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13 March 2015

Subject: Superannuation – ABS reporting in APRA reporting 700 series (preliminary issues for immediate review)

Dear Sir/Madam

The Financial Services Council (FSC) writes in relation to the recent release by the Australian Prudential Regulation Authority (APRA) the draft forms for statistical reporting to the Australian Bureau of Statistics (ABS) as contained in SRS 720.0, SRS 721.0, SRS 722.0 and SRS 730.0.

The FSC supports APRA's enhanced prudential and data collection powers in relation to superannuation funds. The FSC also supports the ABS goal of tracking and reporting on this sector of the market for international comparative purposes. The growth of funds under management in the system underlies its importance to the Australian economy, as well as individuals' financial wellbeing in retirement.

The FSC welcomes both ABS's and APRA's open and pragmatic approach to consultation and dialogue as evidenced in the round table sessions during the week of 23rd February 2015. Following the roundtable, however, the FSC and our members have observed technical issues in the draft forms that we thought would be worth to bring to your attention *prior* to the closing of the consultation as it may, in fact, lead to a potential change in that consultation or clarity being provided on certain issues by ABS/APRA to enhance the quality of submissions. This letter lists these technical issues and raises related questions that are intended to clarify uncertainty arising from the revised reporting standards. It is our hope that by addressing this collectively and early we may streamline the consultation process and the ultimate implementation of the ABS requirements in the SRS 700 series of reports.

Attached to this letter are 5 Appendices:

- Appendix A: Reporting for Non-Resident Members (SRS 730.0)
- Appendix B: Potential reuse of ATO data
- Appendix C: Reporting Volumes
- Appendix D: Cross reference / heat map requested
- Appendix E: Defined Benefit reporting basis

In addition to the above, the start date of reporting is being flagged to us as a concern given the burden of other changes underway for RSE licensees in regards to other APRA reporting deadlines. Even if capacity did exist, the RSE licensees cannot begin to do proper analysis of the ABS forms and initiate system changes until the final reporting forms¹ have been tabled and then there will be insufficient time for implementation. It is

¹ Given the preliminary review of the draft ABS forms, it is expected that the final forms could look quite different.

recommended that implementation of the forms be no earlier than 12 months from date of tabling final standards.

We will be preparing a full submission regarding the proposed ABS forms, with that lodgement by 17 April 2015. However we would appreciate your review of this letter at your earliest convenience (prior to the closing of the consultation).

Please feel free to contact me on 02 8235 2566 if you have any further questions or comments in relation to this submission.

Yours sincerely



BLAKE BRIGGS
SENIOR POLICY MANAGER

APPENDIX A: Reporting for Non-Resident Members (SRS 730.0)

The purpose of this appendix is to explore the proposed Non-Resident reporting in the APRA reporting form SRF 730.0. In particular to consider if estimating Member Benefit Flows (In and Out) for Non-Resident members can be meaningful given the FATCA and AML/CTF (both described later) legislative carve outs and quirks of superannuation member data. This issue was raised at the February ABS/APRA roundtable, and it was noted that the ABS was not across the complexities of the issues. We present them here.

Background

In recent times, two important pieces of legislation have occurred affecting superannuation in different ways (FATCA and AML described below). While implementing each of them, the industry has sought to inform the regulators and accommodate, where possible, the most practical requirements as they impact both superannuation and non-superannuation account holders. However, the resulting impact is that both FATCA and AML implementations are at odds with the proposed reporting for Non-Resident Members as envisaged by SRS 730.0. Indeed, there are other issues impacting on RSE licensees being able to report (or even estimate) data for non-resident members.

AML

The Anti-Money Laundering and Counter-Terrorism Financing Act 2006 (AML/CTF Act) covered the financial sector, gambling sector, bullion dealers and other professionals or businesses that provide services covered by the Act. The AML/CTF Act was part of a legislative package which brought Australia into line with international best practice to deter money laundering and terrorism financing (per various United Nations Security Council Resolutions and Conventions).

The AML/CTF Act placed a number of obligations on reporting entities when they provide designated services, which included (amongst other things) the identification and verification of customer's identity and ongoing customer due diligence.

A key result from the AML/CTF regime was that superannuation was recognised as a vehicle not regularly used by overseas persons. Therefore RSE licensees are **not** required to conduct AML/CTF member due diligence on **every** new member; and sometimes it is only at the time the members exit the fund (i.e. at payout time). It is therefore possible that the member may be a non-resident member but the superannuation fund may not know it until they leave.

FATCA

FSC members were impacted by the regulatory changes as defined in the Foreign Account Tax Compliance Act (FATCA). FATCA was enacted into United States (U.S.) law on 18 March 2010. Its aim was to prevent the avoidance of tax by U.S. persons or U.S. controlled entities on income from assets held abroad, either directly or through non-U.S. financial institutions, foreign trusts or foreign corporations². All Foreign Financial Institutions (FFIs) worldwide are therefore required to identify, document and report on all U.S. (or potential U.S.) persons to the IRS (**due diligence** on existing and new account holders).

During negotiations, the Australian Treasury recognised that Australian superannuation was not a vehicle regularly used by overseas persons and was able to organise an exemption for superannuation providers. Therefore, again the RSE licensees were not required to conduct FATCA (U.S. or other overseas member) due diligence on existing and new account holders to determine if they are non-Australian citizens.

² Other countries have been mimicking this FATCA legislation to reduce tax avoidance by their taxpayers

Other residency considerations

Members departing permanently from Australia can request withdrawal of funds (Departing Australia Superannuation Payment (DASP)).

In addition, the Australian Department of Immigration advises the ATO of the expiry of temporary resident visas, for all persons in Australia on such visas, within six months of the departure of these persons from Australia. From its records of contributions, the ATO then determines the fund(s) to which contributions for these persons were made, and **requires** these funds to pay out these persons immediately (including the imposition of a 35% further withholding tax on any contributions or earnings that had until that time borne tax at 15% in the fund). The combination of the 15% tax and this further 35% withholding tax means that the person will have borne Australian tax broadly equivalent to our highest individual tax rate on salary or wages income. Clearly it is not advantageous for a member to continue to hold Australian superannuation after departing Australia permanently therefore the incidence of overseas membership is small.

Other than FATCA, AML and DASP (described above), there are other problems with RSE licensees determining residency:-

- a) The mailing address for superannuation members is currently the only way for an RSE to determine the residency or domicile of members and this does not meet the definition of residency per the ABS definition (as discussed at the roundtable).
- b) Mailing address data held by superannuation providers may not be updated regularly especially for inactive or lost members.
- c) The address data is only updated when RSEs are notified by the member and they may not indicate their actual residential address and domicile but rather their address for mailing purposes (which can be a family member's address, a PO Box or even an employer's work address).

Summary

Overall, there is no requirement for superannuation providers to initially record, track or maintain changes to the residency status of members. Legislation has, in fact, been modified to recognise that Australian superannuation is not generally a vehicle used by non-residents. Using address data on hand will also be problematic.

Therefore, for the purposes of the ABS and reporting in APRA form SRS 730.0, it is unlikely that **any** meaningful data can be reported for non-resident members (column 3 items 1, 2 and 3). However, if the fields remain, the RSE licensees must attempt to interrogate member files and make determinations as a basis of the "careful estimates" and this will be extremely problematic and costly.

Recommendation: Remove the columns relating to "*Of Which: Attributed to non-resident members*" within SRS 730.0 (column 3 items 1, 2 and 3).

APPENDIX B: Potential reuse of ATO data

Given Appendix A, where it was shown that determination of residency is problematic, the purpose of this appendix is to explore if ATO data can be re-used to simplify the ABS data collection process for non-resident members as proposed within SRF 730.0. This option was raised at the February ABS/APRA roundtable, and it was noted that the ABS was not across the potential solution.

Background

Currently all superannuation providers are required to lodge annual reports with the Australian Taxation Office (ATO) which provide information about their members such as:

- Contributions received for the member during the financial year;
- Contributions included in rollovers;
- The member's balance; and
- Other attributes of the member's account held in the fund.

The member contribution statement (MCS) is the approved form in which the report must be lodged by all superannuation providers, other than self-managed super funds (SMSFs). The obligation to lodge the MCS under Division 390 of the Taxation Administration Act 1953 has been recently revised and extended as a result of the Stronger Super reforms. The extension now requires that all members, including those for whom no contributions were received, be included in the MCS. Therefore the newly revised MCS represents the universe of members within a fund.

In addition to data on contributions and member balances, the MCS now requires that the following be included for each member account:

- Name;
- Account number;
- Residential address;
- Date of birth; and
- Tax file number (TFN).

The MCS is required to be prepared for each 30 June financial year and is due for lodgement with the ATO on 31 October annually.

Reuse of ATO data

As noted in Appendix 1, there is no requirement for superannuation providers to initially record, track or maintain changes to the residency status of members. Therefore:-

- a) The mailing address for superannuation members is currently the only way for an RSE to determine the residency or domicile of members and this does not meet the definition of residency per the ABS definition (as discussed at the roundtable).
- b) Mailing address data held by superannuation providers may not be updated regularly especially for inactive or lost members.
- c) This data is only updated when notified by the member and may not indicate their actual residential address and domicile but rather their address for mailing purposes (which can be a family member's address, a PO Box, or even an employer's work address).

However, FSC members believe that the MCS data provided to the ATO could be cross referenced (by the ATO or ABS) to individual tax returns lodged by members using the TFN supplied by the RSE. Considering that individuals are required to declare their residency status for tax purposes in their returns, this presents

an alternative and far more accurate source for the ABS to record residency data for members of superannuation funds.

The ATO data, which is unavailable to RSEs, is a more reliable source as tax returns are required to be lodged annually by individuals in contrast to the potentially out of date mailing address held by superannuation providers for each member's account.

Considering that the ATO holds all of the above data for member accounts (including balances as at 30 June), this presents an accurate and reliable source for ABS to determine the proportion of non-resident member balances for each RSE without the need to engage RSEs for further reporting. This data can then be used to apportion the existing SRF 330.0 *Statement of Financial Performance* APRA Reporting data for the same period to calculate non-resident figures equivalent to those required in SRF 730.0 *ABS Income and Expenditure*.

Recommendation:

- d) Remove the columns relating to "*Of Which: Attributed to non-resident members*" within SRS 730.0 (column 3 items 1, 2 and 3).
- e) ABS to retrieve data supplied to the ATO by RSEs and cross check it to member's tax forms. ABS to then apportion data from SRS 330.0 rather than collecting it from RSEs under SRS 730.0

APPENDIX C: Reporting Volumes

The purpose of this appendix is to explore the proposed reporting volumes resulting from the new ABS forms when considered in addition to the current APRA reporting volumes. This issue was raised at the February ABS/APRA roundtable, and it was noted that the ABS was not across the reasoning behind the issue. We present it here.

Background

Prior to the superannuation reforms (e.g. in 2012), the average large FSC member would need to submit 48 quarterly (12 forms x 4 quarters) and 45 annual forms to APRA. This resulted in a total of 93 submissions per annum. However, the Stronger Super Reforms have resulted in a significant increase in both the:

- Number of forms to be submitted to APRA quarterly and annually; and
- Volume of data to be submitted to APRA on the forms.

In addition, there is a decrease in the time to prepare and submit returns. It is important to note here that in the volumes below, the trustee must pay, out of member money, for the staff to perform the services; thus there is a direct linkage between the heightened volumes and the future fees that will need to be charged to members. That is, the burden of ABS reporting could add to the fees/costs experienced by a member.

Non ABS forms

Broadly, the new APRA non-investment reporting is required for

- MySuper products;
- New RSE/RSE Licensee forms; and
- Defined Benefit Sub-fund forms.

Added to the above is the overlay of Select Investment Option Reporting (SIOs) as recently amended by APRA. Note: APRA and the industry have worked in partnership to reduce the burden of SIO reporting and the volume such that it is half of what had been previously anticipated.

Note that the average large FSC member:

- may have multiple RSEs (containing a mix of Defined Benefit and accumulation products, onsale and offsale products, with some RSEs acquired through acquisitions); and
- certainly most will have many SIOs (approximately 100 for an average large provider).

Typically, the FSC is hearing the new, non-ABS, reporting volumes from these large players in the market will now result in:-

- about 250 to 300 annual APRA submissions;
- about 100 to 175 quarterly APRA submissions (400 to 700 per annum);
- about 200 (100 SIOs x 2 forms) quarterly SIO submissions (800 per annum); and
- TOTAL: 1450 to 1800 submissions per annum.

As can be seen above, from the commencement of SIO reporting (July 2015) there will be a significant impact on business units who prepare and submit data. The volume increase from 93 forms previously to 1450-1800 forms in the new reporting regime results in a squeeze on time/resources available to prepare and submit returns.

ABS Forms

Of itself, the ABS reporting will add 4 new forms, but due to multiple RSEs per large provider the volume of reports to be submitted is becoming problematic.

As noted above for the large market participants:-

- SRS 720.0 x 4 quarters x multiple RSEs (this is a particularly complex form with many lines of data);
- SRS 721.0 x 4 quarters x multiple RSEs (if required by the RSE);
- SRS 722.0 x 4 quarters x multiple RSEs (if required by the RSE); and
- SRS 730.0 x 1 annual x multiple RSEs (much of this is repeated from the SRF 330.0 form and most of the Defined Benefit member information is simply the aggregation of each SRF 330.1 for each Defined Benefit sub-fund in an RSE).

Therefore for a large provider with, say, 6 RSEs above the \$200m threshold, the ABS reporting adds 25-78 additional reports to the already heavy APRA reporting load. A large provider with, say 8 RSEs above the \$200m threshold will see an increase of 33-104 forms to be submitted. These additional forms are all to be submitted in what is arguably an already small time period (particularly the April quarter where Easter and ANZAC day means the loss of 3 business days).

Our membership has considered the problem the new ABS forms will pose to the already stretched resources and have come up with recommendations for ABS to consider (as noted below).

Recommendation:

- Revert to annual data collection for the three quarterly reports;
- Simplify the SRS 720.0 annual report to streamline submission;
- ABS to re-use data from the submitted SRS 330.0 form to reduce the burden on RSEs;
- ABS to re-use (via aggregation) data from the submitted SRS 330.1 forms to reduce the burden of Defined Benefit reporting on RSEs' and
- Allow RSEs to do ABS form lodgement 5 days after other APRA lodgement.

Appendix D: Cross reference / heat map requested

The purpose of this appendix is to explore a time and effort saving device (heat map) of fields for the proposed ABS reporting forms. This issue was raised at the February ABS/APRA roundtable, and it was noted that the ABS was not across the reasoning behind the issue. We present it here.

Background

In 2015, APRA has released the following forms for ABS data collection:-

- SRS 720.0 ABS Statement of Financial Position - a particularly complex form with many lines of data
- SRS 721.0 ABS Securities subject to Repurchase and Resale and Stock Lending and Borrowing
- SRS 722.0 ABS Derivatives Schedule
- SRS 730.0 ABS Income and Expenditure (much of this is repeated from the SRF 330.0 form)

It is noted in the covering letter to the ABS reporting that “reporting entities that use [SBR] taxonomy to map or tag their financial information can:

- Streamline reporting processes, reduce data manipulation and reduce time to produce reports;
- Improve reconciliation and movement analyses; and
- Obtain better traceability, auditability and consistency.”

Current Issue

Not every reporting entity uses SBR. Therefore, each reporting entity is currently trying to do a mapping exercise field by field, form by form to match an ABS reportable item to an item in another APRA form. The mapping has to be done at the definitional level for each field and is both time consuming and potentially could be misleading.

Example 1: Periods

- SRS 730.0 is required to be submitted “for each calendar year ending 30 June”.
- SRS 330.0 which has arguably much of the same data is required to be submitted
 - “(a) each quarter based on the year of income of the entity; and
 - (b) each year of income of the entity.”
- On the surface these two items would appear to require annual submissions on the same day for the same period. However some RSE’s have a year of income that is different to 30 June. Therefore while the data elements are the same; the data would be different.

Example 2: Sub-funds

- While SRS 730.0 duplicates most of SRF 330.0, most of the Defined Benefit data in SRS 730.0 is an *aggregation* of each SRF 330.1 for each Defined Benefit sub-fund in an RSE.
- Therefore while the SRS 730.0 and 330.1 Defined Benefit data elements may look the same; the data would in fact be different.

Example 3: Derivative Foreign Exchange Gains/Losses

- SRS 730.0 has a field 4.3.1.2 “*of which: Derivative Foreign Exchange Gains/Losses*” with a definition of:
 - 4.3.1.2. of which: are derivative foreign exchange gains/losses
Report the portion of **foreign exchange gains/losses** in item 4.3.1 that is attributable to **derivative foreign exchange losses** in item 4.3.1.2.
Represents realised and unrealised foreign exchange gains/losses on derivative investments.
- SRS 330.0 has a similar field with a different number 5.3.2 “*of which: Derivative foreign exchange gains/losses*” with a definition of
 - 5.3.2. of which: Derivative foreign exchange gains/losses
Report the portion of gains/losses on investments that are **derivative foreign exchange gains/losses** in item 5.3.2.
Represents realised and unrealised foreign exchange gains/losses on derivative investments.
- Clearly the two fields have exactly the same definition and therefore, subject to the RSE year of income, the same number should be reused.

Example 4: Service provider data

- SRS 730.0 has a field 10.5 “Associated with Service Provider” with a definition of
 - 10.5. Associated with service provider expenses associated with a **service provider** reported in item 10.5
Represents expenses that relate to the operation of the fund by the RSE licensee.
Includes: operating expenses for which administration fees are charged, such as expenses relating to advertising/marketing, commissions, director/individual trustee expenses, operating expenses associated with service provider and other operating expenses.
Excludes: administration expenses and operating expenses already reported in item 11.
- SRS 330.0 has a similar field 10.5 “Associated with Service Provider” with a definition of
 - 10.5. Associated with service provider operating expenses associated with **service providers** reported in item 10.5.
Represents expenses that relate to the operation of the fund by the RSE licensee.
Includes: operating expenses for which administration fees are charged, such as expenses relating to advertising/marketing, commissions, director/individual trustee expenses, operating expenses associated with service provider and other operating expenses.
Excludes: administration expenses.
- While these two fields are arguably the same on the surface, they are mildly different due to the omission of the word “operating” in the first line of the SRS 730.0 field and the addition of the words in the exclusion “and operating expenses already reported in item 11.”

Example 5: Current Service

- SRS 730.0 has a field 20.1 *of which: Current service increase*
 - 20.1. of which: Current service increase
Report the portion of **net change in liability for members’ benefits** that is attributed to the **current service increase** in item 20.1.
Represents the increase in the value of defined benefit members’ benefits in defined benefit or hybrid superannuation schemes associated with the wages and salaries earned by members in the current period.

- SRS 330.0 has no corresponding field therefore it must be searched for elsewhere in APRA reporting or it is a brand new field.

Rather than every participant complete an analysis of every field on the four new ABS forms, it would help if a heat map were provided before the consultation finishes. It would also assist if such a heat map were provided in any revised ABS forms.

Recommendation:

- ABS / APRA to provide as soon as possible (preferably before the closing of the consultation), a heatmap or cross reference to show where a field is the same as a field from another form, or where it has a different definition or where it is new. As such, the heatmap or cross reference would show (green, amber, red) ideally with the associated APRA form listed.
- Alternatively, adjust the new ABS draft forms to show in each definition “this should be the same as what is reported in SRS 330.0 item xyz”
- Provide a heat map in any revised ABS forms.

APPENDIX E: Reporting basis

The purpose of this appendix is to explore the proposed financial reporting in the APRA reporting form SRF 730.0 (and therefore potentially also affecting SRF 720.0, 721.0 and 722.0). In particular to consider if the initial 2016 submissions will provide a sufficiently comparable basis for future years due to forthcoming changes in accounting standards that affect fair value. This issue was raised at the February ABS/APRA roundtable, and it was noted that the ABS was not across the complexities of the issues. We present them here.

Background

On 5 June 2014, the Australian Accounting Standards Board (AASB) issued a new standard applying to superannuation entities. AASB 1056 *Superannuation Entities* replaces AAS 25 *Financial Reporting by Superannuation Plans* with effect for annual reporting periods *beginning* on or after 1 July 2016. Early application of AASB 1056 is also allowed. This new standard updates the requirements in light of recent significant developments in the superannuation industry and the adoption of International Financial Reporting Standards in Australia. The standard applies to large superannuation entities regulated by APRA and to public sector superannuation entities. It does not apply to self-managed superannuation funds or small APRA funds.

AASB 1056 prescribes a different method for the valuation of assets and liabilities compared to the old standard:-

- Under the old standard (AAS 25), assets are required to be measured at 'net market value'. Net market value is the amount which could be expected to be received from the disposal of an asset in an orderly market after deducting costs expected to be incurred in realising the proceeds of such a disposal.
- The new standard AASB 1056 requires assets to be measured at 'fair value'. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The main difference between the two methods of measurement is the inclusion of disposal or realisation costs in the value of the asset.

The new ABS forms require RSEs to report the value of investments in accordance with Australian Accounting Standards. Considering RSEs are required to follow Australian Accounting Standards to value assets there are several key impacts:-

- a) The impact to ABS where there is a change in valuation methodology from the first period to the next (i.e. where the baseline year methodology does not match subsequent year's methodologies);
- b) Inconsistencies in the valuations reported by RSEs where some decide to adopt the new standard early while others wait for the compulsory effective date (i.e. from periods *beginning* 1 July 2016); and
- c) Potential additional RSE costs to change ABS reporting one year after implementation.

Recommendation:

- ABS/APRA to immediately announce alignment of initial reporting date for the SRF 720/730 series so that it coincides with the AASB 1056 start date (i.e. commences for annual periods *beginning* 1 July 2016).