

29 November 2023

Mr [REDACTED]
General Manager – Macro and Industry Insights
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001
Via email: superdatatransformation@apra.gov.au

Dear [REDACTED],

RE: Superannuation Data Transformation publications and confidentiality

The Financial Services Council (**FSC**) welcomes the opportunity to respond to the consultation on the Publishing and Confidentiality of superannuation data. The FSC and its members are supportive of the overall goal of increased transparency and the consumer benefits and protections this brings.

Importantly, the FSC recommends that APRA properly contextualise the data to ensure that it is appropriately interpreted by those seeking to use it. Comparisons in some areas will be difficult without appropriate context. For example, some external service providers customise the pricing of their service offerings for each individual fund based on the complexity of the arrangement, unique features, the proposed service package, size of the fund and the desired pricing approach.

Further, the FSC recommends that APRA allow funds to declare data confidential where it is probable that it may identify commercial-in confidence arrangements.

About the Financial Services Council

The FSC is a 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, and financial advice licensees.

The financial services industry is responsible for investing more than \$3 trillion on behalf of over 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 one of the largest pools of managed funds in the world.

Summary of Recommendations

1. The FSC supports the publishing and transparency of superannuation expense and asset allocation data.
2. APRA provide clarity to superannuation funds regarding how it intends to contextualise and explain the data it publishes to ensure that it is interpreted as correctly as possible by those that would seek to use it.
3. APRA consider the impact of reporting profit data where there is no actual profit, and instead there is a loss and provide clarity for industry about how the data will be published in context.

4. APRA update SRF 332 to allow for the reporting of a non-profit generating expense.
5. APRA delay publishing data such as related party payments and marketing expenses until such time as consistency between the way these are reported across AMM Notices, RSE financial statements, and the SDT reporting standards are aligned to avoid confusion among superannuation members.
6. APRA declare as confidential any expenses data that might reasonably identify a specific contractual arrangement (such as the overall price or the price of a key component of the contracted services) and any commercially sensitive data relating to investment strategies.
7. APRA conduct a program to ensure the comparability of data across funds and appropriate and consistent implementation across industry.

The Principle of Publishing of Data

The FSC and its members support the overall goal of the publishing of superannuation data and the consumer good that comes from increased transparency.

Recommendation 1

The FSC supports the publishing and transparency of superannuation expense and asset allocation data.

Contextualising the Data

The FSC submits that data published without sufficient accompanying context could be interpreted incorrectly. This is especially true for data captured under *SRS 332: Expenses (SRS 332)*. Important information to clarify when publishing this data includes, for example, the relationship and key differences between this data and the data published through both the financial statements of the Fund and Trustee, and the Annual Member Meeting Notice (**AMM Notice**) process (see below), how accounting processes are applied practically in a superannuation fund context, and how wages and salaries are captured.

Much of the information intended to be published will already be published by funds, properly contextualised, through the AMM Notices process.

The FSC seeks clarity from APRA in relation to how it intends to contextualise and explain the data it publishes to ensure that it is most useful to and is interpreted as correctly as possible by those that would seek to use it.

Recommendation 2

APRA provide clarity to superannuation funds regarding how it intends to contextualise and explain the data it publishes to ensure that it is interpreted as correctly as possible by those that would seek to use it.

Limitation with Reporting Profit in SRF 332

SRS 332 requires entities to report the profit margin of expenses related to a connected entity. However, reporting form SRF 332 does not contemplate that the transaction might not involve a profit scenario but rather a loss. Specifically, it does not allow for the reporting of a number that is less than the reported revenue.

In some cases a fund may be supported by a connected entity and charging them less for the service than what the expense is. This would occur, for example, where a fund's connected entity is helping to absorb the loss by charging less than the revenue incurs.

This is not able to be reported on the form and therefore creates a scenario where the profit amount is artificial because the true profit outcome cannot be recorded.

Business profitability is cyclical and there are reasonable times when parts or all of the business might record a loss or be more supported by its connected entities than others.

The misalignment in the reporting of profit in these scenarios, along with the fact that the information reported in this way through SRS 332 is likely not to be meaningful, could lead to unproductive conversations, and unfounded misunderstandings and criticisms. As noted above, it is important that APRA consider the impact of reporting this data when it is not likely to be interpreted correctly and provide clarity for industry about how the data will be published in context.

Recommendation 3

APRA consider the impact of reporting profit data where there is no actual profit, and instead there is a loss and provide clarity for industry about how the data will be published in context.

Notwithstanding the recommendation above, so that APRA can receive the most appropriate data from entities, SRF 332 should be updated to allow for reporting of a non-profit generating expense under these circumstances.

Recommendation 4

APRA update SRF 332 to allow for the reporting of a non-profit generating expense.

Difference in Reporting Between SDT Data and AMM Data

A key concern for members is that there are several areas where the data already reported to members under the AMM Notice Framework may differ to the data reported under the SDT. This difference is usually due to the definitions for the two items differing between the AMM Notice and the SDT. Two such examples are the definition of related party payments and the definition of marketing expenses.

The FSC submits that it would be appropriate to delay publishing this data until such time as the two definitions are aligned.

Given the data (examples noted below) is already disclosed in both the AMM Notice and in the RSE/RSE Licensee financial statements (and as noted both have appropriate context), this would not result in any reduction in transparency, only an increase in clarity and mitigation of risks associated with wide variance in disclosures.

Definition of Related Party Payments

One of the main areas where this is a risk is in the definition of related party payments. Regulation 2.10(1)(h) of the Superannuation Industry (Supervision) Regulations 1994 (Cth) requires that if any payments were made by the main entity (in this context the RSE or superannuation fund) during the year of income to several related parties as defined in the Regulation, then an itemised list showing each such payment and the name of the entity to whom each payment was made is required to be disclosed.

The meaning of the Regulation is that only payments made directly by the Fund are required to be disclosed per Regulation 2.10(1)(h).

Conversely, SRS 332 requires payments to be reported on a “look-through basis” where expenses must be reported, through the chain of payments, until a non-connected entity receives the payment.

Therefore, there may be payments recorded in SRS 332 that were paid by other connected entities within an entity on behalf of the Fund to related parties that are not captured in the disclosure required for the AMM Notice. This will lead to a difference in disclosure between the AMM Notice and APRA’s proposed expenditure disclosure which will be driven by data captured in SRS 332.

Definition of Marketing Expenses

Another example of where the definition of an expense differs between the AMM process and the SDT is marketing expenses.

The agreed SDT process of reporting marketing expenses through SRS 332 is that internal marketing staff costs should be included however, for the AMM Notice, this is not required.

This will lead to significantly less marketing costs being reported during the AMM Notice process, than is reported through the SDT process.

Recommendation 5

APRA delay publishing data such as related party payments and marketing expenses until such time as consistency between the way these are reported across AMM Notices, RSE financial statements, and the SDT reporting standards are aligned to avoid confusion among superannuation members.

Commercially Sensitive Data

The FSC recommends that APRA allow entities to declare expenses as confidential where, even when aggregated, the data may reasonably identify commercial arrangements.

Expenses

Some expenses, even if reported on an aggregate basis, may indicate commercial contract terms. One of the main reasons for this is that expenses paid to service providers may be the product of a competitive tender process, through which confidentiality of price paid is a term of the contract. Therefore, the publishing of any data which may indicate the contract price (or the price of a key component of the contracted services) may lead to a breach of said contract.

Transparency of commercial pricing may also influence future contract and price negotiations for a service. If the cost of a current service arrangement (or a key component of the contracted services) can be reasonably estimated or deduced from the data that is published, this may affect the bargaining power of a superannuation fund. This will ultimately have an impact on superannuation fund members whose fees pay for these expenses, giving a perverse outcome where the exercise intending to give transparency to how member fees are spent, ends up causing a fund to spend more on contracted services.

Further, for companies with complicated organisational structures, contractual arrangements might be with a different company than the superannuation fund, which may not be a regulated superannuation entity, as defined in s10 of the Superannuation Industry (Supervision) Act. The inclusion of contracts involving companies/entities that are not RSEs would not only cause these entities to potentially breach their contractual obligations but would serve no purpose from a

consumer transparency perspective. Disclosure of expense information based on look through will cause contractual issues for the legal entity that owns the contractual arrangement.

We note the following comments (which appear under the 'Investment expenses classifications' heading in Appendix 1 of the consultation letter) appear to indicate that APRA accepts the principle that data which could allow users to determine the cost of individual service arrangements should remain confidential:

'In previous consultation, for investment management expenses, some stakeholders asserted that the publication of the investment asset class sector type could allow users to cross-reference the data published by APRA with already publicly available information about funds' investment managers to determine the cost of individual service arrangements.

Consistent with the feedback received, APRA is not proposing to include the breakdown by investment asset class sector type.'

Asset Allocations

Given the granular data being collected, there is likely to be commercially sensitive information relating to investment strategies included in submissions. For example, disclosure of derivatives of all types, including currency exposure, will reveal significant detail about how organisations manage asset classes (physicals v synthetics and also managing currency risk/hedging strategies). This will allow other market participants to adopt strategies that profit at the expense of superannuation funds and their members. These impacts can be mitigated to some extent if an appropriate frequency and lag of data publication is adopted for asset allocation information.

Recommendation 6

APRA declare as confidential any expenses data that might reasonably identify a specific contractual arrangement (such as the overall price or the price of a key component of the contracted services) and any commercially sensitive data relating to investment strategies.

Comparability of Data

The FSC notes APRA will need to conduct a program of work to ensure comparability of data across funds and appropriate and consistent implementation across the industry.

Further, comparisons in some areas will be difficult without appropriate context. For example, some external service providers customise the pricing of their service offerings for each individual fund based on the complexity of the arrangement, unique features, the proposed service package, size of the fund and the desired pricing approach.

Recommendation 7

APRA conduct a program to ensure the comparability of data across funds and appropriate and consistent implementation across industry.

If you have any questions about this submission, please contact me.

Yours sincerely,


Policy Manager, Superannuation and Innovation