



<b>To:</b>	<b>AASB Members</b>	<b>Date:</b>	14 April 2010
<b>From:</b>	<b>Dean Ardern</b>	<b>Agenda Item:</b>	14.1
<b>Subject:</b>	<b>ED 179 <i>Superannuation Plans and Approved Deposit Funds</i></b>	<b>File:</b>	P19

## Action

Consider staff proposals in relation to:

- (a) Board members' out-of-session comments on staff's proposals in Agenda paper 6.3 to the Board's February 2010 meeting in relation to various presentation, drafting and disclosure issues (Agenda paper 14.2);
- (b) the disclosure of a difference between the fair value of a subsidiary and the net assets of the subsidiary recognised in a parent superannuation entity's consolidated financial statements under the proposals in ED 179 (Agenda paper 14.3);
- (c) the relevance of the principles and requirements in AASB 7 *Financial Instruments: Disclosures* to a superannuation entity (Agenda paper 14.4);
- (d) the relevance of the principles and requirements in AASB 7 applicable to financial liabilities for the disclosure of information in relation to non-financial liabilities held by a superannuation entity (Agenda paper 14.4); and
- (e) the relevance of the principles and requirements in the IASB's forthcoming *Fair Value Measurement* Standard to a superannuation entity and what guidance, if any, the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* might need to facilitate the reliable and consistent application of the proposals in the IASB's forthcoming Standard (Agenda paper 14.5).

In addition, Agenda paper 14.4 asks the Board to confirm that the approach proposed in ED 179 for applying the principles and requirements in AASB 7 is still its preferred approach. The purpose of this question is to assist staff in determining what guidance, if any, the replacement Standard for AAS 25 might need to facilitate the application of the disclosure principles and requirements in AASB 7.

## Background

### **Agenda paper 14.2 - *Members' out-of-session responses in relation to comments on ED 179***

At its February 2010 meeting, the Board decided that members should confirm with staff out-of-session whether they agree with the proposals in Agenda paper 6.3 to that meeting. Agenda paper 6.3 provided staffs' analysis and proposals in relation to comments received on ED 179 that are not directly related to a Specific Matter of Comment in the ED.

Agenda paper 14.2 to this meeting considers the issues raised by Board members. To assist your deliberations, Agenda paper 14.2 includes (as Appendices):

- (a) Agenda paper 6.3 to the Board's February 2010 meeting; and
- (b) copies of the emails received from Board members regarding the proposals in Agenda paper 6.3.

### **Agenda paper 14.4 – *Relevance of the principles and requirements in AASB 7***

At its February 2010 meeting, the Board decided staff should prepare an issues paper that considers:

- (a) the principles and requirements in AASB 7, including their application to financial risks of liabilities not within the scope of AASB 7, and their relevance to a plan or ADF; and
- (b) the guidance, if any, that the replacement Standard for AAS 25 might need to include to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7.

Staff consider that the question of whether the replacement Standard for AAS 25 needs guidance to facilitate the application of the principles and requirements in AASB 7 presupposes that the approach proposed in ED 179 is still the Board's preferred approach. However, in light of:

- (a) the Board's February 2010 decision that the replacement Standard for AAS 25 should refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements; and
- (b) the strong preference expressed by a number of Board members during recent redeliberations on ED 179 for an approach based on the Board's policy of transaction-neutrality;

staff consider that the approach proposed in ED 179 may no longer be appropriate. Accordingly, Agenda paper 14.4 asks the Board to confirm that the approach proposed in ED 179 for applying the principles and requirements in AASB 7 is still its preferred approach. To assist the Board, Agenda paper 14.4 discusses two alternative approaches for applying the principles and requirements in AASB 7 in the context of a replacement Standard for AAS 25.

To assist in your deliberations, Agenda paper 14.4 also includes (as Appendices):

- (a) selected paragraphs from ED 179; and
- (b) the main disclosure principles and requirements in AASB 7, including the amendments to AASB 7 arising from *AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9* (which are applicable to reporting dates beginning on or after 1 January 2013) and the amendments to paragraphs 27-27B and 28 of *IFRS 7 Financial Instruments: Disclosures* proposed in the IASB's ED/2009/5 *Fair Value Measurement*.

## **Agenda paper 14.5 – *Relevance of the proposals in ED/2009/5 Fair Value Measurement***

At its February 2010 meeting, the Board decided staff should prepare an issues paper that considers:

- (a) the relevance of the proposed principles and requirements in the IASB's forthcoming *Fair Value Measurement* Standard to a plan or ADF; and
- (b) what guidance, if any, the replacement Standard might need to include to facilitate the reliable and consistent application of the IASB's proposed fair value disclosure principles and requirements.

To assist in your deliberations, Agenda paper 14.5 includes (as Appendices):

- (a) selected paragraphs from ED 179; and
- (b) the main proposals in *ED/2009/5 Fair Value Measurement*, including Appendices B (application guidance) and C (guidance in relation to present value techniques) to ED/2009/5.

## *Other matters*

### *Meeting with the Chair of the Commonwealth Government's Review into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System*

On Friday 26 February 2010, Kevin Stevenson, Bruce Porter, Angus Thomson and Dean Ardern of the Office of the AASB, and Genevieve Watson of the FRC, met with Mr Jeremy Cooper and Mr Brad Tallents from the Commonwealth Government's Review into the Australian Superannuation System.

The meeting covered a number of issues in relation to reporting to members of superannuation entities, including the basis of member reporting, the use of financial reports by members, segmented financial reporting and related party disclosures.

Mr Cooper identified a number of areas of concern, including:

- the information reported to members in their annual member statements is generally not subject to audit;
- there is a perceived disconnect between the information reported in the financial statements and the information reported to members in Product Disclosure Statements and member statements; and
- the lack of detailed 'sub-plan' reporting.

Staff are currently awaiting a summary of the discussions from the Secretary of the Review.

Those members interested in receiving a copy of the summary when it is available should contact Dean Ardern ([dardern@asb.gov.au](mailto:dardern@asb.gov.au)).

### *Estimated costs of applying the insurance contracts proposals*

At its December 2009 meeting, the Board decided that staff should consult with constituents to determine the nature and likely magnitude of the costs a superannuation plan or approved deposit fund might incur in applying the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*.

Staff contacted all of the respondents that raised concerns regarding the costs of applying the insurance contracts proposals. All of these respondents suggested that, if adopted, the proposals would impose additional costs on a superannuation plan in the form of increased:

- (a) actuarial costs – primarily the establishment of models to measure obligations arising from any ‘self-insured’ (predominantly defined benefit) and non self-insured (predominantly defined contribution) arrangements;
- (b) accounting costs – primarily related to the collection of information to measure insurance obligations and any subsequent re-examination of the calculated amounts; and
- (c) audit costs – primarily related to the auditor gaining an understanding of and level of comfort with the new measurement models.

With respect to the likely magnitude of the costs:

- (a) one respondent suggested that, in relation to ‘self-insured’ defined benefit arrangements, the total cost of the additional work required of a medium to large sized plan would be approximately \$25,000 per annum, although this might reduce over time as the process is ‘bedded down’; and
- (b) two respondents suggested that the proposals could increase the total actuarial, accounting and audit costs of a plan by a factor of between two and three times.

However, a number of respondents were unwilling to provide a dollar figure, primarily because they anticipate that the total costs would vary significantly, depending upon whether the replacement Standard for AAS 25 requires a superannuation entity to adopt different measurement models for its insurance and retirement benefit obligations. At present, actuaries incorporate the costs of any death and disability claims in respect of self-insured benefits into the calculation of the defined benefit obligation. Several of the respondents noted that a shift away from the current approach would possibly impose significant additional costs, such as model establishment costs, on plans.

It is relevant to note that staff intend to discuss with the Board the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 *Employee Benefits* for measuring defined benefit obligations at the Board’s June and July 2010 meetings (see Agenda paper 14.6 to this meeting).

### *Consolidation of subsidiaries by investment companies*

In response to the consolidation proposals in ED 179, a number of respondents recommended that the replacement Standard for AAS 25 should require a parent plan or parent ADF to recognise an investment in a subsidiary at fair value and provide detailed note disclosures regarding its

subsidiaries rather than prepare consolidated financial statements. While the Board decided at its December 2009 meeting that a parent superannuation plan or parent approved deposit fund should prepare consolidated financial statements largely in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* (see paragraphs 1-5 of Agenda paper 14.3 to this meeting), the possibility of a parent entity being permitted to apply investment company accounting has recently been redeliberated by the IASB. During their joint meeting held on 16-19 February 2010, the IASB and FASB discussed how an entity that is considered an investment company should account for investments in controlled entities. The Boards tentatively decided that an investment company should be exempted from preparing consolidated financial statements and required to provide additional disclosures about its subsidiaries when it measures its investments in subsidiaries at fair value. In addition, the Boards decided that the guidance in FASB Accounting Standards Codification Topic 946 (Financial Services – Investment Companies) should be used as the basis for developing attributes of an investment company.

### *Staff view*

Staff consider that, as the issue has implications beyond superannuation entities, the application of investment company accounting by parent entities should be dealt with separately from the Board's redeliberations on ED 179.

### **Attachments**

- Agenda paper 14.2 An issues paper discussing staffs' analysis and proposals regarding the out-of-session comments received from Board members in response to Agenda paper 6.3 to the Board's February 2010 meeting in relation to various presentation, drafting and disclosure issues
- Agenda paper 14.3 An issues paper discussing the disclosure of a difference between the fair value of a subsidiary and the net assets of the subsidiary in the parent's consolidated financial statements under the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*
- Agenda paper 14.4 An issues paper discussing:
- (a) the principles and requirements in AASB 7 *Financial Instruments: Disclosures* and their relevance to a superannuation entity;
  - (b) the guidance, if any, that the replacement Standard might need to include to facilitate the reliable and consistent application of the disclosure principles and requirements in AASB 7; and

- (c) the relevance of the principles and requirements in AASB 7 for disclosing information in relation to non-financial liabilities held by a superannuation entity

Agenda paper 14.5 An issues paper discussing:

- (a) the relevance of the principles and requirements in the IASB's forthcoming *Fair Value Measurement* Standard to a superannuation entity; and
- (b) what guidance, if any, the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* might need to facilitate the reliable and consistent application of the principles and requirements in the IASB's forthcoming *Fair Value Measurement* Standard

Agenda paper 14.6 Proposed timetable for completion of a draft replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*