

**Submission to Superannuation Unit, Financial System Division**

**The Treasury, Australian Government**

**by**

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**A Response to the Discussion Paper “Better regulation and governance, enhanced transparency and improved competition in superannuation”**

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## **About Sirca**

Sirca's mission is to develop and provide relevant global data and advanced tools to promote and enable financial research and innovation, particularly by member universities. Sirca was founded in 1997 by a group of collaborating Australian and New Zealand universities as a not for profit company to support the needs of academic researchers, in a world where data volumes were accelerating dramatically.

The original group of founding universities has been joined by many more over the years; Sirca now counts over 35 universities in Australia and New Zealand as members (a list of member organisations is available at: <http://www.sirca.org.au/about-sirca/members/>), and counts many more international universities, central banks, regulators and public sector agencies as customers. A large proportion of the total research output in accounting, finance and business related disciplines among Australian and New Zealand universities is produced by researchers employed in Sirca-member universities.

Sirca provides its members and customers with access to vast and comprehensive online repositories of global news and financial markets data. Sirca is a world leader in a number of areas of technology related to financial services including understanding financial instrument data structures, managing the ingestion of significant financial market-data streams and managing large-scale archival financial market data sets.

This submission is made by Professor Terry Walter in his role as Chief Research Officer at Sirca Limited.

## **Overview of this submission<sup>1</sup>**

The Super System Review (The Cooper review) was presented to the Government's on 30 June 2010. It was a major review with sweeping recommendations for the reform of the Australian superannuation saving system. Two Highlights (1.10 and 1.12) of the Cooper Review that are particularly relevant to this submission are as follows:

### Highlight 1.10

"Each fund would be required to provide free of charge on its website, detailed financial and operational information about the fund (including its portfolio holdings) and about the fund's management to greatly increase accountability and availability of information to those who are interested."

### Highlight 1.12

"Improving the quality and availability of data and research on the superannuation industry facilitates decision-making, ensures participants in the industry are held to account by members, regulators and peers and gives confidence in the integrity of the system. The

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<sup>1</sup> This submission was prepared initially in response to the Australian Prudential Regulation Authority's Discussion paper, 2013, "Publication of Superannuation Statistics and Confidentiality of Superannuation Data". It has been only slightly modified in making this submission to Treasury.

importance of this issue justifies regulatory intervention so APRA would have an increased role in this area.”

The Governments Response to the Cooper Review)<sup>2</sup> supported, or supported in principle, 139 of the Review’s 177 recommendations. In framing its response, the Government was particularly mindful of three issues identified in the Review:

- “• that fees in superannuation are too high;
- that choice of fund in superannuation has failed to deliver a ‘competitive market that reduces costs for members’, and
- there is too much tinkering in superannuation.”

This submission argues that making data available that will allow (i) fund investors to evaluate the performance of a fund and also allow (ii) a wide range of research projects into aspects of the Australian funds management industry, will help ensure that the objectives of the superannuation reforms<sup>3</sup>, i.e., to increase the transparency of superannuation fund disclosures so as to facilitate greater comparability of superannuation fund performance and greater competition in the superannuation fund management industry<sup>4</sup>.

Specifically, this submission proposes that two major types of data should be disclosed, namely (1) detailed information of the portfolio positions of superannuation and mutual fund products with \$50 million or more of funds under management (FUM) at the end of a particular quarter / month and (2) detailed information on the fee structure for each of the superannuation and mutual fund products that meet this FUM threshold.

The following data should be disclosed at the end of each quarter (i.e., March 31, June 30, September 30 and December 31) where FUM are greater than or equal to \$50 million.

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<sup>2</sup> The review is available at <http://www.supersystemreview.gov.au/>

<sup>3</sup> See Commonwealth of Australia (2011) “Stronger Super”.

<sup>4</sup> A comprehensive case for the importance of transparency in disclosures of full portfolio holdings by UK investment trusts is made in Beard and Idikowski (2012). The report argues, in short, that full portfolio holding data are required so that investors can understand the risk / reward characteristics of their exposures, so that financial advisors can give timely advice to their clients, and so valid performance comparisons can be made. The report suggests a benefit of increased transparency is that bid-ask spreads are reduced, i.e., transaction costs are lower. As a result of representations and discussions with UK investment trusts since 2010, Morningstar, Inc. now (i.e., 2012) receives monthly holding positions for 27 funds (AUM £5.8 billion), quarterly portfolios for 29 funds (AUM £10.9 billion), six-monthly portfolio positions for 75 funds (AUM £20.1 billion) and annual data for 45 funds (AUM £10.2 billion). However around 80 funds with AUM of approximately £16 billion were not supplying portfolio holdings at the time the Beard and Idikowski (2012) report was released. The two authors are both Morningstar employees.

## **1. Portfolio holdings positions for each investment product with \$50 million or more funds being managed**

Portfolio holdings positions in cash, listed (on both domestic and international exchanges) equities, options and bonds, futures market exposures and other risk management positions disaggregated to the level of the superannuation or mutual fund product (explained below by reference to the “products” offered by UniSuper). While it is not the role of this submission to list the specific investments that should be disclosed<sup>5</sup>, it is suggested that the US disclosure requirements under Section 13 (f) would form a good starting point. US disclosure requirements (see Appendix for more detail) include holdings in equity securities that trade on any US exchange (including the NASDAQ National Market System), certain equity options and warrants, shares of closed-end investment companies, and certain convertible debt securities. Short positions are not disclosed under US requirements.

It is proposed that holdings data for Australian investment managers would extend to listed securities on Australian **and** international exchanges, and that **short positions should also be disclosed**. It is further proposed that positions in futures contracts, option contracts and other risk management contracts should be disclosed so that investors and researchers can properly understand and evaluate the approach of a fund to its asset allocation decisions and the management of its portfolio risk.

### **(i) Data to facilitate fund performance by investors and their advisors.**

Holdings disclosures are of vital importance to fund investors, their advisors and other financial market participants. Investors need current information on a fund’s portfolio exposures so that they (and their advisors) can monitor the fund’s performance to ensure that their risk and return requirements are being met. For this group of users having data on a timely basis is important. Hence it is proposed that holdings information would be required on a **quarterly** basis, with disclosure required to be lodged within 45 days of the end of the quarter. For example, if a fund meets the FUM test for the quarter 31 March 2014, then disclosures of quarterly portfolio positions for 31 March 2014 would be required within 45 days namely 15 May 2014.

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<sup>5</sup> As is discussed below the US provides a complete list of all securities that are subject to Section 13(f) reporting requirements on a quarterly basis. These lists are available from the SEC website at: <http://www.sec.gov/divisions/investment/13flists.htm>

Fund investors need, of course, a reasonable time series of these disclosures for their performance evaluation to be valid. When a fund first provides its portfolio holdings information it should also provide information for previous quarters where the FUM test of \$50 million was met. The Cooper review suggested a **time-series for the past 10 years** be made available on the fund's website (Recommendation 4.18), and this period seems reasonable. It would provide investors with 48 quarterly portfolio positions for all fund products that met the \$50 million FUM test continuously during this back-dating period.

## **(ii) Data to facilitate research**

It is further proposed that holdings information<sup>6</sup> be provided to researchers on a **more granular** basis than required in the US. Specifically holdings information would be required on a **monthly** basis, however such disclosures would be **lagged by six months** and disclosure would be required to be lodged within 60 days of the end of the six-month lagged quarter. These monthly disclosures would be of primary interest to researchers, who do not have a pressing need for current data. For example, if a fund meets the FUM test for the quarter 31 March 2014, then disclosures of monthly portfolio positions for 31 January 2014, 28 February 2014 and 31 March 2014 would be required within 60 days after 30 September 2014, namely 30 November 2014. Researchers need to properly understand the portfolios and risk management approaches of each fund product; however it is not essential that such data be provided within a short time after the end of a particular quarter. This proposed lag of six months plus 60 days protects any commercial benefits associated with short-term proprietary trading and investment decisions made by a fund and allows a fund to recover the costs of its information search processes. Researchers need, of course, a reasonable time series of these disclosures for their research to be valid. When a fund first provides its portfolio holdings information it should also provide information for previous quarters where the FUM test of \$50 million was met. The Cooper review suggested a **time-series for the past 10 years** be made available on the fund's website (Recommendation 4.18), and this period seems reasonable. It would provide researchers and investors with 120 months of portfolio positions for all fund products that met the \$50 million FUM test continuously during this back-dating period. It should be noted that financial economists who conduct fund performance research have developed a large number of empirical models to evaluate investment fund performance. Factors that are considered in these models include the fund portfolio's systematic risk, the liquidity of the portfolio, the size of the companies in which the

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<sup>6</sup> The US SEC requirements allow non-material holdings to be excluded: First, if a manager holds fewer than 10,000 shares of a given issuer; and second, if the aggregate fair market value of the holdings in that same issuer is less than \$200,000. Both requirements must be met to obtain US disclosure exemption. A similar exemption, perhaps set at \$100,000, could be provided for Australian reporting of the long and short positions in equities and bonds.

fund has invested, the “growth” and “value” attributes of the portfolio and the past returns of the portfolio (commonly referred to as “momentum”). These models are considerably more sophisticated than a simple heuristic such as benchmark return plus x per cent or CPI plus x per cent.

It should be noted that these disclosure recommendations are similar in spirit, though somewhat more granular and detailed than the recommendations that were made in the Cooper Review (2010). Specifically that review stated as Recommendation 4.16 as follows:

“Trustees of large APRA funds should be required to disclose their complete portfolio holdings on a six-monthly basis in accordance with an outcomes reporting standard to be developed by APRA in consultation with ASIC and the industry. This would require disclosure to APRA within 60 days after the end of each six month period, corresponding with normal financial years and half-years, and then public disclosure of the same information, on the fund’s website, three months later.”

The Government’s response (see Stronger Super (2010)) supported improved disclosure requirements in principal but suggested that it would need to consult with relevant stakeholders on the costs and benefits of this recommendation. The current call for submissions in relation to the Treasury (2013) discussion paper is part of that consultation process.

Further, Recommendation 4.18 provided:

“Trustees should retain the last 10 years’ worth of such information and make it available on the fund’s website”.

The Government’s response to 4.18 was the same as it was to 4.16 (see Stronger Super (2010)), namely it supported improved disclosure in principal but required further consultation with relevant stakeholders on the costs and benefits of this recommendation.

## **2. Disaggregated fee data for each investment product with \$50 million of more funds being managed**

Fee data disaggregated to the level of the superannuation or mutual fund product. Disclosures would be required on a quarterly basis and would provide total fees (both fixed percentage fees of assets under management, performance fees including details of the hurdle or benchmark return and provisions relating to vesting and claw-back arrangements for performance fees, hidden fees and commissions) for each of the major fee components. It

is particularly important that any asymmetry in performance fees associated with superior versus inferior performance be detailed. Disclosure should be of sufficient depth to allow an external researcher to independently calculate and reconcile the total fees charged for each fee type at the level of the fund product.

Again, it is noted that these disclosure recommendations are similar in spirit, though somewhat more detailed than the recommendations that were made in the Cooper Review (2010). Specifically that review in Recommendations 4.17 and 4.19 noted:

“Trustees of large APRA funds should maintain a website that provides, free of charge, systemic transparency about the fund and the fund’s management”.  
(Recommendation 4.17)

“Trustees should be required to publish on the fund website the historical Total Annual Expense Ratio (TAER), which would capture the historical costs to at least the first non-associated entity level, for each MySuper product or choice investment option within the fund.” (Recommendation 4.19)

Both recommendations were supported in principal but it was stated that “The Government supports improved disclosure requirements but will consult with relevant stakeholders on the costs and benefits of this recommendation.”

The current call for submissions in relation to the Treasury (2013) discussion paper is part of that consultation process.

This report highlights that holdings data have been required in the US for more than 35 years, and that these disclosures have allowed a huge variety of research activity. The US investment management industry has thrived in a disclosure regime that is considerably richer than that which currently prevails in Australia.

### **Superannuation and mutual fund products or investment options illustrated**

To provide details of what I refer to as a superannuation or mutual fund product, I use UniSuper as an example. UniSuper has a total investment portfolio at 31 December 2013 of \$20.660 billion<sup>7</sup>. UniSuper offers six products that are pre-mixed options (capital stable, conservative balanced, balanced, socially responsible balanced, growth and high growth) and nine products that are sector options (cash,

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<sup>7</sup> See <http://www.unisuper.com.au/new-to-unisuper/unisuper-products>

Australian bonds, listed property, Australian shares, international shares, socially responsible high growth, global environmental opportunities, Australian equity income, global companies in Asia). The table below provides a listing of these products, together with information on the size of the pool of funds managed within each offering and other information on fees and return expectations. Any of these 15 products that had funds under management in excess of \$50 million would provide quarterly disclosures (lagged by six months with a 60 day reporting deadline) of their holdings at the end of each month in that quarter<sup>8</sup>. If a particular product has \$50 million dollars or more under management at say 31 March 2013 and at each month-end of that quarter, disclosures of holdings at 31 January 2013, 28 February 2013 and 31 March 2013 would be required. These disclosures would however not be required until 60 days after 30 September 2013. US requirements allow a period of 45 days after a quarter ends as the reporting deadline, and a similar, but somewhat extended, requirement is proposed for Australia.

As can be seen from the listing below the only UniSuper product that has less than \$50 million of investments at 31 December 2013 is *Global Companies in Asia*. Disclosure of the shares held in individual companies that this product held would not be required, though such disclosures could be made on a voluntary basis.

It is proposed that when holdings disclosures are first required by a superannuation fund that the historic holdings over previous 10 years are also provided (again monthly holdings data would be required)<sup>9</sup>.

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<sup>8</sup> It is important in conducting research that the investment objective of a fund be understood (i.e., its style) so that appropriate performance evaluation methods can be applied.

<sup>9</sup> The time period to be covered in this historic record could be modified after further consultation with the industry. It would take into account statutory requirements in relation to data retention and the date on which the fund first met the \$50 million threshold. The intersection of these two requirements would determine the required first date for reporting holdings data. However, as stated above, the Cooper Review recommendation of 10 years seems reasonable. A longer history could be provided on a voluntary basis if a particular fund so determined.



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UniSuper Products, Investments, Target Performance and Reported Fees for the Quarter ended 31 December 2013.

UniSuper Product	FUM (at 31 December 2013) \$ million	Target Performance (after fees) CPI +	Total Fees disclosed for year to 31 December 2013
Cash	\$1,189.10	0.5%	0.19%
Capital Stable	\$751.80	2.0%	0.39%
Conservative Balanced	\$1,188.30	2.5%	0.50%
Balanced	\$9,916.70	3.0%	0.67%
Growth	\$3,615.50	4.0%	0.77%
High Growth	\$2,025.80	5.0%	0.84%
Socially Responsible High Growth	\$626.40	5.0%	0.31%
Socially Responsible Balanced	\$523.70	3.0%	0.29%
Australian Bond	\$151.90	1.0%	0.23%
Listed Property	\$70.80	3.0%	0.58%
Australian Shares	\$226.00	5.0%	0.84%
International Shares	\$106.00	5.0%	0.82%
Australian Equity Income	\$115.20	<sup>(1)</sup>	0.46%
Global Companies in Asia	\$47.80	5.0%	0.71%
Global Environmental Opportunities	\$105.40	5.0%	0.24%

<sup>(1)</sup> Dividend yield of the Australian equity market

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It should be noted that UniSuper does disclose some information on its portfolio holdings and it discloses detailed fee structure information in its Product Disclosure Statements<sup>10</sup>. For example the major holding aggregated across the whole fund are provided at:

<http://www.unisuper.com.au/investments/investment-options-and-performance/major-holdings>

and these are broken down into its various investment options, for example the Balanced Option, with additional information on asset allocations at:

<http://www.unisuper.com.au/investments/investment-options-and-performance/super-performance-and-option-holdings/balanced>

The portfolio holdings data however do not provide details of the number of shares held in each corporation, and the listings are confined to major positions.

<sup>10</sup> See for example

<http://www.unisuper.com.au/~media/Files/Forms%20and%20Downloads/PDS%20documents/Accumulation%201/UNIS000008-Accumulation-1-Product-Disclosure-Statement.pdf>

## Conclusion

This submission argues that making data available that will allow (i) fund investors to evaluate the performance of a fund and also allow (ii) a wide range of research projects into aspects of the Australian funds management industry, will help ensure that the objectives of the superannuation reforms, i.e., to increase the transparency of superannuation fund disclosures so as to facilitate greater comparability of superannuation fund performance and greater competition in the superannuation fund management industry.

This submission calls for the disclosure of (1) quarterly portfolio holdings disclosures and (2) detailed information on the fee structure for all mutual and superannuation fund products with FUM of \$50 million or more. The submission suggests a back-history of 10 years of data should be made publicly available so that fund investors and funds management researchers can thoroughly evaluate the performance of each fund product that meets the \$50 million threshold. For investors disclosure of quarterly holding within 45 days of the end of a quarter is suggested. To facilitate research more granular data are required. Specifically holdings information would be required on a **monthly** basis, however such disclosures would be **lagged by six months** and disclosure would be required to be lodged within 60 days of the end of the six-month lagged quarter.

## APPENDIX

### US requirements on holdings disclosures

The US Congress passed Section 13(f) of the Securities Exchange Act in 1975 in order to increase the public availability of information regarding the securities holdings of institutional investors. Congress believed that this institutional disclosure program would increase investor confidence in the integrity of the United States securities markets.

The U.S. Securities and Exchange Commission (see <http://www.sec.gov/answers/form13f.htm>) provides the following overview of the Form 13F —Reports Filed by Institutional Investment Managers.

An institutional investment manager that uses the U.S. mail (or other means or instrumentality of interstate commerce) in the course of its business, and exercises investment discretion over \$100 million or more in Section 13(f) securities (explained below) must report its holdings on Form 13F with the Securities and Exchange Commission (SEC).

In general, an institutional investment manager is: (1) an entity that invests in, or buys and sells, securities for its own account; or (2) a natural person or an entity that exercises investment discretion over the account of any other natural person or entity. Institutional investment managers can include investment advisers, banks, insurance companies, broker-dealers, pension funds, and corporations.

Form 13F is required to be filed within 45 days of the end of a calendar quarter. The Form requires disclosure of the name of the institutional investment manager that files the report, and, with respect to each section 13(f) security over which it exercises investment discretion, the name and class, the CUSIP number, the number of shares as of the end of the calendar quarter for which the report is filed, and the total market value.

The securities that institutional investment managers must report on Form 13F are “section 13(f) securities.” Section 13(f) securities generally include equity securities that trade on an exchange (including the Nasdaq National Market System), certain equity options and warrants, shares of closed-end investment companies, and certain convertible debt securities. The shares of open-end investment companies (i.e., mutual funds) are not Section 13(f) securities. Section 13(f) securities can be found on the [Official List of Section 13\(f\) Securities](#). The Official List is published quarterly and is available for free on the SEC's website. It is not available in paper copy format or on computer disk.

A researcher or interested party can search for and retrieve Form 13F filings using the [SEC's EDGAR database](#).

The Official List of Section 13(f) Securities primarily includes U.S. exchange-traded stocks (e.g., NYSE, AMEX, NASDAQ), shares of closed-end investment companies, and shares of exchange-traded funds (ETFs). Certain convertible debt securities, equity options, and warrants are on the Official List and may be reported. Securities that are not on the Official List should not be reported on Form 13F. For example, shares of open-end investment companies, i.e., mutual funds, are not included on the list and, therefore, should not be reported on Form 13F.

Among other things, Form 13F filings must include:

- the issuer name of all Section 13(f) securities (which should be listed in alphabetical order);
- a description of the class of security listed (e.g., common stock, put/call option, class A shares, convertible debenture);
- the number of shares owned; and
- the fair market value of the securities listed, as of the end of the calendar quarter.

The initial Form 13F filing generally must be submitted for the quarter ending December 31 of the calendar year when an investment manager first meets the \$100 million filing threshold on the last trading day of any month during such year. Such filing is due within 45 days of the end of the quarter ending December 31 of such calendar year.

Thereafter, the form must be filed no later than 45 days after the end of each calendar quarter, *i.e.*, the calendar quarters that end on March 31, June 30, and September 30. The Form 13F filing obligation will continue as long as the investment manager continues to meet the \$100 million filing threshold set forth in Rule 13f-1(a)(1).

If an investment position in a security meets two specific requirements, the investment manager does not have to list certain small positions of Section 13(f) securities on the Form 13F. First, if the manager holds fewer than 10,000 shares of a given issuer. Second, the aggregate fair market value of the holdings in that same issuer must be less than \$200,000. Both requirements must be met to obtain disclosure exemption. If an investment manager prefers, disclosures of small positions are allowed to be included in a filing.

Shares of a foreign issuer are reported only if those shares are traded on a United States exchange (e.g., NYSE, AMEX) or are quoted on the NASDAQ National Market System (this excludes "pink sheet" ADRs). As always, an investment manager should rely on the Official List of Section 13(f) securities to determine what should and should not be included on filing.

Shares of securities that trade on non-United States exchanges (e.g., Toronto Stock Exchange, London's FTSE, Tokyo's Nikkei) should not be reported on Form 13F.

An investment manager should not include short positions on Form 13F. The manager should not subtract short position(s) in a security from long position(s) in that same security. Only the long position should be reported.

A manager should report securities that are owned and have been loaned to a third party on the Form 13F. The third party that borrows these securities should not report them.

Section 13(f)(5) of the Securities Exchange Act additionally provides that, in order to grant confidential treatment under section 13(f), the Commission must determine that such action is necessary or appropriate in the public interest and for the protection of investors or to maintain fair and orderly markets.

## References

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