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Australian Prudential Regulation Authority
Via email: policydevelopment@apra.gov.au

Response to APRA's proposed minor updates to the prudential and reporting framework

Dear Mr Kohlhagen and Mr Young,

The FSC welcomes the opportunity to provide feedback on APRA's proposed package of minor updates to the prudential and reporting framework.

We also welcome APRA's broader efforts to resolve ambiguity and address industry feedback through providing technical clarifications, correcting drafting issues and ensuring consistency across the framework.

Accordingly, the FSC considers that improving alignment between APRA's reporting standards and associated FAQs, particularly in relation to SRS 553.0, should form part of this broader prudential framework uplift. These matters are explored in further detail below.

About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 130 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. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

The financial services industry is responsible for investing more than $4 trillion on behalf of over 16.9 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. That APRA review the alignment between the reporting instructions for SRF 553.0 and FAQ 553.0(j), and make any amendments necessary to ensure consistent reporting expectations.
2. That APRA consider whether any other gaps or misalignments exist between the reporting standards within scope of this consultation and associated FAQs, and address these through the proposed minor updates where appropriate.

Clarification of SRS 553.0 (Investment Exposure Concentrations and Valuations) reporting instructions

The FSC considers that this APRA consultation on minor prudential and reporting framework updates presents a good opportunity to address potential inconsistencies between in-scope reporting standards and associated FAQ guidance.

One of the areas that could benefit from clearer alignment is SRS 553.0 and the associated FAQs.

In particular, the reporting instructions for SRF 553.0, Table 2 require specified reportable exposures to listed or liquid unlisted assets to be reported, with the assets within scope defined by reference to specified 'Investment Strategic Sector Types' and 'Investment Strategic Sector Listing Types'.

As an example of how an investment's strategic classification may differ from its actual exposure, an actual holding in an unlisted unit trust (i.e. a 'reportable exposure') may have underlying assets that are predominantly listed shares and/or liquid unlisted assets (e.g. cash or fixed interest). In practice, such a holding may form part of a portfolio with a range of strategic allocations, whether listed or unlisted and across different asset class categories. To illustrate:

- the strategic asset allocation and actual asset allocation may be fully aligned; or
- the holding could form part of the portfolio's liquidity holdings, where the strategic allocation is predominantly illiquid.

In contrast, APRA's subsequently published FAQ 553.0(j) explicitly clarifies that actual exposures are to be used in determining reportable exposures and calculating materiality.[1] This includes cash, fixed income and/or listed equity assets that may be held in portfolios with an Investment Strategic Sector Type other than 'Fixed Income', 'Fixed Income Excluding Credit', 'Credit', 'Cash' or 'Equity'. The FAQ further clarifies that, while actual exposures are used to determine reportable exposures and materiality, SRF 553.0 Tables 1 and 2 require the applicable Investment Strategic Sector Type for the portfolio in which the asset is invested to be reported.

In summary, while the reporting instructions in SRF 553.0, Table 2 appear to identify exposures within scope by reference to their strategic classification, the FAQ clarifies that actual exposures should determine whether an exposure is reportable and its materiality, irrespective of strategic classification.

Under the *Financial Sector (Collection of Data) Act 2001*, APRA's Reporting Standards and associated instructions form part of the legally binding reporting framework. In contrast, APRA FAQs provide supervisory guidance that clarifies APRA's intent and expectations, but do not themselves amend the legislative text of the reporting standard.

By retaining the clarification in FAQ 553.0(j) without reflecting it in the core text or instructions of SRS 553.0 as part of the proposed minor updates, APRA risks leaving the legally binding reporting requirements misaligned with its stated supervisory expectations. This may create reporting inconsistency across industry and increase compliance risk.

Recommendation #1: That APRA review the alignment between the reporting instructions for SRF 553.0 and FAQ 553.0(j), and make any amendments necessary to ensure consistent reporting expectations.

Recommendation #2: That APRA consider whether any other gaps or misalignments exist between the reporting standards within scope of this consultation and associated FAQs, and address these through the proposed minor updates where appropriate.

If you would like to discuss anything contained in this submission, please contact [redacted]

Yours sincerely,

[redacted]
Policy Manager – Investment Platforms and Superannuation

[1] Australian Prudential Regulation Authority, Frequently Asked Questions - Superannuation Data Transformation, December 2023, https://www.apra.gov.au/frequently-asked-questions-superannuation-data-transformation#toc-faqs-for-srs-553-0