

Please see below TelstraSuper's submissions on Attachment 1 to ASIC's Consultation Paper 308 – Regulatory Guide 97: Disclosing fees and costs in PDS and periodic statements January 2019.

1. Amortisation of stamp duty to reflect amount paid by members in a relevant year:

TelstraSuper believes that it is misleading to classify the full amount of stamp duty on property purchases as a “transaction cost” in the year in which the stamp duty is paid (refer to clause 103(1) of Schedule 10 of the Corporations Regulations 2001). Instead, we believe that stamp duty should only be disclosed as a “transaction cost” to the extent that the cost of stamp duty is actually deducted from members' accounts.

Stamp duty represents a material part of the purchase price of a property (typically around 5% or more). While stamp duty is paid in the year of purchase, TelstraSuper typically amortises this cost over a five year period for the purpose of passing this cost on to members. This is done because it would be highly inequitable to deduct a substantial fee from those individuals who happen to be members at the time of purchase, and make no charge whatsoever to members who commence membership shortly after the date of purchase. Both groups of members benefit equally from ownership of the asset, yet under an immediate charging model, the first group of members would be materially disadvantaged relative to the second group. To overcome this issue, TelstraSuper makes a pro-rata charge to members over a five year period (or the actual holding period of the asset if shorter).

This being the case, it is highly misleading to members to disclose the full cost of stamp duty as a fee in year one for RG97 purposes, and no stamp duty thereafter.

Submission:

We submit that RG97 should be modified to clarify that stamp duty on property purchases be disclosed in a manner that is consistent with the actual amount of stamp duty that is charged to member accounts in the past year, rather than the cash amount of stamp duty that is paid in that year. To do anything other than this would mislead members as to the actual costs and fees that have been deducted from their accounts.

2. Disclosure period – 15 months instead of previous financial year:

Investment fees and costs disclosed in a PDS are determined based on the costs incurred in the previous financial year (RG 97.102). This requires funds to:

- issue updated PDSs on 1 July each year; and
- estimate investment fees and costs for the last quarter of the previous financial year. This is because it generally takes about 3 months to receive and calibrate fee and cost information from managers.

Inclusion of last quarter *estimates* in investment fee and cost information results in:

- fee and cost information disclosed in PDSs not being as accurate as they could be;
- additional time, effort and cost involved in calculating estimates, which costs are often ultimately passed on to members; and
- a number of funds updating PDSs in July and again in October or November so as to include actual investment fees and costs in their October/November PDSs. Again this requires additional time, effort and costs which are often ultimately passed on to members.

Submission:

We submit that the law be amended to reasonably allow for actual investment fee and cost information to be included in PDSs, without requiring multiple PDS updates in a year. Suggested means of achieving this include:

- updating the law to require investment fees and costs disclosed in a PDS to be determined based on the fees and costs incurred in the previous 15 months; or
- if the status quo ("previous financial year") were to remain, an exemption could be included in the law for the period 1 July to 1 October of the relevant PDS period.

This would enable funds to update their PDSs on 1 October each year, with the inclusion of actual investment fees and costs data. In addition to more accurate fee and cost information being disclosed, it would result in efficiencies which ultimate benefit members.

If you wish to discuss or have any questions, please do not hesitate to contact me.

Regards

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