



**Reporting Standards for Select
Investment Options
APRA Discussion Paper**

15 September 2014

AIST Submission

AIST

The 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 funds.

As the principal advocate and peak representative body for the \$600 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive summary

AIST strongly recommends that the reporting standards for Select Investment Option Reporting should align with MySuper Reporting. Our assumptions are that:

- Both MySuper and Select Investment Options are APRA-regulated and receive the same taxation concessions.
- Alignment of reporting assists greater transparency, efficiency, comparability and competition.
- Select Investment Options cover a considerable number of members and funds under management. Thus scrutiny as well as consistency of reporting is important.
- Funds choose to have Select Investment Options as a competitive decision; whether or not these are advised, members should have access to the same information.
- Suitable information gained by regulators adds strength to the system which outweighs cost.
- Consistency of reporting aids processing efficiency within superannuation funds, service providers and (AIST suggests) APRA.
- Standardised reporting should assist with the identification of any possible systemic risks.

AIST also strongly recommends that reporting requirements for Select Investment Options only commence following the settling of the requirements for Select Investment Option Dashboards.

2 Introduction

AIST wishes to thank APRA for its consultation regarding the draft reporting standards for Select Investment Option Reporting, which covers the APRA Discussion Paper, draft *SRS 553.1 – Asset Allocation and Members’ Benefit Flows*, draft *SRS 702.1 – Investment Performance*, and existing select investment option reporting forms. The draft reporting forms have been marked-up, highlighting proposed reporting deletions compared with MySuper reporting.

AIST welcomes the opportunity to respond to these papers.

AIST strongly supports the aims of the Reporting Standards, which (as noted in the Regulation Impact Statement for the Superannuation Reporting Standards) include:

- Improving transparency and comparability of information about superannuation.
- Strengthening the supervisors’ ability to identify, evaluate and, where appropriate, investigate and respond to risks faced by superannuation.
- Enabling APRA to periodically review its prudential framework to respond to shifts in the size, nature and complexity of the superannuation industry.
- Ensuring that the management of liquidity remains ‘front of mind’ for trustees in their consideration of the best interests of members.

AIST firmly believes that these aims assist with ensuring that outcomes are in members’ best interests, and promote greater efficiency and transparency within superannuation. AIST similarly supported the reporting standards for MySuper – and our comments at the time were directed towards ensuring even greater transparency and comparability.

3 Recommendations

3.1 Select Investment Option reporting should commence only after Product Dashboard has been settled

AIST notes its appreciation for APRA's changes to the timing of data reporting in March this year. Many changes have been implemented as part of the Stronger Super reforms, and, indeed, these changes are still being settled.

Superannuation data reporting is clearly linked to the requirements of Product Dashboards. AIST strongly believes that Select Investment Option Product Dashboard requirements should be settled before Select Investment Option data reporting commences. This would assist with:

- Giving greater certainty regarding the data reporting requirements leading to greater efficiency of implementation.
- Improved transparency across the superannuation industry and between investments.

3.2 Reporting standards for MySuper and Select Investment Options should be the same

AIST strongly recommends that the reporting standards for MySuper and Select Investment Options should be the same:

3.2.1 Both MySuper and Select Investment Options are APRA-regulated and subject to same taxation concessions

Members' superannuation money – invested in either MySuper or Select Investment Options – is subject to a heavy regulatory oversight commensurate with its status as (overwhelmingly) compulsory retirement savings that must be preserved until retirement.

Similarly, MySuper and Select Investment Options receive taxation concessions provided that the regulatory requirements are met.

AIST believes that to distinguish between MySuper and Select Investment Options reporting would diminish this approach.

3.2.2 Assists transparency, greater efficiency and competition

The Interim Report of the Financial System Inquiry¹ has questioned whether a lack of competition in superannuation is leading to higher costs and fees. AIST's submission² in response to the Interim

¹ Murray, D., Davis, K., Dunn, C., Hewson, C. and McNamee, B. (2014). *Financial System Inquiry Interim Report*. [pdf] Canberra: The Treasury, Commonwealth of Australia. Available at: <http://tinyurl.com/mzrwb4o> [Accessed 6 September 2014].

Report noted that there is a lack of reliable data with which to make international comparisons on superannuation fees and returns. AIST's submission included evidence that there are some signs of MySuper delivering lower fees, while drawing attention to additional disclosure gaps which need to be filled to give a more accurate picture of fee and investment return trends. Greater disclosure – and therefore reporting – of fees, costs, net returns, and other matters such as operating expenses – may add to improving competition, transparency and efficiency, and should help reduce the information asymmetry in the industry.

Because of the importance of disclosure and reporting from both a member perspective and an industry wide perspective, AIST recommends that any carve-outs from disclosure or reporting should be examined for the reason and its impact. AIST refers to point 3.3 in this submission where we have examined the potential impact of the proposed removal of items from Select Investment Option reporting.

3.2.3 Considerable member funds under management in Select Investment Options - comparability and transparency are critical

AIST suggests that there are considerable funds under management in Select Investment Options, which further strengthens the need to have parity between reporting for MySuper and Select Investment Options. In support of this suggestion, AIST notes the following:

- While many retail funds have introduced new low fee MySuper products, they have very little funds under management, with large sums remaining in previous high-fee products³.
- At the date of writing this submission, there were only 121 MySuper authorisations, which implies that there are still considerable accrued amounts yet to be transferred to MySuper.
- *APRA Fund-Level Data 2014* includes the proportion of assets in default investment strategies. This may be seen as an indicator of how much money is in Choice member investment strategies.

3.2.4 Funds choose to have Select Investment Options as a competitive decision

Rainmaker⁴ estimates that there are at least 25,000 member investment choices offered by Australia's superannuation funds. Employer default contributions go into a MySuper product – which can only have one investment option – unless the consumer chooses another investment option (Select Investment Options). Rainmaker estimates that Select Investment Option products offered by not-for-

² Australian Institute of Superannuation Trustees, (2014). *Response to the Financial System Inquiry Interim Report* 26 August 2014. Australian Institute of Superannuation Trustees.

³ The Grattan Institute (2014) *Super sting: How to stop Australians paying too much for superannuation*.

⁴ Source: Rainmaker, based on a sample of 300 funds for which Rainmaker monitors fees, returns and investment options, and on the basis that superannuation funds have an average of 50 member investment choices.

profit industry funds have an average of 8 investment choices and for-profit superannuation funds average 56.

Based on this, AIST suggests that the number of investment options in the non-MySuper space is primarily supply-driven and not member driven. The capacity to make choices was a key element of the Stronger Super initiatives. However, AIST suggests that the offering of so many choices is a competitive decision at the superannuation fund level. There is a cost to offering members choice (including meeting prudential requirements), but AIST believes that it is needed within a compulsory system. The costs associated with offering choice need to be balanced – by the fund offering the choices. We note that there is also substantial psychological research demonstrating that excessive choice options create decision paralysis – hence, members are more likely to do nothing if confronted with a wide range of choices.⁵ Nonetheless, those who make investment or other product choices should have access to comparable information.

3.2.5 Added strength to the superannuation system outweighs cost

AIST believes that the added strength to the superannuation’s competitiveness and transparency outweighs additional costs of having similar reporting requirements for both Select Investment Options and MySuper.

3.2.6 Greater efficiency if same type of information collected

AIST notes that there are greater efficiencies with service provider management if superannuation funds are requesting the same information across all investments. A margin for error creeps in where there are different data standards. AIST assumes that a similar comment can be made regarding the greater ease of handling similar data – rather than different data - within APRA itself.

3.2.7 Reinstatement of reporting carve-outs important for identifying systemic risks

AIST believes that the same reporting requirements for Select Investment Options and MySuper are needed for identification of possible trends pointing towards systemic risks. AIST outlines this in greater detail in point 3.3 below.

3.3 AIST recommends non-removal of items from Select Investment Option reporting

AIST strongly recommends that the items proposing to be removed from reporting remain as reportable items.

⁵ See Barry Schwartz from Wharton University on the impact of choice on happiness and well-being in “The Tyranny of Choice” published in the *Scientific American* <http://www.swarthmore.edu/SocSci/bschwar1/Sci.Amer.pdf>, and Sheena Sethi-Iyengar, Gur Huberman, and Wei Jiang on “Pension Design and Structure: New Lessons from Behavioral Finance” a study of 401(K) pension designs.

AIST has analysed each of the items proposed to be removed from reporting requirements and the potential impact. In conducting this analysis, AIST notes its earlier comments that it assumes there is a considerable volume of money within the Select Investment Options – and much of it is assumed to be post-retirement money. AIST has extracted from the draft SRF 330.1 the items marked in blue which are proposed to be removed

3.3.1 SRF 330.1: Statement of Financial Performance

Members' benefits flows

1. Members' benefits flows in	AIST's analysis of the impact of removing the following item(s)
1.1. <i>of which:</i> Employer contributions 1.2. <i>of which:</i> Member contributions 1.3. <i>of which:</i> Defined benefit contributions	Detailed statistics of inflows/outflows are critical as they indicate: <ul style="list-style-type: none"> The inflow/outflow rate of any product is critical to understanding the product's position in the market. The dynamic between MySuper and Select Investment Options: The data needed to gauge movements between MySuper lower cost default type options which are designed with member demographics in mind and more specialised investment options; data on the flows will identify trends in the types of products members choose to, or are advised to invest in as the population ages. From which industry sectors the flow from MySuper to Select Investment Options comes from (e.g. does it come from 'general advice/sales' over the bank counter?) – and vice versa. The exit rate from Select Investment Options (e.g. member cashing behaviours) as this impacts on liquidity positions across the industry. Areas of possible systemic risk concerns (e.g. impact of 'sales' advice on member behaviour; cashing behaviours).
2. Members' benefits flows out 2.1. <i>of which:</i> Benefit payments 2.2. <i>of which:</i> Repatriation to employer-sponsor	

Superannuation activities

	AIST's analysis of the impact of removing the following item(s)
3. Investment income and gains/losses 4. Operating income 5. Investment expenses	<ul style="list-style-type: none"> These data are needed to monitor and compare the efficiency and competitiveness of superannuation fees within Australia and internationally. The Interim Report of the Financial System Inquiry observes

<p>6. Administration and operating expenses</p> <p>7. Advice expenses</p>	<p>that there is ‘little evidence of strong fee-based competition in the superannuation sector, and operating costs appear high by international standards’⁶. While AIST in its response submitted that value to members is critical and a focus <i>solely</i> on fees will lead to poor outcomes, AIST also noted that there is a lack of data which helps to make eg. international comparisons on fees and administration and operating expenses.</p> <ul style="list-style-type: none"> • Trends in these expenses are, AIST submits, important in keeping track of the possibility of systemic failure owing to, e.g. administrator incapacity, given the interconnectedness of superannuation funds and administrators within Australia. • This data could be used to, for example, monitor the costs of SuperStream and whether lower fees translate to lower administrator margins in an industry where administrators are have low margins.
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Insurance activities

AIST’s analysis of the impact of removing the following item(s)	
<p>8. Net flows from insurance activities</p> <p>8.1. Insurance related inflows</p> <p>8.2. Insurance related outflows</p>	<p>While AIST notes that default insurance arrangements are not required for Select Investment Options (unlike MySuper), given the volume of money within these Options, AIST believes reporting of insurances is important to understanding the extent of cover in these products.</p>

AIST’s analysis of the impact of removing the following item(s)	
<p>9. Profit/loss before income tax</p> <p>10. Income tax expense/benefit</p> <p>11. Profit/loss after income tax</p> <p>12. Transfers into reserves affecting net assets available to pay members’ benefits</p> <p>13. Transfers out of reserves affecting net assets available to</p>	<ul style="list-style-type: none"> • This information would assist understand the strength of, and trends associated with, the Select Investment Option product. • Changes in net assets available to pay members’ benefits assists with identification of any issues which may alert systemic risk issues.

⁶ Murray, D., Davis, K., Dunn, C., Hewson, C. and McNamee, B. (2014). *Financial System Inquiry Interim Report*. [pdf] Canberra: The Treasury, Commonwealth of Australia at p.2-99. Available at: <http://tinyurl.com/mzrwb4o> [Accessed 3 September. 2014].

pay members' benefits

14. Change in net assets available to pay members' benefits

AIST's analysis of the impact of removing the following item(s)

- Given the Funds Under Management in Select Investment Options, AIST recommends that reporting of fixed income currency types as well as movements in directly and indirectly held investments should be the same for both MySuper and Select Investment Options.
- This information is important in assisting with tracking how Select Investment Options are tailored to suit the risk preferences and investment horizons of members.
- This information may assist with identification of any issues which may trigger systemic risk alerts.
- This information will also assist with understanding asset allocation differences between MySuper and Select Investment Options. As noted in a RiceWarner report commissioned by AIST, the initial results from MySuper have seen a reduction in the exposure to more expensive asset classes, including alternatives⁷. These are the type of issues which should be tracked and analysed.
- As the RBA noted in its submission to the Financial Services Inquiry in March 2014⁸, ‘...(W)hile the superannuation system generally views itself as being in the asset management business, it is also, and increasingly so, in the intermediation business, taking savings and investing in a range of assets. Because of portability requirements and the ability of fund members to change their asset allocation, superannuation funds are exposed to liquidity risk. This risk will also increase as more members draw down on their superannuation savings.’
- AIST submits that the above comments are particularly pertinent to Select Investment Options where (it is assumed) considerable post (as well as pre) retirement savings are lodged.
- AIST applies these comments to Fixed income currency type, and movements in directly held and indirectly held investments (from items 2 and 3 in draft SRF330.1).
- AIST also notes again that reporting such information would assist with comparing Australia’s superannuation system with overseas as well as trends within Australia. There is a lack of data regarding asset allocations of OECD countries generally, making it difficult to

⁷ Rice Warner (2014) Navigating the New MySuper Landscape, AIST and Rice Warner Research, available at <http://tinyurl.com/mhczs9x>

⁸ Reserve Bank of Australia, (2014). Submission to the Financial System Inquiry - March 2014. Sydney: Reserve Bank of Australia. Accessible at: <http://www.rba.gov.au/publications/submissions/fin-sys-inquiry-201403/superannuation.html>

compare. AIST made this point in its submission to the Financial Services Inquiry. The RBA also noted that Australian superannuation funds have a much lower allocation to fixed income than a number of OECD countries – and AIST recommends that data collection in this area is important.

Fixed income currency type (5)	Value (6)	<i>if applicable, currency hedged</i> (7)
Australian dollars		
Other currency		
Not applicable		

Asset class (1)	Asset domicile type (2)	Asset listing type (3)	Fixed income type (4)	Fixed income currency type (5)
Cash	Australia domicile	Listed	Government debt	Australian dollars
Fixed Income	International domicile	Unlisted	Non Government debt	Other currency
Equity	Not applicable	Not applicable	Mortgage debt	Not applicable
Property			Credit	
Infrastructure			Not applicable	
Commodities				
Other				

Net transactions (6)	Investment income (7)	Unrealised gains/ losses (8)	Realised gains/ losses (9)	Total gains/ losses (10)	<i>of which: Foreign exchange gains/ losses</i> (11)

3.3.2 SRF 702.0: Investment Performance

AIST notes that the comments above in support of maintaining reporting also applies to the non-deletion of any requirements from *SRF 702.0: Investment performance*.

3.4 Specific issues

AIST now turns to specific issues raised in APRA's Discussion Paper: *Reporting standards for select investment options, 7 July 2014* ('APRA's Discussion Paper').

3.4.1 Question 2.4 – Definition of select investment option

In response to APRA's seeking views on altering the proposed Select Investment Option threshold of \$50 million and 5% of total RSE assets, AIST recommends that the thresholds remain unchanged. AIST believes that the 5% threshold in particular is important in ensuring transparency and comparability of Select Investment Options which are critical to members.

AIST also notes that the definition should clearly reflect that 'member direct' investment options should be included as a single investment option reported to APRA on a general inflow and outflow basis.

3.4.2 Question 2.4 – Treatment of Select Investment Options in both taxed and tax free phase

AIST notes and agrees with the practice of reporting net-of-tax returns for both the taxed phase and the untaxed phase where the Select Investment Option contains member accounts in both phases.

3.4.3 Question 3.4 – Approaches to reporting relevant strategic asset allocation information

As noted in 3.3.1 above, AIST recommends that the reporting for strategic asset allocation information for Select Investment Options should be in line with those for MySuper.

3.4.4 Question 4.4 – Investment movements

While AIST notes the comments that the industry believes it is difficult to report investment movements for indirectly held investments in Select Investment Options, as noted in 3.3.1 above, AIST recommends that the reporting for investment movements for Select Investment Options should be in line with those for MySuper. AIST has provided detailed reasons within this submission for alignment of reporting.

3.4.5 Question 5.4 – Financial performance and members' benefit flows

Within 3.3.1 of this submission, AIST has provided details outlining why breakdowns of member benefit flows is important within APRA's reporting requirements.

3.4.6 Question 6.3 – Investment performance and net return – fees and costs

Within 3.3.1 of this submission, AIST has provided details as to why it believes maintenance of detailed reporting regarding the breakdown of investment, administration and advice fees, costs and taxes is important.

3.4.7 Question 6.5 – Investment performance and net return – lower and upper limits on fees and costs where there is more than one fee in a Select Investment Option

AIST recommends that this issue be a key focus within the review of Select Investment Option product dashboard requirements. Once this is resolved at the member interface level (i.e., within dashboard), then consideration can be given to reporting requirements.

3.5 Additional matters

3.5.1 Interaction with the requirements of section 29QC

Given that the operation of section 29QC of the *Superannuation Industry (Supervision) Act 1993* has been deferred until 1 July 2015, AIST believes further consultation regarding the interaction between these requirements and Select Investment Option reporting may be needed – and this also supports deferring Select Investment Option reporting until Choice Dashboard requirements are finalised.

3.5.2 SRF 702.1: Contributions

AIST queries whether taxes on contributions are included. As APRA would be aware, ASIC is examining class orders regarding fees - and consistency would be needed.

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