



Discussion Paper

Reporting standards for select investment options


7 July 2014

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Preamble

In 2013, APRA released final reporting standards for the superannuation industry, which included requirements for RSE licensees to report information in respect of certain non-MySuper investment options within their business operations, referred to as select investment options.

Since the release of the final reporting standards, the superannuation industry has identified specific areas of the select investment option reporting requirements that give rise to implementation challenges or require further clarification.

In its letter of 21 March 2014, APRA indicated that it was deferring the commencement of select investment option reporting until 1 July 2015 and would undertake additional consultation on these reporting requirements. This paper outlines APRA's proposals for revising the reporting requirements in respect of select investment options.

APRA invites comments on the proposals in this paper and the draft revised reporting forms and instructions. Written submissions on this paper should be forwarded by 15 September 2014, preferably by email, to:

Neil Grummitt
General Manager
Policy, Statistics and International
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001
Email: superannuation.policy@apra.gov.au

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Contents

Glossary	6
Executive summary	7
Next steps	8
Chapter 1 - Introduction	9
1.1 Background	9
1.2 Proposed changes and scope of consultation	10
1.3 Confidentiality and publication of data	11
1.4 Audit requirements	11
1.5 Transition to new reporting standards	11
1.6 How to read the accompanying forms and instructions	11
1.7 Process and timetable	12
Chapter 2 – Definition of select investment option	13
2.1 Objectives	13
2.2 Existing definition	13
2.3 Proposed definition	13
2.4 Comment	13
Chapter 3 – Asset allocation	15
3.1 Objectives	15
3.2 Existing requirements	15
3.3 Proposed requirements	15
3.4 Comment	15
Chapter 4 – Investment movements	16
4.1 Objectives	16
4.2 Existing requirements	16
4.3 Proposed requirements	16
4.4 Comment	16

Chapter 5 – Financial performance and members’ benefits flows	17
5.1 Objectives	17
5.2 Existing requirements	17
5.3 Proposed requirements	17
5.4 Comment	17
Chapter 6 – Investment performance and net return	18
6.1 Objectives	18
6.2 Existing requirements	18
6.3 Proposed requirements	18
6.4 Interaction with global investment performance standards	19
6.5 Comment	19
Chapter 7 – Cost-benefit analysis information	20
Proposed reporting forms	21

Glossary

ABS	Australian Bureau of Statistics
APRA	Australian Prudential Regulation Authority
APRA Act	<i>Australian Prudential Regulation Authority Act 1998</i>
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
Corporations Act	<i>Corporations Act 2001</i>
Corporations Regulations	<i>Corporations Regulations 2001</i>
ERF	eligible rollover fund
FSCOD Act	<i>Financial Sector (Collection of Data) Act 2001</i>
GIPS standards	Global Investment Performance Standards
PST	pooled superannuation trust as defined in s. 10(1) of the SIS Act
RSE	registrable superannuation entity as defined in s. 10(1) of the SIS Act
RSE licensee	a constitutional corporation, body corporate, or group of individual trustees, that holds an RSE licence granted under s. 29D of the SIS Act
SBR	Standard Business Reporting
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SIS Regulations	<i>Superannuation Industry (Supervision) Regulations 1994</i>
Stronger Super	Government's response to the Review (December 2010) and additional information pack (September 2011)
the Review	Review into the Efficiency, Governance, Structure and Operation of Australia's Superannuation System

Executive summary

In 2013, as part of the Government's Stronger Super reforms, APRA introduced prudential standards for the superannuation industry. APRA also released final reporting standards for the superannuation industry over the course of 2013, to support implementation of the Stronger Super reforms and update APRA's reporting requirements, which had remained unchanged since their introduction in 2004. These reporting standards included requirements for RSE licensees to report information in respect of certain non-MySuper investment options within their business operations, referred to as select investment options.

Since the release of the final reporting standards, as the superannuation industry has turned its attention to implementing the new reporting framework, APRA has continued to receive feedback from industry and other stakeholders on a range of implementation issues. In particular, industry has identified specific areas of the select investment option reporting requirements that give rise to implementation challenges or require further clarification.

In addition, in November 2013, the Government commenced a consultation in relation to its choice product dashboard requirements, which link closely to APRA's select investment option data collection.

In its letter of 21 March 2014, APRA therefore indicated that it was deferring the commencement of select investment option reporting until 1 July 2015 and would undertake additional consultation on these reporting requirements.

APRA is now proposing revisions to its select investment option reporting requirements, having considered the further feedback provided by industry since the release of the final reporting standards for superannuation in 2013. The key proposed changes, as outlined in this paper, include:

- amending the definition of select investment option;
- removing the requirement to report under *Reporting Standard SRS 330.1 Statement of Financial Performance* (SRS 330.1) in respect of select investment options;
- introducing two forms for select investment option reporting:
 - *Reporting Standard SRS 533.1 Asset Allocation and Members' Benefits Flows* (SRS 533.1); and
 - *Reporting Standard SRS 702.1 Investment Performance* (SRS 702.1).
- moving items relating to aggregate members' benefits flows in respect of select investment options from SRS 330.1 to SRS 533.1 and requiring only aggregated members' benefits flows to be reported;
- removing the requirement (under *Reporting Standard SRS 533.0 Asset Allocation* (SRS 533.0)) to report movements in directly held and indirectly held investments broken down by asset class, domicile and listing type for select investment options;
- removing the requirement (under SRS 533.0) to report fixed income currency types in respect of select investment options under SRS 533.1; and
- changing the information required to be provided to APRA in relation to the investment performance of select investment options under SRS 702.1.

The requirements to report in respect of select investment options under *Reporting Standard SRS 601.0 Profile and Structure* (RSE) are not proposed to change.

APRA expects the proposed revisions to significantly reduce the costs to industry of reporting to APRA. In APRA's view, the proposed revised reporting requirements strike an appropriate balance between providing the information that APRA and other stakeholders require for their purposes (including meeting the enhanced transparency objectives of the Stronger Super reforms) and addressing the concerns that have been raised regarding the compliance burden for the superannuation industry in reporting the information.

Overall, APRA expects that the proposed reporting requirements for select investment options will benefit all industry stakeholders by facilitating enhanced transparency and comparability, in particular in relation to investment performance.

Next steps

APRA is seeking comments on the proposals outlined in this discussion paper, in the context of the objectives of supporting prudential supervision and providing enhanced transparency and comparability across the superannuation industry. APRA encourages stakeholders to provide information that will assist APRA in better understanding any impediments to providing the proposed data and requests that comments made in submissions are as specific as possible, identifying specific data item(s) or instruction(s) where possible. Submissions should also comment on the compliance impact of the proposals. More detail on the cost-benefit analysis information requested is provided in Chapter 7.

Subject to consideration of the feedback received in response to this discussion paper, APRA expects to release final reporting standards in February 2015. Reporting in accordance with the new requirements would commence for reporting periods starting from 1 July 2015. The first reporting due dates under these arrangements for funds with a financial year end of 30 June would be 28 October 2015, for the quarter ended 30 September 2015.

APRA notes that any amendments to the choice product dashboard legislation and regulations resulting from the Government's November 2013 consultation have not yet been finalised. To the extent that there are changes that impact APRA's reporting requirements, the proposals in this paper will be reviewed and where appropriate revised to align with the final position in RSE licensee law.

Chapter 1 - Introduction

1.1 Background

APRA requires the industries it regulates to report comprehensive statistical data on a regular basis. APRA uses this data for prudential purposes, shares data with other Australian agencies for their purposes, and publishes selected information from the data collected. The objective of these data collections and publications is to support APRA's prudential supervision and to provide appropriate transparency and disclosure in relation to the operations of the industries it regulates. Achievement of these objectives benefits all industry stakeholders.

In 2013, as part of the Government's Stronger Super reforms, APRA introduced prudential standards for the superannuation industry. APRA also released final reporting standards for the superannuation industry over the course of 2013, to support implementation of the Stronger Super reforms. The new reporting standards also update APRA's reporting requirements, which had remained unchanged since their introduction in 2004. These reporting standards included requirements for RSE licensees to report information in respect of certain non-MySuper investment options within their business operations, referred to as select investment options.

Three reporting standards currently apply to select investment options and were originally intended to commence with effect from 1 July 2014:

- *Reporting Standard SRS 330.1 Statement of Financial Performance* (SRS 330.1);
- *Reporting Standard SRS 533.0 Asset Allocation* (SRS 533.0); and
- *Reporting Standard SRS 601.0 Profile and Structure (RSE)* (SRS 601.0).

In its March 2013 *Response to Submissions - Reporting Standards for Superannuation* (the March 2013 response paper), APRA indicated that *Reporting Standard SRS 702.0 Investment Performance* (SRS 702.0) would also be applied for select investment option reporting when the choice product dashboard requirements were finalised by the Government.

In November 2013, the Government released a consultation paper: *Better regulation and governance, enhanced transparency and improved competition in superannuation*.¹ As part of this consultation the Government sought feedback on requirements in relation to the choice product dashboard.

In anticipation of the Government's consultation on the choice product dashboard requirements, in its September 2013 *Response to Submissions - Reporting Standards for Superannuation (SRS 700.0, SRS 702.0 and SRS 703.0)* (the September 2013 response paper), APRA deferred finalising the requirements regarding investment performance reporting for select investment options under SRS 702.0 to enable alignment between the final requirements in law regarding the choice product dashboard and APRA's reporting requirements. APRA also signalled its intention to re-consult on the requirements of SRS 533.0, as they apply to select investment options, as part of future consultation on reporting for such options in relation to the product dashboard and investment performance.

Since the release of the final reporting standards, as the superannuation industry has turned its attention to implementing the new reporting framework, APRA has continued to receive feedback from industry and other stakeholders on a range of implementation issues. In particular, industry has identified specific areas of the select investment option reporting requirements that give rise to implementation challenges or require further clarification. Further, the Government's choice product dashboard requirements have not yet been finalised.

¹ Refer to <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2013/Better-regulation-and-governance>

Accordingly, in its letter of 21 March 2014, APRA indicated that it was deferring the commencement of SRS 330.1 and SRS 533.0, as applicable to select investment options, until 1 July 2015. APRA also indicated its intention to undertake additional consultation on the select investment option reporting requirements to ensure that an appropriate balance is struck between providing data that APRA and other agencies require for their purposes (including meeting the enhanced transparency objectives of the Stronger Super reforms) and the compliance burden for the superannuation industry in reporting the information.

1.2 Proposed changes and scope of consultation

APRA is proposing revisions to the select investment option reporting requirements to address feedback received from industry since the release of the final reporting standards in 2013. These revisions are covered in more detail in chapters 2 to 6 of this discussion paper.

The key proposed changes to the select investment option reporting requirements, as outlined in this paper, include:

- amending the definition of select investment option;
- removing the requirement to report under SRS 330.1 in respect of select investment options;
- introducing two forms for select investment option reporting:
 - *Reporting Standard SRS 533.1 Asset Allocation and Members' Benefits Flows* (SRS 533.1); and
 - *Reporting Standard SRS 702.1 Investment Performance* (SRS 702.1).
- moving and/or amending some items currently required on SRS 330.1 and SRS 533.0 to SRS 533.1; and
- varying information required to be provided to APRA in relation to the investment performance of select investment options under SRS 702.1.

As part of this consultation exercise, APRA is seeking feedback on the proposed changes to SRS 330.1 and SRS 533.0 and the new select investment option reporting form, SRS 533.1.

No changes are proposed to the baseline information on select investment options that is collected under SRS 601.0.

On 5 May 2014 the Government deferred implementing the choice product dashboard requirements until 1 July 2015 and has yet to finalise its choice product dashboard requirements. APRA's *Reporting Standard SRS 701.0 Product Dashboard (Choice Products)* (SRS 701.0) needs to align with these requirements. APRA will therefore consult on the reporting requirements under SRS 701.0 when the Government has finalised the choice product dashboard requirements.

APRA's *Reporting Standard SRS 702.1 Investment Performance* (SRS 702.1) also has some alignment with the Government's choice product dashboard requirements. However, APRA has proposed some changes to SRS 702.1 and is seeking feedback on these changes in advance of the finalisation of the Government's position. APRA will reflect any further changes that may be required to SRS 702.1, and if necessary consult further on these changes, once the Government's choice product dashboard requirements are known and prior to final release of SRS 702.1.

APRA expects the proposed revisions outlined above to significantly reduce the costs to industry of reporting to APRA. As part of this consultation, APRA is seeking feedback on the compliance impact of the proposals. More detail on the cost-benefit analysis information requested is provided in Chapter 7.

1.3 Confidentiality and publication of data

Section 57 of the APRA Act permits APRA to make a determination that data provided in a particular reporting document, which has been submitted in accordance with a reporting standard made under the FSCOD Act, is non-confidential. This allows the information to be published without breaching section 56 of the APRA Act.

APRA will consult separately on the confidentiality and publication of data submitted in each of the reporting forms that accompany this discussion paper.

1.4 Audit requirements

Within *Prudential Standard SPS 310 Audit and Related Matters* (SPS 310), APRA sets out requirements in relation to the auditing of information in specific reporting standards. SPS 310 lists only a sub-set of the annual reporting requirements as subject to audit. The remaining forms that are not subject to specific audit are instead expected to be considered in the RSE auditor's review of the RSE licensee's internal processes required by paragraph 19(b)(ii) of SPS 310.

In recognition of the nature of the information proposed to be collected under SRS 533.1 and SRS 702.1 and the fact that individual RSE licensees may operate a large number of discrete select investment options, APRA does not propose that SRS 533.1 and SRS 702.1 be subject to specific audit requirements. These forms would be expected to be included with the forms considered in the RSE auditor's review of the RSE licensee's internal processes as noted above.

1.5 Transition to new reporting standards

APRA proposes that the new reporting standards for select investment options will take effect from the first reporting period ending on or after 1 July 2015. Each chapter in this paper indicates how frequently the reporting is to be submitted (i.e. quarterly or annually).

The first period for quarterly reporting would be for the quarter ending on or after 1 July 2015. This means, for example, that:

- if an RSE has a year of income ending on 30 June, the first quarterly reporting period would be the quarter ending on 30 September 2015; and
- if an RSE has a year of income ending on 30 April, with quarters ending on 31 July, 31 October, 31 January, the first quarterly reporting period would be the quarter ending on 31 July 2015.

The first annual reporting period would be the first year of income ending on or after 1 July 2015. This means, for example, that:

- if an RSE has a year of income ending on 30 June, the first annual reporting period would be the year ending on 30 June 2016; and
- if an RSE has a year of income ending on 30 April, the first annual reporting period would be the year ending on 30 April 2016.

1.6 How to read the accompanying forms and instructions

Each chapter refers to forms and instructions relating to a particular topic, which should be read in conjunction with the material in the chapter.

The forms are provided in MS Word format and are similar in layout to the current D2A reporting forms. Cells that are shaded grey indicate that a data item will be calculated by D2A and will not require information to be entered by the RSE licensee. Drop-down boxes indicate that the number of lines in a table will be determined by the reporting entity. This differs from other tables which have a pre-determined number of rows.

The instructions provided for each of the reporting forms are legislative instruments and include explanations of each section in the particular reporting form, as well as definitions for each data item.

To aid understanding of the proposed revisions to reporting standards, new items within the accompanying forms are highlighted in yellow. In addition, marked-up MS Word versions of the existing forms released in 2013 are also provided, with items proposed to be removed for the purposes of the select investment option collection highlighted in blue.

1.7 Process and timetable

After consideration of feedback received, APRA expects to finalise the reporting standards in early 2015.

The key milestones in APRA's implementation of its proposals are:

7 July 2014 – 15 September 2014	Consultation on draft reporting standards
February 2015	Release of final reporting standards
1 July 2015	New reporting standards effective

Chapter 2 – Definition of select investment option

This chapter outlines the asset allocation information that APRA proposes to collect in respect of each select investment option.

2.1 Objectives

The select investment option definition and associated thresholds are intended to ensure that information about all investment options that could materially affect the operations of an RSE is reported to APRA. At the same time, APRA seeks to avoid unnecessary reporting burden for industry. The proposed requirements also meet the enhanced transparency objectives of the Stronger Super reforms.

2.2 Existing definition

In its March 2013 response to submissions on reporting standards for superannuation, APRA defined a select investment option to mean an investment option in an RSE, defined benefit RSE, ERF or PST which:

- (a) underlies:
 - (i) a defined benefit pension within the meaning of *Prudential Standard SPS 160 Defined Benefit Matters* (SPS 160), where that defined benefit pension is currently being paid; or
 - (ii) an interest that entitles the member who holds the interest, when benefits in respect of the interest become payable, to be paid a benefit referred to in the definition of 'defined benefit member' in paragraph 7(b) of SPS 160; or
- (b) underlies a pre-MySuper default product that includes at least one accrued default amount (within the meaning given in section 20B of the SIS Act); or
- (c) underlies a reserve; or
- (d) at the most recent 30 June, has assets relating to non-MySuper interests greater than \$50 million; or
- (e) at the most recent 30 June, has assets relating to non-MySuper interests that are less than \$50 million but which represent more than 5 per cent of total assets of the RSE within which the investment option is located.

2.3 Proposed definition

APRA proposes to amend the select investment option definition by removing the limb of the definition referring to investment options underlying a reserve.

APRA proposes to further consider other aspects of the definition and associated thresholds once the outcomes of the Government's consultation in relation to choice product dashboard requirements are finalised.

2.4 Comment

APRA has reviewed its previously proposed definition of select investment option, the characteristics of the reporting population under the existing definition and the information it requires for prudential purposes. As a result, APRA proposes to amend the select investment option definition by removing the limb of the definition referring to investment options underlying a reserve. APRA notes that in many cases reserves are invested similarly to other material investment options and that specific investment information in relation to reserves can be sought by APRA if required and hence need not be reported on a quarterly basis. Removing the 'reserve' limb of the definition allows smaller investment options, which may fall beneath the threshold of \$50 million and 5 per cent of total RSE assets, to be omitted from the final select investment option reporting requirements.

APRA is also considering the prudential and practical implications of altering the proposed select investment option threshold of \$50 million and 5 per cent of total RSE assets. APRA seeks the views of industry on the appropriate level of these thresholds, in the context of the objective of ensuring that information about all investment options that could materially affect the operations of an RSE is reported to APRA. Industry is requested to identify, and where possible quantify the relevant expense implications of, any suggested amendments to the thresholds.

APRA has received feedback from industry that certain select investment options contain member accounts in both the taxed phase and the tax-free phase. As a result, net-of-tax returns under such select investment options will vary depending on the member account phase. RSE licensees are reporting such select investment options as two reporting entities to enable reporting of the varying after-tax returns. APRA's expectation is that RSE licensees continue to report such select investment options as two separate entities (one for the taxed phase and another for the tax-free phase) to enable appropriate consideration of the net-of-tax member outcomes within a select investment option.

The select investment option definition for APRA reporting purposes does not currently fully align with the existing choice product population as set out under s. 1017BA of the Corporations Act. This is because APRA's select investment option reporting requirements reflect a broader purpose than that of the choice product disclosure regime, and in particular includes the provision of information to APRA for prudential purposes. As noted above, the select investment option definition and associated thresholds are intended to ensure that information about all investment options that could materially affect the operations of an RSE is reported to APRA.

The Government has not yet finalised its choice product dashboard requirements following its consultation on the November 2013 paper: *Better regulation and governance, enhanced transparency and improved competition in superannuation*. To the extent that there are changes to the dashboard requirements, APRA will give these due consideration and if necessary, consult further when finalising its select investment option reporting requirements.

Chapter 3 – Asset allocation

This chapter outlines the asset allocation information that APRA proposes to collect in respect of each select investment option. For the purposes of this consultation, asset allocation relates to the amount and composition of assets attributable to each select investment option.

3.1 Objectives

Detailed asset allocation information assists understanding of the asset composition and risk characteristics of each select investment option and also provides insight into changes in asset composition, including currency hedging status, over time.

Publication of this information can also assist with the comparability and transparency of the performance and features of investment options across the superannuation industry.

3.2 Existing requirements

Under SRS 533.0, APRA requires reporting of the strategic and actual asset allocation of each investment option on a look-through basis, where appropriate.

In reporting the strategic asset allocation, where applicable, details of asset allocation ranges and currency hedging ratios for each asset class type, domicile type and listing type are required.

In reporting the actual asset allocation, where applicable, fixed income investments must be subdivided by type and currency of investment. The actual currency hedging position of each asset class type, domicile type and listing type is also required to be reported.

Reporting Form SRF 533.0 Asset Allocation (SRF 533.0) is required to be submitted to APRA on a quarterly and annual basis.

3.3 Proposed requirements

Under SRS 533.1, APRA proposes to:

- retain the requirement to report the strategic asset allocation of each select investment option, as currently required under SRS 533.0; and
- reduce the reporting requirements in respect of the actual asset allocation of each investment option by removing the requirement to report fixed income currency types.

Reporting Form SRF 533.1 Asset Allocation and Members' Benefits Flows (SRF 533.1) is proposed to be submitted to APRA on a quarterly and annual basis.

3.4 Comment

APRA considers that the collection of both strategic and actual asset allocation information is important for the purposes of understanding the asset composition and risk characteristics of each select investment option. However, having reviewed the information within APRA's reporting framework and considered the feedback from industry, APRA's view is that aspects of the detail required in relation to select investment options could be reduced without significant prudential detriment.

In particular, APRA notes that information in relation to the currency types of fixed income assets is collected at the RSE level under *Reporting Standard SRS 530.0 Investments* and at the MySuper product level under SRS 533.0. Collecting this information at the select investment option level is of lower priority and, where necessary, APRA could request this information on an ad hoc basis rather than requiring quarterly reporting.

APRA recognises that the strategic asset allocation concept may not be as relevant for select investment options that are not diverse portfolios. APRA therefore seeks feedback from industry on practical approaches for reporting relevant strategic asset allocation information in respect of select investment options, along with the impact of any suggested amendments to the current requirements.

Chapter 4 – Investment movements

This chapter outlines the investment movement information that APRA proposes to collect in respect of each select investment option.

For the purposes of this consultation, investment movements relate to movements in directly held and indirectly held investments.

4.1 Objectives

Information on investment movements assists understanding of the sources of return and the drivers of changes in asset size and composition. It also provides insight into the current and future liquidity profile of an investment option.

4.2 Existing requirements

Under SRS 533.0, APRA requires reporting of investment movements in directly held and indirectly held investments, broken down by asset class, domicile and listing type. This information is required to be reported on a look-through basis, where appropriate.

SRF 533.0 is required to be submitted to APRA on a quarterly and annual basis.

4.3 Proposed requirements

APRA proposes to:

- remove the requirement to report movements in directly held and indirectly held investments, broken down by asset class, domicile and listing type in respect of select investment options; and
- replace this with a requirement to report aggregated investment movements information at the select investment option level under SRS 533.1, with this information required to be reported on a look-through basis, where appropriate.

SRF 533.1 is proposed to be submitted to APRA on a quarterly and annual basis.

4.4 Comment

A consistent area of concern raised in feedback provided by the superannuation industry since APRA released its final reporting standards relates to providing information on investment movements for indirectly held investments. As the industry has turned its attention to implementing the new reporting framework, it has identified difficulties in reporting this information to APRA in respect of select investment options without requiring fundamental and costly changes to industry reporting practices. This is because the assets underlying a select investment option are not typically managed in a segregated manner, as is generally the case for MySuper products.

APRA's view, following consideration of the feedback provided, is that a simplified approach, with the collection of aggregated investment movement information at the select investment option level on a quarterly basis should be sufficient to meet the needs of APRA and other users of this information.

Chapter 5 – Financial performance and members’ benefits flows

This chapter outlines the financial performance and members’ benefits flows information that APRA proposes to collect in respect of each select investment option.

For the purposes of this consultation:

- financial performance relates to the various activities that result in a change in value of assets, such as income and expenses incurred during a reporting period; and
- members’ benefits flows relates to the activities that generate inflows and outflows of members’ benefits.

5.1 Objectives

Financial performance and members’ benefits flows information assists understanding of the efficiency of operations and the reasons for changes in asset size. It also provides insight into the current and future liquidity profile of an investment option.

Publication of this information can also assist with the comparability and transparency of the performance and features of investment options across the superannuation industry.

5.2 Existing requirements

Under SRS 330.1, APRA requires a detailed breakdown of:

- members’ benefits flows, sub-divided to identify the components of inflows and outflows;
- investment income and gains / losses;
- investment expenses;
- operating income and expenses;
- advice expenses;
- insurance flows;
- income tax expenses / benefits; and
- transfers into and out of reserves.

Reporting Form SRF 330.1 Statement of Financial Performance (SRF 330.1) is required to be submitted to APRA on an annual basis.

5.3 Proposed requirements

APRA proposes to:

- remove the requirement to report under SRS 330.1 in respect of select investment options²; and
- require aggregated members’ benefit flows information under SRS 533.1 in respect of each select investment option.

SRF 533.1 is proposed to be submitted to APRA on a quarterly and annual basis.

5.4 Comment

Another theme raised in the feedback provided by the superannuation industry since APRA released its final reporting standards relates to the measurement and reporting of financial performance at the select investment option level. Again, noting the differences between the MySuper product environment and the choice product environment, industry feedback has indicated that the assessment of financial performance information at the select investment option level does not align with current industry practice.

Industry feedback has suggested that allocation and attribution of income, expenses and insurance premiums at the select investment option level would be artificial and approximate, and would not reflect the manner in which the asset pools underlying select investment options are managed in practice. Industry therefore questions the value and purpose of this information for prudential purposes. Furthermore, industry feedback identified a disproportionately high cost burden from the implementation of the requirement to report this information in respect of each select investment option.

Acknowledging this feedback, APRA has reassessed which components of financial performance in respect of select investment options are required by APRA to discharge its prudential obligations. APRA proposes to remove the requirement to report the majority of the information currently required under SRS 330.1 in respect of select investment options, requiring only aggregated members’ benefits flows to be reported. Aggregated members’ benefits flows information provides insight into the current and future liquidity profile of an investment option and therefore APRA proposes to retain this reporting requirement.

² SRF 330.1 must be completed for each sub-fund only.

Chapter 6 – Investment performance and net return

This chapter outlines the investment performance and fees, costs and taxes information that APRA proposes to collect in respect of each select investment option, in order to assess the net investment return and net return to members.

For the purposes of this consultation:

- investment performance relates to gross and net returns as well as investment fees, costs and taxes required to assess investment performance; and
- net return relates to the outcome to members after the deduction of all investment, administration, advice and other fees, costs and taxes.

6.1 Objectives

Investment performance over the long term is a key determinant of members' retirement outcomes. Consistent information regarding gross and net investment returns, as well as investment fees, costs and taxes, is required to assess investment performance.

The net return for a select investment option provides a measure of the ultimate contribution of members' investments in that option to their retirement outcomes. Consistent information regarding net returns is required to assess the overall performance of each select investment option and to identify any areas of under-performance or over-performance that may give rise to prudential concern.

Publication of this information can also assist with the comparability and transparency of the performance and features of investment options across the superannuation industry.

6.2 Existing requirements

In its September 2013 response paper, APRA indicated that SRS 702.0 was expected to be applied to select investment option reporting once the choice product dashboard requirements were finalised by the Government.

Under SRS 702.0 as it applies to MySuper products, and consistent with Government policy and legislative requirements, APRA requires reporting of the quarterly and year-to-date net investment return, as well as a detailed breakdown of investment fees, costs and taxes.

In addition, APRA requires the reporting of a detailed breakdown of administration and advice fees, costs and taxes for APRA to calculate the net return for a representative MySuper member.

In order to permit comparison of consistent investment performance and net return information across the industry, *Reporting Form SRF 702.0 Investment Performance* is required to be submitted to APRA on a calendar quarter (31 March, 30 June, 30 September, 31 December) and annual (30 June) basis. This requirement applies irrespective of a fund's balance date.

6.3 Proposed requirements

Under SRS 702.1, APRA proposes to retain the requirement to report quarterly and year-to-date net investment return information, as well as a breakdown of investment, administration and advice fees, costs and taxes in respect of select investment options. APRA proposes to reduce the level of detail required in respect of this breakdown under SRS 702.1, compared to SRS 702.0.

APRA proposes to require under SRS 702.1 the reporting of all other fees, costs and taxes not captured within the investment, administration and advice fees, costs and taxes categories.

APRA also proposes to require both the highest and lowest applicable fee and cost scale to be reported in respect of an example member so that the range of such fees is provided.

In order to permit comparison of consistent investment performance and net return information across the industry, *Reporting Form SRF 702.1 Investment Performance* is proposed to be submitted to APRA on a calendar quarter (31 March, 30 June, 30 September, 31 December) and annual (30 June) basis. This requirement applies irrespective of a fund's balance date.

6.4 Interaction with global investment performance standards

APRA currently requires RSE licenses to base the calculation of net investment return of MySuper investment options on the same frequency that the unit price or crediting rate is calculated. Where assets are valued less frequently than quarterly APRA requires use of the most recent valuation of these assets in the net investment return calculation. Global investment performance standards (GIPS standards) for investment performance measurement suggest that quarterly valuation of non-traded assets is best practice.³

APRA's proposals for investment performance calculations of select investment options are consistent with GIPS standards that have been adopted as best practice by many investment managers and RSE licensees in Australia. APRA does not propose to mandate the use of GIPS standards across the superannuation industry but recognises that these standards may provide useful reference material for RSE licensees.

6.5 Comment

In its March 2013 response paper APRA noted that, as a number of (non-investment) fee categories are typically charged at the member level rather than the investment option level, requiring the reporting of non-investment fees at a select investment option level would not be straightforward.

APRA recognises that select investment options differ from MySuper investment options in terms of the manner in which fees and costs may be defined and allocated to members. In particular, APRA recognises that a broader range of fees and costs, and multiple fee and cost scales, may be applied for select investment options.

In recognition of the broader range of fees and costs that are permitted for select investment options compared to MySuper options, APRA proposes to require under SRS 702.1 the reporting of all other fees, costs and taxes not captured within the investment, administration and advice fees, costs and taxes categories.

In order to aid comparability, where multiple fee and cost scales exist within a select investment option APRA proposes to require both the highest and lowest applicable fee and cost scale to be reported in respect of an example member, so that the range of such fees is provided. APRA proposes to use the terminology 'example member' rather than 'representative member' for select investment options reporting, to make it clearer that the information provided is for comparison purposes only and not intended to be representative of the likely outcome for members.

An example member under SRS 702.1 is, however, proposed to be defined consistently with a representative member under SRS 702.0. Accordingly, an example member under SRS 702.1 will be defined as a member who is fully invested in the given investment option, who does not incur any activity fees during a year, and who has an account balance of \$50,000 throughout that year, excluding investment gains/losses on the \$50,000 balance.

APRA notes that the outcomes of the Government's November 2013 *Better regulation and governance, enhanced transparency and improved competition in superannuation* consultation are not yet known.

In particular, the outcomes of 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.

In the discussion paper accompanying its consultation, the Government made the following comments:

"A difficulty with disclosing a net return for a [choice] product is that administration fees (often charged as dollar-based fees) can be different, as a percentage, for each member depending on their account balance. These difficulties could be overcome by calculating a net return with reference to a representative member.

Net return is the measure that is used on the MySuper product dashboard, acknowledging that in most cases in the MySuper environment, the products that are offered have the same options, benefits and facilities offered to all members."

³ The GIPS standards were created and are administered by the CFA Institute, www.gipsstandards.org.

Chapter 7 – Cost-benefit analysis information

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary assessment to establish whether it is likely that there will be business compliance costs. In order to perform a comprehensive cost-benefit analysis, APRA welcomes information from interested parties on the financial impact of the changes proposed under this review and any other substantive costs associated with the proposed reforms. Specifically, information is sought on the implementation and ongoing costs of the requirements and whether these costs are expected to increase or decrease over time.

As part of the consultation process, APRA also requests respondents to provide an assessment of the compliance impact of the proposed changes. APRA expects the proposed requirements to result in the removal of some compliance and implementation costs. Respondents may also wish to indicate whether there are any other reporting requirements relating to RSE licensees that should be improved or removed to reduce compliance costs. In doing so, please explain what they are, why they need to be improved or removed and what the compliance impact would be if the proposed change was made.

Consistent with the Government's approach, APRA will use the methodology behind the Business Cost Calculator (BCC) to assess compliance costs. The BCC is designed to capture the relevant costs in a structured way, including assessment of upfront costs and ongoing costs separately. The BCC is available at: <http://www.dpmc.gov.au/deregulation/obpr/bcc/index.cfm>. Respondents are requested to use the BCC methodology to estimate costs to ensure that the data supplied to APRA can be aggregated and used in an industry-wide assessment.

Proposed reporting forms

Table 1: Detailed reporting periods and levels: select investment options

Reporting forms for select investment options	Reporting frequency
SRF 533.1 Asset Allocation and Members' Benefits Flows	Quarterly and annually
SRF 702.1 Investment Performance	Calendar quarter and annually
SRF 601.0 Profile and Structure (RSE)	Annually



Telephone
1300 55 88 49

Email
info@apra.gov.au

Website
www.apra.gov.au

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