Consultation on APRA's Superannuation Data Transformation –

Morningstar Response

Phase 1 - Expenses, Asset Allocation, Insurance Arrangements and Fees and Costs

Attn: General Manager, Data and Analytics & Insight
Cross-Industry Insights and Data Division
Australian Prudential Regulatory Authority
GPO Box 9836
Sydney, NSW 2001

superdatatransformation@apra.gov.au

Executive Summary

Morningstar greatly appreciates the opportunity to engage with APRA and participate in the consultation process. Morningstar is an investor-centric organization. Our mission to empower investor success underpins a desire for high degree of transparency and this is reflected in many of our comments.

Morningstar agrees that the opaqueness of the superannuation industry is something that needs to be addressed. Transparency and consistency of data leads to better investment outcomes, and choices for individuals – either directly or through the provision off high-quality data driven financial research and advice. To that end, Morningstar has long been a vocal proponent of managed investment fund disclosure for the industry. We note in our global fund investor survey – which analyses 28 different fund markets - there are aspects of disclosure to which Australia is a notable laggard. Standards set by regulators go a long way to improving the disclosure within the industry and therefore improving investor outcomes – and we welcome any work done in this space.

The core principles we consider to be relevant considerations when analysing a regulatory standard include:

1. The data is readily usable and easily digestible by market participants
2. The data is relevant in the decision making process of investment OR,
3. The data is relevant in assessing risk, at an individual or systemic level
4. The benefits of the above three are not outweighed by the cost – which ultimately falls on the investor

Morningstar has a long history of assisting our clients to meet and discharge their regulatory obligations and make meaningful use of that data to empower investor success. In particular, many of the largest platforms and RSEs rely on data that Morningstar collects, analyses and validates, in order to meet their regulatory reporting and disclosure obligations . Some notable recent examples include:

- RG97 compliance and reporting for periodic statements and point of sale disclosure.
- APRA's 530 series Asset Allocation reporting requirements
- A real time document library of product disclosure statements

We feel we are in a unique position to respond and provide APRA with insight. In particular we will restrict our response to areas we have significant experience, namely Asset Allocation and Investor best interest.

Asset Allocation

Background

We are following your proposal regarding selected investment options for the draft SRS 550 with a lot of interest as it will be particularly impactful to us in how we collect and interact with the industry and how clients will facilitate investment research through our products.

As a way of background, Morningstar typically plays a significant role in how RSE's collect, clean, collate and disseminate data from external managers on their various wrap and master trust platforms for Asset Allocation data. We collect APRA-style asset allocation data from organisations that are not themselves required to report to APRA, for other organisations that are. Maintaining multiple standards is an unnecessary burden, and we are actively considering adopting the APRA SAA and actual AA structure for reporting as an across-the-board standard in Australia.

Currently, Morningstar collects data from external managers using the attached template. The template allows RSE's to compile their overall asset allocation for RSE level reporting. You can see there are roughly 140 fields for asset allocation – but for the most part, we find that around 50 fields will make up more than 99% of the submitted data.

Comments

In reviewing the SRS 550 we noticed there is scope for well over 4000 different combinations of asset class exposures to be supplied. Our reading is that the standard would require an asset manager (employed by an RSE via a platform or direct mandate) to match every individual security of the portfolio to one of those 4000 combinations, before calculating the rolled-up exposures. This would seem a heavy burden, and without standardised definitions there is a concern that the output may not be of the highest quality. This burden will introduce significant costs for asset managers and the industry, which inevitably will be passed on to investors, cancelling out much of the investor benefit of APRA's increased oversight.

Asset Allocation cont...

Suggestion 1

Typically, in all other countries we operate in we have seen regulators seeking this level of granularity in exposure reporting simply mandate for full portfolio holdings disclosure.

That allows for a consistent lens at the regulator level with which to view the data in aggregate to assess systemic risks. This would better align with your goals of cross sectional analysis and comparability you seek in the below two key drivers you note from topic paper 5.

- comparability across all investments held by RSEs, including the risks and exposures being undertaken by RSEs;
- consistency and granularity in reporting of asset allocation, particularly in relation to asset class characteristics; and

It also allows you to be nimble in response to new trends associated with investing such as new securities and asset allocation – without the needs to amend the standards to capture this

Suggestion 2

Expand the reporting scope to 'select investment options' of the existing standard– but keep the existing taxonomy in place. From our perspective the taxonomy as it exists today is already thorough and the industry has adopted workflows to meet this obligation.

Summary

Morningstar's most pressing issue with this draft standard is the extensive systems build required to achieve this new level of granularity – and the significant cost to the industry, which will ultimately negatively impact investor outcomes.

We believe there is a taxonomy and data flows present today which already will allow APRA to meet what you are trying to achieve. If more granularity is required, it is far more efficient and effective to mandate portfolio holdings submissions.

Lead Time

Considering the scope of the proposed changes, it will be vital to give ample lead time to all industry participants to ensure that the data received is of the highest quality. It is Morningstar's experience that any new calculations have a realistic lead time of 12 to 18 months depending on the complexity of the calculation and the gap between what exists today. Asset Allocation for instance is likely to require new reference data sets, methodology, development, and processes to be set up across all providers. Without the appropriate lead time, data quality, consistency, and comparability would suffer.

Engagement

With these comments in mind, Morningstar would gladly continue to engage with APRA to ensure that the Standards result in the greatest benefit to the end investor.