

Australian Custodial Services Association

Policy position and response to the disclosure requirements of RG97

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Collectively, the members of ACSA hold securities and investments in excess of AU\$2.5 trillion in value in custody and under administration. Members of ACSA include BNP Paribas, Citi, HSBC, JP Morgan NAB Asset Servicing, Northern Trust, RBC Investor Services, State Street and White Outsourcing

This policy document is intended to express ACSA's recommendations on the pragmatic implementation of RG97 and data provision by Custodians to their respective clients. However, each ACSA member must ultimately determine for itself

1. how to implement RG97,
2. whether to adopt ACSA's recommendations, and
3. what data will be provided by them as custodians, to their clients, how frequently and in what format.

Interpretation of RG97 disclosure requirements

ACSA members are providers of data to support their clients RG97 reporting and disclosure obligations. Due to the number of individual organisations and industry groups already engaging with ASIC, ACSA's aim is to align its recommended reporting and services to established industry positions and guidance.

We have been advised that industry groups such as FSC, AIST, ISA & ASFA are collating their views and this will be incorporated into the AIST Indirect Costs Regime Best Practice Toolkit.

ACSA is aware that this conceptual framework has not been finalised so there may be changes in the treatment of certain fees and costs prior to the final implementation date. Any data attributes that are identified to perform industry agreed calculations would need to be assessed by members as to whether there is opportunity to add value in this space through data they currently have.

As the holders of a substantial client data set, ACSA sees its members adding value by facilitating the efficient flow of data through the industry, and offering pragmatic solutions to the implementation of RG97 requirements.

Fees and Costs Templates

ACSA believes it is important to have agreed a recommended scalable industry standard in transmitting and receiving fees and costs data. It recognises that there has been a significant amount of time and effort in creating the “Chant West” Fee and Cost template and it is slated to be the recommended format for the industry going forward.

Although the template is very comprehensive with an incorporated guide, it is not set out in a way that is easily consumable by downstream systems, whilst from a fund manager perspective is not scalable as fund managers may have to report on the same product multiple times for each Superannuation Fund Investor.

To this end ACSA has developed a CSV based template that mirrors the same data fields as the Fee and Cost Template, but is in a format that can be more easily consumed by downstream users. It is also structured at a portfolio level so that multiple portfolios can be reported on the same file rather than having upwards of 250+ individual excel templates.

This recommended template can be used to both report fees and costs data to Fund Managers for further distribution to Superannuation Funds or industry data aggregators, whilst also being the basis for custodians to report this same information to their Superannuation fund clients.

The template is designed to have the functionality to accommodate different levels of reporting such as option level reporting.

Audit files that support the standard template will not be required to be standardised across custodians as these will be influenced by in house systems. Standardised audit files would also create a larger development effort, cost and timeframe that will have little discernible benefit as this information will not be widely distributed outside of clients in question.

Fees and Costs based on Percentages versus Dollar values

The other main area where the ACSA recommended template differs to the industry template is that it is based around the disclosure of expenses on a percentage basis rather than a dollar value basis.

This enables Fund Managers to provide a single output to all investors in each product and ensures that each investor in a particular product has been provided with the same costing information.

These percentages can then be applied by investors to their average investment balances of this product during the period in order to produce an accurate cost calculation in each of the various fee and cost types.

Percentages produced by Fund Managers will also need to be based on average market values of the entirety of the product so that market movements or large capital inflows/outflows do not distort the percentage calculation.

Timing of reporting of Fees and Costs

As PDSs are updated on only a relatively infrequent basis ACSA recommends reporting frequency of cost information from a fund manager perspective be a quarterly cycle rather than a monthly one.

This will reduce the amount of effort to provide reports, the volume of data transmitted and the effort required for compilation. In addition ACSA believes this will produce fee and cost information that is less volatile than might otherwise be the case if reporting on a monthly basis.

Finally this would bring Fee and Cost information into alignment with other Fund Manager data compilation such as asset class look through for APRA reporting and may enable industry aggregators to leverage existing processes.

Provision of Actual versus Estimates data

ACSA recommends providing only fee and cost data on an actual basis based on accounting and investment information that is readily available in members' respective source systems.

Estimates could be made by Fund Managers to Superannuation funds post the delivery of Custodian supplied data, or alternatively by the Superannuation fund once they have received actual data from upstream systems and Fund Managers.

Due to the commercial sensitivities involved in fee and cost disclosure, and the various estimation models Superannuation funds already have in place, it will be very difficult for Custodians to create an all inclusive fees and cost estimation model.

ACSA is of the view that in order for explicit costs to be included accurately in custodian based reporting, clients should instruct and code their fees and costs at source in a way that is granular enough to flow through to the most relevant downstream classification type.

Industry Aggregators

ACSA believes there is value for industry data aggregators to provide collation and dissemination services to the wider industry considering the breadth of data required for fees and costs disclosures.

To this end, ACSA recommends that members consider making available for use by other members of the industry, any templates they develop, to minimise the cost and complexity of the implementation of RG97.