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General Manager  
Data Analytics & Insights  
Risk and Data Analytics Division  
Australian Prudential Regulation Authority

By email: [superdatatransformation@apra.gov.au](mailto:superdatatransformation@apra.gov.au)

## **Superannuation Data Transformation – Publications and confidentiality**

### **Background**

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Almost 2.6 million Australians are members of AustralianSuper, and we invest over \$260bn of their retirement savings on their behalf. Our purpose is to help members achieve their best financial position in retirement. AustralianSuper continues to be an industry leader when it comes to the provision of clear, useable, and transparent information about our operations and investment holdings.

### **AustralianSuper's position**

We welcome the opportunity to comment on the discussion paper and appreciate the extension of time to provide feedback.

APRA has stated its intention to publish a large amount of data reported under the new superannuation reporting standards. This would result in a significant increase in the volume and complexity of data being released publicly.

Our submission is primarily focused on issues related to confidentiality and consistency of data. AustralianSuper is broadly supportive of the approach outlined in the consultation paper; however, we have concerns with some aspects that would negatively impact upon the best financial interests of our members.

We acknowledge and welcome APRA's specific confidentiality plans as outlined in Attachment F of the discussion paper. We encourage APRA to maintain these current proposals and incorporate our recommendations for additional measures to ensure the protection of members' financial interests.

We have outlined our concerns in our comments below and in the specific recommendations in Appendix A. We have not sought to address all the questions outlined in section 2.10 of the Discussion Paper; however, AustralianSuper has provided broad input into the submissions from ISA and AIST.

### **The purpose and value of data**

AustralianSuper believes it is critical to be open and transparent with the regulator in relation to data for supervisory purposes and has been supportive of APRA's work in this area. A well-informed regulator can make prudent and timely decisions leading to benefits for all market participants. However, being open and transparent with APRA for supervisory purposes is quite different to public disclosure. It is important to recognise the different roles and audiences involved.

The ability for Australians to trust in the integrity of data that is published by APRA is also crucial to ensuring trust in our superannuation system more broadly. We note recent concerns regarding the publication of heatmaps using data that was not properly validated before publication. Once again, we urge caution before any large-scale or sensitive data releases.

Public release of data should lead to better member education and improved public policy debate regarding superannuation. This can only occur if the data does no harm and creates no confusion. This test must be applied to the proposals in the discussion paper.

Consistent with the obligations on Trustees, it is incumbent on APRA to demonstrate the provision of data will not compromise Australians' retirement savings prior to any decisions regarding public release of data that has previously been provided. AustralianSuper does not believe this threshold has been demonstrated in the current consultation paper, particularly regarding expenses data.

Previously this data has been supplied to APRA for supervisory purposes. For APRA to subsequently make this information publicly available, and on such a granular level, should only be done after a clear assessment of whether the disclosure is in members best financial interests and with a clear articulation of the benefit and use of the data.

The current consultation relates to massive and complex data sets that are more likely to be examined by market participants and service providers rather than the average member. Third parties can, and will, be able to determine how we calculate commercial terms in third party contracts, some investment deals, and other commercially sensitive arrangements. In some cases, the identity of our service providers will be identifiable by referring to other reports or documents that the Fund is required to make publicly available. This can and will undermine our commercial procurement strategy.

It is also vital to consider what data is already in the public domain. Inconsistent data disclosure is more likely to create misunderstanding and confusion for members and the wider community. If data is going to help to educate and engage then it must be consistent with existing data sets. Failure to ensure this consistency will be detrimental, and ultimately undermine the integrity and credibility of existing data in the public domain.

### **Transparent best interests**

AustralianSuper strongly supports the collection and analysis of data to improve transparency and accountability in the superannuation system and deliver outcomes in the best financial interests of members. AustralianSuper supports measures that will facilitate a better understanding of the superannuation industry and improve member decision-making, whether directly or indirectly.

In determining the appropriate level of transparency and disclosure AustralianSuper considers two inputs:

- Our obligation to act in members' best financial interests by ensuring we can create and extract value for members to achieve their best financial position in retirement saving; and
- Ensuring members are provided with appropriate information about their retirement savings and operations of their Fund.

We view the obligation to act in members' best financial interests as a threshold that needs to be cleared before useful and informative data can be provided. As a result, the information will need to be withheld when the information is commercial in confidence or subject to contractual confidentiality obligations, where disclosure would limit the Fund's ability to create and extract value for members.

### **The cost of value**

Cost is one important factor but if we are to deliver on our members' best financial interests duty then value for money is critical. A key factor that influences our decisions on value for money is quality of services. If the price is known there will be pressure to lower costs and the likely outcome will be to drive service provision to the middle or bottom levels. This could lead to undercutting behaviours, a deterioration in service levels to members, a decline in striving towards best practice and an increase in generic offerings – ultimately this would undermine members best financial interests.

## The way forward

We acknowledge and welcome APRA's specific confidentiality proposals as outlined in Attachment F of the discussion paper. We note these proposals have addressed some issues addressed during previous Data Transformation consultations. We encourage APRA to maintain these current proposals and adopt our recommendations in Appendix A.

The rest of this submission provides further feedback regarding:

- expenses information;
- expenses categories that are potentially misleading;
- publication of segmentation data;
- consistency with the Portfolio Holdings Disclosure (PHD) requirements;
- timing of release.

## Expenses information

Our concerns relate to commercially sensitive data becoming available. The contracts entered into by superannuation funds with third-party service providers regularly contain confidentiality obligations that restrict disclosure of information about the contracts. These clauses are designed to protect the commercial interests of the parties involved.

In particular, care needs to be taken to avoid pricing arrangements with individual service providers being disclosed. This may not occur directly; however, if there is only one or a few service providers in a particular expense category, then disclosing the expense discloses the amount payable to that service provider and/or fund allocations to that expense/service. This could have commercial and competitive implications.

This is particularly relevant to **SRF\_332 - Table 2 – Column 4 – Expense type**. The solution is to either not release this column or release key expenses information at a more aggregated level. AustralianSuper would support either approach.

We are concerned that disclosure as currently proposed may adversely impact AustralianSuper's ability to negotiate more favourable terms with alternative service providers, e.g. when going out to market in a tender scenario. This may have a significant impact on the value of the services provided to us rather than costs. Cost is one important factor but in delivering on our members' best financial interests duty value for money is critical. Other criteria that influence decisions on which third parties are selected include but are not limited to:

- Ability to meet Functional & Non-Functional Requirements
- Quality of Products and Services
- Experience, Skills & Knowledge
- Capacity to Deliver
- Current & Past Performance
- Risk & Compliance (including risk appetite positioning and due diligence checks)
- Timing & Timeframe Needs
- Alignment with Medium to Long Term Strategy & Plans

Typically, where cost becomes the focus, investment in product development, service enhancements, continuous improvement and technological advancement reduce as products and services are stripped back to basics.

Unintended consequences could include:

- Administration – administration contracts are complex and involve a wide variety of services, they also reflect scale and volume arrangements that are negotiated. We believe one

unintended consequence will be the stripping-out of service arrangements and service quality, and potentially underinvestment in administration, as funds seek to price match competitors in their negotiations with the same administrator.

- Investment management expenses together with investment listing type – it will be possible to determine key investment managers by cross referencing with other required disclosures, using sector/class level expenses data. This will potentially result in breaches of contractual commitments and could place our members at a disadvantage when contractual terms are renegotiated, or a new procurement process for a fund manager commences.
- Legal fees – it will be possible for law firms to determine the total spend by funds on legal expenses. This undermines our ability to manage our procurement strategy on favourable commercial terms for our members.
- Audit fees – it will be possible for rival audit firms to identify their competitors and the costs of the last internal or external audit. This will hamper our ability to manage future procurement processes on favourable commercial terms for our members.
- Granular distribution / acquisition costs - these are a range of expenses that would allow competitor funds to identify distribution strategies. It could in effect create a race to increase distribution costs at a time when funds are trying to reduce these costs.
- AustralianSuper's contracts with its service providers often contain clauses restricting our ability to disclose commercial terms. These restrictions are intended to protect information that is commercially sensitive from the perspective of the service provider. If such information was to become publicly available, this could cause commercial damage to the service provider who may try to recover those losses.

### **Potentially misleading expenses categories**

Some expenses categories need to be changed to avoid providing information that could mislead or be misconstrued by readers. For example, (financial) advice fees are reported as marketing and distribution costs. Advice fees are part of a fund's member engagement strategy and are not marketing. This treatment will also inflate marketing expenses.

We also have significant concerns in relation to the following data items:

- *Payments Or Donations To Industry Bodies*
- *Payments Or Donations To Political Parties*
- *Payments Or Donations To Trade Bodies*<sup>1</sup>

Firstly, AustralianSuper does not make donations to industry bodies, political parties, or trade bodies. Nor do we make any payments to political parties.

By conflating '*payments or donations*' these categories capture legitimate commercial arrangements for service provision – conferences/training, research, advocacy, marketing and fund promotion – with donations where no goods or services are received in return. There is no clear or logical reason why these two disparate and contrasting categories should be combined.

The current approach is also inconsistent with the upcoming Annual Member Meeting requirements to disclose:

- Aggregate political donations;
- Aggregate industrial body payments; and
- Aggregate related party payments.

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<sup>1</sup> SRF\_332 - Table 2 – Column 4 – Expense type

Inconsistent data disclosure may create confusion and undermine the integrity and credibility of data in the public domain.

### Segmentation data

AustralianSuper believes there is critical member value in having data segmented by fund type<sup>2</sup> for the new publications. The proposal to stop publishing data by fund type would effectively **remove** data that has made a positive contribution to member education and the wider public policy disclosure regarding superannuation. There are still fundamental differences in the business models and philosophy of different types of funds. We do not agree that increased superannuation fund consolidation will make fund segmentation less important or distinct. These differences remain important distinguishing features between funds that can help members make decisions in their own financial best interest.

We believe that continuing to publish data segmented by fund type embodies the benefits articulated by APRA; namely '*informing the public, influencing by comparison, and driving accountability*.'<sup>3</sup>

### Consistency with the Portfolio Holdings Regime

Portfolio Holdings Disclosure only reports contract type and net market value. However, **SRF\_550\_2 - Table 1, Derivative financial instruments** has additional granularity for a fund's derivatives holdings. This includes:

- gross positive and negative market value;
- derivative type; and
- exposure type.

The publication of asset class and positive and negative gross exposure will make it easy for market participants to determine how funds are positioned, how they engage and the frequency of their engagement with the market. This will provide an opportunity for pricing changes resulting in extra costs in wider bid-ask spreads, or in up-front costs.

### Timing of release of investment data

We believe there should be a delay of at least 90 days between the end of each reporting period and the publication of investment related data. This would provide transparent data to interested members; but minimise the risk of the datasets being used and exploited by market participants in a time sensitive way. This timeframe is consistent with Portfolio Holdings Disclosure and provides a logical alignment.

Thank you for the opportunity to make a submission. For more information, please contact [REDACTED] or [REDACTED]

[REDACTED]

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[REDACTED]

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<sup>2</sup> Corporate funds, Industry funds; Public sector funds; and Retail funds.

<sup>3</sup> Page 28 - *Superannuation Data Transformation – Publications and confidentiality*

## Appendix A

Reporting Standard	Table (e.g. Table1)	Item (e.g.Column 1)	Public benefit impact	Member Interest Impact	Commercial Interest Impact
SRF_332_0	Table 2: Administration and other expenses reporting	Column 1 (service provider identifier)			We welcome and endorse the proposal to make column 1 (Service Provider Identifier) confidential.
SRF_332_0	Table 2: Administration and other expenses reporting	Columns 4 (expense type) and 5 (service arrangement inclusions and exclusions test)	Potential withdrawal of providers from the market resulting in less competition.	Potentially higher costs being passed on as higher fees.	If data for Columns 4 & 5 are published, then it may be possible to identify individual service providers and ascertain how much they are being paid. <b>We recommend that Columns 4 &amp; 5 are made confidential or key expenses reported at more aggregated level.</b>
SRF_332_0	Table 3: Investment management expenses	Column 1 (service provider identifier)			We welcome and endorse the proposal to make column 1 (Service Provider Identifier) confidential.
SRF_332_0	Table 3: Investment management expenses	Column 4 (Investment Asset Class Sector Type); Column 7 (Asset Class Description Text) Column 8 (Service Arrangement Inclusions Exclusions Text)	Potential withdrawal of providers from the market resulting in less competition.	Potentially higher costs being passed on as higher fees.	If data for Columns 4, 7 and 8 are published, then it may be possible to identify individual investment managers and ascertain how much they are being paid. <b>We recommend that Columns 4, 7 and 8 are made confidential or key expenses are reported at a more aggregated level.</b>

SRF 550.2	Table 1: Derivative financial instruments	Column 1 (derivative exposure type); column 2 (derivative type); column 10 (derivative gross position market value amount); column 11 (derivative gross negative market value amount).		Potentially higher costs being passed on as higher fees.	<p>This data could allow market participants to work out when funds may approach them to trade. This could lead to price rises in anticipation, thereby imposing additional costs on funds. Clearly, this will have a negative impact on member outcomes.</p> <p><b>We recommend that columns 1, 2, 10 &amp; 11 are made confidential.</b></p>
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