Australian Custodial Services Association

03 February 2014

Manager, Superannuation Statistics
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Email: statistics@apra.gov.au

Dear APRA

Australian Custodial Services Association – Submission on the Discussion Paper: Publication of superannuation statistics and confidentiality of superannuation data

The Australian Custodial Services Association ("ACSA") is the peak industry body representing members of Australia's custodial and administrator sector. Collectively, the members of ACSA hold securities and investments in excess of AUD$1.8 trillion in value in custody and under administration. Members of ACSA include National Australia Bank Asset Servicing, JP Morgan, HSBC, State Street, RBC Investor Services, BNP Paribas, Citi Transaction Services and Northern Trust.

This submission is intended to provide the Australian Prudential Regulatory Authority ("APRA") with the views of ACSA members on the *Discussion Paper: Publication of superannuation statistics and confidentiality of superannuation data*.

1. EXECUTIVE SUMMARY

ACSA's members are generally preparers of the data collected under the new reporting regime. As we are not significant users of the data, we have decided to only comment on 2 aspects of the new forms.

2. RESPONSE TO SPECIFIC DATA ITEMS COLLECTED UNDER THE NEW REPORTING FRAMEWORK

SRF330.0 - Request for Field 9.3 to be considered Confidential Data

APRA have acknowledged that it would not be appropriate to publish information in relation to commercial arrangements with services providers. Most of the Section 9 expenses are the aggregation of the fees of multiple service providers. However many RSEs have a single custodian license obligation which would mean that field 9.3 would represent the fee of one service organisation ie the custodian. Therefore we believe it is an unfortunate and unintended result from the design of this form.

We feel that there is a detrimental commercial impact to the disclosure of this amount. We believe that it could remove any competitive advantage that an individual custodian may be able to obtain in structuring an RSE / custodian relationship. Whilst we acknowledge that the overall custodian fee for the industry may be useful industry information, we feel that the custodian fees for each individual RSE is not of public interest. Additionally, the fee arrangements for custody services are of a complex nature depending on the range of custody services involved and the structure of the RSE's Fund. We believe that direct comparison of the fee listed in 9.3 could lead to some incorrect conclusions. This may also have the effect of encouraging more opaque fee arrangements to avoid the disclosure issue.

Level 24, 44 Market Street, Sydney NSW 2000, Tel: +61 2 8235 2530, Fax: +61 2 9299 3198, acsa@fsc.org.au
ACN 072 659 619

Generally our Custodian Agreements would contain confidentiality provisions. As a result, the disclosure of this information to APRA with the RSE's knowledge that APRA would make this publicly available would most likely be considered a breach of the Agreements.

We would be concerned about a solution that only masked the custodian fee and enabled the public to reverse engineer and calculate the custodian fee anyway. A suggested solution would be to only disclose field 9.7 with 9.1 to 9.6 remaining confidential. Another solution would be to disclose 9.1, 9.2 and all other fees (9.3 thru 9.6) as an aggregate. We would be open to other solutions that addressed our concern.

In summary, we believe that it was not APRA's intention to publish the commercial arrangements of custodians as acknowledged in the consultation paper and we would be happy to work with you to find an appropriate solution to our concern.

SRF533 – Section 2 (Actual Asset Allocation)

ACSA's comment on the disclosure of Section 2 of SRF533 to the public would be that is has the potential to provide misleading information. We understand that APRA have designed SRF533.0 to meet its prudential supervision needs of the Investment Governance process. We also understand that APRA do not expect the RSE's to change their asset allocation methodologies or disclosures as detailed in their PDS or member reporting.

We have previously communicated to APRA that SRF533.0 is completed on a "Form" rather than "Substance" basis or "Bottom Up" approach whereas the Investment function of an RSE would use a "Substance" or "Top Down" approach.

As a result of the different methodologies, we believe that there will be material differences in Actual Asset allocation figures. The primary drivers of this are:

1. APRA's definitions of Cash and Fixed Income
2. APRA's inclusion of listed property trusts as Property rather than Equity
3. The impacts of directly held derivative overlay portfolio for rebalancing purposes
4. Cash balances that have been allocated to specific Asset Classes.

It is also possible that the asset allocation numbers disclosed in Section 2 do not fall with the ranges provided in Section 1 (Target Asset Allocation) of the Form. This scenario would be as a result of material impacts caused by the methodologies differences.

We believe that the publication of this information will cause issues for members, academics or other interested parties who look to compare this information to member reporting or those who attempt to validate the performance of a diversified strategy using these asset allocations.

Our recommendation would be to either keep this data confidential or to change SRF533.0 to be in line with industry practice on asset allocation. If this data is determined to be non-confidential, then we feel that it is important that there are clear explanations as to the methodology used to calculate the figures in Section 2. Hopefully this would serve to prevent misleading conclusions being made from the data.

If you have any questions in regards to this submission, please contact Daniel Cheever on (02) 9323 7182.

Yours sincerely

David Braga
ACSA Chairman