

12 February 2016

Tony Christie
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Australian Securities and Investments Commission
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Email: policy.submissions@asic.gov.au

Dear Mr Christie,

Re: Consultation Paper 249: Remaking ASIC class order on generic financial calculators: [CO 05/1122]

In brief:

AIST supports the proposal to remake the class order on generic financial calculators, particularly given that the class order would otherwise be 'sunsetting'. However, AIST believes that a better result going forward would be to examine both generic financial calculators and retirement income projections together. In this regard, AIST urges a review of retirement income projections, in line with the Government supporting the FSI recommendations in this regard.

AIST welcomes all consultation from ASIC related to the remaking of class orders, and thanks ASIC for the opportunity to comment on this consultation paper (CP 249).

AIST is interested in ensuring that the provision of financial calculators to superannuation fund members is part of a broad continuum of meeting members' needs and therefore believes that financial calculators and projections should be considered together in a policy and disclosure context. Members with retirement projections provided by their funds who are unsatisfied with the outcomes may ask how the results may be changed. Calculators provide members with a self-service means to do this, and professional assistance may be available from financial advisers if preferred by members as an alternative.

However, financial calculators are merely an algorithm, and are only as good as the information that is provided to them. AIST sees prescription of requirements as a way to ensure that the quality of these tools is regulated, and does not consider this to be a small price to pay for the privilege of class order exemption.

AIST conducted research in 2014¹ in conjunction with VPR, where we considered the role that financial calculators played in supplementing superannuation projections. We consider retirement benefit projections to be a useful tool in engaging superannuation fund members. This is particularly true at an early stage of a member's working life, providing the member with an idea of how their retirement savings will support them in retirement.

We believe that online calculators are just as important, and support the removal of every impediment to ensuring that these are available to members. As such, we support the remaking of Class Order 05/1122 (CO 05/1122) to ensure that there are no doubts about the ability to provide services through the use of financial calculators.

However, in addition, we point out that these tools will work best when they are used to enhance retirement projections. This is a conclusion that we came to in our research.

We have enclosed with this submission a copy of our research paper into superannuation projections.

Please note that we will not respond to all discussion questions as part of our submission.

Discussion paper questions

B1Q1: AIST supports these proposals.

B1Q2: AIST has the highest regard for calculators used as part of ASIC's MoneySmart website, and occasionally refers to these to both internal and external parties for a number of purposes. However, it is possible that these calculators may not possess features suitable for everyone. In particular, we note that the retirement calculator only possesses a rudimentary ability to make forecasts for members who may utilise a glidepath-style investment strategy. Therefore, although we would support the ability for providers to refer to calculators provided on MoneySmart, we do not support any requirements to mandate this.

B1Q3: We believe that these proposals facilitate the provision of useful and accurate information around financial products and services.

B1Q4: We believe that requirements must at all times allow transparent usage of the tools provided. Wherever appropriate, we support default values used in the calculator to be sensible and well explained, and where these are adjustable, we would also support any methods available to explain variations in results obtained.

¹ AIST, and VPR, (2014). *Superannuation projections - A discussion paper*. Melbourne: Australian Institute of Superannuation Trustees.

B1Q5: AIST would support the ability for providers to use their own inflation values if they believed them to be appropriate. We note that in times of high inflation, the time taken for ASIC to adjust mandated inflation values may be subject to considerable lag. However, we would support the ability for ASIC to provide guidance with regards to default inflation values used in a calculator.

B1Q6 and B1Q7: AIST notes that proposal B1 (at part (d)) considers that the calculator can use assumptions from a particular financial product, but should not refer to any particular product. We support this, and we consider that the disclosure of fees and costs is material to this principle. We believe that an appropriate framing of fees and costs might be to use default values from a particular financial product, but with ability to adjust these as the user sees fit. We consider it to be of paramount importance that disclosure be made of where such assumptions are sourced. AIST would support standardisation of the disclosure of fees and costs, as we believe that this is in the interests of all investors.

B1Q9: AIST would support this proposal, however, we also realise that coding of these may take time and recommend that appropriate time be provided to allow for providers to comply.

B1Q10: AIST believes that the rules around calculators should resemble those for projections as closely as possible, and would support this recommendation.

If you have any further questions regarding this submission, please contact Richard Webb Policy & Regulatory Analyst on 03 8677 3835 or at rwebb@aist.asn.au

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tom Garcia', is written over a light blue horizontal line.

Tom Garcia
Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$650 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.