



## REGULATION IMPACT STATEMENT

### SUPERANNUATION REPORTING STANDARDS

(OBPR ID: 14624)

#### 1 INTRODUCTION

This Regulation Impact Statement (RIS) addresses the Australian Prudential Regulation Authority's (APRA's) proposed introduction of new reporting standards applying to trustees of registrable superannuation entities (RSE licensees).

APRA is the prudential regulator of the superannuation, banking and insurance industries. Its mission is to ensure that, under all reasonable circumstances, financial promises made by APRA-regulated institutions are met within a stable, efficient and competitive financial system. APRA carries out this mission through a multi-layered prudential framework that encompasses licensing and supervision of institutions. For many years, APRA has had the power to make prudential standards implementing this framework for the banking and insurance industries. APRA is also empowered to make reporting standards under the *Financial Sector (Collection of Data) Act 2001* (FSCODA), which require regulated institutions to submit specified data through various reporting forms. Data from these forms are used internally to assist APRA's supervisory functions and by other agencies such as the Australian Bureau of Statistics (ABS). APRA also collates and publishes statistical information and analysis using data from these reporting forms.

In 2012, legislative reforms granted APRA the power to make prudential standards for the superannuation industry, extended its existing powers to collect data under FSCODA and imposed additional publication obligations on APRA. These measures, included in a package of reforms to the superannuation industry known as the 'Stronger Super reforms', were introduced in response to recommendations contained in the June 2010 report of the *Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System* (Super System Review).<sup>1</sup> One of the key elements of the Stronger Super reforms were recommendations relating to improved transparency of information about superannuation.

In November 2012, APRA released a suite of prudential standards applying to RSE licensees that implement the Government's Stronger Super reforms. The proposed reporting standards, which are the subject of this RIS, complement those prudential standards. They are intended to enable APRA to meet its new legislative obligations under the Stronger Super reforms and to strengthen its prudential oversight of the superannuation industry.

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<sup>1</sup> [http://www.supersystemreview.gov.au/content/content.aspx?doc=html/final\\_report.htm](http://www.supersystemreview.gov.au/content/content.aspx?doc=html/final_report.htm)

The reforms are also intended to assist APRA in fulfilling its role as national statistical agency for the Australian financial sector. This is an important additional function of APRA's reporting standards, since superannuation data collected by APRA are provided to the ABS for use in their analyses and publications. Under the proposed reforms, the extent of reporting to the ABS will become even more significant, allowing a more complete depiction of the superannuation industry in the ABS' publications. APRA's superannuation statistics are also used by Government, including the Treasury, and non-government entities to assist in the formulation of reform proposals to the superannuation system.

Superannuation forms a key component of the Government's retirement incomes policy and is compulsory for all workers in Australia. Superannuation funds are trusts set up to provide income for retirees. The operators of superannuation funds regulated by APRA are known as RSE licensees. At 30 June 2012, there were 208 RSE licensees of 493 RSEs,<sup>2</sup> with total assets of \$918.2 billion.<sup>3</sup>

## 2 PROBLEM

Statistical collections for dynamic industries require regular review, in order to ensure that the collection and resultant publications meet user needs. APRA's proposed reforms to its superannuation collections stem from two sources:

- the need to make relatively limited changes to update the collection, from the last update approximately ten years ago; and
- the need to make major changes in response to Government reforms to the superannuation industry.

It should be noted that APRA proposed amendments to the reporting framework in 2009 to update the collection, including a round of public consultation. However, these proposals were postponed pending the outcomes of the Super System Review.

Access to current, accurate financial data of regulated institutions is vital for prudential regulation and supervision. It strengthens supervisors' ability to identify, evaluate and, where appropriate, investigate and respond to risks faced by superannuation entities. It also enables APRA to periodically amend its prudential framework in response to shifts in the size, nature and complexity of the superannuation industry. Access to relevant, reliable and timely data about an RSE licensee's business operations is therefore essential for APRA to carry out its statutory mandate to promote financial stability in Australia.

APRA's current reporting regime for superannuation entities pre-dates the Stronger Super reforms and was last updated in 2005. Existing reporting standards relate to financial position and performance information, member flows, investments information and demographical and profile information on the members and RSE licensee.

Since 2005, the superannuation industry has evolved significantly and become considerably larger and more complex. In particular, superannuation entities now have a greater number of products, investment options and sub-funds/sub-plans than was previously contemplated. This trend is expected to continue in the future as the industry matures and pursues the benefits of scale.

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<sup>2</sup> This number does not include the estimated 3201 Small APRA Funds as at 30 June 2012.

<sup>3</sup> Data sourced from APRA's *Quarterly Superannuation Performance Statistics for June 2012*.

In recognition of this evolution, the Government has imposed new obligations on RSE licensees that have specific implications at the MySuper, choice investment option and sub-fund levels. For example, RSE licensees must promote the financial interests of beneficiaries who hold a MySuper product, with an emphasis on returns to those beneficiaries.<sup>4</sup> RSE licensees are also required to ‘act fairly in dealing with classes of beneficiaries within the entity’.<sup>5</sup>

The existing reporting standards do not require RSE licensees to submit sufficient data about the aspects of their business operations that exist below the RSE level. This lack of disaggregated data could materially restrict APRA’s ability to monitor RSE licensees’ compliance with their new legislative obligations. For example, in the absence of granular investment reporting requirements, and APRA’s publication of this information, APRA may be unable to hold RSE licensees accountable for the fulfilment of their investment governance obligations. This could in turn have a detrimental effect on beneficiaries, whose interests are intended to be protected by the enhanced trustee obligations.

Further, the Super System Review highlighted a lack of transparency, comparability and, consequently, accountability in Australia’s superannuation system. The review specifically noted that the industry lacked standardised methodology for calculating and disclosing relevant fund or investment option performance data. Further, differences in the ways that RSE licensees disclosed and categorised fees have made it difficult for members to compare products offered by different RSE licensees. These deficiencies result in information asymmetry between RSE licensees and members, which in turn exacerbates a lack of member engagement and preparation for the challenges of adequate funding on retirement. To address these issues, the review recommended that APRA, in consultation with ASIC and industry, develop outcomes reporting standards to supplement proposed changes to Australian Accounting Standards and facilitate consistent and comparable reporting and publication of investment performance and costs at investment option level, including for MySuper products. The review also recommended that APRA develop an outcomes reporting standard dealing with all of the requirements of a product ‘dashboard’, which would display the net investment return target (after-tax) over a rolling 10-year period, the risk target in a visual, diagrammatic format, the projected liquidity of the MySuper product or investment option and projected costs and relative ranking of overall fees. These reforms are designed to enable members to make more meaningful comparisons between RSE licensees and the products they offer, leading to increased competition, efficiency and member engagement.

The review emphasised that members often rely on historical investment return data, which does not necessarily address the risks attached to those returns. To ensure that members are aware of the risks of a particular MySuper product or choice investment option, the review recommended that APRA amend its reporting standards to require disclosure of a standardised measure of the uncertainty or volatility associated with the return. The review also recommended that APRA be provided with the ability to collect more complete and accurate data on the investments and costs of superannuation entities than can be collected at present, by looking-through the vehicles used to invest the assets of the RSE. These recommendations were endorsed by the Government in its response to the Super System Review.

Liquidity emerged as a particular concern for the superannuation industry during the global financial crisis. Whilst an inability to pay a member’s benefit due to a lack of liquid assets does not necessarily go to the risk of failure of the RSE, it is a material concern for the members of that RSE because it can prevent the legitimate exercise of portability or redemption rights. In its 2011 Annual Report, APRA emphasised that ‘despite the strong net inflows to superannuation, continuing market volatility requires the management of liquidity to remain “front of mind” for

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<sup>4</sup> See SIS Act s. 29VN.

<sup>5</sup> See SIS Act s. 52(2)(e).

trustees in their consideration of the best interests of members.’ The Annual Report also noted that APRA continues to receive applications for relief from the portability requirements set out in the SIS Regulations and that ‘liquidity management practices have not reached the level of sophistication APRA observes in the other industries it supervises.’ Currently, APRA sends ad-hoc questionnaires to trustees to seek further information on fund liquidity. This assists in assessing current liquidity management practices and whether RSE licensees are undertaking appropriate liquidity stress-testing. To ensure that APRA’s supervisors are able to monitor and respond to liquidity risks on a more consistent basis, and at a more granular level, the reporting standards in relation to investments could be amended to require reporting of illiquid investment exposures.

Other users of data collected by APRA have pointed to deficiencies in available information on superannuation funds. In particular, recent changes to the ABS’s national accounts necessitate amendments to a number of aspects of APRA’s data collection. The Australian Securities and Investment Commission (ASIC) also requires specific information to implement disclosure requirements for RSE licensees, while the Department of Treasury has requested that specific data be collected to facilitate and monitor implementation of the Stronger Super reforms.

In addition, the 2005 reporting standards do not meet Standard Business Reporting (SBR) requirements, which are aimed at streamlining reporting frameworks across federal government agencies, promoting consistency and reducing reporting burdens.

### **Other Stronger Super reform implications**

In the Stronger Super reforms, the Government accepted the need to address deficiencies in the current reporting and disclosure regime and broadened APRA’s ability to collect and publish information on the operation and efficiency of superannuation funds. In particular, amendments to the FSCODA mean that APRA now has jurisdiction to collect information about a superannuation fund’s assets from a broader range of sources, including information about investment assets, the financial products or other property in which those assets are invested and the operations of the investor (look-through reporting). APRA can also now obtain information about the remuneration of directors and executive officers of RSE licensees.

Other aspects of the Stronger Super reforms have implications for the superannuation reporting regime. APRA is required to determine the methodology under which RSE licensees must calculate specified disclosure information relating to their MySuper default products (the product dashboard). From 1 July 2013, APRA will also be required to publish quarterly information on the fees, costs and net returns of all MySuper products.

## **3 OBJECTIVES**

In revising the reporting standards for superannuation, APRA’s objectives are to:

- strengthen its supervision of the superannuation industry in accordance with its mission;
- ensure that the Government’s Stronger Super reforms are fully implemented;
- meet the requirements of end users of data collected by APRA, in fulfilment of its role as a national statistical collection agency;
- support the SBR initiative; and
- promote transparency and comparability within the superannuation industry.

## 4 OPTIONS

APRA has identified three options:

1. Retain the existing reporting requirements without revision.
2. Introduce the minimum number of reporting standards to comply with APRA's new obligations under the Stronger Super reforms.
3. Introduce a broader number of reporting standards to comply with the Stronger Super reforms, enable more robust prudential supervision of individual entities and improve statistical publications.

### 4.1 OPTION 1 – STATUS QUO

Under this option, no change would be made to the existing reporting framework. This approach means that existing reporting requirements would have to be used to support the Stronger Super reforms and APRA's supervision of its new prudential requirements. This option would make it difficult, if not impossible, for APRA to meet its statutory obligations, including the requirement to publish information on MySuper products. An inefficient, ad-hoc data collection might be necessary, which would place a much larger burden on industry than a consistent, automated reporting framework.

### 4.2 OPTION 2 – MINIMUM REFORM (13 REPORTING STANDARDS)

Under this option, APRA would introduce 13 reporting standards to supplement the existing reporting standards. This would allow APRA to support the Government's Stronger Super initiatives regarding look-through reporting, MySuper products and the product dashboard for MySuper products and choice investment options. They are also intended to meet the data needs of the ABS, ASIC and Treasury. Details of these 13 reporting standards are set out in the following sections.

#### **Reporting standards to support look-through reporting provisions**

APRA has developed five reporting standards (SRS 530.0, SRS 530.1, SRS 531.0, SRS 532.0 and SRS 533.0) to collect detailed information on investments to meet the new look-through requirements. The information covers indirect investments by RSE licensees, the underlying asset classes of indirect investments and investment in underlying related investment vehicles.

These reporting standards would provide APRA with transparency on investment practices and allow comparisons to be made across the industry as a whole.

#### **Reporting standards to support MySuper and product dashboard requirements**

Eight reporting standards support the MySuper and product dashboard initiatives. In addition to strategic and actual asset allocation on SRS 533.0, RSE licensees would also be required to report to APRA financial, investment performance and membership information for MySuper products on SRS 330.2, SRS 702.0 and SRS 610.2. Product dashboard legislative requirements would be reported on SRS 700.0.

SRS 410.0 would collect information about accrued default amounts, which are subject to specific obligations related to the movement of member money into MySuper products. Fee information to support supervision and information about fees disclosed and charged in the context of MySuper products would be collected on SRS 703.0 and SRS 540.0 respectively.

From 1 July 2013, s. 348A of the SIS Act will require APRA to publish quarterly data on the fees, costs and returns of MySuper products. These standards would enable APRA to collect and publish this information. They would also provide relevant data to ASIC for regulation of the product dashboard requirements.

### **Reporting standards to collect data for other Government agencies**

SRS 710.0 would collect data on benefit payments to assist Treasury in quantifying the Government's retirement income policy measures.

### **4.3 OPTION 3 – FULL UPDATE OF COLLECTION (36 REPORTING STANDARDS)**

Under this option, APRA would implement a broader suite of reporting standards, consisting of the 13 standards outlined in option 2 and an additional 23 reporting standards (36 new reporting standards). The additional standards provide APRA with:

- granular information at the investment option and sub-fund reporting levels;
- data required to monitor compliance with new prudential standard requirements;
- information on financial position and performance; and
- information about the profile and demographics of members, RSEs and RSE licensees.

Note that APRA proposed a suite of 31 reporting standards in its consultation process. Although the number of reporting standards has increased, the number of individual data items has been reduced and the reporting forms have been re-structured and simplified. The increase in the number of reporting standards has occurred because APRA has separated some reporting standards into multiple standards to divide the collection of quarterly and annual information. This restructure was made in response to industry feedback that some data does not change regularly enough to warrant quarterly reporting. In addition, a number of new forms have been created to specify the information that is required to be reported by small APRA funds (SAFs) and single member approved deposit funds (SMADFs) and data that are required to be reported for the purposes of other government agencies.

### **Reporting standards at the investment option and sub-fund reporting levels**

The Super System Review highlighted the need for greater transparency on the operations and efficiencies of the superannuation industry. APRA's view is that RSE licensees should report information about defined benefit funds and sub-funds within their business operations to further this transparency; the relevant standards are SRS 160.0, 160.1, 161.0, 320.1 and 330.1. Similarly, APRA proposes that RSE licensees be required to report on choice investment options that are above a threshold of the lower of \$50 million or 5 per cent of the RSE's assets in SRS 330.1, 533.0 and 702.0.

These reporting standards would allow APRA to collect information about the components of an RSE to better understand the operations and efficiencies inherent in more complex RSE structures. Industry has indicated to APRA that many RSE licensees operate and strategise at the investment option and/or sub-fund level, rather than at the aggregate RSE level. Requiring reporting at these levels would therefore align with current industry practice as well as enable APRA to maintain oversight of RSE licensees' compliance with new legislative obligations that operate at the sub-RSE level. Moreover, prudential supervision would be aided by access to detailed information on the sub-structures that exist within an RSE, particularly in respect of asset allocation, fees and investment performance. Collecting this information will enable

APRA’s supervisors to evaluate and respond to investment, liquidity and operational risks that may not otherwise be identifiable at the whole-of-fund level. The realisation of these risks may lead to significant costs to members, including negative investment returns, the loss of portability rights and the exhaustion of reserves.

**Reporting standards supporting prudential standard requirements**

APRA is proposing 17 reporting standards (some of which are relevant also for MySuper and choice investment options) to specifically support the new prudential standards introduced as part of APRA’s Stronger Super reforms. The following table lists the prudential standards and reporting forms that will assist APRA’s supervision of the prudential requirements in the prudential standard:

Prudential Standard	Reporting Standard
<i>Prudential Standard SPS 114 Operational Risk Financial Requirement</i>	SRS 114.0 and SRS 114.1
<i>Prudential Standard SPS 160 Defined Benefit Matters</i>	SRS 160.0, SRS 160.1 and SRS 161.0
<i>Prudential Standard SPS 231 Outsourcing</i>	SRS 331.0
<i>Prudential Standard SPS 250 Insurance in Superannuation</i>	SRS 250.0
<i>Prudential Standard SPS 510 Governance</i>	SRS 600.0
<i>Prudential Standard SPS 520 Fit and Proper</i>	SRS 520.0
<i>Prudential Standard SPS 410 MySuper Transition</i>	SRS 410.0
<i>Prudential Standard SPS 530 Investment Governance</i>	SRS 530.0, SRS 530.1, SRS 531.0, SRS 532.0, SRS 533.0, SRS 534.0 and SRS 535.0

Access to this information is vital for the effective implementation of APRA’s new prudential framework. It will enable supervisors to monitor compliance with specific prudential requirements, such as the maintenance of financial resources to meet the operational risk requirement and insurance claims information. Without these elements of the reporting framework, supervisors would have to rely on ad-hoc financial information, which would be far more costly to APRA and industry, and of much lower quality.

SRS 602.0 would also support APRA’s prudential supervision by facilitating reporting of information about RSEs that are wound up, information which is necessary for APRA to comply with its obligation to de-register RSEs that have formally wound up.

**Reporting standards covering financial position and performance**

An RSE’s financial statements provide information prepared in accordance with Australian Accounting Standards, relating to its net assets and net income. APRA is proposing to introduce SRS 320.0 and SRS 330.0, to collect information at the whole of fund level about an RSE’s financial statements, replacing the current reporting standards covering financial position and performance.

**Reporting standards covering profile and demographics**

There are five reporting standards relating to information about members, RSEs and RSE licensees. These replace the current three reporting standards covering these topics. This information is intended to provide APRA with an understanding of the qualitative characteristics of each RSE, enabling a more complete assessment and analysis of strategies, operations and efficiencies. For example, access to data on the age, gender and account balance demographics

of an RSE would allow supervisors to consider the alignment of an RSE licensee's business plan to the needs that it has identified in its member base, thus enabling any strategic challenges or deficiencies to be identified and discussed. RSE licensee demographics would be reported in SRS 600.0 and RSE profile information in SRS 601.0, 610.0 and 610.1. As mentioned above, member demographics of MySuper products would be collected in SRS 610.2.

### **Reporting standards covering SAFs and SMADFs**

APRA is proposing to adjust the reporting requirements that apply to SAFs and SMADFs. These requirements cover information about how RSE licensees manage SAFs within their business operations, information at the RSE level that is common to all SAFs under an RSE licensee and information that is specific to each SAF. The amended collection for SAFs and SMADFs represents a more streamlined data collection relative to other types of RSEs. It aims to provide sufficient information to APRA's supervisors without placing a significant or inequitable burden on RSE licensees who manage these smaller entities. Information on SAFs and SMADFs would be collected in SRS 800.0, SRS 801.0 and SRS 802.0.

## **5 IMPACT ANALYSIS**

### **5.1 OPTION 1**

Failing to implement new reporting standards would inhibit APRA's ability to meet its statutory obligations and the mandate given to it under the Stronger Super reforms. It would also restrict its ability to supervise the increasingly complex superannuation sector and ensure that RSE licensees are meeting their statutory obligations. Further, APRA would be unable to meet its legislative obligation to publish information on MySuper products, which would limit members' ability to compare performance. Ad-hoc data collections may be necessary to allow APRA to fulfil its obligations, which would place significantly greater costs on industry than a revised reporting framework.

APRA's assessment is that the costs of failing to implement an enhanced reporting framework to collect data automatically and accurately via D2A outweigh the benefit RSE licensees would obtain through avoiding the implementation and compliance costs of a revised reporting regime.

### **5.2 OPTIONS 2 AND 3**

Options 2 and 3 both involve new reporting standards and, as such, are associated with similar costs and benefits, differing primarily in degree as outlined in the following sections.

#### **5.2.1 Benefits**

APRA's view is that introducing new reporting standards will benefit APRA, superannuation members and the superannuation industry more broadly.

The benefits to APRA relate to obtaining more granular information, which is more closely aligned to the current structure of the superannuation industry. Revising APRA's reporting requirements to assist monitoring of compliance with new prudential standards will also strengthen prudential supervision. For publication purposes, APRA will be in a position to improve the standard of statistical publications provided to the industry as a whole thus facilitating statistical analysis of the superannuation industry by researchers, analysts, commentators and other interested parties external to APRA.

Outsourcing is a common practice in the superannuation industry and a significant amount of data, particularly regarding investments and administration, is provided to RSE licensees by



outsourced service providers for APRA reporting purposes. The Government's reforms to improve disclosure requirements and update reporting frameworks will in turn extend to these service providers, promoting the transparency and accountability of the superannuation industry as a whole.

For members, the advantages are a more transparent and closely-regulated framework for the superannuation industry as a whole. This enhances APRA's ability to ensure that RSE licensees are acting in a manner that aligns with the best interests of members and their enhanced statutory obligations. For instance, members' monies are significantly impacted by investment strategies and decisions by the RSE licensee. More granular investment reporting requirements, and APRA's publication of this information, will increase the level of accountability of RSE licensees in relation to its investment governance obligations and the reliability of investment-related information being reported to members. If the current reporting framework were retained, it would be more difficult for APRA to engage in conversations with RSE licensees about their investment governance decisions, which in turn could reduce the likelihood of compliance with the new trustee obligations contained in the SIS Act.

The proposed standards would also assist in improving the public availability of information on the operation and efficiency of RSEs, particularly in relation to investment performance and cost information.

Under either option 2 or 3, end users such as the ABS, ASIC and Treasury will have their needs met by having access to information for their statistical and policy purposes.

### **5.2.2 Costs**

RSE licensees anticipate substantial implementation costs, given the increased volume of data to be reported in comparison with existing reporting requirements. Overall, it is not clear how large this cost will be, but a number of industry submissions provided estimates of the cost of implementing the new reporting standards, as well as ongoing compliance costs. It should be noted that these cost estimates are based on the originally proposed suite of 31 standards. The costs of implementation are likely to be reduced under the revised suite of 36 standards, as data is no longer required to be reported for accumulation sub-funds and some information is being collected annually rather than quarterly. Further details of the cost estimates are outlined in the following sections. These costs are likely to be passed on to members through higher direct fees and/or lower net investment returns.

#### **Implementation costs**

A small number of submissions provided total implementation costs that would be incurred under the original proposed suite of 31 reporting standards.

APRA expects industry stakeholders would experience three types of implementation costs:

- costs to enhance reporting systems;
- fees charged by custodians, administrators and investment managers to provide information and services for APRA reporting purposes; and
- internal resourcing costs, including increased human resource and salary costs due to high demand for appropriately-skilled superannuation resources across the industry.

As the types and extent of costs incurred by any given RSE will depend upon the business model that the RSE licensee employs, for example, the extent to which the RSE licensee undertakes activities in-house or operates an outsourced business model, the cost estimates expressed are

examples of possible costs only, and cannot be extrapolated to create a common or average industry cost experience.

As the implementation process itself is complex, it is likely to involve costs being incurred as a result of RSE licensees undertaking:

- a full impact analysis, including changes to methodology and gap analysis, to plan for compliance with the new requirements;
- implementing new systems or systems enhancements to capture and report the new data;
- educating directors, responsible persons and other staff members to comply with new requirements;
- updating or setting new service provider policies, processes or systems to ensure information is provided to the RSE licensee; and
- engaging external parties to meet the new requirements, such as the additional scope of external audit and the additional actuarial valuations that may be required.

For example, several industry submissions estimated that the full implementation process, involving a complete analysis of business requirements and implementation of necessary systems and processes, was expected to take up to six months effort by a full-time employee.

It is important to note that the costs associated with the implementation process would be incurred prior to the commencement of the requirements, but would not be ongoing in nature. It should also be noted that the superannuation administration and custodian industries, upon which many RSE licensees rely to fulfil part of their reporting obligations to APRA, have greater access to the technical and human resources that will be required to meet the new requirements. This should ensure that smaller RSE licensees that employ an outsourced business model are not unduly burdened by the revised reporting requirements.

Industry highlighted that the costs associated with the implementation process are amplified by the short timeframe before the new regime comes into effect from 1 July 2013. In light of feedback suggesting a general deferral, APRA has revised its initial proposal to provide a staggered commencement approach where:

- six standards will commence on 1 July 2013 to be lodged on a quarterly basis (i.e. submission of the first data within 28 days of 30 September 2013), noting that SRS 533.0 and SRS 702.0 will only commence as they apply to MySuper products in 2013; these forms will commence for select investment options on 1 July 2014;
- 19 standards will commence on 1 July 2013 to be lodged on an annual basis (i.e. submission of the first data within four months of 30 June 2014); and
- the remaining 11 standards will commence for reporting periods ending on or after 1 July 2014 (i.e. submission of the first data within 28 days of 30 September 2014) or be required on an ad hoc basis only (SRS 602.0).

The revised timetable is expected to minimise and streamline both the implementation process and reporting burden and costs for RSE licensees.

Another key industry concern related to the cumulative impact of the range of measures introduced through the Stronger Super reforms, resulting in resource constraints and the consequent increased costs in staffing and service provider fees.

Submissions noted that currently neither RSE licensees nor administrators or custodians capture all of the data being proposed for collection. It is likely that new infrastructure will be required, particularly where various administration systems are in place and data will need to be aggregated. Given APRA's initial proposal that reporting standards would commence on 1 July 2013, industry submissions stated that information technology (IT) and operational costs may be considerable given that work needs to be completed at a time of very limited IT capacity due to the implementation of other Stronger Super reforms. In terms of infrastructure build, one submission estimated that approximately \$2 - \$2.5 million would be required, based on the work taking 10-12 months for completion. This would represent approximately 0.02% of net assets for this particular entity, based on a fund size of approximately \$12 billion. Another submission estimated IT set-up costs to be \$8 million, for a legacy product provider that would require a new policy administration system.

APRA's staggered commencement approach reduces this pressure on IT capacity prior to 1 July 2013, as 10 of 36 reporting standards are deferred for 12 months. APRA expects that, while the initial IT set-up will still be costly for industry, the staggered commencement approach should assist RSE licensees who would otherwise face heightened IT costs to complete the implementation work prior to 1 July 2013.

APRA is aware that some of the costs borne by administrators and/or custodians to design and implement new systems may be passed on to RSE licensees and their members in the form of increased fees for services. In addition, the new look-through reporting on investments may require RSE licensees to negotiate contracts with investment managers and custodians to satisfy the new requirements, which will involve additional costs.

Supplementary service provider costs and extra premiums to meet short timeframes would also add to the implementation costs of adopting option 2 or 3. Based on certain staffing rates, one administrator estimated that start-up costs could be \$1,194,816 per RSE. Given that RSEs under its administration have an average fund size of \$1.1 billion, this would represent approximately 0.11% of funds under management. Another administrator provided a cost estimate of \$400,000 - \$500,000 per RSE for the initial set-up, given the amount of system and process changes required under option 2 or 3. The average size of RSEs administered by this organisation is approximately \$3 billion, implying that the cost of implementation would be approximately 0.015% of funds under management. This was based on an extra full-time employee to set-up processes to enable ongoing reporting under the new reporting standards. Higher costs were estimated for RSEs with significant numbers of sub-funds. Additional ongoing costs were in the vicinity of \$150,000 per year to complete the forms.

It is important to note that each RSE licensee may respond to these costs in different ways. RSE licensees that are part of a conglomerate may be able to receive material support from a parent company, which may reduce the need to pass-on compliance costs to members. In addition, RSE licensees may choose to fund the implementation expense through the use of existing reserves, which will have the effect of smoothing the costs to members over time. These differences in approach mean that it is difficult to quantify the precise impact of the revised reporting requirements on members, either through a reduction in return or increases in fees.

### **Ongoing costs**

Ongoing costs are proportional to the number of new reporting standards to be introduced. These costs relate to internal resourcing, audit costs (usually based on the volume and complexity of data), actuarial costs and additional fees charged by custodians, administrators and/or investment managers. In particular, the new look-through reporting requirement could result in investment managers passing on increased management fees. One submission from an audit firm indicated that audit costs may vary between \$3,000 to \$10,000 per form depending on the complexity of the RSE's investment structures and operations more broadly.

APRA's consultation proposal to industry was that all 31 reporting standards would be subject to audit requiring reasonable assurance. APRA has engaged with audit professionals and the Auditing and Assurance Standards Board on the level of audit required for each reporting standard. APRA is now requiring 10 of the 36 reporting standards to be audited on a reasonable assurance basis and five to be audited on a limited assurance basis. This change maintains sufficient assurance for APRA's prudential purposes but responds to industry's concerns regarding potential increases in audit costs. APRA currently requires 8 of the 23 current reporting forms to be audited on a reasonable assurance basis, so the new audit requirements represent a small reduction in the portion of the collection requiring reasonable assurance audit.

Another key concern raised in industry submissions surrounded the proposal to reduce the annual lodgement timeframe from the current four months to three months, to align with lodgement periods applying to other regulated institutions. A significant increase in costs is anticipated as a result of the new requirement to complete the audit in a shorter timeframe than is currently the case. APRA is now proposing to provide a three-year transition period before the new lodgement periods commence.

One submission estimated that ongoing costs could be \$133,632 based on current staffing rates. This would represent approximately 0.01% of funds under management for the RSEs in question, which have average net assets of \$1.1 bn. The estimate was based on one full-time employee being required to prepare and lodge all forms. This estimate is a three- to fourfold increase in costs for that particular RSE licensee, not including audit costs, due to the increased volume, depth and frequency of data required to be reported under option two or three. Continual price increases by service providers were also noted as an ongoing cost. It was noted that, for smaller RSEs that were previously required to report only a subset of the suite of reporting requirements now to apply to all RSE licensees, these costs would be even higher.

## **5.3 OPTION 2**

### **5.3.1 Benefits**

Choosing option 2 (rather than option 3) would result in lower ongoing costs than would be incurred with more reporting requirements. Members, too, will likely benefit through lower fees than would arise under option 3.

### **5.3.2 Costs**

Implementing only the minimum number of reporting standards required to comply with the Stronger Super reforms would significantly restrict APRA's ability to improve its standard of prudential supervision, as well as its ability to oversee RSE licensees' enhanced statutory obligations and to keep pace with a rapidly evolving industry. It would also require the maintenance of some existing reporting standards that have not been revised since 2005. The realisation of investment, liquidity or operational risks as a result of inadequate information for prudential purposes would be costly to members and the broader industry, through financial and reputational damage, and in the event that the statutory compensation regime is invoked.

## **5.4 OPTION 3**

### **5.4.1 Benefits**

The proposed data collection under option 3 will provide APRA with greater coverage of risks (i.e. in addition to investments, MySuper and product dashboard requirements) and more granular information at the sub-RSE level. This will strengthen APRA's ability to supervise the superannuation industry in accordance with its mandate to promote financial stability and,

under all reasonable circumstances, enable financial institutions to meet their promises. In particular, it will allow APRA's supervisors to better identify where an RSE licensee might not be acting in the best interests of members.

At present, there is a disconnect between the existing reporting requirements and the current practices of the industry, which have evolved since the introduction of the existing reporting requirements. The additional reporting proposals under option 3 reflect the operations and structure of the industry presently, and provide flexibility for changes to reporting requirements as the operations of an RSE licensee changes, particularly with respect to investment option and sub-fund level reporting. Under option 3, supervisors will be able to form a more informed view of the investment, liquidity and operational risks posed by products, investment options and/or sub-structures that exist below the RSE level. This would enable supervisors to discuss the potential risks with RSE licensees, and, if warranted, encourage or compel a particular course of action to address the risks. Previously, these risks may have been obscured by the unavailability of sub-RSE data.

Industry will benefit from the breadth of the new reporting requirements under option 3 as APRA will be able to improve the quality and accuracy of its publications by having a greater, more accurate and representative data set from which to draw publications. Industry will also gain from the improved level of usefulness of the information that will be available for analysis. This is particularly the case for RSE licensees that use APRA's publications to compare and contrast investments and performance across the industry.

#### **5.4.2 Costs**

The implementation and ongoing costs associated with option 3 are discussed above in the context of the costs associated with both options 2 and 3. The remainder of this section discusses the cost impacts of particular reporting standards in APRA's suite of reporting requirements under option 3.

##### **Reporting standards that impose moderate costs**

Of the requirements that impose a moderate cost, some RSE licensees may already possess the relevant information in their reporting systems, and therefore additional costs may be minimal in these cases. For instance, RSE licensees may already have data to report on defined benefit funds or sub-funds, as the assets of such members are maintained as segregated by legislative definition. APRA is not, however, aware of the extent of this practice across all APRA regulated funds and therefore is unable to quantify this for the purposes of this RIS.

APRA's response to feedback about the insurance collection (SRS 250.0) is a significant restructure and reduction in the information to be provided. APRA's view is that this adjustment to the requirements means that the reporting would involve only moderate costs, rather than the significant costs attached to the original proposal. The insurance reporting proposals were structured based on the assumption that an RSE would typically undertake group insurance arrangements, without fairly accommodating the likelihood of individual insurance arrangements. Industry raised this as a key area of concern; that the structure of the proposed collection did not reflect industry practice and that a redesign of certain parts of the collection could make reporting easier. APRA acknowledged this reporting challenge and redesigned the insurance collection to better reflect industry's practice of undertaking both group and individual insurance arrangements on behalf of members. This redesign will not only reduce the time taken to report the insurance collection, but also assist with cost minimisation.

The asset class categories in the investment reporting collection were also redeveloped to align with industry practice, following feedback from industry that the proposed asset classes did not

allow for straightforward reporting of certain investments. APRA conducted a second round of informal consultation to design revised asset classes. These revised asset classes are not only more fitting to the myriad of investment types in the industry, but also more suited to the existing reporting frameworks of RSE licensees and research houses. This approach was viewed as minimising potential system enhancements.

### **Reporting standards that impose low costs**

There are a number of requirements of the reporting standards that are not new, but are based on requirements which already exist for RSE licensees. APRA has updated these requirements to reflect current industry practice and to accommodate the initiatives of the Stronger Super reforms.

An overview of new requirements where the potential cost is considered to be low includes:

- (a) accounting standards forms, which have been updated to reflect the approach taken in the revised accounting standard for superannuation - SRS 320.0; SRS 330.0;
- (b) detail on unlisted investments, which have been updated to reflect new investment types - SRS 532.0;
- (c) service provider information, which has been updated to accommodate the outsourcing prudential standard requirements and industry practices - SRS 331.0; and
- (d) forms where some information was already required to be reported - SRS 600.0 and SRS 710.0.

## **6 CONSULTATION**

APRA has consulted extensively on the proposed reporting standards since the beginning of 2012, including:

- release of a discussion paper, *Reporting standards for superannuation* (September 2012)<sup>6</sup>, outlining the main areas proposed to be addressed in each reporting standard. APRA received 29 submissions<sup>7</sup> on this discussion paper;
- public seminars in major capital cities in September/October 2012 to present the proposed reporting requirements and to discuss their practical application;
- attendance at a range of industry conferences to present on details of the reporting standards; and
- meetings with individual RSE licensees, industry representative bodies, other regulatory agencies and other interested stakeholders to discuss specific details of the reforms, including APRA's implementation expectations.

Submissions were received from a variety of organisations that will be impacted by the reporting standards, including RSE licensees, industry bodies, professional bodies and service providers.

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<sup>6</sup> <http://www.apra.gov.au/Super/Pages/Reporting-Standards-for-Superannuation-September-2012.aspx>

<sup>7</sup> <http://www.apra.gov.au/Super/Pages/Submissions-Reporting-Standards-for-Superannuation-September-2012.aspx>

All submissions to the September discussion paper were supportive of APRA updating the reporting standards and being given broader powers to collect more detailed information. Feedback also supported the proposed approach to improved investment transparency, fees, costs and expense reporting. Several submissions specifically indicated support for the collection of information at sub-RSE levels.

The greatest area of concern was about the proposed implementation date of 1 July 2013. APRA has addressed this concern by introducing a staggered implementation process to ensure that transition to the new requirements is less arduous. This has been achieved by only requiring high priority reporting standards to be effective from 1 July 2013, rather than the entire suite of 36, and the remaining reporting standards to become effective from 30 June 2014 onwards. In effect, APRA is able to allow RSE licensees approximately 12 months to build system enhancements and become familiar with the majority of the new requirements.

The other significant area of feedback concerned the proposal to require investment option and sub-fund level reporting. APRA has modified these requirements, reducing the reporting scope for RSE licensees. APRA has also re-designed forms to align more appropriately with industry practice.

Publications were also raised as a key concern area, particularly regarding investments and insurance information. Industry claimed that confidentiality agreements would be jeopardised if APRA was to report certain information.

Rather than finalising the publication on the basis of feedback received on the significantly larger proposed collection, APRA intends to undertake further specific consultation on the proposed publications throughout 2013. This will afford industry a further opportunity to make representations about whether any of the data included in the final reporting standards should be considered confidential.

Note that as APRA's powers to determine data confidential under the *Australian Prudential Regulation Authority Act 1998* are distinct from APRA's powers to determine reporting standards under the FSCOD Act, decisions about the confidentiality or otherwise of information for publication purposes will have no impact on the data to be collected in the reporting standards.

## **7 CONCLUSION AND RECOMMENDED OPTION**

The superannuation industry has changed dramatically since APRA's current reporting framework was established in 2005. The proposals are designed to support the regulation and supervision of the superannuation industry, as well as to enhance its efficiency and transparency. The reporting standards also complement the Government's public policy goals, recognising the importance of the superannuation industry to the Australian economy more broadly.

The government's proposals in relation to APRA's data collection for superannuation are also aimed at streamlining reporting frameworks across various federal government agencies. The revised reporting requirements will be SBR-compliant and enable entities to access a single taxonomy of data items and definitions. This aligns with the broader public policy goal of minimising duplicate information and inconsistent reporting.

Option 2 would involve implementation of minimum standards to meet APRA's statutory obligations under the Stronger Super reforms, facilitate enhanced publication of relevant data and meet the needs of other agencies in accordance with APRA's role as national statistics collection agency for the financial sector. However, it does not materially strengthen APRA's ability to supervise the increasingly complex superannuation industry.

Option 3, however, fulfils the greater objectives of improving the relevance and reliability of superannuation data and permitting closer supervisory scrutiny of RSEs by APRA. The expanded data collection under option 3 would equip APRA's supervisors with a more complete and detailed knowledge of an RSE licensee's business operations, and assist in more well-informed and incisive prudential supervision. In particular, supervisors would, for the first time, have access to comprehensive data on defined benefit sub-funds, investment options and other reporting levels that exist within an RSE. In addition, they will have access to more detailed information on investment asset allocation and costs. This information aids in the understanding of the risks faced by particular groups of members and will help supervisors form a better view of an RSE's prospects in the future. Importantly, it also informs APRA's view as to whether RSE licensees are acting in compliance with their enhanced trustee obligations, such as the duty to act fairly and the investment covenants.

The reporting framework under option 3 would also enable supervisors to closely monitor compliance with APRA's new prudential framework. This will be particularly important during the early years of implementation, as RSE licensees become accustomed to the existence of mandatory prudential requirements, in addition to their general law and SIS Act obligations. APRA acknowledges that option 3 is expected to impose significant implementation and ongoing costs in making the necessary changes to satisfy the reporting requirements. However, on balance, the long-term benefits of additional protection arising from the widened reporting requirements are likely to outweigh the costs incurred.

## **8 IMPLEMENTATION AND REVIEW**

APRA released 32 final reporting standards, including reporting forms and reporting instructions, in June 2013. SRS 001.0 was released at the end of April 2013 to allow the collection of baseline information to support the reporting collection more broadly. APRA intends to release three further draft reporting standards (SRS 700.0, SRS 702.0 and SRS 703.0) for consultation in June-July 2013.

Staggering the commencement dates of these standards is intended to assist the superannuation industry in meeting the new requirements. Some will take effect from 1 July 2013, with remaining requirements commencing for reporting periods ending on or after 1 July 2014. Attachment A outlines the commencement date for each standard. APRA will consider requests for transitional arrangements on a case-by-case basis. APRA has the ability to modify particular provisions in the reporting standards if they result in inappropriate outcomes for a particular RSE licensee's business operations.

The reporting standards will be reviewed after their implementation and on an ongoing basis to ensure they continue to reflect sound practice and remain relevant and effective, for both APRA's prudential supervision purposes and for regulated institutions. APRA anticipates that:

- an internal working group established during the implementation phase will consider issues raised in the practical application of the reporting standards at the time they become effective and during any transition periods;
- there will be ongoing review of issues raised by industry and internally within APRA; and
- there will be a point-in-time review of the effectiveness and appropriateness of the entire suite of reporting standards three to four years after they commence.



## ATTACHMENT A: FINAL REPORTING STANDARDS

Reporting form	Level	Commencement	Frequency
<i>Reporting Form SRF 001.0 Profile and Structure (Baseline)</i>	RSE licensee	On registration (30-Apr-13)	Baseline, Annual
<i>Reporting Form SRF 114.0 Operational Risk Financial Requirement</i>	RSE licensee (SAF trustee)	1-Jul-13	Annual
<i>Reporting Form SRF 114.1 Operational Risk Financial Requirement</i>	RSE (SAF)	1-Jul-13	Annual
<i>Reporting Form SRF 160.0 Defined Benefit Matters</i>	RSE (SAF), DB sub-fund	1-Jul-13	Annual
<i>Reporting Form SRF 160.1 Defined Benefit Member Flows</i>	RSE (SAF), DB sub-fund	1-Jul-14	Quarterly
<i>Reporting Form SRF 161.0 Self-Insurance</i>	RSE	1-Jul-13	Annual
<i>Reporting Form SRF 250.0 Acquired Insurance</i>	RSE	1-Jul-13	Annual
<i>Reporting Form SRF 320.0 Statement of Financial Position</i>	RSE	1-Jul-13	Quarterly
<i>Reporting Form SRF 320.1 Statement of Financial Position</i>	DB sub-fund	1-Jul-14	Annual
<i>Reporting Form SRF 330.0 Statement of Financial Performance</i>	RSE	1-Jul-13	Quarterly
<i>Reporting Form SRF 330.1 Statement of Financial Performance</i>	DB sub-fund, Select choice	1-Jul-14	Annual
<i>Reporting Form SRF 330.2 Statement of Financial Performance</i>	MySuper	1-Jul-13	Annual
<i>Reporting Form SRF 331.0 Services</i>	RSE (SAF trustee)	1-Jul-13	Annual
<i>Reporting Form SRF 410.0 Accrued Default Amounts</i>	RSE	1-Jul-13	Quarterly
<i>Reporting Form SRF 520.0 Responsible Persons Information</i>	RSE licensee (SAF trustee)	1-Jul-13	Ad hoc, annual
<i>Reporting Form SRF 530.0 Investments</i>	RSE	1-Jul-14	Quarterly
<i>Reporting Form SRF 530.1 Investments</i>	RSE	1-Jul-13	Quarterly
<i>Reporting Form SRF 531.0 Investments Flows</i>	RSE	1-Jul-14	Quarterly
<i>Reporting Form SRF 532.0 Investment Exposure Concentrations</i>	RSE	1-Jul-14	Quarterly
<i>Reporting Form SRF 533.0 Asset Allocation</i>	MySuper, Select choice	1-Jul-13/14	Quarterly
<i>Reporting Form SRF 534.0 Derivative Financial Instruments</i>	RSE	1-Jul-14	Annual
<i>Reporting Form SRF 535.0 Securities Lending</i>	RSE	1-Jul-14	Annual
<i>Reporting Form SRF 540.0 Fees Charged</i>	RSE, MySuper	1-Jul-13	Annual
<i>Reporting Form SRF 600.0 Profile and Structure (RSE Licensee)</i>	RSE licensee (SAF trustee)	1-Jul-13	Annual
<i>Reporting Form SRF 601.0 Profile and Structure</i>	RSE	1-Jul-13	Annual,

<i>(RSE)</i>			
<i>Reporting Form SRF 602.0 Wind-up</i>	RSE (SAF)	1-Jul-13	Ad hoc
<i>Reporting Form SRF 610.0 Membership Profile</i>	RSE	1-Jul-14	Annual
<i>Reporting Form SRF 610.1 Changes in Membership Profile</i>	RSE	1-Jul-14	Annual
<i>Reporting Form SRF 610.2 Membership Profile</i>	MySuper	1-Jul-13	Annual
<i>Reporting Form SRF 700.0 Product Dashboard</i>	MySuper	2013 (TBC)	Ad hoc, annual
<i>Reporting Form SRF 702.0 Investment Performance</i>	MySuper, Select choice	1-Jul-13/14	Calendar quarter
<i>Reporting Form SRF 703.0 Fees Disclosed</i>	MySuper	2013 (TBC)	Ad hoc, annual
<i>Reporting Form SRF 710.0 Conditions of Release</i>	RSE	1-Jul-13	Annual
<i>Reporting Form SRF 800.0 Financial Statements</i>	RSE (SAF)	1-Jul-13	Annual
<i>Reporting Form SRF 801.0 Investments</i>	RSE (SAF)	1-Jul-13	Annual
<i>Reporting Form SRF 802.0 Fund Profile</i>	RSE licensee (all SAFs)	1-Jul-13	Annual