

Issues paper discussing industry feedback on the proposed format of financial statements under a replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*

Introduction

1. In August 2010, PricewaterhouseCoopers held industry workshops with industry participants on the status of a number of the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*. A summary of the findings from these workshops was sent to the Chairman of the AASB in a letter dated 30 August 2010 (a copy of this letter is provided in Appendix A to this Agenda paper).
2. With respect to the format of financial statements proposed in ED 179, the letter from PricewaterhouseCoopers notes that:

“The industry takes the view that it is unnecessary to identify 5 separate statements as being ‘primary’ for reporting the performance or financial position of superannuation funds. We suggest that an effective way for the AASB to respond to this concern would be to remove the requirement to have a Statement of Changes in Equity as a primary statement. A Statement of Changes in Members Funds effectively includes any changes in ‘reserves’ of a fund.”
3. In his response to PricewaterhouseCoopers’ letter (a copy of which is provided in Appendix B to this Agenda paper), the Chairman of the AASB states that:

“As it is currently framed, a Statement of Changes in Member Benefits would only include members’ vested and accrued benefits. Accordingly, amounts not vested in members or benefits not yet accrued would not be recognised in a Statement of Changes in Member Benefits under the proposals in ED 179. Nevertheless, I acknowledge that the proposals in ED 179 could be considered onerous relative to the presentation requirements that currently apply to other entities reporting under Australian Accounting Standards. AASB staff will raise this issue with the Board when it deliberates on the matters on which the revised version of ED 179 will seek comment from constituents.
4. Accordingly, the purpose of this Agenda paper is to:
 - (a) provide a brief background to the proposal for a superannuation entity to present, where relevant, a statement of changes in equity in accordance with Australian Accounting Standards (paragraphs 5-6);
 - (b) responses received from constituents on the proposals and staff analysis of the responses (paragraphs 7-10); and
 - (c) staff analysis and views (paragraphs 11-12).

Background to the statement of changes in equity proposal

5. During its December 2007 meeting, the Board discussed the nature of equity in a superannuation context and noted that a residual interest in its net assets of a superannuation plan could arise as a consequence of a number of factors, including:
 - (a) unvested benefits; and/or
 - (b) a defined benefit surplus or deficiency.

6. On the basis of these discussions, the Board decided that a residual interest in the net assets of a superannuation plan or approved deposit fund (ADF) should be classified as equity and disclosed in accordance with the relevant requirements in AASB 101 *Presentation of Financial Statements*. However, the Board noted that the presentation of a defined benefit surplus or deficiency in accordance with paragraphs 79 and 80 of AASB 101 may not facilitate the provision of useful information to users. Accordingly, at its May 2008 meeting, the Board decided that a plan that presents a defined benefit deficiency should disclose information that enables users to evaluate the nature and implications of the deficiency. These disclosures are in addition to presenting the defined benefit deficiency as a part of the plan's statement of changes in equity.

Constituent responses to the proposal for a statement of changes in equity

Roundtable discussions

7. Roundtable discussions on the proposals in ED 179 were held in Sydney and Melbourne in August 2009. Ten constituents participated in the discussions in Sydney and sixteen participated in the discussions in Melbourne.
8. A number of constituents at both the Sydney and Melbourne roundtables expressed concerns with the proposal that a superannuation entity present five separate statements (income statement, statement of financial position, statement of cash flows, statement of member benefits and statement of changes in equity) on the basis that this would be excessive and that four financial statements might be sufficient to present the same information. Accordingly, some participants suggested that the statement of changes in member benefits could be merged with:
 - (a) the statement of changes in equity because equity in a superannuation plan would normally be relatively small (in many cases immaterial) and in most cases would comprise reserves which will ultimately be used for the benefit of defined contribution members; or
 - (b) the income statement to provide a 'comprehensive' income statement that distinguishes revenues and expenses from contributions and benefit payments.
9. Other roundtable participants suggested that the information in a statement of changes in member benefits and/or a statement of changes in equity could be disclosed in a note.

Written responses on ED 179

10. Seven¹ of the twenty written responses received on ED 179 expressed a view on the proposal for a statement of changes in equity, all of which disagreed it should be required on the basis that such a statement would not provide sufficient useful information to users to justify preparation and auditing costs and, in some cases, may be misleading. Accordingly, the information that would otherwise be presented in such a statement should be included:

1 The Association of Superannuation Funds of Australia Limited; Watson Wyatt; the Australian Institute of Superannuation Trustees; the Corporate Super Association; Vision Super Pty Ltd; CPA Australia, the Institute of Chartered Accountants and the National Institute of Accountants; and PricewaterhouseCoopers.

- (a) in the statement of financial position as a line item; and
- (b) disclosed as a note;

AASB staff analysis of the written responses on ED 179

11. Agenda paper 6.2 to the Board's December 2009 meeting contained the following analysis with respect to the proposal that a superannuation entity present a statement of changes in equity.

“While staff consider information in relation to the equity items of a plan or ADF would be useful to users of the financial statements of some plans and ADFs, particularly those plans and ADFs that have significant reserves, staff acknowledge the concerns expressed by some respondents that the proposals are likely to impose additional preparation and auditing costs on plans and ADFs that have relatively small amounts in reserves.

Staff note that paragraph 79 of AASB 101 permits an entity to disclose information in relation to some equity items either in the statement of financial position or the statement of changes in equity, or in the notes. However, an entity that prepares its financial statements in accordance with Australian Accounting Standards is required to present a statement of changes in equity for each reporting period in accordance with paragraph 10 of AASB 101.”

12. On the basis of this analysis, staff recommended (and the Board agreed) that the proposals that a plan or ADF present, where relevant, a statement of changes in equity be retained in the replacement Standard for AAS 25.

Staff views

Staff consider that a plan or ADF should, where relevant, present a statement of changes in equity in accordance with Australian Accounting Standards because:

- (a) it is consistent with the Boards' policy of transaction-neutrality;
- (b) it is consistent with the objective of the Board's comprehensive review financial reporting by superannuation entities, which is to align, to the extent feasible, the reporting requirements applicable to superannuation entities with those applicable to other entities reporting under Australian Accounting Standards; and
- (c) even though superannuation entities generally hold relatively small amounts of funds in reserves, if a plan or ADF were to accumulate significant reserves, the entity would be required under the replacement Standard for AAS 25 to present information regarding such reserves on the face of its financial statements.

Appendix A – A Copy of a Letter from PricewaterhouseCoopers to the AASB Chairman Dated 30 August 2010

Kevin Stevenson
Chairman and CEO
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne Vic 3000

30 August 2010

Dear Kevin

Re: Update on Industry Feedback on ED179

We thought it appropriate to share with you feedback from recent industry workshops we have held on the status of various proposals included in ED179.

The most recent of these was held in Melbourne on 5 August 2010. Industry participants are identified in Appendix A to this letter.

The focus of the discussions was the status of the Board's deliberations on the replacement standard. Dean Arden participated in the workshop to outline the Board's current position on some of the key issues and the rationale for them. Industry participants appreciated hearing from Dean. However, they expressed concern that the Board had not amended its position on several issues even though a significant majority of the submissions had strongly opposed the proposals. Whilst we acknowledge that process of standard setting is not merely to determine the most popular accounting treatments, there are three areas where we consider it would be appropriate for the Board to reconsider its current position to take more account of the industry perspectives. We outline these below.

1. Superannuation Funds and Consolidation

The proposal to require superannuation funds to prepare consolidated financial statements has received significant attention from entities in the industry and the broader accounting profession. The industry response to the ED expressed the perspective that members of superannuation funds would find information on the fair values of controlled investments more useful than a consolidated set of financial statements. Our understanding is that whilst the AASB has amended its original consolidation accounting proposal, it has retained the requirement to revalue intangible assets acquired in a business combination. This is not permitted for other entities that apply Australian accounting standards, except in the case where the intangible has an active market

In PwC's response to the ED, we encouraged the AASB to monitor the discussions between the International Accounting Standard Board (IASB) and US Financial Accounting Standards Board (FASB) on their joint consolidations project. In particular, the discussions on whether investment companies should measure controlled investments at fair value, rather than require the traditional consolidation approach. We put the view that, if the IASB requires measurement of these investments at fair value (rather than consolidation), the same approach should extend to superannuation funds.

We understand that in Q4 of 2010 the IASB intends to issue an ED proposing that investment entities fair value their controlled entities rather than consolidate them. Our view is that until the IASB deliberations on this topic are complete it would be premature for the AASB to require an entirely new basis of preparing consolidated accounts for superannuation funds. Accordingly, we recommend that the AASB retains the requirements of AASB 127 in relation to consolidation of superannuation funds at this time.

Once the IASB deliberations are complete we would expect the AASB to apply a consistent approach to investment entities and superannuation funds.

2. Segment, or disaggregated reporting

Respondents to the ED seemed to be confused by the proposals regarding disaggregated information. Our sense is that the AASB may be imposing more onerous requirements for superannuation funds than currently exist for entities such as managed investment schemes. We recommend the AASB reconsiders its current proposals in the light of the reporting by managed investment schemes and the recently introduced reduced disclosure regime. Many superannuation funds would qualify as Tier 2 entities under that regime.

3. Format of Financial Statements

We understand that the proposed format of financial statements is as follows:

- Statement of Financial Position
- Income statement
- Statement of Cash Flows
- Statement of Changes in Accrued benefits
- Statement of Changes in Equity

The Industry takes the view that it is unnecessary to identify 5 separate statements as being "primary" for reporting the performance or financial position of superannuation funds. We suggest that an effective way for the AASB to respond to this concern would be to remove the requirement to have a Statement of Changes in Equity as a primary statement. A Statement of Changes in Members Funds effectively includes any changes in 'reserves' of a fund.

We would be pleased to discuss any aspects of the recommendations outlined above with the AASB in further detail and in this regard please contact either David Coogan on 03 8603 3841 or Jan McCahey on 03 8603 3868.

Yours sincerely

David Coogan
Partner
Assurance

Appendix A:

- Australian Institute of Superannuation Trustees (represent over 800 Trustee Directors)
- AustralianSuper
- Construction and Building Unions Super Scheme
- Equisuper
- Health Super
- LUCRF
- Superpartners (an administrator of 20 funds with over 4.5 million members)
- Maritime Super
- Telstra Super
- Vision Super
- Unisuper

Appendix B – AASB Chairman’s Response to PricewaterhouseCoopers’ Letter Dated 30 August 2010

23 September 2010

Mr David Coogan
Partner - Assurance
PricewaterhouseCoopers
GPO Box 1331
MELBOURNE VIC 3001

Dear David

Update on Industry Feedback on ED 179 *Superannuation Plans and Approved Deposit Funds*

Thank you for your letter dated 30 August 2010. We appreciate you sharing the feedback you have received from participants in the workshops you have conducted on the proposals in ED 179.

As a member of the Project Advisory Panel on ED 179, you would be aware that the Australian Accounting Standards Board (AASB) decided at its September 2010 meeting that a revised version of ED 179 should be re-exposed and comments sought from constituents on selected proposals in the document. At this stage, it is anticipated that the revised version of ED 179 will be issued in December 2010.

The AASB appreciates the comments and recommendations that respondents, including PricewaterhouseCoopers, provided on ED 179 as they assisted it greatly in refining the proposals contained in the document. The AASB will be encouraging all of the constituents that provided comments on ED 179 to comment on the revised proposals.

Preparation and presentation of consolidated financial statements

During its deliberations on ED 179, the AASB considered a number of alternative ways in which a parent superannuation entity could account for a subsidiary, including a ‘disclosure only’ approach involving a parent measuring its investment in a subsidiary at fair value and providing detailed note disclosures regarding the underlying assets and liabilities.

As noted in your letter, a ‘disclosure only’ approach may provide useful information to users in a superannuation context. However, such an approach would be:

- inconsistent with current practice under Australian Accounting Standards, particularly AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*; and
- therefore, contrary to the AASB’s transaction-neutrality policy.

A ‘disclosure only’ approach for parent superannuation entities would also be contrary to the objective of the AASB’s project to comprehensively review financial reporting by

superannuation entities, which is to align, to the extent feasible, the reporting requirements applicable to superannuation entities with those applicable to entities under other Australian Accounting Standards.

As noted in your letter, the original and revised proposals in ED 179 regarding intangible assets are inconsistent with the current requirements in AASB 138 *Intangible Assets* to the extent that they would permit superannuation entities to revalue an intangible asset for which an active market as defined in the Standard does not exist. However, the proposals are consistent with the current approach under AAS 25 *Financial Reporting by Superannuation Plans*, except that plans are currently required to measure intangible assets at net market value rather than fair value.

The AASB is currently monitoring developments in the joint project between the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) on consolidations. To this end, the AASB has held some preliminary discussions on the decisions the IASB and FASB have made, and the potential implications of these decisions for Australian entities, including superannuation entities. As you would appreciate, the AASB will not be in a position to consider the full implications of any particular investment company accounting for Australian entities, including superannuation entities, until the IASB and FASB complete their deliberations. Nevertheless, if the IASB were to issue a Standard that permitted or required entities to apply investment company accounting, its applicability to superannuation entities in the Australian context would be potentially subject to the following factors.

Firstly, the AASB would need to adopt the IASB Standard as an Australian Accounting Standard.

While the AASB has, to date, adopted IASB Standards as Australian Accounting Standards, the AASB follows a due process with respect to all the Accounting Standards it issues to satisfy itself that the proposed changes are, among other things, in the best interests of the Australian economy. Accordingly, when the IASB issues its proposals in respect of investment company accounting, the AASB will issue the IASB proposals as an Australian exposure draft (ED) and seek comment from constituents on the implications of the proposals for all entities potentially affected by the proposals, including superannuation entities.

Secondly, superannuation entities would need to meet any criteria identified in any requirements that might emerge from the standard setting process.

The IASB and FASB have identified a number of criteria that they intend to propose entities meet before they would be considered an investment company for consolidation purposes. While some superannuation entities would potentially meet these criteria, I am aware of some debate among constituents as to whether all superannuation entities that currently report under AAS 25 would also meet the IASB's and FASB's proposed criteria for investment company accounting. As an ED on investment company accounting has not yet been issued, it is entirely feasible that the criteria the IASB and FASB have agreed to date will change prior to any Standard being issued. Nevertheless, if superannuation entities do not meet all of the criteria identified in any IASB Standard for investment company accounting, the AASB may consider it inappropriate to modify the criteria in the equivalent Australian Accounting Standard to accommodate them.

Based on the AASB's decisions to date, it is unlikely that the AASB would delay issuing the revised version of ED 179 until after the IASB has published its ED on investment company accounting. During its April 2010 meeting, the AASB decided that, as the issue of investment company accounting has implications beyond superannuation entities, it may need to be dealt with separately from its redeliberations on ED 179. However, subject to the timing of any IASB ED on investment company accounting and the timing of the revised ED 179, the AASB may decide to include a question (or questions) in the revised version of ED 179 seeking comment on the implications for superannuation entities of the IASB's proposals in respect of investment company accounting. In addition, if the AASB were to adopt investment company accounting and superannuation entities could apply investment company accounting in respect of their subsidiaries, the AASB may consider aligning the effective dates of the replacement Standard for AAS 25 and any new Australian Accounting Standard on consolidation so that superannuation entities would not face two rounds of reporting changes in a short period of time.

Segmented or disaggregated reporting

In light of the comments received from respondents on ED 179, the AASB decided to redeliberate its proposals in respect of segmented financial disclosures. At its September 2010 meeting, the AASB considered a number of different ways in which a superannuation entity could disclose segmented or disaggregated financial information. At this meeting, the AASB decided to expose a proposal that the replacement Standard for AAS 25 require a superannuation entity to provide disaggregated financial disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*.

While AASB 8 currently only applies to entities that are listed (or are about to list) on a stock exchange, investment-type entities that are similar in many respects to superannuation entities are required to apply the Standard. Moreover, AASB 8 requires an entity to disclose information in accordance with the 'through the eyes of management' approach, which would potentially facilitate the disclosure of disaggregated information that is consistent with the manner in which a superannuation entity arranges and manages its assets and related obligations for members' benefits.

The AASB is yet to deliberate on the disclosures proposed in ED 179 that a 'Tier 2' superannuation entity may be relieved of providing under the Reduced Disclosure Regime (RDR). Nevertheless, as noted in AASB 1053 *Application of Tiers of Australian Accounting Standards*, superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds are deemed to have public accountability. Accordingly, I anticipate that 'Tier 1' superannuation entities would be subject to any disaggregated disclosure requirements under the replacement Standard for AAS 25.

Format of financial statements

As it is currently framed, a Statement of Changes in Member Benefits would only include members' vested and accrued benefits. Accordingly, amounts not vested in members or benefits not yet accrued would not be recognised in a Statement of Changes in Member Benefits under the proposals in ED 179. Nevertheless, I acknowledge that the proposals in ED 179 could be considered onerous relative to the presentation requirements that currently apply to other entities reporting under Australian Accounting Standards. AASB staff will

raise this issue with the Board when it deliberates on the matters on which the revised version of ED 179 will seek comment from constituents.

Again, thank you for sharing the feedback you have received from constituents on the proposals in ED 179.

If you have any queries regarding any matters in this letter, please contact me or Dean Ardern (dardern@asb.gov.au).

Yours sincerely,

Kevin M. Stevenson
Chairman and CEO