Superannuation Data Transformation Team
Australian Prudential Regulation Authority
Level 12 1 Martin Place
Sydney NSW 2000

Dear APRA:

This letter should be seen as our official response to the Superannuation Data Transformatino Project Minor Amendments Discussion Paper. None of what is listed below should be viewed as confidential and we encourage you to publish this. The format lists out the specific portions of the Discussion Paper that we are responding to followed by our specific comments. Additionally there are some items not identified directly in the Discussion Paper that we make an argument for at the end.

FROM REGULATION:

2. Asset allocation reporting on SRS 550.0 Asset Allocation

APRA is proposing amendments to reporting under SRS 550.0 in response to industry feedback to improve the consistency and comparability of classifications, put in place an appropriate guidance regarding look-through expectations and align definitions to other reporting and disclosure requirements to reduce burden.

2.1 Look-through guidance

RSE licensees are required to report on an APRA look through basis for investments held via an investment vehicle. APRA expects RSE licensees to be able to report the asset class sector, domicile and listing type at a minimum for all investments each quarter, regardless of how investments are held. RSE licensees have highlighted difficulties with obtaining data on detailed asset class characteristics from non-connected external fund managers. In response, APRA is clarifying the application of APRA-look through in relation to detailed asset class characteristics and derivatives to enable entities to report the best available data without concerns of breaching the requirements. To support RSE licensees in understanding APRA's expectations regarding when look through is to be applied for detailed asset class characteristics, APRA has proposed amendments to the instructions in SRS 550.0 to clarify the intent:

- Directly held (including via investment management mandates) Apply classification of the asset for all characteristics in Table 2
- Investment vehicle –connected entity: Report on an APRA-look through basis: e.g. obtain information to classify the investment by all characteristics in Table 2.
- Investment vehicle – non-connected entity: Obtain information to classify the investment by asset class, domicile and listing type, and modified duration for the vehicle where relevant. Where information on detailed asset characteristics 1-3 is available, report this information, including where relevant 'diversified'. Where information is not available, report based on best estimate or report 'not available'.

Response: We are supportive of this change as this will allow industry participants to have more confidence in the data that they are providing. However, as a primary data collector of non-connected external fund manager data we will still request Asset Class 1-3 for all funds reported to us.

FROM REGULATION:

APRA has also proposed to amend guidance to clarify that if investments data relating to investment options as at the quarter end is not available at the due date, RSE licensees are to use best data available as at the reporting date. If there is found to be a material difference when the actual data is received, RSE licensees will need to revise submissions at the next quarter submission date. RSE licensees will need to assess materiality based on the use of the data and whether that difference it would impact the users' interpretation or decision based on that data.

Response: We are supportive of APRA's proposal to allow RSE licensees to use the best available data in their submission. A significant issue for fund managers with this regime is the ability to submit in a timely fashion. Giving RSEs the ability to look back where needed will increase the number of funds available for reporting at each quarterly submission date with only limited impact to the quality of the data, given that the majority of funds will have relatively consistent actual and currency data and likely identical strategic asset-allocation data. We do, however, suggest that only a single look-back period is allowed to limit the risk of incorrect data being submitted at a particular date. Note as well that while the regulation requires quarterly reporting—Morningstar has engaged external fund companies to provide this on a monthly basis, which would further decrease the quality impairment due to look-back.

FROM REGULATION:

2.2 Asset allocation classifications

In response to industry feedback, APRA proposes to clarify the following definitions to ensure consistent reporting:

- Asset sector: 'Cash'
- 'Effective exposure'
- Characteristic 1 for equity – listed: 'micro cap', 'small cap', 'mid cap' and 'large cap'
- Characteristic 2 for 'fixed income – 'enhanced cash'

APRA proposes to introduce two additional classifications to asset class characteristic 2 'Cash Foreign Exchange Derivative Contracts' and 'Cash Offset Derivatives' to enable users of the data to distinguish between liquid cash and adjustments for derivative reporting. In response to feedback that for indirect property and infrastructure investments, RSE licensees are often unable to obtain sufficient information about diversified property funds to classify these investments by characteristic 1 'Development' and 'Established', APRA proposes to include classifications under SRF 550.0 Table 2 and SRF 550.1 Table 1 for nonconnected diversified property and infrastructure investment vehicles, including Real Estate Investment Trusts (REITs) of: Core, Core Plus, Value Add and Opportunistic. See Table 4 for details. As per FAQ 550.0 J APRA also proposes to include a classification for characteristic 3 to enable reporting on quasi government, public private partnerships and government-owned privately-operated infrastructure.

Response: Morningstar believes that these changes would be conducive to improvements from the current regime—but highlights a potential roadblock to any further changes.

The change to equity size information is the most positive, as that was the most-raised issue from the fund managers. The inclusion of the set breakpoint in the definition in SRS 101 should allow fund companies to more easily break their securities into the buckets with more confidence. It should be noted, however, that all changes to the schema will result in industry players needing a long lead time to update processes to encompass these changes. There will be data sourcing and tech work required by fund managers, schema changes, and new validation rules by intermediaries, as well as changes to reporting processes by RSEs. Receiving the underlying holdings from the industry would allow breakdowns, characteristics, and schemas to be managed by APRA and would result in a much more dynamic and easier-to-update schema.

FROM REGULATION:
The classification of economies by the United Nations Conference on Trade and Development (UNCTAD) has recently changed. APRA has received feedback from industry that the new classification is now less aligned with industry convention on developed and emerging market classifications. APRA does not propose to update the definition, however APRA will continue to liaise with industry working groups and should a better classification approach become available, will revise the reporting requirements in due course.

Response: Morningstar has no comment other than to urge the use of a classification system that is easy to access and free to all industry participants.

FROM REGULATION:
2.3 Strategic asset allocation
As outlined in FAQ 550.0 X, APRA proposes to update the reporting instruction to clarify the requirement to report on an APRA-look through basis for SRF 550.0 Table 1. APRA also proposes to update the definition and instruction for strategic asset allocation and strategic sub-sector in response to industry feedback as per FAQ 550.0 V, to improve alignment with update Prudential Standard SPS 530.0 Investment Governance (SPS 530.0) and to improve consistency of reporting. SPS 530.0 provides that "An RSE licensee must, at a minimum, determine for each investment strategy for an investment option that includes multiple assets and/or asset classes

A. Asset allocation targets and ranges that are appropriate to the investment objectives of the investment option
B. The basis on which asset allocation targets and ranges would be changed; and
C. A policy to monitor and maintain the asset allocation within the determined ranges within a reasonable timeframe."

Response: Morningstar supports clarifying APRA's expectations regarding strategic reporting. During our recent engagement with fund managers around this regulatory regime, several managers pushed back or expressed their lack of desire of reporting their strategic asset allocation while some declined citing that the obligation is on the RSE. While this is technically true, our view is that the RSE requires the data from the underlying fund manager, as that is who will effectively set the target ranges and benchmark. Clear guidance in the regulation would help to alleviate those issues.

FROM REGULATION:
6. Allowing additional time for reporting on investment objective performance and on investments
RSE licensees have provided feedback that data is not always available as at the reporting date. For example, Investment objectives e.g. Consumer Price Index data used by some RSE licensees for reporting the investment objectives of investment options are not always available within 28 days of quarter end. As the data for reporting flows through different layers of industry participants before reaching the RSE licensee, it adds to timing of the reporting process for RSE licensees where there are multiple layers. APRA considers that timely reporting of asset allocation targets and net investment returns is critical, and will retain the 28 day timeframe in respect of this reporting. In response to industry feedback on the challenges outline above, APRA proposes to:

- Extend the reporting timeframe to 35 calendar dates after the end of the reference period for items collected under SRS 550.0, other than SRS 550.0 Table 1: Strategic Asset Allocation which will have an unchanged due date of 28 calendar days.

Separate out the collection of benchmark return from SRF 705.1 Table 2 into a new table SRF 705.1 Table 3: Benchmark Returns with a reporting due date of 35 calendar days after the end of the reference period.

Response: Morningstar limits its comments here to the section around SRS 550 reporting. Our view is that the time frame for reporting should be sufficient for RSE licensees to assemble their reports, which requires alignment with the fund managers who are providing the underlying data. Morningstar has experienced a number of providers taking longer than 35 days to provide their data through. Additional funds report data between the 25- to 30-day range, which may not be sufficient lead time for RSEs to create their reports. Below is a breakdown of the funds that we have received in the last to reporting periods. Note that the data is trending in the right direction but given the number of funds reported after 20 days, even an additional week may not be sufficient time to report.
The below outlines the number of funds from our target list (based on fund lists from participating RSEs) that we have received for June and September by the particular business day after quarter-end.

Business Day	Calendar Day	Share classes received, effective date as June	Share classes received, effective date as September
10	14	97	144
15	21	181	802
20	28	313	1091
30	42	624	3050
>30	>42	3791	3145

We also disagree with the carve-out for Strategic Asset Allocation (550.0 Table 1) to remain at 28 days. Morningstar's experience is that the vast majority of fund managers provide this data at the same time, and having these reports due at different times will either result in no relief to RSE licensees (as they will still report to meet the 28-day reporting period for SAA) or SAA data being late as they update their processes to report later, higher-quality data. From an operational perspective, Morningstar does not intend to change our reporting process and will continue to ask for this data on business day 10 to help facilitate the rapid transmission of data to RSE licensees.

ADDITIONAL COMMENTS:

Lack of regulatory impost on external fund managers

While this regime relates directly to RSE licensees, external fund managers play a significant role in the data provision, and we have witnessed a lack of urgency on their behalf to meet the reporting requirements in the necessary time frames. It is Morningstar's view that it would be desirable for ASIC to regulate the reporting of the fund managers themselves in order to enhance the quality and timeliness of the data provided by fund managers. In the absence of that regulation the onus would fall on RSE licensees to pressure these fund managers to provide or remove them from their menus if they do not comply. This would lead to poorer outcomes for investors as access to options would decrease.

Historical Impact of Changes:

Morningstar strongly feels that this change needs to be implemented from the go-live date moving forward. To require all data providers to resubmit over a year's worth of data under a new schema would require heavy resource investment from fund managers and may lead to substantial data coverage gaps for limited benefit.

Sincerely,
Your Morningstar Team