Response to APRA: Draft Reporting Standards for Superannuation:
SRS 700.0: Product Dashboard
SRS 702.0: Investment Performance
SRS 703.0 Fees Disclosed

July 2013

AIST Submission

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $500 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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1 Executive Summary

AIST welcomes these draft reporting standards and makes recommendations to improve the consistency and usefulness of the information to be reported. AIST has long supported the need for a product dashboard to contain information that allows super fund members and other consumers to see the vital metrics that may be used to measure the success or features of their fund. APRA should take a facilitative approach during the implementation of the reporting standards, during what will effectively be a transition period over at least the next 12 months.

The key points made by AIST in this submission include:

- There should be comparability between the performance, fees and risk of all superannuation products and not just between MySuper products and these MySuper forms should anticipate this requirement for comparability in the forthcoming reporting standards for Choice products.
- AIST strongly supports the disclosure of returns net of tax, and investment and administration costs, and supports the use of a 'representative member' to assist comparability. However, we submit that an account balance of $50,000 throughout the reporting period and a contribution of $5,000 during the period should be assumed.
- The level of probability of achieving a MySuper product's return target should be set by APRA at a consistent and high level, perhaps 75%. The basis for a return target is much less credible if it can be manipulated by changing the assumed probability of achieving the target.
- AIST restates its concerns with the proposed measure for level of investment risk, and continues to call for the Product Dashboard and associated reporting to be renamed as a measure of volatility, and to require consumer disclosure of a measure of long-term investment risk. AIST calls on APRA to announce a timetable and process to address these issues.
- In an environment where many fund mergers have occurred and more are likely, there should be greater guidance given for calculating merged fund part performance.
- Overall, while AIST and its member funds appreciate the highly consultative approach taken by APRA, AIST calls for greater clarification and guidance through the reporting standards. This would both assist with the implementation of the standards, and ensure consistent outcomes. For example, AIST points to the value of this clarification in relation to the period that data relates to, reporting of taxes incurred or taxes paid, and insurance definitions of blue and white collar workers.

The implementation of MySuper has involved many pieces of legislation, regulation and legislative instruments. The range and detail of these measures (and other elements of the Stronger Super reform package) will inevitably involve some inconsistencies, omissions, errors and differing understandings of requirements.

AIST calls on APRA to have an ongoing process of consultation, and seeks to represent the views of not-for-profit funds in these consultations.

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2 SRS 700.0: Product Dashboard

2.1 Overview

AIST supports the reporting of data needed to provide super fund members and other consumers with useful, meaningful and comparable information about their MySuper product, and acknowledges that SRS 700 provides the basis for this in relation to most items. However, in order to do so the requirements need to ensure consistency and not lead to the possible distortion in consumer behaviour.

As APRA is aware, AIST has consistently and widely expressed the view that basing the level of investment risk on the Standard Risk Measure may be misleading to consumers. This submission restates these concerns, and continues to call for the Product Dashboard and the associated reporting to rename the SRM as a measure of volatility, and to require consumer disclosure of a measure of long-term investment risk.

On the other hand, AIST strongly supports the disclosure of returns net of tax, and investment and administration costs, as proposed in the reporting standards. This is fundamental to providing consumers with useful, meaningful and comparable information. In making this requirement, it is critical that APRA require information to be provided in a way that is consistently reported by all regulated super funds. In order to achieve this, AIST makes numerous recommendations for greater clarity and guidance to be provided in the instructions.

AIST also strongly asserts the need to ensure comparability of their MySuper product with all superannuation products, and not just other MySuper products. Accordingly, the reporting and disclosure should be consistent between MySuper and Choice products. For example, it should be made clear to consumers that there are no contribution fees in MySuper products (as they are prohibited) and for this to be easily compared with contribution fees for a Choice product. Similarly, fee information for Choice products should be collected and disclosed so that they can be compared with MySuper products.

Comparability is also assisted by use of the representative member. While not perfect and requiring adjustment as average balances change over time, it is nonetheless useful with consumers. AIST submits that the structure of a representative member should be kept as close to similar disclosure in PDSs as possible.

2.2 Throughout the standard and form

Throughout the standard (references the grey text box on the first page, paragraphs 4 and 5 and footnote 2) the word *lifecycle* appears to be unnecessarily duplicated (e.g., “lifecycle stage of a MySuper lifecycle product”).

Throughout the form reference is made to the term *financial year*. However, in some instances, the form clearly refers to 30 June or 31 December and in other sections refers to “financial years” – which may be an acknowledgment that approximately 30 super funds have financial years other than 30 June and 31

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December. We therefore submit that the interpretation of *financial year* should be clearly defined in the instructions.

2.3 Reporting days and due dates: Paragraph 8

Part (a): Clarity is required with respect to the period that data relates to (i.e. financial year ending 31 December or calendar year ending 31 December). In addition, if the conclusion is for 31 December and the form is to be submitted by 28 January, issues may arise as to having accesses to applicable CPI data for the period and access to information from third party stakeholders (e.g. asset managers).

Part (c): This requirement appears to relate to funds that receive authorisation for a MySuper product commencing after 1 January 2014. This view was confirmed in the APRA consultation workshops held in July 2013. However, it is not explicitly stated that part (c) relates to newly authorised MySuper products. We submit that this should be more clearly stated, to ensure a better understanding of the applicability of this requirement. Notwithstanding comments made by APRA, there seem to be differing interpretations of these requirements.

2.4 Reporting Form SRF 700.0 Product Dashboard

The form requires *Scale Factor* and *Reporting Consolidation.* These terms are not defined. Given that a form must be lodged for each MySuper product other than a lifecycle MySuper it presumably does not mean reporting of multiple (consolidated) MySuper products. Any clarification of this should be the subject of additional consultation, including about definition, whether these measures are set by APRA or the reporting super fund, and whether or not it is an objective measure.

2.5 Fees versus costs (Part A)

AIST seeks clarification in the instructions about when fees are assumed to have been charged, whether this is at the start or end of the period. We would also welcome guidelines about how to calculate costs. The document refers to fees and costs. Our understanding from the APRA consultation workshops is that fees relate to cost incurred by member and costs relates to costs incurred by fund. However the form does not clearly differentiate between cost and fees. We welcome the intended outcome to reflect costs to members of their superannuation fund holdings, rather than just fees, for the sake of comparability.

2.6 Return target: Item 1

Clarification needs to be made around the return target used in the form. This amount should be net of administration fees, and there should be instructions to this affect.

Return target requirements should also include the probability of achieving the return target (e.g. return target is CPI + 3% with a 75% probability of achieving this from year to year). While appreciating that there are differing views in the super industry about what the level of probability should be, AIST submits that it should be more than a 50% probability. It should be a high probability, perhaps 75%. Consumers would reasonably expect that the trustee of the super funds they were comparing had a high probability of the

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target being achieved, and not just a 50% probability. This would give them both confidence in the return target set and confidence in the trustee 'standing behind' the return target.

This is a very important point in creating truly comparable return targets. We note that Cbus has estimated the difference between a 50% probability target and a 75% probability target is 2% per annum. That is, their investment objective of CPI+3.35% per annum (rolling 10 year average) with a 75% probability, would increase to CPI+5.5% with a 50% probability, with no change to their investment strategy.

The basis for a return target is much less credible basis if it can be manipulated by changing the assumed probability of achieving the target.

2.7 Reporting basis: Instruction, Item 2

The definition of *predecessor product* needs to be more clearly defined and the impact of legacy products and/or mergers needs to be considered and acknowledged. This is likely to become a bigger issue as new super products are released.

Further to this, we would recommend further clarification of what is the *dominant fund*. The guiding principle should be that each merger is different, and therefore the methodology for calculating the merged fund past performance will vary. Based on the experience of many AIST members with merger, we can outline instances and talk about reasonableness of approaches in a practical context. I suggest that such broad guidance is what could be used in SRS 700.0.

Merging funds should consider whether to use a weighted average of the merging fund default options. External sign-off from a suitably qualified and experienced consultant should be gained to determine whether there is sufficient equivalency in both the scale of the funds merging, the asset allocation within the default options, and the investment style to justify using a weighted average approach, or whether the returns of the dominant fund should be used to report past performance.

The following examples which are not exhaustive give some idea of what may happen:

- Two large funds merge – the scale of the money in the smaller fund's default option is around 30% of the FUM in the larger fund's default option. Their default asset allocation is reasonably similar and the scale of FUM in each default investment option is sizeable. In this case, the fund may be able to gain external sign-off on using the weighted average of both default options to determine a record of past performance. The past performance returns could be calculated by multiplying the proportion of money in each fund by the investment return of each fund.
- One large fund and a small fund merge, with the FUM in the smaller fund's default option being only 5% of the FUM in the larger fund's default option. In this case, the external signoff could show that the large fund's default option investment performance could be used to report past performance.

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The calculation of returns in column 2 of item 2 in the form does not mention taxes. However, the instructions state that the calculations must be consistent with SRS 702 – which refers to investment performance net of tax.

2.8 Representative member: Instruction, Item 2

Representative member refers to members who are fully invested in a MySuper product. However, this is not consistent with other forms which refer to members with an interest in a MySuper product. We believe that these should be aligned.

2.9 Moving average calculation instructions, item 2

The instructions refer to where circumstances "where return for t-i doesn't exist". APRA should provide examples of these circumstances.

2.10 Investment risk, item 3

AIST restates our serious concerns about the labelling, form, and potential uses of the "Standard Risk Measure"(SRM), defined by APRA as the expected frequency of negative annual returns over a 20 year period.

We recognise that there is a clear need for consistent descriptions of risk, and that no single measure of risk will be perfect. Nonetheless, it is apparent that the measure can be improved on but that, if it is adopted in these reporting standards, will take a long time to change. We recommend that longer term risk be required to be disclosed in addition to investment risk measure proposed.

2.10.1 Labelling

The label of the investment risk measure suggests that it gives a general indication of investment risk. In fact the measure captures annual downside volatility, expressed over a 20 year period. This misrepresentation may mislead consumers and be against a member's interests.

Notwithstanding the Corporations regulations 2001 relating to the product dashboard for MySuper products, we strongly recommend that the measure be renamed, and suggest "Volatility Rating" or "Downside Risk Measure".

2.10.2 Calculation/methodology

The SRM calculation methodology offers limited guidance and in particular does not provide for standardised assumptions about the risk and return associated with key asset classes. There is consequently no guarantee of consistency in the numeric rating of products.

The reporting requirements do not require reporting of net returns, and are therefore inconsistent with the overall requirements to report net returns.

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2.10.3 Enhanced investment risk measures

Investment risk refers to a variety of different categories of risk, for which the prescribed usage in this form appears to refer to one of these. The usage in the form as defined at item 3 of the form (instructions page 6) considers volatility only, which is a short term risk.

Not including a longer term view of investment risk may lead investors to focus on short term returns, without taking into account the risk/return trade off which is important in members considering whether they will be able to achieve their retirement objectives.

We understand from previous discussions, that the regulators would prefer that a consensus was reached in the industry with regards to long term risk; however, we believe that such consensus in inevitable and provision should be made for its future inclusion. Investors will require information about how this is gauged and what this measure means.

AIST, the Industry Super Network, the Institute of Actuaries and major super funds and major super funds have sought the inclusion of a long term risk measure. Furthermore, AIST and others have made concrete proposals for such a model, and ASFA/FSC have foreshadowed a review of the SRM.

In these circumstances, APRA should announce its intention to prescribe long-term risk measure within the next 11 months. In the interim, APRA and ASIC should clarify that it is allowable for funds to include a measure of long-term risk alongside the short-term measure currently proposed for SRS 700.0

2.11 Other, item 5

AIST notes that the term "*Other*" is used across SRS 700.0, 702.0, and 703.0 and that it means different things, e.g. Sometimes it means a catch all to cover things not thought of and other times it means specific items. AIST suggests that further guidance is needed to assist funds.

2.12 The $50,000 end of year assumption

The form requires (See note '*Representative member'*, Instructions page 5) that a figure of $50,000 be assumed at the end of the reporting year. However, it is understood from participation in the consultation workshops convened by APRA that this account balance is assumed to be constant throughout the reporting period. Subject to resolution of the annual contribution point made below, this should be

This refers to account balance of $50,000 at the end of the financial year. However, the PDS disclosure rules require the examples to be based on $50,000 plus a $5,000 contribution made during the financial year. For the purpose of meeting the requirements of 29QC, the methodology for the relevant disclosers should be consistent. This should be consistent with the rules for disclosure in a PDS.

2.13 Additional comments

SRS 700.0 should also require the reporting of the zero contribution fees for MySuper products in order to support a comparison with Choice products.

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3 SRS 702.0: Investment Performance

AIST notes that APRA has stated it will take a facilitative approach during the implementation of the reporting standards. AIST applauds this approach and notes that APRA, super funds and relevant service providers are likely to require an iterative approach during what will effectively be a transition period.

While absolutely accepting the fundamental importance of accurate and timely investment return information, the collection of investment performance reports from fund managers, custodians and asset consultants is an extensive, detailed, resource-intensive and sometimes problematic exercise when undertaken on an annual basis.

Existing quarterly investment reports will need to be raised to a new level and all relevant parties will need to closely monitor the issues this reveals. Specifically, meeting the quality control requirements of paragraph 11 in a timely manner will require close monitoring.

The calculation of *indirect cost ratios* will also require close monitoring to ensure consistency. The instructions also need to clarify if ICRs need to be reported quarterly.

3.1 Taxes: Item 1

AIST submits that the instructions should clarify the status of GST and whether super funds need to report on taxes incurred, or tax paid. AIST is particularly concerned about how this will work with tax losses, as some trustees have caps on holding tax losses, while others do not. This requires clarification and guidance. We understand from APRA that GST should be included where relevant, but this should be made explicit in the instructions.

AIST also questions how will tax disclosure work with the ‘sustaining the superannuation contribution concessions’ (SSCC) provisions for those earning more than $300,000 per annum.

We understand from participation in the APRA consultations is that the breakdown of the investment fees in item 1 may not necessarily total the fees in the PDS. We suggest that this guidance be included in the Instructions so as to avoid confusion and fruitless search for balancing items.

Similarly, we understand that *other costs* are unlikely to be reported as they are unlikely to exist, but are is included on a “just in case” basis. AIST recommends that this be made explicit in the instructions so as to not cause any confusion about the definition of costs.

3.2 Net investment return: Item 2

As net investment return is defined differently in SRS 702.0 and SRS 700.0 (SRS 700.0 in item 2 has net investment return as not referring to costs and taxes while item 2 in SRS 702.0 includes costs and taxes) there needs to be more information about this.

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3.3 Additional comments

PDS disclosure is carved out of the misleading and deceptive conduct provisions of the ASIC Act, but other disclosure isn't. Is it possible that correct disclosure may also be considered misleading and deceptive under the ASIC Act (or Australian Consumer Law)?

The top line fee is to match the PDS but it doesn't necessarily mean that all subsets will agree to the total ("of which" terminology in the instructions means that not all will be in the investment subsets). APRA has taken the investment fee disclosure in the PDS and has broken it down – and this breakdown isn't needed for the PDS.

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4 SRS 703.0: Fee Disclosure

4.1 Indirect cost ratio, item 2

The term indirect cost ratio at item 2 is a term that is required in reporting and PDS disclosure, however this term is not mentioned in the MySuper rules. Should there be specific mention of this?

4.2 Insurance definitions, item 6

Insurance definitions of blue collar and white collar need more definition as these are not always subject to consistent definition by super funds. For example, many technical workers (such as laboratory technicians) may fall into either category. The categories used by funds may not necessarily map over to these, and the requirement to do so may not be totally accurate or reliable.

We recommend that the standard requires reporting of the premiums for the highest risk category and the lowest risk category, rather than expand this to cover a plethora of categories that would be difficult to compare.

4.3 Definition of life insurance, instructions, page 7

The statement "insurance premiums are commissions" is inaccurate and should be corrected.

4.4 Insurance

Income protection may be short or long term and these may have different premiums. Guidance on how to report this should be included in the instructions.

There may be different insurers with different premiums for one product. Guidance on this should be included in the instructions.

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