FINANCIAL SERVICES COUNCIL

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Discussion Paper, Reporting Standards for Select Investment Options

Dear Mr Grummit

In March of this year, the Financial Services Council (FSC) wrote to APRA to highlight the concerns our members had regarding the burden of investment reporting requirements that were being placed on RSE Licensees under the enhanced APRA Reporting requirements. The issues we raised at that time were specifically in relation to Select Investment Options and potentially Choice investment options.

The FSC welcomes APRA's engagement with the industry on this issue and the opportunity to comment on APRA's consultation paper for Reporting Standards for Select Investment Options. The FSC supports APRA's enhanced prudential and data collection powers in relation to superannuation funds. 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 has reviewed APRA's proposed requirements in the revised reporting standard in the context of the policy aim of managing the regulatory impost on superannuation funds. We make the following recommendations and observations:

- We support APRA's proposed changes to the SIO reporting model, including removal of SIO reporting in SRF 330.1, simplification of asset allocation and movement reporting in SRF 533.1 and the SIO definitional change with respect to reserves.

- Despite the modifications to the previous SIO reporting model, the FSC has concerns that there is still a disproportionate cost for RSEs to report SIOs compared to any other element of APRA reporting. This is due to a combination of:
    - Volume of forms to be submitted (still large numbers of SIOs subject to reporting)
    - Frequency of the form submissions (5 times a year per SIO for each APRA reporting form)
    - The remaining complexity and content of the SIO forms.

We therefore propose a number of recommendations which we believe will reduce implementation costs and the ongoing reporting burden without diminishing APRA's regulatory oversight. This is accomplished by:

- Reducing the number of SIOs to be reported whilst still retaining the key concept of "most material" investment options being reported;

- Modified reporting frequencies; and
- Modified content of reports to align with current industry practice.

The FSC also notes that the proposed finalisation in February 2015 for September 30, 2015 quarter reporting will make it difficult for industry participants to implement changes across their systems by the reporting date. For larger RSEs, a rushed implementation will necessitate a 'tactical' approach to deliver to the timeframes with consequent sub-standard data quality.

The expense of implementing this 'tactical' solution followed by development of more sustainable solutions will add unnecessary costs which could be avoided if longer, or staged, lead times for implementation were allowed. We suggest a 12 month lead-time is necessary for industry participants to prepare adequately for the revised SIO reporting.

The FSC also notes that APRA's discussion paper recognises that other Stronger Super requirements, including the Choice dashboard and section 29QC, are related to SIO reporting. The Government continues to consult on Choice dashboard. Section 29QC captures much of the information covered by these reporting standards, particularly in relation to SRFs 530.0 and 533.0. The FSC is concerned decisions by APRA in relation to how data is reported for SIO purposes would necessarily determine how comparable information will need to be reported to ASIC and on websites due to section 29QC.

We welcome the opportunity to further consult with APRA on the issues raised in this submission as we are conscious of the technical nature of our recommendations and the importance of settling the reporting requirements prior to requiring industry to build the necessary systems.

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

1 FEEDBACK AND IMPACT ASSESSMENT OF PROPOSED CHANGES

The FSC agrees with APRA's proposed changes to the existing Select Investment Option (SIO) reporting model and agrees the following changes should be implemented:

- The removal of the requirement to report SIOs in SRF 330.1;
- The removal of the requirement to include investment options underlying reserves in the definition of a SIO;
- The simplification of asset class and type attribution in SRF 533.1; and
- The removal of the breakdown of investment fees between direct and underlying investment managers in SRF 702.1.

A brief discussion as to the benefits of each of these changes is set out in this section. At the end of this section there is a summary of the savings that would be achieved from the proposed changes.

1.1 SRF 330.1 – FINANCIAL PERFORMANCE

The FSC notes that APRA proposes to remove the requirement to report under SRF 330.1 in respect of SIOs and to transfer the requirement to report members' benefit flows in and out to SRF 533.1.

The FSC agrees that the assessment of financial performance information at the SIO level does not align with current industry practice. Allocation and attribution of income, expenses and insurance premiums for SIOs would only ever be artificial and approximate, and would not reflect the manner in which the asset pools underlying SIOs are managed in practice. FSC members had identified a disproportionately high cost burden to report this information in respect of SIOs.

The estimated net cost savings are aggregated at the end of the section. In addition, in a later section of this paper, we recommend further changes to the reporting of members' benefit flows.

Recommendation: APRA should implement the planned removal of reporting SIOs under SRF 330.1

1.2 SIO DEFINITIONAL CHANGE WITH RESPECT TO RESERVES

The FSC welcomes APRA's willingness to refine the SIO definition. With its consultation paper, APRA has removed one leg of the definition (item "c" investments that underlie a reserve). The FSC agrees that in many cases reserves are invested similarly to other material investment options and that specific investment information in relation to reserves can be sought by APRA if required.

The FSC have canvassed a number of our members and find this definitional change will not greatly reduce the compliance burden; FSC members indicate that 98% of the SIOs based on the previous definition will still be classed as SIOs, a reduction in volume of only 2% would be envisaged.

The FSC understands that our members collectively have approximately 2500 SIOs. Based on a 2% reduction of SIO reporting the FSC's membership would likely save somewhat less than $1 million. This is a welcome, but modest saving in the context of the forecast $29 million implementation cost the FSC originally estimated for our members.

This estimated cost saving also forms part of the aggregated forecast savings at the end of the section. In addition, in a later section of this paper we recommend further changes to the SIO definition.

Recommendation: APRA should implement the planned simplification of the SIO definition by removing investments that underlie a reserve (item (c) in the SIO definition).

1.3 SRF 533.1 FIXED INCOME ASSET ALLOCATION

Under the new SRF 533.1, APRA proposes to reduce the reporting requirements in respect of the actual asset allocation of each SIO by removing the requirement to report fixed income currency types.

The FSC agrees that information in relation to the currency types of fixed income assets is collected at the RSE level under Reporting Standard SRS 530.0 (Investments) and at the MySuper product level under SRS 533.0. Collecting this information at the SIO level is therefore an unnecessary duplication of lower priority data. The FSC concurs that APRA could request this information on an ad hoc basis rather than requiring quarterly reporting.

It is noted that this could potentially reduce the complexity of asset allocation reporting for these instruments by:

> (1 x 'income' asset classes) x (3 x asset domicile types) x (3 x asset listing types) x (5 fixed income types) x (3 x fixed Income currency types) x (1 asset allocation type "actuals"))
> = 135 lines for income asset classes

With the existing number of SIOs, if we assume 10% of SIOs would have fixed income data to report then our membership would save the entry of:

> ((2500 SIOs x 10% contain fixed income)) x (135 lines of asset allocation information)
> = 33,750 lines of asset allocation data per quarter.
>
> (33,750 lines per quarter x 4 quarters) + (33,750 lines x 1 annually)
> = 168,750 lines of asset allocation data per annum.

The estimated cost savings are aggregated at the end of this section. In addition, in a later section of this paper, we recommend further changes to asset allocation reporting.

Recommendation: APRA implement the simplification of the fixed income asset allocation reporting.

1.4 SRF 533.1 SIMPLIFICATION OF MOVEMENT REPORTING

APRA proposes to remove the requirement to report movements in directly held and indirectly held investments, broken down by asset class and types in respect of SIOs and to replace this with a requirement to report aggregated investment movement information at the SIO level under SRS 533.1, with this information required to be reported on a look-through basis, where appropriate.

We believe that for the most part, detailed movement reporting as originally envisaged would never have been accurate as most companies would have had to apply estimates due to the current investment structures that are utilised.

It is noted that this could potentially reduce the complexity of SRF 533.1 asset allocation (movement) reporting by:

> (7 x asset classes) x (3 x asset domicile types) x (3 x asset listing types) x (5 x fixed income types) x (3 x fixed Income currency types) x (1 asset allocation type "actuals")
> = 945 lines replaced with a single set of figures
> = 944 lines saved

With the existing number of SIOs our membership would save the entry of:

(2500 SIOs) x (944 lines of movement information)
= 2,360,000 lines of movement data per quarter.

(2,360,000 lines per quarter x 4 quarters) + (2,360,000 lines x 1 annually)
= 11,800,000 lines of movement data per annum.

The estimated cost savings are aggregated at the end of this section. In addition, in a later section of this paper, we propose further refinements to movement reporting.

Recommendation: APRA should implement the planned simplification of the movement reporting.

1.5 SRF 702.1 SIMPLIFICATION OF INVESTMENT FEE REPORTING

APRA proposes to remove the requirement to report a detailed breakdown of investment fees between base and performance fees and direct and underlying investment managers.

Whilst this data may be appropriate to understanding the performance of a MySuper product, we believe that this data is incidental to understanding the performance of a SIO and is of a lower priority.

It is noted that this could potentially reduce the complexity of SRF 702.1 investment performance reporting across our membership by:

(2500 SIOs) x (4 lines of information)
= 10,000 lines of data per quarter.

(10,000 lines per quarter x 4 quarters) + (10,000 lines x 1 annually)
= 50,000 lines of data per annum

The estimated cost savings are aggregated at the end of this section. In addition, in a later section of this paper, we propose further refinements to the reporting of fees on SRF 702.1.

Recommendation: APRA should implement the planned simplification of the investment fee reporting.

1.6 FINANCIAL SAVINGS

The FSC has surveyed members and determined that the cost savings associated with the proposed APRA changes in this section, across the FSC membership, would be in the order of $3.13 million in implementation costs and $800 000 per annum in ongoing costs.

This represents decrease of approximately 10.5% compared to the original forecast cost $29.8 million implementation cost of the related APRA standards.

	Implementation	Ongoing
Red Tape Savings	$3.13 million	$800 000 pa

2 FEEDBACK AND IMPACT ASSESSMENT OF PROPOSED NEW FORMS

Despite the modifications mentioned in Section 1, there is still a disproportionate cost for RSEs to report SIOs compared to any other element of APRA reporting.

In this section, we therefore propose alternatives that we believe will reduce the implementation costs and ongoing reporting burden without diminishing the regulatory oversight. This is accomplished by reducing the number of SIOs to be reported via definitional change whilst still retaining the key concept of "most material" investment options being reported. The FSC also proposes changes to the frequency of reporting and modified content of reports to align with current industry practice.

2.1 SELECT INVESTMENT OPTION DEFINITION

2.1.1 General Comment on Materiality and Volumes

APRA has signalled that it proposes to consider other aspects of the SIO definition and associated thresholds once the outcomes of the Government's consultation in relation to choice product dashboard requirements are finalised. The FSC welcomes APRA's willingness to refine the Select Investment Option (SIO) definition.

FSC members have indicated that APRA's proposed definition will not deliver the desired outcome of avoiding unnecessary reporting burden for industry. The key issues are:

- Quantum of investment options caught by the definition; and
- Materiality of the investment options caught in terms of a proportion of FUM.

Many of our larger members have 200-400 SIOs based on the revised definition. The FSC is of the strong view that the SIO definition is still too broad. As an indication of the volume of reports, the proposed form SRF 533.1 for Asset Allocation is to be lodged quarterly and annually. Where a provider has 300 SIOs:

(300 SIO x 4 quarterly) + (300 SIO x 1 annual) = 1,500 submissions

Therefore, there would be 1500 submissions to APRA annually from one provider alone. If we just assumed there were six major providers in a similar situation, then APRA would receive:

(1,500 submissions x 6 providers) = 9,000 submissions for just one form.

Clearly, this will be a lot of information for the industry to produce and would seem to create challenges for APRA to purposefully analyse and, where appropriate, take timely action.

We acknowledge from our consultation with APRA that it considers materiality from the perspective of both a percentage of FUM and by the number of members with interests in the relevant investment option.

Whilst the materiality threshold of 5% is aligned to guidance provided in the Australian Accounting Standard AASB 1031 (Materiality), applying the $50 million threshold to an RSE with significant FUM results in SIOs that would otherwise be an immaterial proportion of FUM. In this regard, we note that the top 10 superannuation funds each have FUM exceeding $28,000m, therefore a $50m threshold is not material ($50m/$28,000m = 0.18% of FUM).

At this low level of materiality, there is no meaningful relief from the SIO regulatory burden for larger RSEs. In some cases, SIOs to the value of 97% of total RSE FUM are captured by the proposed definition. This outcome would seem to be fundamentally opposite to where APRA's prudential supervision should be focussed – smaller RSEs with smaller asset pools where there are greater risks.

Recommendation: We recommend that APRA increase the materiality thresholds in the SIO definition in line with the proposals in Section 2.1.2

2.1.2 SIO Thresholds

The SIO definition has been framed with the assumption that investment options that underlie a defined benefit interest (pension or lump sum) (as defined by paragraph (a)) are different from investment options that fall within paragraphs (c) and (d).

Industry practice suggests that RSE licensees quite often utilise the same underlying investment option for defined benefit interest as would be available to members with 'accumulation' interests in the same RSE or RSE sub-plan, particularly in the case of a corporate superannuation master trust. It is also noted that the financial performance of all DB sub-funds will be reported on SRF 330.1.

In addition it is noted that APRA require reporting on all pre-MySuper default investment options to the extent that these options hold an ADA amount with no concept of materiality. FSC members have indicated this definition is driving significant volumes of SIO reporting and the associated cost for potentially a handful of members.

By law, the ADA transfer is planned to occur on or before 1 July 2017. Given the refined SIO reporting under the new standards does not commence until October 2015, there may only be 7 or 8 quarters where there is information to report and hence the cost to comply appears disproportionate compared to the limited value and timeframes.

It is assumed that the multi-dimensional definition of an SIO is intended to allow APRA to apply a differing prudential supervisory 'lens' to the reporting for each type of SIO. Although the data on the forms is identical for each type (in this regard we question the application of high/low fee scales and the usefulness of form SRF 702.1 for defined benefits), there does not appear to be any data item on the forms that indicates the type of SIO being reported (e.g. DB, ADA, etc.).

Further, there is nothing to link data for a defined benefit interest (paragraphs (a) and (b)) to the actual interest in an RSE which caters for numerous individually funded defined benefits in sub-plans of a corporate superannuation master trust. In this regard, we believe that defined benefit data provided in other SRFs such as 330 and 160 should provide sufficient information to allow APRA to properly supervise these arrangements.

Using a multi-dimensional SIO definition may not deliver information that can be reliably utilised by APRA in its prudential supervisory activities. We believe the current definition should be abandoned in favour of a simpler approach which relies on the greater than 5% of the assets of the RSE as well as a dollar threshold.

When setting the dollar threshold we believe that a two tier approach should be implemented whereby larger RSE's have a higher dollar threshold than smaller RSEs to ensure that member coverage is aligned and not higher for larger RSE's by virtue of the fact of a lower dollar threshold.

The FSC proposes that the SIO definition be along the following lines:

"A select investment option means an investment option in an RSE which:

a) Where, at the most recent 30 June, the total assets of the RSE exceeds $5 billion:
    i) at the most recent 30 June, has assets relating to non-MySuper interests greater than $250 million; or
b) Where, at the most recent 30 June, the total assets of the RSE is less than or equal to $5 billion:
    i) at the most recent 30 June, has assets relating to non-MySuper interests greater than $100 million; or

ii) At the most recent 30 June, has assets relating to non-MySuper interests that are less than $100 million but which represent more than 5 per cent of total assets of the RSE within which the investment option is located.”

This would also exclude single assets investments, such as term deposits or listed securities.

Recommendation: The definition of SIO should be amended as shown above which would apply the percentage of RSE assets test and a dollar threshold test to all investment options equally including defined benefit interests and investment options that contain at least one ADA.

2.1.3 Investment Options Utilised in Multiple Products

The FSC wishes APRA to clarify that an underlying investment option will only need to be reported once for each SRF. This would mean that a SIO should be considered on an RSE basis so that product differences do not increase the reporting burden for the industry. Alternatively, the industry suggests that the SIO definition be applied independently from form to form.

APRA’s FAQ 11 states that that the same Select Investment Option may need to be reported multiple times as an SIO where the investment option is offered on multiple products within an RSE where the forms would contain different information.

> ***FAQ 11: If an investment option is offered through multiple product channels or with multiple fee structures, with no change to the underlying investment strategy, and several of these versions of the investment option pass the threshold, how many times should the investment option be classified as a select investment option and reported to APRA?***
>
> *A: APRA expects an RSE licensee would consider the content of the reporting forms, and the purpose of the data collection, applying to select investment options to determine what should be classified as a select investment option for their circumstances. If all the information required on the select investment option reporting forms would be identical for multiple versions of the investment option, APRA will require the select investment option information to be reported only once. If, however, the forms would contain different information, each version of the investment option that meets the threshold criteria must be reported as a select investment option.*

The intent of this FAQ seems to be that APRA recognises that there are investment options which are used within differing ‘product variants’ but which are otherwise fundamentally the same when considered in terms of asset allocation and which may share underlying investment structures.

We are concerned that the draft Standards do not provide sufficient clarity on this point. The need to rely on an FAQ is not a desirable approach. The Standards must be fully self-contained on such a fundamental definitional point.

The instructions in each form should be expanded to include appropriate clarification in relation to the following concerns where there are two virtually identical look-alike investment options in different products or different tax structures (we will call both these instances a ‘like investment option’):

- It is unclear that where multiple ‘like investment options’ are reported within a single SRF 533.1 submission (per previous FAQ11), that member flows can be aggregated.
- The ‘Specific Instructions’ are not clear as to whether the entire set of ‘product variants’ is required to be considered for SRF 702.1.
- For SRF 533.1, the strategic and actual asset allocation may only vary marginally for ‘like investment options’ ; therefore there is little benefit in duplicate SIO reporting as there will be no additional transparency or regulatory supervision benefit. FAQ 11 suggests separate SIO reporting would be required in this case.

- For SRF 702.1, the fees may vary and therefore performance may vary for ‘like investment options’. FAQ 11 suggests separate SIO reporting should be required in this case.
- For SRF 702.1, the tax varies between pension and superannuation accounts and therefore “after tax” performance will be different. FAQ 11 (and indeed SRF 702.1 instructions) suggests separate SIO reporting should be required in this case. We do not believe that is APRA’s intent with the proposed SRF 702.1.
- For SRF 601.0, the SIO data could be aggregated for ‘like investment options’, or not. The requirements are not clear.
- In the absence of SRF 001.0, it is assumed APRA would compare the SIOs listed within SRF 601.0 to data reported for both SRF 533.1 and SRF 702.1. The industry assumes APRA will therefore expect the exact same number of SIOs would apply to both forms. This is not necessarily the case as noted in the points above.

Similarly, the testing of size of a potential SIO also becomes an interesting one. There are two possible ways to determine this in the case of an RSE with numerous ‘like investment options’ offered via various products over a period of time, either:

1. Each individual investment option unit and the value of its underlying assets are measured against the relevant thresholds; OR
2. The values of underlying assets of ALL 'like investment options' are aggregated and the accumulated total value of those units is measured against the relevant thresholds.

The result is that it is not clear that all industry participants will test ’like investment options’ the same way.

Arguably, there will also be much confusion within an RSE should there be an SIO definition for reporting to APRA and then a different definition of investment options that are to be reported under the scope of ‘Choice’ dashboards (with its legislative carve outs).

Recommendation: APRA should reconsider the position stated in FAQ11 in the context of the proposed forms and embed complete instructions for applying the SIO definition taking into consideration the practices adopted by RSEs in making investment options available to members.

2.2 FEEDBACK ON PROPOSED STANDARD SRS 533.1

2.2.1 Fixed Income Assets

The consultation paper noted that:

> *“information in relation to the currency types of fixed income assets is collected at the RSE level under Reporting Standard SRS 530.0 Investments and at the MySuper product level under SRS 533.0. Collecting this information at the select investment option level is of lower priority and, where necessary, APRA could request this information on an ad hoc basis rather than requiring quarterly reporting”.*

Given that the “currency type” breakdown of information has been proposed to be removed from the Actual Asset allocation section we note that “Fixed Income Type” remains. The FSC queries if this “Fixed Income Type” breakdown could be removed as well. APRA could request more detailed information on an ad hoc basis rather than requiring quarterly reporting of these elements for all SIOs.

The potential savings could be:

> ((1 x 'income' asset classes) x (3 x asset domicile types) x (3 x asset listing types) x (5 fixed income types) x (1 asset allocation type AAA))
>
> = 45 lines for income asset classes AAA

Should the SIO definition remain unchanged and the asset allocation information remain as it is, then the average RSE with 100 SIOs would save:

> (100 SIOs x 10% having fixed income) x (45 lines of asset allocation information) = 450 lines of asset allocation data per quarter.
>
> (450 lines per quarter x 4 quarters) + (450 lines x 1 annually) = 2250 lines of asset allocation data per annum per average RSE.

Recommendation: Remove the fixed income type from the Actual Asset Allocation section of SRF 533.1

2.2.2 Investment Movements and Net Members' Benefit Flows

Whilst we have supported the aggregation of investment movement data in Section 1 of this document, we note that there is an ongoing issue in relation to reporting investment income and realised and unrealised gains/losses on a look through basis.

At a high level, these movement components can be attributed to an investment vehicle such as a unit trust. However if there are multiple levels of holdings, where a 'parent' trust invests into a 'child' trust, then the nature of these movements will change as income is distributed between trusts and as the parent trust buys and sells units in the underlying trust. For example, unrealised gains/losses of the child trust can be converted to realised gains/losses of the parent trust if the parent trust sells units in the child trust.

Further, there are significant practical difficulties in tracking and attributing these movements at the underlying security level up the investment chain. FSC members are concerned that this information may become meaningless for multi-tiered investment structures. Our members have requested clarity on the level of reporting for investment income and unrealised and realised gains/losses that should apply.

The FSC also notes that there will be problems with the allocation of net transactions, investment income and realised and unrealised gains/losses to an SIO where multiple SIOs invest into the same investment vehicle and where the units in the investment vehicle are also held by other parties.

In relation to members' benefit flows, FSC note that APRA's objectives are to assist in the understanding of the efficiency of operations and the reasons for the change in asset size as well as providing insights into the current and future liquidity profile of an investment option. These objectives appear to overlap with the objectives of collecting investment movement information which APRA have stated is to assist with the understanding of the sources of return and the drivers in the change in asset size and composition and provide insights into the liquidity of the investment option.

FSC believe that these objectives can be met using a simplified reporting regime that requires only the following data points:

- Member flows into the investment;
- Change in the value of the investment (catering for dividends, market fluctuations, currency exchange gains/losses, net of fees and taxes); and
- Member flows out of the investment.

It is therefore recommended that it may be more appropriate to report a single figure to represent all changes in the value of the investment including fees and taxes that are not member related flows. Should APRA then have an issue with either the reported “change in value” or “member benefit flows out” then they can request additional information.

Recommendation: Combine items 3-6 of SRF 533.1 and replace with the three items above representing the full change in the value of the select investment option.

2.2.3 Other Issues with Member Benefit Flows

It is noted that the instructions on page 6 of SRF 533.1 requires the reporting of “contributions gross of contributions tax and any other tax” but on the next page in item 4 it says to report “total of contributions net of contributions tax and contributions surcharge”. Clarification is sought from APRA on this.

Further, page 6 notes that the RSE licensee should “not deduct entry fees; deferred entry fees; commissions; management fees or any other ongoing fees or charges” from contributions. In many cases, systems and processes may in fact remove such fees and charges, as well as tax, before money is allocated to an investment option. The questions become:

1) Whether APRA wishes RSEs to track the flows in the member administration system (when monies are first received) or when the flows of money are actually invested (i.e. when monies hit the investment system)?
2) If it is from member administration systems, then should member level fees/commissions/costs be notionally apportioned to each investment (SIO and non-SIO) so that they can be ‘included’?
3) If it is from the member administration system then is APRA aware that the investment system will have a different record of flows in and out?

It is also noted that for flows out, only “member benefit flows out” are recorded. Therefore the fees and charges are not adequately and consistently recorded in the member benefit flows (they should either both include fees or both exclude fees). We note here that the existing SRF 330.0 excludes fees from these definitions however we believe these should be included so we can properly reconcile to the movement in investment value in SRF 533.1.

Recommendation:
Remove the confusing references to inclusion of fees, etc. from the instructions and just require net member flows in and out of an SIO as recommended in section 2.2.2 above.

2.3 FEEDBACK ON PROPOSED STANDARD SRS 702.1

2.3.1 General Comment

From the outset, the FSC questions the purpose of SRF 702.1; paragraph 2 of the reporting standard states that SRF 702.1 is required for:

> *“…the purposes of prudential supervision, including assessing compliance with Prudential Standard SPS 530 Investment Governance, and publication.”*

The connection of SRF 702.1 with SPS 530 is not clear. The primary value of SRF 702.1 appears to be the determination of investment return information and translation of that return to an Example Member on a basis prescribed by APRA; a basis that is different to that used throughout the industry (FSC Standard 6) and in all publications. Whilst there is a requirement within SPS 530 for the RSE Licensee to monitor performance of each investment option and regularly report to the Board, there is no basis prescribed for that reporting. The FSC questions whether APRA’s suggestion that SRF 702.1 is somehow indicative of "compliance with Prudential Standard SPS 530" means that RSE licensees may now be required to adopt the same approach to investment performance monitoring. If so, this is unclear within SPS 530.

The reference to "…and publication" requires clarification. The FSC members would like to further understand who is intended to benefit from the publication and how will publication be provided? Will APRA be publishing "league" tables of this information? We note here that the industry participants (e.g. RSEs), rating agencies (e.g. Chant West) and providers (e.g. Morningstar and IRESS/Fund Data) currently calculate and publish performance for investment options by following FSC Standard 6 which is on a slightly different basis. The question therefore becomes whether the intent was to change the basis used throughout the industry as different performance figures for the same fund would certainly be misleading.

Recommendation: Reconsider the purpose of, and the need for SRF702.1 in light of SPS 530 and current broad industry publication of similar, yet different performance data.

2.3.2 Carve Out for Platform Products

For wrap platform products, where externally managed funds and single securities are made available to members, fees charged by the RSE licensee are applied at a member level, not at an investment option level, and industry guidelines allow investment returns to be quoted on the wholesale return. This allows investment, super and pension products to publish the same performance information for the same wholesale investment option. SRF 702.1 as proposed would imply that a different net return would need to be calculated compared to that of the wholesale fund by including platform administration fees assuming that the member had a single investment option holding (which is rarely true).

FSC members are concerned that the net returns as calculated would not be representative as the majority of wrap platform members hold more than one investment option and have a balance in excess of $50,000.

Finally, given that the information on wholesale fund performance is generally available and published, FSC members do not believe that the benefits outweigh the compliance burden.

Recommendation: Remove the requirement to report SRF702.1 data for wrap platform products.

2.3.3 High and Low Fee Scale Data

The FSC questions the usefulness of the High/Low fee scale approach. Given that there is no explanation as to who or which group of members/product the High/Low scale applies, then clearly members (or even APRA) cannot make any meaningful use of this information. Any publication of the reported High/Low net returns and example member fees could not be traced to the source product variant that gave rise to those results.

It is not clear what the purpose of High/Low fee scale reporting is for an SIO that falls into part (a) of the SIO definition (Defined Benefits) because by the nature of Defined Benefits, the SIO would have no High/Low fee scales and is not otherwise utilised within the RSE for 'accumulation' interests. Further, the Example Member return, fee and cost information is inconsistent with the nature of how member entitlements under a defined benefit arrangement are determined.

The instructions for SRF 702.1 indicate that in determining scales, fee rebates must not be taken into account. However, there are rebates that may apply for all instances. It is not clear why FSC members should not take the lowest and highest rebate and net against the relevant fee when determining scale outcomes.

We also have significant concerns about the complexity of undertaking quarterly calculations of actual fee scale outcomes to determine the high and low 'bookends' across a number of SIOs. Whilst such 'precision' provides valuable insights and useful information for MySuper products, this degree of precision for other non-MySuper investment options does not seem to justify the cost.

The FSC recommends that rather than require 'actual' fees to be used for SRF 702.1, the 'high' and 'low' scales be set using 'as disclosed' fees from disclosure documents (PDS or Customer Information Brochure for older off-market products). We also believe that it would be sufficient to set the high and low fee bookends annually with Example Member returns and fees, costs and taxes being derived by APRA from that data based on net investment return reported each quarter over the ensuing year.

Recommendation:
1) Reconsider the purpose of, and the need for High/Low fee scale approach within SRF 702.1;
2) Reconsider the need for reporting SRF 702.1 for Defined Benefit SIOs;
3) For simplicity and efficiency, allow high and low fee scales to be determined on a 'fees disclosed' basis rather than using 'actual' fees; and
4) Allow rebates to be considered for High/Low fee scales.

2.3.4 Fee Definitions

As mentioned previously, there is considerable uncertainty in the industry as to the interpretation of the fee and cost disclosure requirements in the MySuper Regulations. SRF 702.1 fee and cost definitions are linked to fee and cost disclosure in PDSs however APRA has taken the additional step of interpreting fee definitions, defining look through requirements for indirect costs and defining additional fees under "Other" which are not defined in legislation.

Aside from the concern that further changes or rework may be required once further guidance is issued by ASIC and potentially the Government through changes to the Corporations Regulations. FSC members are also concerned that APRA's interpretation will result in inconsistencies between PDS disclosure and APRA reporting. The specific concerns are:

- Look though requirements to the first non-connected entity that disadvantages vertically integrated product providers;
- The definition of a "fee" as an amount directly charged to member and a "cost" as an amount incurred by the RSE licensee; and
- The definition (and inclusion) of other fees, costs and taxes.

In addition, the FSC notes that within SRF 702.1 the "Indirect cost ratio" definition includes reference to:

"….indirect costs for a MySuper product or an investment option……"

As SRF 702.1 is not required for MySuper products, for simplicity and clarity, the references to "MySuper product" should be removed and the reference to "investment option" should be changed to "Select Investment Option".

Recommendation:
1) Rely on fee and costs definitions included in Corporations Regulations and require only the reporting of these fees and costs as defined.
2) Await changes to fee and cost disclosure requirements in the MySuper Regulations before implementing SRF 702.1
3) Remove references to MySuper products in SRF 702.1

2.3.5 Select Investment Option Start Date

FSC members are concerned that the inclusion of this field in SRF 702.1 implies that the test for SIOs will be applied more frequently than as at 30 June each year as any option that was launched during the financial year would not have existed on 30 June prior and therefore the start date field would not be relevant.

Recommendation: Clarify that that the SIO test is to be performed once a year (as at 30 June) and remove the start date field from SRF 702.1.

2.4 FREQUENCY OF REPORTING

Based on the fact that movement data and investment performance data is to be reported on a YTD basis information contained within the June quarterly return and June annual return will be identical. Hence there appears to be little or no value in requiring annual reporting where there is quarterly reporting with the same information; thus the number of forms submitted could be easily reduced by 20%.

SRF 702.1 requires the determination of Highest Fee Scales and Lowest Fee Scales that operate within an SIO each quarter. This seems an unnecessarily heavy reporting burden every quarter because the reality is that the data for Highest and Lowest scales won't change from quarter to quarter.

The only data points in SRF 702.1 that are likely to vary from quarter to quarter are:

- Item 5: Net investment return – for the quarter
- Item 6: Net investment return – year to date
- The derived/calculated items 7 and 8

Similarly, SRF 533.1 requires reporting of strategic asset allocations (SAA) on a quarterly basis whereas in reality this is only likely to change once a year following the annual review.

Recommendation:
1) Remove the requirement to report annually for SRF 533.1 and SRF 702.1;
2) Report SAA initially and then only in the quarter in which there is a change in SAA; and
3) Only require the reporting of the high and low fee scales in the June quarterly submission.

2.5 MANAGEABLE PROCESSES FOR VALIDATION AND CONFIRMATION MESSAGES

It is also noted here that lodgement of SRF 533.0 (MySuper) has been problematic in D2A due to the many validation and confirmation messages that need to be completed. It is expected that SRF 533.1 and SRF 702.1 volumes will exacerbate the situation unless D2A is rectified. This becomes onerous for a large number of SIOs.

Recommendation: APRA should review the validation and confirmation messages that need to be completed within D2A to streamline SIO reporting for SRF 702.1 and SRF 533.1.

3 IMPLEMENTATION TIMEFRAMES

Investment reporting is the most complex area of APRA reporting, requiring data collection and collation from both internal and external sources and across systems. It requires compilation of data for multiple reports for each RSE.

The definition of Select Investment Option (SIO) is still very broad resulting in high volumes of data to be assembled. To illustrate, our current estimates indicate that while there will probably be on average 100 SIOs per RSE Licensee across the industry, our larger members will have, on average, 300 SIOs to report each reporting period.

> (100 SIOs x 4 quarters) + (100 SIOs x 1 annual) = 500 submissions annually per average RSE licensee.
>
> 500 per report x (SRF 533.1 + SRF 702.1) = 1,000 submissions for each average RSE Licensee.
>
> and
>
> (300 SIOs x 4 quarters) + (300 SIOs x 1 annual) = 1,500 submissions annually per large RSE.
>
> 1,500 per report x (SRF 533.1 + SRF 702.1) = 3,000 submissions for each large FSC member

Given this volume of reporting, it is unreasonable for the industry (larger and smaller RSEs) to consider sourcing and compiling data manually. To be able to deliver timely and high quality data, automated solutions must be employed for the proposed SRF 533.1 and SRF 702.1.

The FSC is concerned that APRA has indicated that the modified reporting standards for these forms will be released in February 2015 with reporting to commence for reporting periods starting from 1 July 2015. The first reporting due dates under these arrangements for funds with a financial year end of 30 June would therefore be 28 October 2015, for the quarter ended 30 September 2015.

The new reporting forms SRF 533.1 and SRF 702.1 are different to their MySuper counterparts and APRA have indicated that further changes could be expected depending on the Government's final requirements for Choice dashboards and the results of the current SIO consultation. With such uncertainly, analysis and build of automated solutions cannot commence without the risk of significant rework and unnecessary cost.

Where movements need to be tracked for reporting purposes the implementation time is further reduced. The industry generally requires 12 month lead times from finalisation of requirements to implementation. This allows sufficient time for detailed analysis of the new forms, clarification from APRA, documentation of business and system requirements, solution design, build, comprehensive testing and implementation activities. If there are high volumes of reports, a further build to automate submission of reports to D2A will also be required.

With the insufficient lead time that is currently proposed, an interim reporting solution would need to be deployed to meet the short term needs while the long term, automated solution is built. The interim (possibly semi-manual) reporting solution would be then disposed of once the automated solution is built.

The FSC would prefer to be proactive from the outset and work with APRA towards a reasonable implementation timeline that all members can meet. The FSC would support a 12 months development period from the release of the final reporting standards.

Recommendation: Final reporting standards be released 12 months before reporting is required to commence.

4 RED TAPE REDUCTION DERIVED FROM FSC PROPOSAL

The FSC submits that should APRA adopt the revised reporting requirements, SIO definition and implementation timeframe as proposed in this submission, there would be a red tape reduction saving of $11.03 million across FSC members, or 37% of the original cost of the proposal reporting standards. The relatively modest decrease in up front savings is as a result of the continued need to build the necessary IT systems to capture the required data.

There would, however, be a significant saving in relation to the ongoing cost of reporting, with a forecast savings of $3.5 million per annum, or 71% of the original ongoing cost. This is a result of the significant reduction in the number of forms that would be required to be produced.

The FSC therefore forecasts that over three years, FSC members will save $21.53 million over three years should APRA adopt the FSC's recommendations in this submission.

	Implementation	Ongoing
Original cost estimate in relation to select reports	$29.8 million	$4.9 million pa
Red tape savings as a result of FSC proposal	$11.03 million	$3.5 million pa