



APRA

Response to Submissions

Reporting standards for superannuation (SRS 700.0, SRS 702.0 and SRS 703.0)

XX September 2013

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Preamble

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On 1 July 2013, APRA released three further reporting standards (including forms and instructions) for consultation:

- Reporting Standard SRS 700.0 Product Dashboard (SRS 700.0) (applying to MySuper products only);
- Reporting Standard SRS 702.0 Investment Performance (SRS 702.0) (applying to MySuper investment options and select investment options); and
- Reporting Standard SRS 703.0 Fees Disclosure (SRS 703.0) (applying to MySuper products only).

Consultation closed on Friday 19 July and 13 submissions were received.

This paper describes APRA's response to the main issues raised in submissions on SRS 700.0, SRS 702.0 and SRS 703.0 and outlines the final reporting requirements. Final versions of the reporting standards, reporting forms and reporting instructions are released with this paper.

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Glossary

Term	Definition
Super System Review	Review into the Efficiency, Governance, Structure and Operation of Australia's Superannuation System
Corporations Regulations	Corporations Regulations 2001
SIS Act	Superannuation Industry (Supervision) Act 1993
PDS	product disclosure statement
ASIC	Australian Securities and Investments Commission
SRS 533.0	<i>Reporting Standard SRS 533.0 Asset Allocation</i>
SAA	strategic asset allocation
SRS 700.0	Reporting Standard SRS 700.0 Product Dashboard
SRS 702.0	Reporting Standard SRS 702.0 Investment Performance
SRS 703.0	Reporting Standard SRS 703.0 Fees and Costs Disclosed

Executive summary

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Chapter 1 Introduction

The objective of APRA's data collections and publications is to support APRA's prudential supervision and provide appropriate transparency and disclosure in relation to the operations of the industries it regulates. Achievement of these objectives benefits all industry stakeholders.

The Government's response to the recommendations of the *Review into the Efficiency, Governance, Structure and Operation of Australia's Superannuation System* (Super System Review) supported the delivery of better outcomes for members and their employers through a range of measures. These include enhanced disclosure and reporting obligations for RSE licensees.

On 6 June 2013, APRA released 32 final reporting standards for superannuation. The letter that accompanied those reporting standards foreshadowed the release of draft *Reporting Standard SRS 700.0 Product Dashboard* (SRS 700.0), *Reporting Standard SRS 702.0 Investment Performance* (SRS 702.0) and *Reporting Standard SRS 703.0 Fees Disclosed* (SRS 703.0) for consultation. These three draft reporting standards were released for consultation on 1 July 2013. The submissions were broadly supportive of APRA's proposed approach to enhance consistency across the industry, noting the intent to support the announced Government positions on the product dashboard and product disclosure statements. The submissions, however, raised a number of issues for further consideration by APRA.

Chapters 2, 3 and 4 discuss in detail issues relating to the product dashboard, investment performance and disclosed fees and costs respectively.

APRA determined final versions of SRS 700.0, SRS 702.0 and SRS 703.0 on [XX September 2013]. SRS 702.0 commences on 30 September 2013, with the first data due to be submitted by 28 October 2013. SRS 700.0 and SRS 703.0 commence on 31 December 2013.

1.1 Legislative context

The *Corporations Regulations 2001* (Corporations Regulations) were amended on 28 June 2013 to include new requirements for the product dashboard for MySuper products. These requirements make reference to reporting standards relating to MySuper products for the purposes of specifying some of the detail underlying the calculation methodologies for the dashboard.

In addition the effect of s. 29QC of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) may be that APRA's definitions apply in the context of other RSE licensee disclosure obligations, it is also important that APRA's reporting requirements are consistent with the required content of product disclosure statements (PDSs) as specified in the Corporations Regulations. The 28 June 2013 amendments to the Corporations Regulations updated the PDS fees and costs table requirements for superannuation products, and thus APRA's reporting requirements need to align with these revised requirements.

1.2 Approach to providing guidance

Submissions raised a number of concerns about the challenges reading and understanding the requirements of the product dashboard and PDS in the regulations with the definitions in the reporting instructions.

APRA considers that further guidance would assist entities when complying with their reporting obligations and in understanding how APRA's reporting requirements align with the dashboard and PDS regimes. APRA will therefore issue a separate non-mandatory 'instruction guide' to explain the reporting requirements in the SRF 700 series of forms.

Chapter 2 General issues raised in submissions

In addition to the detailed feedback provided on each of the draft reporting standards, submissions also made a number of overarching comments about APRA's proposed approach.

2.1 Commencement, frequency and due dates

APRA proposed that, once finalised, SRS 700.0 and SRS 703.0 would commence on 31 December 2013, in line with the commencement provisions for the MySuper product dashboard and the PDS requirements for MySuper products respectively. SRS 702.0, however, was proposed to commence on 30 September 2013 to collect investment performance information about MySuper investment options from 1 July 2013.

2.1.1 Lodgement concerns

Under the new superannuation data collection finalised on 6 June 2013, APRA now requires quarterly forms to be submitted 28 days after the end of the reporting period and annual forms to be submitted four months after the end of the reporting period until 30 June 2015 and three months after the end of the reporting period from 1 July 2015 onwards.

Comments received

The submissions reiterated concerns that were raised in previous submissions on APRA's proposed data collection about the difficulties involved in complying with such a short lodgement timeframe. The submissions received indicated that it is likely that a significant proportion of industry will experience difficulties in lodging SRF 702.0 by the due date of 28 October 2013 because the collection of investment performance reports from fund managers, custodians and asset consultants is an extensive, detailed, resource-intensive process and the final reporting requirements will not be available until September.

APRA response

APRA has granted a two-year transition period for the submission of annual data. Allowing the current four month timeframe to remain in place until 30 June 2015 allows industry to adjust their processes over time. As such, APRA does not intend to further adjust the annual lodgement requirements.

For the quarterly reporting dates, APRA recognises that it is likely that entities will experience some challenges in fully meeting their compliance obligations under the reporting standard.

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2.1.2 Start date in the reporting standards

Submissions sought clarification on the operation of paragraph 8(c) in SRS 700.0, which requires RSE licensees to report information about MySuper products that are authorised after 31 December 2013.

Paragraph 8(c) is designed to require an RSE licensee to report information to APRA within 28 days after the product is authorised. This approach was taken on the basis that the authorisation date is known to APRA and the reporting entity and thus is an appropriate date on which to base a reporting requirement. The regulations require an RSE licensee to have a dashboard for each MySuper product. The regulations are not specific regarding the commencement of this requirement. APRA considers that, although publication of the product dashboard on the website may occur later when the product is offered, reporting to APRA as at the authorisation date is appropriate. Given that most of the items on the product dashboard will be provided to APRA in draft form as part of the authorisation application, APRA does not view it as a large burden on an RSE licensee to report the final product dashboard information required by SRF 700.0 to APRA within 28 days of authorisation.

2.2 Publications concerns

Under s. 348A of the SIS Act, APRA is required to publish quarterly information about fees and costs in relation to MySuper products. APRA's view is that whilst s. 348A permits some flexibility in how APRA publishes information about MySuper products, APRA must publish information about insurance that is quantitative in character because of the language used relating to 'fees' and 'costs'.

Comparability of investment performance, fees and costs is one of the key aims in publishing information relating to SRF 700.0, SRF 702.0 and SRF 703.0. APRA-derived calculations on SRF 702.0 aim to transform MySuper product information into a comparable format. SRF 700.0 and SRF 703.0 collect standardised information published by an RSE licensee elsewhere.

APRA will consult further on how it intends to publish the information reported to it under the new collection.

Comments received

Submissions raised some concerns about the impact of APRA's calculation methodologies and definitions in SRF 700.0, SRF 702.0 and SRF 703.0 on information required to be disclosed on the dashboard (in relation to net return targets) or PDS (in relation to insurance).

For SRF 703.0, the concerns related to insurance premiums. Industry has argued that information proposed to be collected on SRF 703.0 about select insurance premiums could be misleading and might create instability in the life insurance industry. RSE licensees are required to disclose a table of insurance premiums as supplementary information to the PDS to allow the complexities of the insurance arrangement to be reflected in the premium structure. Submissions argued, however, that this approach to disclosing information does not lend itself to easy comparison and would not allow easy publication of information about MySuper insurance premiums by APRA.

Submissions also raised some concerns about the impact of publishing the data reported on SRF 702.0 during the first year when there will be different starting dates for MySuper products.

APRA response

On draft SRF 702.0, APRA originally proposed to only collect quarterly year-to-date information. In response to the submissions about part-year reporting, APRA has amended SRF 702.0 to require the quarterly net investment return be reported in addition to the year-to-date net investment return and to allow the reporting of the date when the information starts. This information will allow APRA to calculate a quarterly net return and year-to-date net return using the fees, costs and taxes information provided.

2.3 General feedback about the product dashboard requirements

In addition to the detailed submissions provided in response to the draft reporting requirements, submissions also raised a number of issues regarding the requirements located in the *Corporations Act 2001* and the Corporations Regulations. These included:

- suggestions that the ‘level of investment risk’ item should be renamed as ‘level of investment volatility’;
- queries regarding how the product dashboard will apply to choice products; and
- requests for clarification regarding how to report historical performance and the moving average return target on SRF 700.0 for a predecessor product where the product has, in the past, been merged with another product. Submissions also queried how investment performance of future merged MySuper products should be reported on both the product dashboard and SRF 700.0. Submissions expressed concerns that a lack of standardised approach for the treatment of mergers might result in inconsistency in the information ultimately disclosed on product dashboards and published by APRA.

APRA considers that these are matters for Government policy and has referred them to The Treasury and the Australian Securities and Investments Commission (ASIC).

Chapter 3 MySuper product dashboard

Draft SRS 700.0 included items covering the elements required to be included on the MySuper product dashboard. Draft SRS 700.0 reflected feedback from previous consultation with industry and discussions with the Government and ASIC and aligned with the new provisions in the Corporations Regulations.

3.1 Definition of representative member

For the product dashboard on SRF 700.0 and the calculation of the net return on SRF 702.0, a representative member is used to convert flat dollar fee amounts into percentages. The representative member is consistent with the updated example of annual fees and costs for MySuper products in the 28 June 2013 amendments to the Corporations Regulations (cl. 211 of Schedule 10). The updates to cl. 211 of Schedule 10 remove the \$5,000 contribution from the example for a MySuper product. As outlined in the instructions to draft SRF 700.0 and SRF 702.0, a representative member is a member who is fully invested in the MySuper product, incurs no activity fees, and has a \$50,000 balance at the end of the period with no contributions.

Comments received

Submissions sought greater clarity on how the representative member concept should be practically applied for the purposes of reporting to APRA. Issues raised included whether the number is meant to be cumulative (i.e. the balance changes with investment returns over the course of the year) or a flat \$50,000.

APRA response

APRA's intention, which has been confirmed with Treasury and ASIC, is that the value should be a flat \$50,000 throughout the period without any compounding. To assist RSE licensees undertaking the calculation where percentage based fees apply, APRA will include worked examples in the new instruction guide to the SRF 700 series forms.

3.2 Basis for the return target

Draft SRF 700.0 proposed that the basis of the return target would be an annualised estimate of the percentage rate of net return that exceeds the growth in the CPI over ten years.

Comments received

Submissions indicated that there are a range of practices across the superannuation industry for calculating investment objectives and return targets. Several submissions noted examples where the return target is based on a specific percentile of the RSE licensee's estimated distribution of future returns e.g. 65th percentile. Submissions asked whether APRA expected RSE licensees to change their traditional approaches to calculating investment objectives. Several submissions interpreted the definition of net return to imply the median (50th percentile) was to be used, and indicated that this was inappropriate.

APRA response

APRA's intent is that the mean of the projected distribution of net returns is used. APRA agrees with the feedback that the median would be inappropriate. Although APRA accepts

industry practice has been to describe the target to members as a percentile, from the feedback received it does not appear that there is a typical percentile used consistently across the industry. Thus, APRA is choosing to articulate the reporting requirement as the mean.

The instructions to SRF 700.0 have been clarified that when reporting the return target, the mean of the distribution must be used.

3.3 Clarifications in instructions

A number of submissions provided suggestions for improved drafting of the instructions to SRF 700.0 so that the link to the items in the Corporations Regulations would be clearer. The instructions have been restructured to provide information on the first page of the instructions on the link to the items in the Corporations Regulations.

In addition, a number of minor inconsistencies and omissions were noted and have been corrected.

Chapter 4 Investment performance

Draft SRS 702.0 proposed to require an RSE licensee to report information about the investment performance of both MySuper investment options and select investment options on a quarterly basis. The version released for consultation reflected the additional fee items that were included in the PDS requirements.

4.1 APRA's tolerance for estimated data

Draft SRF 702.0 required year-to-date reporting on a quarterly basis of investment, administration and advice fees, costs and taxes. As these items are typically only fully known on an annual basis, the instructions to SRF 702.0 require the reporting of accrued amounts for the year-to-date reporting each quarter.

Comments received

Submissions raised a number of specific questions seeking confirmation of the extent to which APRA is willing to accept the reporting of data that involves a level of estimation.

Some submissions suggested that any need to provide estimates rather than confirmed data would be largely a transition issue whilst industry renegotiated its contracts and made other arrangements to allow timely reporting of necessary information between participants; others indicated that there would be ongoing need to provide data with a level of estimation to APRA.

The specific areas of concern included:

- whether indirect performance fees can be reported as estimates because to report anything more certain would require daily performance fee values to be provided by underlying managers;
- whether reporting on SRF 702.0 should be on the basis of taxes that were accrued during the reporting quarter (i.e. accrual movement of realised and unrealised tax), not the actual tax that will ultimately be paid; and
- the level of confirmation required in relation to data obtained on a look-through basis.

APRA response

APRA notes submissions that any inability to provide confirmed data reflects the fact that industry and its service providers generally operate on a financial year/year of income basis, not a quarterly basis. Any information reported to APRA on a quarterly basis will necessarily have an element of estimation in it even if industry does move to greater accuracy (and less estimation over time).

In respect of investments reporting, APRA's view is that 'hard valuations' data, i.e. valuations that are based on actual final market prices and accounting values at a particular point in time, are to be reported. This is because reporting of 'soft valuations' data reduces the accuracy of the financial statements as various revenue and expense accruals that are normally included in a more comprehensive close are excluded.

There will however remain estimation in items such as tax accruals, performance fee accruals and underlying manager investment fee amounts. APRA expects that processes that

are already acceptable for the purposes of creating accruals under Accounting Standards would be sufficient for reporting these items to APRA.

4.2 Treatment of fees paid by employers

APRA proposed to require the reporting of administration fees, costs and taxes on SRF 702.0 to allow them to be incorporated into the calculation of a representative member net return.

Comments received

Submissions sought greater clarity on the treatment of administration fees that are charged to the member, but which are paid for by the employer, in the calculation of the net return in the context of fees applying to a representative member. Industry suggested that the instructions state clearly that the highest fee level must be used with no discounts applied.

APRA response

APRA's intent was that the highest fee payable is the fee that would be used in the calculation of net return. However, this was not explicitly stated in the instructions. Consistent with this, the administration fee reported must include administration fees paid by all sources, not just the member. The instructions to SRF 702.0 have been revised to reflect this position.

4.3 Compounding issues

The instructions to SRF 702.0 specified:

Report percentages as percentages of the assets adjusted for cash flows as they occur (i.e. time-weighted), unless otherwise specified. Cash flows include, but are not limited to, contributions, switches, transfers, rollovers or benefit payments.

Comments received

Submissions queried how percentage-based administration fees should be deducted and what APRA expected the impact of using a flat \$50,000 balance for the representative member would be when compounding (comparing quarterly returns with year-to-date returns).

APRA response

APRA included the language 'time-weighted' to align with language used in the CFA Institute's Global Investment Performance Standards, but considers that further clarity would assist completion of SRF 702.0.

APRA will, therefore, include worked examples in the new instruction guide that illustrate how percentages should be reported.

4.4 Granular reporting of investment fees components

APRA proposed that components of investment fees be required to be reported on draft SRF 702.0. This was designed to provide APRA with information about the portion of investment fees relating to direct investment managers and the portion relating to underlying

investment managers. It also sought to provide transparency on the portion of investment fees relating to performance-based payments.

Comments received

Submissions indicated that the range of industry practices mean that some RSE licensees do not charge base or performance fees specifically to members. This means that those RSE licensees would simply report all amounts in item 1.2. 'indirect cost ratio investment costs' without any further breakdown. Other funds, however, would report the more granular information envisaged by the form.

Concerns were raised about consistent treatment across the industry and the risk that funds that do report the breakdown of performance and base investment fees might be seen as being more expensive.

APRA response

APRA has amended item 1 of SRF 702.0 to better capture granular data about investment approaches by requiring 'of which' reporting in relation to total investment fees and costs, rather than in relation to just investment fees. The instructions also include additional clarifications to indicate that the 'of which' items do not need to sum to the total value of investment fees and costs, but may only represent a portion of the total fees and costs.

4.5 Application of SRF 702.0 and SRF 533.0 to choice products

SRF 700.0 and SRF 703.0 only apply to MySuper products. APRA expects to create an additional reporting form (proposed to be called *Reporting Form SRF 701.0 Product Dashboard*) once the Government's position on product dashboard for choice products is finalised. APRA does not intend to collect PDS fees and costs for choice products.

Draft SRF 702.0 applied to MySuper products, lifecycle stages of lifecycle MySuper products and select investment options. *Reporting Standard SRS 533.0 Asset Allocation* (SRS 533.0), which was released as final on 6 June 2013, also applies to MySuper products, lifecycle stages of lifecycle MySuper products and select investment options.

Comments received

Submissions raised concerns about the application of SRF 702.0 to select investment options even though the requirement to report information about these investment options does not commence until 1 July 2014. Industry's assertion is that the form does not adequately cater for the structures of choice products and, as such, runs the risk of requiring information that may ultimately be misleading if published.

APRA has also received feedback about requiring reporting of strategic asset allocation (SAA) for select investment options on SRF 533.0. Whilst this item is appropriate for a MySuper product or lifecycle stage of a MySuper product, industry has suggested that, as select investment options may not be diverse portfolios, the SAA concept in that context may not always be relevant.

APRA response

The Government has indicated that it will undertake further public consultation on the requirements for choice product dashboards, including whether the net return or net investment return is the more appropriate measure of performance for choice products.

On that basis, APRA will defer finalising the requirements regarding investment performance reporting for select investment options until the Government's consultation has concluded. This will allow for alignment between the final requirements in law regarding the product dashboard and APRA's reporting requirements.

SRF 702.0, therefore, applies only to MySuper investment options (non-lifecycle MySuper products and lifecycle stages of lifecycle MySuper products).

With regards to SRF 533.0, now that the baseline collection of the select investment options has been completed, APRA has a clearer emerging picture of the types of select investment options that will be reported to APRA from 1 July 2014. As a result, APRA will re-consult on the requirements of SRF 533.0 as they apply to select investment options as part of future consultation on reporting for select investment options in relation to the product dashboard and investment performance.

Chapter 5 Fees and costs disclosed

Draft SRS 703.0 proposes to require an RSE licensee to report information relating to the fees disclosed on a PDS relating to a MySuper product. Submissions did not raise any material concerns in relation to the items relating to disclosed fees and costs. Submissions did, however, raise a range of issues in response to proposed item 6, collecting information about insurance premiums.

Note that APRA has renamed this reporting standard to 'Reporting Standard SRS 703.0 Fees and Costs Disclosed' to better reflect the type of information reported to APRA.

5.1 General approach to collecting comparable information about insurance premiums

APRA proposed to collect information on SRF 703.0 relating to insurance premiums for a MySuper product as disclosed on the PDS. Specifically, APRA proposed to collect premium information for combinations of the following member characteristics:

- a 30 year old and a 50 year old;
- male and female; and
- blue collar and white collar.

The premiums that were proposed to be reported were for \$1000 of life cover, \$1000 of total and permanent disability cover and \$1000 of monthly income protection cover, all gross of rebates.

Comments received

Item 6 on draft SRF 703.0 was created prior to the permissible features in MySuper insurance offerings being finalised. As the Government has now permitted additional of flexibility in insurance for MySuper products, industry has questioned whether an insurance offering that has a wide range of features lends itself to being reported on a quantitative basis. Some of the challenges identified in the submissions include how to report:

- different types of income protection insurance, as some products are offered with a range of waiting periods (14, 30, 45, 60, 90, 180, 365, 730 days) and benefit periods (2 year, 5 year and to age 65) which affect the premium to be reported;
- premiums for all products offered by different insurers in the MySuper product, now that the MySuper product rules permit RSE licensees to offer insurance from a number of different insurers within a single product. This may mean that there could be thousands of rate combinations within a single MySuper product, especially in a large corporate master trust; and
- definitions of different worker categories when it is common for RSE licensees to use categories other than blue collar/white collar.

APRA response

APRA is seeking to collect sufficient information about insurance premiums in order to publish comparative information regarding the cost of insurance in MySuper products. APRA is not intending to collect every insurance premium for every type of MySuper member. To

align more closely with final permissible features and provide context for the insurance being offered, APRA will collect a wider range of information.

Item 6 on SRF 703.0 has, therefore, been updated to include:

- selection from a drop down menu of types of insurance cover to capture all variations of bundled insurance cover to be reported. Adding 'other' as a possibility future-proofs the form somewhat to allow for new types of cover to be added in the future, but it is not expected that data will generally be reported as 'other';
- the reporting of gender as 'male', 'female' or 'either gender' so that where gender is not a determinant, only one row needs to be reported;
- a free text field to describe worker categories. Over time, APRA expects this information will help to develop future standardised categories;
- selection of 'own occupation' or 'any occupation' when describing the characteristics of the TPD insurance offering;
- selection of income protection cover types to describe the length of benefit coverage; and
- reporting on waiting periods (where they apply).

Given that the Government has allowed insurance to vary across the membership within a MySuper product, there can be differing levels of default cover provided to members who are employees of different employers; different insurance providers can provide cover to different sub-groups within the MySuper product; and the features of the cover may vary. Accordingly, APRA has now included column 11 'membership coverage' in Item 6 to capture the number of member accounts that are offered the premium reported in each row.

Although the flexibility allows for a large number of variations to be reported to APRA, APRA's view is that it is unlikely that within any given fund all of these variations exist within any given fund and the flexibility will allow for better comparison across funds. This approach is unlikely, therefore, to result in an undue reporting burden for RSE licensees.

5.2 Default insurance cover

Comments received

Submissions also suggested that it was important to capture information about the default level of cover provided as this may vary widely, with some submission arguing that APRA should collect the premium for this level of default cover.

APRA response

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

To reflect these two approaches, APRA will allow RSE licensees to report the default level of cover either in dollars or percentage of salary for the insurance provided with the premium charged for \$1,000 of default cover to be reported rather than the premium charged for the default amount.