

# RIAA Submission: Strengthening the superannuation performance test

19 June 2026

## Overview

The Responsible Investment Association Australasia (RIAA) thanks the Australian Treasury for the opportunity to comment on the *Strengthening the superannuation performance test* consultation paper (consultation paper).

RIAA supports the use of a performance test to help safeguard the retirement savings of Australians, and notes that the current test has had the desired effect of removing a number of underperforming funds from the market.

However, the current design also leads to benchmark-hugging. It discourages long-term decision-making and can limit investment in certain asset classes, including new and emerging sectors. It reduces the sector's ability to respond to a changing economy, including the necessary transition to net zero. Treasury's review is therefore timely.

It is important to note that concerns around the performance test are not necessarily related to sustainability or responsible investment issues. Concerns also centre on how the test impacts investable asset classes, timing and long-term decision-making outside of climate or sustainability considerations.

There are differing views across industry, including within RIAA's more than 500-strong member base, about whether and how the performance test should be amended. However, it is RIAA's view that the structure and consequences of the current test acts as a regulatory barrier which, in practice, discourages investment outside a narrow set of carbon-intensive benchmarks at a time when policy settings should support the transition of the Australian economy to net zero as well as emerging tech and other crucial industries. Fund managers will increasingly need to consider and incorporate climate and non-climate-related sustainability factors into investment decision-making to remain competitive – as many already do.

Long-term investing for the purpose of providing retirement benefits is a complex proposition which interacts with the inherent complexity of the financial market. Properly measuring the value added by a trustee and ensuing trustee accountability is vital but will naturally reflect this complexity. In

RIAA's view, the options proposed in Treasury's consultation paper only go some way to addressing the structural concerns about the performance test. Notwithstanding, we are pleased to share with Treasury the results of extensive consultations that RIAA conducted across its superannuation fund members and others that are impacted by the test. We are grateful for the strong engagement from RIAA members who contributed to this submission.

We recognise that views across industry and within our membership differ on the best path for reform.

It is RIAA's broader view that Australia needs a joined-up, whole-of-government approach to sustainable finance. In order to facilitate investment in different asset classes, emerging sectors and in accordance with other government policy priorities, reforms to YFYS performance test must be accompanied by other policy reforms and incentives.

For more information, please contact RIAA Policy at [policy@responsibleinvestment.org](mailto:policy@responsibleinvestment.org). Further information about RIAA can be found at the [end of the submission](#).

## General comments

### The performance test can be a barrier to investment decision making, but is not itself an enabler of investment

RIAA supports proportionate and pragmatic reform to the performance test. In our view, the purpose of reform should be to remove unnecessary barriers created by the current design of the test, while preserving its role as a consumer protection mechanism.

RIAA cautions against the current reform process being framed as a mechanism to direct or encourage capital toward particular sectors or to preference one investment style over another. Rather, reforms should ensure that the policy tool functions as intended and does not distort investment decision-making or create avoidable barriers for products with legitimate long-term strategies or consumer-driven objectives.

RIAA also cautions against overstating what can be achieved through (adequate) reform of the performance test. No change to the test can guarantee increased capital flows to particular sectors or broader Government priorities. Instead, reforms should seek to ensure that the test does not unduly constrain long-term investment decision-making, limit trustees' investible universe or distort market outcomes. Where reform allows trustees to take a longer-term or more systemic view, any resulting changes in capital allocation should be understood as the operation of a better-functioning market, not as a policy failure if capital does not move in a particular direction.

As part of a whole-of-government approach, reforms to the performance test must be accompanied by other policies and incentives that encourage investment into targeted asset classes and sectors.

Having removed or improved the underperformers, the structure of the current performance test no longer properly measures underperformance of the superannuation sector. Adjustments to the test are needed to reflect distinctions and treatment of default and choice products/options. This includes accounting for the role of trustee-directed choice products, the duties of trustees, and the fact that some consumers actively choose products with different characteristics, risk profiles and timeframes.

### Benchmarks set in regulation create anti-competitive market distortions and should be replaced with a more fit-for-purpose framework

RIAA considers the current benchmark framework to be a priority area for reform. Where specific benchmarks are prescribed in regulation, they can create an unhealthy gravitational pull toward a narrow set of indices and investment settings. Over time, this can entrench benchmark selection, dampen competition and innovation, and contribute to market outcomes that are less responsive to changing risks, opportunities and member needs.

This is not simply a technical design issue. With benchmarks are embedded in regulation, the performance test can operate as a market-altering tool in ways that extend beyond its intended consumer protection purpose. RIAA therefore supports moving benchmark specification and maintenance out of regulation to be administered by an independent regulatory body (such as APRA). This would provide greater flexibility and independence to ensure benchmarks remain

appropriate over time, while allowing for clear thresholds, guardrails and governance arrangements to support transparency, accountability and regulatory certainty.

A framework of this kind would better support competitive and well-functioning markets, reduce unnecessary distortions in investment behaviour, reduce any perceived conflicts of interest and allow the performance test to operate more effectively as a prudential tool rather than as a blunt mechanism that shapes capital allocation through regulatory design.

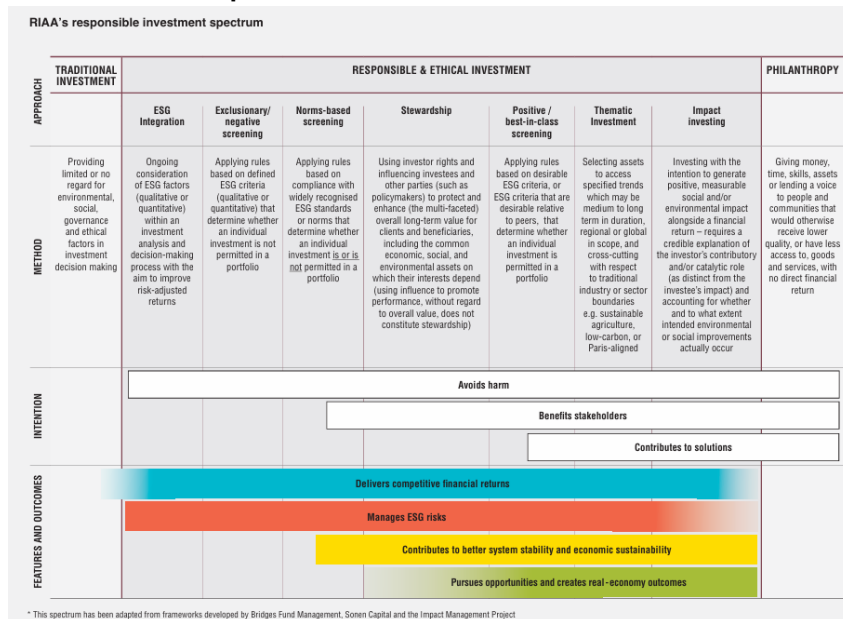
## The unintended consequences of the performance test may be greater for trustee-directed products, including those with certain responsible investment strategies

Trustee-directed products are a subset of Choice products, which allow consumers to take a more active role in their superannuation investment. This may include responsible investment strategies, capital preservation strategies as well as growth strategies. As APRA describes:

*The choice sector enables members to have greater control of their investment strategy or to include broader services than a default MySuper product. Member choice can be a positive feature of superannuation, when choice product offerings are appropriately designed and ultimately promote the financial interest of members.<sup>1</sup>*

Responsible investment is a mainstream feature of the Australian superannuation and investment landscape. Most super funds use responsible investment approaches such as ESG integration and stewardship across the whole of fund as part of prudent risk management. These investment approaches improve long-term risk-adjusted returns and are not inherently inconsistent with the objectives of the performance test. RIAA would expect all super products, including MySuper products, to incorporate a degree of ESG integration.

Figure 1: Responsible investment spectrum<sup>2</sup>



<sup>1</sup> APRA Information Paper (2021), [Choice sector performance: improving outcomes for superannuation members](#)

<sup>2</sup> [RIAA website - RI Spectrum](#)

However, the performance test may constrain long-term decision-making for strategies which have a secondary objective and go beyond traditional short-term risk and return outcomes. These are often seen in trustee-directed products. In these instances, decision-making can be constrained by:

- the carbon intensive benchmarks currently used, which do not align with the Paris Agreement or Australia’s emissions reduction targets;
- the timeframe used for the lookback period; and
- encouraging short-term decision making to pass the following year’s performance test result.

Impacts of the test are relevant for both whole-of-entity and product-specific responsible investment approaches:

- At the whole-of-entity level, the majority of funds apply ESG integration, stewardship and related practices across the full portfolio as part of prudent risk management. Some funds also employing additional responsible investment approaches such as negative screening, positive screening, and impact investing at a whole-of-entity level.
- At the product/option level, funds may also offer specific options with additional responsible investment features, such as screening, tilts or other objectives that reflect member demand. These approaches are distinct, but they can overlap within the same fund and may be affected by the same underlying structural settings of the test.
- The increased adoption of responsible investment approaches both at a whole-of-entity and product level reflect the diversity of approaches and options available within the market to cater to investment needs and preferences.

Features such as negative screening, positive screening or other approaches used in the investment strategy and shaped by member demand can increase tracking error against the prescribed benchmarks or create a mismatch between the product’s long-term investment approach and the shorter-term performance settings of the test. At the same time, whole-of-entity approaches may also be affected where benchmark design narrows the investable universe or discourages long-term positioning.

For this reason, RIAA considers unintended consequences for some investment strategies to be a subset of a broader structural issue within the current test design, which is misaligned with the objective of the performance test. Reform should focus on addressing this structural mismatch in a way that better reflects differences between product types, trustee duties and consumer choice, while recognising the overlap between whole-of-fund responsible investment practices and more specific product-level strategies.

## Reforms should be fit for long-term investments and respect consumer choice

The timeframes in the current performance test are inconsistent with so-called "non-traditional" assets such as many sustainability-related assets. RIAA contends that despite the Government extending the performance test lookback from 8 years to 10 years in 2023, aspects of the performance test will remain challenging while the formulation of the benchmark continues to limit investors’ ability to deviate in search of longer-term outcomes.

Additionally, it is important to ensure performance benchmarks are established in a manner that allows superannuation funds to invest consistent with delivering strong, long term investment returns, aligned to the time horizons of their beneficiaries. There are significant differences between the views of older and younger Australians. For example, RIAA’s 2022 consumer research<sup>3</sup> found that different generations responded very differently to the question of whether they would be more motivated to try to save more if their savings and investments made a positive difference in the world:

- Gen Z: 83%
- Millennials: 75%
- Gen X: 57%
- Baby Boomers: 39%

We note that some Gen Z superannuation fund members today will retire in the 2070s, and that this cohort and time horizon should be considered significant when viewing the systemic risks of poor longer-term performance of unsustainable assets.

There is a greater diversity of offerings of responsible investment approaches in trustee-directed products where consumers make an active decision to choose their preferred product. These include some sustainable-labelled and faith-based options, as well as some with different risk profiles and longer-term objectives. By not recognising the deliberate choice of consumers to follow a particular investment strategy, in many cases informed by their specific values, the performance test may fail products that are in fact delivering on members’ investment choices or consistent with their specific beliefs, as well as delivering on financial return. This is contrary to the Government’s objective for the performance test which includes improving member outcomes.

It is important to note that trustee-directed products are a diverse mix, and include single asset classes, and smaller ethical funds, and that any assessment of their performance should be understood in relation to the specific focus of the product, the objectives of the members, and the particular exclusions that could be a factor in driving any tracking error.

Superannuation fund members increasingly expect their money to be invested in line with their own values, in addition to returning strong financial returns. RIAA’s study, [From Values to Riches 2024: Charting consumer demand for responsible investing in Australia](#) found high expectations that funds will invest responsibly: 88% of Australians expect their bank account and their super to be invested responsibly and ethically.

## Consider other policy levers within the performance test to address structural impediments

RIAA supports efforts to reform the performance test. However, the options considered in this consultation appear unlikely, on their own, to fully address the structural issues the review is seeking to resolve.

For that reason, RIAA encourages the Government to consider other policy levers within the performance test as a future focus for reform. We make this point at a high level only, noting that

---

<sup>3</sup> RIAA Consumer Research, [From Values to Riches 2022: Charting consumer demand for responsible investing in Australia](#)

these matters are not the focus of the current consultation and may require further policy development and consultation.

### **Consider recalibrating the consequences of failing the test**

The original purpose of the test was to protect members from sustained underperformance through transparency and direct consequences upon failure. That objective remains important. At the same time, there may be scope to consider whether the current consequences to failing the test remain the most proportionate and effective way to achieve that purpose across a broader and more diverse set of products.

RIAA suggests that targeted adjustments to the consequences of failing the performance test (not removing accountability and consequences altogether) may, where carefully designed, support the effectiveness of the test as a consumer protection tool by helping ensure it continues to operate as intended in an evolving superannuation landscape. This would not weaken the test itself, as accountability would continue to be paramount. Depending on design, recalibration could instead improve alignment between the test’s operation and its original policy intent.

The initial policy and regulatory attention for the performance test was on default products and the introduction to Choice products was deferred an additional year, acknowledging that it was important “to ensure the test is fit for purpose given the significant variety and complexity of [non-Choice] products.”<sup>4</sup> However, the current consequences of failing the test, including member notifications in the first year and prohibiting new members in the second year, were not reviewed or evaluated for appropriateness when the test was extended to trustee-directed products. As the test extends to a broader range of trustee-directed products, it is reasonable to consider whether a uniform approach to consequences remains appropriate in all cases.

Consumers must actively select their superannuation to be with a trustee-directed product/option with higher growth exposures, longer investment horizons or more specific strategies. For example, a member may deliberately choose a trustee-directed high-growth option with an eight-year or longer recommended investment horizon, accepting greater short-term volatility in pursuit of stronger long-term returns. In that context, automatic closure to new members after only two years of relative underperformance (where the metric used to measure performance may not be relevant) may not always align neatly with member choice or product design, particularly where such consequences were originally developed with default products in mind. There may be merit in considering whether consequences should operate differently across Default and Choice arrangements, while maintaining accountability for all products that underperform.

### **Consider the role of fees within the performance test**

We note that the current consultation does not address the treatment of fees despite fees forming a significant component of the performance test formula. Yet while the performance calculation spans a multi-year period, the current approach effectively captures only a single-year snapshot of administration fees.

---

<sup>4</sup> Australian Treasury (2022) [Review to strengthen super | Treasury Ministers](#)

We recognise that expanding reform to fees and consequences would add complexity to an already difficult policy area. However, to address structural distortions in investment behaviour, further work may ultimately be needed across all of the key settings that shape those incentives. In particular, if the current consequences are a significant driver of the behaviours this consultation is seeking to address, there may be limits to how far benchmark-focused reform alone can resolve those concerns. This reinforces the case for keeping broader structural settings under review, even if they are not considered as part of this consultation.

## Consultation questions

### Option 1.1: Introducing a new emerging covered asset class

- 1. To what extent does the test constrain decisions to invest in certain asset types? Which asset types are most affected, and why? Provide evidence or examples to support your views.**

The current performance test can constrain investment decisions, particularly where assets are not well represented in existing benchmarks:

- The test incentivises alignment with benchmark indices to reduce the risk of failure, which can limit trustees' ability to pursue investments with different risk, return or cashflow profiles.
- As a result, trustees may avoid investments that increase tracking error, even where they are consistent with long-term member outcomes.

Engagement with RIAA members identified the following asset classes as being impacted:

- venture capital and early-stage investments;
- renewable energy and climate transition assets;
- social and affordable housing; and
- other emerging or less mature sectors.

These assets:

- are not well represented in existing market indices;
- often have longer investment horizons and J-curve return profiles; and
- can experience higher tracking error due to timing of returns and valuation approaches.

While this is not specific to responsible investment, these constraints can affect strategies that apply exclusions or tilts, where benchmark composition differs from the intended investment approach.

- 2. To what extent would a new covered asset class with a CPI + X benchmark address investment constraints the test may impose? Provide evidence or examples to support your views.**

During RIAA's extensive engagement with RIAA members about this consultation, RIAA members expressed a variety of views about the preferred approach to reform. Out of the options listed in the consultation paper, the overwhelming majority of members that had concerns with the performance test supported the use of a CPI + X benchmark as the preferred outcome.

In providing feedback to RIAA about this option, members highlighted:

- Potential benefits:
  - Can provide a more appropriate benchmark where no suitable market index exists.
  - May reduce disincentives to invest in assets with different return profiles or long time horizons.
  - Aligns with existing industry practice of using CPI + X return targets for long-term outcomes.

- **Limitations and risks:**
  - It is unlikely to fully address benchmark-hugging or structural issues in the test.
  - A single CPI + X benchmark may not reflect the diversity of underlying assets and risk profiles.
  - CPI may be an imperfect proxy for some asset classes, particularly growth assets with low correlation to inflation.
  - There is a risk the emerging assets class could be used inappropriately without strong design safeguards.

Engagement with RIAA members made clear that the option may not materially change investment behaviour on its own, particularly if broader benchmark settings remain unchanged.

### **3. How could this new covered asset class be designed? In particular:**

#### **3.1. How should eligible asset types be determined? What criteria could apply?**

#### **3.2. How should the CPI + X target be set?**

#### **3.3. Should different targets apply to growth and defensive assets?**

#### **3.4. What allocation cap should apply, and why?**

#### **3.5. What other safeguards should apply, and why?**

### **3.1 Eligible asset types**

Throughout our member engagement, there was general support for a **principles-based approach** rather than prescribing specific asset classes.

Common criteria suggested include:

- Assets not well represented by existing benchmarks.
- Distinct risk and return characteristics relative to traditional asset classes.
- Longer investment horizons or non-linear return profiles (e.g. J-curve effects).
- Limited market depth, maturity or availability of investable indices.

Members also emphasised:

- Flexibility and the ability to update the test will be critical to ensure the asset class remains fit for purpose over time.
- Trustees should retain discretion in classification, supported by clear guidance.

### **3.2 Setting the CPI + X target**

Feedback highlighted the importance and complexity of setting the X at an appropriate level:

- The margin should reflect expected return profiles while preserving test integrity.
- It should be set centrally and independently (e.g. by APRA) to ensure comparability.
- A long-term approach is needed, including smoothing CPI (e.g. rolling averages).

There were differing views on calibration:

- Some supported aligning X with expected market premia.
- Others cautioned against frequent adjustment, to maintain stability.

### 3.3 Growth and defensive treatment

There was general support for differentiating between growth and defensive exposures, reflecting:

- differences in risk, return and income characteristics; and
- existing approaches in alternative asset benchmarking.

This was seen as important to avoid applying a single benchmark to fundamentally different assets.

### 3.4 Allocation cap

Views on the allocation cap varied, but several common themes emerged:

- A cap can help manage gaming risks.
- Suggested ranges were typically between around 5–10% of strategic asset allocation.
- Some preferred flexibility or no cap, noting that existing allocation limits and portfolio constraints are already sufficient to manage the scale of exposure.

Overall, a cap was generally accepted as a necessary safeguard, provided it is:

- set at a level that allows meaningful allocation; and
- subject to review over time.

### 3.5 Safeguards

Stakeholders emphasised that robust guardrails are essential. Key safeguards should include:

- clear eligibility criteria to avoid misuse;
- ensuring the asset class is not used to hide underperformance;
- prospective application to reduce incentives for reclassification;
- transparency and reporting requirements; and
- Ongoing review and oversight.

## 4. What are the key implementation and transition considerations for this option?

### Prospective application

- Strong support for applying the framework to new investments only (although some favoured a retrospective approach).
- Supports regulatory certainty and avoids retrospective impacts.

### Governance and oversight

- A central role for regulators (e.g. APRA) in:
  - setting CPI + X;
  - monitoring use of the asset class; and
  - reviewing settings over time.

### Interaction with broader reforms

- Feedback from members emphasised that this option should be considered alongside:
  - Broader benchmark reform.
  - Routine benchmark review (Option 3).

### **Complexity and comparability**

- There is a risk of reduced comparability across products.
- Additional complexity in classification, reporting and oversight.

### **Transition of assets over time**

- There was strong support for treating the asset class as an interim category, with assets transitioning to standard benchmarks as markets mature.

## **Option 1.2: Improving the existing Alternatives covered asset class**

- 5. To what extent would improving the Alternatives covered asset class address investment constraints the test may impose? Provide evidence or examples to support your views.**
- 6. How could the Alternatives covered asset classes be improved? In particular:**
  - 6.1. What asset types should be eligible, and why?**
  - 6.2. What changes should be made to the benchmarks, and why?**
- 7. What are the key implementation and transition considerations for this option?**

The majority of RIAA members consulted indicated stronger support for Option 1.1 than Option 1.2, with 1.2 generally seen as a more limited or incremental change.

### **Extent to which this option addresses constraints**

- Improving the Alternatives asset class may provide some reduction in benchmark hugging, but is unlikely to address the issue in a meaningful way.
- It was viewed by some as a pragmatic adjustment, rather than a preferred reform pathway.
- The underlying structural issues remain, particularly the broader design of benchmarks and their influence on investment behaviour.

There was also a consistent view that more substantive change would require broader benchmark reform and governance improvements (Option 3).

### **Key considerations on design**

- The existing Alternatives asset class is well understood and serves a distinct role within the current framework.
- It captures a range of established non-traditional assets, which may differ from newer or emerging sectors.
- As such, members emphasised the importance of:
  - Maintaining a clear distinction between Alternatives and any new “emerging assets” category.
  - Avoiding over-expansion of the category to assets with fundamentally different characteristics.

### Relating to benchmarks:

- Some members expressed concerns that current Alternatives benchmarks may be becoming less representative, particularly given changes in markets.
- The use of composite listed market proxies was seen as imperfect for capturing underlying return drivers.
- Some stakeholders suggested exploring:
  - More flexible or tailored benchmark approaches.
  - The potential role of alternative or thematic benchmarks (for example, climate-aligned indices).

## Option 2: Introduce an assessment of risk-adjusted returns

- 8. To what extent would introducing a simple reference portfolio address investment constraints the test may impose? Provide evidence or examples to support your views.**
- 9. How could the simple reference portfolio be designed? In particular:**
  - 9.1. What asset classes and market indices should be included in the reference portfolio, and why?**
  - 9.2. Is volatility an appropriate proxy for risk? If not, is there an alternative approach?**
  - 9.3. What is an appropriate failure buffer to apply under this approach, and why?**
- 10. What are the key implementation and transition considerations for this option?**

Almost all RIAA member feedback did not support Option 2.

### Overall assessment

- This option represents a substantial structural change to the performance test and would require further consultation and detailed impact analysis.
- While some stakeholders noted potential benefits, the overall view was that the approach introduces new risks and complexity without clearly resolving existing issues.

### Key concerns raised by members

- The approach may replicate or worsen benchmark hugging, with herding towards a narrower set of assets (e.g. global equities and bonds).
- There is a risk of reduced product diversity and increased procyclicality.
- By design, a simple reference portfolio excludes parts of the investment universe, particularly private markets, which are important for diversification and long-term returns.

### Use of volatility as a risk measure

- There was consistent concern that volatility is not an appropriate or sufficient proxy for risk, particularly for long-term superannuation outcomes.
- It may:
  - Misrepresent risk for assets with different return and liquidity characteristics.
  - Penalise unlisted or less frequently valued assets.

- Create timing distortions in performance assessment.
- Several stakeholders emphasised that risk cannot be captured by a single metric, and suggested that a multi-metric approach may be more appropriate if risk-adjusted measures are introduced.

### **Impacts on investment behaviour**

- Some stakeholders noted the approach could:
  - encourage more passive investment behaviour;
  - limit the ability to construct portfolios aligned with long-term objectives; and
  - penalise intentional tilts, including ESG or sustainability-focused strategies.
- There were also concerns that the framework is not well aligned to how investment strategies are designed and implemented in practice.

### **Predominately negative views on potential benefits**

While almost all feedback was critical, some stakeholders noted potential benefits:

- Could provide greater focus on total portfolio construction and risk profile, rather than asset-by-asset benchmarking.
- A framework that may better reflect how trustees design portfolios.
- The potential for a simple and consistent reference point, if appropriately calibrated.

However, these benefits were generally seen as uncertain or dependent on significant further design work.

### **Role of a simple reference portfolio**

- Some members suggested that a simple reference portfolio could be more useful as:
  - a governance or analytical tool, or
  - a supplementary metric, rather than a primary performance test.

## Option 3: Introduce a routine review of the benchmarks

- 11. Would introducing a routine review support the ongoing effectiveness of the benchmarks? Provide evidence or examples to support your views.**
- 12. How could a routine review of the benchmarks be designed? In particular:**
  - 12.1. What issues should be within scope of the review, and why?**
  - 12.2. Who should be responsible for conducting the review, and why?**
  - 12.3. How frequently should the review occur, and why?**
- 13. How should the benchmarks be specified and updated over time?**
- 14. What are the key implementation and transition considerations for this option?**
- 15. What other issues with the benchmarks could warrant consideration, either as part of a regular review, or more broadly?**

RIAA members were generally supportive of Option 3, particularly when combined with Option 1.1, and saw it as a key mechanism to address underlying issues in the current test.

### Overall position

- There was broad support for routine and periodic review of benchmarks to ensure they remain fit for purpose.
- This was seen as a way to reduce benchmark-hugging and inflexibility over time, while maintaining the integrity of the test.
- Benchmark reform should be grounded in the policy objective of the test, rather than driving specific investment outcomes.

### Governance and framework

A consistent theme was the need to strengthen governance:

- There was strong support for moving benchmarks out of regulations and into a more flexible regulator-administered instrument.
- RIAA members support the appointment of an independent expert panel, with input from industry, to:
  - review benchmarks periodically (commonly suggested every 3–5 years);
  - consider stakeholder submissions; and
  - update settings over time.

This was seen as helping to:

- Improve responsiveness to market developments.
- Reduce politicisation of benchmark settings.
- Provide a clearer “home” for ongoing adjustments.

### Benchmark design and flexibility

Members emphasised the need for a more flexible framework:

- Benchmarks should be used where appropriate, with a fallback to CPI + X where no suitable benchmark exists.

- There was broad support for considering a broader range of benchmarks, including:
  - climate or transition-aligned indices;
  - additional indices for standard asset classes; and
  - RIAA-certified indices which would ensure selected indices are of high quality, are true-to-label and have integrity.

However, design challenges were also noted:

- Having multiple indices for the same asset class could increase the risk of gaming.
- It may be difficult to define robust benchmarks for some emerging or thematic areas.
- Changes to benchmarks can create winners and losers, and may lead to unintended consequences (it should be noted that, by specifying certain indices from certain index providers in regulation, the current test favours certain providers over others and hence creates “winners” through de-facto government endorsement).

### **Practical considerations raised by members**

- Benchmark changes should generally be applied prospectively to provide certainty.
- The threshold for change should be high, to avoid frequent shifts in the goalposts.
- Routine review introduces costs and resourcing requirements, including for industry engagement.
- There are transaction cost impacts where benchmark changes require portfolio rebalancing.

Members also noted:

- The cost of benchmarks themselves should be considered, as these are ultimately borne by superfund members; the current design of the test encourages the industry to favour certain providers and is hence anti-competitive.
- Greater transparency in index provision may be needed to support competition.
- Quality control of additional indices, particularly those that make a climate or sustainability claim, will be important (note [RIAA's index certification](#) as an option to provide third-party verification of claims made).

### **Additional considerations**

- Role of [RIAA Certification](#) (or similar mechanisms) as a way to support credibility of benchmarks. It may be difficult to ascertain whether a particular product is actually, and sufficiently, undertaking the purported approach.
  - For example, if a Paris-aligned assets benchmark is used under the test to track performance, it will be important, to both market integrity as well as to regulators, that the product is a) investing in Paris-aligned assets and b) investing in such assets to a degree which warrants being measured against that benchmark.
  - There may also be scope to use certification to ensure standards are lifted and maintained across the market. RIAA's Certification of both financial products and indices can help to ensure credibility of claims and integrity of products and indices.

## Option 4: Test externally directed accumulation products / Whether to test single-sector products or retirement products

16. Are there specific products for which performance testing would be unsuitable? If so, why? Provide evidence or examples to support your views.
17. How could the test be extended to externally directed products? What design elements need to be considered?
18. What are the key implementation and transition considerations in extending the test to externally directed products?
19. What are the key considerations in extending the test to single-sector products?
20. What are the key considerations in extending the test to retirement products?
21. Could performance testing retirement products create risks to broader retirement income objectives? If so, what are these risks and how could they be mitigated?

RIAA member feedback was generally supportive of expanding the scope of the test, particularly to externally directed accumulation products, while noting several important considerations.

### Overall position

- There was support for extending the test to externally directed accumulation products to ensure consistent member protection across product types.
- Similar considerations raised in relation to MySuper and Choice products were seen as applicable to externally directed products.

There was also in-principle support for extending the test to single-sector and retirement products, though views were more cautious in these areas.

### Key considerations and concerns

- Extending the test may increase coverage and transparency, but there were questions about whether this would materially improve outcomes or simply expand the population of tested products.
- Some stakeholders suggested that greater transparency frameworks, rather than a strict pass/fail test, may be more appropriate in parts of the system.

### Product design and diversity

- RIAA members raised concerns that applying a uniform test across a broader range of products could:
  - Reduce product diversity
  - Create challenges for more specialised or less diversified products.
- It was also noted that smaller funds and different operating models (e.g. trustee-for-hire) should not be unintentionally excluded.

### **Retirement products**

- RIAA members emphasised that retirement products require careful and distinct treatment.
- There was strong concern that applying accumulation-style performance logic could:
  - Misalign with the purpose of retirement products.
  - Overlook outcomes such as income adequacy and risk management, rather than benchmark-relative returns.
- Limited transparency on underlying investments in some retirement products was also highlighted as a gap.

### **Classification and measurement issues**

- There were mixed views on the use of classification systems (e.g. GICS):
  - These were generally seen as useful for broad categorisation, but often too crude for investment decisions at a security or entity level.
  - They may not be suitable for long-term or complex investments.
- Some stakeholders noted a potential future role for taxonomies or sustainability labelling frameworks, though these are still developing.
- Across these issues, there was a consistent emphasis on the importance of transparency, including clearer disclosure of underlying investments.

### **Timing and implementation**

- Some stakeholders noted that expanding coverage will take time, given:
  - The need for sufficient performance history.
  - The evolving nature of certain product types, particularly retirement products.

## About RIAA

The Responsible Investment Association Australasia champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand. It is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

