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30 August 2021

Confidential Submission

General Manager
Treasury
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Australian Custodial Services Association response on Superannuation Portfolio Holdings Disclosure ("PHD") Exposure Draft – dated 17 August 2021

Dear Sir/Madam

The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients and the market.

Collectively, the members of ACSA hold securities and investments in excess of AUD $4 trillion in value in custody and under administration. Members of ACSA include NAB Asset Servicing, J.P. Morgan, HSBC, State Street, BNP Paribas Securities Services, Citi and Northern Trust.

While members of ACSA are not the subject of the regulation, many ACSA members are currently engaged by RSE's to assist in meeting their regulatory reporting obligations. This will typically utilise the accounting and valuation records maintained by the custodian (as investment administrator) for the fund. Accordingly, it is expected that ACSA members will continue to play a significant role in collecting and collating performance information, investment data to support clients' data needs including PHD requirements.

ACSA welcomes engagement with Treasury on increasing the amount and quality of information available to superannuation fund members. The over-riding principles should be that the data is fit for purpose, practicable to produce, based on standard data and calculation definitions, and be harmonised across regulatory agencies (in terms of data dictionary and reporting timelines) where appropriate.

Please note that the views expressed in this letter are prepared by ACSA for the purposes of consideration by Treasury in response to the PHD exposure draft published on August 17, 2021 and should not be relied upon for any other purpose. The comments in this letter do not comprise financial, legal or taxation advice and should not be regarded as the views of any particular member of ACSA.

EXECUTIVE SUMMARY

Key points from our review of the proposed PHD reporting changes include:

- The need for further industry guidance, in particular data definitions that are clear given the high granularity of data points in respect of derivative instruments for example.
- Consideration should be given to alignment and harmonization, where appropriate, with other regulatory data disclosure and collections, such as the APRA Superannuation Data Transformation collections.

KEY INDUSTRY FEEDBACK

Whilst not exhaustive, ACSA provides the following as examples of the need for further industry guidance:

Alignment with existing regulatory reporting

Schedule 8D of the exposure draft lays out information about assets based on a method of like asset class assets. It appears Treasury have applied the APRA SRS 533 asset class types, though not entirely. ACSA recommend that consideration should be given to apply the latest APRA asset class sector types as defined in the SRS 550.0: Asset Allocation reporting standard. An example of where this harmonisation to the latest APRA definitions would be beneficial is in the case of REITs - APRA SRS 550.0 defines the property asset class sector type to include REITs.

The requirement to include a credit rating to the disclosure of various derivative positions may add to the cost to members of providing this information due to the need to source appropriate vendor licenses. ACSA recommend that Treasury consider a similar approach to that adopted by APRA in masking the ratings by mapping to equivalent values that are understandable to members. For example, any rating over a certain value could be deemed 'investment grade' in line with the SRS 550.0 definition.

Expansion to the scope of the aggregation of similar investment assets

The exposure draft includes an amendment to allow for the aggregation of cash and bank bill investment assets by institution. ACSA is of the view this aggregation in principle is a positive outcome in simplifying the disclosure of these types of assets. ACSA recommends a definition of 'relevant institution' is imperative to ensure industry accurately and consistently aggregate these like assets. In considering a definition, ACSA recommends Treasury engage with industry to ensure market data is available to meet the definition in an efficient manner.

In addition, ACSA recommends that Treasury considers additional areas where investments assets could be aggregated in an effort to improve members' understandability of data being disclosed through a reduction of the volume of data being reported, without significantly compromising the transparency. For example, an investment option may have exposure to a significant number of fixed income securities issued by the same issuer, which could be aggregated on this basis. Similarly, the consolidation of similar derivative positions, such as interest rate swaps or forward currency contracts by counterparty rating and currency pair respectively would not be expected to significantly impact a member's view of the underlying assets held within their investment option, but is likely to make the information disclosed easier to consume.

Sub-division of infrastructure and property into directly held and unitised

The amendment to allow the disclosure of directly held property and infrastructure assets separately from like assets held in a unitised manner is another area that would benefit from clear definitions, for example, a definition of directly held. Again, consideration should be given to align with the definitions currently in place for APRA reporting purposes where directly held investments have the meaning of "… investments made by the RSE in its own name. Includes investments held by a custodian."

Regulatory guidance and definitions

In addition to the items highlighted above, ACSA recommends that Treasury consider the release of further regulatory guidance that provides clear definitions for each data point that requires disclosure. This would assist industry participants in implementing the requirements in an efficient and cost-effective manner, whilst ensuring the reporting output is consistent between different RSEs.

CONTACT INFORMATION

We welcome further dialogue with representatives on the views of ASCA and thank you for your consideration to date.

If you have any questions in relation to this letter, please direct those questions to the Chair of the ACSA Regulatory Affairs Working Group, Adam Taxakis (Tel: +61 455 075 915, Adam.Taxakis@nab.com.au).

Yours sincerely

Sally Surgeon

Chair
Australian Custodial Services Association
About ACSA

Important Note
The comments in this submission do not comprise financial, legal or taxation advice and should not be regarded as the views of any particular member of ACSA.

About ACSA
www.acsa.com.au
The Australian Custodial Services Association (ACSA) is the peak industry body representing members of Australia's custodial and investment administration sector. Our mission is to promote efficiency and international best practice for members, our clients and the market. ACSA works with peer associations, governments, regulators and other market participants on a pre-competitive basis to encourage standards, process consistency, market reform and operating

efficiency. Established in 1994, ACSA members currently hold assets in excess of $4.4 trillion in custody and under administration for Australian institutions.

The key sectors supported by ACSA members include large superannuation funds and investment managers, as well as other domestic and international institutions. Custodians provide a range of institutional services to clients including traditional custody and safekeeping, investment administration, foreign exchange, securities lending, transfer agency, tax and financial reporting, investment analytics (risk, compliance and performance reporting), investment operations middle office outsourcing and ancillary banking services.