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Super regulator's reporting classifications should be reviewed to help investors

Tim Blue | July 24, 2008

COMPARING super fund returns could be vastly improved with better reporting of the figures by industry regulator APRA (the Australian Prudential & Regulatory Authority), according to a report released yesterday.

Changes could include more detail on where funds are invested, sorted by risk levels instead of broad classifications such as retail, industry and government funds, and a change of statistical tools to more accurately measure earnings movements. The review of APRA's statistical analyses of fund returns, by Adelaide University's International Centre for Financial Services, was commissioned by the peak lobby group IFSA (the Investment and Financial Services Association).

Methodology used by APRA has been hotly debated in the funds management industry, with retail providers claiming APRA's methods give an unfair bias to reported earnings of the fast-growing industry funds.

One of the review's authors, Professor Ralf Zurbruegg, said yesterday that APRA's way of counting the numbers was very rudimentary, much like a blunt instrument, and of little use to investors or fund managers.

"The presentation of the total returns could be improved upon with very little effort," Professor Zurbruegg said.

"I can see how the retail funds argue that APRA might not be interpreting the results accurately, but there are a mass of conflicting factors to consider."

APRA deputy chairman Ross Jones said that APRA already had the capacity and was more than willing to further disaggregate its statistics, once the industry agreed on what it wanted. "We have surveyed the industry twice and last month ran a conference on the issues," Mr Jones said. "We expect to release our proposals in October for discussion."

Current reporting gives asset totals by super fund category, such as corporate, government and industry funds. So far it does not sub-divide by age, for example, to recognise that retail funds tend to have an older membership with a bias towards less risky and less well-earning assets.

Professor Zurbruegg said it would be better for APRA to focus on average returns and risk experienced by investment style, such as capital stable, balanced or growth portfolios across fund classifications rather than by just using total returns on assets.

"Some funds may have more money managed in less risky assets than others and this would not show up in the aggregate data that APRA publish," he said.

"People who have invested in similar investment styles could compare their personal super performance relative to a benchmark that more closely resembles their own."

Professor Zurbruegg looked at APRA's 2007 report, "Celebrating 10 years of superannuation data collection", as well as one APRA Insight Report from 2007.

One issue identified was the use of arithmetic means in calculating gains or losses, in contrast to the more usual international practice of using geometric means.

Superannuation assets have grown tremendously over the last decade. On average, the annual geometric growth rate of superannuation assets was 14 per cent while the Gross Domestic Product growth rate has grown by 3.6 per cent.

Professor Zurbruegg said APRA, as a prudential regulator, was seen by investors as providing meaningful information to investors and stakeholders.

"We would argue that given its unique role within the industry, statistical reports published by APRA would be considered to be more valuable and more accurate than from other sources," he said.