703.0 requires an RSE licensee to report information about the insurance offering for each MySuper product. This information is required to reflect information disclosed on the PDS covering that MySuper product.

### Total and permanent disability insurance

53. Item 6 on SRF 703.0 uses a concept of 'total and permanent disability insurance' that references the definition of 'permanent incapacity benefit' in s. 68AA of the SIS Act and, by extension, the definition of 'permanent incapacity' in s. 10(1) and r. 1.03C of the SIS Regulations. These provisions support the operating standard in r. 4.07D of the SIS Regulations, which prohibits an RSE licensee 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 SIS Regulations.

54. Regulation 4.07D of the SIS Regulations includes ongoing grandfathering for members who joined a fund before 1 July 2014. Further, as r. 4.07D of the SIS Regulations does not apply until 1 July 2014, the default TPD cover provided by many RSE licensees to new MySuper members will not be aligned with the new definition of 'permanent incapacity' before that date.

55. To reflect this grandfathering and deferred commencement, item 6, column 7 on SRF 703.0 allows an RSE licensee to indicate 'own occupation' or 'any occupation' basis for the insurance cover. APRA expects that an RSE licensee with grandfathered TPD insurance would

use this column to indicate where the benefits provided do not align with the definition in s. 68AA of the SIS Act.

### Income protection insurance

56. Income protection insurance premiums quoted to members may include stamp duty. As stamp duty varies across states, APRA requires that, for comparability across MySuper products, income protection insurance premiums reported on SRF 703.0 exclude stamp duty.

57. Where an RSE licensee includes stamp duty in their standard premiums, APRA expects that an appropriate conversion rate would be to divide the gross premium by, for example, 1.08 if the stamp duty rate was 8 per cent.

### Default level of cover

58. There are two common ways of quoting insurance premiums: per dollars of cover (e.g. \$70 per year for \$100,000 of death cover) and per units of cover (e.g. \$0.16 per year for one unit of death cover, and the dollar benefit provided per unit changes with age). For income protection insurance, the benefit may be quoted as a percentage of salary or a dollar amount.

59. An RSE licensee can report the default level of cover either in dollars or percentage of salary for the insurance provided. Item 6 on SRF 703.0 includes both column 7 and column 8 for default level of coverage to be reported with only one column being mandatory to complete.

60. Rather than report the premium for the default level of cover, APRA requires that an RSE licensee convert that premium to a standardised amount (premium per \$1,000 of cover) to aid comparability. Thus, where insurance is provided per unit of cover, this will need to be converted to a cost per \$1,000 of cover.

61. To report the premium for income protection insurance provided, report the premium charged per \$1,000 per month of cover.

<sup>5</sup> Refer to [www.gipsstandards.org](http://www.gipsstandards.org)

### Default level of cover – bundled insurance

62. Bundled cover refers to insurance cover where a single premium is charged for multiple types of cover.
63. Bundled cover is reported in item 6, column 1 on SRF 703.0 as 'life and TPD insurance', 'life and IP insurance', 'TPD and IP insurance' or 'life, TPD and IP insurance'.
64. Although the premium for bundled cover cannot be split into component parts, the default level of cover for each component is typically described separately. As such, item 6 on SRF 703.0 allows an RSE licensee to report the various default levels of cover for each component in bundled insurance via column 7, column 8 and column 10.
65. Where bundled cover is reported, multiple rows will need to be reported in order to describe the multiple types of default cover. However, the same bundled premium would be reported in item 6, column 9 on SRF 703.0 for each row.

66. Where the premium can be separated to reflect the amount charged for each type of insurance cover, report each insurance type separately in item 6, column 1 on SRF 703.0.

#### Example 15: Reporting default level of cover for bundled cover in item 6, column 7 on SRF 703.0 to column 10 inclusive

In this example, a MySuper product has bundled insurance cover for life, TPD and IP insurance. For a 30 year old male the premium charged is \$600 per year for default bundled cover which is: \$100,000 in life insurance, \$100,000 in TPD insurance and up to \$5,000 per month in IP insurance for 2 years (with a 30 day waiting period). Convert the premium to an amount per \$1,000 by using the life insurance coverage amount (i.e.  $600 / 100000 * 1000$ ) = \$6. The information about the default levels of bundled cover provided to MySuper members would be reported as provided in Table 7.

Table 7: Reporting the default level of bundled cover

Type of cover	Age	Gender				Default level		Cost per \$1,000	Type of cover (bundled)	Cover valuation basis		Membership
1	2	3	4	5	6	7	8	9	10	11	12	13
Life, TPD and IP	30	Male				100000		6	Life			
Life, TPD and IP	30	Male				100000		6	TPD			
Life, TPD and IP	30	Male	Up to 2 years	Up to 30 days		5000		6	IP	Agreed value		

### Types of worker category

67. Examples of the types of worker category descriptions that may commonly be reported in item 6, column 12 on SRF 703.0 include, but are not limited to: blue collar, white collar, professional, low risk, high risk, standard.

### Multiple premium rates

68. Where an RSE licensee has a single insurance arrangement in a MySuper product, report the total number of member accounts in the MySuper product in item 6, column 12 on SRF 703.0 regardless of whether some members are excluded from receiving insurance cover due to allowable exclusions in the contract.

69. Where an RSE licensee has multiple insurance arrangements within a MySuper product, APRA expects that all of these arrangements are reported in item 6 on SRF 703.0. In order to indicate the number of members eligible to pay a particular premium rate, item 6, column 13 on SRF 703.0 allows an RSE licensee to indicate the number of members covered.

70. Multiple insurance arrangements include: multiple insurance providers (i.e. distinct insurance contracts with separate insurers), a single insurance provider with multiple contracts; and a single insurance provider with a single contract but multiple premium levels for the same insurance (e.g. lower premiums for a particular employer).

71. Although each row reported in item 6 on SRF 703.0 is for a representative member (i.e. a 30 year old male or a 50 year old female), APRA does not expect an RSE licensee to report the number of 30 year old males or 50 year old females covered by the insurance premium reported, but to report the number of members eligible to receive the premium schedule for which the 30 year old male or 50 year old female is a representative member.

72. Where there is one insurance premium schedule covering all members, resulting in 12 lines in item 6 being reported for all types of insurance offered, the same number would be expected to be reported in item 6, column 13 on SRF 703.0 for every row.

#### Example 16: Reporting membership coverage in item 6, column 13 on SRF 703.0

In this example, a MySuper product has 100,000 member accounts. There are three insurance contracts between the RSE licensee and three different insurers. One insurer provides cover for 95,000 member accounts and the other two insurers provide cover for employer sub-groups within the MySuper product: one for 2,000 employees of a given employer and the other for 3,000 employees of a different employer. All three insurance contracts provide life insurance that varies by age and gender. The information about the life insurance provided to MySuper members would be reported as provided in Table 8.

Table 8: Reporting membership coverage

Type of cover	Age	Gender				Default level		Cost per \$1,000				Membership
1	2	3	4	5	6	7	8	9	10	11	12	13
Life	30	Female				200000		0.18				95000
Life	30	Male				200000		0.17				95000
Life	50	Female				150000		0.22				95000
Life	50	Male				150000		0.19				95000
Life	30	Female				300000		0.20				2000
Life	30	Male				300000		0.19				2000
Life	50	Female				200000		0.26				2000
Life	50	Male				200000		0.24				2000
Life	30	Female				1000000		0.43				3000
Life	30	Male				1000000		0.40				3000
Life	50	Female				1000000		0.67				3000
Life	50	Male				1000000		0.58				3000

## Attachment A: Worked example for SRF 702.0

1. In this example, a MySuper product has the following return, fee, cost and taxes information:
  - (a) Gross return = 10%;
  - (b) Investment fees (1.5%) and costs (0.5%) = 2%;
  - (c) Administration fees (0.75%) and costs (0.25%) = 1%;
  - (d) Advice fees (0.5%) and costs (0%) = 0.5%
2. The net investment return pre-tax is  $10 - 2 = 8\%$
3. The taxable income is  $10 - 2 - 1 - 0.5 = 6.5\%$
4. Tax (15% of taxable income) = 0.975%
5. After-tax return = 5.525%
6. Tax on investment income =  $15\% * 8\% = 1.2\%$
7. Tax on income after investment and administration fees and costs =  $15\% * 7\% = 1.05\%$
8. For the purposes of simplicity, all fees and costs are charged on a percentage basis in this example. For examples on converting flat dollar fees and costs to a percentage basis see Examples 10, 11 and 12.
9. Note that the tax on investment income is 1.2 per cent but the tax on taxable income is 0.975 per cent. This is because only the investment expenses were deducted when calculating the tax on investment income, and the further expenses (administration and advice) will result in tax adjustments (reported in item 2.5 and item 3.5).
10. Note that the after tax return of 5.525 per cent is the same as the net return reported in item 7.

### 1. Investment fees, costs and taxes

	Dollar value (1)	Percentage value (2)
1.1. Investment fees		1.5
1.2. Indirect cost ratio investment costs		0.5
1.3. Other investment costs		
1.4. Total investment fees, indirect cost ratio investment costs and other investment costs		2.0
1.4.1. <i>of which</i> : Direct investment manager: base fees		2.0
1.4.2. <i>of which</i> : Direct investment manager: performance based fees		
1.4.3. <i>of which</i> : Underlying investment manager: base fees		
1.4.4. <i>of which</i> : Underlying investment manager: performance based fees		
1.5. Representative member investment fees and costs	\$1000	2.0
1.6. Taxes on investment income after investment fees and costs		1.2
1.7. Representative member taxes on investment income after investment fees and costs	\$600	1.2

## 2. Administration fees, costs and taxes

	Dollar value (1)	Percentage value (2)
2.1. Administration fee		0.75
2.2. Indirect cost ratio administration costs		0.25
2.3. Other administration costs		
2.4. Representative member administration fees and costs	\$500	1.0
2.5. Administration-related tax expense/benefit		-0.15
2.6. Representative member administration-related tax expense/benefit	-75	-0.15

## 3. Advice fees, costs and taxes

	Dollar value (1)	Percentage value (2)
3.1. Advice fee		0.5
3.2. Indirect cost ratio advice costs		0.0
3.3. Other advice costs		
3.4. Representative member advice fees and costs	250	0.5
3.5. Advice-related tax expense/benefit		-0.075
3.6. Representative member advice-related tax expense/benefit	-37.5	-0.075

	Percentage value (1)	Representative member (2)
4. Net investment return – for the quarter	1.2%	600
5. Net investment return – year to date	6.8%	3400
6. Net return – dollar value		= 3400 – 500 + 75 – 250 + 37.5 = \$2762.50
7. Net return – percentage value		= 6.8 – 1 + 0.15 – 0.5 + 0.075 =5.525 %
8. Representative member fees and costs		\$1750
9. Representative member fees, costs and taxes		\$2237.50
10. Start date of reporting period for new investment options only		



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