

Super Update

April 2021

In this issue

1 Phase 1 of APRA's data transformation project finalised

APRA has finalised phase 1 of its data transformation project, with a very short timeframe for funds to implement this significant change.

2 APRA's priorities for 2021

APRA has released details of its policy and supervision priorities for 2021.

3 Legislative update

We provide an update on various bills and regulations affecting super.

4 News in brief

APRA *Insight* publication and the latest APRA superannuation statistical publications.

5 A guide to key changes

A reminder of various changes to superannuation and their effective dates.

Phase 1 of APRA's data transformation project finalised

On 25 March 2021 APRA finalised stage 1 of its 3-phase data transformation project, with the release of 10 new reporting standards and a Response paper. By way of background, the data transformation project has been structured as follows:

- phase 1 (breadth) addresses the most urgent gaps in APRA's data collection, particularly for Choice products and investment options; this phase includes some data needed to support the 2020 Budget "Your Future Your Super" (YFYS) performance test

- phase 2 (depth) will increase the granularity of the entire collection (although there have been increases in the granularity of certain data as part of phase 1)
- phase 3 (quality) will assess the quality and consistency of the additional data reported during phases 1 and 2, and review and address any implementation issues.

Ten new reporting standards have been released under phase 1. Several of these now include more than one reporting form – for example, new reporting standard SRS 251.0 includes four reporting forms numbered SRF 251.0-251.3. This is a change from the way the reporting standards were previously constructed.

Definitions for all data items in the new reporting standards have been centralised in reporting standard *SRS 101.0 Definitions for Superannuation Data Collections*. This standard does not contain any reporting forms – its 52 pages are solely definitions to support the other standards and forms. The expansion of the data collection to Choice products has resulted in a large number of new definitions. For example, APRA has introduced two new "layers" for categorising products and investment options. The new granularity (discussed below) has also resulted in a proliferation of new definitions.

The most common concerns raised in submissions related to the short time frame available to implement the required system changes, the amount of granularity in the data that will be required, and the challenges presented by requirements for historical data. APRA has responded to feedback on the short time frame with what it has described as a staged implementation approach. For most of the new reporting, the first reporting period remains as the period ending 30 June 2021, with a due date of 30 September 2021. The staged implementation approach applies only to the following areas:

- a temporary (one year) reduced coverage of products, investment menus and investment options for reporting on performance, asset allocation and fees and costs
- a temporary (one year) application of a materiality threshold for some but not all categories of expense reporting – Appendix B of the Response paper includes some detail
- a delay (one year) for reporting on (whole-of-fund) investments and currency exposure
- a two-year transition arrangement for reporting on asset allocation characteristics, in response to submissions stating that some required data is not currently captured and that trustees would need to rely on downstream providers to implement new asset allocation classifications and make technology and systems changes. APRA will also continue to work with the industry on this topic.

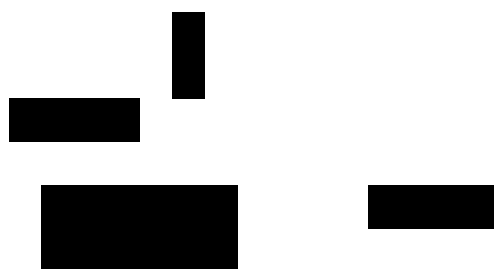
All the new reporting forms will have to be submitted using APRA's new data collection solution, APRA Connect. This solution will only be implemented in September. The existing data collection will continue to be reported via Direct to APRA for the time being. In response to what APRA acknowledged was "a high level of concern" regarding APRA Connect not being available in sufficient time for the implementation of the new data collection, a test environment will be available from the end of June 2021 with a small number of funds being involved in a pilot in the test environment in April/May 2021.

APRA had proposed to grant exemptions where the data to be collected is duplicated in multiple reporting forms or across old and new forms, and this was supported by the submissions. However, APRA has decided to retain all the existing reporting as well as the new data collection for an unspecified period until "appropriate quality of reporting under the new framework is achieved". There was also little movement on APRA's requirement for much increased granularity in the data to be collected. APRA considers that the extra granularity is needed to strengthen APRA's and other regulators' oversight of the industry and to support government policy making.

There is a new requirement to provide 10 years of historical investment performance data. The Response paper states that APRA recognises that some trustees, as a result of structural changes, may find it hard to provide the required data for the full 10-year period. In such cases, trustees should contact APRA to discuss their proposed approach well ahead of the submission due date.

There will also be a new quarterly collection of investment option volatility information, as measured by the annualised standard deviation of weekly option returns over five and 10 year periods. Some submissions raised concerns regarding the weekly requirement, suggesting that the measure be based on monthly data to align with existing industry practices. APRA therefore revised its requirements to accommodate funds where the unit price or crediting rate is struck less frequently than weekly. The Response paper states that monthly data can be used in this situation, but only where it is not possible to use weekly data and any such cases need to be discussed with APRA.

There has been some movement on the significant increase in insurance data that will need to be reported. Only five (not 10) years of historical data will now be required. Funds that do not have five years of the relevant data due to successor fund transfers or mergers should contact APRA for specific consideration of their circumstances.



There is a short chapter on the YFYS proposals in the Response paper. It states that APRA identified a small number of amendments that had to be made from the draft reporting standards to accommodate YFYS, and that APRA does not anticipate further significant changes although some may be required once the legislation and regulations are finalised. It is possible that these may be addressed through guidance rather than revised reporting standards.

We recognise that some of the detail and haste associated with the new data collection is being driven by the government, especially the YFYS changes. But the short amount of time available to the industry to implement the new data collection is concerning. There is no doubt that this data collection will result in additional costs that will ultimately be born by super fund members. Further, in our view the risk of products being labelled as underperforming and even closed on the basis of data submitted with insufficient time for proper checking must be taken into account by APRA and the government.

APRA's priorities for 2021

At the start of February, APRA released details of its policy and supervision priorities for 2021 and beyond.

The policy priorities for superannuation include:

- supporting the reforms contained in the YFYS bill (discussed in our legislative update below), including any updates to prudential standard *SPS 515 Strategic Planning and Member Outcomes* and its supporting prudential practice guides SPG 515 and SPG 516 that may be required
- progressing the changes identified in APRA's post implementation review of the prudential framework from 2019. This includes proposed changes to *SPS 250 Insurance in Superannuation* and SPG 250, but it will also cover consultation on updates to *SPS 530 Investment Governance* in the first half of 2021 and on *SPS 231 Outsourcing* in the second half of the year. APRA will also review *SPS 220 Risk Management* in 2022 and release updates for consultation. Discussion papers on changes to *SPS 510 Governance*, *SPS 521 Conflicts of Interest* and *SPS 520 Fit and Proper* are also planned for 2022.

The supervision priorities for superannuation include:

- completing a review into unlisted asset valuation practices that APRA commenced in 2020
- reviewing trustees' implementation of the Member Outcomes requirements – APRA intends to examine the Business Performance Reviews of a range of trustees. One of its focus areas will be how trustees demonstrate they are responding to the impact of COVID-19 on their business operations. Under this heading, APRA will also examine expenditure management of certain advertising, promotion, sponsorship and payments to parent organisations by a select group of trustees
- continuing its heightened supervision of MySuper products identified as underperforming on its MySuper Heatmap. This will be extended to underperforming Choice products based on the expansion of the Heatmap to Choice products in 2021 (see below). APRA will take enforcement action where appropriate to require trustees to improve performance or transfer members to another product
- completing an in-depth review of selected large trustees' management of outsourcing providers, focusing on related party arrangements and managing conflicts of interest
- ongoing work on the data transformation project and supporting trustees on the introduction of APRA Connect.

A Choice product heatmap will be released in the second half of 2021 that will cover multi-asset class choice options and will highlight areas of underperformance in those products. APRA will also publish the results from the government's performance test (assuming the relevant legislation is passed by the parliament).



There are a number of cross-industry initiatives that will also impact super funds:

- under the heading of governance, risk culture, remuneration and accountability (GCRA), APRA will conduct a broad thematic review and analysis over 2021 which will include a review of the adequacy of skills and experience on boards, effectiveness of board appointment and renewal processes, and the quality of board and director performance reviews. This will also involve the finalisation of *CPS 511 Remuneration* around mid-year, which will apply to super fund trustees as well as other regulated entities
- a cross-industry information paper on compliance risk management will be published in 2021
- under the heading of “financial system resilience”, APRA will sharpen its supervision of super fund trustees by advancing the role of stress testing in providing assurance and insight at both industry and entity level. APRA already regularly conducts stress tests across the banking and insurance sectors to assess their resilience to severe but plausible adverse scenarios
- late in 2021 or early in 2022, APRA will release for consultation a draft cross-industry prudential standard on recovery and resolution planning. This will include expanding recovery and resolution planning in the super industry.

Legislative update

The parliament passed two superannuation-related bills before it rose for the autumn recess late in March 2021. In addition some new regulations have been made, and the bill containing the YFYS changes was introduced to parliament:

- the Financial Sector Reform (Hayne Royal Commission Response No. 2) Bill received Royal Assent on 2 March 2021. This bill imposes new disclosure requirements for financial service providers who receive fees under an ongoing fee arrangement. It also amends the general fee rules to prohibit trustees charging advice fees to members (excluding fees for advice that can be charged for collectively via the administration fee) unless they are charged in accordance with an arrangement to which the member has consented. Finally, it prohibits advice fees being charged to MySuper members under an ongoing fee arrangement, and it restricts other advice fees being charged to MySuper members unless they are in accordance with an arrangement entered into by the member. The fee changes will take effect for new arrangements entered into from 1 July 2021 and for existing agreements on that date from 1 July 2022
- the Income Tax Assessment Regulations 1997 were repealed early in March 2021, as they were scheduled to sunset on 1 April. The replacement regulations, called the Income Tax Assessment (1997 Act) Regulations 2021, were registered at the same time. The Explanatory Statement includes information on any substantive changes that have been made in moving from the previous to the new regulations, as well as a finding table as some of the regulations have been renumbered
- the Treasury Laws Amendment (Reuniting More Superannuation) Bill received Royal Assent on 22 March 2021. This bill effects the closure of Eligible Rollover Funds to new members from 1 May 2021 and commences the transfer of accounts to the ATO. In a late amendment, it also grants trustees a power to voluntarily transfer the benefits of members, former members and non-member spouses to the ATO if they reasonably believe the payment would be in the best interests of the person
- on 24 March 2021 regulations were registered prescribing the content requirements for written consents under ongoing fee arrangements.

The YFYS bill (technically the Treasury Laws Amendment (Your Future, Your Super) Bill 2021) was introduced to the House of Representatives on 17 February 2021 and the following day was referred to the Senate Economics Legislation Committee for review and report by 22 April 2021. Submissions closed on 18 March 2021. There were few changes in the final bill from the draft released for consultation, with the much of the necessary detail of the performance test remaining in as yet unseen regulations. One unexpected change was the reappearance of the government's portfolio holdings disclosure measure, which was originally legislated as part of the Stronger Super changes in 2013 and has been on hold ever since. The government has confirmed that this is back on the agenda, with the first reporting date now to be 31 December 2021. In addition, a previously legislated exemption to the disclosure requirements for up to five per cent of fund assets that were considered commercially sensitive by the trustee is proposed to be removed in the interests of additional transparency.

As the parliament does not now resume until the Budget session commencing 11 May 2021, this leaves an extremely short window in which the YFYS bill must be passed and the regulations released and made before the measures are scheduled to commence on 1 July 2021. Given how much of the detail of the measures will be in the regulations, and the fact that funds are already dealing with APRA's data transformation, changes to internal dispute resolution and the design and distribution obligations this year, we would urge the government to defer the start date to enable funds to properly respond to this significant change.

News in brief

APRA Insight publication

On 9 March 2021 APRA issued the first edition of its *Insight* publication for the year. The content included an article identifying certain practices in insurance in superannuation that could negatively impact some members, a discussion on APRA's data strategy and the new APRA Connect, and an "APRA Explains" article on successor fund transfers aimed at super fund members.

Various APRA superannuation statistical publications released

Highlights of APRA's December 2020 *Quarterly Superannuation Performance* publication, issued on 2 March 2021, included the following:

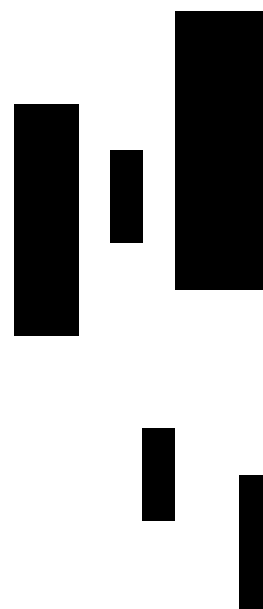
	Dec 2019 (\$ billion)	Dec 2020 (\$ billion)	Change
Total superannuation assets	\$2,977.4	\$3,043.1	+2.2%
Total APRA-regulated assets	\$2,003.7	\$2,064.1	+3.0%
Of which: total assets in MySuper products	\$801.8	\$812.2	+1.3%
Total self-managed super fund assets	\$764.8	\$764.2	-0.1%

APRA noted that there was a 2.2% increase in the value of total superannuation assets over the 12 months to 31 December 2020 as financial markets recovered through the second half of the year. Benefit payments for the December 2020 quarter of \$21.3 billion were significantly lower than the \$33.9 billion paid during the prior quarter as demand for COVID-19 early release payments diminished.

APRA's MySuper statistical publication for the December 2020 quarter was issued on the same date. This report is issued on a product by product basis and APRA does not report overall summary statistics.

On 29 January 2021 APRA released its *Annual Superannuation Bulletin* for the year ended 30 June 2020. Its final report on the COVID-19 early release scheme was published on 8 February 2021. Over the duration of the scheme, super funds received 4.9 million applications with a total value of \$37.3 billion. 1.4 million applications were repeat applications approved during the second period covering 1 July to 31 December 2020. The average payment made over the course of the scheme was \$7,638. Repeat applications were for an average amount of \$8,268 while initial applications were for an average amount of \$7,402.

Late in March 2021 the 30 June 2020 *Annual Fund-level Superannuation Statistics* publication was reissued – it had first been released in mid-December 2020.



A guide to key changes

The dates that follow were correct as at the time of publication of this edition of *Super Update*.

Table 2: A guide to key changes

Date	Change
1 May 2021	ERFs closed to new members.
1 Jul 2021	Next scheduled increase in SG (to 10.0%).
1 Jul 2021	Proposed start date for performance tests for MySuper products.
1 Jul 2021	Commencement of new advice fee rules (for new fee arrangements).
30 Sep 2021	First reporting due date for APRA's new reporting forms under stage 1 of its data transformation project.
5 Oct 2021	Design and distribution obligations for certain super products (excluding MySuper and defined benefit products) commence.
5 Oct 2021	Commencement date of <i>RG 271 Internal dispute resolution</i> .
31 Dec 2021	Current first reporting date for portfolio holdings disclosure.
1 Jul 2022	Start date for application of "shorter" PDS regime to multi-funds, platforms and hedge funds.
1 Jul 2022	Proposed start date for performance tests for certain Choice options.
1 Jul 2022	Commencement of new advice fee rules (for existing fee arrangements prior to 1 July 2021).
30 Sep 2022	Final date for <i>RG 97 Disclosing fees and costs in PDSs and periodic statements</i> to apply to PDSs.
1 Jul 2023	Start date for publication of product dashboard for certain 'choice' products.
1 Jul 2023	MySuper product dashboards to be included in periodic statements.
1 Jan 2024	Commencement of section 29QC of the SIS Act.
1 Jul 2024	Start date for website disclosure of certain information relating to employer-sponsored sub-plans.

About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets. We design and deliver solutions that manage risk, optimise benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas – the dynamic formula that drives business performance. Together, we unlock potential.



willistowerswatson.com/social-media

The information in this publication is general information only and does not take into account your particular objectives, financial circumstances or needs. It is not personal advice. You should consider obtaining professional advice about your particular circumstances before making any financial or investment decisions based on the information contained in this document.

Towers Watson Australia Pty Ltd (ABN 45 002 415 349, AFSL 229921)
Copyright © 2021 Willis Towers Watson. All rights reserved.
WTW726AU

willistowerswatson.com

Willis Towers Watson