FSC FINANCIAL SERVICES COUNCIL

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Via email: superdatatransformation@apra.gov.au

Superannuation Data Transformation Project Phase 1 Minor Amendments

The Financial Services Council (FSC) welcomes the opportunity to make a submission in relation to the Superannuation Data Transformation (SDT) Project Phase 1 Minor Amendments. The FSC and its members support APRA's initiative to make high quality and comparable data on the superannuation industry available and accessible.

The FSC is supportive of many of the changes proposed by APRA however, there are a few areas where further amendments are recommended. Our specific feedback is attached in *Appendix 1: Key APRA proposals*, which responds specifically to the key proposals APRA has set out in its Discussion Paper. Additionally, we attach *Appendix 2 – Operational Issues Requiring Clarity*, which details areas that FSC members have identified in the time available for consultation where it would be helpful for APRA to provide further clarity to assist with reporting the required data.

The FSC wishes to highlight to APRA several key issues with a view to balancing the expected benefit that additional transparency and comparability would deliver with the need to ease the significant reporting burden on superannuation funds and other impacted organisations downstream. These issues are:

1. the practical difficulties of removing 'best endeavours' reporting for expense data from 30 June 2023, in conjunction with proposing material amendments to this reporting standard;
2. the need to extend the timeframe for reporting asset data in circumstances where this data is obtained by the superannuation trustee from a third-party;
3. the operational issues funds face in obtaining timely data from connected entities being fundamentally the same as obtaining data from non-connected entities;
4. the experience of superannuation funds to date, in relation to initial and ongoing costs of implementing Phase 1 of the SDT; and
5. the timeframes given for consultation within an extensive reform pipeline over the next 18 months.

1. Ending Best Endeavours Reporting for Expense Reporting

APRA has proposed to remove the best endeavours reporting for annual expense reporting for the upcoming period ending 30 June 2023, which would mean that RSE Licensees would be required to retrospectively report data for the period from 1 July 2022 to the time that amendments are finalised.

The FSC has received strong and commonly shared feedback from our members that the deadline for removing the end of best endeavours reporting for expenses is too tight and will result in many members being unable to provide accurate data on time. This concern is driven by the level of granularity already required, in addition to the significant amendments proposed but not yet finalised, which will take even more time to implement as funds craft and refine new systems to allow them to gather and report data accurately.

This will be further hampered by the significant amount of clarification required by funds around the updated reporting standard. Please see *Appendix 2* for the list of issues requiring clarification. As noted above, this list was crafted in the short time frame that was given for this consultation and thus, is not exhaustive. It is imagined that over the next six months, there will be a larger quantum of clarifications and amendments required.

We note that APRA proposes to introduce the concept that 'Profit' is an expense grouping that can be reported. However, this proposal in practice will require amendment to the law to ensure that all business structures are appropriately captured. In particular, industry superannuation funds with shared business services models with assets held within reserves or within the fund (in both circumstances as an investment) would not be captured under these arrangements. A common example being industry super holdings and a range of shared service providers from funds management entities, which are not occurring on an arm's length basis. Although these arrangements may not be classified as connected entities transactions subject to data reporting, they represent material transactions that should be captured and subject to reporting to ensure like for like comparisons across business models.

For expenses with related connected entities, the total cost amount reported must follow from the connected entity in the look-through chain to the first entity that is not a related connected entity. Further clarity, including by way of worked examples for the treatment of similar type expenses across different business structures and business models, would be needed to ensure a consistent industry interpretation of 'profit'. This interpretation must therefore be sufficiently wide to capture any consideration or benefit had the transaction occurred on an arm's length basis.

In addition to these issues, the move away from best endeavours reporting represents a material change to process. To accurately report the data, well-designed change management will need to be instituted. FSC members have reported that the process will require the following steps:

- Remapping of expense categories to the internal chart of accounts, given they have been restructured/changed. In particular:
  - Administrative work will be required to identify and categorise "no materiality" expense types such as marketing.
  - Alignments with the AMM disclosure requirements will require sufficient time to prepare, test, present to senior stakeholders, and obtain sign off.
- Business expense assumptions will need to be redeveloped, validated, and signed off by senior stakeholders including the Board/Trustee.
- Form preparation processes and tools (including financial models, process documents etc.) will need to be rebuilt, tested, and approved.
- The audit scope will need to be changed at short notice – auditors generally require sufficient lead time to scope, understand and prepare for a new engagement.
- Clarification on expense accounts that do not naturally fit into APRA categories will need to be sought from APRA as implementation progresses.
- Changes will need to be made to data ingestions and data quality processes for validation and checking.

- New coding and systems will need to be created to build reports.

Further, from a practical perspective, finalisation of SRS 332.0 towards the end of 2022 or beginning of 2023 will mean implementation progress will stall as most stakeholders take leave.

For these reasons, the FSC submits that, ideally, best endeavours reporting should be extended to the period ending 30 June 2024, which would allow industry an interim period to consider and implement the revised requirements for the period starting 1 July 2023.

Failing that, to address the implementation challenges we recommend APRA provide:

- An initial three-month extension to the reporting timeframe (acknowledging that there is a three-month allowance from the end of the period to report, a three-month extension would give funds until 31 December); and
- Best estimate reporting for more granular expense categories (where the actual expense data is not available at that level).

2. Timeframe for Asset Allocation Reporting

While the FSC acknowledges and thanks APRA for proposing to extend the timeframe from 28 to 35 calendar days for certain items collected under SRS 550 and SRF 705.1, the FSC submits that this is still not enough time for members to collect accurate data, especially when the assets are managed externally. As noted by APRA, data for reporting is contingent on multiple layers of industry participants. This includes data custodians, asset managers, data aggregators, benchmark providers and ultimately RSE Licensees.

This is material because FSC members have reported that third party data takes a significant amount of time to come back complete, with less than 50 per cent of the required data being available within 20 business days. Based on recent experience for the 30 September 2022 reporting period where material gaps in strategic and actual asset allocation data (one FSC member has reported that around 15-25 per cent of data remains unsupplied by external investment managers on wraps at the time of writing this submission), the FSC is not confident that embedding a 35-calendar day timeframe is sustainable, long-term for industry if the objective was to ensure a sufficiently complete and accurate coverage of reported data. Conversely, FSC members have indicated that the majority of data would come back by 42-calendar days, meaning that the balance of data to be estimated would be much smaller.

And while we note that there is an option for non-connected entities to report “best available” data, there is a question as to the reliability of that data, given it will rely on only a small amount of actual data, combined with a “best estimate” based on individual fund interpretation and older data.

Funds that report data on the same externally managed investment option will all seek the same data from the fund manager. All of this data would be returned to individual funds at the same time, and if the underlying data is not available in time, then no funds would have the required data within the required timeframe. As funds would be required to provide a “best estimate” of the data, the data collected by APRA would diverge based on individual funds’ interpretations. This means that, for the same investment option, multiple superannuation funds will report differing data.

For this reason, we strongly recommend a reporting timeframe of 6-8 weeks as it would enable superannuation trustees to provide APRA with significantly more accurate, consistent and complete data. In considering this position, we recommend APRA consider both FSC member data, wider industry experience and the experience reported by third-party data reporting agencies.

3. The distinction between Connected and Non-Connected Entities

The separation which is required to exist between superannuation trustees and connected entities means trustees will generally obtain data for investments held via connected entities using the same channels as other investments and on an arm's length basis.

Investment managers do not generally have any special arrangements in place to provide 'connected' superannuation trustees with better or more timely data ahead of other clients. That is, connected superannuation funds are treated the same as any other client. In particular, the implementation of the "no other role or office" requirements (Recommendation 3.1 of the Financial Services Royal Commission) prohibit trustees of a registrable superannuation entity from assuming any obligations other than those arising from or in the course of its performance of the duties of a trustee of a superannuation fund. In practice, this means that trustees now operate entirely independently from any connected entities such as fund managers.

As such, setting distinct reporting obligations for connected entities will reduce the efficiency of trustee reporting and prevent trustees from utilising reports from custodians or data aggregators, significantly increasing manual processing of data for those trustees holding investments via connected entities and thereby increasing both operational risk and costs associated with reporting.

It is therefore recommended that there be no distinction between connected and non-connected entities in relation to asset allocation reporting. Best estimate and "not available" reporting should be available to connected entities as well as non-connected entities.

4. Costs of Implementation

As recognised by APRA and in line with the anecdotal feedback from industry, superannuation funds have incurred significant costs to date in implementing the Superannuation Data Project. The costs associated with these efforts are being passed on to superannuation consumers.

To support these observations, the FSC has obtained data from a sample of FSC members which collectively manage the superannuation savings of 1.8 million members that show that the costs collectively incurred to date are in the order of $36 million. This equates to a cost per member of around $20. In addition, implementing the necessary changes to systems and processes to support the removal of best endeavours reporting for the periods ending on and after 30 June 2023 will incur further costs for Phase 1.

We observe that in the Regulatory Impact Statement (RIS) prepared by APRA, it was estimated that the cost to the superannuation industry for Phase 1 of the project would be $89 million in the first year, averaging out over ten years to be $52 million annually or $2.13 per member.

Acknowledging that the objective of the data transformation project is better outcomes for consumers, of which we are supportive, we submit that compelling superannuation funds to comply with these reporting obligations in a way that incurs significantly higher resource fees, is not in the best financial interests of members, nor likely to provide high quality data. More broadly, we note these changes are occurring in the context of a crowded legislative and regulatory pipeline of APRA Standard Consultations and reviews scheduled for the next several years, creating further strain on resources.

It is recommended that APRA thoroughly consider these outcomes in relation to finalising amendments to the Phase 1 Reporting Standards and in the further rollout of the Super Data Transformation Project.

5. Timeline for Consultation

As noted above there is a significant amount of work being done, not just by APRA, in relation to legislation, regulation and prudential standards for superannuation funds over the upcoming 12-18 months. It is noted that the timing of material changes proposed in the Discussion Paper will overlap with the commencement of Phase 2 of the Super Data Transformation Project, along with other regulatory consultation processes and changes.

While industry and the FSC thank APRA for the opportunity to be consulted on material changes to the regulatory landscape, it is equally important that sufficient time and space is given to adequately consider any proposed changes and provide comment.

The FSC requests that APRA, in future consultations, provide 8 – 12 weeks for future consultations. Longer if the proposals are material, as is the case with this consultation or where there are other regulatory consultation processes running concurrently.

Next Steps

The FSC and its members are appreciative of APRA for the work put into and consulting with industry in relation to the SDT project thus far and pass on our thanks in advance to APRA as it carefully considers the feedback raised by the FSC and other stakeholders in determining the appropriate improvements to the Phase 1 Reporting Standards.

If you would like to discuss this submission or have any questions, please contact me.

Yours sincerely,

Kirsten Samuels
Policy Manager, Superannuation and Innovation

Appendix 1: Key APRA proposals

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment

Expense reporting	*SRS 332.0*	*1.1*	**A materiality threshold for small payees**
			RSE licensees do not need to report individual payees and may report one service provider identifier with the Service Provider Name Text as 'multiple payees' where the following conditions are met:
			• Service Provider Type is 'Other Payee'
			• Service Provider Relationship Type is 'None'
			• Responsible Person Service Provider Relationship Indicator is 'No'
			• There are no expenses with the payee which are classified as:
			    ○ Expense type is Political Donation; or
			    ○ Expense group type is Marketing expenses of more than $10,000
				Not supportive of the removal date for Best Endeavours reporting. There is insufficient time for funds to implement the material changes proposed in the Discussion Paper between now and 30 June 2023. Recommend pushing best endeavours reporting end date back to the period ending 30 June 2024.
				Otherwise supportive however, we note the proposed definition of material service provider is based on SPS 231 Paragraph 9, which is currently under review as part of APRA's proposed CPS 230 which would look to replace SPS 231.

Expense reporting	*SRS 332.0*	*1.2*	**Alignments with other disclosure requirements** • Alignment of the definition of related party used for Annual Member Meeting disclosure requirements, which is based on Accounting Standard AASB 124 *Related Party Disclosures*. • Adding an indicator to Table 2 and Table 3 to indicate whether the expense is included in the aggregate related party expenses for the purpose of the AMM disclosure requirements	**Supportive in principle** as these changes that streamline reporting and disclosure requirements for RSE Licensees.
Expense reporting	*SRS 332.0*	*1.3*	**Rationalisation and restructure of classifications and clarifications** • Restructure of the expense group type classifications, including the elevation of the expense type 'Profit' to an expense group type in	**Overall supportive** however, we highlight the need to maintain confidentiality of the new "profit" expense type where appropriate and how APRA intends to publish this information as it could be incorrectly interpreted. FSC acknowledges APRA intends to consult on publishing and confidentiality requirements in 2023.

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
			Table 2 and 3, as well as the expense type 'Advice' in Table 2. • Restructure of the 'Expense Type' lists for each expense group type. • Restructure of expense type classifications to include 'Service Arrangement Engagement Type' category in Table 2 and changes to the 'Investment Expense Service Type' and 'Service Arrangement Engagement Type' in Table 3. categories 3 to an updated.	
Asset Allocation	*SRS 550.0*	*2.1*	**Look-through guidance for SRS 550.0 Asset Allocation:** • For Directly held investment options, apply classification of the asset for all characteristics in Table 2 • For investment vehicle held via a connected entity, report on a look through basis by obtaining information to classify the investment by all characteristics in Table 2. • For investment vehicles held via a non-connected entity: obtain information to classify the investment where relevant. Where detailed asset characteristics information is not available, report based on best estimate or report 'not available'. Note: connected entity is defined under SRS 101.0 to have the meaning set out in subsection 13(4F) of the *Financial Sector (Collection of Data) Act 2001*.	**Not supportive** in relation to: *The removal of best-endeavours reporting* There is significant industry concern about the amount of work that has to be done to be prepared for the end of best endeavours reporting as well as the time it takes to gather accurate data from third party fund managers (see above Submission Letter). *Connected vs Non-Connected Entities* Due to the separation requirements between a trustee and a connected entity, it is not any easier for RSEs to retrieve data from connected entities than non-connected entities. The disparity in reporting time frames between the two should be removed.

Asset Allocation	*SRS 550.0*	*2.2*	**Changes to asset allocation classifications:**
			• Clarification of definitions for:
			  • Asset sector: 'Cash',
			  • 'Effective exposure'
				Supportive however:
				
				Property and Infrastructure Classifications
				The new Property and Infrastructure classifications are just as challenging as the previous ones. There are readily available industry investment classification

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
			- Characteristic 1 for equity – listed: 'micro-cap', 'small cap', 'mid cap' and 'large cap' - Characteristic 2 for 'fixed income – 'enhanced cash' • Include additional classifications to asset class characteristic 2 'Cash Foreign Exchange Derivative Contracts' and 'Cash Offset Derivatives' • Include classifications under SRF 550.0 Table 2 and SRF 550.1 Table 1 for non-connected diversified property and infrastructure investment vehicles, including Real Estate Investment Trusts (REITs) of: Core, Core Plus, Value Add and Opportunistic • Include a classification for characteristic 3 to enable reporting on quasi government, public private partnerships and government-owned privately-operated infrastructure.	such as the Global Industry Classification Standard (GICS) and/or the Bloomberg Industry Classification Standard (BICS) although, acknowledging that these do not go to the level of granularity that APRA requires. This, however, highlights the problem of gathering the required level of data. This will be a largely manual process for members and will take considerable effort and resources. *Pooled Superannuation Trusts* Pooled superannuation trusts should be excluded. Pooled Superannuation Trusts were set up for a tax benefit that no longer exists and are being wound down by funds. All relevant reporting is provided when reported for a Superannuation Fund and, therefore, PST reporting is irrelevant.
Asset Allocation	*SRS 550.0*	*2.3*	**Strategic asset allocation:** Incorporating FAQ 550.0 v and 550.0 x into instructions and definitions for strategic asset allocation and strategic sub-sector: • 'Strategic Subsector' means the segment of a 'strategic sector' asset class to which an asset allocation target is approved by the board, committee or individual with investment delegations under the investment governance framework of the fund. • Changes to 'strategic subsector' benchmark allocations (and ranges) to specific segments or groupings within that asset class may be approved under the appropriate investment delegation only where these allocations are	**Supportive.**

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
			within the Board approved allocations to the 'strategic sector'. • Revised instruction: Report the RSE Licensee's strategic asset allocation regardless of how investments are implemented. Note: SRS 101.0 sets out revised definitions.	
Investment option reporting	*SRS 605.0*	*3*	Amend SRS 605.0 Table 3 Investment Options: • Adding 'Investment Option Management Type' and 'Investment Option Strategy Type' to identify additional information about how the investment option is managed and how the investment strategy is set. • Amending the classifications for 'Investment option type' and 'Investment option category type' to identify managed accounts and to distinguish between single manager investment options.	**Overall supportive however, t**here should be a distinction between Separately Managed Accounts (SMA) and Managed Discretionary Account (MDA) portfolios. SMA are registered products and should be considered an investment option, while MDA portfolios are part of a service and shouldn't be reported as an investment option. MDAs should be reported per their underlying holdings. Further, there needs to be an ability to categorise SMAs as being open to all licensees and specific tailored portfolios that are restricted.
Investment option reporting	*SRF 605.0*	*3*	Direct Hybrid securities can be aggregated under SRF 605.0 (along with Direct Shares, Direct Term Deposit and Direct Fixed Income Instrument). Investment options permitted to be aggregated under SRF 605.0 are excluded from reporting in SRF 550.0, SRF 705.0, SRF 705.1 and SRF 706.0.	**Supportive**, however see above. *Products with Life Insurance Backing* Products with Life Insurance Backing should be excluded. These types of products were issued before Super was introduced to Australia and they do not conform to the current product structures. It is difficult or impossible to report these under the current reporting standards e.g. endowment policy fees have aspects of both life insurance and policy fees with no way to split them. Most of the policies are close to end of life and are therefore winding down in terms of volume.
Investment option reporting	*SRS 705.0*	*3*	To enable RSE licensees to separately identify reported indirect costs which are disclosed by the external manager or product provider (not the RSE licensee):	**Overall supportive** however, APRA should include a new field in the SRF 705.1 form that denotes "investment performance start date" to track investment option performance over inception date.

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
			• Include a separate fee and cost component type for indirect costs not disclosed by the RSE licensee. • Where the *indirect cost (non-RSE licensee)* is not available at quarter end, report the *Gross Investment return Ex Indirect cost (non RSE licensee)*.	The inception date of an investment option is when the option was first made available to members (as per SRF 605.0), however that may not be the same date that the investment option received its first contribution or funding from a member which is only when performance can start to be measured. This gap between the inception date and the date the option was first funded can be significant (many months). This creates inaccuracy in the reporting of investment performance as APRA assumes an earlier start date (i.e., the inception date) rather than the true start date of the investment performance (i.e., when the option was first funded). This also has broader ramifications on RSEs in regard to this data being used for the Performance Tests and Heatmaps.
Investment option reporting	*SRS 705.0* *SRS 550.0*	*3*	Annual reporting frequency under SRS 705.0 and to retain best endeavours reporting in respect of under SRS 550.0 Table 2 Asset class characteristics 1, 2 and 3 for the following types of investment options: • Single manager – Listed Investment Company, • Single manager – Exchange Traded Product, • Investment options with an investment option management type of 'externally managed - non-connected entity' and 'Investment Option Strategy Type' of Non-connected entity'	**Overall supportive** however there remains no appropriate 'investment option type' for defined benefit and insurance risk only options. A unique option is required to be created to allow the reporting of these members in SRS606 (which reconcile to total member number in SRF611). 'Other' would be a good option. SRF605 should have a risk only option exempted from SRF705 reporting as this is not an 'investment option' per se, but an option created to allow reporting of members in SRF606 and SRF611. There is no return or fee associated with this option.
Fee and cost arrangements	*SRS 605.0*	*4*	To capture the relationships between fee and cost arrangements and products that are open and closed to new members, add: • An 'Open to New Members Fees and Costs Arrangement Indicator' in SRS 605.0 Table 4 • A 'Fees and Costs Arrangement Identifier' SRS 606.0 Table 4	***605.0*** **Supportive** of 605.0 Table 4 proposal. *606.0* **Not supportive** of 606.0 Table 4 proposal. This will greatly increase the complexity with reporting investment option data in 606 Table 4. For example, it has been reported that the number of rows being reported will increase by over 100 times. Given the increased volume and complexity of information, there are concerns, based on past experience, that APRA Connect will be able to handle the increased burden without impacting lodgement times for Trustees.

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
				Use of All The instruction that allows the use of "ALL" needs to be revisited in light of APRA's recent queries to funds, FAQ 605.0t and responses issued to funds that specifically disallowed the use of ALL in specific circumstances. There needs to be linkage to fees and cost identifier in this instruction. *Risk Only Option* The risk only option needs to be exempted from SRF705 reporting as this is not an 'investment option' per se, but an option created to allow reporting of members in SRF606 and SRF611. There is no return or fee associated with this option.
Ad-hoc submissions	*SRS 251.0* *SRS 605.0* *SRS 706.0*	*5*	All changes to disclosure information or reporting population that occurs within the quarter be reported within 28 days of the calendar quarter end in which the change occurred.	**Overall supportive** of the idea of batching ad-hoc SRF 251.3 submissions every quarter as per the proposed changes, however batching will lead to significantly larger returns being submitted in APRA Connect. We expect APRA to ensure that this increased volume of reporting can be handled by APRA Connect for this to work efficiently. We recommend APRA change the SRF 251.3 ad-hoc form to only report on changes (i.e., the delta) similar to SRF 605.0 rather than requiring all records to be re-reported even if they have not changed. This will significantly reduce the issues around the large volume of data being transmitted via APRA Connect.
Reporting extension	*SRS 550.0* *SRF 705.1*	*6*	Extend the reporting timeframe to 35 calendar dates after the end of the reference period for items collected under SRS 550.0, other than SRS 550.0 Table 1: Strategic Asset Allocation which will have an unchanged due date of 28 calendar days. Separate out the collection of benchmark return from SRF 705.1 Table 2 into a new table SRF 705.1 Table 3: Benchmark Returns with a reporting due date of 35 calendar days after the end of the reference period	**Overall supportive** of the acknowledgement that increased time is required however, 35 calendar days is still not enough time. The FSC recommends extending the time frame to 6-8 weeks. **Not supportive** of only allowing the extension for some items of SRF 550 and SRF 705.1. There are similar issues in receiving data on Strategic Asset Allocation as there is on receiving Actual Asset Allocation. Recommend extending to all items of SRF 550 and SRF 705.1.

Area of Change	APRA Reporting Standard	Discussion Paper Reference	Proposal	FSC Comment
Other	*SRS 251.0*	*N/A*	Upcoming publication of insurance data collected under the superannuation data transformation.	There are concerns about the way in which the cost of default cover is to be published and the inaccurate comparisons which could be drawn from this information. Although it should be noted that this will be consulted on at a later date, greater insight could be provided now to avoid drawing inaccurate comparisons. The current Quarterly MySuper Statistics (Table 7) shows both the level and cost of default cover, but also the Worker Category. This is free text and allows trustees to describe the category of members that this cover is provided to. In most cases it describes the occupation class. Under the proposed Quarterly Product-Level Publication, Tables 12a, b & c show the level and cost of default cover. For comparison purposes cost this is expressed as the cost per $10,000 of cover. However, even with the cost of default cover standardised, there are still many factors that render a comparison between products inaccurate at best. For example, for two funds who default members into an occupation category that is representative of their membership, a fund that is predominantly blue collar will have a cost per $10,000 that is higher than a fund that is predominantly white collar (all other things being equal). In addition, historical claims experience, differences in terms and conditions and service models all impact the cost of default cover. Without some qualifier, this provides a misleading view for comparison purposes. While the fact that the cost is more expensive in Fund A compared to Fund B isn't disputed, it's the fact that the costs can't be directly compared without considering the other differences which makes this misleading. For example, the Worker Category which is reported in Table 1 of SRF 251.3 could be used as a qualifier in Tables 12a, b & c of the proposed Quarterly Product-Level Publication. While not perfect, it does allow some comparison between relevant costs and a suggestion that it is comparing apples and oranges. This mitigates the risk of inaccurate commentary and of consumers making ill-informed decisions based on data that is not suitable for comparison.

Appendix 2 – Operational Issues Requiring Clarity

1. SRS 251

a) Clarity is required as to the definition of “Date of Change” in the context of RSE’s with employer plans that have tailored insurance premiums.

b) There is a discrepancy between how funds are currently disclosing costs for IP cover and recently released advice on SRS 2511.3 i “how should RSE licensees report ‘Insurance Cover Costs’ amount in SRF 251.3 table 2 column 10 where the default level of cover has been expressed as a percentage of salary”. Currently, funds report the IP cover cost as annual cost per $1,000 of annual insured benefit. This position is taken having considered the below:

251.1 table 2

6	Insurance Cover Aggregate Amount		All filers	Whole dollars	Report the ***aggregate cover*** of ***member accounts*** with insurance cover. For ***IP Insurance*** this must be specified as an annual amount.

251.3

10	Insurance Cover Cost Amount		All filers	Whole dollars	Report the annual ***cost of cover*** for the ***default level of cover***. Where the default level of cover has been expressed as a percentage of salary, report the annual ***cost of cover***

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Column	Field name	Unique identifier	Applicable to	Valid values	Description
					per $1000 of cover.

While the difference in wording is subtle, the difference in cost of cover disclosed will be significant. A worked example is included below for illustration purposes:

Current Methodology:
We would report the annual cost for IP cover per $1000 **annual** insured benefit

In this case we would report $1 ($1.20 rounded to 0 d.p) in column 10 of the 251.3 Table 2.

New FAQ methodology:
We are now expected to report the annual cost for IP cover per $1000 **monthly** insured benefit.

Annual Insured benefit = $1,000 * 12 = $12,000

Annual cost of cover = $1.20 * 12 = $14.4

In this case we would report $14 ($14.4 rounded to 0 d.p) in column 10 of the 251.3 Table 2.

Clarity is sought in relation to the following:

i. If the requirement is to report annual cost per $1,000 of monthly benefit; and

ii. If so, clarity is required as to whether entities are allowed to apply the new interpretation going forward (from FY2023) only and not retrospectively resubmit all the previous annual and ad hoc forms?

2. SRS 332

a) In relation to the reclassification of “Profit” in the revised SRF 332.0 submission and its elevation to an expense group type in Table 2 and 3, we recommend APRA provide a working example for this as it is still not clear, and challenges would still exist particularly when the SRF 332.0 is still required to reconcile to the RSE’s Financial Statements rather than the RSE Licensee’s Financial Statements.

- For example: RSE deduct asset management fees from members, ALL of these fees needs to be included in SRS 332 (numbers needs to agree to fund’s P&L). The fees would go to Trustee>Connected Entity1>underlying fund manager. The underlying fund manager’s portion will be reported as an asset management fee, while Connected Entity1 (and Trustee) are supposed to report the portion they retained as ‘profit’.

    i. Problem Statement 1: The amount retained by the Trustee and Connected Entity1 will not be their ‘profit’. It would be at most, part of their ‘revenue’.

    ii. Problem Statement 2: These connected entities will then use part of the ‘revenue’, along with other revenues to fund its own operations. The differential will then be their ‘profit’. Would APRA be expecting the connected entities to estimate what % of these profits are made up of fees contributed by the RSE? If so, how can this estimate be audited?

    iii. Problem Statement 3: If connected entities are advising ‘profit’, there will be a difference between amount retained by the connected entities (revenue) and the actual profit. Given amount equivalent to revenue needs to be reported, where can the rest of the ‘revenue’ be reported? Eg: Trustee retained $100k from fees paid by the RSE and incurred $90k worth of expenses (HR/Finance/R&C etc). $10k is profit (assuming this trustee only has one source of income, which is also a big assumption). As $100k was the RSE’s expense, all of $100k needs to be included in SRF332. If $10k is reported as profit, how would the $90k be reported? These can’t really be grouped under ‘fund operation’ as these are expenses of the related entities, not the RSE.

b) For both Tables 2 and 3 clarification of service arrangement engagement type is required as consultants can be ongoing or one off.

c) The “Online Calculator” expense type can be consolidated into ‘Development and Maintenance of Website and Other Digital Tools’.

d) Research and Data Analytics expense type is included in “Member Services”, “Marketing”, and “Fund Operations and Corporate Overheads” expense groups however, in practice, it is not possible to achieve segregation of one expense type into three groups without significant manual intervention.

e) The discussion paper indicated “Not Applicable” is an additional option for service arrangement outsourced indicator, but this is not reflected in the draft standard.

2.1 Definitions required to be added or clarified in SRS 101

a) ‘Other Service Provider’ is not defined in SRS 101. It was proposed to have six service provider types. three of these are ‘Material Service Provider’, ‘Other Service Provider’ and ‘Other Payee’. Given the definition of ‘Material Service Provider’ and ‘Other Payee’, it does not appear possible to have any ‘Other Service Provider’.

b) Definitions are required for *“industrial body”* and *“industry association”* as there are no definitions in SRF 101.0 for these service provider types.

c) The discussion paper indicates the definition of fees and costs will be updated but this is not reflected in the proposed standard.

d) The “Accounting and Finance” definition is still limited to accounting services (as opposed to APRA’s intention to include other finance expenses such as tax agent fees) and noting that tax agent fee is no longer a valid expense type.

e) The definition of "IT Service" should apply specifically in respect of RSEs as some funds incur the expense directly, without RSEL's involvement.

f) Is "Human Resources" meant to also include employee expenses such as payroll, workplace safety, performance management, and culture and conduct. It is suggested to note that it encompasses all human resources expenses excluding training if so.

g) Does "Board and Board Committee" include director training or does director training part of general training expenses?

h) Director remuneration is not defined in SRS 101. Where directors run independent consulting business, fees are paid to consulting firms. Clarity is required to understand if this is to be disclosed as:

   i. expense type – director remuneration; service arrangement engagement type – consultant fee; or

   ii. expense type – director remuneration; service arrangement engagement type – director remuneration (ignoring the 'consultant' portion)?

i) With regard to "Financial Planning Payments to Internals" under the definition of 'expense type' in SRS 101 and within SRS 332, this is still referred to as 'Financial Planner'. For example, payment of financial planning fees to related party, by definition will be classified as 'Financial Planning Payments to External'.

3. SRS 550.0

a) Clarity is required as to whether the SAA and AAA data be provided annually instead of quarterly, given returns and fee data for ETF, LIC and 'Externally Managed – Non-Connected Entity' investment option management type will be provided on an annual basis.

b) The definition for "Investment Vehicle – Non-Connected Entity appears to define connected entity.

Investment vehicle – ~~***related or***~~ *connected entity*	Means an investment vehicle ~~of a related party,~~ of a ***connected entity - investments*** ~~or related connected entity.~~.
Investment vehicle – *non* ~~***related or non***~~ *connected entity*	Means an investment vehicle of a ~~n entity that is not a related party,~~ ***connected entity – investments*** ~~nor a related connected entity~~.

c) "Non-Connected Entity – Investments" requires a definition in SRS 101.

d) Clarity is required as to whether the below references are correct. It appears they should read "Investment Vehicle – Connected Entity", and "Investment Vehicle – Non-Connected Entity" respectively:

When the ***investment vehicle*** is a ***connected entity***, report on an APRA-look through basis: e.g. obtain information to classify the investment by all characteristics in Table 2.

When the ***investment vehicle*** is a ***non-connected entity***, report each combination of ***asset class sector type***, ***domicile type***, ***international economy type*** and ***listing type***. Where information on ***asset class characteristic 1***, ***asset class characteristic 2***, ***asset class characteristic 3*** and ***synthetic exposure*** are available, report this information. If not available, report based on best estimate or report 'not available'.

Connected entity - Investments	Has the meaning of a person connected with an RSE licensee under subsection 13(4C) of the *Financial Sector (Collection of Data) Act 2001*.
Connected entity	Has the meaning of a person connected with an RSE licensee under subsection 13(4F) of the *Financial Sector (Collection of Data) Act 2001*.

e) There is inconsistent terminologies between SRS 550 (across 550.0 and 550.1) and SRS 101.

For investments in non-connected diversified property investment vehicles, including Real Estate Investment Trusts (REITs), report ***asset class characteristic 1*** using one of the following ***Property Diversified Core***, ***Property Diversified Core Plus***, ***Property Diversified Value Add*** or ***Property Diversified Opportunistic***, and '***Property Diversified***' for ***asset class characteristic 2***

For investments in connected diversified property investment vehicles or unlisted direct property assets, report ***asset class characteristic 1*** using either ***property development*** or ***property established***.

For investments in non-connected diversified infrastructure investment vehicles, report ***asset class characteristic 1*** using one of the following ***Infrastructure Diversified Core***, ***Infrastructure Diversified Core Plus***, ***Infrastructure Diversified Value Add*** or ***Infrastructure Diversified Opportunistic***, and '***Infrastructure Diversified***' for ***asset class characteristic 2***

For investments in connected diversified infrastructure investment vehicles or unlisted direct infrastructure assets, report ***asset class characteristic 1*** using either ***infrastructure development*** or ***infrastructure established***.

Property Core (asset class characteristic 1)	Means an indirectly held property investment which holds established properties that have stable cash flows and longer leases and low levels of debt.
Property Core Plus (asset class characteristic 1)	Means an indirectly held property investment which holds predominantly established properties but has some levels of debt and is subject to low levels of development risk.

f) Clarity is sought in relation to "borrowings of investments that are not investment vehicles are not required to be reported". Can an example be provided?

g) Clarity is sought as to whether Non-Connected ETFs and REITS are to be included as part of the "Not Available" provision.

h) Worked examples are required for SRF 550.0. In particular, worked examples are required for the treatment of derivatives, especially the effective exposure calculations and use of synthetic vs value columns.

i) Clarity is sought as to whether the synthetic exposure column is required to net to zero.

j) Clarity is required as to the treatment of term deposits, specifically if they should go into cash, or should funds apply the 3-month maturity condition?

k) There is an inconsistency in the treatment of the "cash" asset class which is noted to have a maturity of less than 90 days however, cash asset class characteristic 2 has a definition with maturity up to 180 days for short term bank bills.

l) With regard to term deposits, clarity is required as the whether the requirements apply to all term deposits or just those implied by the cash asset class definition (90 days).

m) Regarding "Currency Exposure", clarity is required whether reporting hedging data at the "Currency Exposure" asset class would result in not reporting at the "asset class sector".

n) Similarly, clarity is required as to whether reporting hedging at the "asset class sector" then requires reporting on the "Currency Exposure" level.

o) In Table 2, clarity is required as to APRA's intention to move from reporting Derivatives on and Effective Exposure basis to a Net Market Value basis and if so, worked examples will need to be provided.

4. SRF 605.0

a) Further clarity/guidance is required for the proposed single manager investment option type under column 6 particularly for ETFs and LICs. In the case where an ETF or LIC is under multi-manager structure, clarity is sought as to whether the expectation is to report it as multi-manager investment type.

b) If the above is true, how would APRA identify it as an ETF or LIC?

5. SRF 705.0

a) Clarity is required as to whether to following sentence is complete. It is assumed that it is meant to refer to "Gross Investment Return Exc. Indirect Cost (Non-RSE Licensee):

> Report the Gross investment return for all investment options on the annual return. For external products, where the indirect cost (non-RSE licensee) is not available at quarter end, report the Gross Investment return Ex

b) If so, clarity is required regarding the usage being limited to situations where external managers only provide information that represents gross investment return less indirect cost without providing the indirect cost separately.

c) Clarity is sought in relation to how "Gross Investment Return Ex. Indirect Costs (Non-RSE Licensee)" and "Indirect Cost (Non-RSE Licensee)" will be utilised given members will only be reporting information for 'external products' on an annual basis.

d) Given the above, then the sentence in point (a) requires clarity because the definition of "Gross Investment Return Exc. Indirect Cost (non RSE licensee)" will be equal to the gross investment return minus indirect cost, which, if the data is not available, will be zero. Trying to deduct a component that members don't have the data for, would simply mean report the gross investment return.

e) Given the above, definitions in SRS 101 would need to be updated to refer to the new components of gross investment exc. indirect costs.

f) Clarity is required about part-quarter reporting. As an example, when an investment option only has a single member at the start of a quarter but withdraws their investment during the quarter resulting in zero assets in the option for the remainder of the quarter. The investment option remains open and available to members. In this instance, an option is required to flag that this is part quarter data so that it is suitably judged against the full quarter benchmark for the purposes of the heatmaps and the Your Future, Your Super Performance Test.

6 SRF 705.1

a) The discussion paper indicates that it is APRA's intention to reduce frequency of reporting investment objective performance for external product investment options. This is not reflected in the draft standard like it was in SRF705.0.

b) See point 4 (f) above.

7 SRF 706.0

a) Depending on how 'Indirect Cost' is defined, an equivalent "Indirect Cost (Non-RSE Licensee)" as per SRF 705.0, should be included in SRF706.0.