Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Post-implementation Reviews**	**Meeting:**	M201
Topic:	**Superannuation Entities**	**Agenda Item:**	7.1
		Date:	20 February 2024
Contact(s):	Angus Thomson athomson@aasb.gov.au Claire Thomson cthomson@aasb.gov.au Eric Lee elee@aasb.gov.au	**Project Priority:** **Decision-Making:** **Project Status:**	Medium High Consideration of feedback and decisions on next steps

Objective of this paper

1 The objective of this agenda item is to:

(a) **consider** feedback on Invitation to Comment (ITC) 54 Post-implementation Review (PIR) of AASB 1056 *Superannuation Entities* and Interpretation 1019 *The Superannuation Contribution Surcharge*;

(b) **consider** staff analysis and recommendations on ITC 54 feedback; and

(c) **decide** on the next steps.

Attachments

Agenda Paper 7.2	Collation of ITC 54 written submissions
Agenda Paper 7.3	ITC 54 submissions via the AASB website [in supplementary folder]
Agenda Paper 7.4	ITC 54 Post-implementation Review (PIR) of AASB 1056 *Superannuation Entities* and Interpretation 1019 *The Superannuation Contribution Surcharge* [in supplementary folder]

Structure of the paper

2 The staff paper is structured as follows:

(a) Background (paragraphs 3 to 5);

(b) Overview of comments received (paragraphs 6 to 14);

(c) Staff analysis and recommendations by topic (paragraphs 15 to 114).

Background

3 AASB 1056 specifies requirements for the general purpose financial statements (GPFS) of superannuation entities. It has applied to annual reporting periods beginning on or after 1 July 2016 – accordingly, the Standard has been applied to six financial years. Interpretation 1019 addresses whether the Superannuation Contribution Surcharge is a liability and an expense of a superannuation plan and, if so, when the liability and expense should be recognised. It has applied to annual reporting periods beginning on or after 1 January 2005.

4 The Board decided in September 2021 that a post-implementation review (PIR) of AASB 1056 should be undertaken as a medium priority, together with Interpretation 1019.

5 The five steps agreed by the AASB for the purposes of conducting a PIR are noted in the following table,[1] together with the actions already taken in the review of AASB 1056:

Step		Progress
1	Review any relevant research, including that by AASB staff, academics, and other sources of evidence	Performed in 2023 – please see Appendix A to this staff paper. Staff consider that the review of academic and other literature did not reveal any issues or concerns about AASB 1056 or superannuation entity financial reporting more generally that have not already been identified by other means.
2	Collation of any issues notified to the AASB prior to the PIR commencing	At the May 2023 AASB meeting, staff presented the preliminary feedback from targeted staff outreach with key stakeholders and the Board directed staff to continue targeted outreach.[2]
3	Consultation seeking feedback from stakeholders	At the June 2023 AASB meeting, staff presented additional feedback from targeted outreach and the Board approved the issue of ITC 54 for a 120-day comment period.[3] ITC 54 was issued in July 2023 and comments were due to the AASB by 10 November 2023.
4	**Consideration of feedback**	**Consider the feedback from ITC 54 and decide on next steps at this meeting.**
5	Publication of the findings of the PIR (i.e. Feedback Statement)	H2 2024

Overview of comment letters received

6 ITC 54 included nine topics and 13 questions for comment:

(a) Topic 1: Level of reporting and sub-fund reporting

(b) Topic 2: Statement of changes in member benefits

(c) Topic 3: Classification/disclosure of revenue and expenses

(d) Topic 4: Fair value asset measurement

(e) Topic 5: Insurance arrangements

(f) Topic 6: Subsidiaries

(g) Topic 7: Trends affecting superannuation entity reporting

(h) Topic 8: Interpretation 1019

(i) Topic 9: Any other matters affecting AASB 1056 or Interpretation 1019.

1 Originally discussed at the Board's September 2021 meeting and also at its September 2023 meeting.
2 May 2023 Minutes.
3 June 2023 Minutes.

7 Eight written submissions have been received on ITC 54.[4] Over the course of the PIR, additional feedback has been provided to staff from a range of sources during stakeholder interviews/meetings. These written submissions and other sources are noted below.

Stakeholder type	Written submission & meeting	Written submission only	Meeting only
Representative bodies	CA ANZ and CPA Australia (joint submission)	Association of Superannuation Funds of Australia Limited	Australian Institute of Superannuation Trustees (AIST)[5]
Industry Super entities	Australian Super Aware Super Australian Retirement Trust		Vision Super Retail Employees Superannuation Trust (REST Super) UniSuper Cbus Super
Retail Super entities	Mercer		
Government			Commonwealth Superannuation Corporation
Auditors	Deloitte PwC		
Regulators			Australian Prudential Regulation Authority (APRA) Australian Securities and Investments Commission (ASIC) Australian Taxation Office (ATO)
Number:	**7**	**1**	**9**

8 The feedback received from stakeholders who did not provide written comments was largely consistent with the written feedback. Accordingly, staff regard the written submissions as being representative of the broader feedback received and have highlighted the few instances when that is not the case.

9 This section provides a summary of feedback received on each topic covered in the ITC, followed by staff analysis and recommendations. Agenda Paper 7.2 provides a more fulsome collation of the

4 See ITC 54 submission letters on the AASB website. Comments received in these letters are collated in Agenda Paper 7.2.

5 Now merged with Industry Super Australia to form the Super Members Council of Australia. The meeting with the AIST involved 43 members of the AIST Policy and Governance Committee, covering a wide cross-section of the industry.

written comments received and background analysis, particularly about sources of information available outside the GPFS.

General matters raised by stakeholders

10 Staff note that superannuation entities are highly regulated and the GPFS they prepare applying AASB 1056 and other AASB Accounting Standards is one of a number of forms of reporting by superannuation entities. In that context, there is a high level of satisfaction with the existing reporting under AASB 1056.

11 The GPFS of a superannuation entity provides a financial overview of the entity as a whole and a 'baseline' for the maintenance of accounting records and determining recognition and measurement principles generally applied in preparing the wider range of reports that include financial information.

12 The main forms of reporting other than AASB 1056 GPFS are identified in Appendix B and include reporting to APRA and individual member statement reporting.

13 As noted in 'Topic 3: Classification/disclosure of revenues and expenses' below, there are some instances when the various forms of reporting overlap and some instances of inconsistencies. Stakeholders appreciate that the different forms of reporting have different purposes; however, they are also supportive of reducing costs and streamlining the reporting function by seeking to remove duplication and achieve greater consistency, where feasible.

14 Respondents generally consider the best approach to minimising overlaps and inconsistencies is for AASB 1056 to remain a principle-based document, while potentially working on ways to better align other forms of reporting through stakeholder liaison. Respondents do not want AASB 1056 amended in a way that might exacerbate the existing (and possible future) reporting overlaps/inconsistencies.

Staff analysis and recommendations by topic

Topic 1: Level of reporting and sub-fund reporting

> Do you have any comments about the level at which superannuation entities prepare their GPFS, including whether some form of sub-fund reporting under AASB 1056 might be useful? Please provide reasons for your view.
>
> If you consider there should be some form of sub-fund reporting, please indicate your suggested basis for identifying sub-funds and your reasoning.

Disaggregation by sub-fund

15 In August 2021, the Commonwealth Treasury issued an Exposure Draft of changes to the Corporations Act 2001, which proposed that certain registrable superannuation entities prepare financial statements and lodge them with ASIC and included proposals for sub-fund reporting. This was not included in the Corporations Act amendments in 2023.[6]

16 A motivation for considering sub-fund reporting was that key users of financial information, including members and employers, can be affected by the performance of one or more particular sub-funds, rather than the overall performance of the entity.

17 Although some stakeholders acknowledged that sub-fund reporting might be useful in certain circumstances, almost all stakeholders do not support requiring some form of general purpose sub-fund reporting, whether that be under AASB 1056 or the Corporations Act, for the following reasons:

(a) The costs of sub-fund reporting, including audit costs, would significantly outweigh any benefits.

(b) Some superannuation entities have hundreds of sub-funds and it may not be feasible to include

6 See Treasury Laws Amendment (Financial Reporting and Auditing of Registrable Superannuation Entities) Regulations 2023.

sub-fund information in GPFS.

(c) It would not achieve comparability because different superannuation entities are structured differently.

(d) Sub-fund reporting does not provide additional useful information to members and other users. Defined contribution members already receive tailored information on the performance and risks of their holdings in investment options via statements (periodic and exit), supported by product disclosure statements.

(e) There is information available about some types of sub-funds, including MySuper information and defined benefit plan financial statements.

(f) AASB 1056 already requires information to be presented separately for defined contribution versus defined benefit member interests.

(g) Detailed information on sub-funds could create confusion for members and other users when it comes to understanding the overall performance of the entity and make it difficult to compare the GPFS of superannuation entities.

(h) Many of those other forms of reporting are focused on the particular interests of individual members and MySuper products, which mitigates the need for GPFS to include this more granular information.

Disaggregation by risk/benefit

18 AASB 156.32 states:

> 32 A superannuation entity shall disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members.

19 In practice this has meant that, when relevant, superannuation entities present separately in their statement of changes in member benefits information related to:

- defined contribution members; and
- defined benefit members.

This is consistent with the application guidance in AASB 1056.AG34.[7]

20 Based on stakeholder outreach conducted in conjunction with issuing ITC 54, an issue has emerged around the manner in which member benefits are disaggregated as between defined contribution members and defined benefit members in the statement of changes in member benefits.

21 It is common for defined benefit members to also have defined contribution benefits; for example because those members:

- make additional salary sacrifice contributions; and/or
- require a defined contribution balance from which to pay insurance premiums or premium loadings.

22 In general there are two approaches:

(a) all benefits associated with defined benefit members are presented as relating to defined benefits; or

(b) only 'genuine' defined benefits are presented as relating to defined benefits and defined benefit members' defined contributions are presented as defined contribution benefits.

7 This requires a superannuation entity to separately consider presenting '(a) line items in the statement of financial position for each of the different membership types in respect of member liabilities; and (b) either a single statement of changes in member benefits with columns or notes showing the amounts relating to different membership types or separate statements of changes in member benefits for each different type of members.

23 In either case, other financial statement disclosures (for example, related to investment income and the defined benefit liability) would typically be based on approach (b).

Staff recommendation – sub-fund reporting

24 The role of GPFS of superannuation entities is to provide an overall picture of the entity's financial position, financial performance and cash flows, and governance over those financial matters. The needs of users for more granular information about their particular interests in a superannuation entity are met by other forms of reporting – see Appendix B. Sub-fund GPFS reporting would be costly and is expected to yield few or no marginal benefits for users.

25 On balance, staff consider there is insufficient justification for including sub-fund information in the GPFS of superannuation entities. Staff **recommend** the Board take no action on updating AASB 1056 on this matter.

Staff recommendation – risk/benefit disaggregation

26 There is a reasonable case for considering changes to AASB 1056 that would achieve greater consistency of reporting the benefits related to defined contribution members compared with defined benefit members in the statement of changes in member benefits. However, the extent of the issue would be confined to those entities with material numbers of defined benefit members that are not solely defined benefit entities.

27 On balance, staff **recommend** that, unless other potential changes to AASB 1056 need to be addressed, the topic should not be the subject of proposed changes to AASB 1056.

Questions for Board members:

Question 1(a): Do Board members have any questions or comments on the feedback received on Topic 1?

Question 1(b): Do Board members agree with the staff analysis and recommendation on Topic 1?

Topic 2: Statement of changes in member benefits (SOCMB)

Do you have any comments regarding the AASB 1056 requirement to present a statement of changes in member benefits, including whether it should be retained or modified?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

28 There is general satisfaction with the existing requirements for a SOCMB. However, a number of specific concerns were raised, as noted below.

Taxes

29 A concern has been expressed that taxes such as contributions tax are presented in the SOCMB, while income tax expense and/or tax benefits relating to (for example) investments are presented in the income statement, which means the overall effective tax rate is not clear.

30 From the perspective of the superannuation entity, taxable income includes pre-tax member contributions and other sources of income. However, when the AASB developed AASB 1056 it concluded that the contributions tax impacts the benefits available to members and should be presented in the SOCMB [AASB 1056.AG15], particularly since the taxable status of the contributions depends on whether they are made by members as pre-tax or post-tax contributions.[8]

8 Pre-tax contributions are taxable income of a superannuation entity – post-tax contributions are not taxed as income.

31 It may be useful to require disclosure of an effective tax rate, taking into account all the relevant taxes on taxable income, which would be available from the entity's tax lodgements. However, staff note that for those interested in knowing an effective tax rate, it would be expected they have an understanding about the different types of taxes and whether they relate to the status of the entity or the status of the member and the form (pre-tax or post-tax) of their contributions.

Additional information

32 One respondent suggested requiring:

(a) narrative disclosures explaining the net change in member benefits to provide further clarity of investment income and expenses allocated to member accounts; and

(b) a further breakdown of benefits to members – for example, transfers out versus other benefit payments.

33 In relation to the allocation of investment income and expenses to member accounts, staff consider that the information provided to members and employers outside the GPFS would generally meet that need. In particular:

(a) for employees – annual individual member statements; and

(b) for employers, in relation to employees making defined contributions – financial information and metrics reported to APRA and, in relation to employees who are members of a defined benefit plan, the financial statements of that employer-sponsored plan.

34 In relation to the further breakdown of benefits to members, in particular, showing transfers out versus other benefit payments, staff note AASB 1056 requires separate disclosure of 'benefits transferred into the entity from other superannuation entities' [AASB 1056.11(d)]. Therefore, it would be consistent to also show benefits transferred out separately.

Staff recommendation

35 Although there are some additional disclosures that might improve the usefulness of the SOCMB, given the general level of satisfaction with the SOCMB, and the other sources of information available at a more granular level, they are not sufficiently significant to warrant a change to AASB 1056.

36 Staff **recommend** the Board take no action on updating AASB 1056 in respect of the SOCMB.

Questions for Board members:

Question 2(a): Do Board members have any questions or comments on the feedback received on Topic 2?

Question 2(b): Do Board members agree with the staff analysis and recommendation on Topic 2?

Topic 3: Classification/disclosure of revenues and expenses

Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on classifying and disclosing revenue and expenses?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

37 Respondents consider the existing requirements are fit-for-purpose and appropriately balance the need for principles and a reasonable level of detail for a superannuation entity as a whole.

38 Staff note the AASB 1056 requirements are similar in nature and extent to those applicable to any other reporting entity in that they require:

(a) an entity to disclose information that provides users with a basis for understanding the nature and amounts of income and expenses [AASB 1056.22]; and

(b) a list of disclosures needed to meet the objective in AASB 1056.22 [AASB 1056.AG29].

39 Respondents are generally viewing the AASB 1056 classification and disclosure requirements in the context of other revenue and expense classification and disclosure requirements that superannuation entities must meet, such as those required by APRA. These are typically more detailed than AASB 1056. A key stakeholder concern is that any greater level of detail in AASB 1056 would increase the likelihood of incompatibilities with those other requirements, which continue to evolve. For example, APRA's Reporting Standard SRS 332.0 *Expenses*, and its associated FAQs, which have been issued and re-issued a number of times.

40 Expense classification and disclosure is a relatively contentious area due to sensitivities around the purposes for which members funds are applied and the potential for related party conflicts. Those factors have influenced the development of requirements applied in specified forms of reporting imposed on superannuation entities. Appendix B includes information about revenue and expense classification and disclosures in various lodgements and reports required in APRA Standards and in the S*uperannuation Industry (Supervision) Act 1993* and S*uperannuation Industry (Supervision) Regulations 1994* (SIS Regulations).

***Staff notes on APRA Reporting Standard SRS/SRF 332.0 Expenses*[9]**

41 Reporting Standard SRS 332.0 *Expenses* applies to superannuation entities and identifies expense categories and information about service providers that need to be reported to APRA for a superannuation entity as a whole. Those requirements are more detailed than AASB 1056, but are generally regarded as compatible with AASB 1056, which requires a superannuation entity to: 'disclose information that provides users with a basis for understanding the nature and amounts of income and expenses" [AASB 1056.22].

42 AASB 1056.AG29 notes revenue and expense classifications that would be expected to comply with AASB 1056.22, which are compared in the following table with the expense types identified by SRS 332.0.

AASB 1056.AG29		SRS 332.0
(a)	income by class, such as interest, dividends and rentals	
(b)	net gain or loss arising from the remeasurement of assets and liabilities measured at fair value	
(c)	net gain or loss attributable to liabilities and assets arising from insurance arrangements the superannuation entity provides to its members	
(d)	administration expenses	**administration expenses**, sub-grouped by: • complaints and feedback handling • member communication • insurance administration • member account administration • other **advice expenses**, sub-grouped by: • intra-fund advice • financial planners • financial planning payments to externals

9 'SRS' refers to the Standard and 'SRF' refers to the Form to be completed to meet the requirements of the Standard.

<table>
<tr><th colspan="2">AASB 1056.AG29</th><th>SRS 332.0</th></tr>
<tr><td>(g)</td><td></td><td>member services, sub-grouped by:
call centre services
development and maintenance of website and other digital tools
research and data analytics
member education
member wrap platform
other
Expense type options when Fund Operations and Corporate is selected as the expense group option:
Accounting and Finance
Actuarial Services
Accounting Adjustments
Capital Expenditure
Conferences
Research And Data Analytics
Entertainment
External Audit
Internal Audit
IT Services
Human Resources
Legal
Memberships
Merger Investigation
Merger Implementation
Motor Vehicles
Political Donations
Premises
Professional Indemnity
Regulatory Levies
Risk and Compliance
Strategy And Planning
Training
Travel
Other</td></tr>
<tr><td>I(e)</td><td>investment expenses, such as investment manager fees, investment consultant fees and custodian fees</td><td>Investment management expenses:
Investment Administration
Investment Consulting
Investment Management
Brokerage
Custody
Asset Consultant
Implemented Consultant
Investment Research
Valuation
Other
Other Payments Ongoing Payment To Service Provider
Consultant Fees
Staff Wages</td></tr>
<tr><td>(f)</td><td>actuarial fees</td><td>Actuarial Services</td></tr>
<tr><td>(g)</td><td>audit fees</td><td>External Audit
Internal Audit</td></tr>
</table>

AASB 1056.AG29		SRS 332.0
(h)	commissions paid directly by the superannuation entity	
(i)	trustee fees and reimbursements	Expense type options when **Trustee Board** is selected as the expense group option: • Board And Board Committees • Training • Other
(j)	sponsorship and advertising expenses	Marketing expenses, sub-grouped by: • Advertising Or Marketing • Consumer Testing • Member Campaigns • Research And Data Analytics • Sponsorship • Other

Annual Member Meeting disclosures

43 Please refer to Appendix B for a summary of the Annual Member Meeting disclosures, which have a governance/related party focus.

Accrual basis and 'look-through' basis

44 The Instruction Guide to SRF 332.0 notes: "Amounts in SRF 332.0 should and are to be reported on an accrual's (sic) basis. Amounts in SRF 332.0 are to be reported on an APRA look-through basis. The look-through chain will end with the expenses from the last connected entity to the first entity that is not a connected entity." However, the Annual Member Meeting disclosures are on a cash basis.

45 In the context of SRS 332.0, a 'look-through' basis means looking to expenses from the last connected entity to the first entity that is not a connected entity.[10] That is, for example, a superannuation entity might pay 'management fees' to a fund manager that on a look-through basis are actually made up of three component expenses: investment administration expenses, investment research expenses, and investment valuation expenses.

46 The following table summarises the circumstances.

	AASB 1056	SRS/SFR 332.0	Annual Members' Meeting
Accrual or cash basis	Accrual basis, by virtue of AASB 101 *Presentation of Financial Statements*, paragraphs 27 and 28	Accrual basis, per Instruction Guide to SRF 332.0	Cash basis, per the SIS Regulations, Division 2.2, which refer to 'payments'
Look-through basis	Look-through basis, implied by discussion of classifying expenses by 'nature' in AASB 101.102	Look-through basis, per Instruction Guide to SRF 332.0	Not explicit

10 The *Financial Sector (Collection of Data) Act 2001*, section 13(4F) defines 'connected entity' as: (a) a related body corporate of the RSE licensee; or (b) a custodian in relation to assets, or assets derived from assets, of the RSE licensee's registrable superannuation entities, and in relation to the RSE licensee or a related body corporate of the RSE licensee; or (c) a person who, under a contract or other arrangement with the RSE licensee or a person mentioned in paragraphs (a) or (b): (i) invests assets, or assets derived from assets, of the RSE licensee's registrable superannuation entities; or (ii) provides a financial service (within the meaning of the *Corporations Act 2001*) in relation to assets, or assets derived from assets, of the RSE licensee's registrable superannuation entities.

Staff notes relating to the forthcoming IFRS 18

47 IFRS 18 *Presentation and Disclosure in Financial Statements* is expected to be issued in 2024 and, among other things, replace IAS 1 *Presentation of Financial Statements* commencing in 2027.

48 AASB 1056.AG3 notes that AASB 1056.9 and 22 take the place of AASB 101.99 to 105. Accordingly, in terms of the classification and disclosure of income and expenses, the intention under AASB 1056 is to override AASB 101 in some respects. The changes to be introduced in IFRS 18, for example in respect of separate presentation of operating, financing and investing expenses, may impact superannuation entities and there may be a case for considering whether there is a need for any specific superannuation entity guidance or requirements. That might be best assessed once the final content of IFRS 18/AASB 18 is issued.

Staff recommendation

49 Staff consider the requirements in AASB 1056 to be generally in line with the balance of principle and detail that is typical of most AASB Accounting Standards in respect of revenue and expense classification and disclosure requirements. However, staff also note that there may be a case for reviewing the existing AASB 1056 requirements in light of the forthcoming IFRS 18/AASB 18.

50 The APRA and other reporting requirements for superannuation entities are typically more detailed and are intended to address specific issues that have arisen in the industry, such as concerns over related party transactions.

51 If the revenue and expense classification requirements in AASB 1056 were more detailed, it would potentially exacerbate the existing concerns in the industry about inconsistencies with other reporting requirements and the disclosure of differing amounts with similar descriptions.

52 Accordingly, staff **recommend** the Board take no action on updating AASB 1056 in respect of revenue and expense classification and disclosure requirements, subject to a review of the relevance of IFRS 18/AASB 18 to superannuation entities.

Questions for Board members:

Question 3(a): Do Board members have any questions or comments on the feedback received?

Question 3(b): Do Board members agree with the staff analysis and recommendation?

Topic 4: Fair value asset measurement

Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on fair valuing assets and liabilities?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

53 Stakeholders providing written responses generally consider the existing requirements are reasonable. Those requirements are to:

(a) recognise all assets and liabilities at fair value at each reporting date, except member liabilities, tax assets and liabilities, acquired goodwill, insurance assets and liabilities, and employer-sponsor receivables [AASB 1056.13]; and

(b) apply the requirements in other relevant accounting standards, including AASB 13 *Fair Value Measurement* in measuring fair value [AASB 1056.AG3-AG8].

54 Some stakeholders who did not provide a written response are concerned about the ‘quality’ of fair values determined for some ‘alternative’ or ‘unlisted’ asset classes and consider that more guidance

on fair valuing these types of assets might be useful. These stakeholders note the growing significance of ‘alternative’ or ‘unlisted’ asset classes in the superannuation industry as the pool of superannuation savings grows and entities look to diversify members’ investment exposures. However, those stakeholders also generally acknowledge that the issues around determining fair values for ‘alternative’ or ‘unlisted’ assets are:

(a) not unique to superannuation entities; and

(b) are most acute for unit pricing, which may be performed daily, weekly or on some other periodic basis in order to facilitate members’ exiting and entering different investment choices or to rebalance an investment product such as MySuper.

55 Some stakeholders also note that the processes around determining fair values for ‘alternative’ or ‘unlisted’ assets in the context of GPFS are typically more robust than processes performed for unit pricing purposes because:

(a) more time is available to gather and assess data; and

(b) the level of, and time available for, scrutiny, including audit.

Providing fair value guidance

56 There is a precedent for providing fair value guidance for particular types of reporting entities. The AASB has provided guidance for the Not-for-Profit (NFP) public sector in respect of non-financial assets [Appendix F to AASB 13]. This guidance is intended to explain and illustrate the application of the principles of paragraphs 61, 62, 89, B8 and B9 of AASB 13 in a NFP public sector entity context in relation to fair value measurement of non-financial assets not held primarily for their ability to generate net cash inflows. It does not apply to for-profit entities or NFP private sector entities.

57 The main reasons for including the guidance in Appendix F to AASB 13 are outlined in AASB 13.BC2-BC9. These reasons are noted and compared with the superannuation entity context in the following table.

	NFP public sector context	Superannuation entity context
1	The majority of non-financial assets are measured at fair value [AASB 13.BC2-BC3], which contrasts with most other sectors that apply historical cost measurement to those assets. Non-financial assets are a significant asset class in the NFP public sector.	All non-financial assets[11] that are investments are measured at fair value. [For example, a superannuation entity may hold an interest in energy infrastructure at fair value, while the same types of asset would be ‘operating assets’ of a utility entity, measured at cost.] Such assets can be a significant asset class – some superannuation entities would have up to 25% of member funds invested in ‘alternative assets’ plus ‘internally managed’ property or other non-financial assets.
	Inconsistent accounting had emerged due to issues around:	
2(a)	Identifying market participant assumptions where the asset has few or no market participants (other than the holder of the asset) and current replacement cost information is scarce [AASB 13.BC7(a)]	There may be few market participants (other than the holder of the asset); however, the assets are of a type that are expected to generate net cash inflows, unlike the NFP

11 Please note that most superannuation entities hold such assets in separate investment vehicles that are often unitised. For that reason, some are referred to as ‘financial assets’ even though the underlying assets are non-financial.

	NFP public sector context	Superannuation entity context
		public sector assets to which the existing guidance applies.
2(b)	How government-imposed public-sector-specific restrictions on non-financial assets should be taken into account [AASB 13.BC7(b)]	Some of the assets are of strategic importance, including infrastructure, and may be impacted by government-imposed restrictions.
2(c)	Measuring public sector assets applying the ‘cost approach’ [AASB 13.BC7(c)]	Since the assets are expected to generate net cash inflows, fair values would typically be based on discounted cash flow measures and the ‘cost approach’ would generally not be used. (There might be cases in some of the cash flows to be discounted are identified based on replacement costs.)
2(d)	Including the concept of obsolescence under the cost approach [AASB 13.BC7(d)]	

58 There are similarities between the NFP public sector and superannuation entity contexts with respect to:

(a) the predominance of non-financial assets; and

(b) a potential lack of market-participant information on which to base assumptions for measurement purposes.

59 However, unlike the NFP public sector context, in the superannuation entity context there should be cash flow analysis that can be used to determine fair values – since the whole reason for investing in the relevant non-financial assets is to make gains for members.

Staff recommendation

60 Although the nature and extent of the fair value issues facing superannuation entities go beyond those faced by most other for-profit entities, they are not distinct in the same way as for NFP public sector entities.

61 The philosophy behind AASB 1056 has been to only have exceptions from other AASB Accounting Standards, including narrowed choices for asset measurement or measurement guidance, when this is considered to produce more relevant information for members. That is, other than specific exceptions, superannuation entities should apply other AASB Accounting Standards – in particular see AASB 1056.BC20 and BC43.

62 On balance, staff consider there is insufficient justification for specific guidance on fair value measurement for non-financial assets of superannuation entities in a GPFS context and **recommend** the Board take no action on updating AASB 1056.

Questions for Board members:

Question 4(a): Do Board members have any questions or comments on the feedback received on Topic 4?

Question 4(b): Do Board members agree with the staff analysis and recommendation on Topic 4?

Topic 5: Insurance arrangements

Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on insurance arrangements?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

63 There is a general view among stakeholders that the existing guidance and practice on accounting for insurance arrangements is appropriate.

64 There are essentially two insurance arrangement models operating in the superannuation industry:

(a) for defined benefit plans, the plans themselves can include mortality and/or morbidity coverage – AASB 1056 mandates that these are accounted for applying AASB 119 *Employee Benefits*; and

(b) for defined contribution plans, the superannuation entity acts as an agent for members, sourcing insurance coverage from third-party insurers and on-charging premiums to member accounts.

In the context of (b) above, the level of premiums can vary depending on the volume of premiums and claims experience over a specified period and rebates are sometimes received from insurers.

65 Some respondents noted there are disparate accounting treatment for rebates from third-party insurers as either revenue or a deduction from expenses. The issue is not considered material; however, depending on the structure of arrangements and level of claims experience, the absolute numbers might be large.

66 Staff note that, from the insurer's perspective (under AASB 17 *Insurance Contracts*):

- volume rebates would reduce premium revenues; and
- amounts that are paid in all circumstances, as either claims or rebates, would not be included in the income statement.

67 Staff consider the most relevant accounting treatment for rebates from third-party insurers is to reduce expenses to the net cost attributable to members and this is the actual net cost to the superannuation entity, which is directly passed on to members. Net treatment is also generally consistent with the insurer's perspective although symmetry is not a necessary feature of accounting standards). A possible complication is that the premiums, claims and rebates can be paid and received via a reserve account that may not be fully aligned with member accounts at any given time.

Staff recommendation

68 On balance, staff **recommend** the Board take no action on updating AASB 1056 in respect of insurance arrangements.

69 In particular, staff consider there is insufficient justification for requiring a particular treatment for rebates from third-party insurers as the amounts involved would not be material.

Questions for Board members: Question 5(a): Do Board members have any questions or comments on the feedback received? Question 5(b): Do Board members agree with the staff analysis and recommendation?

Topic 6: Subsidiaries

Do you have any comments or suggestions regarding the accounting for subsidiaries under AASB 1056 requirements, including whether any enhancements are required? If you consider there should be changes to the accounting for subsidiaries, please indicate the nature of those changes and your reasoning.

70 There is a general view among stakeholders that the focus of superannuation entity financial reporting should be on investment performance and any form of consolidation of subsidiaries would detract from the main focus. This includes:

(a) Subsidiaries held as investments, which currently fall within the 'investment entity' exception in paragraph 27 of AASB 10 *Consolidated Financial Statements*, which stakeholders strongly support; and

(b) Subsidiaries that have an operating function within the entity are not typically material, which stakeholders generally consider should not be consolidated on a line-by-line basis.

71 There are currently no plans to change the 'investment entity' exception in AASB 10, which mandates fair value through profit or loss measurement [AASB 10.31].

72 Although there is currently not a practical problem with the accounting for 'non-investment' subsidiaries on the basis that they are not typically material, some respondents are uncomfortable with the theoretical need to perform a line-by-line consolidation. Most of those stakeholders raising this issue would prefer that the AASB mandate a single line-item consolidation. A key reason for this view is to align the accounting treatments where a superannuation entity performs operational activities using its own subsidiary compared with a superannuation entity that outsources those activities for a fee. Some respondents consider that it is only relevant to disclose whether those services are provided by a related party or externally, not mandate a different accounting treatment.

73 One stakeholder indicates line-by-line consolidation would be suitable for subsidiaries with substantial external activities only. In this context, staff note that a possible strategy in the industry had been for some superannuation entities to develop their operational[12] subsidiaries to provide services to other superannuation entities and/or managed investment vehicles and operate at a large (low cost) scale. However, that strategy has generally not progressed because entities prefer to keep information about their members 'in-house' and scale has been achieved either by mergers of superannuation entities or by smaller superannuation entities engaging specialist service providers.

74 Staff also note that:

(a) in most cases, line-by-line consolidation and a single line-item consolidation would provide similar outcomes, given the relevant subsidiaries are service providers (and have few assets and liabilities); and

(b) there seems little risk of operational subsidiaries becoming material – their activities generally involve cash flows in the tens of millions while the investment activities themselves involve tens of billions.

Staff recommendation

75 On balance, staff consider there is insufficient justification for having a specific treatment for operational subsidiaries of superannuation entities and **recommend** the Board take no action on updating AASB 1056.

Questions for Board members:

Question 6(a): Do Board members have any questions or comments on the feedback received on Topic 6?

Question 6(b): Do Board members agree with the staff analysis and recommendation on Topic 6?

12 Operational activities include: investment analysis and advice, member administration, and risk management.

Topic 7: Trends affecting superannuation entity reporting

> Do you have any comments or suggestions regarding the accounting that may be needed to address issues that emerge from trends in the superannuation industry, including trends in product development?
>
> If so, please describe the trend(s) you have in mind and the accounting response(s) that you consider necessary and your reasoning.

76 In terms of product offerings, there is a general expectation in the industry about the following:

(a) new products will emerge in the next three to five years, particularly to cater for retiring members who have made defined contributions;

(b) the new products are unlikely to lead to superannuation entities accepting longevity (insurance) risk – although any future legislative changes might facilitate more entities issuing products with annuity-style features;

(c) the number of members in defined benefit schemes continues to dwindle – however, for some of the larger schemes in the public sector, and entities that specialise in this area, there will remain material defined benefit balances for decades; and

(d) there are currently no products that have emerged since AASB 1056 was issued to warrant changes to the requirements.

77 In terms of general trends affecting the industry, some stakeholders are also conscious of:

(a) the need for more disclosure about Environmental, Social and Governance (ESG) matters and their impact on the financial statements, including climate-related disclosures; and

(b) information about the structure of funds and their operations, particularly in light of the change to require lodgement of financial statements with ASIC from 2024, including the requirement to present a directors' report.

Staff recommendations

78 Staff consider there is no need for changes to AASB 1056 to cater for new product developments at this stage and **recommend** the Board take no action on updating AASB 1056 in this respect. However, staff also **recommend** the AASB should monitor product developments in the sector

79 Staff consider ESG disclosures for superannuation entities should be addressed in the same manner as for other reporting entities – outside the Accounting Standards – and **recommend** the Board take no action on updating AASB 1056 in this respect.

80 While staff consider that general information about entity structure is important in a superannuation context because each fund has unique characteristics, much of that information is already provided outside the financial statements. At this stage, staff **recommend** the Board take no action on updating AASB 1056 in this respect, but that the AASB monitor the information presented, particularly in light of the requirements for superannuation entities to lodge financial reports and directors' reports with ASIC from 2024.

> **Questions for Board members:**
>
> Question 7(a): Do Board members have any questions or comments on the feedback received on Topic 7?
>
> Question 7(b): Do Board members agree with the staff analysis and recommendation on Topic 7?

Topic 8: Interpretation 1019

> Do you have any comments or suggestions in respect of Interpretation 1019? In particular, do you consider that Interpretation 1019 should be retained, modified or withdrawn?
>
> Please indicate the reasons for your view. If you consider Interpretation 1019 should be modified, please indicate the nature of those modifications and your reasoning.

81 The superannuation surcharge that is the subject of Interpretation 1019 has not been levied since the 2005 income year. Accordingly, it remains relevant only in the context of defined benefit members who deferred paying the surcharge. Staff note that some superannuation entities are affected more than others because some have few or no defined benefit members, while some specialise in managing members with defined benefits.

82 As a matter of fact (rather than a comment on whether Interpretation 1019 should be retained), a regulator has indicated that there are still likely tens of thousands of fund members with deferred surcharge debts addressed by Interpretation 1019. These are typically members of defined benefit plans who have elected to defer payment of the tax until they receive their defined benefits either as an income stream or a lump sum.

83 Staff note that Interpretation 1019 requires that a superannuation entity made responsible for paying the surcharge on behalf of a member recognises a liability and an expense. In the unlikely event that the amounts are material, the expense for the period and the liability at balance date would be disclosed under paragraph 10 of Interpretation 1019.

Similar taxes

84 Although no new superannuation surcharges specifically addressed by Interpretation 1019 have been levied since the 2005 income year, new taxes with similar features have been introduced since or may soon be implemented.

(a) Section 293 of the *Income Tax Assessment Act 1997* (ITAA) reduces the concessional tax treatment on some superannuation contributions when an individual's combined income and concessional contributions exceed $250,000 in a financial year. Tax is calculated at 15% of the 'excess' and the taxpayer can choose to pay the tax themselves or have their superannuation fund pay the tax from their account. If the superannuation fund is defined benefit, the tax is deferred until a benefit is paid.[13]

(b) The *Treasury Laws Amendment (Better Targeted Superannuation Concessions) Bill 2023* and the *Superannuation (Better Targeted Superannuation Concessions) Imposition Bill 2023* proposes a new section 296 of the ITAA from 1 July 2025. It would impose a 15% tax on unrealised 'earnings' on total superannuation balances above $3m, which includes defined benefit schemes. The taxpayer would choose to pay the tax themselves or have their superannuation fund pay the tax from their account.

Disparate views

85 There are disparate views on what the AASB should do with Interpretation 1019, including:

(a) withdraw on the basis that the superannuation surcharge is no longer a material issue for superannuation entities – even for those most affected;

13 In agenda paper 14.2 for the Board's September 2021 meeting, staff noted that when finalising AASB 1056, the AASB concluded it would reconsider the status of Interpretation 1019 and whether it might need to address the surcharge on superannuation contributions for high income earners introduced in 2013, once the impact of the implementation of that surcharge is clear.

(b) retain on the basis that it does no harm and its withdrawal may potentially send the wrong signal (that the treatment required by Interpretation 1019 is no longer relevant in any circumstances);

(c) retain on the basis that Interpretation 1019 can be applied by analogy to the new, similar taxes (as outlined in paragraph 84); or

(d) revise to address the new taxes with similar features.

Staff recommendation

86 On balance, staff **recommend** that Interpretation 1019 should be retained in its existing form for the time being. While none of the past, existing or currently contemplated taxes are likely to be material for a superannuation entity as a whole, staff consider that retaining Interpretation 1019 does no harm.

87 Staff note that the impact of the various existing and potential taxes can be monitored and action taken to either withdraw or revise Interpretation 1019 at a later date if needed. For example, new and potentially significant taxes may be introduced in future that warrant an accounting response.

Questions for Board members:

Question 8(a): Do Board members have any questions or comments on the feedback received on Topic 8?

Question 8(b): Do Board members agree with the staff analysis and recommendation on Topic 8?

Topic 9: Any other matters affecting AASB 1056 or Interpretation 1019

Do you have any other matters relating to AASB 1056 or Interpretation 1019, in addition to the matters raised above for Topics 1 to 8, that you wish to raise?

If so, please explain those matters, what you think should be done and why.

88 Two matters were raised by stakeholders – successor fund transfers (SFTs) and accounting for franking credits.

Successor fund transfers

89 Staff note that SFTs have been a feature of the industry recently and are likely to continue as superannuation entities seek to achieve scale – APRA has found smaller superannuation funds are more likely to struggle to deliver quality, value-for-money member outcomes.

90 APRA's Technical Paper *2021 Heatmaps – Sustainability of member outcomes* (March 2022) notes:

> Key findings in relation to sustainability are as follows:
>
> - Scale is an important driver of outcomes for members now and in the future.
>   - Large RSEs (net assets greater than $50 billion) are able to leverage the benefits of scale by spreading the cost of their operations over a larger membership base, thus improving operational efficiency and member outcomes (by way of lower fees).
>   - The administration and operating expenses (as a % of net assets) for large RSEs are significantly less than that of small RSEs (net assets less than $10 billion), 0.33% compared to 0.57%, respectively. [page 5]

APRA continues to encourage RSE licensees[14] to improve outcomes to members or consider whether members are better served in another RSE. APRA welcomes the recent merger activity, especially where RSE licensees of smaller RSEs recognise that they lack the necessary scale and capability to deliver the required change and improvements to ensure strong outcomes are delivered for members now and into the future. Where mergers are yet to fully integrate, for example products consolidated and/or business processes and systems streamlined at a later date, the benefits of the merger, such as improved operating efficiency or reduced AOE, may not be fully realised in the short term. [page 15]

91 AASB 3 *Business Combinations* includes the following disclosure requirements:

59 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination that occurs either:

(a) during the current reporting period; or

(b) after the end of the reporting period but before the financial statements are authorised for issue.

92 AASB 3.B64 to B66 outline the disclosures that would generally need to be made to satisfy AASB 3.59. These are included in Appendix A to Agenda paper 7.2 – the following table summarises those disclosures and indicates a staff view on their potential relevance to a SFT:

AASB 3		**Relevant to SFT?**
B64(a)	Name and description of acquiree	Yes
B64(b)	acquisition date	Yes
B64(c)	% voting equity acquired	No such equity
B64(d)	reasons for the business combination and how the acquirer obtained control	Yes
B64(e)	qualitative description of the factors making up goodwill	No, would be no goodwill
B64(f)	the acquisition-date fair value of the total consideration transferred and fair value of each major class of consideration	No
B64(g)	information about contingent consideration arrangements and indemnification assets	No consideration involved
B64(h)	information about acquired receivables	No, given FVPL measurement
B64(i)	amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed	Yes
B64(j)	information about each contingent liability recognised	No contingent liabilities expected to be recognised
B64(k)	goodwill that is expected to be deductible for tax purposes	No goodwill
B64(l) and (m)	Information on transactions recognised separately from the acquisition of assets and assumption of liabilities in the business combination	No such transactions expected
B64(n)	information about a bargain purchase	No bargain purchases

14 A RSE is a regulated superannuation fund or an approved deposit fund or a pooled superannuation trust but does not include a self-managed superannuation fund. RSEs are licenced under Part 2B of the SIS Act.

AASB 3		Relevant to SFT?
B64(o)	information about non-controlling interests for business combinations in which the acquirer holds less than 100% equity	No non-controlling interests
B64(p)	information about business combinations achieved in stages	No, SFTs would not be staged in a manner similar to some business combinations
B64(q)	revenue and profit or loss of the acquiree since acquisition date revenue and profit or loss of the combined entity for the current reporting period as though the acquisition date for business combinations in the current year had been as of the beginning of the annual reporting period	Possibly in respect of inflows and outflows more generally; and SFTs can happen on any day of the financial year

93 Disclosure requirements along the lines of the four areas flagged in the table above from AASB 3.B64 would probably result in an outcome similar to the suggested presentation in the PwC submission – refer to Appendix A to Agenda paper 7.2.

Staff recommendation

94 Ideally, AASB 1056 would include disclosure requirements related to SFTs given the likely ongoing significance of merger activity in the industry. In practice, some limited disclosures are being made; however, they are not necessarily consistent.

95 However, unless other issues are also being addressed, it is unlikely that this issue alone would justify a formal due process to revise AASB 1056.

96 On balance, staff **recommend** that, unless other potential changes to AASB 1056 need to be addressed, the topic should not be the subject of proposed changes to AASB 1056.

Accounting for franking credits

97 AASB 1054 *Australian Additional Disclosures* includes requirements for imputation credits for entities paying dividends. There are no requirements for entities receiving imputation credits.

98 There are two approaches to accounting for dividend revenue that are franked with imputation credits:

(a) net basis – that is, by recognising only the amount of the dividend as revenue – for example, if a fully franked dividend of $70 is received, dividend revenue would be $70); or

(b) gross basis – that is, by recognising the sum of the dividend and any attached imputation credit as revenue – for example, if a fully franked dividend of $70 is received, dividend revenue would be $100, being the sum of $70 and the imputation credit of $30.[15]

99 The AASB has previously rejected addressing this issue.[16] [On the related matter of franking credit disclosures, as a result of the AASB Agenda Consultation 2022-2026[17], the AASB added a project to the AASB Work Plan. However, in its June 2023 meeting, the Board decided to close the project and remove it from the AASB Work Plan because feedback obtained from limited outreach activities

15 Assumes a company paying a 30% corporate tax rate.

16 There was a 2007 draft AASB Agenda rejection statement on the issue: https://www.aasb.gov.au/admin/file/content105/c9/PropAgendaDecision_FrankedDivRevenue.pdf.

17 See Feedback Statement: AASB Agenda Consultation 2022-2026

indicated that the issue raised by stakeholders during the AASB's Agenda Consultation is not significant or prevalent enough to warrant amendment of the Standard.[18]]

100 The AASB noted that the extent to which taxpayers can benefit from imputation credits depends on their tax status. The AASB considered the net basis appropriate because accounting for revenue should not differ based on an entity's tax status.

101 Staff note the AASB's logic in rejecting taking any action on this issue and its view on tax status not impacting revenue recognition but observe that a superannuation industry response might be justified on the basis that the same tax law applies to all superannuation entities. While it is possible that a superannuation entity might have an investment and member profile that means it cannot take full advantage of imputation credits, this is unlikely.

102 Another possible avenue would be to require disclosures about the extent of imputation credits received and applied by superannuation entities.

Staff recommendation

103 Very few stakeholders raised this issue and if a recognition or disclosure requirement were introduced there would be no reason to confine the requirement to superannuation entities – other investment vehicles have the same issues. Accordingly, any action on this topic would need to involve all entities applying AASB Accounting Standards.

104 On balance, staff **recommend** that the topic should not be the subject of proposed changes to AASB 1056.

Questions for Board members:

Question 9(a): Do Board members have any questions or comments on the feedback received on Topic 9?

Question 9(b): Do Board members agree with the staff analysis and recommendation on Topic 9?

AASB general matters for comment

Question 10: Adverse regulatory impacts?

Does the application of the requirements in AASB 1056 and Interpretation 1019 adversely affect any regulatory requirements for superannuation entities?

105 As noted earlier in this staff paper, there are various forms of reporting requirements on superannuation entities that overlap and some instances of inconsistencies – in particular see Topic 3 *Classification/disclosure of revenues and expenses*.

106 Otherwise, respondents indicated there are no particular adverse regulatory impacts that need to be resolved and are within the AASB's remit.

Staff recommendation

107 Staff consider that, in the context of the APRA and other reporting requirements for superannuation entities and the likely continued fine-tuning of these APRA disclosures, the AASB 1056 requirements should remain at a high level. Accordingly, staff **recommend** the Board take no action on updating AASB 1056, but that we monitor reporting developments for opportunities to help streamline

18 https://www.aasb.gov.au/media/dk0lgljl/approvedaasbminutesm197_21-22june2023.pdf

reporting requirements across the board through continued liaison with stakeholders, particularly regulators.

Questions for Board members:

Question 10(a): Do Board members have any questions or comments on the feedback received on Question 10 of the ITC?

Question 10(b): Do Board members agree with the staff analysis and recommendation on Question 10 of the ITC?

Question 11: Auditing/assurance challenges?

Does the application of the requirements in AASB 1056 and Interpretation 1019 result in major auditing or assurance challenges?

108 No major auditing or assurance challenges were identified by respondents. However, it was noted that, if sub-fund reporting were introduced it would add significant costs, depending on an entity's structure.

Staff recommendation

109 Staff **recommend** the Board take no action on updating AASB 1056.

Questions for Board members:

Question 11(a): Do Board members have any questions or comments on the feedback received on Question 11 of the ITC?

Question 11(b): Do Board members agree with the staff analysis and recommendation on Question 11 of the ITC?

Question 12: Useful financial statements?

Overall, do the requirements in AASB 1056 and Interpretation 1019 result in financial statements that are useful to users of superannuation entity financial statements?

110 Stakeholders generally consider the requirements in AASB 1056 and Interpretation 1019 have provided the right balance of effort for preparers/auditors whilst satisfying the information needs of users of the financial statements.

111 They also noted that members often rely on information relating to investment fund performance and the corresponding fees which is not derived from the financial statements of the superannuation entity.

Staff recommendation

112 Staff **recommend** the Board take no action on updating AASB 1056.

Questions for Board members:

Question 12(a): Do Board members have any questions or comments on the feedback received on Question 12 of the ITC?

Question 12(b): Do Board members agree with the staff analysis and recommendation on Question 12 of the ITC?

Question 13: Benefits exceed costs?

In your view, do the benefits of applying the requirements in AASB 1056 and Interpretation 1019 exceed the implementation and ongoing application costs for Superannuation entities?

113 Stakeholders generally agreed with the proposition that the benefits of applying the requirements in AASB 1056 and Interpretation 1019 exceed the implementation and ongoing application costs for superannuation entities.

Staff recommendation

114 Staff **recommend** the Board take no action on updating AASB 1056.

Questions for Board members:

Question 13(a): Do Board members have any questions or comments on the feedback received on Question 13 of the ITC?

Question 13(b): Do Board members agree with the staff analysis and recommendation on Question 13 of the ITC?

Appendix A: Review of academic and other literature

115 Staff conducted a literature review in 2023 on the financial reporting practices of Australian superannuation entities to identify pertinent evidence addressing the topics targeted by ITC 54. However, limited research specifically examines the effect of AASB 1056 and/or Interpretation 1019. These are discussed in the following paragraphs.

116 **Cam, Awan and Tan (2018)** examined the disclosure quality in the website and product disclosure statements of superannuation entities.[19] The focus of the paper was on disclosures about governance, fees/costs and investment-related information and identified not-for-profit trustee boards as the top performers. The paper did not consider financial statements and the periods covered were prior to AASB 1056 becoming effective.

117 **Song (2020)** examined the readability of Australian superannuation entity annual reports and considered whether there is a relationship between poor financial performance and poor financial disclosure.[20] No positive relationship was found, which is contrary to the typical results for commercial firms more generally. Overall, the paper found that retail superannuation entity annual reports are, on average, harder to read than industry superannuation entity annual reports.

118 **Kent, McCormack and Tarr (2022)** focused on disclosures about the operational risk financial requirement the statement of cash flows reported in publicly available annual reports in the period just before Covid-19.[21] The aim was to consider the superannuation industry's disclosure of their preparedness for the unexpected release of cash under the Covid-19 early release stimulus package. The paper acknowledged that the cash flow statement required by AASB 1056 is useful to a range of stakeholders. In particular, the paper notes previous criticisms that the predecessor Standard to AASB 1056[22] did not provide sufficient information to members to understand the performance, governance functions and operational aspects of their superannuation fund.

119 **Sivapalan, Lanis, Wells and Govendir (2021)** evaluated empirically whether industry superannuation funds adopt aggressive tax strategies to minimise the incidence of taxation.[23] The paper found no empirical evidence of aggressive tax strategies. Although this may be of interest to users, that topic is not generally addressed in accounting standards and, in any case, most of the data was collected from financial statements prepared applying the predecessor Standard to AASB 1056.[24] Nonetheless, on a number of disclosure issues, the paper comments that: "… Many of these issues would now be addressed in the revised standard, *AASB 1056 Superannuation Entities*.". The paper favours gross reporting of franking credits but notes this issue was the subject of an AASB agenda rejection statement in 2007,[25] and staff note the issue affects a range of entities beyond superannuation entities.

120 Staff consider that the review of academic and other literature did not reveal any issues or concerns about AASB 1056 or superannuation entity financial reporting more generally that have not already been identified by other means.

---

19 Cam, M. A., & Awan, O. (2018). Superannuation Fund Disclosure Past, Present and Future. *ACFS Commissioned Paper Series*. Monash Business School. https://www.monash.edu/__data/assets/pdf_file/0006/2325885/Superfund-Disclosure-FINAL.pdf

20 Song, N. (2021). *The Readability of Australian Superannuation Disclosures* (Masters dissertation, Auckland University of Technology). https://openrepository.aut.ac.nz/server/api/core/bitstreams/7d88f5f7-2c7c-4088-84ef-5cf311b5c4ec/content

21 Kent, P., Kent, R., McCormack, R. & Tarr, J-A (2023) Disclosure of liquidity and cash flow statements by Australian superannuation funds before Covid-19. *Accounting & Finance*, 63, 2653–2675. https://doi.org/10.1111/acfi.12987

22 AAS 25 *Financial Reporting by Superannuation Plans*

23 Sivapalan, T., Lanis, R., Wells, P., & Govendir, B. (2021). Is there empirical evidence of industry superannuation funds adopting aggressive tax strategies?. *Austl. Tax F.*, *36*, 597. https://heinonline.org/HOL/LandingPage?handle=hein.journals/austraxrum36&div=44&id=&page=

24 AAS 25 *Financial Reporting by Superannuation Plans*

25 https://aasb.gov.au/admin/file/content105/c9/AASB118_RejectIssue_FrankedDividendRevenue.pdf

Appendix B

Staff notes on APRA and other reporting requirements that touch on revenue/expense and asset/liability classification and disclosure

121 The general purpose financial statements (GPFS) of a reporting entity on a stand-alone basis would ordinarily include all the relevant revenue and expense disclosures for a user to assess the financial position and performance of the entity. While this would generally hold for superannuation entities and, therefore, in setting the requirements in AASB 1056, the extent of additional information required to be reported by superannuation entities is also a relevant factor.

122 The following paragraphs summarise significant 'special purpose' reporting requirements applying to superannuation entities.

Information provided to APRA

123 The reports (in addition to the GPFS) containing financial information that superannuation entities need to make available either to members or to APRA include:

(a) the Annual Member Meeting notice, which has recently been expanded – relates to the superannuation entity as a whole – please see the detail below;

(b) Prudential Standard CPS 511 *Remuneration* – relates to a superannuation entity as a whole;

(c) Reporting Standard SRS 532.0 *Investment Exposure Concentrations* – relates to a superannuation entity as a whole;

(d) Reporting Standard SRS 533.0 *Asset Allocation* – relates to a MySuper product;

(e) Reporting Standard SRS 533.1 *Asset Allocation and Members' Benefits Flows* – relates to an investment option;

(f) Reporting Standard SRS 534.0 *Derivative Financial Instruments* – relates to a superannuation entity as a whole;

(g) Reporting Standard SRS 535.0 *Securities Lending* – relates to a superannuation entity as a whole;

(h) Reporting Standard SRS 550.0 *Asset Allocation* – relates to a superannuation entity as a whole;

(i) Reporting Standard SRS 702.0 *Investment Performance* – relates to a non-lifecycle MySuper product or a lifecycle stage of a lifecycle MySuper product;

(j) Reporting Standard SRS 702.1 *Investment Performance (Non-MySuper Investment Options)* – relates to a qualifying choice investment option[26];

(k) Reporting Standard SRS 705.0 *Components of net return* – relates to a superannuation entity as a whole;

(l) Reporting Standard SRS 705.1 *Investment Performance and Objectives* – relates to an investment option;

(m) Reporting Standard SRS 531.0 *Investment Flows* – relates to a superannuation entity as a whole;

(n) Reporting Standard SRS 320.0 *Statement of Financial Position* – relates to a superannuation entity as a whole;

(o) Reporting Standard SRS 320.1 *Statement of Financial Position* – relates to defined benefit sub-funds within the superannuation entity;

(p) Reporting Standard SRS 330.0 *Statement of Financial Performance* – relates to a superannuation entity as a whole;

---

26 **Qualifying choice investment option** is a new defined term to be inserted in subsection 1017BA(5) of the Corporations Act. It limits the product dashboard requirements to a fund's ten largest choice investment options, as measured by funds under management.

(q) Reporting Standard SRS 330.1 *Statement of Financial Performance* – relates to defined benefit sub-funds within a superannuation entity;

(r) Reporting Standard SRS 330.2 *Statement of Financial Performance* – relates to a MySuper product;

(s) Reporting Standard SRS 331.0 *Services* – splits service expenses by internal versus external providers;

(t) Reporting Standard SRS 332.0 *Expenses* – identifies expense categories (to be determined on a 'look-through' basis) and information about service providers – relates to a superannuation entity as a whole;

(u) Reporting Standard SRS 410.0 *Accrued Default Amounts* – information about member balances in 'default' investment options (where the member has not directed their option(s)) other than MySuper; and

(v) Reporting Standard SRS 540.0 *Fees* – disclosure by type of fee for a superannuation entity as a whole and for a MySuper product.

Annual performance tests

124 Based on the information APRA collects, annual performance tests are conducted relating to net returns, currently for the MySuper default products. APRA publishes the results, usually in August each year.

125 In the first year a superannuation entity fails the test it must:

(a) Notify current members advising them of their performance test outcome.

(b) Identify the causes of underperformance, and develop and implement a plan to rectify this underperformance.

(c) Assess the potential implications of MySuper and trustee-directed products (if any) failing the test on the fund and the sustainability of business operations.

(d) Develop a plan, if it becomes necessary in the best financial interests of members, to close the product, transfer members to another fund/product and/or exit the industry.

126 For a second consecutive fail, a superannuation entity closes the MySuper product to new members.

MySuper dashboard

127 Under the Corporations Act [section 1017BA] superannuation entities must make publicly available a product dashboard for each MySuper product referencing five separate measures:

(a) the return target;

(b) the returns for previous financial years;

(c) a comparison between the return target and returns for previous financial years;

(d) the level of investment risk; and

(e) a statement of fees and other costs.

128 Choice dashboard obligations have been deferred until 1 October 2027.

Portfolio composition

129 Under the Corporations Act [section 1017BB] superannuation entities must make publicly available information about the portfolio composition (underlying assets and derivatives) of each of the investment options offered as at the end of the reporting day of each reporting period.

Annual member meeting information

130 The following is a highly-summarised version of the information required by the SIS Regulations section 2.10 to be sent to members in an Annual Member Meeting notice – they relate to a superannuation entity as a whole.

131 The SIS Regulations set out the required disclosures to be included with the notice or on an entity's website. These have recently been expanded.

132 The required disclosures include information about:

(a) each contract designed to promote the entity, promote a particular view on behalf of the entity or sponsorship on behalf of the entity, including:

(i) the sum of all such payments that have been or are to be made under the contract;

(ii) the name of each entity to whom such payments have been or are to be made under the contract and, for each such entity, the sum of all such payments that have been or are to be made to the entity under the contract;

(iii) the term of the contract;

(b) an itemised list of any gifts made, by or on behalf of the entity during the year of income, to:

(i) a political entity (under the *Commonwealth Electoral Act 1918*);

(ii) a political campaigner (under that Act);

(iii) an associated entity (under that Act);

(c) an itemised list of any payments made, by or on behalf of the entity during the year, to an organisation (within the meaning of the *Fair Work (Registered Organisations) Act 2009*);

(d) an itemised list of any payments made during the year of income to any of the following:

(i) a connected entity[27] of the RSE licensee;

A. an associated entity of another entity (the *third party*) if the third party is a connected entity of the RSE licensee;

B. an entity over whom the RSE licensee has significant influence;

C. an entity who has significant influence over the RSE licensee;

D. an entity whose key management personnel include the RSE licensee, or an executive officer of the RSE licensee;

(ii) an associated entity of another entity (the *third party*), if the RSE licensee, or an executive officer of the RSE licensee is a member of the key management personnel of the third party.

Individual member/employer information

Annual member statements

133 Under the Corporations Act [section 1017D] for each year to 30 June superannuation entities must send each member information about the following in respect of the member's account:

(a) account balance

(b) fees

(c) insurance coverage and premiums

(d) investment return

---

27 Includes any 'associated entity' under the *Corporations Act 2001*, section 50AAA, plus other related entities.

(e) investment option(s)

(f) contributions and other transactions

134 Superannuation entities must also report individual member balances and account transactions at 30 June to the ATO under the *Taxation Administration Act 1953.*

Information available on request

135 Under the Corporations Act [section 1017C] a 'concerned person', which includes a member or an employer sponsor, can obtain from a superannuation entity information reasonably required for the concerned person to understand or make an informed judgement about:

(a) their benefit entitlements or their employees' benefit entitlements

(b) the main features of their plan or sub-plan

(c) the management and financial condition of their plan or sub-plan

(d) the investment performance of their plan or sub-plan, or

(e) for members, particular investments.

136 Superannuation entities typically make this type of information available through online portals.