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Australian Custodial Services Association - Submission on superannuation data collection for the Australian Bureau of Statistics (ABS) ("the Consultation Paper")

The Australian Custodial Services Association ("ACSA") is the peak industry body representing members of Australia's custodial and investment administration sector. Collectively, the members of ACSA hold securities and investments in excess of AUD$2.3 trillion in value in custody and under administration. Members of ACSA include NAB Asset Servicing, JP Morgan, HSBC, State Street, RBC Investor Services, BNP Paribas, Citi Transaction Services and Northern Trust.

This submission is intended to provide APRA and the ABS with the collective views of ACSA members on the issues raised by the consultation paper to RSE licensees on proposed data collection for the Australian Bureau of Statistics released on the 27th of January 2015, incorporating the following draft reporting standards:

SRS 720.0 ABS Statement of Financial Position

SRS 721.0 ABS Securities Subject to Repurchase and Resale and Stock Lending and Borrowing

SRS 722.0 ABS Derivatives Schedule

SRS 730.0 ABS Income and Expenditure.

Custodians are likely to be indirectly impacted by various aspects raised in the Consultation Paper. This response is focused on the practical implementation aspect of the Consultation Paper, despite not being the regulated party, custodians are the source of record and so are anticipating being the primary producer of ABS reporting on behalf of our clients. As such, custodians are uniquely placed to have the best understanding of the operational complexity and implications of the questions raised with respect to implementation and ongoing support of ABS reporting.

From our ongoing discussions during 2014 and continuing in 2015, ACSA has unearthed a number of practical difficulties in implementing and ensuring consistency of disclosure between the Australian

Prudential Regulation Authority (APRA) and the information given by licensees of Registrable Superannuation Entities (RSE licensees) to meet disclosure requirements in the Corporations Act 2001 (Corporations Act) and the Corporations Regulations 2001 (Corporations Regulations).

It is essential in many instances to ensure Custodians as major providers of custody and administration reporting for the financial services industry are able to support the desired outcome prior to the commencement of core system builds to ensure that the required reporting is supplied to our Superannuation clients.

We would like to thank APRA and the ABS for the opportunity to reply to the Consultation Paper and provide our response for consideration. Thanks also extends to the recent joint APRA/ABS/ACSA workshop held in Sydney that enabled all parties to communicate and discuss these issues in person and the ABS's timely response to the industry acknowledging these challenges on the 1st of April.

Regards

David Knights

Deputy Chair

The response will comprise of the following sections:

- Overview of implementation challenges for each of the four new reporting standards
- Responses to the consultation questions included in the 1st of April letter to the industry
- Overarching implementation challenges

SRS 720.0 ABS Statement of Financial Position

ACSA Understanding of the requirements

The SRS 720.0 is a balance sheet view of the position of an RSE using the classifications outlined in the international standard "System of National Accounts". Although the investments that are reported will be based on the same valuation methodology used in the existing SRS 530.0 Investments, they will be done so on a significantly different classification basis.

Implementation Challenges

Custodians have numerous attributes allocated to investments within their systems as such many of the classifications proposed in the SRS 720.0 are able to be supported. These classifications tend to be focused on the holding itself, the industry it operates in, its geographical region and the way in which it is structured. The ABS reporting framework on the other hand uses the "whom to whom" framework that concentrates more on the attributes of the issuer of the investment. This gap in classification detail is more acutely noted around the areas of:

- Issuer Classification
- Issuer Residency
- Greenhouse Gas Emission Reduction Schemes
- External wholesale trusts which are only open to superannuation funds
- Definition of Mandate

As the number of issuers in the market numbers in the thousands that lack a universal identification protocol and ABS classifications are not easily sourced, we see this as the single largest obstacle in implementing this form. The difficulties in applying these same classifications to receivables and payables are equally problematic.

Unlike the current APRA regime where custodians are able to map existing finite classification structures to APRA definitions, the allocation of issuer attributes will need to be done on an issuer by issuer basis.

ACSA would want to avoid a scenario where each custodian will have to manually map and maintain this issuer classification relationship with limited guidance and consistency, resulting in a degradation of the usefulness of the end reporting data.

ABS Issuer classifications are not currently obtainable via data providers such as S & P or Moody's and it is envisaged that the cost of obtaining and publishing this information may be similar to costs that were recently advised for ratings data required for the SRF 500 series of APRA reports.

In previous submissions to the regulator, vendor costs for acquiring ratings information has been quoted at @ $96,000 for custodians with assets under custody in the $150 – $200 billion range whilst charges for an individual RSE to provide information to APRA has been in the range of $20,000 - $40,000 per RSE. That being said it is entirely likely that these agencies may not maintain ABS specific data classifications.

ACSA Proposal

During the consultation period at both the industry round tables and the joint APRA/ABS/ACSA workshop ACSA expressed our preference for the ABS requirements to align to the existing APRA classifications to avoid the necessity of creating another classification matrix.

If this is only able to be partly accomplished we would look to the regulator to release detailed guidelines, or preferably comprehensive lists of issuers and to which classification they should be allocated to for reporting purposes. This would be akin to what is currently provided by APRA in relation to lists of Life Insurance Companies and General Insurers and would ensure that all industry participants are classifying holdings in accordance with intended outcomes. ACSA will be open to work with ABS and APRA to assist in defining such guidelines.

Due to the lack of data available in relation to Greenhouse Gas Emission Schemes ACSA's would propose for this classification to be removed in entirety.

SRS 721.0 ABS Securities Subject to Repurchase and Resale and Stock Lending and Borrowing

ACSA Understanding of the requirements

The SRS 721.0 is a balance sheet view of a smaller subset of holdings positions of an RSE using the classifications outlined in the international standard "System of National Accounts".

Implementation Challenges

Similarly to SRS 720.0, custodians do not have the data held to support the granular classifications required to complete this form. These gaps mirror some of the same attributes mentioned previously and have equally concerning implementation challenges:

- Issuer Classification
- Counterparty Classification
- Greenhouse Gas Emission Reduction Schemes

Under the existing regulatory framework, RSE's are not obliged to report stock lending arrangements where they are not the principal in the agreement, but instead enter into an agency agreement with their Custodian. This treatment is a reflection of the existing Accounting Standards whereby stock lending arrangements on an agency basis are not required to be reported in an RSE's financial statements.

The SRS 721.0 is silent on this distinction which leaves the matter open to interpretation, or potentially not in alignment with existing reporting requirements.

ACSA Proposal

During the consultation period at both the industry round tables and the joint APRA/ABS/ACSA workshop ACSA expressed our preference for the ABS requirements to align to the existing APRA classifications to avoid the necessity of creating another classification matrix.

If this is only able to be partly accomplished we would look to the regulator to release guidelines, or preferably comprehensive lists of issuers and to which classification they should be allocated to for reporting purposes. This would be akin to what is currently provided by APRA in relation to lists of Life Insurance Companies and General Insurers and would ensure that all industry participants are classifying holdings in accordance with intended outcomes.

Due to the lack of data available in relation to Greenhouse Gas Emission Schemes ACSA's would propose for this classification to be removed in entirety.

Stock Lending reporting should mirror existing Accounting Standards where reporting is only required when the RSE is a Principal to the Stock Lending arrangement.

SRS 722.0 ABS Derivatives Schedule

ACSA Understanding of the requirements

The SRS 722.0 is a balance sheet view of direct derivative holdings positions of an RSE using the classifications outlined in the international standard "System of National Accounts".

Implementation Challenges

Similarly to the SRS 721.0 custodians do not have the data held to support the granular classifications required to complete this form. This gap mirrors the same counterparty classification mentioned previously and have equally concerning implementation challenges.

Derivative reporting also poses further limitations in regards to the proposed classification regime as exchange traded derivatives lack an identifiable counterparty.

SRS 722.0, with the exception of counterparty classifications, reports very similar information that is required under SRS 534.0. ACSA would like to highlight that the necessity to report multiple views of the same data set results in the industry incurring avoidable costs in both implementation and ongoing preparation costs.

Costs incurred by custodians in building systems and reports to support our clients' regulatory commitments have been as high as several million dollars for each custodian, with these costs ultimately born by RSE's. Additional reports and changes to the requirements of existing reports are continuing to add significantly to this already large figure as Custodians each have bespoke technology platforms that need dedicated project teams to implement the change process.

Where ever possible it is preferable for data to be sourced from either existing APRA lodgements or via data being provided to ASIC as part of the new reporting introduced under the OTC derivatives reform. At the very least it is imperative that similar columns – such as "Type of derivative contract" in the SRS 722.0 align perfectly with the "Exposure Type" column in the SRF 534.0 so that existing development can be leveraged. Unlike existing APRA reports, the SRF 534.0 has not yet been implemented so ACSA see this as an opportunity for these two different reporting standards to be consolidated.

ACSA Proposal

As both SRS 534.0 Derivatives and SRS 722.0 are still both in the consultation phase and each is reporting on the same data set, ACSA believes that both forms should be consolidated into a single annual form that will fulfill the requirements of both regulatory bodies.

Derivative holdings that are held within mandates are not presently reported as part the previous APRA reporting regime as they are not considered "direct" in the same way as the new reporting regime. As a result the ABS will not see a material degradation in the timeliness and quality of data as they are not currently receiving this information at present.

The reduction of the frequency of reporting and also the development of a single derivative report will assist considerably in reducing both implementation costs and the ongoing compliance burden.

In consolidating the two reports, care must be taken so that requirements do not eventuate that may inadvertently create even larger compliance burdens, for example ensuring that ratings information is only required for the largest counterparties.

SRS 730.0 ABS Income and Expenditure

ACSA Understanding of the requirements

The SRS 730.0 is an Income and Expenditure view of the movements in holdings of an RSE using the classifications outlined in the international standard "System of National Accounts".

Implementation Challenges

Unlike the above reports, the SRS 730.0 does not allocate investments using issuer or counterparty classifications and also mirrors very closely the Reporting Standard SRS 330.0 Statement of Financial Performance. The ABS has identified these attributes in its response to the industry and the proposal to remove the need for superannuation funds to lodge RSE level data in the SRS 730.0 will negate much of this duplication.

It is important to note that the detailed financial information contained in SRS 730.0 is not easily attributable to individual member types. Unless defined benefit members have their own dedicated option structure within the RSE, income and expenditure will be required to be allocated to members on an arbitrary basis.

The proposal for the movement of non-resident members from this form is a welcome one as they share the same issue of arbitrary allocation of financial values. That being said, the identification of non-resident members will be a potentially difficult one as RSE's are not currently required to capture this information, whilst data used as a proxy (e.g. residential or mailing address) may not correspond to the member's actual resident status. This is especially the case for unengaged members.

ACSA Proposal

ACSA agrees with the proposal to make greater use of the data already reporting by RSE's in the SRS 330.0 and SRS 320.0 as most of the fields in SRS 730.0 are identical to those contained within existing forms.

ACSA also would support encapsulating the required ABS fields contained in Appendix 1 of the 1st April letter within a revised SRS 330.0 form.

In addition, if a form is required specifically for Defined Benefit Members it would be advantageous for this form to be identical to the existing SRS 330.1 Statement of Financial Performance to minimize development costs.

Notwithstanding the difficulties in identifying non-resident members above, the proposal put forward in Appendix 2 of the 1st April letter for reporting percentages of non-resident members within the SRS 720.0 is a preferable solution.

Responses to consultation proposed changes:

The changes put forward in the 1st of April letter from the ABS will address a number of the original concerns that ACSA has with the initial reporting requirements. These concerns spanned all four reports and as such we have not raised these issues above in anticipation of their removal.

Proposal #1: (a) that the proposed standard apply only to directly-held investments; (b) that the proposed standards be completed according to the year of income of the RSE; and (c) that the valuation principles in the proposed standards specifically reference the Australian Accounting Standards.

ACSA is in support of Proposal #1.

Proposal #2: (a) that column 3 be removed from proposed SRS 730.0; and (b) that an additional item (proportion of non-resident members and members' benefits) be added to proposed SRS 720.0.

ACSA is in support of Proposal #2 as it will potentially reduce the need for the SRS 730 form. As mentioned above it is questionable whether these percentages will in fact be accurate as RSE's do not have tax residency information captured on their systems.

Proposal #3: (a) that ABS make greater use of information from SRS 330.0; (b) that column 1 be removed from proposed SRS 730.0 and unique data items from column 1 be relocated to elsewhere in the reporting collection, either a separate or existing reporting form; and (c) that proposed SRS 730.0 apply only to RSEs with defined benefit members.

ACSA is in support of part (a) and part (b) of Proposal #3.

In regards to part (c), ACSA proposes that defined benefit member data be sourced from SRS 330.1. This in combination with the above proposals would negate the need for the SRS 730 entirely.

Legacy ABS Forms:

ACSA would like to note that Form 90 and From 70 currently provided to the ABS by many Superannuation Funds on a quarterly basis repeats once again a very similar superannuation fund data set (both movement and holdings). Our expectation would be that the data requested in the existing ABS forms will be incorporated into a single lodgement and/or reviewed to be determined if it is actually required going forward.

If this is not accomplished RSE's will be potentially providing position and movement reports in two different lodgement regimes for ABS reporting, and yet another for APRA reporting. This will ultimately be a costly and inefficient outcome for both preparers and recipients of the data and a missed opportunity to streamline statistical and regulatory reporting.

Implementation timeframes:

Over the next 18 months RSE's and Custodians have a significant number of changes on the near horizon. They include, but are not limited to:

- APRA Effective Exposure reporting
- Portfolio Holdings Disclosure
- APRA SRS 534.0 Derivatives Reporting
- APRA SRS 533-1 Select Investment Option reporting
- AASB 1056 and,
- ASIC Derivatives Reform

Adding ABS reporting to the above creates a large body of highly technical work which is made more challenging by some of the above having unknown final requirements. In light of this ACSA believes that the timeframe for implementation of ABS reporting be set at 12 months after final ABS requirements are published.

Due dates for quarterly reporting

ACSA understanding of the requirement

- Reporting of quarterly forms within 28 calendar days after the end of the quarter
- Where an RSE Licensee is experiencing difficulty in transitioning to the new reporting due dates, a short extension can be requested, especially for the first reporting period

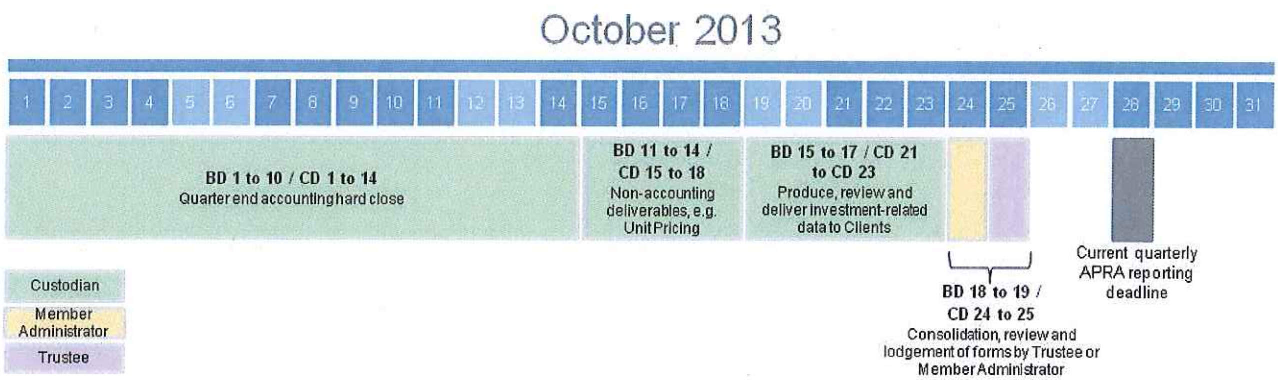
Implementation Challenges

The reporting standards results in change in the type and volume of data required for reporting from multiple parties, including the Trustee, Member Administrator and the Custodian. For the Custodian, the timeframe to report the investments-related data for APRA Reporting is wholly dependent upon:

- *Accounting hard close:* these have a staggered timeline to report to cater for receipt of data from third parties, such as Fund Manager statements as well as the internal preparation and reviews that have to be completed by the Custodian. In some instances, Funds may choose to delay reporting if there are a large number of Fund Manager statements outstanding.
  Accounting hard close period can extend from Business Day ("BD") 1 to 10 or Calendar Day ("CD") 1 to 14

- *Unit Trust Pricing ("UTP") hard close:* these are required in order to be able to report at the option level of a Fund and the hard close of UTP deliverables are dependent upon the completion of the Accounting hard close
  UTP hard close period can extend from BD 11 to 14 or CD 15 to 18

The below diagram illustrates the timeframes required for the Custodian, Trustee and Member Administrator to prepare and complete quarterly reporting:



With the short timeframe (2 calendar days) remaining for the Trustee and Member Administrator to understand the range of data required from different parties, integrate and consolidate the data received as well as perform reviews and checks over the consolidated data before lodgement, the Custodian Industry anticipates Fund requests to decrease the Accounting and UTP hard close timeframes. This will prove challenging to the Custodian Industry as it is not possible to hard close all Fund books due to volume and the timing of third party information received.

An earlier hard close of Funds or a soft close specifically for APRA & ABS reporting purposes may result in less accurate information due to the use of stale prices, etc. as Funds have closed their books prior to receipt of up-to-date Fund Manager statement information. The data generated from a soft close could materially compromise the data and make meaningful comparison between Funds difficult as the soft close data would represent different value dates. Further, the 28 CD timeframe does not reflect the increased complexity and volume required in the quarterly forms compared to the current quarterly forms submitted.

ACSA Proposal:

ACSA proposes the due dates for quarterly reporting remain at the current 35 calendar days in perpetuity. This would allow the Industry to better control and manage the range and increasing volumes of data required to be reported, especially when both Select Investment Options and ABS reporting need to be submitted.

Conclusion

The success of the alignment between ABS and APRA reporting classifications and the ability of the regulator to provide correct classification of specific counterparties will have a considerable impact on the items of concern that we have outlined in our submission. ACSA have been encouraged by the response received from the ABS in relation to industry input thus far and welcome further engagement that will facilitate refining requirements so that RSE compliance costs can be minimized.