

MySuper consultation working group

Issues paper on data collection and disclosure

April 2011

PROPOSED REFORMS

As part of the Government's Stronger Super package of reforms, APRA will be asked to develop consistent approaches to the collection and publication of investment performance data for MySuper products.

Trustees will be obligated to adopt a consistent approach to calculating data on investment performance (response to recommendations 4.1 and 4.2). Therefore, APRA will develop reporting standards to set a consistent approach for calculating a range of data at the MySuper product-level including:

- forward-looking information (useful to members considering joining a fund or to employers in comparing MySuper products) such as return and risk targets, fees and liquidity; and
- investment performance reporting (useful to existing members, employers, analysts and trustees) such as net investment returns and actual costs.

Data calculated using these consistent approaches will have to be submitted to APRA. APRA is the sole agency responsible for collecting data for all APRA regulated funds (response to recommendation 4.4). APRA will publish product-level data for all MySuper products (response to recommendations 4.7, 4.8, 4.13 and 4.14). For comparability purposes, the Government will ensure that APRA has the power to collect superannuation fund data on a look-through basis (response to recommendation 4.15).

APRA will continue to publish data at an industry and whole-of-fund level and will consult separately on any changes to its publications.

ASIC will be responsible for ensuring that trustees meet new legislative requirements to only provide information on the performance of a MySuper product to any other party if it is calculated on the same basis as the reporting standards developed by APRA (including on their website, in advertising, to third parties such as research houses, or in a Product Disclosure Statement (PDS)).

Trustees will also have to comply with improved disclosure requirements that will be supervised by ASIC (recommendations 4.3, 4.6, 4.7, 4.9, 4.10, 4.11 and 4.12). It is proposed that the simplified PDSs that come in to effect from 22 June 2011 will, from a later date, also have to incorporate the forward-looking information on the aims and objectives of MySuper products. It is also proposed that trustees will be required to disclose information on the investment performance of their MySuper products on their website (recommendations 4.17 and 4.18).

The Government's response to recommendations concerning the disclosure of portfolio holdings (recommendation 4.16), the publication of a Total Annual Expense Ratio (recommendation 4.19) and a central superannuation website (recommendation 4.20) will be considered as part of developments on disclosure generally.

OBJECTIVE

These reforms will improve transparency, comparability and accountability for the performance of MySuper and choice products. To achieve this outcome, product-level data collected and published by APRA, and disclosed by trustees, must be relevant and meaningful for members.

ISSUES

Issue 1 – Collection and publication of MySuper product-level data

APRA will develop a consistent approach to publishing investment performance data that will improve transparency, comparability and accountability in relation to fees, costs and investment returns (response to recommendations 4.1 and 4.2).

Using existing arrangements under the *Financial Sector (Collection of Data) Act 2001*, APRA will develop reporting standards that will set out the calculation method for a specified range of data at the MySuper product level. APRA will undertake consultations on these reporting standards. A key aim will be to apply a single, consistent approach to ensure that the data is directly comparable, and useful to members. To this end, APRA will have the power to collect data on a look-through basis to ensure that all relevant data is collected and that comparable data is published (response to recommendation 4.15).

The reporting standards will cover a range of data for two purposes. The first purpose is to set a standard for all data that will have to be submitted to APRA. The second purpose is to set a standard for all data that will be required to be disclosed by trustees. APRA will consult on the data that the reporting standards will cover. It is expected that this will include, but not be restricted to:

- gross and net investment return;
- fees collected from members;
- aggregate costs of operating the product; and
- a measure of investment risk.

The Government will ask APRA to publish data for fees, costs and investment returns of MySuper products (response to recommendations 4.7, 4.8, 4.13 and 4.14). To achieve this, the *Superannuation Industry (Supervision) Act 1993* will be amended to require APRA to publish the MySuper product-level data at regular intervals.

The data published by APRA will provide members, employers and the industry with information to compare the performance of MySuper products. This will enhance the accountability of trustees in meeting their heightened duties to act in the best financial interests of members, as reflected in the net investment return over the longer term.

APRA's power to collect data on a look-through basis will allow it to require a trustee to report information held by a third party to at least the first non-associated entity level. For example, if a related party, such as an investment manager, does not currently report on their fees deducted from returns to the superannuation fund, APRA will be able to require the trustee to obtain and provide this information. APRA would also be able to require data obtained by the trustee from non-associated service providers.

As is now the case, APRA expects that trustee boards will require information on the asset allocation, costs and risk exposure of collective investment vehicles so that they can be satisfied that the fund's investment strategy criteria would be continuously met. On that basis, APRA expects that trustees would be able to report on the fund's asset allocation and other relevant data on a look-through basis, even when invested in collective investments managed by non-associated entities.

In addition, the information should also be available to trustees as they must be able to calculate the indirect cost ratio that is required to be included in the PDS.

Question 1.1 What MySuper product-level data would be meaningful for members?

Question 1.2 What are the benefits and drawbacks of this data being collected by APRA?

Question 1.3 What limits should there be to the data published by APRA about the performance of MySuper products?

Question 1.4 To what degree can data be collected on a look-through basis? What difficulties may trustees face in compelling associated parties to provide information on their costs? What is an appropriate definition of an associated party for this purpose?

Question 1.5 What problems exist with the accuracy of data provided by associated parties?

Issue 2 – Trustee disclosure for MySuper products

Trustees of MySuper products will be required to independently disclose a range of information to members (recommendations 4.3, 4.6, 4.9, 4.10, 4.11 and 4.12). Performance data could be disclosed on a fund's website so that it is available to all members at a low cost to the fund. However, this approach would require all APRA-regulated funds to maintain a website (recommendations 4.17 and 4.18).

First, it is proposed trustees be required to disclose information on the aims and objectives of MySuper and choice products. The Super System Review recommended that a 'product dashboard' that would include:

- net investment return target (after-tax), which should be expressed as a percentage above CPI, over a rolling 10-year period;
- range of possible outcomes for a MySuper product or choice investment option (i.e. risk target) over a 10-year period in a visual, diagrammatic format;

- the projected liquidity of the MySuper product;
- projected Total Annual Expense Ratio (TAER); and
- relative ranking of overall fees (as collected and published by APRA).

This type of information would assist members (and employers) considering joining the fund and investing in that product. Therefore, it is proposed that this information would most appropriately form part of the PDS, though it may be incorporated by reference.

However, concerns regarding elements of the proposed product dashboard have been raised by stakeholders. For example, a Total Annual Expense Ratio may not be a useful comparative tool for members as it would include costs that are incurred for user-pay services (for example, switching costs or advice costs), and therefore the TAER would not be relevant to any individual member. In addition, a relative fees ranking would require APRA to rank MySuper products in terms of fees and costs, which could be costly and may become less relevant over time as fees charged by other providers change.

As a product dashboard would be targeted at the product-level, MySuper products and choice products would require separate PDS'. This would also recognise that the MySuper product is a distinct offering with a prescribed set of features.

Second, it is proposed that trustees will have to publish information on the investment performance and insurance offered by their MySuper product. Reporting investment performance, including the net investment returns, and costs (categorised into investment, administration and taxes) should give existing members information about how their fund is managed. The *Corporations Act 2001* and accompanying regulations would be amended to require that this disclosure would have to be in a standardised table format, and aligned with the data calculated in accordance with the reporting standards developed by APRA. It is proposed that this information could be disclosed to members on the fund's website. Legislation will be required to specify the presentation and availability of information on the fund's website, for example, to ensure that a password is not required for viewing the information on the fund website.

For consistency and comparability, the *Corporations Act 2001* will also be amended to require that a trustee must only provide information on a MySuper product to any party if it is calculated on the same basis as the reporting standards developed by APRA (including on their website, in advertising, to third parties such as research houses, or in a Product Disclosure Statement (PDS)). ASIC has an existing regulatory guide on the use of past performance in promotional material (Regulatory Guide 53). This guide will be updated to be consistent with the principle of implementing consistent approaches used for the calculation of investment performance.

Insurance also comprises an important element of a member's interest in a fund. Therefore, information on insurance could be disclosed on a fund's website in addition to that required by the PDS (recommendation 5.11). This could include information on the terms of the insurance cover, the premiums for each unit of cover and on TPD claims.

Insurance is inherently complex, as premiums and cover often depend on a range of factors, typically a combination of age, gender, occupation and lifestyle factors. Even though insurance is complex, some standardised premium disclosure may help members to compare funds and find funds that offer the best insurance products for their needs.

Requiring funds to disclose the success rate of TPD claims may provide members with information on the administration of insurance claims. This is one determinant of the quality of the coverage

provided. However, this may create a risk of adverse selection against a fund with favourable claim success rates.

Question 2.1 What are the likely costs and benefits of requiring disclosure through fund websites?

Question 2.2 What forward-looking information could be disclosed by trustees? Should this be available in the PDS or on the fund's website?

Question 2.3 What are the benefits and disadvantages of requiring MySuper and choice products to each have a separate PDS?

Question 2.4 How could the disclosure of insurance premiums be meaningfully standardised?

Question 2.5 What are the advantages and disadvantages of the TPD claim success rate being disclosed on a fund's website?

Issue 3 – Trustee disclosure for choice products

Effective and comprehensive disclosure is pivotal to enabling members to assume the responsibility of investing in a choice product. Transparent information must be available that gives members the ability to make fully informed decisions.

It is proposed, that the disclosure requirements for MySuper products in respect of forward-looking information and investment performance should also apply to choice products.

However, in contrast to MySuper products, the primary responsibility for reporting investment performance of choice products will reside with trustees. Investment performance data on every investment option offered by a fund (calculated in accordance with the APRA-developed reporting standards) will have to be made available to members on the fund's website. APRA will continue to collect data on the fund as a whole, but will not be asked to publish product-level data on choice products.

Question 3.1 What level of product-level data is relevant and meaningful to members of choice products?

Question 3.2 To what extent should disclosure requirements for choice products differ from MySuper products? Is there any additional disclosure (to that proposed for MySuper products) that may be required for choice products?

Question 3.3 What performance reporting should be published by the trustee? What are the advantages of allowing this to only be available on the fund's website?