Responsible Investment Association Australasia

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Portfolio Holdings Disclosure Exposure Draft Regulation

Submission by the Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) welcomes the opportunity to make a submission to in relation to the exposure draft of the Portfolio Holdings Disclosure ('the Regulation').

RIAA is highly supportive of the introduction of portfolio holdings disclosure (PHD) measures for RSEs, but recommends amendments to the Regulation that will ensure it addresses the following three key shortcomings that, if retained, will negatively impact the Regulation's ability to achieve its objectives:

1. the Regulation as currently drafted has a heavy focus on asset classes that are of little relevance to beneficiaries, and insufficient data request over more relevant asset classes
2. the Regulation fails to require full holdings to be disclosed
3. the reporting format contained in the Regulation is not fit for beneficiaries' purposes.

About RIAA, its members, and interest in RSEs

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand and is dedicated to ensuring capital is aligned with achieving a healthy society, environment, and economy. With over 400 members managing more than $15 trillion in assets globally, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. RIAA's membership includes superannuation funds, fund managers, banks, researchers, brokers, impact investors, property managers, community trusts, foundations, faith-based groups, financial advisers, financial advisory groups, and others involved in the finance industry.

RIAA is a mission-based organisation that derives approximately 60% of its revenue from membership. As of August 2021, RIAA had 23 RSE members providing 7% of its annual operating revenue. RIAA is committed to improving its members' capacity to deliver stronger outcomes for beneficiaries and we work to protect consumers more broadly.

RIAA believes strongly in the importance of transparency and accountability of RSEs to their beneficiary groups, as evidenced by our work to improve the accountability of the superannuation industry such as:

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1. Operating the world's longest running *Certification Program* covering responsible investment products (as being true-to-label); transparency for superannuation customers and beneficiaries is an integral part of the Program's objectives. Certified funds, including superannuation products and options, must disclose their full holdings to comply with the Requirement P5 of the Standard and be entered into the Program.
2. Hosting the consumer site, *Responsible Returns* which assists retail investors with finding responsible investment information on superannuation and other investment products.
3. Publishing the biennial *RI Super Study* which assesses the 50 largest APRA-regulated superannuation funds against a framework of good governance based on ISO9000 quality systems that rewards funds in part for their formal investment decision making processes, record keeping and disclosures. The publication includes a leader-board (pp4, 30).

We refer you to RIAA's early submission to the Treasury (dated May 25, 2021) regarding the Your Future, Your Super Exposure Draft Regulations.

RIAA's position with respect to the Regulation

RIAA is highly supportive of the introduction of portfolio holdings disclosure (PHD) measures for RSEs; we have
advocated for many years that PHD is a critical element of transparency for the underlying beneficiary members of the superannuation funds.

Accordingly, RIAA provides in principle support to the *Corporations Amendment (Portfolio Holdings Disclosure) Regulations 2021* which seeks to prescribe the way information provided under the portfolio holdings disclosure regime must be organised. Done well, more comprehensive, and comparable data regarding the constituent holdings of investment options, would improve the overall accountability of the industry and choice of the consuming public. From a regulatory viewpoint, it would bring Australia into line with leading practice globally.

A strong aspect of the draft exposure Regulation is the requirement that the information be easily downloadable from the website of the fund in a delimited file format. However, the Regulation, as currently drafted, fails to address significant shortcomings in aspects required and demanded by beneficiaries, whilst simultaneously insisting on a level of disclosure over certain aspects of portfolios that are both burdensome and/or commercially questionable for RSEs and of little or no relevance to beneficiaries.

This moment provides an excellent opportunity to address these shortcomings.

Shortcomings, discussion and recommendations

1. The Regulation has a heavy focus on asset classes that are of little relevance to beneficiaries, and insufficient data request over more relevant asset classes

If the intent of the Regulation is to provide beneficiaries with the information they need and want to know, then providing them with the name and weighting of each holding in their portfolio shall satisfy these needs.

By their design, a majority of RSE products are multi-asset and (depending on risk appetite and a member's life stage) largely comprised of domestic and international equities. The typical Australian investor in a balanced (default) fund has a tactical asset allocation of up to 40% in Australian equities and 45% in global equities, according to RIAA's RI Certification Program.

Asset type	Range (%)
Australian Cash	5 – 30
Australian Fixed Interest	0 – 30
Global Fixed Interest	0 – 30
Australian Equities	10 – 40
Global Equities	15 – 45
Australian Listed Property	0 – 15
Global Listed Property	0 – 15
Infrastructure	0 – 15

Noticeably most of the exposure occurs across equities, yet in the Regulation:

- Property and infrastructure disclosures for direct and unitized are disaggregated with unnecessary and unhelpful commercial information requiring disclosure. This measure risks undermining a trustees' commercial position to act in the best financial interest of members, due to requiring pricing information to be disclosed for certain asset classes whereby there are good reasons to protect this information as commercial-in-confidence, and where the disclosure of them adds negligible benefits to the intended user of this information, the beneficiary.
- No direction is provided for where and how to report on private equity, an increasingly relevant asset class to RSEs as they seek to find ways to share risk across portfolios and seize opportunities afforded by offerings in the unlisted space.
- Derivatives, however, are ordinarily 20% or less of a default superannuation product and the reporting requirements over these are comprehensive; yet still do not require short-selling strategies to report on a net position in the portfolio during the reporting period.

Treat asset classes fairly and meaningfully – with the intent of delivering to the benefit of beneficiaries.

Recommendation 1 Remove the requirement to provide pricing information from ALL disclosure requirements where it is NOT in the best financial interest of members to have market-sensitive information in the public domain.

Recommendation 2 Retain the delineation between directly held and unitized property and infrastructure and the weighting of each in beneficiaries' total portfolio BUT remove the requirement to disclose the percentage ownership for directly held infrastructure and property. It is not in the best financial interest of members to have market-sensitive information in the public domain.

Recommendation 3 Direct expectations on where and how private equity is disclosed commensurable with the Regulation's Schedule 8D. Providing clarity provides certainty for RSEs in understanding their compliance requirements.

Recommendation 4 Require reporting to show the net position of any short-selling strategies used in the management of the superannuation option.

2. The Regulation fails to require full holdings to be disclosed

In a marketplace where the government has mandated that employers must contribute 10% of a worker's 'ordinary time earnings' into a superannuation account, it is essential that the worker has

sufficient and relevant information to inform their choice as to where their retirement savings are directed by their employer. The Regulations do not provide for full holdings to be disclosed and accordingly impedes on the beneficiary's capacity to make an informed choice about where their super is invested.

When examining portfolio holdings, beneficiaries are looking to understand the extent to which the portfolio aligns with their investment objectives; and to do this requires the actual names of the assets themselves to be disclosed, in particular the companies that the RSE is invested in – directly or via underlying managers.

Under section 1017BB of the Corporations Act 2001, trustees are only required to disclose investment items held by the RSE, an associate of the RSE or a pooled superannuation trust. The draft exposure Regulation relies on this same section of the Corporations Act and does not seek to amend its scope or remit. Accordingly, once enacted, this set of laws will not provide a full look-through to underlying asset, which is what the beneficiaries' interests and as is commonplace in most other OECD countries.

The investor cares not that their superannuation is invested in an index provider's international equities or bond fund, they care about whether they are invested in Afterpay or Afghanistan. Knowing this, only becomes possible if the RSE is required to produce that data in relation to their service providers' own investments and (where relevant) those in turn.

Recommendation 5 Introduce a look-through that is meaningful to the end-user (beneficiary) and goes beyond associated entities (i.e., fund manager names) to the holdings themselves in order to deliver on the objective of transparency and benefiting superannuation member outcomes.

3. The Regulation's reporting format is not fit for beneficiaries' purposes

As currently proposed in Schedule 8D of the Regulation, holdings will be listed and not necessarily aggregated into a format that is useful for consumers/beneficiaries.

Recommendation 6 Revise any disclosure requirements to enable underlying holdings disclosure in an aggregate format as this is a format that is better fit-for-the purpose for beneficiaries.

RIAA welcomes strong and decisive action to improve the governance of the financial services sector where consumer best interests are pursued, however several revisions need to be considered and enacted to ensure that the Regulation delivers on its intention – stronger outcomes for superannuation members.

Yours sincerely,

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