31 August 2021

Director
Retirement Income Policy Division
Treasury
Langton Crescent
Parkes ACT 2600

By email: superannuation@treasury.gov.au

Dear Director

Superannuation Portfolio Holdings Disclosure Exposure Draft

The Australian Financial Markets Association (AFMA) welcomes the opportunity to provide comment to Treasury on the *Superannuation Portfolio Holdings Disclosure Exposure Draft.*

AFMA is the leading industry association promoting efficiency, integrity and professionalism in Australia's financial markets. AFMA represents the common interests of its members in dealing with issues relevant to the good reputation, efficiency and competitiveness of wholesale banking and financial markets in Australia. AFMA has more than 110 members reflecting the broad range of participants in financial markets, including Australian and international banks, leading brokers, securities companies, fund managers, energy companies and industry service providers.

AFMA appreciates and strongly supports the amendments made by the Government to the proposed Portfolio Holdings Disclosure (PHD) regime relevant to our membership since the release of the original Exposure Draft, namely the removal of counterparty names and maturity dates from derivatives reporting, and the allowed aggregation by the relevant institution of cash and bank bill investments.

The removal of counterparty names directly and efficiently addresses issues associated with the challenges in determining fair value for derivatives, particularly those bought for insurance type purposes.

The change to allow aggregation by the relevant institution of cash and bank bill investments is also fully supported.

The removal of maturity dates for derivatives is also welcomed as a sensible step to reduce the risks of the gaming of derivative positions for superannuation investors and banks managing derivative positions gained through the writing of derivative positions for those investors. For many markets these changes may well be sufficient to address the relevant risks.

Derivatives are a class of financial products used by investors to achieve a variety of outcomes including: (i) the ability to hedge in a variety of different ways including specific asset exposures, currency exposure or broader portions of a portfolio, (ii) yield enhancing strategies, (iii) discounted investment strategies, (iv) investments enabling access to a particular asset or class of assets, (v) enabling quick and low cost synthetic exposure adjustments to natural positions.

Prudent portfolio management of super assets includes a mix of derivatives to ‘insure’ or hedge against large movements and to remove unwanted ancillary exposures to currencies and other factors. Derivatives are important tools for super funds to target desired exposures to different asset classes, efficiently manage portfolio risk, and enhance yield and thereby income for investors. It is important that these derivatives remain available and can be provided to super funds efficiently so as not to adversely impact investor returns.

Market effect of disclosure should be monitored

AFMA suggests that the Government should monitor the effects of the proposed disclosure regime on derivative markets and costs to super investors to determine whether further adjustments might be appropriate. Potential adjustments could include delays on derivative information release and further refinements to the requirements around the data release.

To assist with our monitoring suggestion here are some factors that we think should be taken into account.

For options, while the expiry date will no longer be published, there is residual concern around the risk the expiry date might be calculable from the remaining data that is proposed to be disclosed. Options positions held by super investors could thereby be put at a disadvantage in the market. The concern is that readily downloadable portfolio holding data combined with a data analytics process could produce a snapshot of options positions for the disclosing super fund sector. This might allow estimation of hedging flows. To address this residual risk AFMA proposes removing the disclosure of the option exercise price may be sufficient.

We also note that caution should be applied in comparing the Australian derivatives market to those in North America including Canada. North American derivative markets are far more liquid than the Australian markets, in part reflecting greater liquidity in the larger underlying reference markets. Super funds in Australia are also proportionately more material (in terms of size of investible assets relative to size of domestic equity market) than comparable disclosing institutions offshore. Impacts from any excessive disclosure in the Australian context of the proposed disclosure could readily be more marked.

We note that there is interest in increased disclosure of derivative positions from academics, journalists, analysts, advisors and others. The financial interests of super investors must, of course, remain paramount. In AFMA's view the release of information for research purposes could be satisfactorily done on a historical basis. The proposed schedule has the potential at least for information to be released with no delay and no more than 90 days delay.

We also note a query in relation to contingent linked options, as some of these are linked to transactions that are not in the public domain, and in our view where this is for bona fide purposes this should preclude their release.

We thank you for considering our comments on this matter. Please feel free to contact us with any questions via the Secretariat.

Yours sincerely

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Senior Director of Policy