

Governance working group

Issues paper on portfolio and web disclosure

April 2011

PROPOSED REFORM

This paper discusses two recommendations from the Super System Review:

- to require funds to provide APRA and other stakeholders with disclosure of an individual fund's complete portfolio holdings (recommendation 4.16); and
- to establish a centralised website that would provide access to all standard superannuation related information regarding legislation, taxation and other generic superannuation material to stakeholders (recommendation 4.20).

The Government announced its in principle support for improved disclosure requirements but said it would consult with relevant stakeholders on the costs and benefits of a requirement to disclose portfolio holdings and design and implementation issues around the establishment of a central website about superannuation.

RATIONALE

As the Super System Review noted, there are deficiencies in the current superannuation disclosure regime that limits the usefulness and transparency of information provided to both consumers and other stakeholders.

No matter what their level of engagement, superannuation is vital to the future of all Australians, and it is an ideal that the community's engagement with, and awareness of, superannuation issues is strengthened through more relevant and cost-effective disclosure.

All stakeholders, including commentators, analysts and professional advisers, require access to comprehensive and consistent information that allows a comparison of a fund's investment strategies over time and also allows for review against alternative funds and strategies.

Consumers especially would benefit from reliable information to enable them to consider superannuation as an option for their savings. Consumers require access to inexpensive, generic, and official superannuation related information, in order to lift awareness of superannuation requirements more generally, and to enable informed investment decisions to be made. This information would also be of general community and professional interest.

ISSUES

Issue 1 – Portfolio disclosure

Recommendation 4.16 of the review proposed that large APRA-regulated funds be required to regularly disclose to APRA their complete and detailed investment portfolio holdings (the stocks, bonds and other securities which make up their investment portfolios) in a uniform reporting standard every six months. This information is to be provided within 60 days of the end of the reporting period and disclosed on the fund's website within three months of the report to APRA.

At present there is no requirement for superannuation funds to disclose periodically their individual shareholdings or portfolio investments. Most funds do not disclose this information. Some funds do disclose this information voluntarily and provide the information in a limited form. However, this disclosure is not uniform or universal and not provided in a form that makes inter fund comparisons easy.

This proposal would facilitate APRA's official knowledge of superannuation funds' investment activities and this information would flow into the public arena.

The review report and related submissions outlined some of the advantages and disadvantages for the proposal.

Advantages

Aid research by more transparency

The reform would open up a fund's investment regime to inter fund comparisons and to deeper analysis by academics and other professionals. Uniform and systematic disclosure of an individual fund's shareholdings would allow for a more improved knowledge base of superannuation investments to grow.

It would facilitate the development of a more informed and sophisticated debate to emerge that would engage superannuation professionals, commentators and academics to the benefit of the wider community. Public and private discourse would benefit from a more informed debate and the dissemination of this knowledge.

The benefits would spread further through the investment and academic networks, making it easier for commentators and research houses to communicate their analysis and opinions about funds to consumers and the wider community.

Assist in consumer engagement

The proposal would be a key advance in the disclosure framework, increasing the transparency of individual funds' investment strategies and developing the general community's awareness of the investment approach used by superannuation funds. The material would allow consumers to further engage with their superannuation based on a more detailed knowledge of where their superannuation funds were invested. The increased transparency would make it easier for consumers and professionals to compare funds.

Disadvantages

Fears disclosure may aid competitors

In the past, trustees may have been reluctant to provide full disclosure of investment portfolios because of apprehensions about the perceived practice known as ‘front-running,’ whereby investors use published information to trade in sought after stocks and potentially manipulate stock prices.

The publishing of full stock portfolio data can also lead to the ‘convergence’ of investment strategies between funds. This may occur when funds analyse other funds’ investment strategies and follow the trading patterns of their peers as a result. Thereby, investment portfolio holdings tend to grow to be similar among funds, or converge, and begin to resemble one another.

It is generally accepted that these practices can be alleviated by choosing a suitable time delay in the publishing of the relevant information.

Increased costs

Providing share portfolio holdings in a comprehensive and uniform manner would increase the system build and costs for all superannuation funds. These increased costs would be eventually passed on to superannuation fund members. The increased costs would be offset somewhat by the reduced cost to members, professionals and academics in compiling this information for further analysis.

Question 1.1 Are there any other advantages and disadvantages from this recommendation?

Question 1.2 To what extent will the benefits of portfolio disclosure outweigh the costs?

Issue 2 – Central website

Recommendation 4.20 of the review was for the Government to task ASIC, in consultation with other stakeholders, to establish a central website to draw together generic superannuation material about legislation, taxation issues and all other superannuation related features and to be a portal to other superannuation related information. In addition, it proposed that all large APRA regulated funds be required to link their websites to the site.

Advantages

Improved access

The proposed central website could disclose generic superannuation information that is now provided in individual Product Disclosure Statements and contain material that consumers need to know before making an investment decision. As the review’s final report noted, there is little to be gained by requiring the private sector to interpret and regurgitate this information countless times across the system. The community would benefit by having this information presented to a high standard in a centralised website.

A dedicated site may also be less confusing to consumers in navigating their way around and allow for easier access.

Improved accountability

A dedicated site would allow the cost of establishing, maintaining and updating the site to be more efficiently allocated to superannuation funds when it comes to deciding the ultimate costs of the initiative.

Disadvantages

Access may not be universal

Some people, especially in older or disadvantaged demographics, do not have easy access to a computer and may not be able to readily access the site.

Presentational issues

There may be disagreements between ASIC and the private sector about how information is presented and what specific information is highlighted at the central website.

Practical issues

Superannuation is just one aspect of an individual's financial circumstances and just one segment of Government services. Other needs may have a higher priority.

Most web users rely on search engines to find relevant information. They do not need or necessarily expect to find it all in one place.

Different regulators have separate information technology service providers. Establishing and maintaining a central website may be slow and cumbersome, rather than responsive and current.

Implementation options

Money Smart

ASIC currently provides a dedicated website, Money Smart, at www.moneysmart.gov.au, that provides general financial advice to consumers.

Money Smart offers independent, unbiased guidance to consumers to enable better management of the individual's personal finances, including superannuation. Money Smart forms part of the Government's public awareness and education campaign to enable consumers to obtain more optimal financial deals and arrangements.

It provides calculators and other information that assists consumers to ascertain their current financial situation and plan for the future by using simple assumptions to help them reach their financial goals. The site also contains information to help consumers make informed decisions on risk and return when choosing between investments.

Question 2.1 Are there any other advantages and disadvantages from this recommendation?

Question 2.2 To what extent will a central website improve disclosure?

Question 2.3 What other superannuation-related information could be accessed through this portal?