the conexus INSTITUTE

Superannuation Data Transformation publication and confidentiality consultation

Submission

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About The Conexus Institute

The Conexus Institute is an independent, not-for-profit research institution focused on improving retirement outcomes for Australian consumers. Philanthropically funded, The Institute is supported by the insights of a high-quality advisory board, who work on a pro-bono basis. The Institute adopts a research-for-impact model and frequently collaborates with researchers from academia, associations, and industry. Where possible research is made open source to assist industry and create transparency and accountability. Further information here.

About David Bell

Dr David Bell is Executive Director of The Conexus Institute. Bell's career has been dedicated to the investment and retirement sector. He has worked with both commercial and profit-for-member firms, and ran his own consulting firm. Bell worked with APRA in the development of the APRA Heatmap. Academically, Bell taught for 12 years at Macquarie University and in 2020 completed his PhD at UNSW which focused on retirement investment problems. Full bio here.

About Geoff Warren

Dr Geoff Warren is an Associate Professor at the Australian National University and Research Director with the Consensus Institute, as well as a member of various investment and research advisory boards. Warren's research focuses on investment-related areas specially including superannuation and retirement, and is widely published in leading journals. He has a prior career in the investment industry spanning over 20 years. Full bio here.

***** The authors are willing and able to participate in further consultation. *****

Summary

The philosophy of The Conexus Institute broadly aligns with that outlined by APRA: to disclose as much data as possible, wherever safe. Disclosure has many benefits. It provides stakeholders and the public at large with a glimpse of how funds operate and the state of their portfolios and businesses. It can lead to system efficiency gains through facilitating peer comparisons and fostering competition. Data drives research, which can shed light on best practice and highlight issues that need addressing. Transparency will also raise the credibility of the superannuation sector. All this serves to improve the superannuation system and outcomes for retirees.

Some specific issues arise from making data publicly available, and we have considered three issues below. One suggestion is that APRA considers developing a framework for granting non-confidentiality exemptions on a case-by-case basis, perhaps with some guidelines to provide clarity and remove subjectivity.

We consider the public benefit in making more data available to greatly exceed the potential private cost associated with loss of confidentiality and costs of supplying the data. As such, we strongly support APRA's efforts in this area.

Specific considerations

1. Fee disclosures

There was mixed feedback from previous consultation on fee disclosures, particularly the issue of disclosing commercially sensitive arrangements subject to confidentiality agreements. We highlight three aspects that should significantly limit any potential impact:

a) Many services provided to funds are not directly comparable because of the unique mix of services embedded within each agreement.

b) Most favoured nations agreements are not uncommon, which involve contract provisions where the seller (or licensor) agrees to give the buyer (or licensee) the best terms it makes available to any other buyer (or licensee). This means that the issue is already being commercially managed in some instances.

c) The marketplace will adjust to the disclosures over a relatively short period of time, such that any negative impacts should not persist.

2. Investment service arrangements

Some stakeholders expressed concern that the publication of the investment asset class sector type allocations could allow users to cross-reference the data published by APRA with already publicly available information about funds' investment managers to determine the cost of individual service arrangements. The revised position of not including breakdowns by investment asset class sector type should avoid most adverse scenarios.

The main exception would be where a fund holds only one (or one significant) asset or investment within an asset class. This situation should be rare. Nevertheless, to guard against such a situation, APRA may consider granting non-confidentiality exemptions on a case-by-case basis. Guidelines might be provided for clarity and to reduce subjectivity in the granting of exemptions.

3. Asset valuations

Some funds have expressed concern over disclosing valuations of individual assets. The concern relates to the marketplace being able to form insight into portfolio carrying values of individual assets, which could place the fund at an information disadvantage, valuable when looking to transact on that asset. APRA's proposal to disclose Asset Class Characteristic 1, Asset Class Characteristic 2 and Asset Class Characteristic 3 classifications creates a risk that such situations could arise. Again we suggest that APRA may want to consider the granting of non-confidentiality exemptions on a case-by-case basis along with guidelines.