

10 October 2022

Shibani Iyer
Director, Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
Parkes ACT 2600

[By Email: superannuation@treasury.gov.au](mailto:superannuation@treasury.gov.au)

Dear Ms Iyer,

Superannuation Performance Test Treatment of Faith-based Products

The Financial Services Council (**FSC**) welcomes the opportunity to comment on the Exposure Draft *Superannuation Industry (Supervision) Amendment (Annual performance assessments—Faith-based products) Regulations 2022: FBPs (Draft Regulation)* to support proposed legislation¹ to adjust how faith-based superannuation products would be treated under the annual performance test.

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 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, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses.

As we noted in our submission responding to the Exposure Draft legislation on this matter, the changes proposed are specific to superannuation funds of a religious affiliation that have a MySuper offering and so are not immediately relevant to the FSC's superannuation membership.

Any deviation in the treatment for faith-based products under the performance testing must still maintain a cohesive policy framework. We have long advocated for the performance testing of superannuation products to appropriately reflect investment performance, product goals and objectives, and member experience. Our comments are therefore made in this broader context.

We continue to support the precedent that Government is setting to recognise that the standard benchmarking approach to measuring performance of MySuper

¹ *Treasury Laws Amendment (2022 Measures No. 3) Bill 2022* introduced into Parliament on 8 September 2022.

products is not appropriate in a range of circumstances, including religious affiliation and that offer MySuper products designed, operated and disclosed in line with religious values. Importantly, appropriate performance testing, in driving additional accountability on the investment performance of superannuation trustees, should not undermine the overarching notion of superannuation member directed choice.

The draft regulations cover three aspects relating to the eligibility and operation of the supplementary test for faith-based MySuper products. We comment on each aspect in turn.

Supporting information for an application

Under the proposed regulations, in applying for faith-based status, the trustee's application would be required to contain:

- information that demonstrates the product's investment strategy accords with faith-based principles; and
- information to support the trustee's declaration that it has disclosed the product's faith-based investment strategy to members (PDS, TMD, Annual Report or Website Information).

We support the proposed approach. These application requirements reflect the important role that disclosure of a superannuation product's investment strategy plays in enabling superannuation members to make informed decisions.

Maintaining a benchmark approach for the MySuper performance test

We support the proposal that the supplementary test would continue to use a benchmark approach to assess product performance, but the asset class indices used in the original benchmark would be substituted for alternative asset class indices (provided APRA considers the alternative asset class indices suitable). This maintains the integrity of an objective test.

It is also important for there to be transparency in APRA's publication of the results of the performance test. This should include publication of whether a fund was subject to a supplementary test and the benchmarks which applied to each product to allow consumers and their advisers to compare the metrics being used to assess each product's performance.

We **recommend** the draft regulations be amended to provide for this transparency in law. It is important to be consistent with the existing approach, where the benchmarks being used for each asset class are clearly defined in the regulations and publicly available.

Timing of the supplementary performance test

We agree with the proposal that APRA would conduct the supplementary performance test and notify the trustee(s) in the same timeframe as the original performance test (that is by 1 September each year).

We would be happy to answer any questions you may have on this submission.
Please feel free to contact me, Aidan Nguyen, on ANguyen@fsc.org.au.

Yours sincerely,

Aidan Nguyen
Policy Manager, Superannuation