

# AIST

2 December 2022

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

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

Dear Sir/Madam,

## Superannuation Data Transformation Project: Minor Amendments

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### Brief

AIST welcomes proposals to address outstanding Phase 1 issues (especially those related to Asset Allocation reporting) prior to implementation of Phase 2, and APRA's support for a central reporting database. However, to ensure consistency and clarity, and avoid duplication, some issues should be considered in the context of the Government's proposed Super Transparency Report, and best endeavour reporting should continue while these issues are being resolved.

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#### About AIST

*Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public sector superannuation funds.*

*As the principal advocate and peak representative body for the \$1.7 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.*

*AIST advocates for financial wellbeing in retirement for all Australians regardless of gender, culture, education, or socio-economic background. Through leadership and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.*

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## Summary of recommendations

- *Given some aspects of SDT Phase 1 remain unresolved and are being addressed in the Minor Amendments:*
  - a) *APRA should not have a default position of determining that data collected under the proposed reporting standards is non-confidential.*
  - b) *Subject to issues being resolved as soon as possible, and necessarily well before 30 June 2023, AIST agrees that best endeavours reporting should continue until at least 30 June 2023.*
- *AIST recommend that APRA establish an ad hoc working group involving fund representatives, audit firms, custodians and administrators to specifically address and resolve issues with granularity of look-through requirements, in order to provide the information required by APRA in an accurate and consistent manner for its supervisory and other requirements.*
- *Having regard to the potential for inconsistency in expense breakdowns, AMM-related changes relating to look-through and the related party definition should be reconsidered once the impacts of the Government's Super Transparency Report are known.*
- *Definitions relating to AMM notification requirements should cite the relevant part of the (finalised) AMM notification regulations, and therefore change if and when the AMM notification regulations change.*
- *The reporting of profit should also be reconsidered once the impacts of the Government's Super Transparency Report are known.*
- *Industry should facilitate the development of a business case for a central reporting database, for presentation to Government and APRA as an initiative that should be further developed and funded by them.*

*AIST seeks that:*

- *a definition of Other Service Provider be provided; and*
- *clarification that payments to Other Payees can be aggregated.*

## Submission

AIST thanks APRA for the opportunity to provide input into this consultation.

### Confidentiality and best endeavours reporting

- *Given some aspects of SDT Phase 1 remain unresolved and are being addressed in the Minor Amendments:*
  - a) *APRA should not have a default position of determining that data collected under the proposed reporting standards is non-confidential.*
  - b) *Subject to issues being resolved as soon as possible, and necessarily well before 30 June 2023, AIST agrees that best endeavours reporting should continue until at least 30 June 2023.*

It is recognised that some matters may be more readily resolved, and hence implemented sooner, while other may involve more complexity and require more time for implementation. AIST is not seeking a blanket extension of best endeavours reporting but an approach that reflects these nuances.

If there is to be a default position on confidentiality, it should be that data is recognised as confidential. It is not in members best financial interest for the publication of commercial-in-confidence material that erodes or inhibits commercial arrangements.

Ideally, APRA should assess the commerciality issues of each data item, having regard to both member and commercial interests, and the capacity of published information to be able to deduce sensitive pricing information.

It is understood that some service providers (e.g., custodians and administrators) may be challenged in providing specific granular data items in relation to SRS 332 and 550, including details of some fees arrangements and reports complying with APRA's look through basis for investments, and will require systems upgrades and enhanced look through arrangements – if they are able to be met at all – once the reporting standards are concluded.

Neither custodians nor administrators will be able to fully support the expenses look-through in processing authorised payment instructions related to expenses. In many cases, they will not be processing all expenses for a fund or have the detail or capture commentary related to a payment to meet the full look through requirements. They may not know a payment is being made to a related party; provided an expense payment is authorised (and based on the agreed transaction processing arrangements), it would be processed, and money moved to settle the expense.

While we recognise that data reporting is the responsibility of RSE's, it is also important for APRA to have a system-wide appreciation of the reporting issues (especially with look-through) with custodians, administrators and other service providers, and the time it will take them to make system and process changes.

- *AIST recommend that APRA establish an ad hoc working group involving fund representatives, audit firms, custodians and administrators to specifically address and resolve issues with granularity of look-through requirements, in order to provide the information required by APRA in an accurate and consistent manner for its supervisory and other requirements.*

### **Implementation timeframe**

The proposed Asset Allocation-related changes should be settled as soon as possible in order to provide funds with clarity and a reasonable time to implement.

Further consideration of expense data items that relate to Annual Member Meeting notification requirements should be considered in the first quarter of 2023 (for the reasons given in the next section).

### **Look through and alignments to other disclosure requirements (including Annual Member Meeting notification requirements)**

AIST supports the alignment of look-through requirements with AASB standards, and alignment of the related party definition. However, the expense breakdowns in tables 2 & 3 with related party indicators should be paused pending resolution of Annual Member Meeting Notification requirements.

Ongoing parliamentary and political considerations mean the AMM requirements are not yet fully settled and may change. There is at least one – and possibly three - disallowance motions relating to the AMM Regulations. Additionally, there is a possibility that APRA may be required to publish an annual fund transparency report to bring fund-level expense information into a single document.

These considerations may result in changes to SRS 332.0 Expenses, and particularly those items that relate to AMM requirements.

- *Having regard to this, AMM-related changes relating to look-through and the related party definition should be reconsidered once the impacts of the Government's Super Transparency Report are known.*
- *AIST further propose that definitions relating to AMM notification requirements should cite the relevant part of the (finalised) AMM notification regulations, and therefore change if and when the AMM notification regulations change.*

## Materiality threshold

AIST welcomes the application of a materiality threshold in some circumstances but submits that this should be supplemented by consistent definitions of materiality, a materiality guide and for the materiality threshold to be incorporated into SRS 332.0.

In the interests of clarity, consistency and for appropriate audit purposes, a materiality threshold should avoid the semblance of a work-around solution, and not just be addressed in guidance: it needs to be embedded in the reporting standard.

The operation of a materiality threshold should be further discussed with audit firms to ensure workability, level of audit work, and consistency of reporting and expected granularity between firms.

APRA should also ensure consistent consideration of materiality throughout its regulatory regime. As you know, APRA proposes to introduce a new cross-industry Prudential Standard CPS 230 Operational Risk Management which will set out minimum standards for managing operational risk, with CPS 230 intended to incorporate SPS 231 Outsourcing.

SPS 231 Outsourcing applies standards to the outsourcing of “material business activities” while the CPS 230 draft broadens the focus to any service provider “on which the entity relies to undertake a critical operation or that expose it to material operational risk”. This means that the list of material service providers will be greatly expanded - indeed the draft contemplates extensive examples of critical business operations and service providers beyond those in existing prudential standards.

AIST submits that for both data reporting and for CPS 230 APRA the materiality of service providers needs to be better and consistently defined.

We also note that Other Service Provider is not defined in the standard but that Other Payee is.

*AIST seeks that:*

- *a definition of Other Service Provider be provided; and*
- *clarification that payments to Other Payees can be aggregated.*

## Restructure of classifications and clarifications of definitions

AIST appreciates the proposals by APRA to restructure the expense group type and expense type classifications to rationalise closely related classifications, ensure classifications are mutually exclusive and to provide clarity, including in relation to both Profit and Advice.

In relation to Profit, AIST supports the separate reporting of profit. However, our member funds have raised implementation questions about how and what “profit” would be reported in SRF 332.0, with an expectation that this would be generally reported as “Nil” for profit-to-member funds.

However, there was also discussion about the treatment of retained profits and transfers between entities, that requires further consideration.

At the time an expense is incurred and paid by a fund, the entity providing the service would estimate the cost to provide the service based on processes including forecasts and budgets. At that point in time the service entity may consider a 'cost plus' approach to the service fee to ensure that the entity is sustainable and not a going concern.

A surplus could result at the end of the financial year. However, that surplus is not necessarily a profit as it may be attributable to the sustainability of the entity. This could include reserves, contingent liabilities or even investment needs like technology, to continue to meet the needs of the entity that they service.

In instances where the service entity is a wholly-owned subsidiary of the fund, this surplus within the entity is captured within members' assets as a result of the increased net assets/ fair value of that entity. If the surplus is permanent in nature, then the service entity may be able to declare a dividend back to the Fund however that would not be known at the time that the service fee is incurred so may not be considered an 'expense' for the purposes of SRF 332.0.

In addition to this uncertainty, the proposed definition of profit may need to be reconsidered in the context of the Government's Super Transparency Report. This may include changes to APRA reporting on profit payments by super funds.

- Having regard to these considerations, *AIST recommend that the reporting of profit should be reconsidered once the impacts of the Government's Super Transparency Report are known.*

AIST supports the Intrafund Advice expense type being categorised under Administration Services.

### **Central reporting database**

AIST welcomes APRA support for a central reporting database for certain types of external products (e.g., DIO) to ensure consistency in reporting to APRA, but submits that it should be established and managed by APRA rather than the superannuation industry as suggested by APRA.

- *However, industry should facilitate the development of a business case for a central reporting database, for presentation to Government and APRA as an initiative that should be further developed and funded by them.*

AIST is in the early stage of considering the development and operation of such a database. We will be liaising with our member funds about this and will be providing APRA with an update in the near future.

## Reporting of ad hoc changes

The proposed arrangements for quarterly reporting of ad hoc changes are supported.

## Additional time for reporting

AIST and our member funds appreciate the additional time for reporting on investment objective performance and on investments but submit that a 35-day reporting period should also be provided for all items in SRS 550.0 and tables in SRS 705.1.

This should include a 35-day reporting period for Strategic Asset Allocation in SRF 550.0. Extending the timeframe by one week as suggested by AIST would have limited impact on fund supervision but would enhance the accuracy of data.

We note the interactivity between many of the items in these reporting standards, and the desirability of a 35-day reporting period for consistency, and the likelihood of reduced data resubmissions.

For further information regarding our submission, please contact [REDACTED]

Yours sincerely,

[REDACTED]

[REDACTED]

[REDACTED]

## Appendix

No.	Reporting Standard	Form Item	Proposed Amendment	Feedback
1	SRF605.0	Table 3 Column 7 Investment Option Category Type	Removed the following values: Direct Listed Investment Direct Exchange Traded Product	APRA to confirm the proposed values applicable under Table 3 Column 7 'Investment Option Category Type'. The values under this item contradict the proposed amendment under SRF 705.0, which reference the 'Investment Option Category Type' of: Single manager – Exchange Traded Product Single manager – Listed Investment Company APRA to update the definition under SRS101.0.
2	SRF605.0	Table 3 Column 6 Investment Option Type	Removed the following values: Single Manager Direct And replaced with the following values: Multi Manager Single Asset Single manager – Exchange Traded Product Single manager – Listed Investment Company Single manager – other listed Single manager – unlisted Managed Discretionary Account	APRA to confirm the proposed values applicable under Table 3 Column 6 'Investment Option Type' and update the definition under SRS101.0.
3	SRF550.0	Table 1 Strategic Subsector	Updated the definition of Strategic Subsector under SRS101.0.	The draft reporting standard SRS 550.0 Table 1 has not been updated with the reporting instruction of strategic subsector. APRA should include the strategic subsector reporting instruction as per FAQ 550.0 V within the reporting standard.
4	SRF550.0	Table 1	Additional statement with regards to currency hedging targets for	APRA to clarify the additional statement added to the instruction of SRF 550.0 Table 1 whether this is a duplicate of the statement before.



	<p>Instruction on currency hedging targets</p>	<p>investment domicile type 'Not Specified', which appears to be a duplication of the statement before.</p>	<div data-bbox="1048 236 2047 501" style="border: 1px solid black; padding: 5px;"> <p><b>Instructions</b></p> <p>Report the benchmark allocation to each <i>strategic sector</i> set as part of the board approved <i>strategic asset allocation</i>, reporting 'Not Applicable' for <i>strategic subsector</i>, <i>strategic subsector domicile type</i>, <i>strategic subsector listing type</i> and <i>strategic subsector international economy type</i>. Where the <i>investment option</i> is managed on a dynamic asset allocation basis and a benchmark asset allocation has been adopted, report the allocation in column 10. Where the investment option does not have asset allocation ranges, and thus no lower or upper benchmarks, leave column 11 and column 12 blank. Where investment <i>domicile type</i> 'International Domicile' or 'Not Specified' is reported in column 4 and currency hedging targets are set at asset class level or investment option level, report the investment <i>currency hedging ratio (%)</i> in column 13; otherwise, leave column 13 blank. <u>Where investment domicile type 'Not Specified' is reported in column 4 and currency hedging targets are set at an asset class level or investment option level, report the investment currency hedging ratio (%) in column 13 as the target level of currency hedging for any internationally domiciled assets within that allocation.</u> If currency exposure targets are set at the <i>investment option</i> level, report the benchmark currency exposure in column 10 using 'Currency Exposure' as the <i>strategic sector</i>. In these instances, the investment <i>benchmark allocation (%)</i> to 'Currency Exposure' is treated separately and does not contribute to the total benchmark allocations of the investment option.</p> </div>
<p>5 SRF550.0</p>	<p>Table 1 Instruction on reporting an asset allocation target to the strategic subsector</p>	<p>Not applicable</p>	<p>APRA to clarify the instruction on page 4 of SRF550.0 Table 1 for the following statement (Statement #1):</p> <div data-bbox="1048 651 2047 842" style="border: 1px solid black; padding: 5px;"> <p>Where the strategic sector:</p> <p>a) <i>listing type</i>, <i>domicile type</i> or <i>international economy type</i> is 'Not Specified', or</p> <p>b) allocation within the reported strategic sector includes other strategic sectors e.g. 'Alternatives' includes allocation to 'Infrastructure' or 'Fixed Income' includes allocation to both 'Fixed Income Excluding Credit' and 'Credit',</p> <p>report an asset allocation target at the reporting date to the <i>strategic subsector</i>, <i>strategic subsector listing type</i>, <i>strategic subsector domicile type</i> and <i>strategic subsector international economy type</i> for each <i>strategic subsector</i> approved by the board, committee or individual with investment</p> </div> <p>The above statement seems to contradict the first statement on page 4 of SRF 550.0 Table 1 which read (Statement #2):</p> <div data-bbox="1048 991 2047 1070" style="border: 1px solid black; padding: 5px;"> <p><b>Instructions</b></p> <p>Report the benchmark allocation to each <i>strategic sector</i> set as part of the board approved <i>strategic asset allocation</i>, reporting 'Not Applicable' for <i>strategic subsector</i>, <i>strategic subsector domicile type</i>, <i>strategic subsector listing type</i> and <i>strategic subsector international economy type</i>.</p> </div> <p>APRA to clarify whether Statement #1 should be where all strategic sector elements are reported as 'Not Specified' i.e. should be read as follows:          "Where the strategic sector:          a) listing type, domicile type <u>AND</u> international economy type is 'Not Specified', or          b) ..."</p>
<p>6 SRF550.0</p>	<p>Table 1 Currency</p>	<p>Not applicable</p>	<p>APRA should include within the reporting standard SRF 550.0 Table 1, the instruction under FAQ 550.0 Q on reporting a benchmark allocation to the 'Currency Exposure'</p>

		Exposure vs Currency Hedging Ratio		strategic sector or a 'Currency Hedging Ratio' to internationally domiciled strategic sectors (including the summary table of different scenarios) as this provides clearer requirements.
7	SRF550.0	Table 2 Asset Class Characteristic 2	Two additional Asset Class Characteristic 2 'Cash Foreign Exchange Derivative Contracts' and 'Cash Offset Derivatives' to enable RSE licensee distinguishing between liquid cash and adjustments for derivative reporting	APRA should include the instruction within the reporting standard SRF 550.0 Table 2 to explain the use of the two additional cash asset class characteristic 2 for derivative reporting, similar to the instruction under FAQ 550.0 S.