14 October 2022

RE: Your Future, Your Super Review

Dear Sir/Madam,

AMP appreciates the opportunity to make a submission in relation to the Your Future, Your Super (YFYS) Review consultation paper released on 7 September 2022.

AMP supports the Government's commitment to ensure the YFYS measures operate as intended to improve super fund performance and avoid unintended consequences for members.

We have contributed to the FSC and ASFA submissions in relation to the YFYS Review.

However, there are several concerns that AMP particularly wishes to highlight in relation to the performance test and these are the focus of this submission.

AMP considers that to build on and improve performance testing for superannuation products with a view to further improving member outcomes without creating unintended consequences or unnecessary complexity and cost:

- The prescribed indices used to calculate benchmark return should be expanded to improve the accuracy and integrity of the performance test for MySuper products.
- The lookback period for assessing investment performance should be extended to ten years to better reflect the long-term nature of superannuation.
- Administration fees should continue to be assessed based on the most recent financial year.
- Capital gains tax rollover relief should be extended to apply to a trustee directed transfer of members between individual investment options within a superannuation fund.
- Performance testing should not be extended to Choice products.
- If, however, a performance test is extended to Choice products:
  - this should be limited to Choice products comparable to MySuper products,
  - further consultation should be undertaken to determine the most appropriate approach for performance testing and consequence management for MySuper comparable Choice products,
  - other superannuation products, beyond MySuper and MySuper comparable Choice products, should not be subject to performance testing, and
  - an implementation period of 12 months should be provided after finalising the approach for performance testing MySuper comparable Choice products.

If you have any questions or would like to discuss the content of our submission further, please contact me on 0412 437 315 or Scott Hartley on 0413 026 748.

Yours sincerely

Alastair Kinloch
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Treasury - Superannuation, Efficiency and Performance Unit
Your Future, Your Super Review

AMP Ltd. Submission

14 October 2022

1. Performance testing MySuper products

AMP considers that the current objective benchmark test with clear consequences is appropriate for assessing performance of MySuper products. The test could be improved in future years by:

- including additional indices to improve the accuracy of benchmark return,
- extending the lookback period for assessing investment performance to ten years, over time and as data becomes available, to better reflect the long-term nature of superannuation, and
- maintaining the current approach for assessing administration fees based on the most recent financial year.

1.1 Include additional indices to improve the accuracy of benchmark return

The existing set of indices used to calculate benchmark return discourage otherwise valid investments and investment strategies including emerging market assets, low-volatility strategies, small cap strategies, credit strategies, inflation-linked bonds, and defensive alternative asset strategies. The performance test introduces a higher hurdle for active strategies and non-benchmark return factors which may ultimately constrain diversification and long-term member outcomes.

The prescribed indices penalise investment strategies designed to improve diversification and manage risk. This is largely due to defensive alternatives, defensive equities and absolute return products being assessed against benchmarks with a much higher allocation to growth assets than the typical allocation for these products. This approach does not recognise the diversification and risk management benefits of these options and introduces significant tracking error.

The limitations of the current benchmark indices have and will continue to impact investment decisions and reduce choice for members. For example, to reduce unintended tracking error to the benchmark indices, the following strategic asset allocation changes have been implemented for AMP superannuation products:

- defensive alternative strategies have been removed, and
- allocation to emerging markets (EM) has been reduced to align more closely to the EM weight in the MSCI All Countries (ex-Australia) index, noting that this has arguably reduced the level of diversification within the international equities sleeve.

We have observed a tendency for investment managers to recalibrate their alternatives strategies to the 50% equities / 50% bonds benchmark from their prior objective of being diversifying to equities and bonds. Given the sensitivity of portfolios to the performance test, many managers felt compelled to make these changes, just prior to the worst joint performance of equities and bonds in nearly a century. This was an unambiguously poor negative consequence for super members.

To improve the accuracy of the test and ensure these otherwise valid investments and investment strategies continue to be made available to superannuation members, new asset classes and benchmarks should be included for alternatives defensive, alternatives growth, short duration fixed interest, small caps, high dividend Australian equity and emerging markets. Recently introduced APRA data collections include more granular asset allocation information and hence allow for most of these improvements to be made. Specific recommendations are set out in Appendix B.

We also recommend the Government and/or APRA work with MSCI to improve the current benchmark for Australian/International Unlisted infrastructure. The MSCI Australia Quarterly Private Infrastructure Fund Index currently lacks the level of transparency and disclosure reasonably expected for an acceptable market benchmark. It is also dominated by assets managed by IFM meaning the index does not represent the natural investible universe and creates a bias to IFM's preferred investible universe.

As noted above, many superannuation funds and investment managers have considered the current benchmark indices when building new strategies, especially for alternative assets. Therefore, it is important sufficient notice is provided before making any changes. If changes are made to the prescribed indices without providing adequate advance notice, this will likely result in unintended strategy changes which could trigger large transaction costs, spreads and liquidity issues.

1.2 Maintain current approach for assessing administration fees based on most recent financial year

While it would be appropriate to extend the period assessed for investment performance, to maintain the integrity of the test, it is critical that administration fees continue to be assessed based on the most recent financial year. There are significant problems with the completeness and accuracy of the historical administration fee data held by APRA and as such any assessment using this historical data will be a poor measure of the actual experience of individual members. It would also be an unfair test for funds that have been more transparent in their pricing practices.

The historical administration fee data held by APRA would not support a reliable comparison of products on a like for like basis for the following key reasons:

- administration fees for some products would be significantly understated as historical data does not include amounts transferred from reserves to fund administration costs,
- some funds have failed to report administration fee data and this missing data would artificially lower the benchmark RAFE, and
- including historical data would dilute the impact of recent fee changes.

Reconstruction of historical administration fee data held by APRA to establish complete and accurate data would be extremely difficult, if not impossible, to achieve based on the data currently held by super funds.

2. Performance testing Choice products

It is not appropriate or necessary to extend an objective benchmark performance test to Choice products on the basis that the member, often informed by financial advice, has made an active choice to invest in the product based on an alignment of the product's stated objectives to the members goals and needs. If, however, an objective benchmark performance test is to be applied to Choice products:

- the test should only be applied to MySuper comparable products,
- further consultation should be undertaken to identify the most appropriate test and consequence management, and
- tax relief should be extended to apply where an individual product is transferred to another product in the same fund to mitigate against further proliferation of Choice products.

2.1 Existing performance test should not be extended to Choice products

In consideration of the inherent differences in the nature and use of Choice products and the unintended consequences of applying the test to Choice products, it would not be appropriate or necessary to extend the current performance test to Choice products, including Trustee Directed Products (TDPs). We consider that existing obligations and regulatory oversight, including APRA Heatmaps, Annual outcomes assessments, APRA SPS 530 Investment Governance, Design and Distribution Obligations (DDO), are sufficient to achieve the intended outcomes of the performance test for Choice products ie, to hold trustees to account for investment performance delivered and fees charged to members.

Choice products are inherently different to MySuper products in nature and use

MySuper products are intended to be simple, low-cost products suitable to serve the needs of members who have not made an active choice about how to invest their superannuation. MySuper products are rightly subject to a higher level of regulation than Choice products. As such it is appropriate that they are also subject to a strict performance test with clear consequences.

The same approach is not appropriate for performance testing the broad range of different types of investment options in which members actively choose to invest in the Choice sector. A member's decision to invest in a Choice product is often informed by financial advice and based on the alignment of the product's stated objectives with the member's goals, values, and beliefs. The current test does not, however, recognise performance against the stated objectives of the product as disclosed to members in the PDS and TMD. Not unlike faith-based products, this failure to consider the product's performance against the specific objectives for which the member chose or was advised to invest in the product means the current performance test is not appropriate for Choice products.

In its Inquiry Report Superannuation: Assessing Efficiency and Competitiveness, the Productivity Commission (PC) recognised that Choice products are inherently different to MySuper products.

In many ways, it is inherently different from the default segment. On the demand side, members are more likely to have exercised some level of choice about the product or option they are invested in. On the supply side, the products on offer are more heterogeneous, and some provide flexibility to adjust the mix of assets in the portfolio, such as through the use of platforms. As such, trustees may have less direct control over the asset mix ultimately selected by choice members.[1]

Unintended consequences of extending the test to Choice products (including TDPs)

Applying the performance test to Choice products, including TDPs, in its current form would result in a range of technical issues and unintended consequences including:

- discouraging otherwise valid investment strategies designed to improve diversification and manage risk such as goals-based products and retirement products,
- constraining the ability of super funds to adequately manage ESG and climate change risks,
- exacerbating the proliferation of Choice products in the absence of tax relief,
- adverse tax consequences and costs to members of moving benefits to another product,
- undermining confidence in the advice industry and increasing the cost of advice for members,
- assessment of administration fees not reflecting actual member outcomes, and
- assessment of investment return not fully recognising the value of post-tax benefits attributable to certain products offered on a wrap platform.

Further details on each of these issues is set out in Appendix A.

Unequal member treatment if the test is applied to only a sub-set of Choice products

While it would not be appropriate or necessary to apply the current performance test to all Choice products for the reasons set out above (and discussed in further detail in Appendix A), we strongly caution against applying the test to only a sub-set of Choice products. Extending the performance test to only a sub-set of Choice products such as TDPs would mean that all members invested in a particular product will not be treated equally. For example,

- A multi-sector investment option may be tested on a particular wrap platform (because the trustee and RE or investment manager are connected entities) but the same option will not be tested on other platforms. If the option fails the test, only members invested via the 'connected entity' platform will receive a notice that the product is underperforming and will have the opportunity to exit the product earlier, to the potential detriment of remaining investors.
- Superannuation pension members and non-superannuation investors may also be invested in investment options that are subject to the performance test however only super accumulation members will receive a notice that the product is underperforming and will have the opportunity to exit the product to the potential detriment of remaining investors.

This approach also creates the risk that members in an underperforming product that is subject to the test may move to another product which is not subject to the test but is otherwise underperforming, resulting in the member eventually moving again incurring additional costs (eg, advice costs, buy/sell spreads, CGT).

Applying the test to only a sub-set of choice options would undermine certainty and confidence in the superannuation system as it would not provide members, trustees and advisers with a clear, industry wide view of performance outcomes and could result in unnecessary friction costs due to moving benefits multiple times.

2.2 Objective benchmark test should be limited to MySuper comparable Choice products

If an objective benchmark performance test is applied to assess performance of Choice products, the test should be limited to Choice products comparable to MySuper products. TDPs, as currently defined, captures Choice products that are not comparable to MySuper products including goals-based products, ESG options and products offered on a wrap platform. As noted in section 3.1 of this submission, extending the current performance test to TDPs would result in a range of technical issues and unintended consequences for members.

[1] Productivity Commission Inquiry Report *Superannuation: Assessing Efficiency and Competitiveness*, page 124.

We consider that MySuper comparable Choice products would likely include diversified, multi-sector products (more than two asset classes), measured and managed to market benchmarks, that are offered by registrable superannuation entities (RSEs) with pooled investment arrangements.

Limiting application of an objective benchmark performance test to MySuper comparable Choice products (as described above) would minimise the impacts of the unintended consequences identified above. When investment arrangements are pooled, moving members in an underperforming product (investment option) to a suitable alternate, and better performing, option in the fund can be more easily managed and adverse tax consequences for members can be minimised. It is critical that the test is not extended to also apply to products offered by superannuation funds where underlying investment arrangements are not pooled, such as super wrap platforms, without adequately addressing the technical issues and unintended consequences outlined in section 3.1 and Appendix A of this submission.

Any objective performance test applied to MySuper comparable Choice products should be carefully designed and implemented to ensure it does not undermine or limit consumer choice, undermine financial advice which often supports and informs consumer choice, or suppress innovation in the superannuation system.

The test should build upon and, to the extent it is reasonable, be consistent with the existing regulatory framework. Each existing element of the current framework involves consideration of a range of factors including but not limited to net return. It should follow that any assessment of performance would also consider a range of relevant factors. Unreasonable levels of inconsistency will likely lead to member confusion and create unnecessary complexity and cost in the system.

This is consistent with the PC recommendation that the outcomes test for Choice products should consider a range of metrics including, but not limited to, net investment performance and suggested there should perhaps be less focus on investment strategies considering the additional control Choice members had over managing their investment strategy.

> *In applying this elevated outcomes test to Choice products, funds would need to consider administration fees, member services, insurance and financial advice provided by the fund. There would presumably be a lesser focus on the appropriateness of investment strategies for choice members, given the potential for members themselves (or their advisers) to set their own investment strategy.*[2]

2.3 Performance testing products beyond MySuper and MySuper comparable products

It would not be appropriate or necessary to extend an objective benchmark performance test to other Choice products beyond those that are comparable to MySuper products. An objective benchmark performance test should not be extended to apply to the following types of products:

- goals-based and retirement products
- ESG options
- single-sector products
- investment options offered on a wrap platform
- investment options supporting retirement income streams

Further details on the unintended consequences of extending an objective benchmark test to these types of products is set out in Appendix A.

[2] Productivity Commission Inquiry Report *Superannuation: Assessing Efficiency and Competitiveness*, page 491.

Appendix A: Technical issues and unintended consequences of extending the performance test to Choice products

Goals-based products

Goals-based products are designed to provide a specific outcome such as delivering returns above inflation, within certain volatility ranges, within specified drawdown limits, or in some cases, are designed for certain types of investors such as retirees who pay zero tax.

Because these products have specific risk targets and ranges, a Strategic Asset Allocation (SAA) is generally not required to control the level of risk. As such, goals-based products often have no target SAA and provide the investment manager with very wide allocation ranges.

These products are typically used by members to manage risk (particularly during market corrections or volatility like we are currently experiencing), provide steady income or attract certain tax benefits. Benchmarking against listed indices that perform differently, assume a higher level of risk and do not consider income distributions, will not provide a meaningful or accurate measure of performance.

Goals-based products should not be subject to the performance assessment on the basis that:

- it will be extremely difficult for these products to meet their stated objective and deliver expected outcomes to members (as disclosed in the PDS and TMD) and also pass the performance test, and
- key objectives of the product such as risk, income distributions and tax benefits are not considered in the market benchmarks used for the performance test and as such the test will not provide an accurate measure of performance.

Extending the performance test to goals-based products will discourage superannuation funds and fund managers from developing and offering these otherwise valid investment strategies resulting in a reduction in products available to assist members to improve diversification and manage risk.

Retirement products

We consider that if the TMD clearly describes a product as a retirement product and most of the FUM is held in retirement phase, the product should not be subject to the performance test.

It is not appropriate for the performance test to apply to products specifically designed for members in or close to retirement. These products typically aim to provide members with stable, risk-adjusted returns above inflation with lower volatility over the longer term to help fund income in retirement. They may also provide guarantees or other hedging strategies to protect against downside risk.

To achieve its stated objective, the product is managed with a focus on income and franking credits. Benchmarking against listed indices that perform differently, assume a higher level of risk and do not consider income distributions or post tax benefits will therefore not provide an accurate measure of performance. In addition, the performance assessment does not assess key aspects of the strategy or product design sought by members choosing to invest in these types of products. As a result, it is likely that these products will not pass the performance test despite having met their stated objective and delivered expected outcomes to members (as disclosed in the PDS and TMD).

While most members invested in these products are in retirement phase, a small proportion of members in accumulation superannuation are typically invested as part of a transition to retirement strategy. Where the product is available in accumulation it may be subject to the performance test.

Extending the performance test to retirement products will discourage these otherwise valid investment strategies being developed and offered resulting in a reduction in products available to assist members in or close to retirement to manage risk and fund stable income in retirement or transition to retirement.

Consideration of ESG risks

Over recent years ESG has become a critically important issue. In November 2021, APRA published guidance[3] seeking to ensure that APRA-regulated entities appropriately manage financial risks and opportunities arising from climate change. Super funds are in a unique position to influence the conduct of companies and are increasingly doing so with responsible investing now influencing strategic asset allocation for 55% of funds (up

[3] Prudential Practice Guide, *CPG 229 Climate Change Financial Risks*, November 2021.

from 39% in 2019).[4] The performance test, however, does not assess key aspects of the strategy or product design sought by members choosing to invest in ESG options.

The net investment return benchmark does not allow for climate change and ESG risks to be adequately managed within the tracking error budget available to ensure the performance test can be met. Research by the Conexus Institute[5] found that tracking error would generally need to be limited to 1 per cent to meet the 0.5 per cent performance measure meaning deviation from the performance test benchmarks required to address ESG risks would likely result in failing the test over an eight-year lookback period.

Some investments held within ESG tilted/aligned portfolios may have a longer-term horizon and to match these with a benchmark that is less volatile/shorter term creates a mismatch. For example, an investment in a listed energy company that is making serious investment in energy transition may have short-term profitability downside, but once complete will be a market-leader and high performing

We consider that ESG options should not be subject to the performance test on the basis that it will be highly difficult for these products to meet their stated objective and deliver expected outcomes to members (as disclosed in the PDS) and also pass the performance test.

There is already evidence of investment managers and superannuation trustees moving away from ESG options to align with the performance assessment benchmarks. Extending the test to ESG options will discourage development and further innovation of ESG options reducing the range of products available to meet the needs of members seeking to invest in products aligning to their underlying values and beliefs. It will also constrain the ability of super funds to adequately manage ESG and climate change risks and influence the conduct of companies to better manage these risks.

Options offered on wrap platforms

Active choice supported by financial advice

Access to many wrap platforms is only available to retail clients for the purpose of implementing personal advice. Even where direct access is available, a member's decision to invest in a product offered on a wrap platform is most often informed by financial advice based on the member's individual circumstances, needs and objectives.

In most cases, an investment option on a wrap platform will not be used in isolation but rather the member, assisted by their financial adviser, will use a blend of options to create an appropriate investment portfolio. By viewing an investment option in isolation, the performance test therefore fails to recognise the way in which products on a wrap platform are generally used.

The binary outcome of a performance test based solely on net return (applied retrospectively) and which fails to recognise the range of additional relevant factors considered by a financial adviser when assessing investments such as risk, forward-looking qualitative analysis, and performance against the product's specific objectives as stated in the PDS and TMD does not provide a reliable indication as to whether it is in the member's best interest to move their benefits out of the product. Despite these limitations, the notice provided to a member holding a product that fails the test includes a clear recommendation to move their superannuation benefits to a better performing product. It will be extremely difficult for advisers to balance this recommendation with their best interest duty. In this way, the test encroaches on and undermines the role of the financial adviser in assisting the member in monitoring and managing their superannuation as part of their broader investment and retirement planning strategy. This is likely to cause considerable confusion for members, undermine confidence in their advisers and ultimately significantly increase the cost of advice as members need to consult their adviser to consider alternate investment strategies.

Tax treatment of platform products

Investment returns for products offered on wrap platforms are reported to APRA on a before-tax basis. Assessing performance of these products against an after-tax benchmark return as currently determined according to the Regulations will therefore not generate results that accurately reflect member outcomes.

It may be possible to use post-tax benchmarks or apply a proxy tax rate to account for the tax treatment of wrap platform products however neither of these options would recognise the value of post-tax benefits attributable to certain products (eg, franking credits) which result in higher after-tax returns.

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[4] Responsible Investment Association Australasia, *Responsible Investment Super Study 2021*.

[5] Conexus Institute, *Your Future Your Super Performance Test Exploring the Impact on Super Fund Investment Strategies*, 2 March 2021.

Options supporting retirement income streams

Extending the test to income streams would risk restricting or removing investment options used to manage risk and/or provide higher levels of income during retirement and would impede innovation.

Products used to manage risk and/or provide higher levels of income during retirement will not perform well under the current test as these strategies are benchmarked against listed indices that perform differently, assume a higher level of risk and do not consider income distributions.

The Retirement Income Review recognised that greater innovation in the private sector is needed to deliver retirement incomes to meet retirees' needs.[6] It is critical that innovation is supported and encouraged to ensure appropriate, fit for purpose retirement solutions are developed to meet varying retirement needs including those identified in the retirement income covenant - maximising retirement income, managing risks to sustainability and stability of income including longevity, investment and inflation risks, and flexible access to capital. It is difficult to see how it would be possible for investment options supporting retirement income streams to optimise for these objectives and pass the performance test.

As noted in the consultation paper, it would not be possible to test investment performance for certain income stream products where the member does not bear the investment risk such as fixed term or lifetime pensions and annuities, deferred lifetime pensions and other innovative income streams.

Single sector products

Members generally invest in single sector options as part of a broader diversified portfolio. Each option serves a specific purpose as part of portfolio construction (balancing styles, market cap, downside protection, diversification, etc). As such, assessing single sector options on a stand-alone basis using the current single-metric test would not be appropriate.

There are over 15 different single sector asset classes and over 50 different sub asset classes. There are also specialised strategies including geared strategies, low volatility strategies, benchmark unaware, income focused, SRI/sustainability, tax conscious. Traditional market indices would generally not be appropriate to assess performance for these specialist strategies.

AMP's wrap platform alone offers over 5,000 single sector options and over 150 distinct benchmark indices are used to support internal monitoring of these options.

Considering the diverse range of single-sector options available to superannuation members, it would not be reasonably practicable to include enough new benchmark indices to support extending the performance test to these options.

Tax implications and costs to members

Consequences of a product failing the performance test should not result in unintended adverse outcomes for members.

If a member or Trustee decides to move their superannuation benefits held in an investment option that has failed the performance test, as suggested in the prescribed notice received, they may incur:

- tax on capital gains arising from the sale or transfer of assets (for wrap products, tax payable is generally deducted from the members account and in a pooled super fund this is reflected in the unit price)
- financial loss due to buy/sell spreads (unless assets are transferred in specie)
- transaction fees where assets are transferred in specie
- costs for financial advice in relation to the transfer
- additional tax due to loss of entitlements to franking credits where shares have not been held by the fund for 45 days (45-day rule applies based on the last purchase by the fund irrespective of when the member acquired their interest)
- stamp duty costs
- brokerage costs

If the entire benefit is moved, the member may lose insurance benefits and may not be able to obtain cover at the same level or cost in the new super fund.

[6] Retirement Income Review Final Report, July 2020, page 97.

Proliferation of products due to absence of tax relief

As identified by APRA, proliferation of investment options can result in cost inefficiencies for trustees which can contribute to sub-optimal outcomes for members.[7] The absence of Capital Gains Tax (CGT) rollover relief for transfers of individual products is an impediment to simplification and rationalisation in the Choice sector. In the absence of tax relief, extending the performance test to Choice products will likely lead to further proliferation of Choice products.

In 2020, CGT rollover relief was made permanent with respect to superannuation fund mergers where the entire super fund is merged with another fund. While this relief is welcomed, further extension of this relief is required to adequately support rationalisation of Choice products.

Where performance issues are identified with respect to a Choice product, a trustee may determine that performance could be improved by transferring members to another Choice product in the fund. In the absence of tax relief, CGT liabilities that would otherwise only be payable on the later sale of the assets (or not at all if benefits are moved to pension phase) will be brought forward resulting in members incurring tax on any capital gains arising from the sale of the underlying assets. This adverse member consequence is a significant consideration in determining whether the transfer is the best financial interests of the members invested in the product.

We recommend CGT rollover relief is extended to apply to a trustee directed transfer of members between individual investment options within a superannuation fund. This will support trustees to simplify and rationalise underlying investment structures and better manage underperformance of individual products.

Assessment of administration fees

Dollar based administration fees for Choice products apply at the account level. As such, assessing the full value of the dollar-based administration fee for each investment option is not reasonable and will not reflect current or likely future member outcomes.

For accumulation super accounts on AMP's wrap platform for example, an average of six investment options are held. For accounts in Master Trust, an average of between two and three investment options are held. We believe these averages will be reasonably representative of industry, although other wraps may have a higher average number of investment choices per account.

We consider that a proportion of the total dollar-based administration fee should be assessed if a performance test is applied to Choice products.

Summary of member impacts arising from technical issues and unintended consequences

Issue / Unintended consequence	Member impact
Extending the test to goals-based and retirement products	Reduced range of products available to assist members to improve diversification, manage risk and/or fund stable income in retirement or transition to retirement.
Extending the test to ESG options	Reduced range of products available to meet the needs of members seeking to invest in products aligning to their underlying values and beliefs with respect to responsible and sustainable investing.
Extending the test to products offered on a wrap platform	Reduced range of products available to meet the wide and varying needs of members seeking to invest in a wrap platform including delivering on certain investment objectives and managing for risk and diversification Failure to recognise the way in which individual options on a wrap platform are used as part of an investment portfolio and the role of financial advice in assessing investments and implementing an investment strategy based on the member's needs and objectives could result in a member opting out of advice and/or moving their benefits out of the option that fails the performance test and incurring associated tax and costs (see below) when this may not be in their best interests. Failure to recognise post tax benefits and member fee rebates for certain products on wrap platforms could result in these options failing the performance test when they otherwise would not. This could result in a member moving their benefits out of an option and incurring associated tax and costs (see below) when this may not be in their best interests considering the product's performance against its specific

[7] APRA Information Paper, *Choice sector performance: improving outcomes for superannuation members*, October 2021.

	objectives for which the member chose to invest and the member's overall investment strategy based on their circumstances, needs and goals. Self-Managed Superannuation Funds may be considered as a more attractive and flexible alternative for members, and advisers, seeking features currently offered by wrap platforms, including a wide range of investment options, higher level of control, individual tax treatment etc.
Extending the test to products supporting retirement income streams	Reduced range of new retirement solutions available to meet members' varying retirement income needs. Future development of retirement solutions to assist members to manage risks to sustainability and stability of income including longevity, investment and inflation risks would likely be discouraged.
Extending the test to single-sector products	Reduced range of single-sector options, in particular specialist strategies which could not be reasonably assessed against market benchmarks, available to members.
Tax implications and costs to members of transferring superannuation benefits	If a member or Trustee decides to move their superannuation benefits held an investment option that has failed the performance test, as suggested in the prescribed notice received, they may incur: – tax on capital gains arising from the sale or transfer of assets – financial loss due to buy/sell spreads (unless assets are transferred in specie) – transaction fees eg, if assets are transferred in specie – costs for financial advice in relation to the transfer – additional tax due to loss of entitlements to franking credits where shares have not been held by the fund for 45 days – stamp duty costs – brokerage costs If their entire super benefit is moved, they may lose insurance benefits and may not be able to obtain cover at the same level or cost in the new super fund.
Absence of CGT rollover relief at the individual product level	In the absence of CGT rollover relief applying where an individual investment option is transferred to another option in the same fund: – trustees ability to transfer members and underlying assets from options that fail to pass the test to other suitable options in the fund will be significantly limited resulting in further proliferation of choice investment options, particularly for wrap platforms, leading to increased cost inefficiencies for super funds ultimately resulting in higher costs for members – members will incur tax on any capital gains arising from the transfer of the underlying assets to another suitable option in the fund where the trustee is able to determine this would be in the members' best financial interests.
Assessment of administration fees for Choice products	Overstating the administration fee attributable to a particular investment option held by a member as part of their overall investment portfolio (ie, interest in the fund) could result in that option failing the performance test when it otherwise would not. This could result in a member moving their benefits out of the option and incurring associated costs (see above) when this may not be in their best interests.

Appendix B: Recommended changes to covered asset classes and assumed indices

Currently prescribed by SIS regulation 9AB.17		Recommended changes	
Asset class description	Assumed index	Asset class description	Assumed index
Australian Equity	S&P/ASX 300 Total Return Index	Australian Equity	S&P/ASX 300 Total Return Index
		Australian Small caps	S&P/ASX Small Ordinaries index
		Australian Equity – High Dividend	FTSE Aust High Dividend Yield Index'
International Equity (hedged)	MSCI All Country World Ex Australia Equities Index with Special Tax (100% hedged to AUD)	Developed Market International Equity – (hedged)	MSCI World Index (ex Aust) hedged
International Equity (unhedged)	MSCI All Country World Ex Australia Equities Index with Special Tax (unhedged in AUD)	Developed Market International Equity (unhedged)	MSCI World Index (ex Aust) unhedged
		Global Small caps	MSCI World Small Cap Index
		Emerging Market International Equity (unhedged)	MSCI Emerging Markets Index (unhedged in AUD)
Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Yr Index	Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Yr Index
		Australian Fixed Interest – Short duration	Bloomberg Ausbond Composite 0-3 years Index
International Fixed Interest	Bloomberg Barclays Global Aggregate Index (hedged to AUD)	International Fixed Interest	Bloomberg Barclays Global Aggregate Index (hedged to AUD)
		International Fixed Interest – Short duration	Bloomberg Barclays Global Aggregate (1-3 years) Index (hedged to AUD)
Other/Commodities	25% MSCI All Country World Ex Australia Equities Index with Special Tax (100% hedged to AUD) 25% MSCI All Country World Ex Australia Equities Index with Special Tax (unhedged in AUD) 50% Bloomberg Barclays Global Aggregate Index (hedged to AUD)	Alternatives Defensive	Bloomberg Barclays Global Aggregate Index (hedged to AUD) Or 25% MSCI All Country World Ex Australia Equities Index with Special Tax (hedged/unhedged to AUD) / 75% Barclays Global Aggregate Index (hedged to AUD)
		Alternatives Growth	HFRX Global Index Or retain current
		Alternatives	50% Bloomberg Barclays Global Aggregate Index (hedged to AUD) / 50% HFRI Asset Weighted Composite Index Or retain current