AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $650 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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1 Executive summary

In brief:

While AIST strongly supports the greater alignment of MySuper and Choice disclosure through the introduction of Choice dashboards, AIST is concerned that certain products (including platforms and legacy products) – in which there is considerable member money invested - are excluded. Alignment of MySuper and Choice is needed to protect members and ensure greater superannuation system efficiency. Greater alignment of Portfolio Holdings Disclosure to consumer disclosure to capture interposed vehicles is also needed.

AIST welcomes the opportunity to comment on the exposure draft legislation which will establish the legislative frameworks for choice product dashboards and portfolio holdings disclosure.

AIST further welcomes consultations regarding proposed changes to APRA reporting and is pleased that these proposals being released at the same time. AIST will make a separate submission in this regard, but notes that the principles we outline in this submission also need to apply to APRA reporting.
2 Introduction – MySuper and Choice disclosure and reporting should be aligned

AIST has consistently and strongly advocated the view that both disclosure and reporting of MySuper and Choice should be brought into alignment. For example, recently AIST has advocated:

- Fee disclosure regime should be aligned. While AIST commends ASIC for its continued work in this space, AIST is concerned that platforms have been exempted from the new requirements of Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements* (RG 97) and Class Order 14/1252 (CO 14/1252). We are accordingly concerned that this exclusion is also being proposed for Choice dashboards.
- APRA reporting standards between MySuper and Choice should be aligned. AIST notes that our submission was the sole submission that advocated this position. AIST is therefore very pleased that it is now being proposed to bring greater alignment in reporting between MySuper and Choice.

Whether members are in MySuper or a Choice option, superannuation is still a compulsory retirement savings system, and the protection of consumers - and their ongoing confidence in the system - remains paramount. This is particularly important given that many members are currently in Choice options, particularly in the retirement phase of their superannuation:

<table>
<thead>
<tr>
<th></th>
<th>NFP - % of all NFP FUM</th>
<th>Retail - % of all retail FUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>MySuper</td>
<td>65%</td>
<td>17%</td>
</tr>
<tr>
<td>Choice</td>
<td>35%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Source: Derived from APRA

As a general comment, AIST welcomes alignment between the proposed new Choice dashboard and MySuper dashboard, as well as greater alignment between MySuper and Choice APRA reporting.

There are two fundamental reasons why MySuper and Choice disclosure and reporting must be in alignment. These are to ensure that:

- Members’ best interests are met. Transparency, standardisation and comparability are essential to this.

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• Superannuation system efficiency and competitiveness is delivered and capable of being suitably analysed. This is particularly relevant, given the forthcoming review into efficiency criteria to be conducted by the Productivity Commission, as well as any forthcoming review of the outcomes of MySuper.

In a superannuation system with over 40,000 member investment choices\(^2\), the exclusion of disclosure and reporting requirements from any Choice option encourages greater inefficiency within the system, and fails to suitably protect members who are invested in those excluded options. In a SuperRatings report commissioned by AIST (yet to be publicly released), the need for such prescriptive legislative alignment is highlighted by the following:

- Retail fund MySuper fees and costs across all products come at a premium of 28.0% more than not for profit.
- Retail fund Choice fees and costs at like for like member investment option product level come at a premium ranging between 85.0% - 300.0% more expensive than not for profit investment options.
- While there are these substantial differences between retail fund MySuper and Choice product fees, this is the case even where the underlying asset allocations of the MySuper and Choice options are similar – raising the question of the level of non-disclosure and cross-subsidisation of products.
- While retail fund MySuper fees are lower than Choice, fees and costs on retail Choice investment options have shown minimal change (without any legislative driver such as MySuper).

This research will be made available to Treasury at the earliest opportunity, and within the next two weeks.

Without a level playing field, it is difficult for consumers, regulators, and reviewers of the superannuation system to comment on fees or the efficiency of the system.

Before turning to our specific comments regarding Choice Dashboard and Portfolio Holdings Disclosure, AIST wishes to outline the principles which AIST strongly recommends underpin disclosure and reporting requirements. We will apply these principles to our specific comments later in this submission.

### 2.1 OECD disclosure principles

AIST refers to (and obviously supports) the OECD’s *G20 High Level Principles on Financial Consumer Protection*\(^3\). As far as fee disclosure is concerned, these Principles may be summarised as follows:

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• Standardisation, comparability, and consumer testing are all desirable.
• A level playing field across financial services is to be encouraged.
• Furthering responsible business conduct is important, e.g. ensuring that remuneration practices and conflicts are not detracting from proper disclosure.
• Remuneration/ conflicts of interests should be disclosed where conflicts cannot be avoided.
• Disclosure should help consumers distinguish between what is essential and what’s less important.

### 2.2 Granular operating principles

When considering the OECD high-level principles, AIST believes there are a number of granular operating principles that could assist greater delivery of transparency, comparability, and efficiency. In the case of Choice dashboard and Portfolio Holdings disclosure, these granular operating principles are:

<table>
<thead>
<tr>
<th>OECD High Level Principles (Summarised)</th>
<th>More granular operating principles</th>
</tr>
</thead>
</table>
| **Standardisation and comparability**   | • Meeting members’ best interests is the overriding principle.  
• Returns to be net of investment and management expenses.  
• Comparing like with like is important, e.g. at member investment choice option level.  
• Costs and fees should be unbundled.  
• Whole picture as disclosed must not to be misleading even if the components are technically compliant.  
• Disclose costing methodologies where they vary across a product or option.  
• Fund documentation and calculation methodologies require consistency of approach – prescription offers best solution.  
• Consistency with PDS requirements is needed to ensure standardisation and comparability, and to avoid member confusion. Disclosure at member level should be aligned as closely as possible – e.g. dashboard compared with the fees and cost template in PDSs. |
| **Level playing field across products and sectors** | • All products and services of APRA regulated funds should be disclosed and reported in the same way.  
• Disclose costs where they are rolled up within group service charges. [AIST notes that RG 97 and CO 14-1252 go some way to assisting meeting this, but is very concerned that platform fees are carved out.] |
| **Consumer testing** | • Test any changes to disclosure prior to implementation.  
• Modern disclosure techniques are critical to assist members’ understanding (e.g. documents are searchable, and information may be grouped by the member). |
3 Choice dashboard - specific comments

3.1 Qualifying choice investment options – greater coverage is needed to protect consumers and system efficiency

AIST is pleased that there are:

- Greater alignment between MySuper and Choice by having comparable Choice dashboards.
- Closed Choice products are included (while noting our concern that this is limited to those which come within the top 10 by FUM).

However, AIST is very concerned about the following areas:

- Platforms are excluded, and should not be. This exclusion effectively means many retail fund products are excluded. AIST firmly believes all platforms should be included. While some feedback has been provided by other organisations at recent meetings with the regulators that perhaps include the top 10 for platforms, AIST strongly believes that full inclusion is required to ensure comparability and transparency to aide consumer protection and system efficiency.
- The requirement to have a Choice dashboard is limited to the top 10 largest options by FUM, whereas it should apply to all Choice options to properly protect consumers and ensure system efficiency.
- The bill enables regulations having the ability to prescribe conditions for exclusions (clause 1017BA(1A), whereas prescription is important in this area.
- Such exclusions enable inefficient choices to ‘hide’.

In a superannuation system with over 40,000 member investment choices, the exclusion of disclosure and reporting requirements from any Choice option encourages greater inefficiency within the system and fails to suitably protect members who are invested in those excluded options.

Such exclusions are also contrary to key OECD consumer protection principles:

- Standardisation and comparability has not been met through the proposals.
- Ensuring a level playing field across financial services is not in place.
- Encouraging responsible business conduct can be strengthened through requiring aligned disclosure and reporting for all APRA regulated fund products.

AIST seeks clarification as to whether one or more Choice dashboards are needed where there are more than one sub-plan within a class of beneficial interests – or whether an amalgamated dashboard could be provided.
3.2 Lifecycle investment options suitably included

AIST is pleased that there are to be separate dashboards for each lifecycle stage (although is concerned that the lifecycle has to be within the top 10 by FUM). AIST has in previous submissions drawn attention to the need to ensure that lifecycle or glidepath investment options are suitably disclosed, e.g. by disclosing costing methodologies where they vary across an investment options.

3.3 Interactive superannuation estimator – target return misleading

AIST understands from a recent meeting with Treasury, ASIC and APRA that the interactive superannuation estimator would not be built by the Trustee, but rather would use the MoneySmart estimator, with the proposal being to individualise fees and ‘target returns’. AIST seeks confirmation of this understanding, as it would take funds more than 6 months to build an estimator and this would impact on implementation timeframes.

AIST queries whether the inclusion of an estimator within the Choice dashboard is of use to members, and whether it would confuse members given that there are other vehicles such as periodic statement projections.

In any event, AIST is opposed to the use of a ‘target return’, as this could lead to gaming and is also inconsistent with the approach taken with calculators and member projections. AIST strongly recommends that a fund’s actual net return or a prescribed return should be used.

3.4 Target returns – common level of probability needed

The proposal is to compare ‘return target’ against ‘actual return’. AIST strongly recommends that the following protections be included to overcome possibilities of gaming (eg. funds may deliberately set a lower return target in order to report a positive actual return against target):

- A common level of probability. This may be high or very high (eg. 75%).
- Consistency with other projections.

3.5 Standard Risk Measure (SRM) is misleading

AIST has long standing concerns about the use and value of the SRM in the MySuper dashboard – and this concern also applies to the proposed Choice dashboard SRM. These concerns have been conveyed to APRA and Government on numerous occasions. In summary, our concerns relate to the SRM using volatility as a proxy for risk, does not measure other forms of risk, and does not measure the severity of market risk. As a consequence, the current form of the SRM can be both misleading and inappropriate for members who are in a mandatory long term investment environment. AIST believes that at a minimum, the label on the current SRM should be renamed to being a measure of volatility. An alternate SRM should also be devised which takes into account long term risk. AIST supports the AustralianSuper/RiceWarner model, either in its current form or as the basis for further development.
3.6 Investment mix pie chart – consistency with PDS needed

AIST notes that APRA’s reporting definitions underpin the investment mix pie chart. This may cause variation between the disclosure in the investment mix pie chart and that in a fund’s PDS. Given this, AIST recommends that the fund’s PDS definitions be used for the pie chart.

3.7 Statement of fees and other costs – fees and costs should be unbundled

AIST recommends that in order to better ensure comparability and system efficiency:

- Administration and investment fees should be split within indirect costs. This would also be consistent with the approach taken in RG97 Disclosing fees and costs in PDSs and periodic statements.
- Disclosure of both flat and asset based administration fees is needed.

Members need the option of examining not just the impact on a $50,000 balance, but the option (perhaps web hover text and not printed copies) of examining the impact on a $10,000 and a $250,000 account balance. The differential in the impact of asset based fees – particularly on high account balances (in retail funds in particular) drives the need for such a disclosure.
4 Product Dashboard Comparison Metric - specific comments

AIST strongly believes that the Product Dashboard Comparison Metric (‘the Metric’) would be misleading to consumers, and should not be included:

- The Metric would provide another layer of disclosure about matters already covered within PDSs, but would use a different format. This would not aid consistency or comparability.
- The Metric focuses on (and therefore emphasizes the importance of) fees, whereas net returns are what the member experiences.
5 Portfolio Holdings disclosure - specific comments

5.1 Purpose and focus

AIST fully endorses the disclosure of portfolio holdings, and believes that such disclosure, while of interest to some consumers, will be of particular interest to superannuation sector analysts. However, AIST strongly believes that, as currently proposed, the Portfolio Holdings disclosure requirements would adversely impact superannuation fund members, and provide an unfair disadvantage to those superannuation funds that invest in unlisted assets such as property, infrastructure, and equity.

In priority order, our key concerns are:

- **Unlisted assets disclosure** - disclosure of the values of unlisted assets will adversely disadvantage members, and will also put funds which do not invest in these types of assets at a commercial advantage.
- ‘Full look-through’ is inconsistent with disclosure requirements.
- **5% threshold for exclusion** of certain assets is subject to manipulation.

In our review of the Portfolio Holdings disclosure proposals, AIST highlights the principles of members’ best interest, standardisation, comparability and transparency. Our concerns regarding unlisted assets disclosure, full look-through being inconsistent with disclosure requirements, and an arbitrary 5% threshold for exclusion of certain assets being set underpin that – as currently framed – the Portfolio Holdings disclosure proposals will not deliver either the best outcome for members, or will create an environment subject to manipulation.

Overall, AIST strongly believes that consistently implemented disclosure and reporting requirements are needed to ensure that ‘best practice’ funds do not continue to be disadvantaged by looking more expensive than less-disclosing funds. Within both this submission and AIST’s submissions regarding RG97, AIST has consistently advocated a prescriptive, consistent approach to disclosure and reporting.

We outline our concerns regarding these points (and others) in greater detail below.

5.2 Unlisted assets – disclosure will adversely affect members’ interests

AIST is concerned that such disclosure of, for example, the values of infrastructure and property investments will:

- Adversely affect members’ best interests where the value is not readily accessible by the market.
- Put superannuation funds at a commercial disadvantage compared with other market participants (eg. the secondary market) that do not need to disclose such information.
• Put bidding parties at an advantage by basing their bid on the prices disclosed in the Portfolio Holdings disclosure.

5.3 ‘Full look-through’ inconsistent with disclosure requirements

While full look-through is included, it is proposed that look-through is only through to the first investment with non-associated entities. This is not in line with the newly released Regulatory Guide 97 Disclosing fees and costs in PDSs and periodic statements and CO 2015/876 and CO14/1252.

This proposal would have the effect of requiring greater disclosure where a fund invests directly, and less when a fund uses an intermediary. This impact creates (in addition to the other matters raised by AIST) an unequal playing field. This is adverse to both members’ interests and ensuring system efficiency and transparency.

AIST strongly recommends that the Portfolio Holdings disclosure requirements be brought into line with the ASIC disclosure requirements. Without this alignment, the effectiveness of Portfolio Holdings disclosure is limited. Members will not fully know within which assets their money is invested.

5.4 5% of certain assets being excluded is subject to manipulation – an ‘if not, why not’ approach would better protect consumers

AIST believes that the 5% threshold is arbitrary and subject to manipulation (e.g. being possibly used for non-disclosure of controversial assets).

AIST supports full disclosure on an ‘if not, why not’ basis.

AIST believes that there should be full disclosure with the only exclusion (the ‘why not’) being in those cases where the fund can demonstrate to ASIC that it is in members’ best interests not to disclose. Examples of disclosing commercially sensitive information which may adversely impact members’ net returns include disclosure of the values of direct property and unlisted assets.

This would reflect that the main issue is that funds should not be required to disclose information which is commercially sensitive and the disclosure of which could adversely impact members’ net returns. Such information may relate to more or less than 5%, depending on the fund’s investments.

5.5 Greater coverage needed for consumer protection, comparability and system efficiency

AIST is pleased that there is greater alignment between MySuper and Choice. However, AIST is concerned that products closed for 5 years or more are excluded from Portfolio Holdings disclosure requirements. As was noted earlier in our submission, there is considerable amount of monies in Choice products and therefore also within closed products. AIST strongly advocates that in order to fully protect consumers,
ensure a level playing field, and to ensure the efficiency of the superannuation system, all products should be included within the requirements.

5.6 Disclosure of unitised information

AIST suggests that disclosure of the total value of the investment in the relevant asset is sufficient, as opposed to including disclosure of the number, price and total value of units held by the investment option in each relevant asset.

5.7 Disclosure format

In all disclosure issues, AIST advocates a technologically neutral approach. In the case of the Portfolio Holdings disclosure proposals, the format requirements are not technologically neutral. For example, the proposal includes the requirement to bold text, whereas in a website environment there may be better ways to highlight information (e.g. hover text, popup messages).

Given the volume of information, there should be a requirement for disclosure to be in a searchable format. This is important so that either members or analysts can group information in a meaningful way.
6 Transitional arrangements - specific comments

Based on feedback from member funds, AIST believes that the transitional arrangements should be a minimum of 12 months. For example, with Portfolio Holdings disclosure, AIST’s member funds have commented that it will take time to organise reporting requirements with outsourced providers in order to meet any implementation date.

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