SUBMISSION

Submission to the Australian Prudential Regulation Authority — Discussion Paper — Superannuation Data Transformation Phase 2

8 April 2024

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Lodged via email: superdatatransformation@apra.gov.au

5 April 2024

Dear Sir/Madam,

Discussion Paper—Superannuation Data Transformation Phase 2

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to your consultation on APRA's Discussion Paper — Superannuation Data Transformation Phase 2.

ABOUT ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

GENERAL COMMENTS

ASFA is generally supportive of the purpose of APRA's Superannuation Data Transformation Phase 2, to enhance the consistency and comparability of reported data. We note, however, that significant changes need to be considered, as outlined in our recommendations, to ensure the pursuit of this outcome does not come at the expense of members' benefits.

ASFA seeks to ensure that member outcomes are appropriate, optimised and there are no unintended consequences flowing from policy decisions relating to superannuation. We also endeavour to ensure operational effectiveness of the superannuation system – that is, that the system delivers, at a reasonable cost, services of a type and standard that meet the needs and expectations of fund members and help them develop confidence in the system.

SPECIFIC COMMENTS

In reviewing the Discussion Paper, our member organisations have made the following observations and recommendations.

1. Proposed commencement

1.1. Implementation period

Member organisations have indicated that generally they support a minimum implementation period of 12 months, which should commence following the release of the final reporting standards.

Members believe that this would provide sufficient time for the development and implementation of modifications to system architecture, and data configuration, integration and mapping.

1.2. Effective commencement from 1 July 2024

The proposed timeline is that requirements are not expected to be finalised until around September 2024.

Member organisations have highlighted that this may affect their ability to have collected all necessary data items from 1 July 2024. Members currently will not have all of the necessary reporting markers to capture the new data and, accordingly, the completeness of the first year of reporting under the new requirements may be affected.

Given this, we urge APRA to adopt a 'best endeavours' approach with respect to the first year's reporting.

Recommendation 1
1. That APRA adopt a 'best endeavours' approach with respect to the first year's reporting

2. Pilot study – Superannuation Reporting Form SRF 553

The feedback provided in this section is with respect to the experience of member organisations in collecting the necessary data to respond to APRA's request to participate in a pilot study, due in April 2024.

2.1. Pilot study – insufficient timeframe

Member organisations have indicated that there has not been sufficient time for them to be able to query data from underlying managers, especially with respect to minor investments in run-off portfolios.

2.2. Pilot study – 'non-disclosure' and 'hold-harmless' agreements

Member organisations have advised that often external managers have required them to execute a 'non-disclosure' or 'hold-harmless' agreement prior to divulging information to them.

This has affected the members ability to obtain information from external managers in the timeframe.

Given this, we recommend that APRA should engage with pilot study participants with respect to the limitations on their responding with the timeframe. This could serve to inform the setting of future timeframes and identify where the reporting requirements could be adjusted to facilitate compliance with the timeframes.

Recommendation 2
2. That APRA should engage with pilot study participants with respect to the limitations on their responding with the timeframe

2.3. Need for standardisation

Member organisations have advised that, due to a lack of standardisation, external managers have found it challenging to interpret and apply APRA's definitions.

By way of example, the tiered levels, ranging from 1 to 3, have presented a challenge for external managers to interpret and apply. Superannuation funds invest in a diverse array of assets that do not always align neatly with the classification categories.

Given this, we recommend that APRA engage with pilot study participants to gain an understanding of these issues, which will aid in the standardisation of definitions to ensure consistent and timely reporting.

Recommendation 3

3. That APRA engage with pilot study participants to gain a clearer understanding of issues with SRF 553

2.4. Difficulties with obtaining data with respect to valuations

Member organisations have indicated that, for funds with a variety of assets, or that are structured as a fund of funds, obtaining valuation data may necessitate liaising with over 100 fund managers, making obtaining this data challenging and costly.

By way of example, each sub-fund or asset may employ different valuation methodologies, engage separate external valuers, and follow differing valuation schedules of varying frequency.

Given this, we recommend that APRA consider exemptions for certain investments and require only general information with respect to valuation methodologies, as opposed to specific details such as the names of valuers; the frequency of valuations; the level of gearing, and details with respect to redemptions.

Recommendation 4

4. That APRA consider exemptions for certain investments and require only general information with respect to valuation methodologies, as opposed to specific details

2.5. Data with respect to gearing

Member organisations have advised that obtaining data with respect to gearing presents a significant challenge, as it necessitates the manual retrieval of data from external investment managers and is prone to frequent changes.

We recommend that APRA consider an alternative to reporting gearing data, which may be to provide details with respect to gearing caps or targets, which typically are established and agreed with the external investment manager at the commencement of the arrangement.

Recommendation 5

5. That APRA consider an alternative to reporting gearing data, which may be to provide details with respect to gearing caps or targets

3. Ideally reported data should align with existing trustee utilised data

Trustees collect, classify, organise and maintain a wide variety of data in order to manage their products effectively and efficiently.

Ideally the data required to be reported to APRA should align to the extent possible with how data is classified and organised by trustees.

To the extent trustees are required to obtain additional data, or to derive/reconcile data, in order to fulfil their reporting obligations, this necessitates manual work and decision-making. This represents additional cost and risk to the fund and, as such, should only need to take place where it is absolutely necessary.

We have elaborated on this in Section 6 of our submission, *Investment-Related Reporting Forms,* including instances where data proposed to be reported could be aligned with existing, trustee utilised, data.

4. Volume of data and timeframes

Member organisations have raised concerns that, given the significant increase in the volume of data to be reported, and the tight timeframes, that it may not be reasonably achievable on a quarterly basis and there may be issues with the consistency of the data reported.

5. RSE profile reporting form

5.1. Sub-fund definition – tailored insurance arrangements

Member organisations had raised that the definition of 'sub-fund' should not extend to include tailored insurance arrangements with employer sponsors.

Tailored insurance arrangements currently are reported in *SRF 251.3 Insurance premiums* and the proposed *SRF 251.4 RSE Profile insurance arrangements* will capture the number of members with tailored insurance arrangements. Given this, we recommend that APRA clarify that the definition of 'sub-fund' does not extend to include tailored insurance arrangements with employer sponsors.

Recommendation 6

6. That APRA clarify that the definition of 'sub-fund' does not extend to include tailored insurance arrangements with employer sponsors

5.2. SRS 604.0 - RSE Licensee Profile - Table 3B

Member organisations have suggested that, given the nature of this form, the proposed timeframes regarding the lodgement of this form are not feasible.

Given this, we recommend that, consistent with ad-hoc reporting under SDT Phase 1, the requirement to lodge ad-hoc submissions should be 28 days post quarter end.

Recommendation 7

7. That APRA amend the requirement to lodge ad-hoc submissions to be 28 days post quarter end.

6. Investment related reporting forms

6.1. Role of custodians

In order to be able to report some elements of investment data trustees will need to rely on their custodians as a source of that data.

This is particularly the case for reporting requirements related to *Derivative Transactions* (SRS 550.0), and *Securities Subject to Repurchase and Resale and Securities Lending and Borrowing* (SRS 552.0).

Given this, we strongly recommend that APRA consult with custodians and the Australian Custodial Services Association (ACSA) with respect to what data they will be able to provide to trustees.

Recommendation 8

8. That APRA consult with custodians and the Australian Custodial Services Association (ACSA) with respect to what data they will be able to provide to trustees.

6.2. Draft SRF 550.4 - Table 1

Member organisations have advised that they will experience difficulties in meeting the reporting requirements for this form.

In particular, with respect to fields 10, 11, 14 and 15, reflecting the requirements of CPS 226 we recommend that there be optionality as to how collateral is reported, to allow entities to report by ‘trading relationship’ or ISDA Credit Support Annex.

Recommendation 9

9. That APRA, with respect to fields 10, 11, 14 and 15, provide optionality as to how collateral is reported

6.3. Draft SRF 551.0 – Liquidity and asset classes

Member organisations have identified that the current guidelines for draft SRF 551.0 do not assign liquidity to any particular asset class.

Given this, the liquidity of identical portfolio positions could be classified differently depending on the liquidity analysis performed by different products.

6.4. Draft SRF 551.0 – Liquidity and stress testing requirements

Member organisations have raised that the lack of specificity in the requirements with respect to stress testing leaves it open to differences in its interpretation and application, leading to potential inconsistencies in reporting, thereby reducing the usefulness of the data.

Given this, we recommend that APRA consider:

- with respect to the stress test
  - defining ‘worse-case scenario’ – this could be something along the lines of ‘the most severe but plausible scenario from stress tests performed during the relevant time period’
  - specifying an historical market event that all products would incorporate, in addition to scenarios of relevance to the product
- with respect to the calculation of liquidity:
  - outlining the asset characteristics to include in calculations, such as average daily trading volume participation rate assumptions and acceptable price impact
  - where a fund determines different portions of a position in a particular asset could be converted to cash within different time periods – describing the process to attribute liquidity across buckets.

Recommendation 10

10. That APRA provide more detail in the final requirements to:
    - define ‘worst-case’ scenario
    - specify an historical market event that all products would incorporate
    - outline the asset characteristics to include in calculations
    - describe the process to attribute liquidity across buckets

6.5. Draft SRF 551.0 – separating member flows from investment flows and rationalising tables

Members have advised that investment cash flows are managed at the level of investment options and not at product level.

ASFA member organisations have recommended

- separating the member cash flows and investment cash flows at both RSE and investment option levels
- as these are more representative of investment cash flows, amending reporting of super phase type to Taxed (Accumulation and Transition to Retirement) and Untaxed (Retirement)
- the introduction of additional member cash flow types and investment cash flow types to cater for the separation of member and investment cash flows into separate tables.

Recommendation 11

11. That APRA
    - separate member and investment cash flows at both RSE & investment option levels
    - amend reporting of super phase type to Taxed (Accumulation and Transition to Retirement) and Untaxed (Retirement)
    - introduce additional member and investment cash flow types

6.6. Draft SRF 551.3 – Table 1

Table 1 requires every single investment/asset to be listed in order of liquidity.

Member organisations have indicated that it would be ideal if APRA were able to clarify that this does not need to be completed at asset level but instead is able to be done at a higher level, such as sub asset class / domicile or asset class / domicile.

Recommendation 12

12. That APRA clarifies that Table 1 does not need to be completed at asset level but can be done at a higher level, such as sub asset class / domicile or asset class / domicile

6.7. Draft SRF 551.3 – Table 2 – Fair Value Hierarchy

The categorisation of data in this form seeks to align information with respect to fair value hierarchy of investments with categories within SRS 550.0 *Asset Allocation.*

This is different to the typical reporting of the fair value hierarchy of investments within a superannuation fund's annual financial report.

Given the challenges with respect to producing SRS 550 data, to reduce the duplication of effort by funds, and to ensure consistency with existing publicly available information, member organisations have proposed that APRA's data collection with respect to fair value hierarchy should align with existing financial reporting requirements.

Recommendation 13

13. that APRA's data collection with respect to fair value hierarchy should align with existing financial reporting requirements

6.8. Draft SRF 552.0 – Legal Entity Identifiers

The proposal is to use Legal Entity Identifiers (LEIs) as unique identifiers for Counterparties (derivatives) and Intermediaries (securities lending).

Member organisations have advised that not all custodian store LEIs. While current reporting requirements for derivatives can be leveraged to obtain LEIs for Over The Counter (OTC) Derivatives, there is no similar reporting available for REPOs and Lending. Given this, members envisage complexities in sourcing this information accurately and cost-effectively and have raised concerns that it may not be reported consistently across funds.

6.9. Draft SRF 553.0 – Materiality threshold

Member organisations have advised that the use in the draft SRF 553.0 of a materiality threshold of $50 million does not take into account that the notion of a 'material' asset will differ according to the scale of the RSE.

By way of example, for an RSE with 2 million members, an asset valued at $50 million would, on average, represent approximately $25 per member, while for an RSE with 200,000 members it would represent $250 per member, and for an RSE with 20,000 members it would represent $2,500 per member.

We proposed that, instead, APRA consider whether the materiality threshold could be one of the following:

- the top 20 investment exposures of the RSE – as per ADI data reporting standards
- investment exposures that exceed a specified percentage of the RES's Funds Under Management (FUM) or a fixed dollar amount – for example 0.5% of FUM or $500 million, whichever is higher; or
- investment exposures that exceed a specified percentage of the RSE's FUM - for example 0.5% of the RSE's FUM.

Recommendation 14

14. APRA consider whether the materiality threshold could be one of the following:
    - the top 20 investment exposures of the RSE
    - investment exposures that exceed a specified percentage of FUM or a fixed dollar amount; or
    - investment exposures that exceed a specified percentage of FUM

6.10. Draft SRF 553.0 – directly/indirectly held should be replaced with internally/externally managed

Member organisations have proposed that the concepts of directly held and indirectly held investments should be replaced by 'internally managed' and 'externally managed' investments, as this is more meaningful and aligns with how trustees approach and manage these investments, including the data.

The definitions of 'internally managed' and 'externally managed' investments should be consistent with those utilised within the Portfolio Holdings Disclosure regime, including the guidance contained in the Explanatory Statement to the *Corporations Amendment (Portfolio Holdings Disclosure) Regulations 2021*.

Recommendation 15

15. That APRA replace the concepts of directly held and indirectly held investments with 'internally managed' and 'externally managed' investments

6.11. SRS 553 - unlisted investments – overall exposure as opposed to 'looking through' investment

Unlisted investments usually are valued at the level of the RSE's overall investment exposure, as opposed to through the various investment vehicles/instruments.

Exposure to a particular asset could be through a variety of different investment vehicles/instruments (by way of example ordinary equity, preference shares, and shareholder loans notes). The RSE's exposure to that asset is subject to valuation, and the entire exposure then allocated to the investment options.

Given this, with respect to unlisted investments in SRS 553.0, ASFA members have recommended that

- for internally managed unlisted investments – the overall investment exposure is considered to be the unit of account
- for externally managed unlisted investments – the unit of account should be at the RSE/investment vehicle level. By way of example, if the holding is through several PE funds/investment vehicles, each fund/investment vehicle would be reported separately.

Recommendation 16

16. That APRA consider:
    - for internally managed unlisted investments – the overall investment exposure is considered to be the unit of account
    - for externally managed unlisted investments – the unit of account should be at the RSE/investment vehicle level

7. ASIC Regulatory Guide 97 (RG 97) versus SRF 332.1

7.1. Total indirect investment costs

Member organisations have indicated that their interpretation of SRF 332.1 Instruction Guide has led them to conclude that the total indirect investment costs to be reported is intended to reflect the total investment-related indirect costs calculated in accordance with ASIC RG 97.

We request that APRA confirm whether this is the case, through providing explicit guidance.

Recommendation 17

17. That APRA confirm whether the total indirect investment costs to be reported is intended to reflect the total investment-related indirect costs calculated in accordance with ASIC RG 97

7.2. Reasonable estimates

Where precise figures cannot be determined, ASIC RG 97 permits funds to utilise reasonable estimates.

APRA has not provided guidance as to whether reporting estimated costs or on a 'best endeavours' approach would be acceptable. We recommend that APRA provide guidance on this issue.

Recommendation 18

18. That APRA provide guidance as to whether reporting estimated costs or on a 'best endeavours' approach would be acceptable

7.3. Reconciliation with other APRA forms

Member organisations have identified that it has not been specified whether the reported expenses should be reconciled with other APRA forms and, if that is the case, which forms.

We recommend that APRA specify whether reported expenses need to reconcile with other APRA forms.

Recommendation 19

19. That APRA specify whether the reported expenses need to be reconciled with other APRA forms

7.4. 'Interposed vehicle'

Member organisations have requested that APRA clarify whether the term 'interposed vehicle', as defined in ASIC RG 97, will apply with respect to the superannuation data reporting obligations.

Recommendation 20

20. That APRA clarify whether the term 'interposed vehicle' will apply with respect to the superannuation data reporting obligations

8. Sunsetting of existing APRA superannuation data reporting forms

With the advent of Phase 2 of the Superannuation Data Transformation reporting there will be a need to withdraw existing APRA superannuation data reporting forms that duplicate the new reporting obligations.

To facilitate funds scheduling and budgeting their work programs it will be important for APRA to provide information as soon as possible with respect to when the duplicate existing forms will be retired – ideally with effect from 30 June 2025.

Recommendation 21

21. That APRA provide information as to when duplicate existing forms will be sun-setted

9. Confidentiality

We acknowledge APRA's goal to enhance industry transparency through publishing data deemed to be non-confidential and APRA's announcement that it will be holding a separate consultation on the publication of data collected under Phase 2.

Having said that, member organisations have significant concerns that APRA may disclose commercially sensitive information reported under *SRF 332.1 Indirect Investment Costs,* in particular cost information associated with individual service providers. Disclosing such commercially sensitive information could undermine the negotiating position of superannuation funds and may lead to reduced competition in the market and result in less advantageous arrangements with higher fees/costs.

Given these concerns, we urge APRA to consider publishing data with respect to SRF 332.1 on a consolidated basis, which balances systemic transparency with the need to maintain the commercial confidentiality of the data.

Recommendation 22
22. That APRA consider publishing data with respect to SRF 332.1 on a consolidated basis

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If you have any queries with respect to the content of our submission, please contact Fiona Galbraith, Director Policy, on [redacted] or by email [redacted].

Yours sincerely

[redacted]

Mary Delahunty
Chief Executive Officer