APRA Superannuation Data Transformation

FSC Submission

November 2020

Contents

1. About the Financial Services Council

The FSC is a leading peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services.

Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advice licensees and licensed trustee companies. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing $3 trillion on behalf of more than 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange, and is the fourth largest pool of managed funds in the world.

2. Introduction

The FSC welcomes the opportunity to respond to APRA's Superannuation Data Transformation (SDT) proposals.

This submission includes feedback from FSC members in relation to:

- Topic Paper 4: Expense Reporting
- Topic Paper 5: Asset Allocation
- Topic Paper 6: Insurance Arrangements
- Additional feedback in relation to earlier topic papers.

The FSC's members understand the importance of comprehensive and comparable data on superannuation funds, which provide APRA with the necessary information to appropriately regulate the superannuation sector and ensure good member outcomes.

It is vital that the data reporting frameworks developed through this process are robust, targeted and effective, to ensure they can be effectively implemented and provide genuinely useful data to APRA.

While we have noted concerns about the process and scope of the project, the FSC and our member organisations are committed to working constructively with APRA to ensure that APRA's data collection meets its policy goals.

3. FSC Recommendations

1. APRA should work with industry to ensure appropriate testing of data collection can be facilitated before implementation.

2. APRA should allow excel lodgement for initial data to allow time for funds to build automated solutions, and ensure the APRA Connect solution is fully operational before requiring its use for new data submissions.

3. APRA should allow additional time for lodgement of data for the first two years after commencement of new reporting standards.

4. APRA should further consult and agree with industry on specific data that should remain confidential.

5. The FSC recommends APRA work with industry to develop an agreed approach to apportioning expenses within complex organisational structures, and develop guidance to facilitate consistent expense categorisation.

6. APRA should consider implementing a materiality threshold to streamline expense reporting.

7. Allow for aggregate reporting of low-value transactions where appropriate.

8. Clarify ongoing reporting requirements, including cessation or consolidation of standards which duplicate new reporting requirements.

9. Ensure alignment between APRA asset allocation reporting and the forthcoming regulations implementing Portfolio Holdings Disclosure.

10. APRA should consult further with ASIC and fund managers, as well as superannuation funds, to develop a more efficient framework that will minimise duplication and double-handling and streamline data.

11. APRA should consider alternative approaches to implementation of full asset allocation data collection, to allow sufficient time for participants to implement reporting solutions.

12. APRA should ensure that commercially sensitive asset allocation data is not published.

13. APRA should consider streamlining insurance reporting standards to reduce duplication and double-handling of data.

14. APRA should consider collecting initial data with a five-year lookback period, given this is what is generally available in a manageable format to align with current requirements.

15. APRA should work with industry and ASIC to ensure occupation categories are applied consistently.

16. APRA should consider workable solutions for data collections that require fee and cost inputs for the period before RG 97 is fully operational.

17. APRA should engage with platform providers to ensure workable reporting requirements that do not result in misleading or incomparable data, including considering the application of the proposed “trustee-directed product” definition for choice products.

4. General comments

4.1. Implementation

FSC members do not object to investing in systems to provide useful, comparable and high-quality data. However, the FSC remains concerned that in the current, resource-constrained environment, the consequence of not providing sufficient time to consult and implement the reporting standards will compromise these policy goals.

Implementing a new data collection program of this magnitude requires significant financial investment by superannuation funds and their service providers. It also takes significant time to undertake the necessary system builds to ensure high-quality data is provided.

FSC members are concerned that even if data standards are finalised by early 2021, it will be extremely difficult to provide the data required by the required dates, particularly considering the existing regulatory change load. A high level of manual processing will also be required, adding additional time and cost.

For context, one FSC member has estimated that the number of datapoints they submit to APRA annually will expand from approximately 250,000 to approximately 12.5 million on the basis of the draft reporting standards.

As a comparison, FSC members have noted that implementing the Pandemic Data Collection in short timeframes, without sufficient time for consultation and testing, has resulted in significant additional work. Multiple resubmissions to APRA have been required for each quarterly submission due to challenges in obtaining externally-sourced data within short timeframes and a lack of clarity around requirements due to insufficient time for consultation and testing.

As highlighted in the past by the FSC, superannuation funds generally require at least 12 months lead time from finalisation of requirements to allow sufficient time to analyse, build and test new reporting requirements.

The FSC recommends APRA strongly consider deferring as much of the reporting as possible for an additional year to 2022, in order to allow data standards to be further refined and provide superannuation funds with a sufficient amount of time required to implement system builds and changes to reporting processes.

FSC members also note that the planned ‘Phase 2’ of the Data Transformation will likely lead to further revision of data requirements, increasing the time and resources funds will need to commit to implementation and risking double handling or work being undertaken that is later deemed necessary or redundant.

4.2. Pilot data

The FSC's superannuation members also recognise the importance of the pilot data collection process. Funds see this as an important opportunity to ensure the final data standards operate effectively, and to understand the internal work required to comply and the complexity or nuances of new data. This is particularly important to ensure that proposals work for all product types.

However, in this instance, several key superannuation funds have taken the difficult decision not to participate in the pilot. A range of factors contributed to this decision, with key reasons such as the short time period and resourcing constraints due to other time-sensitive activity (including existing APRA data reporting requirements, COVID-19 pandemic reporting and other regulatory pressures).

In general, even in the case of a voluntary pilot, funds would operate on the presumption that they would participate in order to get value from the consultation process and ensure that reporting can be tested across the product types that it will apply to. FSC members are disappointed that they have been unable to participate on this occasion, and would welcome the opportunity to participate in an additional pilot process at a later date – particularly if pilots could be further staggered to avoid overlap.

Recommendation

1. APRA should work with industry to ensure appropriate testing of data collection can be facilitated before implementation.

4.3. Data submission process

FSC members have expressed some concerns about the additional work required to submit data through APRA's online portal, particularly given the volume of new data being collected through this process.

It would be extremely challenging and resource-intensive for funds to enter the required data manually. In addition, it does not appear that implementation will align with the new APRA Connect data solution so it will not be possible for funds to submit data in more efficient way (e.g. uploading completed template file) and they will instead need to manually format data.

While it would be duplicative for the industry to automate entry for a D2A solution and then re-engineer to automate for the new APRA Connect data solution, it would be risky to pilot such large complex data entry across the industry as the first data for the new APRA Connect solution.

The FSC recommends APRA consider allowing for excel lodgement for initial data, to allow additional time for funds to build automated solutions that simplify reporting through APRA's new portal or delay the launch of the reports (per item 4.1 above) until the APRA Connect data solution is fully operational and robust.

Recommendation

2. APRA should allow excel lodgement for initial data to allow time for funds to build automated solutions, and ensure the APRA Connect solution is fully operational before requiring its use for new data submissions.

Timing of data submissions

While we recognise the need for timely collection of data, FSC members are concerned that it will be difficult to compile the extensive new data submissions within the time provided – particularly for early data collections as new reporting is still being embedded.

The FSC recommends the due date for quarterly submissions is extended to 35 days after the end of the relevant period, rather than the current 28 days, for the first two years after the new data standards come into effect.

A two-week extension should also be considered for initial rounds of annual reporting, particularly if this is expected to coincide with the implementation of APRA Connect.

This aligns with the approach used when other new data reporting forms have been introduced, and will assist funds to operationalise the new processes – particularly where externally-sourced data and/or manual processing is required.

Recommendation

3. APRA should allow additional time for lodgement of data for the first two years after commencement of new reporting standards.

5. Expense Reporting

5.1. Data publication

FSC members have ongoing concerns about the publication of data collected under this reporting standard.

While we understand the need for APRA to collect detailed expense data, particularly in light of legislative changes flagged in the recent Federal Budget, it is not clear that publication of all data without a materiality threshold or the ability to flag confidential data will significantly improve member outcomes.

This is not an attempt to hide expenses from scrutiny. However, in a competitive superannuation market (particularly where tenders are used for corporate plans), it is reasonable to consider that some expenses should reasonably be able to be kept confidential. It is for this reason that many contracts include confidentiality provisions. Where funds have existing contracts in place, for example with platform providers, disclosure of costs may result in a breach of contract terms.

Similarly, for companies with complicated organisational structures contractual arrangements might be with a different company than the RSE. Disclosure of expense information based on look through will cause contractual issues for the legal entity that owns the contractual arrangement.

Examples of data that FSC members would request to be kept confidential include:

- Detailed expense per service provider per expense type. Disclosure of total per expense group, with expense type covered clearly defined should be sufficient.
- Commercial terms agreed with suppliers for expenses like audit – disclosure of this information could cause a disadvantage to the superannuation fund when negotiating new contracts in the same industry. Current costs might be deduced from reporting and therefore reduce a fund's bargaining power. Unlisted companies for example don't disclose detail information regarding audit fees.

External service providers customise pricing of their service offerings for each RSE based on the unique features of each fund and the service package and pricing approach desired by the trustee (e.g. services included in the base price and services for which additional fees will apply). Even the detailed expense types requested under the draft standard – particularly for administration services and member services – are unlikely to result in apples with apples comparisons. The expense types are also highly unlikely to align with the provider's pricing model and hence the breakdowns will be somewhat artificial and arbitrary and apportionments are likely to vary depending on the provider's organisational structure.

Hence, as well as the commercial-in-confidence consideration (which we consider is sufficient on its own to justify the data being kept confidential), service-provider level expense information will not be suitable to enable like-for-like comparisons, will need to be interpreted with caution by APRA and should not be made publicly available

Recommendation

4. APRA should further consult and agree with industry on specific data that should remain confidential.

5.2. Allocating expenses

We appreciate APRA's willingness to consult on the most effective way to categorise expenses for the purpose of SRS 332.0.

Given the granularity of data requested by APRA, ongoing engagement is likely to be required as funds work through the reporting process, to ensure expenses are categorised consistently across the industry.

Businesses will particularly struggle to allocate expenses appropriately if they have complex organisational structures, where it is difficult to reconcile shared costs against individual funds. Some funds are concerned that they will effectively be allocating expenses arbitrarily where they are unable to apportion shared costs with any certainty.

Clear and concise definitions are required to ensure expense categorisation and allocations across the industry is standardised and comparable. Unless there is an agreed, standardised approach to apportioning costs this will result in inconsistent reporting of some costs between funds. This may lead to inaccurate conclusions being drawn or inappropriate comparisons between funds, which undermines the purpose of the data collection.

FSC members suggest that categorisation of expenses by function/category only is preferred over the existing 'category' and 'type' combination. Under the current draft reporting standard, a specific expense type may be incurred by different funds as different expense category due to different organisational structure, hence reducing the consistency and comparability of the data collected.

Recommendation

5. The FSC recommends APRA work with industry to develop an agreed approach to apportioning expenses within complex organisational structures, and develop guidance to facilitate consistent expense categorisation.

Materiality Threshold

Introduction of an appropriate materiality threshold is important for efficient implementation of the standard.

The draft standard currently calls for each unique combination of expense category/type/service provider to be analysed. Given the short implementation period proposed, this will involve extensive and costly manual process until current process and systems can be updated to support the required analysis.

It is proposed that APRA nominate areas (expense category) of interest, and detailed analysis (of expense type / service provider) can be performed on these. For other non-nominated expenses, a materiality threshold (e.g.: 1-5% of expenses) should be applied with only expenses above the defined threshold requiring analysis of service providers.

Recommendation

6. APRA should consider implementing a materiality threshold to streamline expense reporting.

Aggregation of once-off transactions

FSC members have identified through initial data analysis that there are large numbers of low value transactions which would be captured, such as medical assessment for a specific member or financial advice cost for specific member. There are large number of service providers for services of this nature and each would only provide service for low number (as low as 1) of members.

Identification of service providers for transaction of this nature is labour intensive, non-value adding. We would suggest APRA to include guidance to enable reporting of these expenses on aggregate basis.

Recommendation

7. Allow for aggregate reporting of low-value transactions where appropriate.

Responsible person relationships

SRS 101.0 defines this as a responsible person that has a financial or other interest with a service provider that is engaged by the RSE or RSE licensee.

FSC members currently collect and disclose material interests of Directors and responsible persons. We do not collect every individual shareholding of every responsible person in a supplier where these shareholdings are not material.

We propose that APRA limit the reporting of relationships to material interests as currently collected and maintained.

6. Asset Allocation

6.1. Data collection

Existing data collections

It would be helpful for APRA to clarify how the introduction of SRS 550 will impact other current data collections, including 533.1 and 534. The Topic Paper suggests that APRA will consider discontinuing data standards where appropriate, or granting exemptions where necessary.

Certainty regarding forward reporting requirements will be essential to allow funds to plan their reporting requirements appropriately. For this reason, it would be preferable for APRA to commit to automatically ceasing existing data collections where there is duplication, rather than granting individual exemptions.

The FSC recommends that APRA commit as soon as possible to cease collecting data in these other forms, or consolidate them, at the commencement of this new data collection. This will ensure funds are able to allocate resources and costs to the focused areas in the implementation of new and/or consolidated reporting requirements.

It would also be helpful to clarify going forward requirements for sections of existing forms that are not duplicated in the new standard (e.g.: member flows reporting currently within 533.1) that currently only applies to select investment options and MySuper. Given future reporting will be on the basis of Investment Option Number defined in SRF605, it is not clear whether the concept of 'select investment' will cease (see below).

Given the extend of duplications/cross-over introduced by the new suite of reporting standard, it would be helpful for RSEs to be provided with a 'big picture' map of APRA's reporting outlook to facilitate planning.

Recommendation
8. Clarify ongoing reporting requirements, including cessation or consolidation of standards which duplicate new reporting requirements.

Overlap with Portfolio Holdings Disclosure

The FSC also recommends that APRA engage with Treasury to understand how asset allocation reporting is likely to overlap with forthcoming requirements for Portfolio Holdings Disclosure (PHD).

While regulations to support the PHD requirements legislated in 2019 have not yet been released, it appears likely that there will be significant duplication in reporting requirements. Given both will require significant work and cost to implement, and will create a material ongoing reporting obligation, data should be aligned as closely as possible. If the two reporting obligations are not aligned (or at a minimum made compatible) this will create significant ongoing cost without a clear improvement in member outcomes.

> **Recommendation**
>
> 9. Ensure alignment between APRA asset allocation reporting and the forthcoming regulations implementing Portfolio Holdings Disclosure.

Externally-sourced data

FSC superannuation members have concerns about the need to collect data from fund managers to complete reporting under SRS 550. This is likely to create a significant amount of duplicate reporting, with many fund managers required to provide data to multiple funds on the same products, who will all individually provide this data to APRA. Massive amounts of data for investments such as ETFs, LICs, LIRs, ETCs, TDs, Shares etc will be reported many times by different superannuation funds and then by different products within the superannuation funds.

Where external data is being submitted to the superannuation fund, there needs to be adequate time to allow all upstream data providers to provide their data before the downstream APRA runs for the superannuation fund can be processed with full data. Thus there has to be an adequate time lag for receiving and aggregation. The currently proposed timeframes are inadequate given the number of potential data providers (over 300 internal and external funds from various fund managers can exist on wrap platforms and some superannuation funds will have multiple wrap products to report).

> **Recommendation**
>
> 10. APRA should consult further with ASIC and fund managers, as well as superannuation funds, to develop a more efficient framework that will minimise duplication and double-handling and streamline data.

Select Investment Options

Due to extensive consultation on the matter in 2013-15 the industry and APRA developed a balanced and cost-effective approach to reporting asset allocations with the focus on Select Investment Options (SIOs). SIOs are the most important options within the superannuation funds.

However, investment options excluded as a result of consultation on the Select Investment Option (SIO) approach for SRF 533 are now included for the proposed new reporting standards. Some of the issues previously raised which resulted in their exclusion from SIOs are worth repeating as below:

- **Off-menu options**

  Where trustees have supported portability of super, they may have hundreds of off-menu investments due to in-specie transfers. These options are still held by the members by choice, not because the trustee has chosen to offer them, and are likely to have extremely low membership.

Similarly, where an investment option was removed from the investment menu some time ago (e.g. 5+ years), there is likely to be fewer members retaining the investment. The cost of reporting to the detail required does not match the value that would be achieved.

- **Traded securities**

  Massive amounts of data for investments such as ETFs, LICs, LIRs, ETCs, Shares etc will be reported where this data is already better reported (and more timely) under ASX (or other share market) listing rules.

- **Term Deposits**

  Term deposits vary by duration, interest rate, and provider. There is little value in itemising these.

Similarly, there may be off-sale products with few remaining members that should not be captured by the new SRS 550 standard. In the SIO concept these would have been aggregated if they were in the same investment vehicle within the RSE and would be excluded if nominal in value.

One FSC member has provided the following estimates of the scale of reporting required:

- Consider that if the current SRF 533 has Actual Asset Allocations (AAA = item 2) for a balanced fund then that means approximately 25 lines of Actual Asset Allocation data. However, for draft SRS 550 with five new asset classifications (high level column 4, tics from columns 6,7 and 8 plus International economy type from column 11) that means for the single balanced fund, the current 25 lines of AAA data would be several multiples higher (250 to 1000 lines of AAA data for the balanced fund – actual number of lines is still to be determined).
- Now, where that balanced fund is then offered on multiple products, those 250 to 1000 lines of AAA data might have to be submitted for 10 or more products meaning 2,500 to 10,000 lines of data just for that one element of the SRS 550 form for just the balanced fund.
- Consider then a wrap platform of 300 investments on their menu, with 250 to 1000 lines of AAA data for each. That would mean 75,000 to 300,000 lines of data would be needed for just the AAA data and that would be for each wrap product. A super fund with an on sale and maybe 2 off-sale wraps would then have 225,000 to 900,000 lines of data to submit just for the AAA data alone.
- While we understand that an easy solution might seem to be to transfer members from off-sale products to on sale products and simplify the menus, this could only be achieved if it was determined to be in members' best interests, and could mean a taxation implication. The time to simplify the products would also be insufficient as the SRS 550 is planned for launch in mid-2021.

- Excel has a maximum of 1,048,576 rows of data and based on the above projections the Actual Asset Allocations section of SRF 550 alone will very likely breach this limit for wrap products due to the 5 new qualification characteristics requiring unique rows of data.

If it is not feasible to maintain the agreed SIO approach, the FSC recommends APRA take a two-stage approach to expanding data collection, first by extending the data collected in the existing 533.1 (noting reporting issues identified above) and then later expanding to include the new reporting requirements in 550.0 including strategic asset allocation.

Recommendation

11. APRA should consider alternative approaches to implementation of full asset allocation data collection, to allow sufficient time for participants to implement reporting solutions.

Publication of data

FSC members would welcome further consultation on the appropriate level of detail for publication of asset allocation data.

Given the granular data being collected, there is likely to be commercially sensitive information relating to investment strategies included in submissions. While we do not object to providing detail to APRA, it would be helpful to be able to identify information that is sensitive and remove this from published datasets.

For example, disclosure of derivatives of all types including currency exposure will expose significant detail of how firms manage asset classes (physicals v synthetics and also managing currency risk/hedging strategies), and this would be commercially sensitive to the firms.

Concerns around commercially sensitive data were also canvassed in previous Treasury consultations relating to PHD, and we recommend APRA start from the position of taking a similar approach in terms of the level of detail and timing of publication.

Recommendation

12. APRA should ensure that commercially sensitive asset allocation data is not published.

Data quality and granularity

As a number of the data points specified are not currently reported in the requested format by fund managers, it is likely that data quality and availability issues will arise while developing a solution to prepare option data for clients. These issues will require time for fund managers to be able to work through to be able to provide reporting to super funds and time to achieve this end state should be considered realistically by APRA. We suggest APRA work with fund managers to understand particular pain points.

We also note as a general comment that there are significant more new and more granular attributes that are proposed to be required per security. This creates a massive overhead for fund managers when it is unlikely that a lot of these attributes will be used for any other purpose. Therefore we caution APRA that the cost of implementing this level of granularity should be balanced against the true value to members.

7. Insurance Arrangements

7.1. Alignment of reporting

It would be helpful for APRA to consider where reporting requirements for SRS 251.0 and the existing LRS 750 could be aligned.

There is significant overlap in the data required in these two forms, and unless the data definitions and FAQ guidance for SRS 251.0 and LRS 750 are aligned, this will result in significant duplication of work.

Alignment between the data requested by insurers and trustees, and the use of insurer-submitted data where this is possible, would reduce duplication of work and double-handling of reported data by both insurers and trustees.

We understand that APRA is concerned that this would mean trustees are not considering data appropriately, however there is no reason insurers cannot also provide data to trustees at the time of submission.

Recommendation

13. APRA should consider streamlining insurance reporting standards to reduce duplication and double-handling of data.

7.2. Historical data

Superannuation funds and insurers share the view that it will be difficult to provide 10 years of data under SRS 251, noting that existing reporting only requires five years of historical data to be provided.

While relevant historical information is usually held by superannuation funds, it is unlikely to be in the format required and significant work may be required to adjust the data to align with the required reporting format. It is not clear that the historical data will be of sufficient quality, or add sufficient additional value, for APRA to make it a worthwhile exercise accessing this data retrospectively.

This data can be particularly difficult to track over a full 10 years when there have been successor fund transfers, intra-fund transfers, or multiple changes to insurance arrangements over this time. While we note that APRA has indicated that it will work with individual funds where data may not be available, a consistent approach would be preferred – for example, for all policies relating to pre-merger/SFT entities where the merger/SFT took place before a particular date.

It will also be difficult to allocate premiums for historical reporting purposes where multiple policies have been in place and calculations done on an umbrella basis. Reworking these calculations is unlikely to result in data that adds value for trustees or for APRA. While complying data can be collected on a forward-looking basis, FSC members do not see value in artificially reworking older data.

Recommendation
14. APRA should consider collecting initial data with a five-year lookback period, given this is what is generally available in a manageable format to align with current requirements.

7.3. Occupational categories

The Draft Reporting Standards include six occupation categories for use in reporting. FSC members would appreciate additional clarity around how these should be applied. Inconsistent application of the occupational data categories will result in data that is not properly comparable between funds and limit its usefulness.

Definitions relating to TPD and occupational categories are also likely to change over time. Reclassifying definitions for historical policies will present challenges and is likely to create further inconsistent treatment.

We note that improving consistency in occupational categories is also a priority for ASIC. We recommend that APRA and ASIC work together with industry to refine this.

Recommendation
15. APRA should work with industry and ASIC to ensure occupation categories are applied consistently.

8. Additional feedback

8.1. RG97 Alignment

Misalignment between implementation of the new reporting requirements and updated RG 97 requirements for calculation of fees and costs may impact multiple aspects of the data required as part of the SDT, including calculation of performance under SRS 705.0 and fee/cost data

Even before ASIC extended the implementation period for RG97, it was not clear that fee and cost data required to meet the requirements of both RG97 and SRS 705.0 would be available prior to reporting deadlines. This scenario could apply to costs that are applied annually.

Recommendation
16. APRA should consider workable solutions for data collections that require fee and cost inputs for the period before RG 97 is fully operational.

8.2. Performance

The FSC's Performance Analytics Expert Group (P-Group) has provided the following feedback in relation to performance measurement under SRS 705.1

Volatility of returns

The calculation and reporting of standard deviation of weekly returns is not consistent with industry standards, specifically the Global Investment Performance Standards (2020 version, effective 1 January 2020). GIPS specifies calculation of an annualised ex-post standard deviation (using monthly returns).

The recommended calculation methodology is outlined below.

$$(\sigma(R_P))_{Annualized} = \sigma(R_P) \times \sqrt{m}$$

$$\sigma(R_P) = \left\{ \frac{1}{(n-1)} \sum_{k=1}^{n} [R_{Pk} - \mu(R_P)]^2 \right\}^{\frac{1}{2}}$$

where:

- $\sigma(R_P)$ = standard deviation of portfolio monthly returns
- R_{Pk} = portfolio monthly return in period k *(k = 1, 2, 3, …, n)*
- n = number of consecutive portfolio monthly returns
- $\mu(R_P)$ = mean of portfolio monthly returns
- m = months in the measurement period (m >12)

Besides the above technical points, the information need that APRA seeks to address needs to be clearly understood. If APRA is seeking to educate investors of the concept of investment risk, then other measures could be considered. The Global Investment Performance Standards (GIPS – 2020 version) includes the concept of "internal dispersion". Applying this concept to SRS 705.1, and RSE licensee could disclose:

- the minimum and maximum annual returns over the measurement period (e.g. five-years or ten-years) and
- the range of returns over the measurement period

Calculation of long-term returns based on quarterly data

We interpret APRA's reference to "long term" returns to mean the calculation of returns for periods of one-year or greater.

One-year returns

We do not foresee any differences with the derivation of one-year returns if APRA and RSE licensees apply accepted industry practice of compounding quarterly returns to derive one-year returns.

The compounding approach is specified in the formula below.

$$R_T = (1+R_1)(1+R_2)..(1+R_N)-1$$

Where

- R_T = one-year return
- R_i = return for quarter i
- N = 1 to 4.

Returns for periods greater than one-year

When calculating and reporting returns for periods exceeding one-year (e.g. two-years, five-years and ten-years), industry practice is to calculate and report annualized returns. GIPS Advertising Guidelines specifies the calculation and reporting of annualized returns for three-year and five-year periods (e.g. Paragraph 8.C.1.a). Conversely Paragraph 8.A.4 states:

"Returns for periods of less than one year included in a GIPS Advertisement must not be annualized."

The annualisation methodology may differ across RSE licensees and differ to APRA's annualisation methodology. Annualisation methodologies that may be in use by RSE licensees or their service providers could be based on:

- the number of days in the measurement period or
- the number of months in the measurement period

The P-Group therefore do foresee possible differences between returns from RSE licensee's own calculations and APRA's calculations.

A suggested annualisation methodology based on number of months is provided below.

$$R_T = [(1+R_1)(1+R_2)..(1+R_N)]^{12/N} - 1$$

Where:

- R_T = annualised rate of return for N-month period
- N > 12
- N = number of months in period

Provision of historical data

We anticipate potential barriers to providing 10 years of historical data. Our concerns relate to the APRA requirement specified in Paragraph 12. Paragraph 12 states:

The information provided by an RSE licensee under this Reporting Standard must be the product of systems, procedures and internal controls that have been reviewed and tested by the RSE auditor of the RSE, defined benefit RSE or ERF which offered the investment option to which the information relates

The P-Group acknowledges that the unit prices for an Investment Option are subject to the audit requirements of GS007 (Audit Implications of the Use of Service Organisations for Investment Management Services). This audit requirements ensures that robust systems, processes and controls are in place to calculate and derive unit prices.

Our concern relates to the systems, procedures and controls to calculate Investment Option performance in a manner consistent with APRA's requirements.

A possible solution to address our concerns is for each RSE to achieve compliance with GIPS. To claim compliance with GIPS, an RSE would need to be able to present a ten-year historical performance record. This historical record requirement is consistent with APRA's requirement for ten years of performance data.

The Disclosure Requirements of GIPS (Paragraph 4.C.1.a) specify a "Firm" (e.g. an RSE) that has met all the applicable requirements of the GIPS standards and has been subject to an independent verification must disclose its compliance with the GIPS standards by including the following statement :

"A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report."

The view of the P-Group is that an RSE auditor appropriately qualified to complete a GIPS verification would ensure that the performance information provided would be the result of systems, procedures and internal controls that meet APRA's requirement.

8.3. Platforms

The FSC remains concerned that some aspects of the new reporting standards will be extremely difficult to implement for platform products, resulting in poor quality data.

For example, it is impossible to report wrap investment option performance net of tax, as tax is calculated at a member level in a wrap product. Any workaround such as reporting gross investment returns for these products, will result in data which cannot be directly compared between products, undermining the goal of the SDT and reducing the value of funds collecting and reporting the information.

The data for strategic asset allocation for accessible financial products offered in a platform is provided by external data providers. In order for the platform providers to be able to meet the proposed reporting requirements, changes to the provided data will be required. It is unclear at this stage whether such data will be provided in an updated format and/or whether the updated datasets will be provided in a timely manner, so that the funds will be able to collate it within the proposed timeframe.

In addition, detailed asset allocation reporting for platform products also appears to add limited value given the trustee does not control how individual members invest in the offered options.

The FSC recommends ongoing engagement with platform providers to ensure that reporting requirements are appropriate and do not result in the production of misleading or incomparable data.

The FSC also recommends APRA consider the proposed "trustee-directed product" definition proposed as part of the Your Future, Your Super package announced in the Federal Budget, and work toward aligning reporting requirements for non-MySuper products with this approach.

Recommendation

17. APRA should engage with platform providers to ensure workable reporting requirements that do not result in misleading or incomparable data, including considering the application of the proposed "trustee-directed product" definition for choice products.

Appendix: Specific comments on reporting tables

FSC members have provided the following feedback on the reporting templates. This feedback is largely targeted at creating efficiencies by minimising additional changes to existing reporting systems. However we note that this list of specific issues is not exhaustive, and it is highly probable that as super funds and fund managers commence more details gap analysis' that materially more issues will arise.

Reference	Comment
SRS 101.0	Consideration should be given to ensuring these definitions are consistent with other APRA and non-APRA reporting requirements.
Expense Reporting	
Reporting level	It is currently unclear whether expense reporting requirements apply at the RSE Licensee level or at the RSE level. The FSC recommends APRA consider collecting expenses only at the RSE level, to avoid duplication between RSEL reporting and RSE look-through data.
Look-through definition	There is no definition of "look through" in the reporting standard, or in SRS 101.0. We suggest that, in general, look though should cease at the point where the expense type is met – for example, at the level of premises provided by a parent company, rather than looking through to the level of individual contracts for multiple locations.
Expense categories	Additional expense categories required in table 1 include 'Tax', 'External audit', and 'Risk management'. Additional expense service types required in table 2 include 'Profit paid to parent' and 'Tax'. An additional expense type should also be added to the "office of the trustee" expense group to cover governance and company secretarial expenses. The mixing of expense function and line expenses in the "corporate overhead" category is also causing some confusion.
Asset Allocation	
General	'Commodities' and 'Other' in column 1 of SRF 533 have been replaced with 'Alternatives' and 'Currency Exposure' in column 4 of SRF 550.0.

	FSC members suggest not removing the existing ‘Commodities’ and ‘Other’ asset classes to minimise changes to the reporting framework.
	Asset class characteristics will be hard to automate and keep current. The FSC recommends APRA undertakes further consultation with superannuation funds regarding options to manage this.
Draft SRF 550.0, Table 1	We suggest the order of columns 5 and 6 is reversed to match the order currently used for SRF 533
	If the ‘Alternatives’ in column 4 of the SRF550.0 is retained, we suggest providing further guidance on how to distinguish ‘Alternatives’ from Equity, Property or Infrastructure for example. This will aid consistency in treatment and comparability of data
Draft SRF 550.0, Table 2:	We suggest the order of columns 6 and 7 is reversed to match the order currently used for SRF 533
	Because column 4 of table 1 is different to column 5 of table 2, we suggest that where (in column 4) we are asked if low level strategic asset allocation is “different to high level strategic asset allocation” the answer could rarely be “no”. We suggest APRA dispense with table 2 as it is therefore redundant.
	If the ‘Alternatives’ in column 4 of the SRF 550.0 is retained, we suggest providing further guidance on how to distinguish ‘Growth,’ ‘Defensive,’ and ‘Other alternative strategies.’ This will aid consistency in treatment and comparability of data
Draft SRF 550.0, Table 3	Public disclosure of the low-level granularity of asset class characteristics in 550.0 Actual Asset Allocations would be providing Intellectual Property to the market and potentially giving away competitive advantage. The FSC recommends APRA mask this data prior to any publication.
	We suggest the order of columns 10 and 11 is reversed to match the order currently used for SRF 533
	‘Commodities’ and ‘Other’ in column 1 of SRF 533 have been replaced with ‘Alternatives’ and ‘Currency Exposure’ in column 4 of SRF 550.0. FSC members suggest not removing the existing ‘Commodities’ and ‘Other’ asset classes to minimise changes to the reporting framework.

	If the ‘Alternatives’ in column 4 is retained, further guidance is needed on column 7 (Asset class characteristic 2) to distinguish the 17 possible outcomes (e.g. multi-strategy, real return multi-strategy, risk arbitrage, volatility arbitrage, etc.). This will aid consistency in treatment and comparability of data.
	SRF 533 currently only allows for a range of 0-100% for currency hedging (i.e. perfect hedges). We suggest allowing for a range just below 0.0% and just beyond 100% for SRF 550.0 for cases where the hedging is non-perfect
	Further clarity is required in relation to the APRA definitions of “emerging market” vs “Developed markets” vs “not applicable”
	Actual Currency Hedging will become very difficult for any funds that have a combination of FX Forward positions for both heading and speculative purposes. For a number of fund managers, systems are often unable to distinguish between the two if they exist in the same portfolios; resulting in skewed and misrepresentative hedging data unless significant build is invested in by fund managers to individually tag every FX forward transaction.
	The fields “Synthetic exposure”, “Gearing proportion” and “Modified duration” are new and still being investigated and we would welcome more time to understand whether the data is suitability available.
	Given the considerable overlap/similarity between existing SRF 533 and proposed new SRF 550.0, we recommend SRF 533 is retired from 1 July 2021 (when the new data standards commence)
Draft SRF 550.1, Table 1:	We suggest the order of columns is aligned to the order currently used for SRF 530 where possible
	The field “Synthetic exposure” is new and still being investigated and FSC members require more time to understand whether the data is suitably available.
	Given the considerable overlap/similarity between existing SRF 530 and proposed new SRF 550.1, we recommend SRF 530 is retired from 1 July 2021 (when the new data standards commence)

Draft SRF 550.2, Table 1	We suggest the order of columns is aligned to the order currently used for SRF 534 where possible
	Given the considerable overlap/similarity between existing SRF 534 and proposed new SRF 550.2, we recommend SRF 534 is retired from 1 July 2021 (when the new data standards commence)
Insurance Arrangements	
General	Clarity is requested around whether retail policies are in scope or out of scope. We suggest these are not included as advice is provided but this is unclear within the drafting.
SRF 250.3	The type of information on insurance premiums in Table 2 is currently reported in 703.0 for MySuper products at ages 30 and 50. Reporting for every individual age will create an extremely large data set with an increased risk or error. The FSC recommends collecting a premiums at a selection of ages (e.g. 20,30,40,50,60 and 70). As the difference in premiums for each year within these buckets is generally not material, this would still meet the intent of collection.
SRF 251.0	Splitting data submission by group policies will create challenging work where funds have multiple group policies. Suggest aggregating group policy data.
	Some proposed data fields will be difficult to obtain, including: • Income protection cover as a percentage of salary • Premium tax rebates to members The FSC recommends APRA consider how this data could be reported if precise figures are unavailable.
SRF 251.1	Some FSC members do not have a mechanism in the system to identify when default insurance cover changes over to 'non-default'. Changes to the insurance cover could be due to legislative reasons like PYS, PMIF etc. which is difficult to separate from member initiated changes. Default and 'non default' insurance reporting will likely need to be done on a best endeavours basis. Suggest funds not include this separation initially and APRA allow more time for funds to build new system fields to be able to capture this more robustly.
	Clarification is required on whether 'Changes in default cover (251.1 Item 2)' applies to changes in default cover as a result of member choice only, product design, or includes changes in default cover as a result of legislative requirements (e.g.: PYS, early release payments)

	Further, the draft standard requires an increase in cover to be differentiated between with or without underwriting. Information of this nature are typically included as workflow note rather than mandatory field within administration system. Hence, extraction would not be possible and ongoing reporting on this information would require system enhancement (which will add to the implementation cost and timeframe).
	Claims data would be more meaningful if claims were reported on an incurred basis, rather than when paid, as claims received during the period can be compared with premiums received for the period. This will negate any impact due to delays in reporting claims after the end of the period which the premiums were received.
	TPD definitions applied at the point of claim are not currently captured across industry, requiring significant work to assign definitions to prior claims. The FSC suggests this data could be initially reported on a best endeavours basis while systems are developed to ensue this data is captured consistently.
SRF 251.2	We understand that “claims paid” in Table 2 refers to when the claim is actually paid to the member. For superannuation funds, the payment to the member may include other amounts including earnings on the insurance payout and any associated lump sum superannuation payout. Building systems with the ability to capture the split of funds paid to the member will be costly but appears to add little additional value. It is important to also note that data provided under LRS750 and SRS251 will not align if the reporting definitions used are different. We encourage APRA to completely align definitions to avoid confusion in the reported data. In addition, if the final definitions are not aligned, industry may need to dedicate resources to understanding and explaining differences across both reports.
SRF 251.3	In relation to the proposed “cost of cover” data point (at SRF 251.3 Insurance Premiums, Table 2), this appears to be seeking the actual premium received. Depending on how the accounts/products are structured in the ledger, it may not be feasible to provide APRA a precise figure, meaning that some approximation may be required. We suggest that APRA allow for an estimation if it is not feasible to provide a precise figure.