

9 April 2010

Super System Review Panel

VIA EMAIL

Re: IFSA supplementary submission to the Super System Review: superannuation statistics.

We welcome the opportunity to provide additional comments to the Panel on the calculation of and reporting of superannuation statistics.

The Phase Two Issues Paper: Operation and Efficiency refers to the request from the Minister for Financial Services, Superannuation and Corporate Law that the Review considers superannuation data collection and publication.

The Review has been specifically asked to examine:

- the scope of APRA's superannuation performance data (current and prospective);
- the methodology used by APRA for calculating performance of superannuation funds;
- comparability of performance measures; and
- other factors relevant to data collection and performance reporting.¹

Over a number of years, IFSA has raised concerns with the methodology used by APRA for performance reporting. We remain concerned that APRA's publication is frequently being misinterpreted by the media. As a result, it is misleading consumers.

We look forward to engaging with the Review Panel on this very important issue for consumers and hope that we can work together on delivering meaningful investment option performance comparisons in the future.

If you have any questions about this submission, the concerns raised by IFSA or our proposals for investment option performance comparisons, please contact me or Andrew Bragg, Senior Policy Manager, on (02) 8235 2513.

Yours Sincerely,



MARTIN CODINA
Director of Policy

¹ Super System Review: Phase Two Issues Paper – Operation and Efficiency 8.1 Performance Data and other Comparative Information (pages 18-19)

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1.0 EXECUTIVE SUMMARY

IFSA supports the publication of reliable and relevant superannuation performance data to allow consumers to compare investment options of similar funds.

APRA currently produces trust level Rate of Return (RoR) data, which is merely an aggregation of the investment experience of thousands of members in hundreds of investment options across multiple products. As APRA has recognised, the RoR of a trust can not be seen as reflective of the investment experience of any one member within the wider membership.

There is a strong risk that APRA's publication of RoR data will continue to misrepresent the industry, be misinterpreted by the media and mislead consumers.

APRA's publication of trust level RoR data is considered by the industry to be a poor compromise between the information that APRA holds for prudential purposes and the information that consumers need.

IFSA submits that careful consideration needs to be given to the information that is intended to be made public. Any such information should be presented in a way that improves member understanding, provides a more accurate basis for comparing funds, products and investments and thereby supports members in making better quality decisions.

In 2009, prior to the announcement of the Super System Review, IFSA welcomed APRA's stated intention to collect asset allocation and investment option level data. We support the Review and APRA in providing this level of information to superannuation members.

IFSA submits the following elements must be considered in developing relevant and reliable performance tables:

1. Understanding the information needs of the audience – members and other stakeholders;
2. Setting clear and agreed objectives for the publication of the information – making sure the data will meet stakeholder needs;
3. Ensuring data is provided in a timely way with the most appropriate frequency given the objectives; and
4. Ensuring that the data is presented in a way that compares like with like.

A standing Steering Committee, to be convened by APRA, should be established to assist APRA in developing meaningful investment option performance comparisons which reflect these core elements.

Role for the Super System Review Panel and APRA

IFSA is seeking to work with the Review Panel and APRA to ensure that there is appropriate regulatory support, including supervision, to ensure that the industry calculates and communicates performance information in a consistent and effective way.

In particular, the industry welcomes the opportunity to work with the Review Panel and APRA to secure industry-wide consistency with respect to:

- How underlying assets are defined and how those definitions are applied across the industry.
- How funds are categorised into peer groups.
- The methodology and frequency for the valuation of unlisted and illiquid assets.
- How unit pricing methodology is applied across the industry.
- The matching of application/redemption policies and pricing policies.

2.0 RECOMMENDATIONS

1. APRA should cease publishing aggregated trust level RoR data.

In developing a new plan, APRA should give consideration to the following:

- Identifying the information needs of stakeholders;
- Setting objectives for the publication of data;
- Conducting a risk assessment and consider mitigation strategies (possibly including research to test how the data will be used and how the language will be interpreted); and
- Ensuring that the data published is fit for purpose.

2. The Review Panel should focus its Recommendations on the publication of investment option performance comparisons as a major priority.

IFSA submits that the Review should focus on asset allocation and investment option level collections.

3. APRA should establish a standing Steering Committee to assist in developing appropriate methodologies for future data releases.

3.0 BACKGROUND

In addition to being a prudential regulatory body, the Australian Prudential Regulation Authority (APRA) is the Government's statistical agency for superannuation, banking, insurance and a number of other sectors. As such APRA publishes some of the information it collects in the course of undertaking its prudential responsibilities.

Prior to the Super System Review being announced on 29 May 2009, APRA had signaled its intention to consult with the industry throughout 2009 on future collections with a particular focus on asset allocation and investment option level collections.

The Super System Review Terms of Reference revealed that the Review panel had been charged with examining superannuation performance issues. Subsequently APRA issued a media statement on 6 November 2009 stating that they would defer developing their enhanced superannuation statistics until the conclusion of the Review. Despite this statement, APRA has continued publishing its annual and quarterly publications.²

APRA currently publishes quarterly and annual superannuation statistics reports which segment the industry into sectors and provides industry aggregate summaries of the financial performance, financial position and key ratios for each sector.³ One of the key ratios is a sector Rate of Return (RoR).

The RoR is calculated and presented at a sector level, aggregating the performance of the individual trusts within that sector. Over the years the sector level RoR information has resulted in much interest and caused much debate across the industry and the media. APRA's November 2008 Discussion Paper, 'Fund level disclosure from APRA's superannuation statistics collections' outlines APRA's plan to publish data at an individual trust level.

According to the Discussion Paper, APRA's plan addresses a suggestion by industry, the media and academics that there is merit in presenting further information about the "performance of individual superannuation funds". In today's choice of fund and investment choice environment, the concept of informed choice is crucial. As such IFSA supports the publication of reliable and relevant performance data which reflects the investment experience of members.

IFSA submits that the information that would be of most value to members and the market is investment option performance data which will allow superannuation members to compare the performance of their option within their product, with that of similar options within other products.

Within this paper IFSA will demonstrate that the publication of RoR data is misleading and irrelevant, it is an poor compromise between the information that APRA holds and the information superannuation members need.

² APRA Media Release – "APRA defers development of enhanced superannuation statistics" 6 November 2009

³ Over recent years IFSA has raised concerns about APRA's segmentation of the industry into sectors and the transparency of the allocation of trustees into the various sectors. The sectors used by APRA are based on the traditional membership profile and characteristics of funds. The industry is now openly contested with public offer funds bringing in members from across the market. The details of the industry's concerns are out of the scope of this paper and for the sake of consistency this paper uses the same terminology and segmentation as APRA's statistical publications.

4.0 GLOSSARY AND HIERARCHY

Below is a glossary of the terms used within this paper. It also details the hierarchy in the industry and indicates the impact of aggregating performance figures.

Industry The Australian superannuation industry valued at \$1.23 trillion at December 2009 ⁴ (\$797.1bn of which is segmented by APRA into sectors)

Sector APRA segments the industry by trusts or 'fund' type: ⁵

Corporate	\$59.9bn
Industry	\$218.9bn
Public	\$172.6bn
Retail	\$345.7bn

Trust (fund) The company or brand that is responsible and registered as a super trust. APRA uses this term interchangeably with 'fund'. The following are examples of trusts:

Licensees/trustees	Trust
Sunsuper Pty Ltd	Sunsuper Superannuation Fund Sunsuper Pooled Superannuation Trust
Colonial First State Investments Ltd	CFS FirstChoice Superannuation Trust CFS Rollover and Superannuation fund CFS Pooled Superannuation Trust
ING Custodians Pty Ltd	ING Masterfund Retirement Portfolio Service ING Corporate Superannuation Master Trust

Product While some trusts only have one product, others offer a range of products to customers. The industry often uses the term 'fund' to describe product. It should be noted that many trusts include legacy products that are closed to new business and which may be whole of life endowments or defined benefit structure products. The following are examples of products:

Trust	Product (s)
Sunsuper Superannuation Fund	Sunsuper Solutions Sunsuper Pension Options Sunsuper Corporate
CFS FirstChoice Superannuation Trust	FirstChoice Employer Super FirstChoice Personal Super FirstChoice Allocated Pension FirstChoice WS Super First Choice WS Pension
ING Masterfund	OneAnswer Personal Super Select OneAnswer Pension Select Corporate Super ANZ Personal Super ANZ Pension

Investment option Within most retail product there are 30-60 investment options that are available to superannuation members. Wrap accounts contain 100s of options. The number of options will vary from one product to another (even within the same trust). Superannuation members may choose from this range of options, one of which will be the 'default' option.

Default option Those members that do not make a decision are automatically placed in the 'default' option. The asset profile will vary from one product to another, dependent on the member profile for that product. Retail products generally do not have a default option except in the case of corporate super products.

Member Superannuation members are those people invested in superannuation products. Whether they select their own trust and product or are part of a corporate scheme, their return depends on the investment performance of the investment option they choose.

SECTOR LEVEL FOR AGGREGATES THE AFFECT OF THESE LAYERS

TRUST LEVEL FOR AGGREGATES THE AFFECT OF THESE LAYERS

⁴ APRA, Statistics: Quarterly Superannuation Performance, March 2010, Page 5

⁵ APRA, Statistics: Quarterly Superannuation Performance, September 2009, Page 7

5.0 WHAT IS ROR? WHY AND HOW DOES APRA USE IT?

APRA's statistical collections currently request aggregated information at a trust level because APRA believes this is the data it requires to assess the financial strength of the trust and its ability to meet its regulatory obligations.

Until June 2009, APRA used a Return on Assets (RoA) measure; the change of methodology to RoR has made no difference in providing meaningful performance data. The RoR method, like RoA, measures the aggregate earnings of a fund's assets across all product offerings and all investment options.

"The RoR represents the net earnings of superannuation assets towards funding members' benefits," for the period.⁶

- The net return provided by the trust reflects the aggregated experience of all members across all products.
- The average assets are calculated by APRA and are the average of the opening and closing balance of total assets provided by the trust over the period.

APRA has previously been asked by the Government to consider how it can produce more detailed superannuation fund performance data and, as the Government's statistical agency for the superannuation industry, how it plans to deliver as much information as it is able to.

APRA's ability to deliver meaningful performance data, however, is limited by the fact that the data it currently collects does not include information about asset allocation and investment performance at either a product or an investment option level. This means the RoR of an individual trust is limited but as detailed as APRA can be at this time based on its current data collections.

Additionally the data presented in APRA's publications relates to the previous financial year. The data is therefore nine months out of date and appears approximately six months after the trusts publish their own data within their annual reports which is provided directly to their members and available to other interested parties.

⁶ APRA - Quarterly Superannuation Performance (December 2009) Issued March 2010

6.0 INDUSTRY CONCERNS

The potential for trust level RoR data to mislead superannuation members

While the fees charged by the products within a trust will impact on the RoR of the trust, there are three key variables that have a profound impact on any trust's aggregated RoR data. They are:

1. The number and type of products offered by the trust;
2. The age and risk profile of the members of those products; and
3. The extent to which those members exercise investment choice or remain in the default option.

All the above factors combine to affect the asset allocation of the trust. Particularly in the case of retail funds which generally do not have a default option. While the specific impact of these factors varies depending on the individual trust, there are some general trends that can be observed at a sector level (these also explain the RoR differentials at a sector level). The following table demonstrates the impact of the variables at a sector level.

Sector	1. Typical products offered	2. Member profile	3. Choice
Corporate	One or two structures (e.g. DB/DC) <ul style="list-style-type: none"> ▪ Simple offerings with 8-12 investment options ▪ Lower fees⁷ that do not include access to advice ▪ Default insurance cover 	Current and past employees of the same corporate entity	51% of the assets in the Corporate sector are placed in the default investment option ⁸
Retail	Large corporate master trusts <ul style="list-style-type: none"> ▪ Large number of investment options ▪ Lower fees for large corporate master trusts and some access to advice⁹ ▪ Default insurance cover ▪ On average, the most inexpensive superannuation product¹⁰ 	Employees of a range of small or large schemes	10% of the assets in the Retail sector are placed in the default investment option (typically this is driven by flows in the corporate master trust funds) ¹¹
	Small corporate master trusts <ul style="list-style-type: none"> ▪ Fewer investment options ▪ Some access to advice¹² ▪ Default insurance cover ▪ Smaller corporate master trusts often have similar cost characteristics of personal super 		
	Personal super <ul style="list-style-type: none"> ▪ 100s of investment options ▪ Investment decision follows professional advice ▪ Higher fees¹³ include access to an adviser ▪ Tailored insurance cover 	Affluent individuals, typically 45-65 years	
	Pension products <ul style="list-style-type: none"> ▪ Multiple investment options ▪ Conservatively invested ▪ Guarantees offered ▪ Product decision follows professional advice ▪ Higher fees¹⁴ include access to an adviser 	Self funded retirees	

⁷ IFSA analysis of APRA data, Please see Appendix A

⁷ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

⁸ IFSA analysis of APRA data, Please see Appendix A

⁹ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹⁰ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹¹ IFSA analysis of APRA data, Please see Appendix A

¹² Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹³ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹⁴ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

Industry	One or two structures (e.g. accumulation/pension) <ul style="list-style-type: none"> ▪ Simple offerings with 8-12 investment options ▪ Lower fees¹⁵ that generally do not include access to advice ▪ Default insurance cover 	Traditionally member segmentation was based on the employees of a particular industry	70% of the assets in the Industry sector are in the default investment option ¹⁶
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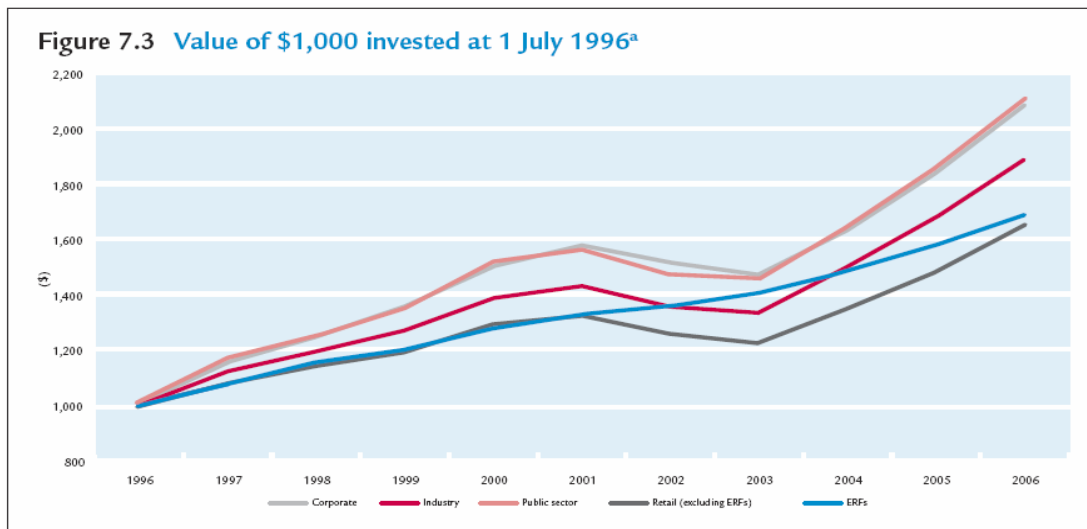
As the table illustrates, the members of products offered by trusts in the industry sector rarely choose to invest outside the default investment option. This means that the RoR or trusts in this sector will be more reflective of the performance of the default investment option than will be the case for trusts were a majority of members choose their own investment options.

Conversely, only 10% of the assets invested in retail sector trusts are invested in the default option. The RoR for these trusts is merely an aggregate of the returns experienced by all members across the range of products and investment options. The RoR of the trust, therefore, does not reflect the investment experience of any single member or group of members within products operated by that trust.

Lessons from the publication of sector level ROR data / Media

Over recent years, IFSA has made a series of representations to APRA highlighting concerns regarding the publication of sector level RoR / RoA data. IFSA has been concerned that the data has been published in a way that has the potential to mislead superannuation members. In the June 2007 publication *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*, APRA published the following chart, illustrating the growth of \$1000 invested in July 1996 within each sector.

Chart 3: APRA's sector level RoA comparisons¹⁷



^a Entities with at least \$100 million in assets.

APRA's publication included the following commentary.

Figure 7.3 shows that there were systematic differences in return by functional classification during the 1996 through 2006 decade. Corporate funds performed a little better, and retail funds and ERFs much worse, than public sector and industry funds. This performance is calculated after expenses and taxes. Over the decade, \$1,000 invested in the average public sector fund rose to \$2,109, compared to \$2,087 for a corporate fund, \$1,888 for an industry fund, \$1,687 for an ERF and \$1,650 for a retail fund.¹⁸

¹⁵ Rice Warner Actuaries, Superannuation fees report 2008, Please see Appendix B

¹⁶ IFSA analysis of APRA data, Please see Appendix A

¹⁷ APRA, *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*. Page 40

¹⁸ APRA, *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*. Page 14

Both the chart and the commentary implied that the aggregated sector level data is reflective of the investment experience of members invested in products within those sectors. The media coverage that resulted further suggested that investors within one sector may be better off than investors in other sectors.

Moreover, the sector level data published by APRA has been used by trustees within various sectors to promote their own products. The June 2009 APRA Annual Publication released in February 2010 included the following editorial: “the data does not support the hypothesis linking older members to more conservative fund investments...”¹⁹ This is despite Table A on page 11 showing that “for-profit” funds, which have an average older membership composition, are more conservatively invested than “not-for-profit” entities.²⁰

APRA’s publication of this data has consistently led to media outlets reporting that the APRA data collections are representative of an individual’s experience of superannuation – when it is not.

Chart 4: Collection of media reports following the publication of *Insight: Celebrating 10 Years of superannuation data collection 1996-2006*

GOOD REASON TO GO NOT-FOR-PROFIT
Publication: *APR Summary*, Page 54 (Mon 13 Aug 2007)
Author: **Barrie Dunstan**

Dunstan column. Opinion on Peter Dutton’s statement on not-for-profit funds being union-run. Perhaps he should consult statistics from APRA on not-for-profit superannuation funds. Mentions FuturePlus Financial Services, Fund Executives Association.

THE AUSTRALIAN

RETAIL SUPER FUNDS UNDERPERFORM ALL THE REST IN PAST DECADE: APRA

Publication: *The Australian*, Page 019 (Fri 27 Jul 2007)
Author: **Anna Fenech**

Superannuation

MEMBERS of public sector, corporate or not-for-profit industry superannuation funds reaped the highest investment returns over the past decade, while retail super funds underperformed overall, according to the industry regulator.

The West Australian

RETAIL SUPER FUNDS FARE POORLY IN 10-YEAR SURVEY

Publication: *The West Australian*, Page 12 (Fri 27 Jul 2007)
Author: **SHANE WRIGHT**

Industry superannuation funds have outperformed retail funds by more than 14 per cent over the past decade, a new independent review has found as millions of people short-change their retirement by losing track of small accounts

The Sydney Morning Herald

SUPER BOOMING, BUT NOT ALL FUNDS SEE HAPPY RETURNS

Publication: *Sydney Morning Herald*, Page 18 (Fri 27 Jul 2007)
Author: **Jacob Sawtuck**

AUSTRALIA’S \$1 trillion superannuation industry is booming, but there are significant differences in performance across the various types of funds.

Public sector and corporate funds outstripped industry and retail funds in the past 10 years, a report released yesterday by the Australian Prudential Regulation Authority showed.

Super fund returns compared



Figures from the Australian Prudential and Regulatory Authority (APRA, see above) show the average annual returns for the five main types of super fund over 10 years from June 1996 to June 2006. It’s notable that retail funds, open to any investor, were the worst-performing, at 6.2% pa. They were even slightly worse than eligible rollover funds, which hold lost and unclaimed super.

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Source: IFSA 2007

APRA has recognised the potential for the sector RoR / RoA data to be misinterpreted in this manner. In September 2008, APRA began introducing a disclaimer into its Quarterly Superannuation Performance Statistics publication. The March 2010 disclaimer reads:

‘The ROR measures the *combined* (our emphasis) earnings of a superannuation fund’s assets across all its products and investment options.²¹

The November 2008 Discussion Paper offers a brief indication that APRA is aware that the same risks exist with the publication of the RoR / RoA for individual trustees, yet the Discussion Paper failed to explore those risks fully or suggest ways to mitigate those risks.

RECOMMENDATION 1: APRA should discontinue publishing RoR data.

¹⁹ APRA – Annual Statistics Bulletin June 2009 – Issued March 2010 – page 8

²⁰ APRA – Annual Statistics Bulletin June 2009 – Issued March 2010 – page 11

²¹ APRA, Statistics: Quarterly Superannuation Performance, December 2009 (Released March 2010), Page 4

7.0 INVESTMENT OPTION PERFORMANCE DATA

The objectives for publicly available data

The objectives for publishing the performance data in APRA publications should be clearly stated. Clear objectives will ensure that the information is fit for purpose and help guide decisions that concern definitions, peer groups and presentation.

Investment option performance tables should:

- provide relevant and reliable information about the performance of the range of investment options with in public offer funds;
- compare investment option performance on a like for like basis;
- support members in making an informed choice about their superannuation; and
- be easy to use and interpret.

Factors to consider

IFSA submits that the following core factors which investment option performance league tables should adhere to in order to meet these objectives are:

Timeliness

Regardless of the frequency of publication, the data should be as accurate as possible at the time it is published. Performance information that is out-dated at the time of publication will be meaningless to members and has the potential to mislead.

Frequency

Investment option performance data should be published on a monthly basis to ensure that it is as relevant as possible to investors at the time they wish to make a decision.

Comparability

The data must be presented in way that compares like with like. Comparing a conservative option with a growth option means that the data may be misinterpreted.

Medium to long term focus

Superannuation is a long term investment which, because of the nature of the investment markets, will be subject to short term fluctuations. Publishing annual, three, five, seven or ten year returns either monthly or quarterly will demonstrate how recent market movements play out over the longer term.

Terminology / Use of language

As highlighted earlier in this paper, terminology and use of language is crucial to ensure understanding.

Wherever possible, labels consistent with those used in the industry should be adopted. This will ensure consistency with the language used between funds and their members as well as between the regulator and the industry and other stakeholders.

By way of example, throughout the 2008 Discussion Paper, APRA uses the term 'return' and 'performance' interchangeably when referring to RoR / RoA, yet these terms are most often used by the industry when referring to the investment experience of members.

The word 'fund' is used by APRA when referring to a superannuation trust. The word fund is most often used by the industry when referring to product.

Labeling

Sector level

IFSA believes that the current sector level descriptors used by APRA are out dated.

As an example, the label “industry funds” is no longer accurate. “Industry funds” are often public offer funds open to all members of the public and not just the members of a specific industry. Additionally, some “retail funds” are now expressly listed as eligible default funds in Awards for particular industries. This suggests that they could be included under the “Industry fund” category as opposed to the “retail fund” category.

As a result, IFSA believes that a series of criteria could instead be used to group funds. Criteria such as the following may provide a more meaningful description of the fund/sub-sector:

- Whether a fund is public offer or not public offer.
- Size: Either by number of members or FUM.
- Fund structure: Including whether the fund is Defined Benefit, Defined Contribution or some form of hybrid.
- Personal or corporate plan/employer sponsored: Whether the fund is offered directly to individual members or only to employees under a corporate plan or employer sponsored arrangement.
- Organisational structure: On the basis of meaningful, industry agreed, descriptors.

Sub-fund level

IFSA believes that any data that is published must be fit for public consumption – that is, using terminology that is primarily meaningful to superannuation members.

IFSA therefore strongly prefers investment option names, over sub-fund or fund names.

IFSA suggests that APRA continues to consult with the industry to ensure that any labels that are developed are relevant and well understood, both across the industry and by APRA.

Consistency and comparability

Additionally, if APRA wishes to collect data relating to “composite” investment options (for example, “conservative”, “balanced”, “growth”, “high growth” investment options), APRA should define these terms including their components – that is, what constitutes a “defensive asset” versus a “growth asset” and the relevant ratios of each which make up the above composite investment options.

The Global Investment Performance Standards (GIPS),²² of which IFSA is the Australian Country Sponsor, state that “consistency of input data is critical to effective compliance...and establishes the foundation for full, fair, and comparable investment performance presentations.”

²² The GIPS are a set of ethical principles that establish a standardised, industry-wide approach to how investment firms should calculate and report their investment results to prospective clients in a way that ensures fair representation and full disclosure.

IFSA supports compliance with the GIPS through IFSA Guidance Note No.1 which formally adopts the GIPS as a Guidance Note for IFSA members.

IFSA Guidance Note No.1: <http://www.ifsa.com.au/public/content/ViewCategory.aspx?id=619#G1>
GIPS: <http://www.gipsstandards.org/standards/current/index.html>

The GIPS also acknowledge that “achieving comparability among firm’s performance presentations requires uniformity in methods used to calculate returns.” Consequently, the GIPS mandate the use of certain calculation methodologies to ensure comparability.

With respect to composites, the GIPS note that “creating meaningful, asset-weighted composites is critical to the fair presentation, consistency, and comparability of results over time and among firms.”

IFSA believes that the same imperative exists in the area of composites offered by superannuation funds and recommends the Panel and APRA adopt a similar approach.

What role should the Super System Review Panel and APRA play?

IFSA suggests that the Review Panel and APRA engage with the industry to agree on the next steps and decisions that need to be made to ensure that the information APRA publishes is fit for purpose.

Discussion Papers issued by APRA in both 2008 and 2009 indicated that APRA would consult with the industry on future superannuation data collections with a particular focus on asset allocation and investment option level data.

The first step in developing the capability to deliver investment option performance comparisons is ensuring that the right data is collected. The industry is in a position to supply the Review Panel and APRA with the necessary data.

These include:

- Assessing needs: Considering what information members and other stakeholders require, what they currently have access to and what the gaps are;
- Setting objectives: What will access to the data achieve and how will that be measured;
- Assessing risk: Are there any downsides to the publication of the data and how can they be managed;
- Timeliness: How can the data be provided in a timely way – insights can be gained from the commercial researchers in this space; and
- Comparability: Ensuring the data is presented in a manner that compares like with like.

RECOMMENDATION 2 - The Review Panel should focus its Recommendations on APRA developing investment option performance data.

A Steering Committee

IFSA recommends that APRA establish a superannuation statistics ‘Steering Committee’ with representatives from all superannuation fund types and sectors which is able to provide ongoing advice to APRA regarding:

- what type of information should be made public and how it should be presented;
- the cost and practicality of specific data collection requests;
- how data can most efficiently be collected, including the frequency of collection – such as one-off, annually or quarterly;
- what data may be commercially sensitive and therefore should be retained by APRA for internal purposes;

- avoiding overlap and confusion between any APRA publications and information provided by superannuation funds in their Product Disclosure Statements, Periodic Statements and Annual Reports.
- ongoing refinement, including whether any additional data should be collected or cease to be collected as the case may be.

IFSA suggests that given the complexity of the issues and the difficulty of conveying industry's views solely via written submissions, APRA should arrange a series of consultation meetings with various industry bodies and stakeholders.

RECOMMENDATION 3: APRA should establish a standing Steering Committee with representatives from all superannuation fund types and sectors which is able to provide ongoing advice to APRA.

8.0 IFSA'S SUPERANNUATION MEMBER CHARTER

Interaction between APRA's enhanced data collection and IFSA's Super Charter

Under the IFSA Superannuation Member Charter, IFSA members that provide superannuation products will be required to publish on their websites and make available to research houses or regulators performance data for all investment options on a monthly basis.

The default investment option must also be tagged accordingly. Past performance must be disclosed on a monthly basis. Super members will be able to see the percentage return the investment options have experienced, with the focus being medium to long term returns (3, 5 and 7 years), as well as how these percentages apply to indicative member account balances.

Importantly, the past performance of investment options must be calculated consistently across the industry – net of all investment management fees and any discretionary fees but gross of administration fees. Consistency across the industry would be greatly enhanced if APRA adopted the same basis for performance calculations.

IFSA will also work with the industry to develop standard and relevant information that will help members understand performance differentials.

As part of this new performance reporting regime, IFSA members will provide full disclosure of:

- Valuation of Scheme Assets and Liabilities;
- Asset Valuations and Unit Pricing for Infrequently Valued Assets; and
- Varied Redemption Arrangements.

IFSA's revised Standard No.10 requires that IFSA members publish on their websites performance data for all investment options that are open to new members with information updated, where possible, on a monthly basis.

IFSA member funds are also required to make best endeavors to disclose the returns information for legacy investment options and non public offer investment options on the same basis. If league table developers wish to use this information it must be clearly labeled so the audience understands they are not available to new members.

Standard No.10 also requires that the returns of investment options should be reported as correct at the end of the month and updated as quickly as possible after the end of the month.

It is recognised however that some investment options may be priced less frequently and as such they are only required to post their returns as frequently as possible given their valuation frequency. Appropriate endnotes or footnotes should be used to explain why returns are not being updated on a monthly basis for these options.

These requirements mean that members, researchers and regulators will have access to the latest returns information on a timely basis.

9.0 RELATED INDUSTRY CONCERNS

Comparability

Comparability requires industry alignment on the definitions used for growth or defensive assets, the categorisation for multi-sector composite options and consistency in the calculation of past performance.

Definitions of growth and defensive assets

Researchers currently construct peer groups based on the information given to them regarding the growth and defensive split of the investment option. However, the increased use of alternative assets has resulted in trusts applying the growth/defensive label inconsistently.

IFSA and ASFA have convened a joint working party to identify and agree upon the characteristics of growth and defensive assets.

The joint working party will explore the views of a broad range of stakeholders – asset consultants, researchers and trusts – with a view to defining these assets and ensuring a consistent application of those definitions in the future.

Consistent categorisation of multi sector investment options

Having defined the characteristics of growth and defensive assets the challenge is to obtain agreement and consistency on how the funds should be categorised and the peer groups constructed.

Many members are invested in options that seek to diversify risk across asset classes, asset profiles (growth/defensive) and investment managers. These are called multi sector composite investment options and are currently classified into peer groups based on the percentage of growth assets in the portfolio.

The table below demonstrates the different approaches taken by three researchers and shows that each researcher uses different naming conventions for the peer groups.

Three different approaches to constructing and naming peer groups:

Chant West (Multi Manager Survey)		SuperRatings (Fund Crediting Rate Survey)		Morningstar (Online categories multi sector funds)	
Conservative Growth	21% - 40% Growth	Cons Balanced	41% - 59% Growth	Moderate	21%-40% Growth
Balanced Growth	41% - 60% Growth	Balanced	60% - 76% Growth	Balanced	41% - 60% Growth
Growth	61% - 80% Growth	Growth	77% - 90% Growth	Growth	61% - 80% Growth
High Growth	81% – 100% Growth	High Growth	91% - 100% Growth	Aggressive	81% + Growth

Calculation of past performance and the treatment of fees

In the past, consistency has not been delivered in the superannuation industry as many trusts outside of IFSA's membership (particularly those that charge a dollar based administration fee) report performance net of investment fees but gross of administration fees.

While trusts that are IFSA members are reporting performance that is more reflective of the member experience (i.e. net of all fees), their performance is understated compared to trusts not illustrating the effect of dollar based administration fees.

It has therefore been impossible for consumers to make accurate performance comparisons. To ensure comparability across the industry, IFSA's Standard 6B has been endorsed by the IFSA Board in February 2010. The aim of Standard 6B is to ensure that investors are able to compare the past performance of investment options across the industry on a consistent basis.

In the interests of industry-wide comparability, it was determined that the IFSA Superannuation Member Charter would adopt the methodology of treating the administration fee on a gross basis.

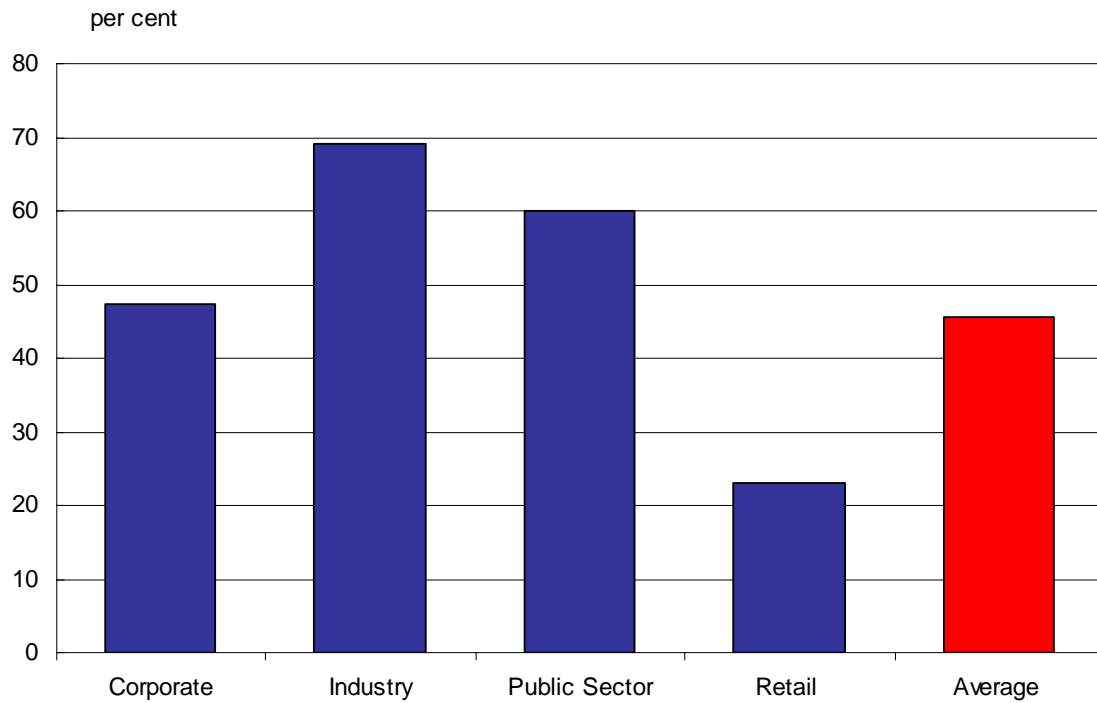
This decision was taken in the best interests of consumers being able to compare superannuation funds. This is despite the considerable cost of changing calculation methods which will be incurred by IFSA members.

Once IFSA Standard 6B becomes binding on IFSA members from July 1 2010, with a managed transition until July 2012, the calculation of member company performance will be substantially different to the prevailing method used by retail super funds.

The new calculation methodology for IFSA member funds (post Charter implementation) will entail net treatment of investment management and gross treatment of administration fees. Advice fees (where discretionary) are to be treated separately on a net basis.

APPENDIX A: IFSA analysis of APRA data

PROPORTION OF ASSETS IN THE DEFAULT STRATEGY



- IFSA analysis using APRA's Annual Superannuation Bulletin 2010
- Retail sector excludes Eligible Rollover Funds. All entities includes Retail (excluding ERFs), Industry, Corporate and Public Sector Funds

APPENDIX B: Rice Warner Actuaries, Superannuation fees report 2008, Page 7

Table 1. Fees and Expenses 2008

Fees and Expenses By Superannuation Segment - Year to 30 June 2008							
Sector	Segment	Administration %	Platform %	Investment Management %	Administration, Platform & Investment Management	Cost of Advice %	Total Fees %
Wholesale	Corporate	0.24	-	0.47	0.71	0.02	0.73
	Corporate Super Master Trust ¹ (large)	0.20	0.01	0.56	0.78	0.02	0.79
	Industry	0.38	-	0.67	1.05	0.02	1.07
	Public Sector	0.21	-	0.46	0.67	0.02	0.69
Retail	Corporate Super Master Trust ² (small) [^]	0.41	0.43	0.81	1.66	0.46	2.12
	Personal Superannuation	0.17	0.61	0.70	1.47	0.53	2.00
	Retirement Income	0.20	0.42	0.69	1.31	0.53	1.84
	Retirement Savings Accounts	0.60	-	1.70	2.30	-	2.30
	Eligible Rollover Funds	2.03	-	0.47	2.49	-	2.49
Small Funds	Self Managed Super Funds	0.31	-	0.52	0.83	0.15	0.98
Total		0.28	0.14	0.59	1.02	0.19	1.21

* Expressed as a % of *average* assets over the year to 30 June 2008.

[^] The difference between the 2008 values and 2006 values is the result of better data.