Collation of written comments on ED 179 *Superannuation Plans and Approved Deposit Funds*

Introduction

1. This Agenda paper provides a collation of the written comments received from respondents on ED 179 *Superannuation Plans and Approved Deposit Funds*, categorised on the basis of the Specific Matters for Comment identified in the ED.

2. [Paragraph omitted from observer notes]

3. Staff have endeavoured to replicate faithfully in this Agenda paper the respondents' comments. However, in some instances staff have exercised judgement in determining which Specific Matter for Comment a particular comment relates to. Consequently, some meaning may have been lost inadvertently in this process. Accordingly, this collation should not be treated as a substitute for the full text of submissions.

4. To minimise the length of this Agenda paper, staff have:
   (a) reproduced the text of respondents' submissions only. Accordingly, where the text of a respondents' submission included, for instance, bolding, underlining or text boxes, these have not been reproduced here;
   (b) not reproduced respondents' comments that confirm they do not have a view or do not offer a view on a Specific Matter for Comment; and
   (c) included any footnotes in a respondent's submission in the body of the text.

Table of Respondents

Response number	Respondent	Constituent Group
1	Unisuper	Preparer of financial statements
2	Ernst & Young (E&Y)	Accountant and auditor
3	Mercer	Actuary, consultant, administrator and preparer of financial statements
4	AXA Australia (AXA)	Preparer of financial statements
5	Qsuper	Preparer of financial statements
6	KPMG	Accountant and auditor
7	The Association of Superannuation Funds of Australia Limited (ASFA)	Representative body
8	Watson Wyatt (WW)	Actuary, consultant and administrator
9	Australian Institute of Superannuation Trustees (AIST)	Representative body
10	Corporate Super Association (CSA)	Representative body
11	Vision Super Pty Ltd (Vision)	Preparer of financial statements
12	CPA Australia Ltd, the Institute of Chartered Accountants and the National Institute of Accountants (CPA, ICA and NIA)	Professional accounting body
13	Grant Thornton	Accountant and auditor
14	Dr Isabel Gordon	Academic
15	Institute of Actuaries of Australia (IAA)	Representative body
16	Sharyn Long Chartered Accountants (SLCA)	Accountant
17	AustralianSuper	Preparer of financial statements
18	Confidential submission	
19	National Australia Bank (NAB)	Asset custodian, consultant and administrator
20	PricewaterhouseCoopers (PwC)	Accountant and auditor

Table 1 – Respondents' overall views on ED 179

Respondent	Comments
E&Y	"Overall we are supportive of the proposals, as a whole within the ED. We believe they will provide greater transparency and consistency across the industry and enhance the current financial reporting framework amongst superannuation funds. We also believe the principles based approach adopted allows Trustees to tailor their financial reporting to focus on financial risks specific to the structure of their Fund."
Mercer	"We have considered the proposed new standard mainly from the point of view of members of a superannuation plan, as they represent the main groups of users of these financial statements. Our comments, therefore, focus on how the proposals would aid members' understanding of their superannuation plan, relative to the costs that would be incurred in complying with the new requirements. Whilst we agree with the Board's aim that the financial statements provide information that is appropriate for the needs of users, we believe that some of the requirements of the new standard will fail to achieve this aim. In particular, the proposed recognition method for defined benefit plan liabilities and the disclosure requirements for segregated groups within plans are likely to confuse members more than educate them, and will add significantly to the costs of producing financial statements. We note that the scope of the recently announced (Cooper) review into the governance, efficiency, structure and operation of Australia's superannuation system includes '*ensuring the most efficient operation of the superannuation system for all members*' and '*ensuring… it operates in the most cost effective manner and in the best interests of members*'. As we have outlined in our specific comments, some of the requirements of the proposed standard do not appear to meet these objectives."
KPMG	"KPMG welcomes the AASB's move to review the reporting requirements applicable to superannuation plans and approved deposit funds in order to bring the current standard in line with the concepts maintained by IFRS and to more comprehensively address the specific domestic requirements where IFRS concepts are not relevant or suitable."
ASFA	"Generally, the ED incorporates significant improvements to existing financial reporting on super funds by bringing it in line with contemporary financial reporting. These improvements cover recognition, measurement, presentation and disclosure aspects and are aimed at minimising omissions or misreporting of key information in financial statements. There is concern in relation to certain items as outlined in the next section of this submission. Primarily, these concerns relate to the need for more industry specific guidance to avoid diverging interpretation by the industry in the future."
CSA	"Our Association recognises the need to keep the accounting standard for superannuation and approved deposit funds under review, including consideration of consistency of reporting requirements for items addressed under other accounting standards."
CPA, ICA and NIA	"We commend the AASB for their work in developing a standard based on IFRS which is applicable to the superannuation industry in Australia. Overall we are supportive of the ED and the concept that superannuation reporting should be within the context of IFRS, subject to our fundamental concerns outlined below and detailed comments in the Appendix. We urge the AASB to include more industry specific guidance in areas where divergent interpretations could be foreseen to develop and identify a number of areas in this submission. We also encourage the AASB to engage in field testing before finalising the standard."
GT	"We broadly support the thrust of the ED however we have two observations that we believe the AASB needs to consider further."

SLCA	"We are supportive of the work done by the AASB to develop a new standard for superannuation funds consistent with IFRS subject to our comments and suggestions."
AustralianSuper	"Similar with Ernst & Young, we are generally supportive of the proposals, as a whole, within the ED and believe that the proposals will provide great transparency and consistency across the industry and enhance the current financial reporting framework amongst superannuation funds to facilitate greater comparison across the industry and other non-super entities. We also believe the principles based approach adopted allows Trustees to tailor their financial reporting to focus on financial risks specific to the structure of their Fund. While we are overall supportive of the proposals, we have raised some matters for your consideration and clarification…"
NAB	"Broadly, we support the revision of the current Accounting Standard AAS 25 Financial Reporting by Superannuation Plans in the context of International Financial Reporting Standards ('IFRS') resulting in the issue of ED 179. We also support the overall proposals included in ED 179, subject to our specific concerns and comments…"
PwC	"We are broadly supportive of the ED that is built on the principles of the International Financial Reporting Standards (IFRS). However, we have some fundamental concerns about the proposals in the ED that are outlined below…"

Table 2 - Respondents' views on Specific Matters for Comment (a) – whether the recognition principles in paragraph 10 of ED 179 are appropriate for a superannuation plan or approved deposit fund.

<table>
<tr><th>Respondent</th><th>Comments</th></tr>
<tr><td>E&Y</td><td>"We agree that members benefits should be recognized as liabilities as per 10(a) but do not agree with the measurement of defined benefit liabilities."
"Re measurement of insurance contracts, we believe there should be further consideration of the application of AASB 1038 including the recognition and measurement criteria."
"We agree with the recognition of assets and liabilities of a subsidiary as disclosed in paragraph 30."</td></tr>
<tr><td>KPMG</td><td>"Recognition of accrued benefits
Accrued benefits meet the definition of a liability under the AASB framework because on receipt of a contribution for a particular member, the fund has a present, legally enforceable obligation to pay out a member's accrued benefit on demand from the member (whether than demand is for cash because a condition of release has been fulfilled, or whether the member is exercising their right to choice of fund by electing to rollover their benefit). In the case of defined benefit member accrued benefits, the obligation arises as member service accrues.
Consequently, we agree with the requirement to recognise accrued benefits as a liability in the balance sheet as proposed in paragraph 10 of the ED. However, we do note that this may create potentially misleading results for some funds that are forced to present a net asset deficit position because the fund is substantially a defined contribution fund for which the accrued benefits are wholly matched by the amount of assets reported on the balance sheet, but a small defined benefit portion of the fund is underfunded. The balance sheets of pure defined contribution funds may also show a deficit position as at reporting date due to accrued benefit liabilities being measured using 'stale' unit prices while assets on the balance sheet are measured using more recent audited values. To ensure that users of the financial statements understand the net asset position of the fund and whether a deficit is due to underfunding of the entire fund or just a particular sub-plan, or whether the deficit is due purely to unit pricing timing differences, we recommend that ED 179 requires the following to be shown on the face of the Balance Sheet:
<table>
<tr><td>Net assets available for members' accrued benefits</td><td></td><td>5,550</td></tr>
<tr><td>Less members' accrued benefits - liability</td><td></td><td>6,550</td></tr>
<tr><td>Net assets</td><td></td><td>(1,000)</td></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>Equity</td><td></td><td></td></tr>
<tr><td>Reserves</td><td></td><td>100</td></tr>
<tr><td>Deficit</td><td></td><td></td></tr>
<tr><td>Represented by:</td><td></td><td></td></tr>
<tr><td>Adjustments arising from different unit pricing and AIFRS valuations</td><td>(200)</td><td></td></tr>
<tr><td>Accrued benefit liabilities of ABC defined benefit sub-plan yet to be funded</td><td>(900)</td><td>(1,100)</td></tr>
<tr><td></td><td></td><td>(1,000)</td></tr>
</table></td></tr>
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ASFA	"Members' benefits to be recognised as liabilities We believe it is appropriate to recognise members' benefits as liabilities. However, we refer to the issues raised by the Joint Accounting Bodies and the Institute of Actuaries of Australia on the proposed measurement model for *defined benefit* superannuation plans. We support their arguments favouring the vested benefits measure as opposed to the proposed accrued benefits measure."
CPA, ICA and NIA	"*Obligation for members' benefits to be recognised as liabilities* We agree that the recognition principles for members' benefits in paragraph 10 meet the definitions under the Framework, and that members' benefits should be recognised as liabilities under IFRS. However, this is on the premise that members' benefits is measured as vested benefits rather than accrued benefits. It is arguable that accrued benefits over and above vested benefits are in the nature of equity, as what is payable under a superannuation fund deed is discretionary in many cases. As members' benefits are recognised as liabilities, we recommend the proposed requirement for a Statement of Changes in Equity be deleted from the standard. Our significant concerns with the measurement of benefits are addressed under question (c) below. *Obligations and assets arising from insurance contracts* We agree the principles relating to insurance contracts are appropriate. However, we have significant concerns, outlined under question (e) below, with the drafting of this ED in relation to insurance activities of plans and funds. *Assets and liabilities of a subsidiary – consolidation of subsidiaries* We accept the principle of consolidation for superannuation plans as this is consistent with IFRS. We reiterate our comment previously made to the AASB that consolidation is not relevant to superannuation entities as users are interested in the fair value of an entity's investments, not their underlying assets and liabilities or cash flows. We acknowledge the AASB has attempted to address this issue by proposing a consolidation method that essentially measures a subsidiary at fair value. We agree this principle is appropriate, however regard it is implicit acknowledgement that consolidation is not relevant for superannuation plans and approved deposit funds. Assuming subsidiaries are recognised at fair value on consolidation, we agree with the principle that minority interests would also be recognised. However, this could have unintended outcomes. Under the consolidation model subsidiaries will be recognised at their full fair value, and the minority interest disclosed. This has the potential to mislead users as to the level of assets attributable to the members of the fund, as users may consider the reported assets as being available to members, rather than those attributed to the parent. On balance, if the AASB decided to exempt superannuation plans and approved deposit funds from consolidation and instead propose a disclosure only model we would strongly support that decision. We view the disclosure only model as recognising the superannuation plan or approved deposit fund's investment in the subsidiary at its fair value less transaction costs in its separate financial statements and the provision of note disclosure regarding each significant subsidiary. In our view the disclosure model would provide information that better satisfies the qualitative characteristics that make the information in financial reports useful to users and represents a far more practical and workable solution for superannuation entities generally."
Dr Isabel Gordon	"On the other hand, the actuarial literature has opposed treating member benefits as liabilities of the plan. This has been partly due to the earlier superannuation accounting standards (especially in the UK and the USA) having a 'profit and loss' focus rather than the current balance sheet focus of the IASB. Adopting the balance sheet approach, it is apposite to recognise vested (DCP) and accrued (DBP) benefits as liabilities of the plan. However, in Australia (unlike the USA and the UK) for DBP there is no regulatory imposed guarantee that the sponsoring employer must make good any DBP deficit.

	This being so, in the absence of regulation, it may be argued that the DBP deficit represents a constructive (and not legal liability) in Australia. Also, for the DBP, reference should be made in the notes to the accounts to the trust deed clause that details the sponsor's guarantee of the DBP deficit so that users of the financial statements are clear that this guarantee is currently in place."
IAA	"We believe that the recognition of members' interests as liabilities and the issue of 'equity' in superannuation plans is an important issue that requires further consideration. We understand that the Framework for the Preparation and Presentation of Financial Statements defines equity to mean: 'Equity is the residual interest in the assets of the entity after deducting all of its liabilities.' That definition is further amended by AASB 132 which includes as equity certain puttable financial instruments. These instruments must have the following feature in order to be included in equity: *'(a) It entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation. The entity's net assets are those assets that remain after deducting all other claims on its assets. A prorata share is determined by:* *(i) dividing the entity's net assets on liquidation into units of equal amount; and* *(ii) multiplying that amount by the number of the units held by the financial instrument holder.* *(b) The instrument is in the class of instruments that is subordinate to all other classes of instruments. To be in such a class the instrument:* *(i) has no priority over other claims to the assets of the entity on liquidation; and* *(ii) does not need to be converted into another instrument before it is in the class of instruments that is subordinate to all other classes of instruments.* *(c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features. For example, they must all be puttable, and the formula or other method used to calculate the repurchase or redemption price is the same for all instruments in that class.* *(d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in subparagraph (b) of the definition of a financial liability.* *(e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).'* In line with the approach taken by the AASB in considering this issue in paragraph BC 41 we also believe that the provisions above, together with the different nature of superannuation plans leads you to consider different types of superannuation plans separately. We address each of those in turn below: • **Defined contribution plans with no reserves and no member investment choice**. For a superannuation plan in these circumstances, there is no difference between members' account balances and plan assets. It would therefore appear that members' balances meet the definition of equity as there is no lower priority claim and members will receive a pro-rata share in the entity's assets. We understand that many managed investment schemes will account for unit holders' funds as equity on this basis after applying the amendment to AASB 132. Given the similarity to defined contribution superannuation plans some consistency on this issue would appear appropriate.

	Notwithstanding the comments above, it is possible that a defined contribution plan with no reserves has a provision for reserves or some other form of residual assets, claims on those reserves would have a lower priority on termination and the nature of the claim may not be a pro-rata share for all members. So arguably those reserves (even those currently nil) are the equity in this type of superannuation plan. • **Defined contribution plans with no reserves that offers member investment choice**. It's difficult to see any distinction between this type of superannuation plan and one without member investment choice. Arguable member investment choice makes it more likely that any residual assets on liquidation would be distributed in something other than a pro-rata share (for example different amounts to different investment choices). But it is not clear why that should necessarily be the case. • **Defined contribution plans with reserves**. In this case it appears that any residual assets in the reserves may have the lowest priority and members' balances would hence not appear to be equity. However, that is not necessarily the case. If the reserve is for administration expenses or tax, those liabilities would typically be paid ahead of members on liquidation. • **Defined benefit plans**. Defined benefit plans typically have some excess or shortfall of assets over the value of members' benefits (for defined benefit and defined contribution members). If the amount is an excess it will typically be dealt with on liquidation after all members' benefits and expenses have been paid. Hence any claim on this excess would appear to be the lowest priority and the most likely candidate to be treated as equity. The actual treatment of this excess will differ from plan to plan, based on the specific provisions in plan's trust deeds. Typically it would either be payable to the employer or distributable to members. If it is distributable to members, then potentially it could bring defined benefit members' benefits into the definition of equity. It would be unusual, although not unheard of, for defined benefit and defined contribution members to be treated in the same way in respect of any residual assets. So there would be unlikely that the account balance for a defined contribution member in a defined benefit plan could fall into the definition of equity. All of the above suggests that in seeking to define equity in terms of existing accounting standards consideration of this issue could be driven by the legal form of superannuation plan's trust deeds, rather than the substance of superannuation plans and the benefits they provide to members. Given the variation and complexity of termination provisions this path is likely to be exceedingly difficult and contradictory. We note that, in its considerations, the AASB concluded that having different reporting outcomes for different types of superannuation plans would not be desirable. We agree. This may mean that for some entities the result may be inconsistent with International Financial Reporting Standards. However, if International Financial Reporting Standards alone were enough to allow preparation of financial statements for superannuation plans there would be no need for an Australian Standard for superannuation plans. Some inconsistency is implicit in the decision to develop an Australian Standard. Deciding that a consistent approach is desirable does not of itself lead you to conclude what that approach should be. We believe that the decision between liability and equity should be based on the substance of what superannuation plans provide to members. Under the Superannuation Industry (Supervision) Legislation the sole purpose of a superannuation plan must be to provide certain benefits to members. In the same way that shareholders are the main beneficiary of company's performance, the substance of what members receive from their superannuation plan is more like equity than anything else. This is even true of defined benefit members where any claim if the assets held by the superannuation plan are insufficient to provide the defined benefit lies more with the employer than the superannuation plan. Hence to achieve a consistent outcome both across different types of superannuation plans and between superannuation plans and managed investment schemes, we believe that it would be preferable that members' benefits are treated as equity. This of course does not preclude disclosure of the amounts of members' benefit and any short fall or the establishment of a different class of equity for any residual assets."

<table>
<tr><td>SLCA</td><td>“We agree that members’ benefits should be recognised as liabilities under IFRS. However, we have concerns about the measurement of defined benefit members’ benefits which are discussed in point (c).”

“We have concerns with the relevance and measurement of insurance contracts discussed in the ED and these are discussed at point (e).”</td></tr>
<tr><td>NAB</td><td>“We agree with the recognition principles stated in paragraph 10 that are applicable to all assets and liabilities, and in particular, to obligations for members’ benefits in the case of defined benefit plans and defined contribution plans.

With regard to obligations and assets arising from insurance contracts, we note that there are cases where the insurance contracts are not issued directly by the superannuation plans. In these cases, the plans are probably only acting as agents for the underlying insurance companies and may not undertake insurance risks in their own name. Accordingly, in these cases it is probably not appropriate to require the superannuation plans to recognise the insurance contracts in accordance with AASB 1038. We agree that where the plans undertake the insurance risk in their own name it is appropriate to recognise the contracts in accordance with AASB 1038. We believe that this distinction should be made in the accounting standard arising from ED 179. Appropriate guidance should also be provided to assist the plans in identifying the difference.”

With regard to the requirement for a superannuation plan to consolidate its subsidiaries, we acknowledge there are cases where consolidation should be required, in particular, in the case where the plans clearly own and controls another entity, e.g. a business or an operating company. In the case where there is no effective or real control, e.g. the plan has not control over (i) investment decisions which are made by the fund managers in accordance with investment mandates predetermined by Product Disclosure Statements: (ii) the running of the subsidiary; and has no power to direct the activities of the subsidiary to generate returns. In many of these cases, we believe that ownership of 50% or over of the subsidiary alone is not sufficient to determine that the subsidiary should be consolidated. In those cases, we recommend the requirement to consolidate be exempted.”</td></tr>
<tr><td>PwC</td><td>“Obligation for members’ benefits to be recognised as liabilities

We agreed with the proposals in the ED. However, as explained in our cover letter, we would also support a decision of the AASB to retain the status quo of measuring defined benefit obligations under current AAS 25 requirements and make a change only when the IASB’s insurance standard is issued or once further progress on the IASB’s work on measuring liabilities is made. However, if the AASB adopted this alternative, we consider such obligations should be measured annually, rather than triennially.

Obligations and assets arising from insurance contracts

In principle, we agree that where a superannuation plan provides benefits that meet the definition of an insurance contract, the financial impact thereof should be accounted for as an insurance contract. However, as explained in our cover letter, we propose measuring the obligation under such a contract in the same way as the defined benefit obligations until such time as the IASB has completed its project on accounting for insurance contracts.

Assets and liabilities of a subsidiary – consolidation of subsidiaries

From a conceptual basis, we support the requirement for superannuation funds to comply with the requirements of AASB 127 and prepare consolidated financial statements.

However, we do not support the departure proposed by the AASB from the requirements of AASB 127. In particular:

• The requirement to separately value recognised intangible assets on an annual basis imposes a very significant cost burden on the industry for very limited benefit in terms of decision useful information.

• The requirements of paragraph 30(b) and (c) represent a departure from IFRS consolidation principles which will not be generally understood, and which are not available to other entities that adopt fair value accounting for investments and are required to prepare consolidated accounts.

We believe that consolidation should be performed in accordance with AASB 127 without any modifications.”</td></tr>
</table>

Table 3 - Respondents' views on Specific Matters for Comment (b) – whether a superannuation plan or approved deposit fund should be required to measure at fair value adjusted for transaction costs all of its (i) assets, except for: (A) tax assets; (B) assets arising from insurance contracts issued by the entity; and (C) goodwill; and (ii) liabilities, except for: (A) tax liabilities; (B) obligations for defined contribution members' vested benefits; (C) obligations for defined benefit members' accrued benefits; and (D) obligations arising from insurance contracts issued by the entity.

Respondent	Comments
E&Y	"In principle, we agree with measuring assets and liabilities at fair value on the basis that this aligns the measurement criteria with other entities such as management investment schemes and life insurers." "While we understand the logic behind the inclusion of transaction costs, this results in a deviation from IFRS and given that transaction costs are immaterial, we suggest that AASB reconsider whether adjusting for transaction costs is justified."
KPMG	"Measurement of assets and liabilities at fair value adjusted for transaction costs Paragraph 11 of ED 179 specifies that all assets shall be measured at fair value less transaction costs. Paragraph AG7 of the application guidance in ED 179 then refers users to the relevant Australian Accounting Standards for guidance in determining fair values. The relevant Australian Accounting Standard for the majority of superannuation fund assets is AASB 139. The requirements of ED 179.11 are inconsistent with AASB 139.46 which specifies that transaction costs are not deducted from financial assets after initial recognition. If financial statement preparers are required to follow ED 179.11, there is a possibility that the effects of transaction costs will be accounted for twice where bid pricing is used, as bid prices already factor in a buy/sell spread. We agree that changes in value of superannuation fund assets and liabilities should be recognised in profit or loss. However, there is no reason for superannuation funds to measure these items any differently to managed investment schemes and other entities. Rather than specify the method of measuring superannuation fund financial assets and liabilities, ED 179 should specify that all financial assets and financial liabilities must be designated as 'at fair value through profit and loss' in accordance with AASB 139.9(b). The financial assets and liabilities would then be accounted for under AIFRS in the same way that all other financial instruments are accounted for when designated as at fair value through profit and loss. In relation to non-financial instruments such as property, plant and equipment and investment property, the ED should specify that these items should also be measured at fair value with fair value changes being recognised in profit and loss. Whilst this removes the measurement choices available to other entities under IFRS, our view is that fair value is a more relevant measurement model for assets and liabilities of a superannuation fund die to the fiduciary nature of its operations. That is, the trustee is holding assets for another part with legal obligations and restrictions on release of those assets. Fair value numbers are therefore the most relevant for demonstrating to users what the trustee has done with the funds entrusted to it. ED 179 should refer to the resultant standard from the IASB's ED on Fair Value for the principles of fair value measurement, with the only exceptions being that all changes in fair value should go through profit and loss and that intangible assets do not need an active market to be fair valued. Consistent with the proposals in the IASB's Fair Value ED, we do not see the need to deduct transaction costs as super funds have long term investment objectives and do not ordinarily hold their assets and liabilities with a view to liquidation or wind up."
ASFA	"Fair value measurement of fund assets and liabilities This is consistent with current reporting for managed funds in Australia and is considered to be appropriate."

CPA et al	"We agree, subject to members' benefits being measured on a vested benefit basis rather than accrued benefit basis."
Dr Isabel Gordon	"The actuarial literature has regarded realisable value (market value less costs of realisation) as the most appropriate measure for superannuation plan assets so that exiting fund member balances may be calculated using relevant data. Therefore, fair value (using market exit prices as a surrogate) adjusted for transaction costs is appropriate to measure plan assets."
SL	"We agree in principle with this proposal."
NAB	"More clarification and explanation is needed for the pricing method of investment assets and liabilities." "ED 179 makes not mention of the treatment for transaction costs which are incurred upon the purchase and/or sale of an investment. Currently they are capitalised into the cost of the investment. It would be helpful to the preparers of the reports if this treatment can be clarified in the standard arising from ED 179." "Currently investment assets of a superannuation plan are measured at net market value which, we believe, is determined using the mid price of the assets. We note that there is no definition of 'fair value' in ED 179. Therefore we can only assume that the definition of 'fair value' in AASB 139 *Financial Instruments: Recognition and Measurement* would apply to ED 179 as well. Based on the concept of 'fair value' in AASB 139, assets are valued using 'bid price' and liabilities are valued using 'asking price'. Following from this, we understand that ED 179 would propose to require assets to be measured at bid price and liabilities at ask price. This proposal in itself presents a change to the valuation of the investments, in our view. For superannuation plans whose unit price is struck at net market value (as currently the case), this difference in pricing method would present a reconciliation discrepancy between the value of investments used for unit pricing and financial reporting purposes. This, in turn, will create an impact on the plans. We recommend the AASB reconsider this proposal. In the event that the proposal is proceeded, we recommend the impact resulting from the difference in the two pricing methods be explained in the Basis for Conclusions. We note that the operative date for the standard arising from ED 179 is likely from 1 July 2010 and that prior period comparative information will be required for the first year of adoption of the standard. This would effectively require adjustments made to financial information for annual year commencing from 1 July 2009. Given that the standard arising out of ED 179 has not been finalised, reporting entities may not have sufficient time to adjust systems, policies and procedures to produce the adjustments to the comparative information. This is particularly essential to the superannuation business and to the superannuation and information technology industries as a whole where the respective resources have already been stretched to cope with the demands of TOFA. Accordingly we urge the AASB to reconsider the proposed effective date and/or the possibility of exempting the application of the standard to comparative information in the first year of adoption of the standard if the current proposed effective date cannot be extended."
PwC	"We agree with the above proposal."

Table 4 - Respondents' views on Specific Matters for Comment (c) – whether the guidance in paragraphs AG13-AG32 of Appendix B to ED 179 is sufficient to facilitate reliable measurements of obligations for defined benefit members' accrued benefits and comparable measurements of such obligations between superannuation plans over time. In particular, whether a superannuation plan with defined benefit members who will accrue materially higher levels of benefits as they near retirement age should be: (i) permitted to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances, as proposed in paragraph AG17 of Appendix B to ED 179; (ii) required to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 Employee Benefits for defined benefit obligations; or (iii) required to attribute such members' benefits to reporting periods on a basis other than a straight-line basis.

Respondent	Comments
Unisuper	"ED 179 adds a third, and for many superannuation funds fourth, option for measuring defined benefit members accrued benefits – measurement using a risk free discount rate. This area of measurement is currently one that has the potential to be confusing for many members and users of the financial statements. Currently UniSuper liabilities are measured using: • 'vested benefits' – the benefit paid out by the superannuation fund if all members voluntarily left service. For lump sum superannuation funds vested benefits can usually be calculated without the use of assumptions. However, UniSuper has significant life-time pensions where it is necessary to use assumptions to calculate the vested benefits. Actuarial professional standards set out how these assumptions are set and the calculation done. • 'accrued benefits' – calculated consistently with AAS25. This calculation requires 'best estimate' actuarial assumptions, with a discount rate based on the expected return on the superannuation fund's assets. This calculation is consistent with the actuarial assessment of the adequacy of contributions. The 'vested' and 'accrued' benefit measured are already well entrenched, derived from the actuarial standards and linked in with the triennial review and regular measurement processes used by APRA. They are also the measures used by trustees to assess the health of a defined benefit fund. Because it is a multi-employer fund and employers do not have an obligation to fund a deficit in the defined benefit plan, UniSuper does not currently calculate accrued liabilities for the purpose of sponsoring employer's financial statements in accordance with AASB 119. For many defined benefit superannuation funds this is already a third accrued benefit measurement. The addition of a further option in the field has the potential to increase confusion as distinct from adding value for users."
E&Y	"We do not agree with the proposed measurement basis of defined benefit liabilities. If accrued benefits are retained as the measurement basis, then we believe that the guidance is likely to be sufficient to facilitate reliable measurement of obligations. However, we believe that for consistency and comparability, the straight line approach as per AASB 119 should be mandated as part of the standard where materially higher benefits accrue in later periods." "Firstly, we concur with the proposals within the ED that classify members benefits (defined benefit and defined contributions) as liabilities on the face of the balance sheet. Similarly, other amounts such as reserves, amounts not allocated to members etc should be treated as liabilities. We also

	acknowledge that there may be some items that are classified as equity such as amounts held as capital as required under an APRA licence. We do not believe that the current proposal for measuring defined benefit liabilities is appropriate. We prefer a vested benefit approach to measure the liability, with supplementary note disclosures of accrued benefits. The ED suggests that defined benefit entitlements of a superannuation fund should be measured and recognised using an approach that is conceptually similar to the requirements of AASB 119. AASB 119 has been drafted for the purposes of measuring and recognizing the liabilities of an entity in providing employee benefits including post retirement benefits through a defined benefit scheme. We do not believe that this is an appropriate basis for measuring the liability of the Trustee of the superannuation fund for the following reasons: • employers have made a promise to their employees to put in place certain retirement benefits and are, appropriately, required under AASB119 to measure these obligations which they are constructively and/or legally committed to by apportioning the cost over the expected service period. This is designed to ensure that the cost of providing employee benefits is attributed over the periods in which the employee renders the service to the employer. • In contrast, the trustees of a defined benefit superannuation fund have not made the promise to the employees, have no control over the service period, the value of the benefit provided to the employee and the rendering of services. • employers have an obligation to make all practical efforts to fund these contractual obligations, and if necessary, to increase their contributions where a shortfall exists. In contrast, if a Trustee becomes aware of a potential shortfall, they would usually, in conjunction with the Fund actuary work with the employer to put in place a funding plan to rectify the shortfall. The Trustee would strongly request written commitment of the employer to the funding plan. Trustees generally do not have the financial capacity or legal authority to fund these liabilities in any other way, and they certainly cannot use funds that they hold for other members or for defined contributions members as this would amount to subsidizing the defined benefit members as the detriment of other members. • Depending on the Deed, a Trustee of a superannuation fund may have various powers available to them to force the employer to make contributions. In addition, where an employer fails to contribute, the Trustee usually reserves the right to terminate the arrangement and distribute available net assets to members regardless of what the employer's contractual obligations to the members. Therefore, the Trustee would only be liable for the reduced benefit. • ED 179 should recognize that superannuation funds are legal entities in their own right. They are not subsidiaries of the employer sponsor. Therefore, the accounting needs to recognise their separate and independent status and not just mimic employer accounting. • Whilst the AASB has attempted to align superannuation fund reporting with AASB 119, the results of an actuarial valuation conducted under AASB 119 and current proposals within ED 179 are likely to yield a different result due to different aims of users, use of a risk-free rate versus high quality corporate bond rate, timing of the review etc. In our view, the ED does not recognize the existing actuarial valuations currently undertaken under SIS including the statements and certificates issued on the Fund's solvency position measured by the minimum requisite benefit, the recommended funding plan including the amount and timing of employer contributions and the triennial actuarial review which measures the accrued benefits of the Fund whereby the results are currently disclosed in the notes to the financial statements and summary attached to the financial statements. It is worth noting that many defined benefit funds are undertaking such valuations annually and even quarterly, suggesting they are a better financial reference point than an AASB 119 measured liability. Introducing another measurement basis for financial reporting purposes will create greater confusion amongst the industry including members and require further explanation and rationale to the differences arising under each calculation.

	We believe that vested benefits is a more appropriate basis for measuring the liability of defined benefit members for the following reasons: • Vested benefits represents the amount due and payable at balance date and is consistent with the values reported in individual member statements • Vested benefits represents the amount that the fund is obliged to pay a member should they cease membership at any given point in time. They are not entitled to anything more other than what is 'vested' at that point in time • Measurement of vested benefits does not require the use of judgment, methodologies and assumptions and therefore is considered a more reliable measure. The benefit is determined by reference to the terms and conditions of the Trust Deed. • Using vested benefits to measure defined benefit liabilities is consistent with the approach for defined contribution members • It is the key measure of a plan's financial condition by which the regulators assess the financial position of the fund and whether a fund is in a satisfactory or unsatisfactory financial position. Vested benefits is also used in quarterly and annual APRA returns for the purposes of reporting the value of member benefits. • Where a defined benefit is in a deficit position and the Trustee has exhausted all efforts to persuade the employer to rectify the shortfall, the Trustee remains liable to meet vested benefits of defined benefit members up until it resolves to invoke discretionary powers that may be in the deed such as terminating the plan and reducing member benefits on a proportional basis and allocating available net assets. At this point, it is the reduced benefit that vests in the member • Likewise, some deeds provide that a Trustee may exercise discretion and 'augment' a member's benefit. Assuming that the Trustee has exercised its powers in accordance with the Deed, the 'augmented' or increased benefit becomes the vested benefit. We note that there are some limitations of using Vested Benefits as the basis for measuring the liability for defined benefit members including: • it is somewhat akin to a liquidation basis, rather than a going concern basis • if a fund cannot pay vested benefits, (i.e. if the vested benefit index is less than 100%), then the superannuation funds arguably may not have the liability because, as above, the trustee cannot fund from other sources, except from the employer where a funding plan has been put in place and agreed to by all parties 1.2 Suggestions for consideration: Based on our comments above, we believe the proposals within the ED should be revised as follows: • recognise member benefits as liabilities on the balance sheet • measure defined benefit liabilities using the vested benefit approach • where an employer has contributed in excess of vested benefits, treat the surplus as a liability called 'defined benefit reserve' as it represents an amount held in trust to be used in meeting future funding requirements as and when amounts 'vest' in the member. Under some deeds (although it is rare), an employer may request the return of surplus where certain conditions are met including some legislative requirements. Therefore, we are of the view that surplus amounts meet the criteria for recognizing a liability • Further disclosures providing transparency and granularity regarding the status of defined benefit arrangements including any sub-plans. We acknowledge that the ED currently requires detailed disclosures regarding sub-plans including the credit risk of the employer sponsor and are supportive of such disclosure. At a minimum, we agree that disclosures should extend to:

	• Existence of a current funding and solvency certificate and when the certificate expires at this certified minimum funding levels • For each material sub-plan, the value of the assets, vested benefits and the accrued benefits (as currently measured under SIS) • Basis and methods for calculating the above amounts including any assumptions used, material changes in assumptions, demographics etc from the prior year or other factors that may significantly influence the calculation e.g., retrenchments, redundancies subsequent to balance date • Detail of the funding plan in place including any remedial action agreed to by the employer e.g., top up contribution, one off contributions etc and timeframe over which shortfall will be rectified • Details of employers that have not agreed funding plan in place and/or have reasonably complied with funding arrangements • Any contractual or constrictive arrangements between employers and the Trustee • Trustees policies and risk management practices specific to defined benefit funds We acknowledge that some of the above disclosures may be quite onerous for funds with numerous sub-plans. A compromise may be to provide disclosures on how the Trustee manages the sub-plans and monitors the financial position including funding plans and an unsatisfactory financial position."
Mercer	"Mercer recommends that vested benefits be reported in the financial statements of defined benefit plans Vested benefits are easily understood by members and relatively simple to calculate. Reporting vested benefits in defined benefit plans will be consistent with the approach taken for defined contribution plans, which will also aid members' understanding. The proposed measure outlined in the Exposure Draft will require actuarial input and hence increase the costs of preparing the financial statements. For plans that provide defined benefits and defined contribution benefits, Mercer recommends that the vested benefits for both be reported separately to show the relative significance of the defined benefit liabilities. If the AASB decides that the total of vested benefits is not an appropriate measure of benefit obligations in a defined benefit plan, Mercer suggests that the AASB 119 liability be reported without adjustment." "We believe that the most appropriate measure for reporting the benefit obligations of a defined benefit plan in its financial statements is the total of vested benefits (ie the benefit entitlements were all members to leave service at the date of calculation). From the point of view of the main users of the financial statements, the members of the plan, this is the measure of liabilities that is the easiest for them to understand and the most relevant. A comparison of the total value of assets in the plan with the total of vested benefits gives members an idea of the security of their immediate benefit entitlements, which is likely to be their main concern when reading the financial statements. By recognising vested benefits as liabilities in a defined benefit plan, there is also consistency with defined contribution plans, for which vested benefits is the most appropriate and only feasible measure. From a member's perspective, defined benefit and defined contribution plans have much in common and therefore the measurement of liabilities should be the same. Indeed, many individuals are members of both the defined benefit and defined contribution sections within the same fund. Using different approaches for the same member would lead to even less understanding. We also note the comment in the Basis for Conclusions that the AAS 25 requirement that defined contribution and defined benefit plans prepare their financial statements on different bases has some deficiencies. If vested benefits are to be recognised in the financial statements, we recommend that the total of vested benefits be split between defined benefits and defined contribution benefits. This will show the relative size of the defined benefit liabilities and give the readers of the financial statements some information about the potential risks associated with the plan.

	The advantages of using vested benefits as the measure of a defined benefit plan's liabilities include: • It is generally a simple calculation that does not require actuarial input, thus reducing costs and time spent and thereby improving the timeliness of the reporting; • The total of vested benefits is already used as a solvency measure, compared with assets to determine if a plan is in an unsatisfactory financial position for the purposes for the Superannuation Industry (Supervision) Act; • The concept of vested benefits is familiar to members and is currently disclosed in the financial statements of superannuation plans; • Members and other readers of the financial statements are likely to better understand the concept of vested benefits rather than an actuarial value of accrued benefits. Currently, three different liability measures must be calculated for defined benefit plans for various purposes (fund accounting, company accounting, actuarial valuations): • Vested benefits (as defined above; disclosed in the plan's financial statements and used to determine if the plan is in an unsatisfactory financial position); • The present value of accrued liabilities calculated in accordance with AASB 119 (defined in AASB 119 accounting standard; reported in the sponsoring company's financial statements); and • The present value of accrued liabilities calculated for actuarial funding purposes (similar to the AASB 119 liability, but generally calculated using different assumptions; disclosed in the plan's financial statements and reported by the actuary in the plan's triennial actuarial valuation). ED 179 proposes a fourth measure of liabilities. Whilst this is similar to the AASB 119 liability, the discount rate used to value future benefit payments is likely to be different. ED 179 refers to the use of a risk-free discount rate (generally considered to be a government bond yield), whilst the AASB 119 discount rate is expected to move to a corporate bond yield (assuming the proposed change to IAS 19 and AASB 119 comes into effect). Other differences may arise depending on the allowance for expected administration costs made, and if a higher level of benefits accrue as members approach retirement age. We believe requiring a fourth measure of liabilities to be calculated will increase costs unnecessarily, without providing any additional useful information to readers of the financial statements. Indeed it is likely to increase confusion rather than be of benefit. If the Board does ultimately determine that the total of vested benefits is not an appropriate measure for calculating the accrued benefits to be recognised as a liability, we suggest that the standard simply refer to accrued benefits as those calculated in accordance with AASB 119 with no adjustment (subject to the comments in the section on insurance below). Even this may involve significant extra work and expense, as the AASB 119 liability may not be automatically calculated as at the date of the financial statements each year, unlike vested benefits – e.g. where the sponsoring company's reporting date is different from the plan's reporting date, or where the plan is a multi-employer Superannuation Plan and the relevant criteria set out in AASB 119 are met permitting each individual entity to account for the plan as if it were a defined contribution Superannuation Plan. The liability that would be shown in the financial statements of a public sector scheme also highlights a problem with reporting a AASB 119-style liability. Under the new proposed version of AASB 119, the calculation of the liability for a not-for-profit sector entity would be different from the liability for other public sector entities. The former would use a government bond rate as the discount rate, the latter a corporate bond rate. So if a public sector fund sponsored by both not-for-profit and non not-for-profit public sector entities reported liabilities calculated in accordance with AASB 119, it would be adding together liabilities calculated on different bases and therefore be meaningless.

<table>
<tr><td></td><td>This potential inconsistency is yet another argument for reporting of vested benefits in financial statements.”</td></tr>
<tr><td>KPMG</td><td>“Measurement of accrued benefits
For the purposes of comparability with employer sponsor financial statements, ideally the measurement methods used should be consistent for both AASB 119 and ED 179, just as IAS 26 is designed to complement IAS 19. This would enable users to pick up the financial report of, for example a listed employer sponsor, and match the recognised surplus in the financial statements of the employer to the net asset position of the fund.
At present, the surplus or deficit reported in the financial statements of an employer can be vastly different to the surplus or deficit in the financial statements of a defined benefit superannuation fund. The following example compares the employer obligation in the financial statements of an actual listed company with the accrued benefits and net assets of the sponsored superannuation fund as at 30 June 2006 (the date of the last actuarial valuation):
<table>
<tr><td>ABC Listed Co DB obligation as at 30 June 2006
(119 approach)</td><td></td><td>$35,800,000</td></tr>
<tr><td>ABC Superannuation Fund:</td><td></td><td></td></tr>
<tr><td>Net assets as at 30 June 2006</td><td>$887,501,547</td><td></td></tr>
<tr><td>Liability for Accrued Benefits as at 30 June 2006</td><td>$889,400,000</td><td></td></tr>
<tr><td>Net deficit under current AAS 25 measurement principles</td><td></td><td>$1,898,453</td></tr>
</table>
If users were to pick up the financial report of the company with a defined benefit obligation of $35.8M compared to a net deficit reported in the financial report of the fund of $1.9M, there may be question is asked as to why the employer sponsor has such a big funding liability when the super fund is only reporting a small deficit and confusion as to which deficit is the true deficit.
In line with the concept of transaction neutrality, we would prefer that the defined benefit obligation reported in the financial statements of the employer is the same or at least reconcilable to the obligation reported in the financial statements of the superannuation fund.
Whilst we understand the technical merits of the measurement technique proposed in the ED, from a cost-benefit perspective, the AASB 119 measurement method should be used so that there are not three different methods of measuring accrued benefits in the market place (being vested benefits, the ED 179 approach and the AASB 119 approach).
Accrued benefits is a more reliable measure of the obligation to members than vested benefits as it reflects the long-term nature of the obligation.”</td></tr>
<tr><td>ASFA</td><td>“As most Australian Defined Benefit superannuation plans have now been closed off to new members with the result that membership numbers are continuing to decrease, there is concern at the significant changes that have been proposed by ED 179. In particular, the need for an accrued benefits measure (vs. the current vested benefits measure) and the changes proposed in connection with the ‘higher of’ benefit option and the use of a risk-free rate. We support the submissions by the Joint Accounting Bodies and the Institute of Actuaries of Australia on this matter.”</td></tr>
<tr><td>WW</td><td>“We have significant concerns about the measures of benefit liabilities proposed, and these are expressed below.
The ED 179 Accrued Benefit measure is a poor measure of Accrued Benefits for the purposes of financial reporting. This measure will mislead defined benefit members (and their financial advisors) about the financial security of the defined benefit plan.
ED 179 will value Accrued Benefits at a lower discount rate (whether a risk-free rate, or corporate bond rate if the ED179 measure is aligned with the AASB119 measure) than that used by the actuary for funding purposes (which is typically valued using discount rates based on the plan’s expected future investment returns).</td></tr>
</table>

	Therefore, ignoring the impact of Vested Benefits, the ED179 Accrued Benefits measurement will be greater than the Accrued Benefits for funding purposes. (A pragmatic compromise is the Vested Benefit measurement. We discuss this measure below.) In practice, actuaries make recommendations of future contribution levels that should be sufficient to bring the plan to a financial position whereby it has sufficient assets available to cover 100% or slightly more than 100% of the value of Vested Benefits, and (in the longer term) 100% of the Accrued Benefits for *funding purposes* (i.e. based on the longer term expected earnings of the plan's assets. All other factors being equal, there will therefore be a systematic bias towards the plan's ED179 financial position being reported to members as being in deficit (even if assumptions are borne out in practice). It would not usually be considered appropriate to require contributions at a level that would bring the plan to 100% or greater funding of an ED179 or AASB119-type measure of accrued benefits. To fund towards ED179 is likely to result in overfunding of the plan, which would not be an efficient usage of the employer's financial resources. Regularly reporting such deficits (which will tend to be systematic, due to the measurement approaches) will be misleading and alarming to defined benefit members. This will lead to poor financial decisions by those members (see our comments later). Other concerns of the proposed ED179 Accrued Benefits measure are that it will: • Introduce a fourth measure of a plan's benefit obligations. ED179 will join Vested Benefits, AASB119 benefits, and the actuary's funding basis of accrued benefits. This will confuse all users, and yet provide no additional useful information (when compared with what is already available to those users). Some commentators have expressed exasperation about the different conflicting measures of a defined benefit obligation. • Confuse members in particular, who will not understand why a measure based on a risk-free rate outweighs the other pre-existing benefit obligation measures. No amount of additional disclosure will outweigh the perception of this 'black and white' figure in the plan's own financial statements. • In practice, this confusion is made worse because it is unlikely that members will be able to obtain sufficient level of access to an actuary to obtain clear explanation of how an ED179 Accrued Benefits measure differs from other measures of the obligation. • In our experience, trustees and Company Finance Directors have gradually developed such an understanding since the implementation of AASB119. Members, however, will be far less familiar with financial matters than trustees and Finance Directors, and will not be able to gain similar levels of access to the plan's appointed actuary to gradually build this technical understanding. On balance, Watson Wyatt strongly advocates the use of 'Vested Benefits' as the primary measure of a plan's defined benefit liability disclosed in any replacment to AAS 25. A practical measure is needed, and we believe that Vested Benefits will be a more convenient and yet less misleading measure of a defined benefit plan's obligations than that proposed. A Vested Benefits measure will be: • understood by members; • consistent with the obligations shown on their benefit statements; • readily obtainable, without significant time and costs of significant actuarial input. Cost is a key issue, given the closed (and running off) status of most of Australia's defined benefit plans; • a consistent measure across all lump sum plans (the vast majority), as no assumptions are required to measure the obligation. Some guidance will be required for pension-paying plans, although these are relatively uncommon in Australia;

	• consistent with the legislative measure of a plan's financial position. We are particularly concerned about the inevitable outcome of a trustee reporting that the plan is in a satisfactory financial position, but that the financial statements suggest a deficit using the proposed ED179 measure; • consistent with the measure of funding being increasingly targeted by plan trustees. Increasingly, many funding policies seek to recover deficits (and allow the run off of surpluses) related to Vested Benefits; • quite a good proxy for a longer term measure of the benefit liabilities, whilst enjoying all of the practical and cost advantages set out above. Vested Benefits and the actuary's longer term funding measure of Accrued Benefits are generally quite close in Australia (most often within 10%, based on a review of our clients). These two measures will only become closer as the (closed) membership of virtually all Australian DB plans near retirement age; • obtainable within the statutory reporting periods. Such reporting timeframes are currently sufficient to complete the accounts and insert a Vested Benefits figure. Any actuarial projection relies, however, upon complete and correct membership data – meaning such calculations could not commence until after the plan membership details have been completed. There are therefore significant practical issues around completing such work within the statutory four month reporting deadline; • consistent with the liability measure proposed for defined contribution plans. We are extremely concerned that the ED179 Accrued Benefits measure is likely to lead to poor decisions by defined benefit members. One of the three primary users of the general purpose financial statements identified by the AASB is members and beneficiaries (footnote: Basis for Conclusions BC10). Because the ED179 Accrued Benefits measure is a poor measure of the liability for solvency purposes, we are extremely concerned that it will mislead defined benefit members into making poor decisions. For example, a defined benefit member may note that the value of the assets of their defined benefit plan is lower than the ED179 Accrued Benefit liability (for the reasons already explained earlier) and decide to exercise an option (if offered) to convert out of the defined benefit section of the plan. The decision to convert will be based out of perceived fear of the security of the benefit, and could ignore the possibility that: • the plan's Vested Benefit (i.e. required funding) measure; and • the plan actuary's longer term funding measure of Accrued Benefits may be both adequately funded. The inclusion of the ED179 measure will be more prominent in any financial reports than the other two potential measures (which could presumably be noted). Furthermore, the cost to the individual may be significant. Any such conversion from defined benefit to defined contribution will almost always provide less valuable future benefits for the remainder of the individual's working career. Typically, when defined benefit plan members 'opt out' of their defined benefit benefits and convert voluntarily to defined contribution, it is very common practice for future defined contribution benefits to be based only on the minimum (and now market practice) 9% of earnings. These future defined contribution benefits will almost always be less valuable than those future service benefits that would have built up within the defined benefit section – and yet the member may be very willing to concede future service benefits based on an (incorrect) assessment of the financial security of their defined benefit (based on the ED179 or even AASB119 Accrued Benefit measure). In addition, a defined contribution member of a defined benefit plan may be sufficiently concerned about the value of the plan assets being lower than the ED179 Accrued Benefit liability that he or she may decide to exercise choice of fund. Such a decision could potentially lead to a reduction in, or absence of, death and disablement insurance benefits and ultimately result in lower retirement benefits, particularly given that many employer sponsors

	of defined benefit plans subsidise the expenses of running their corporate plans. We are extremely concerned about the significant role of the 'black and white' figures within the financial statements, in shaping the member's opinion. Whilst we recognise that there is a role for 'general purpose financial statements', we strongly feel that such general purpose statements should not mislead the most likely (potential) users of those statements – in this case, the members. We therefore have considerable concern about the appropriateness of the ED179 Accrued Benefit measure for these purposes. A 'consistent comparison' objective (such as that used to support the AASB119 Accrued Benefits measure) is of far less relevance for Australian users of ED179. The proposed ED179 Accrued Benefit measure will provide no new useful information to trustees and APRA. The AASB119 calculation was intended to provide stock analysts / investors with consistent comparison of AASB119 disclosure information within corporate accounts. However, using or adapting an AASB119 measure to allow a 'consistent comparison' is of less relevance for plan members than it is for stock analysts because there is virtually no opportunity for a defined benefit member to join a different defined benefit plan: • defined benefit plans in Australia are not open to employees outside the sponsoring employers' group; • even if employees did change employer – almost all Australian defined benefit plans are closed to new members. They would almost always be enrolled in a defined contribution section. APRA, trustees and plan members already receive significant purpose-specific financial information which already measured defined benefit plan financial information using a variety of measures. Adding (and disclosing) a further measure will conflict with pre-existing information, add cost and may be challenging to complete within statutory reporting deadlines (without starting such work prior to balance date, and using various approximation techniques). We would envisage that most trustees will want to introduce quite specific language warning users of the information about the likely relevance of such figure, in terms of the plan's solvency, financial position monitoring, or longer term funding."
AIST	"ED179 proposes two significant changes affecting defined benefit liabilities. The first change is that defined benefit liabilities will be based on accrued benefits rather than vested benefits; the second, that the measurement of the accrued benefits is to be determined using the projected use cost method as prescribed by AASB119, with the key exception that the discount rate used will be a risk-free discount rate. Arguments against We believe the proposal adds confusion to what are already difficult financial disclosures. Presently there are already three different measures being used to measure a defined benefit plan's liabilities: 1. The popular vested benefits measure (preferred by AIST), which is extensively used by APRA and fund trustees. 2. The accrued benefit as actuarially calculated and commonly used to determine an employer's contribution rate. This is a detailed measure that considers a fund's projected liability, the projected growth of a fund's assets and is the basis for deriving a fund's status, whether it is in surplus or deficit position. 3. The liability reflected on the corporate sponsor's balance sheet. This is commonly known as the AASB119 liability and is calculated using a projected unit cost method. The proposal in ED179 requires funds to calculate and present a fourth measure. Whilst the method may be consistent with AASB119, the measure will result in a different number due to the risk-free rate exception in ED179. Under the proposal, it is clear that the fourth measure will lead to

	increased confusion amongst members, as there are likely to be significant discrepancies between the amounts disclosed in funds' and sponsors' accounts. We believe the AASB 119 use of a risk-free rate will increase volatility in the liability numbers. Market-determined rates are likely to lead to a suboptimal outcome as they are prone to considerable volatility, and reflect the short-term nature of market participants. Superannuation and liability matching is a long term prospect, therefore a more appropriate rate would be a rolling ten year rate of monthly bond rates. Such a rate would exhibit an element of variability but at the same time, given the long-term nature of the rate, it would be reflective of the liabilities being measured. Also, a lower discount rate will lead to a higher liability, which is likely to create higher instability when funds are already under considerable pressures. Some have suggested that a one per cent move in the risk-free rate will translate to a ten per cent movement in the liability. Public-offer hybrid funds will be disadvantaged – the proposals require a fund to document liabilities on the balance sheet and, in situations where a fund is in deficit, this presents the fund to potential investors as technically insolvent. Disregarding the argument over who is responsible for such a liability, one must ask: who will want to invest in a hybrid scheme when a portion of that scheme is technically insolvent, and there exists a perceived risk, that the insolvency may call on the assets of all members? We also believe that including the accrued benefits figure (which incorporates some element of future benefit accruals) as a liability is inconsistent with the assets side of the balance sheet including present assets only. By using vested benefits as the liability measure, the balance sheet would provide a more transparent picture of the fund's position, and would be more consistent with APRA's focus on vested benefits index as an immediate measure of a fund's financial position. Preferred position AIST's preferred position is to use vested benefits as the measure for calculating member liabilities – as vested benefits represent the liability at the balance date and are the key measure used by APRA. If the Board elects not to accept vested benefits then the next preferred position is that the board uses AASB 119 in its current form, and removes the requirement for a separate discount rate in the draft standard. We also note that for many funds vested benefits and accrued benefits will eventually converge as the remaining members of closed defined benefit schemes approach retirement. This is particularly so as the majority of defined benefit schemes have been closed for ten to fifteen years."
CSA	"There is much to be said for consistency in reporting defined benefit obligations. We note that the method of valuation proposed in ED 179 would have the advantage of a major degree of consistency with the method of measurement of employer liabilities in AASB 119. However, the user requirements for a fund accounting standard are not consistent with an AASB 119 approach to valuing employer obligations. Our members and their actuarial advisors would generally support vested benefits as the primary measure of members' obligations, for reasons as follows. • The Accrued Benefits approach favoured in ED 179 does not bear a close relation to the method by which actuaries measure benefits for funding and benefit certificate purposes. For benefit certificates for superannuation guarantee purposes and for funding purposes, the actuary is required to take into account the expected long-term cost of funding benefits, which will generally involve assumptions about the differential between long term earning rates and long term rates of salary inflation. This differential does not depend on the assumed risk free rate. • The ED179 Accrued Benefits measure (which is similar, though not identical to, the AASB119 measure) will be a misleading measure of 'benefit security'. Because of the discount rates chosen, funds may be satisfactorily funded on a Vested Benefit and longer term actuarial funding basis, but still disclose a deficit to members on the proposed measure. This will be confusing and therefore may ultimately mislead defined benefit members (and their financial advisors) to make poor decisions. • Accrued benefits are not always the most familiar or convenient measure of defined benefit obligations. Vested Benefits will be understood by

	members, and are consistent with the financial monitoring measure reported to APRA. Vested Benefits will also tend to be close to long term measures of Accrued Benefits used by actuaries for funding purposes. Vested Benefits are also quickly and cost effectively available – and therefore can be calculated within statutory reporting deadlines. Because virtually all of Australia's corporate defined benefit plans are now closed to new members, cost of compliance is a key issue. The adoption of a new valuation basis for benefit obligations would impose an effective requirement for an annual fund review, replacing the current triennial review requirement, thus creating an increase in actuarial costs whilst providing less meaningful information to members. All in all, the proposed method of valuing liabilities in ED 179 is misleading, giving rise to an impression that defined benefit funds are in a different funding position to that projected by the actuarial advisers. We do not believe that it is appropriate to provide financial information that gives a misleading impression of a fund's financial position."
Vision	"APRA, Trustees, employer sponsors and fund members already receive a lot of financial information, measuring benefit liabilities. Adding another measure may conflict with the existing information. It will also add cost and, unless appropriate approximations and/or use of pre-balance date data are permitted, may be difficult to provide within the statutory reporting deadlines. We agree that members' benefits should be recognised as liabilities under IFRS. However, a vested benefits approach would be a more desirable measure of liabilities to include on the balance sheet (given the users of the financial statements) that the accrued liability, as: • A summary of the financial statements are included in the annual report to members and the use of any new liability figure needs to be considered in that context. The use of the vested benefit figure is most often consistent with the members' understanding of their fund entitlements (as shown in their benefit statements) and is already provided annually via the AAS25 reporting. Members are unlikely to understand the relevance or correctly interpret the result if another benefit liability measure is used. • The vested benefit figure is also more readily available at or shortly after balance date. An accrued benefit liability measure would need actuarial involvement to be calculated as at balance date and would also be reliant on getting timely membership data at the balance date. Although it may be calculated consistently with AASB119 work, it is often the case that AASB119 disclosure is based on data at a date earlier than the balance date and so those results could not be used. • As currently proposed, the change in discount rate from a risk-adjusted to a risk free rate will result in a lower discount rate and therefore a higher liability being recognised under the ED. The assumptions adopted for funding (which would allow for the expected return on the fund's actual asset allocation) will produce higher liability values. This results in the liabilities for funding being lower than the liabilities being disclosed in fund accounts and may lead to confusion amongst members and regulators when a fund (which has sound actuarial oversight and is adequately funded on the funding basis) then appears poorly funded using the accounting liability result. Use of the vested benefit overcomes this problem and is consistent with APRA's monitoring of VBI levels. • In practice many funds like us are hybrid funds. Consequently there are issues associated with this that need attention. One issue is the fact that the liability for member entitlements is being measured differently for defined benefit versus defined contribution funds. Combining these may give an inappropriate result/summary of financial position and has the potential to mislead the users of financial statements. However, we note one area of caution in relation to the use of vested benefits: • Where a fund provides lifetime pensions, the vested benefit calculation involves future earning rate and pension indexation assumption to value the pension liability. Currently, the assumptions used are as per the triennial actuarial investigation – consistent with Institute Guidelines. It would not be desirable to have vested benefits for pensions being calculated with one discount rate for actuarial purposes and another (generally lower) discount rate for fund's accounting disclosures. Not only does this result in two different vested benefit amounts, but also the liability using the

	lower discount rate would be higher. For funds with a significant pension liability, this can be a significant issue.”
CPA, ICA and NIA	“We agree that members’ benefits should be recognised as liabilities under IFRS. However, we do not agree with the proposed measurement model for defined benefit superannuation plans, and recommend that the liability for members’ benefits be measured by reference to vested benefits as opposed to accrued benefits.” “ED 179 proposes that defined benefit liabilities should be recognised using an approach that is conceptually similar to the AASB 119 requirements for employers to measure these liabilities. We believe that requiring the application of this approach by superannuation plans and approved deposit funds is conceptually flawed and potentially misleading to members, and recommend that members’ liabilities be determined by reference to vested benefits rather than accrued benefits. Adopting a AASB 119 valuation methodology would be of little value to fund trustees as this valuation methodology is not in line with how the trustee manages the investment and member liability funding under the Superannuation Industry Supervision Act 1993. Nor is it consistent with the way the trustee is advised on the solvency and management of the fund’s benefits to members. The AASB recognises in the ED that superannuation plans are entities in their own right rather than special purpose entities of employers. Therefore we consider that the accounting needs to recognise a superannuation fund’s separate status, separate obligations and benefits rather than reflect employer accounting through adopting AASB 119. Specific examples of this include: • employers have made a promise to their employees to put in place certain retirement benefits and are, appropriately, required under AASB 119 to measure these obligations which they are constructively and/or legally committed to. In contrast, the trustees of defined benefit superannuation plans have not made the promise, they are simply the agent put in place to manage the arrangement • employers have an obligation to make all practical efforts to fund these obligations, and if necessary, to increase their contributions. In contrast, all trustees can do is lobby employer sponsors to increase funding. They do not have the financial capacity or legal authority to fund these liabilities any other way, and they certainly cannot use funds that they hold for other members or for defined contribution members. • employer accounting under AASB 119 is driven in part by the need to allocate the service cost of employment over the working life of members. This consideration is irrelevant to superannuation plan trustees who have no control, influence or economic interest in whether or not the employees retain in service. Few defined benefit plans are purely defined benefit. Even single employer sponsored funds typically have a defined contribution component; large multi-employer funds are often mostly defined contribution but have a smaller defined benefit component. Deficits in defined benefit funds (caused by liability measurement) within these funds potentially create a misleading impression by suggesting that the overall fund is in deficit and suggesting that defined contribution reserves may be used against these deficits. Using a vested benefit approach would be more appropriate as it represents the amount due and payable to members at balance date and is consistent with member statements. Thus we consider it has greater utility for members. As such it is the key measure of a plan’s financial condition for regulators, and is consistent with the approach for defined contribution members. Under current practice, in most current defined benefit plans vested benefits represent a realistic assessment of the obligation of the fund based on past service. Any additional funding over and above the vested benefit liability we recommend should be recognised as a liability such as ‘defined benefit reserve’ as it represents an amount held to be used in future funding and/or prepayment of employer contributions. We also suggest the definition of ‘vested benefits’ in Appendix A be refined to acknowledge the situation in defined benefit funds where a member is only entitled to the benefit on departure from the employer sponsor.

<table>
<tr><td></td><td>Disclosure of accrued benefits by way of note should continue to be required.”
“There are measurement issues for defined benefit members’ accrued benefits that are not adequately addressed in Appendix B. The interaction of paragraph 16, which refers to ‘best estimate’ is not necessarily consistent with paragraph 19 which requires use of a risk free discount rate. We suggest the AASB liaise with groups of experts such as the Institute of Actuaries of Australia on this issue.
In practice many funds are hybrid funds. Consequently there are issues associated with this which need attention. One issue is the fact that the liability for measurement entitlements is being measured differently for defined benefit versus defined contribution funds. Combining these may give an inappropriate result / summary of financial position.
We also suggest the wording from the Basis for Conclusions paragraph BC68 would be useful to include as guidance to the standard, as this addresses a current practical issue. This guidance does not appear in the proposed wording in the standard itself.”</td></tr>
<tr><td>Dr Isabel Gordon</td><td>“The DCP members’ vested benefits should be measured as the amount that reflects the sum of accumulated contributions plus investment earnings that is (legally) payable on demand.
On the other hand, the DBP accrued benefits will need to be regularly assessed by the actuary. If ‘backloading’ is present in the DBP benefit formula, and the actuary determines that the PUC is inappropriate, then another actuarial costing method should be permitted. The reason for the departure from the PUC should be disclosed as well as the alternative funding method used.”</td></tr>
<tr><td>IAA</td><td>“The Institute does not recommend adopting the proposed ED179 Accrued Benefits meausure, because:
• It will introduce a fourth measure of Superannuation Plan’s benefit obligations, but provide limited additional useful information (when compared with what is already available to those users).
• It will value Accrued Benefits at a lower discount rate (either a risk free, or corporate bond rate) than that used by the Actuary for funding purposes (which is typically valued using discount rates based on the Superannuation Plan’s expected future investment returns). Therefore, the ED179 Accrued Benefits measurement will be greater than the Accrued Benefits for funding purposes. Therefore:
  • If it were not for Vested Benefits, a Superannuation Plan will always be in deficit on an ED179 basis if assumptions are borne out in practice. This would be unnecessarily alarming to Defined Benefit members. We question the ability for members to obtain sufficient level of access to an actuary to obtain clear explanation of how any ED179 Accrued Benefits measure differs from other measures of the obligation (in the same way that Trustees and Finance Directors have tried to gain such an understanding since the implementation of AASB119).
  • A pragmatic compromise is the (potentially higher) Vested Benefit measurement.
  • A longer term measure of the benefit obligation would be an Accrued Benefit measure on the Funding (i.e. return on assets) basis. Trustees and actuaries typically target full asset coverage of this measure in the longer term.
The ‘Comparison’ purpose used to develop the AASB119 Accrued Benefits measure appears to be less important for users of ED179.
We understand that the AASB119 calculation was intended to provide stock analysts / investors with consistent comparisons of AASB119 disclosure information within corporate accounts. However, there is no practical outcome of providing members with a measure of making a ‘consistent comparison’ of their Superannuation Plan’s financial position against others.
This is because almost all Australian Defined Benefit Superannuation Plans are closed to new members; there is virtually no opportunity for Defined Benefit members to join a different sponsoring employers’ defined benefit Superannuation Plan (even if they did change employer).
The proposed ED179 Accrued Benefit measure will provide no new useful information to Trustees and APRA.</td></tr>
</table>

	APRA, Trustees and Plan members already receive significant purpose-specific financial information which already measures Defined Benefit Superannuation Plan financial information using a variety of measures. Adding (and disclosing) a further measure will conflict with pre-existing information, add cost and may be challenging to complete within statutory reporting deadlines (without starting such work prior to balance date, and therefore using various approximation techniques). The ED179 Accrued Benefits measure may lead to poor decisions by Defined Benefit members. For example, a defined benefit member may note that the assets of their defined benefit Superannuation Plan are lower than the ED179 measured liability, and convert out of the Defined Benefit section of the Superannuation Plan. The conversion (more likely to a potentially less valuable Accumulation benefit) will be based out of perceived fear of the security of their benefit, and could ignore the possibility that: • The Superannuation Plan's Vested Benefit (ie required funding) measure, and • The Superannuation Plan actuary's longer term funding measure of the Accrued Benefits may be both adequately funded. If the AASB does want to proceed with mandating such a measure, the Institute strongly recommends using a AASB119 measure by direct reference In practice there is unlikely to be much difference between the AASB119 liability and the ED179 Accrued Benefit proposal in the majority of cases: • Generally the AASB 119 liability will not include an allowance for expected administration costs anyway; • Following the increased impact of Superannuation Guarantee minimum benefits on Defined Benefit designs, very few defined benefit plans have a benefit design that accrues materially higher levels of benefits as members approach retirement age; and • The AASB 119 liability is currently calculated by discounting future benefit payments using a government bond yield, which is generally considered to be a risk-free rate. However we note that the International Accounting Standards Board (IASB) has proposed amendments which would change the basis of the discount rate from a government bond to high quality corporate bonds. The Institute does not support a ED179 or AASB119 measure for this purpose. However, if such a measure is used, directly referencing AASB119 will at least eliminate any possibility of a fourth measure of Accrued Benefits emerging if any changes are made to AASB 119." "We believe that the most appropriate measure for reporting the benefit obligations of a defined benefit plan in its financial statements is the total of vested benefits (ie the benefit entitlements were all members to leave service at the date of calculation). Whilst we acknowledge that vested benefits may not provide an idea of the ongoing liabilities of the plan, there are a number of advantages of using this measure: • It is generally a simple calculation that does not require actuarial input, thus reducing costs and time spent; • The total of vested benefits is already used as a solvency measure, compared with assets to determine if a plan is in an unsatisfactory financial position for the purposes of the Superannuation Industry (Supervision) Act; • The concept of vested benefits is familiar to members and is currently disclosed in the financial statements of superannuation plans; • Members and other readers of the financial statements are likely to better understand the concept of vested benefits rather than actuarial value of accrued benefits calculated in accordance with AASB 119; • Whereas vested benefits are generally automatically calculated as at the date of the financial statements each year, the AASB 118 liability may not be in some situations – e.g. where the sponsoring company's reporting date is different to the plan's, or where the plan is a multi-employer

	Superannuation Plan and the relevant criteria set out in AASB 119 are met permitting each individual entity to account for the plan as if it was a defined contribution Superannuation Plan; • It avoids most (if not all) of the need to adopt roll-forward approaches in practice, as for AASB 119 calculations, where it is sometimes not possible to obtain defined benefit membership data at the balance date in sufficient time to complete the calculations and hence data at an earlier date is used for this purpose; and • The value of accrued benefits calculated in accordance with AASB 119 is a requirement for a company accounting standard, and has no relevance to the normal funding requirements of a defined benefit superannuation plan. Following on from this last point, defined benefit plans are currently required to disclose accrued benefits in financial statements (calculated as at the date of the most recent actuarial funding valuation of the plan). Introducing a new third measure of liabilities will be confusing for readers of the financial statements. There is likely to be significant confusion about the difference between the accrued benefits calculated for a funding valuation and the accrued benefits calculated in accordance with AASB 119. We also express concern about the use of a AASB 119 liability in the financial statements of superannuation funds, where the calculations have been based on a roll-forward approach because of the various approximations involved in that process. Those approximations, which may not be material in the context of an employer's balance sheet, may be significantly more material for a superannuation fund that has no other business. If the Board does ultimately determine that the total of vested benefits is not an appropriate measure for calculating the accrued benefits to be recognised as a liability, we suggest that the standard simply refer to accrued benefits as those calculated in accordance with AASB 119 with no adjustment (although, as highlighted above, this will still involve an additional calculation where the AASB 119 liability is not currently calculated at the date of the financial statements). The Exposure Draft states that the accrued benefits should be calculated in a manner consistent with AASB 119, but with 3 exceptions (excluding expected administration costs; attributing benefits to reporting periods on a basis appropriate to the plan's circumstances where higher benefits accrue in later years; and discounting benefit payments using a risk-free rate of interest). We do not believe that it is necessary to specify another method of calculation of the liability to be reported in the financial statements, when accrued benefits are already being calculated for AASB 119 purposes. A present value of accrued benefits is also calculated when an actuarial funding valuation is performed. There does not appear to be a need for a third measure of accrued benefits. In any event, in practice there is unlikely to be much difference between the AASB 119 liability and the liability calculated using the method outlined in the Exposure Draft in the majority of cases: • Generally the AASB 119 liability will not include an allowance for expected administration costs anyway; • Very few defined benefit plans have a benefit design that accrues materially higher levels of benefits as members approach retirement age; and • The AASB 119 liability is currently calculated by discounting future benefit payments using a government bond yield, which may be considered to be a risk-free rate. We note that the term 'risk-free rate' does not have a clear objective definition. So while it might be considered to be a government bond yield, it could be interpreted in other ways. Hence we would encourage the AASB to more broadly provide clarity around the meaning of the term 'risk-free rate' and not to introduce into new contexts until that clarity has been provided. In the small number of cases where the two calculation methodologies give different results, requiring another calculation of liabilities from an actuary would add to compliance costs, without significant benefits to the users of the financial statements. We note that the International Accounting Standards Board (IASB) has proposed that the discount rates used to value defined benefit obligations under

	IAS 19 be based on corporate bond yields going forward. This suggests that the IASB believes that a corporate bond yield is an appropriate rate at which to discount future benefit payments for reporting purposes, and not necessarily a risk-free rate. The other advantage of referring specifically to the value of liabilities calculated in accordance with AASB 119 is that if any changes are made to AASB 119 (such as amending the method of setting the discount rate), there is no need to revise the wording of the standard so that it is consistent."
SLCA	"We disagree that these benefits should be measured using the requirements of AASB 119 as this is a standard applicable to employers not superannuation funds. Our preferred position would be to use the vested benefit liabilities as this would be consistent with the measurement of defined contribution member liabilities. Pure defined benefit funds are few in number and in most funds the defined benefit member portion of a fund is relatively minor. Using vested benefits would be easier and less costly and does provide a reasonable estimate of the liability of member balances at each year end. We suggest that if accrued benefits is an appropriate method to measure defined benefit member liabilities then the same actuarial method be applied that has in the past been used on a tri-annual basis. This method should be applied on an annual basis."
AustralianSuper	"Set out below (Members note: see above) is Ernst & Young's commentary and suggestions for consideration. We strongly concur with their comments and suggestions. AustralianSuper is public offer fund with 1,460,740 members and assets under management of $27.5 billion. The majority of these members are in our industry division and are defined contribution members. We have 16 defined benefit sub plans, consisting of a combination of defined contribution and defined benefit members. In total we have some 2116 defined benefit members across these 16 sub plans or 0.145% of our membership. The Fund is therefore technically a defined benefit plan. These sub plans have joined us as tailored corporate plans. They do not have separately identified assets (these are combined in the total investments of the Fund) but each sub plan's assets and liabilities are ring fenced, such that no other member or sub plan can, and is expected to, support the liabilities of that particular sub plan. We continue to be active in tendering for such sub plans as the employer decides from time to time which fund to be with, and the industry rationalizes to lower costs (one of the policy directions of the government). Each of the sub plans appoints their own actuary (usually this appointment is made by the Trustee at the request of the employer) and consequently we deal with 7 different actuaries across the 16 sub plans. When the sub plans join they come under our Trust Deed. Under this deed we cannot and do not guarantee a member's defined benefit. Our liability to the member is limited to the assets of the particular sub plan. Each sub plan actuary is responsible for recommending funding arrangements for that plan having regard to the requirements of the Trustee. The Trustee has a funding policy for defined benefit sub plans which focuses on the sub plan asset coverage of sub plan members' vested benefits. This is in keeping with the provisions of superannuation legislation which considers a defined benefit sub plan to be in an "Unsatisfactory Financial Position" if assets are insufficient to cover vested benefits. The funding policy of the Trustee is such that if there was a short fall in a particular sub plan's assets to that sub plan's members' vested benefits we would require the employer company to comply with the actuary's recommendations to make up the short fall. We are required to notify APRA of the shortfall and what action is being taken to rectify this position. In these circumstances it is the Trustee's policy to communicate to members the fact that the defined benefit sub-plan has entered an Unsatisfactory Financial Position and what action is being taken to rectify the financial position. In a case where the company does not enter into a suitable rectification program constructed under the guidance of the sub plan actuary and the Trustee, the Trustee will then need to consider invoking certain provisions of the Trust Deed that are set down to cover such circumstances. One such action would be to close the relevant sub plan. In such circumstances members' benefits accrued up to that point in time will be limited to the level of assets that the sub plan has to fund those liabilities. The Fund accepts no liability beyond the assets of the sub plan. Each sub plan actuary will as part of their triennial (or more frequent, as has been the case over these difficult times) actuarial investigation of their sub

	plan focus on the complete range of liabilities and the relevant funding implications of these, This will include total liabilities, accrued benefits and various contingent benefits and liabilities. These investigations are much more extensive in their consideration of assets and liabilities than vested benefits or accrued benefits alone. The proposal to put accrued benefits for defined benefit members on the balance sheet as liabilities raises the following practical issues for us: 1. Crediting Rates It is the policy of our Fund to credit all earnings to members. We do this by declaring daily crediting rates and the only allowance we make after tax is performance fees, member protection and a contingency reserve for errors. To avoid the possibility of negative reserves (see 2 below) the Fund would be required to determine a daily allowance for any shortfall that may exist between accrued benefits and sub plan assets of DB members. Apart from introducing another difficult level of estimation, it is not equitable to account for a shortfall in our crediting rates when most of our members will never be required to fund the shortfall. So the liability shortfall of 0.145% of our members could disadvantage 99.855% of our membership. The alternative would be to declare 17 different rates (our industry accumulation members plus 16 sub-plans) across all of our 15 investment options. This would require 255 rates per day, which would be unmanageable and furthermore, in the event of a pricing error, could create an unworkable position to correct. 2. Negative Reserves If we do not provide for the possible shortfall in the crediting rates and distribute all our earnings to members (which is equitable), and if we are then required to put the accrued liabilities on the balance sheet (or risk a qualification) we could end up with negative reserves. This will need to be reported to APRA and our response will be yes we have negative reserves but this is due to the accrued benefits shortfall in DB members which we will not be required to fund as they are the employers liability. This circumstance would be extremely difficult to communicate and explain to any or all members. It should be noted that the requirement for the auditor to report deficiencies under Section 130 of SIS is based on the annual audited financials, upon which the APRA Return is based. 3. Equity between members/not our liability We make no guarantee to DB members. DC members cannot, and we would not let them, fund any shortfall in DB member accounts. To do so would be inequitable. To account for 0.145% of members in this manner ie accrued benefits is confusing to our wider membership and does not truly reflect the asset liability position to our DC members. 4. Availability of data Apart from the issue of estimation in daily rates we could not get the required information on accrued benefits from all 7 actuaries we deal with to complete our financials on time (31 October lodgment). This would also disadvantage the majority of our members in receiving their periodic statements. AustralianSuper issues half-yearly statements to members, covering the periods ending 31 December and 30 June. This is vital communication to members. Some would say the most important. Any delays in finalizing our numbers would delay this communication. It is conceivable that the delays could cause us to breach the Corporations Law requirement to provide periodic statements to members within 6 months of the end of the reporting period. 5. Future tendering The Fund would seriously need to consider its position in accepting tenders for DB/hybrid sub plans if it was required to deal with the complexities I have set out herein. This is not good for fund consolidation and the desire to lower costs to members. 6. Reserve Treatment as liabilities.

	Whilst all monies are members' money the issue arises as to reserves. Typically Funds run administration or contingency reserves to cover the issues raised by APRA in their Prudential Practice Guide SPG 235 – Use of reserves in superannuation funds. These reserves arise largely from not spending the administration fee charged to member accounts as opposed to a withholding of investment returns. Investment return withholding would typically be used to create a reserve against crediting rate or unit pricing errors. This reserve could be argued to be eventually payable to members and hence a liability. The administration reserve or contingency reserve would not typically be returned to members unless it was in excess of the needs it was put away for or in a wind up. To classify this type of reserve as a liability give the wrong impression to the member. In addition most superannuation fund trustees under their RSE licence issued by APRA are required to maintain a minimum of $100,000 in administration reserve. The treatment of the reserve as a liability may impact upon compliance with this requirement."
NAB	"We have no comment on this matter."
PwC	"We concur with the proposals to account for defined contribution obligations based on the amount of vested benefits as set out in the ED" With respect to defined benefit obligations, there has been considerable debate in the industry as to the appropriate basis to be adopted for measuring defined benefit obligations, with much opposition to the introduction of a new measure for accounting purposes. We are aware of a number of proposals being suggested: • Vested benefits • Accrued benefit measured in accordance with the current AAS 25 requirements • Accrued benefits measured in accordance with AASB 119, without the modifications suggested in BC 51 of the ED. Many industry commentators believe that a defined benefit plan's liability to members is limited to the amount of vested benefits. Their view seems to be that reports depicting these vested benefits as liabilities and the current value of plan assets provide the most relevant information to users. The strong support for vested benefits amongst industry commentators points to the need for the AASB to undertake more engagement within the industry to articulate the rationale for the principles underlying the ED. Whilst we acknowledge the comments of the industry, we also recognise that there is limited conceptual basis under current accounting standards for either of the first two bases set out above. Our view is that the measurement of a defined benefit obligation in a superannuation fund should reflect the present value of the probable outflow of resources that will be required to settle this obligation. We would therefore support the measurement of accrued benefits in accordance with AASB 119 but would suggest the AASB provide more clarification and explanation on why the accrued benefit approach is the most appropriate for measurement of defined benefit obligations in the Basis for Conclusions of the final standard. However, we strongly oppose any modifications to the AASB 119 approach. Actuaries already have to calculate accrued benefits for employers based on AASB 119. In our view, the costs that would be incurred from also having to prepare calculations with the suggested modifications to the AASB 119 approach exceed the benefits that would result from adjusting the measurement approach. Furthermore, as the IASB is working on projects regarding the measurement of liabilities in general and the accounting for insurance contracts, the AASB 119 approach should not be modified for the purposes of this ED until more progress is made by the IASB on these projects. Alternatively, there may be merit in retaining the current status quo of measuring defined benefit obligations under the principles in AAS 25 Financial Reporting by Superannuation Plans until such time as the International Accounting Standards Board (IASB) has completed its work on the insurance contracts project and progressed its broader project on measuring liabilities. The IASB is expected to issue a standard on insurance contracts in 2011. It appears to us that many elements of defined benefit obligations are likely to satisfy the definition of an insurance contract under those proposals.

	Given the AASB's policy of setting transaction neutral standards, we wonder whether now is the right time to change accounting for defined benefit obligations for a superannuation fund. If the insurance proposals are likely to result in a materially different outcome in the future, there would appear to be little benefit in making a change now. However, if the AASB retains the AAS 25 approach, our view is that such obligations should be measured annually, rather than triennially as is currently the case."

Table 5 - Respondents' views on Specific Matters for Comment (d) – whether any superannuation plans in Australia have defined benefit members whose level of benefits could be altered by externally imposed requirements, such as the level of state retirement benefits, as noted in paragraph 18(c) of ED 179 and paragraph AG30 of Appendix B to ED 179. If so, please describe the nature of these externally imposed requirements and how they are currently incorporated into the measurement of defined benefit members' entitlements.

Respondent	Comments
WW	"We have no concerns about this provision. There are very few Australian defined benefit plans that are integrated with social security (in the same way as is common for European plans). The only common external requirement common for Australian defined benefit plans is the normal practice of subjecting their benefits to a minimum as required by the Superannuation Guarantee (SG) legislation. The minimum is normally based on earnings up to a government prescribed Maximum Contribution Base (indexed each year). Actuaries will already make assumptions about future increases in this Maximum Contribution Base in their valuation. The allowances typically made would comply with the existing ED179 wording."
IAA	"Paragraph 18c flags the possibility of benefits being linked to externally imposed requirements. We believe that the wording within ED179 is sufficient as currently drafted, given its likely application in Australia. • There are very few Australian defined benefit Superannuation Plans providing benefits which are directly integrated with social security benefits (e.g. the amount of a retirement pension provided by the state). This is in contrast to many European defined benefit Superannuation Plans, where such design features are common practice. If there are exceptions within Australia, then we envisage that further interpretation can easily be handled on a case by case basis between auditor and actuary. • It is common for Australian defined benefit superannuation Plans to subject their benefits to a minimum of those required to satisfy the Superannuation Guarantee (SG) legislation. The SG minimum formula would commonly be calculated based on earnings up to a government prescribed Maximum Contribution Base (which is indexed each year with national earnings statistics). It would be common practice for actuaries to make allowance for such increases in their valuation, and we fell that the ED179 wording is sufficient to reflect pre-existing actuarial practice."

Table 6 - Respondents' views on Specific Matters for Comment (e) – whether there are any significant practical difficulties that would inhibit the reliable measurement of obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts* as proposed in paragraph 21 of ED 179. If so, please describe the nature of these difficulties and how they might be overcome.

Respondent	Comments
Unisuper	"The ED requires obligations and assets arising from insurance contracts issued by superannuation funds to be measured in accordance with AASB 1038 – Life Insurance Contracts. There are significant practical difficulties that would inhibit this from being done reliably and at a reasonable cost. Doing so would not add significantly to the usefulness of the financial statements. The requirement for increased information on insurance contracts poses some interesting challenges for UniSuper as we have four types of insurance as detailed below: 1. Compulsory Insurance for Defined Benefit Members which is self insured; 2. Compulsory Insurance for certain categories of Accumulation members which is also self insured; 3. Optional Insurance for Accumulation members which is externally provided by Hannover; and 4. Indexed pensions for retired members In relation to the first option, it is noted that: • Currently contributions paid by Defined Benefit Members do not include an explicit portion to pay for the death and Total and Permanent Disablement (TPD) benefits being offered, although the actuary provides an estimate of this amount for a superannuation fund's tax calculation; • On death or TPD, the insured portion of the benefit is not separately calculated by the administrator – nor is the amount of the self insured death and TPD benefit always clear (i.e. is it the excess of the benefit above the vested benefit, accrued retirement benefit or accrued benefit). As the amounts are not currently calculated by the administration system, it may be necessary to engage the actuary to do the calculations for claims incurred during the period in order to determine amounts for the income statement; • Under AASB 1038 the amount of the accrued liability for death and TPD would usually been close to zero (Refer section 8.1(b) of AASB 1038). This is because outstanding claims at the reporting date are normally excluded from both assets and liabilities (except possibly claims that have been incurred but not yet reported) and future claims would be expected to be met from future contributions (the notional annual premium being an estimate of the claims expected in each future year). However, the way the notional annual insurance premium is calculated is not consistent with the way insured benefits are reflected in the accrued benefit figure (largely due to the death and TPD benefit being fully accrued irrespective of when it becomes payable, so the accrued death and TPD only reflects the probability of payment in all future years), which will lead to inconsistency in the reconciliation of the accrued benefit liability from year to year. • For UniSuper Defined Benefits, the death and TPD experience gains and loses would be expected to be a very small part of the total experience

	gains and loses. In particular, experience from investment returns, salary increases and price inflation will typically be much larger. Therefore, financial statements providing additional information on death and TPD separately will be a little value. In relation to the second option, the insurance is again provided by the fund and the information can primarily be provided by the fund administrator on the expense side but again if the separate components are to be disaggregated there will be reliance on actuarial input. Also the availability of section 8 information described above for his component of the insurance is questionable. We assume section 8.1(b) of AASB 1038 would apply and the liability for the accumulation members would be their account balances, possibly with an additional amount added for incurred but not reported claims. It would be much easier to achieve this outcome by reporting liabilities calculated in accordance with ED179 including an allowance for incurred but not reported claims. As the optional insurance (option 3) is outsourced to Hannover, it is presumed that minimal disclosure would be required apart from the premium paid to Hannover. There is no real insurance risk being assumed by UniSuper. In respect of option four, it was not clear whether indexed life-time pensions would be included within the requirements of paragraph 21 of ED179. It would be preferable for this not to be the case so that the calculation methodology and assumptions used for ED179 also apply for pensions. Employed UniSuper members have an entitlement to a pension, at their election, upon retirement and it is not practical to separate out this part of the liability from the defined benefit liability in respect of benefits. Is there an expectation that the death, disability (income protection) and pension components of the insurance provided need to be disaggregated in relation to the requisite information components? All insured liabilities can be properly reflected in the financial statements through ED179 without having to segregate the insurance liabilities in accordance with AASB 1038. The high level disclosures around the risk that the fund is exposed to through self insuring and how these are managed are clearly warranted as well as the high level period movements and period end positions. The most appropriate way to disclose this may be in note disclosures. I query the need for the minute level of detail required under AASB 1038, particularly in sections 8 and 14, for a superannuation fund and indeed which users need it. Some of these requirements when applied to a superannuation fund appear to be excessive. Information around the health of a defined benefit fund and related insurance arrangements similar to that detailed under sections 8 and 14 of AASB 1038 is traditionally derived as part of the triennial actuarial review and is more appropriately circulated to employers periodically as a separate exercise rather than as a component of the annual financial statements. For self insured funds, actuarial oversight and review of self insured arrangements is in any case required regularly under Actuarial Guidance.”
E&Y	“The current proposals will potentially impose a significant burden on funds because of the granularity and complexity in the AASB 1038 requirements. We doubt that many funds would be able to perform the detailed margin analysis required by AASB 1038 without considerable additional expense. We believe that these practical difficulties could be overcome by considering another alternative to recognise measure and disclose insurance arrangements.” “Paragraph 21 of the ED proposes that obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*. Paragraph 50 of the ED proposes that a superannuation Plan or approved deposit fund that issues insurance contracts shall disclose information in relation to such contracts in accordance with the disclosure principles and requirements applicable to life insurance contracts under AASB 1038. 3.1 Commentary on proposals:

	Paragraph BC 57 of ED 179 identifies three types of insurance arrangement: 1. Plan as Agent: where life insurance cover is offered directly by a third party insurer, with the Plan acting only as an agent; 2. Group Plan: where insurance cover is offered to defined contribution members (usually offered through a group insurance plan); and 3. Self-Insurance: where insurance cover is provided directly to defined benefit members (sometimes this will be reinsured with an insurer). We agree that the above arrangements are common amongst superannuation funds and note a group plan is usually outsourced to a third party acting as agent for the group plan. We agree that Trustees that self-insure are exposed to insurance risk. Depending on the extent of self-insurance, we agree that risks to Trustees can be significant especially in closed funds that only offer defined benefits and provide self-insurance. Typically, self-insurance is provided by Trustees of defined benefit funds and an actuarial reserve is estimated to provide for future claims. In instances where a Trustee enters into an agency relationship and provides insurance through a group plan offered by a third party insurer, insurance risk is substantially transferred to the third party. Whilst there may be remote instances where an element of residual risk may arise, we do not believe that such arrangements should be the subject of accounting for insurance contracts under AASB 1038 or any other standard other than to recognise insurance proceeds as income and insurance premiums as an expense in the statement of changes in members' benefits. For such arrangements, we note that Trustee of superannuation funds may have undertaken the following to mitigate any residual risk: • Inclusion of clauses within the Trust Deed to limit any liability to the amount approved and remitted by the insurer under the policy • Prohibit in the Trust Deed and/or policies any discretionary payments above and beyond amounts approved and remitted by the insurer • Inclusion of appropriate disclosures within the product disclosure statement and other communication to members which states that insurance is provided through a third party provider • Maintaining proper records, policies and processes to administer and monitor insurance claims, remittance of premiums, requests for changes in cover and receipt of insurance proceeds etc in accordance with the terms and conditions of the insurance policy for the purposes of mitigating any potential risk of negligence or error that may arise. Provision of insurance is considered an ancillary benefit and is incidental to the primary purpose of providing retirement benefits. Termination of fund membership as a result of resignation, retirement, retrenchment and redundancy does not usually result in an insured component being paid. Insurance claims only arise in the event of death, total and permanent disability or ill-health. Therefore, we believe the accounting treatment and disclosures should reflect this. Whilst we note that there may be some remote instances where such funds may carry some residual risk eg., in the event the insurer is insolvent, we accept that this risk is so remote and should not be recognised unless there is a high likelihood that the event may occur or has occurred. However, we also acknowledge that there may be instances where the Trustee does accept insurance risk under group plan arrangements. For example, whilst group life cover might be place with an external insurer, if the trust deed states that the Plan will pay, or has discretion to consider paying, any insurance claims if the external insurer fails to offer cover, or fails to accept a claim, then the Plan is accepting insurance risk which may or not be significant. Similarly, if the Trustee is in the practice of making ex-gratia payments without regard to the decision of the insurer, it may result in a constructive obligation regardless of any restrictions in the Trust Deed or arrangements with a third party provider. In virtually all group plan arrangements, all self-insurance arrangements, and possibly in some arrangements where the Plan acts as agent, the Plans will need to consider whether the contracts with their members are insurance contracts or not. There may be many cases where the extent of insurance

	risk is not significant, however, if the final standard requires assessment at the insurance component level this could have quite a different outcome, effectively requiring a majority of contracts issued by Plans to be unbundled with the insurance component treated under AASB 1038. This would create a significant burden for Plans especially where risk is not significant. 3.2 Suggestions for consideration: We recommend that the AASB undertake further consultation with the industry to understand the extent of insurance risk borne by the Trustee. The AASB should consider the significance of any risk to the member and Fund overall and consider whether there are other options to measure and disclose any risks arising other than as proposed under AASB 1038 Given the level of uncertainty and ambiguity that the current proposal has generated within the industry, we believe that further guidance should be provided as to how to apply the proposals in the superannuation context. We would also recommend that the AASB allows adequate time for implementation. It may be that Plans may want to perform 'housekeeping' to eliminate any inadvertent exposure to insurance risk."
Mercer	"Mercer does not believe that it is appropriate to value insurance risk in accordance with AASB 1038 The insurance arrangements adopted by superannuation plans generally do not meet the definition of insurance contracts in AASB 1038. Mercer recommends that instead of adding to costs by imposing a new valuation approach, the standard require each plan to disclose a description of its insurance arrangements. These disclosures should provide sufficient information to give readers an idea of the exposure of the plan to insurance-related risks. Alternatively, for plans that self-insure their death and disability benefits, the value of the self-insured benefits could be included in the calculated AASB 119 liability (if this measure of recognising benefit obligations is adopted)." "It is not clear from ED 179 what sort of insurance arrangements adopted by superannuation plans are intended to be covered by the requirements of the new standard. In the majority of cases a plan's death and disability benefits are insured with a third party reinsurer, and as a result the plan bears little or no residual insurance risk. In these cases the plan does not appear to have an insurance obligation that needs to be recognised as a liability in the financial statements. The only situation in which a plan would take on significant insurance risk is where the death and disability benefits were self-insured. Many public sector schemes in Australia adopt self-insurance arrangements. We do not believe that these arrangements meet the definition of an insurance contract, however, as the plans themselves are not insurers. The Governments that sponsor the various public sector funds in Australia would certainly not be considered insurers. Therefore, we do not think it is appropriate for these insurance arrangements to be valued in accordance with AASB 1038. Requiring superannuation plans to recognise assets and liabilities in accordance with AASB 1038 would result in significant additional costs arising from: • the set up of a valuation model to calculate insurance liabilities; • the setting of assumptions for the calculation of outstanding claims provisions; and • the collection of data at the calculation date. Any benefits of such measures would be far outweighed by the significant costs when the plan is not acting as an insurer. Instead of requiring plans that self-insure to comply with AASB 1038, we suggest that the disclosures to the financial statements (for all plans) include

	a description of the insurance arrangements. The disclosures should include sufficient information to give readers of the financial statements an idea of the exposure of the plan to insurance-related risks and any reserves (or provisions) that may be established in respect of these risks. If, as discussed in the previous section, the Board determines that defined benefit plans should recognise accrued benefits calculated in accordance with AASB 119, the value of self-insured death and disability benefits could be included in the calculated AASB 119 liability. It is likely that there would need to be some minor adjustments made to the calculation of the AASB 119 liability to incorporate this allowance for self-insured funds. We believe that this is one appropriate approach to allowing for these insurance risks than introducing another valuation methodology.”
QSuper	“QSuper, in discussion with other interested parties, understands and notes that many industry participants will be providing comprehensive feedback in relation to the proposed changes and therefore seeks only to raise the matter of Insurance Contracts. In brief, QSuper strongly recommends that the current treatment of insurance by a superannuation fund be substantially retained. Core Principles One of the core principles of the revised standard, as outlined in ED179 (2(c)) is to ‘…provide users of its financial statements with a basis for understanding the…financial risks to which the entity is exposed that could affect the amount of, and the entity’s capacity to meet, member benefits.’ QSuper has a reserve specifically set aside to meet the liabilities of its self-insurance arrangement. The value in this reserve is currently included in QSuper’s Statement of Net Assets and disclosed separately in the notes to the financial statements. Each year QSuper engages its Actuary to review the self-insurance arrangements on the basis of eligibility, premiums, claims, adequacy of the insurance reserve, investment strategy of the insurance reserve and the level of reinsurance. Further, an attestation regarding the Actuary’s review of the premiums is provided in the notes to the financial statements as further assurance to members. QSuper acknowledges that there is scope to increase the disclosures provided to members in the notes to the financial statements to provide further assurance on the processes undertaken to manage the risks associated with its insurance arrangements. However, QSuper is of the view that increasing the disclosure requirements in the financial statements themselves, in accordance with AASB 1038 *Life Insurance Contracts* (AASB 1038), will not necessarily improve clarity and transparency to members.” Industry specific Standard In ED 179, it is noted that ‘the AASB concluded that it is necessary to retain a domestic Standard that addresses a limited number of reporting issues of critical importance to superannuation plans and approved deposit funds in Australia’. Further, ‘the reporting requirements that would otherwise apply under Australian Accounting Standards… are not necessarily appropriate for the needs of users of the financial statements of superannuation plans or approved deposit funds.’ QSuper concurs with the view expressed that superannuation funds require an industry-specific Standard to meet the disclosure requirements of their users. Unlike publicly listed companies, users of superannuation fund financial statements are seeking assurances and information for quite different and specific purposes (e.g. the risks, exposure and ability to pay member benefits). “Sole Purpose Test Section 67 of the *Superannuation Industry (Supervision) Act 1993* imposes an obligation on all trustees of superannuation funds to ensure that their fund is maintained solely for the core purpose of providing benefits in the event of a member’s retirement, attainment of their preservation age, or upon death. Qsuper sees its core business as administering and operating a superannuation fund, and therefore not in the business of being an insurance provider. The insurance arrangements of the scheme are an ancillary purpose. Consequently, Qsuper is of the view that any additional disclosure of insurance activities in accordance with AASB 1038 may not provide additional value to members and other users of QSuper’s financial statements.”

KPMG	"Our view is that if a superannuation fund has significant insurance contract obligations and assets (and is not just acting as an agent between the member and the insurer), then this should be presented on the balance sheet. If the calculation of the accrued benefits liability has already factored in insurance assets and liabilities, then the insurance components should be presented separately from the accrued benefits liability. Given the specific application of AASB 1038 to the life insurance industry, we would prefer that the relevant requirements of AASB 1038 are set out in ED 179 and tailored specifically to the arrangements of self-insured superannuation funds. The terminology used should be specific to superannuation funds rather than life insurance contracts. Whilst our overall view is that IFRS should be applied with limited exceptions, our view is that this departure will reduce the complexity of the ED."
ASFA	"Our understanding is that the proposed measures would result in significant changes to recognition principles <u>except</u> where the insurance arrangement is simply on an 'agency' basis. Whilst ASFA agrees in principle with the intentions of the ED, there are concerns in relation to any 'non-agency' arrangements i.e. where the fund is purporting to act as the insurer and reinsuring with a licensed insurer. These include the need for clarity around the circumstances identifying agency vs. non-agency and the use of AASB 1038 reporting. ASFA appreciates this is an opportunity for super funds to address any weaknesses in fund insurance arrangements and to address any unwitting self-insurance gaps. We support the comments made by the Joint Accounting Bodies on this matter." "As stated…above, practical difficulties are anticipated from the proposed measures in the ED. We support the comments made by the Joint Accounting Bodies on this matter."
WW	"Each plan's insurance arrangements will need to be considered separately to determine whether they meet the definition of an insurance contract: '*insurance contract* means a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder'. '*insurance risk* means risk, other than financial risk, transferred from the holder of a contract to the issuer'. (footnote: AASB 1038 Definitions at Paragraph 20.1) We do not support the Exposure Draft proposal that all obligations and assets arising from insurance contracts issued by a plan shall be recognised in accordance with the recognition criteria applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*. (footnote: Paragraph 10(b)) The nature of death and disablement insurance in the superannuation context is such that in most cases the trustee is merely the holder of the insurance policy that is issued by the insurer. It merely holds the policy for the benefit of the insured members. The legal entitlement of a member to insurance proceeds is right of a beneficiary under the terms of the superannuation trust and is dictated by the governing rules of the plan. While there may be temporary cash flow timing issues with premium payments and benefit payments, for most plans the longer financial impact arising from death and disablement insurance arrangements is not material. In cases where the plan is exposed to some temporary timing differences (e.g. proceeds from insurer yet to be received on balance date, with an outstanding approved disability benefit still to be paid to the corresponding recipient) the amounts receivable from the insurer will be recognised as current assets and obligations in respect of outstanding approved disability claims will be recognised as current liabilities. In our view, however, no accounting provision should be made for the contingent future liabilities arising from insured portion of future death or disablement claims. We would regard such a requirement as contrary to one of the principles that we believe underlies the standard – i.e. that liabilities in respect of *accrued service* are to be recognised in the balance sheet. As insurance is invariably held in respect of death and disablement benefits payable over and above those related to accrued service, liabilities for these portion of these benefits should not, in our view, be recognised. We hold this view regardless of whether the 'insured' portion of death and disablement benefits is externally insured (in which case we would also

	argue that the value of future premiums to / recoveries from the external insurer should similarly not be recognised), or if the trustee chooses to 'self insure' this portion of the benefits. We note that self-insurance of death and disability benefits is uncommon. APRA's policy is: *APRA discourages funds from self insuring death and disability benefits because of the risks related to inadequate and unsegregated reserves and unrealistic pricing of the risks borne by the fund. APRA considers that life insurance companies registered under the Life Insurance Act 1995 are the best mechanism for superannuation funds to provide death and disability benefits to fund members.*(footnote: APRA FAQ Answer 10.1) Accordingly, very few plans would self insure. The defined benefit plans whose death and disablement benefits are fully self-insured are required to be under actuarial management in relation to the costs of providing the self-insured benefits. Where such self insurance does take place, then the actuary would already certify the amount of such provisions under section 295.465(2) of the Income Tax Assessment Act 1997 (C'th). It is not clear to us whether the current draft Standard would require funds to make a provision of incurred but not reported (IBNR) disability claims. In our view, any attempt to measure or report reserves in respect of IBNR claims (in the same way that life insurers are required to do) would likely result in a spurious assessment for virtually all DB plans in Australia. Most such plans are simply too small to derive any statistically significant or reliable IBNR estimate. And any such provision would simply change the timing of the expensing marginally (relative to the current cash basis), on a very arbitrary basis. By contrast, insurance companies typically have a far greater number of insured lives than any self insured superannuation plan. Even if IBNR reserve was determined, the total death and/or disability benefit set out in Trust Deeds are partially funded from the assets of the Fund. Under any attribution between past and future service, only the future service component of a death /disability benefit would not be funded out of assets. Therefore, assuming ED179 is seeking to measure obligations based on the past service component of benefit obligations, then no liability would be measured. For some plans, the amount of premiums paid to the insurer will be greater than the proceeds received in any particular year. This should not imply that the plan has incurred some sort of loss; in fact it has paid to protect itself from loss. Similarly, in years where insurance proceeds received are greater than premiums paid, the plan is most unlikely to have made a profit, as the proceeds will have been passed on to claimant members. Finally, we consider that the re-insurance risk of an insurer not being in a financial position to pay the insured benefits would not be material. (This would require some form of estimate of the likelihood of the insurer becoming insolvent in the normal course of events, adjusted by the likelihood of the government not assisting in meeting the insurer's short term commitments, adjusted by the likelihood of the plan being unsuccessful in obtaining cover through another Australian group life insurer prior to a claim emerging). Therefore, we would not expect any provision being material (or measureable)."
AIST	"ED179 proposes that life insurance be accounted for as in AASB 1038. The implication of this requirement is that funds will be required to recognise the net value of all future receipts from, and payments to, members under insurance contracts in existence at the reporting date. This obligation is triggered irrespective of whether the fund has fully reinsured those contracts. The exception is if the fund is acting as an agent for the insurer. Arguments for Reinsurance risk – in the case of the fund reinsuring its risk under a traditional group life policy, there remains the potential for the insurer to reject a claim and the fund may then be liable for the claim under the trust deed. Under the proposals such risks need to be quantified. Self-insurance – where funds elect to self insure, the argument is that the fund should account for the risks as in AASB 1038. Arguments against There is no insurance contract between a member and the trustee – the standards are based on the presumption that a contract exists between the

	'insurer' and the 'insured'. The nature of the contract gives rise to a contingent liability. Within the superannuation environment, the key feature that is missing is the insurance contract. This provokes debate over whether a contingent liability exists, given that the trustee retains the ability to decide if a claim is valid. Disability clauses in trust deeds – following from the first argument, most trust deeds contain a definition of disability that defaults to the policy definition. In most cases this means that the fund is not liable if the insurer refuses a claim. The net effect will be zero – this argument is more holistic in nature and is as follows: when self insuring, a fund's actuary will assess the future liability and discount this to a present value. The fund's assets, set aside for meeting the claims, will be subject to a similar analysis involving projected returns and future premiums, and will then be discounted to a present value. The end result should theoretically net to zero and therefore, the exercise will result in an unnecessary increase in costs. Reinsurance risk is immaterial – this argument states that the reinsurance risk is not deemed material and is addressed through the fund's operational contingency reserve. Provided the reinsurance contract matches the terms of the agreement between the fund's trust deed and the member, the risk is considered to be a low probability event. <u>Preferred position</u> AIST recommends that the AASB 1038 requirements be removed from the draft. Funds that self insure should be required to disclose the risks as per the existing note disclosures. Funds that reinsure through a Group Life Policy, but have the potential to be held liable for claims not covered under the policy, should also provide note disclosure and provision through the contingency reserve."
CSA	"We would welcome clarity on the relative position and reporting obligations of: • funds that carry no external policies in relation to promised benefits, including life cover in the event of death or disability; • funds that carry group life policies with an external insurer but carry some residual risk in relation to individuals to whom external coverage is refused; • funds that effectively act merely as agents for the life insurer by collecting and remitting premium; and • group life cover where it is fully insured with no residual risk. Some quarters have suggested that group insurance carrying no residual risk to be a form of reinsurance, however we do not believe underwriting practice and contracts reflect such a distinction. As regards funds that self-insure, we would be gravely concerned by requirements to treat any benefits promised under a superannuation fund deed as insurance contracts. We cannot see the benefit in this proposal. We recognise that to provide for these benefits without outsourcing the risk involves the fund in some additional risks and that these are risks relating to life and/or disability insurance. Nevertheless, in the full context, these risks are part and parcel of the business of providing defined superannuation benefits which in itself is a process which involves a variety of risks over which actuarial advice is provided. In the context of the provision of benefit in general, the provision of cover in relation to premature death is relatively minor and is well monitored and reporting on by actuarial advisors. We cannot see enhanced benefit for users in additional reporting on a separate basis. It will simply increase costs which will ultimately fall on either employer-sponsor or members without benefiting either."
Vision	"For funds of a size that can reasonably self-insure, the death, TPD and income protection experience (gains and losses) would be expected to be a very small part of the total experience. Therefore, proving additional information on insurance experience separately will be of little value and our preferred approach would be to instead simply disclose the nature of the insurance risk in the notes to the accounts. Nonetheless, ED 179 (as currently drafted) requires that funds report obligations/ assets (and movements in those items) in relation to insurance contracts, as measured in accordance with AASB 1038 – Life Insurance Contracts. We note that this presents difficulties, each potentially incurring

	substantial cost to comply with the ED. For self-insured Defined Benefit funds we believe that the following issues cause significant differences to other types of entities and that the proposals does not add any real value to the readers of superannuation fund accounts: • There is often no explicit insurance premium (for death, TPD or income protection benefits). • Funding simply being a part of the general contribution recommendations. The actuary may provide an estimate of the 'notional' insurance premium for the fund's tax calculation, however some assumptions (such as discount rates for valuing income benefits) may be inconsistent with ED 179 requirements. • Often, on death or TPD, the insured portion of the benefit is not calculated separately by the administrator (only the total amount is calculated) – nor is it always clear which portion is self-insured (e.g. is it the excess of the benefit over the vested benefit, the accrued retirement benefit or accrued benefit?). If the amounts are not currently calculated by the administration system, it may be necessary to engage the actuary to do the calculations for claims incurred during the period in order to determine amounts for the income statement. • Experience gains and losses from investment returns, salary increases and price inflation will typically be much larger than from self-insured claims, therefore providing additional information on insurance experience separately will be of little value. For self-insured funds generally: • Under AASB 1038, it appears that the value of the insurance obligation for death, TPD and income protection benefits in respect of current members would usually be nil (or close to nil), as (over the long term) future claims would be expected to be met from future contributions. Whilst there may be variation in particular years (with claims higher or lower than expected, relative to the notional premiums), this is part of the overall funding mechanism which smooths out such experience over the long term (and for accumulation funds is reflected in the change in the self insurance reserve). Any change in the long term expected claim experience would result in changes to premiums such that the present value of future claims continued to equal to the present value of future premiums; • It would be possible to include an IBNR (Incurred But Not Reported) amount in the benefit liability at the start and end of the period, determined based on suitable assumptions as part of the ED 179 liability. This amount effectively reflects claims expected to arise in future as a result of premiums previously paid and therefore does relate to a part of the existing assets. This could be done without the complexity and cost of AASB 1038 requirements. • Generally, as the retirement/resignation benefit accrues the self-insurance risk reduces because sums insured reduce with age. The reconciliation of the annual notional insurance premium with the change in the value of the self-insurance obligation therefore reflects a reduction in the self-insurance obligation from year to year, which is inconsistent with the focus of the ED 179 accounting basis (which reflects the accrual of benefit entitlements). Reconciling the self-insurance arrangements in the ED 179 format may therefore be problematic. • Information around the health of a defined benefit fund and related insurance arrangements similar to that detailed under sections 8 and 14 of AASB 1038 is traditionally derived as part of the triennial actuarial review and is more appropriately circulated to employers periodically as a separate exercise rather than as a component of the annual financial statements. For self-insured funds, actuarial oversight and review of self-insured arrangements (including reserve requirements) is required regularly under Actuarial Standards. • Paragraph 15 of the Appendix to AASB 1038 provides examples of Life Insurance Contracts that includes 'life-contingent annuities and pensions'. It would be inappropriate to include these separately to other defined benefit liabilities and clarification is required. It is preferable that the calculation methodology and assumptions used for ED 179 also apply for pensions. It is also impractical to have to separate out the future liability

	in respect of members entitled to elect a pension benefit on retirement from the future liability for other benefits."
CPA, ICA and NIA	"We agree that in some instances superannuation fund self insure, clearly carrying insurance risk, and it is appropriate this risk should be accounted for under the relevant IFRS. Other funds in substance act as agents on behalf of the insurer or hold group policies for the benefit of their members. We recommend the ED should contain guidance clarifying that funds differ in terms of insurance risk and the accounting treatment should reflect the substance of the arrangement. We also raise concerns with the drafting of the ED in relation to insurance arrangements and urge the AASB to clarify that the wording of the standard complies with laws relating the insurance industry, bearing in mind that a superannuation fund is not an insurance company." "We agree with the principle that a superannuation plan or approved deposit fund that is exposed to insurance risk should account for that risk under AASB 1038. However, it should be noted that superannuation plans and approved deposit funds are not insurance entities and therefore, the type/extent of the risks may warrant consideration of any necessary modifications. The wording in the ED has generated much debate, and we request the AASB include more guidance on when a plan is subject to insurance risk, and also more guidance on how to account for this risk under AASB 1038. In making these comments we stress that plans that are not subject to material insurance risk should not be required to measure and recognise an insurance asset and liability on the grounds that this is a costly exercise that does not add relevant information to the financial statements. We also have significant concerns over the drafting of proposals relating to insurance in the ED and their relationship with the ASIC Act, the Corporations Act, the Life Insurance Act and Trust law. We urge the AASB to take legal advice to clarify the issues outlined below. It has been suggested to us that superannuation plans are not able to issue insurance contracts. A contract of insurance is defined by section 9 of the Life Insurance Act 1995 (the Life Act) to be a life policy; and such policies can under section 10 only be issued by a registered life insurance company. On this basis, it would appear a superannuation plan would be prohibited by statute from issuing insurance contracts to its members. This if there are no superannuation plans that issue insurance contracts to their members the drafting of paragraph BC61 is inappropriate. Following the logic outlined in paragraph BC61, it is possible the ED is based on a misconstruction of insurance risk. For example, many defined contribution superannuation plans contain specific provisions in their trust deeds that specifically limit superannuation benefits to the amounts accumulated; together with any proceeds actually received by the plans from the registered life insurance companies that issued the plans' group life insurance policies. In these situations it appears superannuation plans would have little or no insurance risk. It could also be argued if the superannuation plan has a valid group life insurance policy in respect to its members with a registered life insurance company; it would have no direct insurance risk. Thus it would appear if has no risk that it needs to reinsure. It is possible that paragraph BC58 seeks to address the exception identified in section 11(3)(c) of the Life Act. That sub section provides an exception from the Life Act in certain employee situations. However the legislative exception will only apply to superannuation plans that effectively self insure their members' death and disablement risk. In other words it could be that paragraph BC58 is attempting to address the actual insurance risk carried by the corporate and industry superannuation plans that self insure under the section 11(3)(c) exception of the Life Act. Consideration would still need to be given to whether this is appropriate. If this is the case we recommend paragraph BC58 clarify the forms of insurance arrangements listed in paragraph BC57. The appropriate targeting of paragraph BC58 might be helped by the addition of a clarifying phrase to sub clause (a) of paragraph BC57. This clarifying phrase might state something to the following effect: …or where the members are insured under a group life policy, or policies issued to the plan by a life insurance company registered under Part 3 of the Life Insurance Act 1995 (Cth), and where those members' accounts may or may not be charged periodically such as on a weekly or monthly basis for the relevant premium.

	Thus it would read: (a) offered to members directly by and external insurer, with the plan only acting as agent, or where the members are insured under a group life policy, or policies issued to the plan by a life insurance company registered under Part 3 of the Life Insurance Act 1995 (Cth), and where those members' accounts may or may not be charged on a weekly or monthly basis for the relevant premium; Sub sections (b) and (c) might also be amended to read: (b) offered to defined contribution members whose accounts are charged on a periodic basis such as weekly or monthly for the relevant premium, under the life insurance business exception conferred on the superannuation plan by the provisions of section 11(3)(b) of the Life Insurance Act; or (c) provided to defined benefit members in relation to their projected retirement benefits, under the life insurance business exception conferred on the superannuation plan by the provisions of section 11(3)(b) of the Life Insurance Act. In a similar manner paragraph BC61 could be redrafted to address the exception identified in section 11(3)(c) of the Life Act; namely, the exception that applies to corporate and industry superannuation plans that self insure their members' death and disablement risks."
IAA	"We note that in most cases there are no separate 'insurance contracts' issued by the superannuation plan. We understand that cases of direct insurance with an external insurer (with the Superannuation Plan acting only as an agent) would be relatively rare. Instead we believe there are a large number of Superannuation Plans that have a group life insurance contract with the Superannuation Plan debiting money from the member's accounts and paying this to the insurer. Despite this it is not clear whether the treatment proposed by ED 179 would apply to range of arrangements provided through Superannuation Plans and if so how it would apply. One example of the practical difficulties is that it is not clear what the insured amount is for any particular member in a defined benefit Superannuation Plan, where the benefit is not defined in terms of an accrued amount plus an insured component (the majority of defined benefit Superannuation Plans). There are also likely to be significant additional costs that would be incurred. This would include the need to: • Set up valuation models to calculate liabilities. • Determine assumptions for the calculation of outstanding claims provisions – particularly for disability business. • Extract data at the balance sheet date. Any benefits of such measures would outweigh the significant costs where there is little or no real intent for the Superannuation Plan to act as an insurer (and where assets would be materially the same as the liabilities). Whilst it is possible in some cases that some residual risk may be retained by the superannuation plan (credit risk, operational risk, definition risk) we do not believe that grossing up the balance sheet for insurance liabilities and reinsurance recoveries will add any real benefit to the financial statements (and substantial costs may be incurred in trying to reliably measure these assets and liabilities). In addition in other cases the operation of the Superannuation Plan's trust deed means that there is no residual risk. We believe that where there is little or no real insurance risk, a more appropriate means of dealing with these arrangements may be by way of disclosing the residual risk (if any) that remain with the Superannuation Plan. We also believe that if this requirement is to remain then substantial additional guidance in relation to materiality and exactly what would constitute an agency arrangement would be required. In cases where there is significant 'real' insurance provided by the Superannuation Plan and not externally insured (commonly referred to as self-

	insurance), we recognise the need to disclose the nature of operation of these arrangements in the financial statements, however significant additional costs with the proposed approach, as discussed above, would still apply. Our primary concern with the proposed approach to these arrangements is that the introduction of AASB 1038 adds a further basis for the determination of part of the liabilities. Any obligation in respect of future benefits, including benefits that appear to have an insurance element or nature and that may be in the course of claim, should be incorporated in the definition of the defined benefit obligation from AASB 119. Hence for consistency again with AASB 119 defined benefit obligation, for internal consistency within the financial statements and to provide preparers with clarity on the intentions of the standard, it would seem appropriate that any insurance type benefits be included within the measurement of members' interests. On a related point, we note that paragraph 15 of the Appendix to AASB 1038 provides examples of Life Insurance Contracts which includes 'life-contingent annuities and pensions'. We note that some defined benefit superannuation funds provide pensions. We assume that the intention of the Board is not to separate the value of those pensions from any other value of members' interests. Hence some clarification is required."
SL	"We concur that if a fund has any exposure to any material insurance risk then it should be disclosed in the financial statements. The proposal is particularly relevant to funds which have elected to self-insure the death and disability risk of their members instead of entering into insurance contracts with an insurance entity. However, we do not believe that there is sufficient guidance and discussion in the ED on the measurement, disclosure and impact of other legislation such as the Corporations Act and Life Insurance Act."
AustralianSuper	"Set out below (Members note: see above) is Ernst & Young's commentary and suggestions for consideration. We strongly concur with their comments and suggestions. The issue for our Fund is that our APRA license specifically precludes us from self insuring. We therefore outsource the provision of insurance to arms length insurance companies. Our Trust Deed and PDS also include comment that in the event the insurer denies a claim, we are not responsible to make good that claim. That is, the member will only get what the insurer is prepared to pay. Any other issues with respect to insurance relate not to the underwriting of insurance risk, but more the administrative issues associated with providing the facility. The Standard we believe would not require us to account for insurance under AASB 1038 as we have a group plan, but we believe further clarity by what is meant by group plans and agency arrangements would be helpful."
NAB	"We believe that the plans may not be able to carry out the measurement of insurance contracts as required by AASB 1038 themselves due to the inherent lack of expertise by the plans in this area. Hence they may have no choice but having to commission external valuations at additional cost to the plans. It is likely that the trustee to the plans will pass on such costs to the plan members thereby impacting the members' benefits ultimately. On this basis, we recommend the AASB to reconsider whether the costs outweigh the benefits (if any) to the members with regard to this proposal."
PwC	"We concur with the position taken in the ED that where a superannuation plan provides benefits that meet the definition of an insurance contract, the financial impact thereof should be accounted for as an insurance contract. However we have two concerns with the ED: • Firstly, the IASB is expected to issue a standard on accounting for insurance contracts in 2011. Given the fact that most superannuation funds which provide benefits that meet the definition of an insurance contract 're-insure' their obligations with a group life insurer, the cost of implementing the proposals in the ED would outweigh the benefits for the short period until the IASB issues a standard for insurance contracts. Accordingly, as an interim measure until the insurance contracts standard is finalised, we propose that the AASB require:

	• separate disclosure of insurance contract asset and liability amounts (as required under the ED), but • the measurement of insurance contract liabilities (and related asset recoveries where appropriate) be consistent with the basis adopted for measuring other benefits in the final standard (see our comments above on measurement of defined benefit obligations). Once the insurance contracts standard is finalised, further consideration should then be given to whether this approach should be adopted for superannuation plans and, in particular, whether the benefits to users of that accounting would exceed the costs of preparing the information. Secondly, there has been some misunderstanding in the industry regarding which obligations meet the definition of an insurance contract. Many funds simply act as agent for the group life insurer and their obligation is limited to paying a benefit equal to the amount paid by the group life insurer under the contract. These funds have questioned whether they would also need to apply the requirements in AASB 1038. We do not believe it is the role of this standard to define which contracts represent obligations of the plan which would be required to be account for as insurance contracts. However, it would be useful if the AASB could include a paragraph in its basis for conclusions explaining that it does not expect true agency arrangements to be included within the scope of these obligations. This is in contrast to situations where the superannuation plan takes credit or other risk on the group life insurer's obligations and where assets and liabilities will be required to be recognised."

Table 7 - Respondents' views on Specific Matters for Comment (f) – whether there are any circumstances in which a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors) would not be equity as defined in Australian Accounting Standards

Respondent	Comments
E&Y	"The treatment of fund reserves and surpluses needs to considered. On the basis that fund reserves are available for the future benefit of members, a liability would arise. Similarly, surpluses in defined benefit funds arise where an employer has contributed in excess of member benefits. This should be recognized as a liability as the employer has effectively paid contributions in advance. Assuming the above treatment, the only instance where equity may arise is where capital requirements are imposed on public offer trustees under APRA licences."
WW	"Our comments previously set out our concerns about the measurement of defined benefit obligations themselves. We advocate the use of Vested Benefits as the measure rather than a measure based on accrued benefits, for the reasons set out previously. The Exposure Draft proposes that obligations for defined contribution members' vested benefits and defined benefit members' accrued benefits always be recognised as liabilities (footnote: Paragraph 10(a)). On balance, however, we believe that the unique nature of superannuation plans (and the nature of their benefit obligations to members – either defined contribution or defined benefit members) are more appropriately viewed as equity, rather than as liabilities of the plan. Liabilities within a superannuation plan are traditionally 'current liabilities' due and payable within 12 months such as accounts payable, taxation liabilities and member benefits payable (being benefits of those members who have left the plan). In Watson Wyatt's view, an acceptable compromise would be to develop a 'Net Assets available to provide members' benefits' within a Statement of Net Assets. This will not mislead members, and be consistent form of presentation for all superannuation plans. We are conscious that technical arguments can be made to support both an equity or a liability outcome, often depending on the hypothetical situation considered (and the resulting apparent rights of members). We are strongly influenced by the fact that members' entitlements invariably rank behind other plan liabilities. • The returns credited to defined contribution plan members at year end make allowance for all other incurred operating expenses, prior to the declaration of the crediting rate. • Many defined benefit plans have a hierarchy within their governing rules that set out the order in which the obligations of the plan must be discharged. Again, other creditors tend to be paid first, and then a prioritised order of members. One approach might be for trustees of plans to obtain legal advice with respect to their trust deeds and other governing rules regarding the legal obligations, if any, of trustees to pay accrued benefits to members and the circumstances in which the accrued benefits can be adjusted or reduced (e.g. upon the employer sponsor ceasing to contribute to the principal employer determining to wind up the plan). This approach is not practical, however, and would require trustees to incur substantial cost without adding any real value as a consequence. In our experience, trust deeds of defined benefit plans typically only require, on termination of the plan, assets to be distributed to members to the extent they exist i.e. assets are shared amongst members, according to a hierarchy in set out in the trust deed. From the trustee's perspective, their responsibility is primarily to administer the net assets of the plan equitably and in accordance with the trust deed. It is fundamental to understand that superannuation plan trustees do not have an obligation to pay all defined benefit members their 'accrued benefits'.

	Furthermore, if assets are insufficient even members' vested leaving service benefits will be reduced. We note, however, that a major characteristic of a liability is that payment may be required on demand, on a specified date, or the happening of a specified event. As previously mentioned, in the context of a superannuation plan, it is also likely that any liabilities are deemed to be 'current' and therefore payable within 12 months. Obligations to pay benefits to superannuation plan members can arise at any time when benefit payment conditions in the plan's governing rules and relevant legislation are satisfied (e.g. on death, retirement, total and permanent disablement, etc.) however at balance date the timing of these obligations are known and would be expected to be greater than 12 months. The key difficulty is that the legal obligations of trustees in respect of the payment of superannuation benefits are complex, and different trust deeds and play types can result in a range of different 'implied' outcomes in the equity versus liability debate. In general we consider that members' benefits have more characteristics of equity. To the extent that the net assets of the plan are insufficient to cover members' benefits, those benefits are likely to be reduced. Watson Wyatt strongly advocates that the Statement of Net Assets should not include members' benefits as a liability but it should continue to include only the 'Net Assets available to provide members' benefits'. We are particularly concerned at the danger of introducing any sort of disclosure that could generate an expectation in users of the financial statements that any excess of net assets over vested benefits (or 'surplus') in a defined benefit plan 'belonged' to a particular group of users. 'Surplus' in a defined benefit plan can be generated from a number of sources, including forgone benefits of members and earnings on employer contributions, as well as extra company contributions. Following several high profile cases ruling on ownership of rights to 'surplus' in defined benefit plans in the early 1990's, many employers are reluctant to fund their defined benefit plans in a manner that might generate large amounts of 'surplus', even though such 'surplus' might imply better protection for members' benefits. Such a cautious approach would only be reinforced by plans being forced to disclose actuarial surpluses in a manner than might imply ownership by a particular group. Furthermore, if the benefits were included in the balance sheet as liabilities of the plan, the statement would at first cut show either a deficit or a surplus. In an on-going defined benefit plan, however, the actuary and trustee would be assuming that deficits will be made good by the employer sponsor and any surplus would be removed by reduced contributions. This assumption enables the trustee to pay benefits unadjusted irrespective of whether the plan is in deficit or surplus. Hence, if a members' benefits were to be included as a liability, it should equally be argued that an extra asset (contributions receivable) should be recognised in the case of a plan in deficit or that an additional liability should be recognised in the case of a plan in surplus. Accordingly, the net assets and liabilities recognised in an ongoing plan would always be zero."
CPA, ICA and NIA	"We understand that there may be circumstances where reserves hold money to be paid out to third parties, such as tax reserves."
IAA	"If the AASB confirms its conclusion that members' benefits are not to be treated as equity then there remains a question of the treatment of any other surplus or deficit, particularly in a defined benefit superannuation plan. Again the issues here are complex and require detailed consideration. The first concern is that an asset or liability in respect of any surplus or deficit may be recognised in an employer's financial statements (based on the requirements of AASB 119). It would appear preferable if the counterparties (the plan and the employer) recognise the related assets and liabilities in a complementary fashion. We note that the AASB concluded that an employer's obligation to contribute under AASB 119 did not represent a reimbursement asset under AASB 137 or a financial instrument asset under AASB 132, unless there was a contract for the payment of employer contributions. We note that such contracts may exist in some circumstances or the superannuation plan's trust deed (which is a legal agreement) may place certain requirements on employer

	contributions. Hence the legal basis for the recognition of an asset may exist in some circumstances. However, that doesn't preclude the employer obligation from being an asset. For the superannuation plan the nature of the employer obligation is more in line with a payment receivable than a financial instrument. In fact AASB 119 recognises the double-counting in contributions receivable and specifically excludes them from the fair value of Superannuation Plan assets in developing the employer obligation. The logic for a surplus may be more challenging as arguably either members or the employer may benefit from the surplus. However, it would appear more than probable that the economic benefit of a surplus would flow to either employers or members. In its considerations the AASB noted the present obligation requirement that is an essential characteristic on a liability. We understand that accounting principles do not require a legal contract to demonstrate that present obligation. It is possible for a constructive obligation to be classified as a liability. The consistent practice in the use of any surplus to provide for either members or employer contributions is consistent with such a constructive obligation."
SLCA	"We are not aware of any circumstances where this would be the case."

Table 8 - Respondents' views on Specific Matters for Comment (g) – whether a superannuation plan that has members who are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement or other event that qualifies as a condition for releasing superannuation benefits (refer to paragraphs BC52-BC56 of the Basis for Conclusions to ED 179) should recognise the 'higher of' benefit option separately from the defined benefit 'host promise'. If you agree that a superannuation plan should separately recognise a 'higher of' benefit option, how might the option be measured?

Respondent	Comments
E&Y	"We disagree that separate recognition of the 'higher of' benefit option to the defined benefit 'host promise' is required. The measurement of the members entitlement should be based on the value of the benefit that the member is entitled to receive at the time including any higher of options which may vest in the member. Therefore, if the benefit includes a defined benefit and defined contribution component, this should be reflected in the overall measurement of member benefits and not require separate disclosure."
KPMG	"In reference to the proposals under paragraphs BC52 – BC56, current practice is for funds to recognise the 'higher option' under the trust deed as member's vested benefit, provided they have satisfied the conditions for being entitled to that higher benefit. We do not see any reason to depart from this practice, as the fund is presently obligated to pay the higher amount on demand. The probability of the fund having to pay the higher amount could be factored into the measurement of the liability, however, it is likely that this probability would be very high for most funds."
WW	"We do not recommend changing requirements regarding the measurement or disclosure of those superannuation plans with a 'higher of' benefit option. In practice, many actuaries already place a value on 'higher of' benefits by deterministic projection techniques. Whilst the IASB's discussion paper on proposed amendments to IAS 19 suggested that a 'higher of' benefit option be valued using option valuation techniques, the additional costs of making this theoretical measurement will almost certainly outweigh any additional value to the users of the information. In addition, many defined benefit plans have a number of minimum benefits which may apply, from Superannuation Guarantee Minimum Requisite Benefits to minimums relating to membership of a previous plan. Which minimum applies at any particular time can change from year to year, or even from day to day, depending on various factors including investment returns, salary increases, and members' age and service periods. The meaning of any 'higher of' option disclosed in these cases will not be clear and the costs of valuation are likely to be high."
IAA	"We do not believe that it is necessary for a Superannuation Plan to recognise a 'higher of' benefit option separately from a defined benefit 'host promise'. It is unlikely that separating the value of the benefit into the two components will provide readers of the financial statements with any useful information, and may even increase confusion without a detailed explanation. A large number of Australian defined benefit plans have benefit designs that comprise a 'higher of' option (or even, multiple 'higher of' options). In practice, many actuaries currently value a 'higher of' benefit in a defined benefit by projecting forward the accrued defined benefit and the accrued contribution-based benefit on the assumptions adopted, determining the greater of the two at each assumed date of a payment and discounting the greater benefit back to the valuation date to arrive at a value of liabilities. In this way, there is some allowance made for the probability that the contribution-based benefit is the more valuable benefit in the future. We do not believe that there is a need to separate out the components.

	The Basis for Conclusions refers to the IASB's discussion paper on proposed amendments to IAS 19, which suggest that a 'higher of' benefit option be valued using option valuation techniques. We do not believe that this would be a practical alternative, as it introduces yet another method for valuing liabilities. It would represent a significant change to the techniques that are currently used to value benefits with a 'higher of' option. Option valuations are considerably more complicated and expensive. The costs of making this theoretical measurement will almost certainly outweigh the value to the users of the information. The majority of Australian defined benefit Superannuation Plans have generally been closed to new members for a number of years, and the active membership of such Superannuation Plans can therefore be quite small. It would take a significant amount of work (and related expenses) to assess whether option valuation techniques give materially different results to current practices, time and expenses that will be difficult to justify as the size of defined benefit arrangements dwindle. Whilst we do not believe it is necessary to show the defined benefit and 'higher of' components of the liability separately, if the AASB did include this requirement in the standard, we suggest that a simple approach would be preferable to the IASB proposal. A reasonable estimate of the value of the 'higher of' option would be the difference between the liabilities calculated using the current approach adopted by most superannuation actuaries as described above (ie comparing the defined benefit and contribution-based benefit at each assumed future date of payment and discounting back to the date of calculation) with the liability based on the defined benefit only (ie ignoring the contribution-based benefit). This approach is consistent with the deterministic methodology implied by AASB 119."
SLCA	"See above for our comments in (c). If a vested benefit approach is taken this difference would not arise."
NAB	"We do not believe a superannuation plan should be required to separately recognise a 'higher of' benefit option."
PwC	"As mentioned in our cover letter and (c) above, we believe that accrued benefits should be measured in accordance with the requirements of AASB 119 without any modifications. As such, the superannuation standard should not deal with specific issues relating to the measurement. Preparers should refer to AASB 119 for guidance on these issues. In any event, we believe a requirement to measure the additional obligation contained in a 'higher of' option at fair value introduces additional complexity and is inconsistent with the general principles in AASB 119."

Table 9 - Respondents' views on Specific Matter for Comment (h) – whether there are any significant practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with paragraph 30 of ED 179. If so, please describe the nature of these difficulties and how they might be overcome.

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<tr><th>Respondent</th><th>Comments</th></tr>
<tr><td>E&Y</td><td>"Difficulties include:
• Identifying controlled entities
• Monitoring changes in % holding throughout the year
• Obtaining relevant, reliable and timely information to consolidate controlled entities, particularly in fund of fund arrangements
Difficulties could be overcome by:
• Further clarification on the definition of control"
"We acknowledge the extent of industry discussion regarding superannuation funds consolidating controlled entities and the desire of the AASB to apply the IFRS conceptual framework and policy of transaction neutrality across all reporting entities. Whilst we concur with the current proposals, we recommend the ED provide further guidance on the definition and application of control, with particular regard to the investments structure commonly referred to as 'fund of funds'. Superannuation funds often have investments in collective vehicles which are operated by fund managers in order to benefit from the efficiencies of pooling investment monies with other investors and obtaining the relevant expertise from the fund manager.
As observed in superannuation and other like entities such as life offices and managed investment schemes, a prima facie assumption of control, is applied where holding in unitized collective investment vehicles exceed 50% of units on issue. The presumption is only rebuttable when there are exceptional circumstances where it can be 'clearly demonstrated that such ownership does not constitute control'. We would like to see the ED consider the intricacies of the superannuation industry and take a 'substance over form' approach when considering whether control exists and provide some further guidance on instances where '…ownership does not constitute control'.
We agree that there are some limited instances where a superannuation fund clearly satisfies the definition of control and should consolidate controlled entities. In particular, where a fund has established a special purpose entity, owns 100% of the equity, governs the financial and operational policies of the entity and has a majority of representatives on the Board is a clear example of control. An example of this is where a superannuation fund establishes a pooled superannuation trust ('PST') to hold all investments of the fund in exchange for all the units in the PST. Therefore, it is clear that 'active' control exists over the operational and financial policies and we agree that the superannuation funds should consolidate the entity to provide greater transparency over the subsidiaries financial position, financial performance and financial risks.
In our experience superannuation funds invest in collective vehicles operated by fund managers in order to benefit from the efficiencies of pooling investment monies with other investors and obtain the relevant expertise from the fund manager. Such collective vehicles may be retail unit trusts, open to the wider public or wholesale trust, limited to institutional investors of the fund manager. Typically, such investments are managed by a professional funds manager and the Trustee or Responsible Entity is generally related to the fund manager, not the Trustee of the superannuation fund. Investors, including superannuation funds, will apply for and redeem units based on their target asset allocation (and where applicable, any member investment choice elections) and/or liquidity needs. As the investment strategy (including asset selection and allocation) of the trust is determined by the fund manager, the Trustee of a superannuation fund would consider the appropriateness of the fund manager's strategy when deciding to purchase or redeem units or offer the trust within a member investment choice option.</td></tr>
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	Where other investors also own units in the collective investment, it is difficult to obtain and monitor the unit holding of collective investments especially retail trusts where there is a relatively high volume of applications and redemptions in unit holdings compared to wholesale trusts. Overall, it is the intention of the Trustee of the superannuation fund to act as a 'passive' investor and not be involved in the day to day operation of the collective investment. If the Trustee is dissatisfied with the performance of the collective investment or the performance of the fund manager, they would generally redeem their unit holding rather than exercise any form of control. In our experience, the Trustee's assess the risks and rewards of such investments in relation to their unit holding, as opposed to assessing and managing the risks on a look through basis. Furthermore, trustees of superannuation funds do not generally exercise control over such collective investments for the following reasons: • The governing rules of the collective investment do not generally permit investors to govern the financial and operating policies. In most cases and certainly in recent deeds, such powers are unequivocally delegated to the fund manager • The trustee of the superannuation fund has little or no control over the level of their ownership interest. It will regularly fluctuate relative to the holding of other investors • The overall objective of the Trustee of the superannuation fund is to be a 'passive' investor and benefit from the fund manager's expertise and from the efficiencies of pooling investment monies with other investors. • The governing rules may provide a legal right to unit holders to change the Trustee, Responsible Entity and/or fund manager but this is rarely used in practice and is usually a matter of last resort. If the trustee of the superannuation fund was dissatisfied, it would usually redeem its unit holding and exit the fund rather than step in and actively 'control' the trust. • Generally, there is no process for general meetings and voting on financial and operating policies except for limited emergency powers that may exist and usually requires a special resolution of more than 75% of unit holders before unit holders can step in an control the trust • The fund manager is not bound to seek approval of the investors on investment selection decisions although it is expected that the fund manager would adhere to a defined mandate or strategy as communicated to investors • Typically, and based on our experience, the majority of collective investments that superannuation funds invest in are not permitted to borrow. Where borrowing is permitted, gearing is usually low. Therefore, for most trusts consolidating the balance sheet of the subsidiary has little impact on the presentation of financial statements. For example, trusts that are asset class specific e.g., an equities trust which forms part of the equities investment class on the balance sheet of the parent entity is unlikely to materially impact the balance sheet as the assets of the subsidiary will predominantly comprise equities with other assets or liabilities being immaterial. If there are gearing and/or minority interests, it is unlikely to be material when 'grossed up' on consolidation. • At times, trusts are established and used as the preferred investment structure rather than using a direct mandate with an investment manager or directly holding of the underlying securities for ease and simplicity. For example, a cash management trust ('CMT') is a popular vehicle amongst superannuation funds to hold surplus cash over a bank account so that funds can earn higher returns on surplus cash. Once again, it is unlikely that the trustee will ever actively 'control' the CMT. Instead, they wish to benefit from earning a higher return on surplus cash in highly liquid investments without holding the underlying securities e.g., bank bills. Similarly, an equities trust may be the preferred approach to gain exposure to ASX 200 securities without holding the securities directly. Therefore, understanding the intentions of the Trustee and reason for holding certain investments needs to be considered. • Our experience has also found that many superannuation funds have large unit holdings in collective investments as a result of member choice.

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Whilst the Trustee may select the collective investments that comprise its investment strategy and proved the various member investment choice options, it is the member of the Fund that selects the appropriate investment option and the underlying collective investments comprising the option. There are instances in the industry where superannuation funds are currently consolidating such unit holdings as a result of the technical interpretation of AASB 127 because they own greater than 50% of the unit holdings despite being a ‘passive’ investor.

Finally, the Superannuation Industry (Supervision) Act 1993 requires Trustees of superannuation funds to comply with the ‘sole purpose test’ which requires superannuation funds to be maintained for the purpose of providing benefits to members and their beneficiaries or for a limited number of other ancillary purposes. For example, the establishment of wholly owned entity to provide financial planning services to members or to structure an investment arrangement to generate returns for members would meet the sole purpose test. However, the establishment of a fund for the purposes of providing finance to the employer sponsor was recently deemed not to have complied with the sole purpose test. Similarly, the controlling of an entity such as a manufacturing company, a hospital or a hotel and the governing of the day to day operations of the entity may be in breach of the sole purpose test. Therefore, we recommend that the AASB consider whether the requirements of the sole purpose test would prevent a superannuation fund from controlling an entity and governing the operational and financial policies of an entity.

2.2 Suggestions for consideration:

The standard should include application guidance on the definition of control which will assist superannuation funds in identifying potentially controlled entities. Use of examples would assist in understanding how the definition of control and guidance should be applied and assist in ensuring that instances of ‘active’ control are clearly identified. Consideration should be given to many of the factors that are evidence that control is not in substance exerted including:
• The existence of a fund manager who exercises unfettered operational control
• The appointment of a Trustee or responsible entity independent of the superannuation fund
• Whether the trust is open to other unrelated investors
• The ability to redeem units upon request

The application guidance will need to clearly identify factors that would constitute control so as not to dilute the requirement for funds to consolidate where control clearly exists such as:
• Establishment of special purpose entities (‘SPE’) where the board is not independent and governs the financial and operational policies of the SPE
• Controlled PST’s
• Entities where the definition and factors supporting ‘passive’ control no longer exists such as instances where the Trustee’s intention has changed as evidenced by the exercise of powers that would constitute ‘active’ control e.g., terminating the fund manager, Responsible Entity, or Trustee.
</td></tr>
<tr><td>AXA</td><td>
“Under the proposals in the Exposure Draft, AXA will be required to prepare consolidated financial statements for Summit as well as AXA’s other superannuation products.

AXA’s view is that consolidation is inappropriate for any superannuation entity which offers a choice of investments to its members, and that there should be a carve out from the consolidation rule for such entities.

Our rationale is outlined below.

Control
</td></tr>
</table>

	AASB 127 requires consolidated financial statements to be prepared where a parent entity controls a subsidiary. 'Control' is defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist with the parent owns more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. Despite the fact that master trusts such as Summit may legally own more than half of the units issued by the relevant MIS, control of the MIS does not necessarily rest with the superannuation fund or its Trustee. In the situation where member investment choice is offered, it is the member who directs the purchase or sale of the units in the MIS. The Trustee is merely administering the member's instructions. The fact that the superannuation fund may own more that half of the units in a MIS is a result of member directed cash flows and is not a consequence of a Trustee decision. If 'control' of the MIS does not lie with the member rather than with the Trustee, consolidation of the MIS would not be required. AXA considers that the meaning of 'control' should be clarified in the revised standard and where the members rather than the Trustee of a fund are found to be directing the investment decisions, 'control' by the Fund should be deemed not to exist and consolidated financial statements should not be required. Conceptual Framework One of the overarching principles behind the Conceptual Framework 'Framework for the Preparation and Presentation of Financial Statements' is the objective of providing general purpose financial reporting to users that is useful for making and evaluating information about the allocation of scarce resources. AXA is of the view that consolidation of the financial statements of the 'controlled' MIS into the financial statements of Summit is contrary to this objective. In the case of Summit, investment of member funds is not directed by the Trustee but rather by the members themselves when they choose investments from the approved investment menu. Member funds are not pooled except where tow members choose the same option. Therefore, inclusion of the financial statements for MIS, where the member has not chosen that option, provides no information of relevance to that member. Since Summit 'controls' 33 MIS, it is highly unlikely that any member will have chosen to invest in all 33 of those schemes. Under such a scenario, consolidated financial statements do not provide useful and relevant information to members and, in fact, could actually be misleading to members who do not fully understand the basis on which the financial statements are prepared. Materiality In the financial statements of Summit and other similar products, MIS are valued at redemption price as quoted by the relevant fund manager. This valuation approximates fair value less anticipated disposal costs. The Exposure Draft provides guidance on how goodwill should be calculated by superannuation funds when preparing consolidated financial statements. Under this guidance, Summit would not recognise any goodwill upon consolidation of the 'controlled' MIS. Therefore, since the fair value of the net assets of the 'controlled' MIS (as measured by the unit price) does not differ from the carrying value of the 'controlled' MIS in the financial statements of Summit, consolidation would not result in a net asset position that is materially different to the net assets of the parent entity (Summit). Practical Difficulties The primary difficulty associated with preparing consolidated financial statements for a master trust style produce such as Summit lies in obtaining the required information. Where Summit owns more that 50% of the units in a MIS that is managed by a party who is not part of the AXA group, the

	financial statements for the MIS will not be available until 30 September (assuming a 30 June year end), leaving very little time to prepare and have audited the superannuation fund financial statements by 31 October. In addition, detailed information required to prepare consolidated disclosures such as those required by AASB 7 will generally not be available to AXA. A significant issue for superannuation funds will be identifying which externally managed MIS they 'control' and at what point throughout the period does 'control' exist. Some funds will face the issue of moving in and out of 'control in the same period. Further, there will be additional costs associated with preparing and auditing consolidated financial statements and these costs will likely be passed on to superannuation fund members."
ASFA	"We believe significant clarity is needed to identify instances of 'control' in the context of superannuation funds. Again, we generally support the comments made by the Joint Accounting Bodies on this matter." "We accept that to be consistent with IFRS and other entities, consolidation principles will need to be adopted by superannuation funds, as long as they are considered to be reporting entities. We generally support the comments made by the Joint Accounting Bodies on this matter."
WW	"Watson Wyatt is submitting no comments regarding this Matter."
AIST	"ED179 proposes that superannuation funds be required to prepare consolidated financial statements in accordance with AASB 3 Business Combinations. Arguments against We believe that defining control as 51 per cent ownership is a crude measure. In many scenarios it is possible for a fund's investments to exceed the 51 per cent threshold, which theoretically gives them control. However, the true test should be the fund's ability to govern the entity invested in. For example, several scenarios were raised during AIST's discussions in which funds had met the 51 per cent control definition but had been unable to obtain financial information to prepare consolidated reports. In an extreme case, a fund with a majority stake in an investment trust was powerless when the investment manger decided to wind-up the trust and was unable to control the timing of this event, meaning that the redemption was at the manager's discretion. Situations of inadvertent control can arise for a number of reasons. The most common reason is where other investors in a vehicle divest, leaving one of the remaining shareholders with theoretical control. The other less-common example is where funds seed an investment in a private equity type vehicle and, for reasons beyond their control other investors fail to take up their allocations, which leaves the original investor in a position of theoretical control. In some instances, member investment choice can lead to a majority holding where the trustee makes additional investments to reflect members' choices. Whilst this scenario is unlikely, it could arise when investment options are predominantly unlisted investments. Equity in a company versus benefits – equity in a company gives an investor a share of all assets, whereas equity in a fund will generally only give a member a share of a proportion of the assets. The argument then follows that consolidated reporting is essentially relevant, as members rarely have a claim on all the assets of a fund. APRA will continue to require the unconsolidated statements. The consolidated position may be considered the true position of the fund; however, while the fund may have control in some circumstances, it is rare. Even under these rare circumstances, whether we should be recognising goodwill is questionable. Given that super funds invest for the long term, the probability of goodwill being recognised is highly unlikely. For example, where funds collectively have an ownership in an administrator or an asset consultant, they have made the investments on the basis of achieving cost

	efficiencies, and the assets in question are operational assets and not investments. Preferred position AIST has two preferred positions: firstly, consolidation only in instances where real control exists and can be documented. Secondly, revert to investment accounting with increased disclosures. Where real control exists – three of the five arguments against consolidation share a common thread: theoretical control. It is imperative that if the Board elects to retain consolidation within the standard that it then commits to clarify control. We understand there is a proposal to rewrite the AASB 127 *Consolidate and Separate Financial Statements* standards. Consideration should be given to accelerate this process and align it with the release of ED179. Furthermore, the Board should consult with industry regarding when control actually exists. The majority of trust deeds and investment management agreements for investment vehicles are structured so that practical control remains with the manager or trustee in almost all circumstances. This is necessary for investment managers to have full control of the investment strategy. Outside influence as to when and how to trade contradicts the argument that investors employ a manager for his or her expertise, and is akin to micromanagement. In all discussions that AIST held, the argument of whether control exists dominated; this is by far the most controversial aspect of the present draft. Investment accounting – throughout AIST's discussions, reference was made to investment accounting standards in the US, Canada and the UK. The participants in our discussions believe that these accounting standards provide good models for Australia to work from. Investment accounting recognises that investment is not driven by a desire to control an entity; rather, the desire to invest in an opportunity. Superannuation funds are generally not in the business of controlling entities. The requirement to consolidate may, in fact, have an adverse impact on investment in emerging technologies through private equity. The worst case scenario is where the investment decision is driven by the accounting implications; that is, the 'tail ends up wagging the dog', so to speak. The second preferred position is investment accounting with increased disclosure. Disclosure of critical items such as net tangible assets, combined with increased disclosure. Disclosure of critical items such as net tangible assets, combined with increased explanations around debt levels, interest coverage, debt structure, and debt maturity, essentially exploring refinancing risks and serviceability of debt."
CSA	"We take the view that our funds are passive investors and do not generally seek control of investment entities. Although they may sometimes control voting and policy in investment entities, this does not reflect the same situation as that which applies with corporate controlled entities, where commercial and business strategies and assets are controlled. Consolidation would give a misleading and inflated impression of assets controlled, conjoined with the inappropriate intrusion of minority interests (which should have no place in the balance sheet of a superannuation fund). We would prefer to reflect investments in reports at market value as investments without the issues of consolidation and minority interests."
Vision	"Although we do accept the principle of consolidation as a necessary outcome of complying with IFRS, we do not believe that consolidation should be treated exactly the same in the superannuation industry, as it does not add value and in fact detracts from a clear and concise set of financial statements. Users of the financial statements are more interested in the fair value of their investments rather than the operations of the underlying business. The ED should contain detailed guidance clarifying industry specific issues to assist in determining when consolidation is required e.g. what does constitute control in the superannuation industry? Much of the debate in practice often centres on whether an investment meets the definition of control. The resulting consolidated four column statements detract from users being able to assess a superannuation fund's condition and performance."
CPA, ICA and NIA	"We have accepted the principle for consolidation as a necessary outcome of complying with IFRS. In accepting the principle of consolidation we also accept the proposal in ED 179 that subsidiaries will be recognised at their full fair value on consolidation. However, we do have two concerns. Firstly, the proposed methodology to continually remeasure goodwill is complicated and has the potential to produce information misunderstood by the users of the financial statements. Secondly, in the case of subsidiaries that are not wholly owned, the reporting of the minority interest could result in users

	being misled by the resulting financial statements. Additionally, we strongly feel there should be more clarity around the concept of control as it applied to this industry to assist in the determining when consolidation is required." "We recommend the AASB include detailed guidance in the standard on what constitutes control in the superannuation industry, as our experience is that much of the debate in practice centres on whether an investment meets the definition of control. Under AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements* there is a presumption of control in general when an investor has an ownership interest over 50% (more than half of the voting power). This presumption is rebuttable when there is exceptional circumstances; where it can be 'demonstrated that such ownership does not constitute control'. We also note the AASB's ED 171 Consolidated Financial Statements proposes to define control as 'A reporting entity that controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.' We recommend the AASB include specific guidance on what constitutes control in the superannuation industry. Superannuation funds often have investments in collective vehicles which are operated by fund managers in order to pool funds for efficiency in investment; generally wholesale investment trusts. Typically they are managed by a professional fund manager and the Trustee or Responsible Entity of the investment is generally related to the fund manager. These trusts are generally open to all the clients of the fund manager and investors will apply for and redeem investments in accordance with the requirements of their investment strategy and their liquidity needs. Redemptions are typically unrestricted and investors will have little or no influence over the movements of funds by other investors and therefore cannot be certain that they can maintain their ownership interest at any given level. Funds do not in general exercise control over these collective investment vehicles for the following reasons: 1. They have no power to govern the financial and operating policies of such investments and their strategy is to rely on the external professional fund manager to govern such policies. 2. They have little or not control over the level of their ownership interest – it will vary with the comings and goings of other investors, as well as their own. 3. The trusts may provide a legal right to unit holders to change the trustee or manager but this right is almost never used – a dissatisfied investor would choose to redeem and exit the fund instead. Often this legal right can only be exercised by unit holders holding over 75% ownership interest. 4. There is no process for general meetings or voting in these entities, except any emergency powers that may be contained in the constitution. 5. The fund manager is not bound to seek approval of the investors for decisions – although it is expected to operate within a defined mandate or investment strategy. By including application guidance in the standard, there would be more clarity and therefore consistency for funds in identifying controlled subsidiaries and arrangements where there is not control. This application will need to be crafted so as not to dilute the requirement for funds to consolidate in other situations where they do have control, including special purpose entities, controlled PSTs, and sub-funds set up to hold particular investments."
GT	"We question whether it is reasonable to require a superannuation fund to consolidate an investment where the acquisition of a majority ownership in that investment was other than on the basis of being in a position to control the financial and operating policies of that investment, and there is no intention that control will be exercised. This can occur for example when a fund acquires a holding in investment A and it at some later time funds that another investment B has acquired a holding in investment A that on 'grouping' would entitle to the fund to more than 50% of the interest in investment A. We would prefer, given that the AASB has already determined that departures from IFRS are necessary in certain circumstances (BC 12-13), for a suitable exemption from consolidation in such an instance, or more preferably provide guidance on what constitutes control in the superannuation industry, given the 'exceptional circumstances' exception in AASB 127 Consolidated and Separate Financial Statements (paragraph 13)."

Dr Isabel Gordon	"The presentation of consolidated financial statements is just as important in the context of superannuation as for other business contexts. This is because it permits users to assess the activities controlled by the superannuation fund in their entirety and gain a better understanding of the risks attached to these activities. For example, if a controlled entity employs the key management personnel of the superannuation fund, then remuneration details should be disclosed as part of related party disclosures. Treating the difference between the plan's assets and liabilities as equity accommodates the consolidation process."
SLCA	"We disagree with the ED's proposal to consolidate certain investments where the superannuation fund is passively investing in a pooled investment entity and propose a disclosure by way of note." "We believe there are significant difficulties and practical issues that require more consideration by the ED. The main issue is whether a fund as an investor in a particular investment has control when it has more than 50% of the ownership and of that investment. Typically a fund is a passive investor that does not have any influence on the investment or redemption of investments in the investment entities in which they invest. This is particularly true for pooled investments such as pooled superannuation funds and unit trusts. A greater than 50% holding can occur without a fund knowing due to investors redeeming their investment which results in a fund having a greater proportion in the investment. In some instances this resulted in the fund holding more than 50% of the investment. We do not believe that the fund should be required to consolidate this investment. The ED requires more discussion, examples and guidance of when it would be appropriate to consolidate an investment and disclose any minority interest. A better approach maybe by way of note describing the fund's investment interest and what influence (if any) the fund has over the decision making and operations of the investment."
AustralianSuper	"Set out below (Staff note: see above) is Ernst & Young's commentary and suggestions for consideration. We strongly concur with their comments and suggestions. During the preparation of our 30 June 2009 financials we considered controlled entities and provided detailed notes to our financial statements on our special purpose entities (SPE); which we do not consolidate, because they are reported within the appropriate asset class on our balance sheet and there is very little debt within the SPE investments. We relied on materiality in this event. The real issue for us was 'technical temporary control' of passive investments at our balance date. We had 4 such investments in trusts where we owned greater than 51% of the units on issue. In the case of 3 of these we were able to prove exceptional circumstances**,** which meant we did not have a controlled entity situation. These were where the trust deed gave us no power to change the manager or trustee, or that would have required 75% voting to effect such changes. In the final case we owned in excess of 75% of units in a cash transaction trust. The trust deed required 75% ownership to effect change. To all intent and purpose this is a bank account, which we chose to invest in because of better returns. We had large holdings because our members had switched their investment options to our cash option during these volatile economic times. This level of holding was unusual. As members are converting back to riskier options, this cash balance is reducing. Technically we could not argue against control because we had no exceptional circumstances to rely on. The effect of consolidation would have been to gross up our cash by $260 million, with a corresponding current liability to meet cash calls on demand of $260 million. The form over substance position is that we are a passive investor in this trust, moving our cash based on our investment option selections of our members. In addition, if this trust was not providing better returns we would simply move our money. Our overriding decision criterion is to get the best return for our members in the asset classes they select. The issue for us that there was no clear guidance on what exceptional circumstances may mean. We believe that based on our investment practices and actions, that to have consolidated this

<table>
<tr><td></td><td>investment and produce group accounts would have given the members and APRA the wrong view of why we invest members' money.

It is this context that we strongly agree with Ernst & Young's comments and suggestions in this area.

Should the Board not wish to provide guidance in this area, then the superannuation industry should take it upon itself to work with the accounting firms, practitioners, APRA and investment advisors to document examples for guidance to Trustees on control and when exceptional circumstances may or may not exist in determining control. It would be helpful if this project was also done with the input of the Board."</td></tr>
<tr><td>NAB</td><td>"There are many perceived significant practical difficulties inherently experienced by the plans in the preparation of consolidated financial statements. Some of these include:

• Where the consolidation involves external investment trusts, it is difficult to obtain financial data from entities external to the plans to enable the consolidated financial statements to be prepared. The plans have neither control over these entities nor any power to direct their activities.

• It is struggling for the plans to carry out sensitivity analysis (as required by AASB 7) for the subsidiary's investment where they are from external investment funds.

• Operational challenging and practical difficulties in managing and identifying individual investments that is attributable to a change in ownership in controlled entities that are not resulted in loss of control. These investments are required to be reported as part of equity in the statement of changes in equity and the associated cash flows are required to be reported as financing activities in the statement of cash flows.

• We perceive that there is an interpretational issue with regard to the application of the current amending standard (AASB 2008-3) on cash flow statement. AASB 2008-3 requires cash flows associated with a change in ownership in controlled entities to be shown as financing activities on the statement of cash flows when the change in ownership does not result in loss of control. We question whether this requirement applies to the case where the plan's subsidiary is designated at 'fair value through profit or loss'.

• Plans are required to consolidate and deconsolidate constantly each year depending on whether the level of its ownership in the subsidiary under, equal to or over 50%. It is time-consuming and difficult to manage operationally and information produced does not mean much to report users in any event."</td></tr>
<tr><td>PwC</td><td>"From a conceptual basis, in a transaction neutral environment, we support the requirement for superannuation funds to comply with the principles in AASB 127 Consolidated and Separate Financial Statements and prepare consolidated financial statements. We note that the IASB is considering whether investment companies should measure controlled investments at fair value rather than traditional consolidation. We suggest that the AASB monitors the IASB's deliberation on this topic. If, for these circumstances, the IASB requires fair value rather than consolidation, then we consider this approach is likely to also be more appropriate for superannuation funds.

We recognise the concerns of the industry that in many cases adoption of consolidation provides limited additional decision useful information. Accordingly, from a pragmatic and practical perspective, we would have also supported a decision by the AASB to depart from IFRS and exempt superannuation funds from being required to consolidate 'passive investment vehicles', if the AASB had been so inclined on cost benefit grounds.

However we do not support the departure proposed by the AASB from the requirements of AASB 127. In particular:

• The requirement to separately revalue recognised intangible assets to fair value less transaction costs on an annual basis imposes a very significant cost burden on the industry for very limited benefit in terms of decision useful information.

• The requirements of paragraph 30(b) and (c) represent a departure from IFRS consolidation principles which will not be generally understood, and which are not available to other entities adopting fair value accounting for investments and are required to prepare consolidated accounts.</td></tr>
</table>

	We do not consider that the superannuation industry in Australia should set a global precedent on revaluation of intangible assets. If the AASB continues to require entities to prepare consolidated accounts, we consider that the consolidation should be performed in accordance with AASB 127 without any modification. We are aware that a number of commentators are suggesting that the AASB should provide guidance specific to superannuation funds on how to interpret the AASB 127 definition of control. We do not consider the issues that apply to superannuation to be sufficiently different to other entities (such as insurance companies, investment trusts etc) that investment in a similar manner to superannuation funds, and we believe it is inappropriate for the AASB to provide industry specific interpretative guidance of the requirements of AASB 127.”

Table 10 - Respondents' views on Specific Matter for Comment (i) – whether a parent superannuation plan or parent approved deposit fund should be permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities that are attributable to a subsidiary and have arisen subsequent to the subsidiary's acquisition by the parent plan or parent fund when such items are reliably measurable.

Respondent	Comments
E&Y	"We agree that any material contingent assets or liabilities attributable to a subsidiary should be disclosed in the notes to the financial statements. For internally generated intangible assets that are material such as brand names, patents and licenses, measurement at fair value would need to be considered. We agree that, if material, separate recognition of internally generated intangible assets is required with adequate disclosure on valuation basis including use of judgement and assumptions."
CPA, ICA and NIA	"As stated previously we question the relevance of consolidated financial statements, but accept it in the interests of applying IFRS to superannuation plans. However, the proposed methodology in the standard, fair valuing internally generated intangible assets, internally generated goodwill or contingent items that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by the plan or fund is overcomplicated and has the potential to produce information misunderstood by the users of the financial statements. Movement in the fair value of a subsidiary that is not attributable to the recognised assets and liabilities in the subsidiary should be recognised as a 'remeasurement gain' or similar named balance in the balance sheet, rather than being included as goodwill. Goodwill according to IFRS is an acquisition amount and is not subsequently revalued to fair value. Users are likely to be confused by applying a concept of goodwill that differs from IFRS purely for superannuation plans and approved deposit funds."
SLCA	"As discussed above this only has relevance if consolidation is applicable. We have not comment on the proposed methodology to account for this movement."
NAB	"We do not support the recognition of movement in the fair value of a subsidiary as internally generated goodwill. We believe it would be more appropriate to recognise it as 'unrealised gain/(loss)' in the same way as nay other assets or investments that are designated as 'fair value through profit or loss' in accordance with AASB 139. Typically, the parent's investment in subsidiary is accounted for at fair value through profit or loss in accordance with AASB 139 where any movement in its fair value is taken to profit or loss."
PwC	"Parent entities should not be permitted to recognise internally generated intangible assets, internally generated goodwill and contingent assets or contingent liabilities that have arising subsequent to the acquisition, even if they are reliably measurable. Such recognition is not permitted under IFRS and we cannot see any justification why superannuation plans should be treated any different to other reporting entities. The recognition and measurement of the assets and liabilities in the group subsequent to acquisition should comply with the relevant accounting standard that deals with the particular asset or liability."

Table 11 - Respondents' views on Specific Matters for Comment (j) – whether a parent superannuation plan or parent approved deposit fund should be required to recognise and present any excess of the amount of the net assets of a subsidiary that are recognised by the parent over the sum of the parent plan's or parent fund's interest and any non-controlling interests in the subsidiary as a remeasurement gain in the consolidated income statement in the reporting period in which it occurs.

<table>
<tr><th>Respondent</th><th>Comments</th></tr>
<tr><td>E&Y</td><td>"We concur with this approach."</td></tr>
<tr><td>KPMG</td><td>
"Accounting for differences in the fair value of the investment in the subsidiary and the fair value of the underlying assets and liabilities
We agree with the overall concept of recognising the difference between the value of the subsidiary and the value of the underlying assets and liabilities on consolidation, however, the difference should be considered a 'fair value premium or discount' to differentiate it from 'acquired goodwill' under IFRS concepts. It is our experience to date that this item is unlikely to be material given the large balance sheets of superannuation funds in Australia, however, we do accept that it is possible.
Paragraph 30 of the ED is difficult to understand without referring to paragraph AG 43. This should be brought into the body of the standard rather than being in the guidance.
We agree with the ED's treatment of goodwill, however, we have some concerns about whether the accounting treatment for a remeasurement gain works in practice including the separate presentation of this under paragraph 30(c)(ii). As demonstrated in the example below, we do not understand why the excess in the fair value of the subsidiary's individual assets and liabilities above the fair value of the investment in subsidiary recognised by the parent should be separately presented as a 'remeasurement gain' in the profit and loss when this excess will already be shown as a change in fair value in the consolidated profit and loss.
There may be limited circumstances where the fair value of the subsidiary's individual assets and liabilities exceeds the fair value of the parent's investment in the subsidiary. One such example, as set out below, is where a listed property trust has frozen its redemptions and therefore has a reduced fair value, however the individual assets and liabilities in the trust financials are worth more.
<table>
<tr><th>Parent</th><th>Subsidiary</th></tr>
<tr><td>Value of investment in listed sub at reporting date: 100

Journal entries of parent:

Dr Investment 90
Cr Cash 90
To account for acquisition of subsidiary

Dr Investment 10
Cr Change in fair value P/L 10
To account for fair value increase at</td><td>Value of assets and liabilities of listed sub at reporting date 100

Journal entries of subsidiary:

Dr Cash 90
Cr Equity 90
To account for capital raising

Dr Assets 90
Cr Cash 90</td></tr>
</table>
</td></tr>
</table>

<table>
<tr>
<td></td>
<td>
<table>
<tr>
<td>reporting date</td>
<td>To account for purchases of assets

Dr Assets 30
Cr change in fair value P?L 30
To account for fair value increase at reporting date</td>
</tr>
</table>

Consolidation:
<table>
<tr><th></th><th>Parent</th><th>Subsidiary</th><th>Adjustments</th><th>Consolidation</th></tr>
<tr><td>Investments</td><td>100</td><td>-</td><td><100></td><td>-</td></tr>
<tr><td>Assets</td><td>-</td><td>120</td><td>-</td><td>120</td></tr>
<tr><td>Retained earnings/P&L</td><td>10</td><td>30</td><td><10></td><td>30*</td></tr>
<tr><td>Equity</td><td>90</td><td>90</td><td><90></td><td>90</td></tr>
<tr><td></td><td>100</td><td>120</td><td></td><td>120</td></tr>
</table>

Treatment under ED 179:
Parent interest 100
Subsidiary assets <u>120</u>
Remeasurement gain <u>20</u>

*Why does the 30 gain have to be presented as a remeasurement gain of 20 and 10 ‘other’?

Illustrative Example C is also overly complex and difficult to understand. We recommend that Illustrative Example C is simplified and amended to clearly show how a remeasurement gain would work in practice.
</td>
</tr>
<tr><td>CPA, ICA and NIA</td><td>“We agree this amount is a gain in the income statement.”</td></tr>
<tr><td>SLCA</td><td>“If applicable, we agree with this treatment.”</td></tr>
<tr><td>NAB</td><td>“We agree with the proposal.”</td></tr>
<tr><td>PwC</td><td>“We strongly oppose the proposals in paragraph 30 of this ED and believe that consolidation should be performed in accordance with AASB 127 without any modification.”</td></tr>
</table>

Table 12 - Respondents' views on Specific Matters for Comment (k) – whether a parent superannuation plan or parent approved deposit fund should be permitted or required to measure any non-controlling interests at fair value of equity at the end of each reporting period in a manner consistent with the approach illustrated in Illustrative Example D of Appendix C to ED 179

Respondent	Comments
E&Y	"We concur that this approach is reasonable."
CPA, ICA and NIA	"As stated previously we question the value of including non-controlling interests in the financial statements. Assuming the consolidation model is applied as proposed in the ED, fair value should be the guiding principle."
Dr Isabel Gordon	"This paragraph reflects the recent changes in AASB 3 that incorporates the NCI into the calculation of goodwill (where the parent interest in the acquiree is substituted for the consideration transferred). Assuming the net assets of the subsidiary are measured at fair value, then on balance goodwill should be comparable with other requirements consistent with consolidation accounting. However, valuing the NCI may be problematic. The valuation basis for the NCI should be disclosed."
SLCA	"If applicable, we agree that fair value is appropriate."
NAB	"We agree with the proposal."
PwC	"Consistent with our comments in (h) above, the measurement of non-controlling interests should be guided by the measurement principles in AASB 3R on acquisition date and subsequently in accordance with the principles in AASB 127R on consolidation."

Table 13 - Respondents' views on Specific Matter for Comment (l) – whether the disclosure principles in paragraphs 32-50 of ED 179: (i) are appropriate for a superannuation plan or approved deposit fund; (ii) would provide useful information for users of the general purpose financial statements of a superannuation plan or approved deposit fund; and (iii) would be sufficient to facilitate reliable and comparable disclosures between superannuation entities and over time.

Respondent	Comments
Unisuper	*Fair value measurement (para. AG57-AG59)* "The second and third levels of measurement are not that clear and maybe the final document needs to provide examples. My perception of the sources of prices used in the industry as they relate to the levels are: • listed markets and unlisted markets – presume level 1; • independent valuations – market prices as inputs – presume level 2?; and • independent valuations – using valuation models – presume level 3? My view would be that sometimes valuations are a combination of level 2 and 3 depending on the asset involved. Assuming the assumptions are correct, the level of detail suggested in AG 59 paragraphs (b) and (c) for level 3 is quite onerous and of questionable value. Point of time summarised detail as suggested under paragraph (a) is probably the most useful information for users of accounts."
E&Y	"Overall, we generally agree with the disclosure requirements in paragraphs 32 to 50 of the ED. However, further guidance is required on the application of paragraph 50 and guidance on the implications for insurance contracts. The current proposals are vague in application and appear to catch all insurance arrangements where the Trustee is exposed to any risk regardless of materiality. Further, the current wording appears to remove any materiality threshold that AASB 124 would permit. It creates a departure from other general purpose reporting entity requirements, without there being a particular reason why superannuation plans are sufficiently different to warrant such different treatment."
KPMG	"The proposed disclosures in relation to the nature, extent and management of risks specified in paragraph 34 of the ED have the effect of tailoring AASB 7 disclosures for a superannuation fund and making them more useful for users."
ASFA	"We support the comments made by the Joint Accounting Bodies on this matter."
WW	We generally consider that the proposed requirements in respect of disclosures go well beyond what is appropriate for financial reporting of superannuation plans. There appears to be significant duplication of this information, when compared against that already provided under pre-existing legislation. Furthermore, the pre-existing legislative requirements regarding disclosure to members are better tailored to the users of this information than the ED179 draft, and more completely communicate the information to the end users. We do not believe that users should be encouraged to ignore these other documents and made financial decisions solely on the basis of the plan's financial statements, which they could be encouraged to do when confronted with what might appear to be detailed disclosures. We also do not believe that plans should need to incur the expense of duplicating information already available elsewhere. It is important to remember than in many plans, this cost will be passed directly and in total to plan members, reducing their final benefit from the plan. We fail to see how it can be in their best interests to incur this additional cost.

	Paragraph 32: Nature of the Entity, Nature of Member Benefits, Expense Items and Fair Value Measurement. This proposed paragraph would require disclosure in notes of information that provides users with a basis for understanding: (a) the nature of the entity and the nature of the benefits it provides to its members; (b) the nature and amount of expenses incurred by the entity; and (c) how the fair values of assets and liabilities of the entity are determined. In relation to subparagraph 32(a), we consider that the superannuation plan's Product Disclosure Statement ('PDS') already provides this information to members, employer-sponsors and other interested persons, and a copy of the plan's trust deed and rules is available on request. In addition, we do not believe that any meaningful description of the nature of members' benefits, particularly in hybrid plans with a number of different benefit categories, could be provided in just a few paragraphs. For subparagraph 32(b), the nature and amount of expenses should already be detailed sufficiently in the income statement without requiring additional notes. The plan's PDS will also include information in relation to the nature of expenses incurred. To do so in a financial report would be challenging, and a duplication of legislative expense disclosure requirements (which require disclosure of expenses recovered directly from members, expenses indirectly recovered from members, expenses recovered within investment returns, and expenses paid by a sponsoring employer). We consider that it is appropriate for the notes to disclose information as to how the fair values of assets and liabilities of the entity are determined for the purposes of subparagraph 32(c). The costs of establishing Level 1-3 reporting of assets will be significant and are likely to result in challenges in collecting this data. But we accept that this framework is being introduced in US GAAP and IAS19 reporting. Paragraph 34: Nature, Extent and Management of Risks: This paragraph would require disclosure in notes of information that provides users with a basis for understanding: (a) the nature and extent of the financial risks to which the entity is exposed during the reporting period and at the end of the reporting period; and (b) how the entity manages those risks. This paragraph would expand on the risks that already are required to be disclosed under AAS 25. We are extremely concerned that: (a) this proposal would result in the duplication of information that is required to be disclosed in other public documents; and (b) these disclosures read in isolation could be misleading to plan members. We note that a superannuation plan's PDS is already required to disclose information about any significant risks associated with holding the financial product (section 1013D(1)(c) of the Corporation Act). The significant risks include both investment and non-investment risks. We do not believe that plans should be required to go to the expense of duplicating and summarising this information in the financial statements. Instead it would be far more appropriate if interested users were referred to the relevant plan disclosure documents. In addition, we are particularly concerned about the ability to make credit-worthiness assessments of a sponsoring employer, as implied by ED179. In practice, many employers are not credit rated by agencies (most or our plans are sponsored by employers who are not listed and do not issue corporate bonds). The cost of commissioning such an assessment would add a significant additional cost of compliance (particularly for smaller companies, who are typically 'running off' such DB plans, and are unlikely to commission such assessments from ratings agencies at adequately low costs). If such assessments are not envisaged by the AASB, then this should be clarified." "Paragraph 42 Members' Benefits: This will require a superannuation plan to disclose information that provides users with a basis for understanding the

	entity's obligation for member's benefits. Again, in our view, a superannuation plan's PDS provides all information that a person reasonably requires for understanding the benefits provided by the superannuation plan to individuals. Such information is far more useful for plan members than the disclosures proposed under ED179. To comply with paragraph 41, it is necessary to disclose various pieces of information including: • the amounts of defined benefit member's vested benefits and accrued benefits by member status; • the actuary's recommended level of contributions in respect of defined benefit members for the reporting period and for the next reporting period; • information in relation to the actuarial assumptions used in measuring defined benefit member's accrued benefits, including: (i) the key actuarial assumptions used to measure members' accrued benefits at the end of the reporting period; (ii) any uncertainties surrounding the key actuarial assumptions used to measure members' accrued benefits at the end of the reporting period, including the amount and timing of benefit payments; (iii) the key actuarial assumptions used to measure members' accrued benefits at the end of the last annual reporting period; (iv) how, if at all, the key assumptions used to measure members' accrued benefits at the end of the reporting period differ from the corresponding key assumptions used to measure members' accrued benefits at the end of the last annual reporting period; and (v) whether the key assumptions used to measure defined benefit members' accrued benefits at the end of the last annual reporting period have been consistent with experience in the current reporting period. As stated previously, we strongly recommend the recording of Vested Benefits for this purpose. In principle, however, to the extent that an Accrued Benefit figure is calculated on a Funding basis, we agree with the need to fully disclose the basis on which it has been calculated. Paragraph 44: Net Assets attributable to defined benefit members: This paragraph will require the superannuation plan to disclose information that provides users with a basis for understanding the size, nature, causes of and any reasons why the amount of net assets attributable to defined benefit members does not equal the amount of defined benefit members' accrued benefits. The text appears to imply that these amounts should be equal. As stated in our response to AASB Matter for Comment (f), however, it would be extremely unlikely that the amount of net assets attributable to defined benefit members would exactly equal the amount of defined benefit members' accrued benefits, and there are even strong reasons to avoid funding a plan with assets at broadly the level of the ED179 Accrued Benefits measure. If there was an objective to increase the asset coverage of defined benefit assets, then any such objective of changing prudential funding requirements requires a separate, extensive review. The process of thoroughly reviewing 'best prudential practice' worldwide is presumably not intended to be within the scope of ED179 or our response (and we feel that any such review is unlikely to advocate the use of an ED179 or AASB119 measure anyway). It is normal and to be expected that a superannuation plan will experience periods of both surplus funding and deficit funding against vested benefits. We therefore consider that the text of Paragraph 44 should be amended so as not to suggest that net assets attributable to defined benefit members should equal accrued benefits. In addition, we would query why there should be disclosures of strategies for addressing the difference between the two amounts. The Australian Prudential Regulation Authority ('APRA') exercises prudential oversight of superannuation plans including plans that are in an 'unsatisfactory financial position' or that are in 'technical insolvency'. Plans that are in 'technical insolvency' are required to have a program to restore the plan to full funding of vested benefits within 5 years under the Superannuation Industry (Supervision) Regulations but APRA's current practice is to encourage restoration of full funding within a period of 3 years.

	Further, we reiterate, as elsewhere in this submission, that this information will already be available in other documents required to be available to suers such as the annual report, actuarial review summary, risk management plan and (if relevant) material change and significant event disclosure material. (footnote: For information about a trustee's obligations to report material changes and significant events to members, see Section 1017B(4) of the Corporations Act 2001 which requires trustees to give members the information that is reasonably necessary to enable them to understand the nature and effect of the change or event.) We do not believe that financial statements should purport to be a summary of this information. If there are to be any disclosures in relation to addressing funding issues, we consider that they should be confined to situations where the superannuation plan is in an 'unsatisfactory financial position' or in 'technical insolvency'. To do otherwise could in our view result in users of the financial statements becoming unduly concerned about funding problems that do not actually exist." Paragraph 50: Insurance contracts Please see our comments regarding our concerns on these disclosures above."
AIST	"AASB 7 Financial Instruments: Disclosures ED179 proposes increased disclosure as per the principles embedded in AASB 7 Financial Instruments: Disclosures. The standard will require increased disclosure with regard to liquidity risk, market risk, credit risk, investment strategy, and script lending. Furthermore, strategies to mitigate such risks will be also required. Likewise, an assessment of the credit risk associated with a defined-benefit employer will be required under this standard. Arguments for Greater transparency – we encourage risk disclosure and welcome the proposals in ED179. Arguments against Funds reporting credit risk – it is unusual to expect a superannuation trustee or the executive team of a superannuation fund to ascertain the credit risk associated with a corporate sponsor. The recent financial crisis demonstrates that even the most highly regarded credit experts find it difficult, even impossible, to predict and/or ascertain the credit risks of highly-rated securities. Furthermore, the information requirements to adequately quantify credit risk are beyond the normal business practices of a fund. Finally, what are the legal ramifications for a fund that misquotes the credit risk associated with a corporate sponsor? We do not believe that ascertaining the credit risk associated with a defined benefit employer is a task for funds. Preferred position The requirement for superannuation funds to judge the credit risk of a defined-benefit employer at any level should be removed."
CPA, ICA and NIA	"Overall we agree with the proposed disclosures, with the following exceptions: • The disclosures proposed in paragraph 42 should not include disclosing expected rates of return as this is prone to inaccuracies and is unauditible. This information, if considered useful by trustees, should be included in the annual report section dealing with investment performance and outlook. • Paragraph AG97 uses the term 'normal' to determine related party disclosures. Using the word 'normal' to determine disclosure is inherently difficult to interpret and should not be included. If 'normal' is retained we suggest that specific guidance is included to say that trustee directors membership of the fund would be regarded as normal provided their membership is on conditions no more favourable than that available to other members of the same membership class."
Dr Isabel Gordon	"4. The disclosure principles contained in paras. AG52 to AG89 are appropriate and would result in general purpose financial reports that are useful to users." "For the DBP, reference should be made in the notes to the accounts to the trust deed clause that details the sponsor's guarantee of the DBP deficit so

	that users of the financial statements are clear that his guarantee is currently in place. Any changes to this clause should be similarly disclosed." "Contribution holidays by the sponsoring employer should be clearly disclosed. It should also be clear to what group of members this applies." "Given the recent credit crisis, and the fact that there is no regulatory backed guarantee for DBP deficits in Australia, information on the amount of any DBP deficit and strategies to deal with it are very relevant to older members." "Disclosure of related party and unusual transactions is very important to ensuring the safety and security of retirement monies, and permitting users to assess risk exposure."
IAA	"An extensive amount of information is already required to be reported to members of a superannuation plan by the Trustee on a regular basis in accordance with the Superannuation Industry Superannuation (SIS) legislation. For example: • Annual reports, which meet specified criteria, must be issued to all members each year. • Statements must be issued to members on joining the plan, annually while a member of the plan and on leaving the plan. • Particular information must be made available to members on request and when they make inquiries or complaints, and to other persons entitled to make inquiries or complaints. The proposed disclosures under ED 179 impose a further detailed set of disclosures on the Trustee, which increases operating costs without providing any additional benefits to the users of the financial statements, given that all users either already receive this type of information or have access to it. Specifically, AG52 paragraph (b) requires the superannuation plan to disclose (as a minimum): • The types of benefits provided; • The numbers of members and beneficiaries holding each type of benefit; • The numbers of members and beneficiaries classified as active, deferred or pensioner by type of benefit; and • Whether the entity can accept new defined benefit members. It would be reasonable to include a general description of the type of Superannuation Plan (defined contribution or defined benefit) in the financial statements and this is consistent with AASB 119. It might also be reasonable to refer to the latest Annual Report for further information. However, we cannot see any merit in having to disclose details of numbers of members by type of benefit and/or pension. In many cases, superannuation plans would not be able to disclose the number of 'unique members' as many members have dual accounts or memberships as a result of working for more than one employer and/or at more than one time. The same member may also be an active member, a deferred member and potentially, a pensioner all at the same time. In addition, we see no benefit in disclosing the number of normal retirement pensioners versus disability pensioners versus spouse pensioners. In our view, there is no benefit in requiring this type of disclosure, given the SIS requirements for annual disclosure. We have provided a sample Annual Report for your reference. We have no issue with the remaining disclosures referred to in paragraphs 32-50."
SLCA	"We agree with the proposed disclosures subject to our discussion above."
AustralianSuper	"We understand that the Standard will continue to require disclosure of investment expenses that are paid or accrued by the Fund. In many cases the investment expenses are netted off returns or not easy to determine in fund of fund arrangements. Whilst we acknowledge this difficulty, the disclosure

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<tr><td></td><td>of only that component that is paid or accrued is misleading. Funds are required to disclose in their ICR (Indirect Cost Ratio) calculations in their PDS such information. It is information that rating agencies also collect for research and comparative reports. Whilst there may be some inconsistencies, the Funds normally put a great deal of effort to make such calculations, particularly as they are required by Law. It is information members find particularly interesting and useful in assessing performance of their fund. We would welcome the Board addressing this issue to improve disclosure of what is typically the largest cost to members.”</td></tr>
<tr><td>NAB</td><td>“With regard to the drafting of disclosure requirements, we recommend the proposed standard to refer to AASB 7 Financial Instruments: Disclosure rather than repeating requirements from that Standard.”
“We believe that:
• The proposed disclosure at AG52(b) should not have to be prescribed or required to be included in the financial reports. It may be included in the general information section of the annual report, but it is not appropriate for it to be prescribed within an accounting standard.
• We understand the approach taken in ED 179 associated with the specification of the disclosure requirements was intended to specify only the principles for disclosure. However, given the current drafting, the requirements appear to be prescriptive. We would prefer the proposed standard refers to disclosure requirements of AASB 7 rather than repeating requirements from that Standard. This approach would help minimise any potential implementational and interpretational issues and difficulties to the preparers and the users of the reports. Also, it would reduce the need to amend the proposed standard every time AASB 7 or other relevant standards are amended.”</td></tr>
<tr><td>PwC</td><td>“We support including superannuation specific disclosures in the ED and providing guidance on how to apply specific disclosures to the superannuation industry. However the ED goes much further than that and in many areas replicates or paraphrases existing disclosure requirements of other standards. This will create two difficulties:
• A preparer will still need to look to other accounting standards for the disclosure requirements which can be cumbersome and inevitably inconsistencies will exist.
• Over time the disclosure requirements in other accounting standards will change and the proposed standard on superannuation will need to be updated to keep up with these changes
For example the guidance in AG57 – AG60 on fair value disclosures is not unique to the superannuation industry and therefore should not be duplicated in the ED.
Our preference would be to limit the disclosure requirements in the ED to:
• superannuation specific disclosures
• guidance to assist in applying the disclosure requirements of other standards to specific superannuation issues. Examples of areas that preparers may need guidance on are:
  • whether the employer and the trustee(s) are related parties
  • what type of transactions between the fund and the employer/trustee(s) require disclosure
  • how to apply the segment disclosures
With respect to related party transactions, we believe that there will be significant practical challenges in interpreting the ‘normal’ requirements in paragraph AG97. As an alternative, the objectives of AG97 would also be achieved if the standard limited itself to requiring compliance with AASB 124, supplemented with the following:</td></tr>
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a statement that employer sponsors and trustee(s) are related parties within the context of AASB 124; and
an exemption from the requirements to disclose:

transactions arising from trustee directors’ membership of the fund provided their membership is on conditions no more favourable that than available to other members of the same membership class, and
contributions made by the employer in accordance with the requirements of the trust deed.”

“We would question the value in disclosing the numbers of members holding each type of benefit and the numbers of members and beneficiaries classified as active, deferred or pensioner by type of benefit as this information is usually disclosed in fund annual reports.”
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Table 14 - Respondents' views on Specific Matter for Comment (m) – whether there are any significant practical difficulties that would inhibit a superannuation plan or approved deposit fund disclosing information in relation to any segregated groups of assets attributable to different groups of members, and the related obligations to those members, in accordance with paragraph 40 of ED 179 and paragraphs AG80-AG88 of Appendix B to ED 179. If so, please describe the nature of these difficulties and how they might be overcome.

Respondent	Comments
Unisuper	"This section deals with segregation of the different groups of members and the requirement for separate information on each group based on financial position and profit and loss. In our case there are probably four segregated groups from a liability perspective – accumulation, defined benefit, allocated pension and indexed pension. In practice for this hybrid fund there is segregation for the liability side but pooling for the asset and profit and loss components due to the use of a common 'balanced' asset allocation across the defined benefit, indexed pension and balanced investment choice components of the fund as well as pooled asset used for the different asset sectors supporting the remaining investment choice portfolios within the remaining accumulation and allocated pension liabilities. The level of detail required for the assets and profit and loss components for the segregated groups is problematic in relation to the ability to accurately calculate in our case. Is the possibility of a liability only measurement of segregation contemplated under ED 179?"
E&Y	"Difficulties include: • Defining segregated groups of members • Multi-employer sponsored plans and identifying segregated groups • Members may belong to more than one group • Pooling of assets across different groups Difficulties could be overcome by: • Applying materiality thresholds to minimize number of segregated groups"
Mercer	"Mercer recommends that the circumstances in which plans must disclose separate financial information in respect of segregated groups of assets be clarified If a plan is required to disclose separate financial information in respect of each sub-fund that operates and/or each investment option offered, this will add significant costs and time spent to the production of the financial statements. This will be particularly the case for large master trusts. The large amount of additional information provided will add no value to the readers of the financial statements. Mercer suggests that the notes to the financial statements inform readers that they can obtain more detailed information on a particular segregated group of assets from the trustee of the fund." "Paragraph 40 of the Exposure Draft and the guidance in paragraphs AG83-AG88 requires a plan to disclose information on assets, the financial position and significant financial risks for each segregated group of assets within a plan. A segregated group of assets is defined as a section of a plan for which separate financial information is available and evaluated regularly by management of the Superannuation Plan to allocate resources and assess performance.

	The Application Guidance to the Exposure Draft suggests that a plan with multiple investment options would not need to disclose separate information for each option, where financial information for management is prepared on a single plan basis. We support the conclusion in the example in paragraph AG81(b), whereby a fund that calculates information returns/unit prices for each investment option and prepares other financial information on a single fund basis would not be required to treat each option as a separate segregated group of assets for disclosure purposes. We do not believe that there are any circumstances in which disclosure of financial information for separate investment options is warranted. It is not clear from the guidance whether the following common situations satisfy the criteria for the management of assets and obligations on a 'segregated basis': • the actual allocation between different asset classes within a particular investment option is adjusted to match the stated benchmark allocations following movements in investment markets (eg to increase the allocation to equities following a devaluation of equity investments); and • the actual allocation of assets between investment options is adjusted to match the obligations of members (eg to reflect the changes in the options selected by members). In each case a strict interpretation of the wording of the Exposure Draft could mean that the management of the plan is evaluating separate asset and obligation information for the purpose of allocating resources and assessing performance. We do not believe the fact that these tasks are undertaken from time to time should trigger the significant additional disclosures outlined in the Exposure Draft. Requiring this level of detail would add significant additional costs and time spent on preparing financial statements. For example, the recent APRA publication of the level of investment returns for the 200 largest funds showed that more than 10% of these funds had more than 100 investment options. It would appear from the guidance in the Exposure Draft that a sub-plan in a master trust would also be considered a segregated group of assets. For example, where a master trust contains defined benefit sub-plans, the Trustee would be provided with information on the performance of the sub-plans at regular intervals (at least once every 3 years). If this is the intention of the Exposure Draft, this would add significant additional time and expense to the preparation of the financial statements. Some master trusts have tens or even hundreds of sub-plans – for example, the Mercer Super Trust has approximately 260 sub-funds, of which about 100 are defined benefit in nature. To require a master trust to disclose asset, profit or loss and financial position information for each sub-fund would be extremely onerous, particularly for the defined benefit sub-plans. It would add significantly to the size of the financial statements and hence the cost of producing them, and add little value to the readers of the statements. If the requirements were extended to different investment options as well, this would add even more complexity to the financial statements of a master trust. Where a master trust has multiple sub-plans, each of which offers it members investment choice (such as the Mercer Super Trust), how would the plan determine the segregation of assets under the proposed requirements? Would it need to disclose separate information for each investment option? This would be totally impractical. The financial statements for the Mercer Super Trust could well run to thousands of pages if separate disclosures were required for every sub-fund and every investment option within each sub-fund. The sheer size of the statements would outweigh any possible benefit to readers (ie members) from the information disclosed. An alternative to disclosing this information for every sub-plan or investment option could be to inform readers of the financial statements that they can obtain more detailed information on a particular sub-plan or investment option from the Trustee of the master trust (eg the report on the actuarial valuation of a defined benefit sub-plan). If the AASB believes that there are circumstances in which separate disclosure is warranted, we suggest that the new standard is much clearer in defining segregation. The current wording of the standard and the guidance could easily be interpreted differently for the same set of circumstances, and plans could spend considerable time and expense producing information for disclosure that is not intended by the standard."

ASFA	"More clarification is needed in the ED to establish the circumstances where segregated reporting may be appropriate in superannuation funds. We support the comments made by the Joint Accounting Bodies on this matter."
WW	"Paragraphs 36 to 41: Arrangement and Management of Assets: These paragraphs require disclosure of information in relation to the arrangement and management of assets including, where a superannuation plan manages its assets on a segregated basis, information that provides users with a basis for understanding: (a) the type and nature of the assets within each segregated group of assets; (b) the financial performance and financial position of each segregated group of assets; and (c) the significant financial risk to which each segregated group of assets is exposed when the levels of such risk differ materially from the levels of the corresponding risks at the entity level. If, as we expect, this requirement will apply to plans which offer their members separate investment options, the additional disclosure required could be substantial. In some cases, particularly with plans operated by retail providers, the number of separate investment options is very large. This information will already be disclosed in other documents required to be produced by plans including the plan's annual report. We do not believe that plans should be required to go to the expense of duplicating and summarising this information in the financial statements. Interested users should seek this information from the source documents on in the plan disclosure documents prepared specifically for that purpose. We do not consider that there is sufficient need or demand for information on a segregated basis to warrant the additional cost and expense that would be incurred to make the additional disclosures at an investment option level." "To ensure consistent (and a level playing field) in the financial reporting statements of multiemployer plans, versus standalone plans, we would suggest that an ED179 compliant report (as amended, following industry comments) be mandated for each different 'sub-plan' as that expression is used in the Corporations Regulation 2001. It would be important, however, that individual investment option portfolios not be treated as sub-plans. If the AASB adopts ED179, it is likely that mastertrusts and multiemployer plans will be concerned about the length of their resulting ED179 financial statements, and the usefulness of these long reports to users (given the differing sponsoring employers of subplans). The suggestion above is not intended to combine each and every ED179 report into an extended disclosure report for the entity as a whole – however, individual ED179 could be issued for each sub-plan which meet the spirit of the required reporting standard. This will overcome the concern about length of the reports, and yet be tailored to meet the needs of each sub-plans users."
AIST	"AASB Operating Segments ED179 proposes that superannuation plans report on the logical segments that their business decisions are based on, in accordance with AASB 8. Arguments for Logical segments do exist – segments are especially important in the case of a hybrid fund, where defined benefit and defined contribution options share a liquidity pool. In such scenarios, it is possible that one of the plan's needs places the other plan's members at a disadvantage. Likewise, another logical segment exists with pension assets, which are treated differently for taxation purposes. Arguably, the move to operating segments will enhance the management of the fund. Increased transparency – operating segments increase investor transparency, facilitate easier reconciliation of performance calculations and may, over time, increase the comparability of funds. Management efficiency – management expense ratios enable management and investors to ascertain the investment efficiencies that the fund is able to

	achieve. Operating segments increase the ability to cross check these calculations, thereby focusing investor attention and aiding fund comparability. As the industry matures, efficiency becomes critical and segmented reporting will facilitate such analysis. Arguments against Under the draft, segment reporting is based on management decisions and, where the assets of a fund are managed as a pool, it can be argued that segments do not exist. However, the view expressed consistently during our consultation is that while the assets are managed as a pool, the management of the assets focuses on matching of liabilities, and it is here that the real segments exist. Asset pooling is used for cost and operating efficiency; to use this argument is a reason for not segregating is inappropriate. Preferred position AIST is favourable towards segment reporting as it fosters transparency and facilitates unit pricing. Segmented reporting forces cost allocations to be documented and scrutinised. Over time, segmented reporting will reduce the ability for trustees to cross-subsidise costs within funds. However, we believe further guidance is required in the draft to ensure sector reporting is focused on liabilities, and also to ensure that segments align with the APRA concept of 'sub-fund'." "APRA Alignment Following the aftermath of the worst financial crisis since the Great Depression, APRA identified a shortfall within its existing superannuation data collections. With the objective of increasing regulatory oversight and risk mitigation, APRA released a discussion paper entitled *Enhanced APRA superannuation statistics collections* on 25 May 2009. The paper clearly details the regulator's desire to delve deeper into the operations of superannuation funds by dissecting them into logical sub-funds. The most important aspect of the APRA paper is that we are able to get high level information for each of the fund's logical sub-funds. One of the interesting elements of the APRA paper is that it proposes a series of requirements for sub-funds, with the definition of a sub-fund based on the fund's liabilities. The assumption is that ED179 proposes that funds report on segments with the distinction being an asset-based distinction, given superannuation is about liability management it follows that the appropriate distinction be liability based. The focus on segments enables users to foster a better understanding of how the fund manages the assets attributable to different member groups. The dominant view that emerged from AIST's roundtable discussions was that if a fund can demonstrate that it manages assets as a pool, there is no logical sub-fund for ED179 purposes. This argument, that assets are pooled and managed as a whole, is not a legitimate reason to avoid segmented reporting. Asset pooling has evolved over time for efficiency and cost minimisation purposes and it should therefore be ignored as an argument against segmented reporting. To support this argument indicates that segmented reporting is only valid if a fund has a segmented structure. In fact, pooling achieves economies of scale for the management of all assets, the returns of which are then apportioned appropriately. Sub-funds do exist and they are defined by their products, the products' members, and their associated assets. Both the Accounting Standards Board and APRA appear to be working with the same focus: risk mitigation and reporting. It seems logical that the APRA definitions for sub-funds and ED179's proposed segmentation definitions align, thereby eliminating the possibility for conflicting definitions which result in funds operating two levels of segmenting reporting: one for APRA and one for AASB requirements. We have made a submission to APRA suggesting that they provide further guidance on the definition of 'sub-fund'. Irrespective of whether it is from an asset or liability perspective, it is imperative that the definitions align for efficiency and, more importantly, to limit confusion. Once this is achieved, reporting systems and risk management systems will align and lead to a sophisticated reporting system that is monitored form two angles: reporting under the Accounting Standards, and reporting to APRA through returns."

CSA	"In the context of users, it is questionable whether segment reporting will be of use or relevant in the context of full financial reports. Typically plan and investment option reporting information is provided in fund annual reports, and regulators also receive fund level reporting. By way of these other reports, the users receive segmented reports appropriate to the context."
CPA et al	"It is appropriate to disclose segregated information in some circumstances, but we would like the AASB to provide more guidance on what is required. The ED could be interpreted to mean a plan would need to disclose segregated information for every sub-plan, in some cases amounting to hundreds of disclosures. A plan may be disaggregated into many sub-plans for tracking purposes, but managed at a significantly higher level. We recommend they standard clarify the segregation be based on the way a plan is managed, rather than how it is tracked. This is akin to the segment disclosures 'through the eyes of management' as required by AASB 8 *Operating Segments*. Such clarification should consider issues such as investment choices made by members."
Dr Isabel Gordon	"How assets are managed between groups of members is also relevant for DBP members for whom the choice of fund legislation does not apply."
IAA	"Paragraph 40 of the Exposure Draft and the guidance in paragraphs AG83-AG88 require a plan to disclose information on assets, the financial position and significant financial risks for each segregated group of assets within a plan. A segregated group of assets is defined as a section of a plan for which separate financial information is available and evaluated regularly by management of the Superannuation Plan to allocate resources and assess performance. It would appear from the guidance in the Exposure Draft that a sub-plan in a master trust would be considered a segregated group of assets. For example, where a master trust contains defined benefit sub-plans, the Trustee would be provided with information on the performance of the sub-plans at regular intervals (at least once every 3 years). If this is the intention of the Exposure Draft, this would add significant additional item and expense to the preparation of the financial statements. Some master trusts have tens or even hundreds of sub-plans – to require the master trust to disclose asset, profit or loss and financial position information for each one would be extremely onerous, particularly where a sub-plan provides defined benefits to its members. It would add significantly to the size of the financial statements, and the cost of producing them, and add little value to the readers of the statements (who, if they are members, would generally only be interested in the sub-plan of which they are a member. We could envisage the financial statements for a large master trust running to hundreds of pages in order to comply with these requirements. The sheer size of the statements would outweigh any possible benefit from the information disclosed. An alternative to disclosing this information for every sub-plan could be to inform readers of the financial statements that they can obtain more detailed information on a particular sub-plan from the Trustee of the master trust (eg the report on the actuarial valuation of a defined benefit sub-plan). The Application Guidance to the Exposure Draft suggests that a plan with multiple investment options would not need to disclose separate information for each option where financial information for management is prepared on a single plan basis. It is not clear from this guidance what the requirements would be if management uses information to rebalance the plan's assets between investment options to match assets and member liabilities. Does this represent segregation of assets, and hence mean separate disclosures are required? If so, this would result in the same issues as for a master trust with multiple sub-plans – significant additional costs and time spent on preparing financial statements. Where a master trust has multiple sub-plans, each of which offers it members investment choice, how would the plan determine the segregation of assets under the proposed requirements? Would it need to disclose separate information for each sub-plan, and then within each sub-plan separate information for each investment option? This would seem to be impractical. We do not believe that plans should be required to disclose separate information for each sub-plan or each investment option, as the benefits of disclosure are limited compared with the significant additional costs that would be incurred. If the AASB believes that there are circumstance sin which separate

	disclosure is warranted, we suggest that the new standard is very clear in defining segregation The current wording of the standard and the guidance could easily be interpreted differently for the same set of circumstances, and plans could spend considerable time and expense producing information for disclosure that is not intended by the standard.”
SLCA	“This could be quite an onerous disclosure requirement without some guidance as to what level the segregation would be required to be disclosed. We recommend an approach similar to AASB 8 *Operating Segments* which is more focused operating segments rather than on an administered basis. This would make the measurement the assets, performance and risk a relatively easier process. This is because the information would, in all likelihood, already have been prepared for management and the trustees.”
NAB	“We believe the level of the disclosures proposed for segregated groups of assets are onerous and we struggle to support the proposal. In particular, AG84 and AG85 are problematic. In our view, the cost of providing such disclosure probably outweighs the benefit. Most of the superannuation funds have got their back office functions outsourced. Therefore, the more disclosure information is required, the more the plans will have to pay for it. This will in turn impact the bottom line of the plans. We recommend the amount of disclosure required for asset groups to be reduced.”
PwC	“We concur with the AASB that there are many plans for which some level of disaggregation is appropriate. However we believe that the industry should be given a reasonable amount of flexibility in terms of the requirement to provide disaggregated information. For example, where there are multiple sub groups of defined benefit members in a master trust where the majority of members are defined contribution members, the trustee allocates the assets on a defined benefit/defined contribution sub-plan level and the ED could be interpreted to mean a plan would need to disclose disaggregated information for every sub-plan. The ED should clarify that the disaggregation be based on the way a plan is managed, which is akin to the segment disclosures ‘through the eyes of management’ as required by AASB 8 *Operating Segments*.”

Table 15 - Respondents' views on Specific Matters for Comment (n) – whether the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would provide useful information for users. If you agree that the proposals in paragraph 46 of ED 179 would not be adequate for users' needs, please explain how this information should be presented.

Respondent	Comments
E&Y	"We disagree with the measurement basis for defined benefit liabilities and believe that the vested benefit approach should be adopted. Therefore, such disclosures are not required. In the event the accrued benefits approach is adopted, we believe that the remeasurement changes are non meaningful and difficult for users to interpret. Disclosures regarding methodology and assumptions would be more meaningful."
KPMG	"The components of remeasurement changes in accrued benefits required at paragraph 46 of the ED should only be disclosed if they would match to the components disclosed in the financial statements of the employer sponsor. Otherwise, this could be misleading to users."
WW	"It is proposed that a plan be required to disclose in the notes the following items in respect of remeasurement changes in its obligations for defined benefit members' accrued benefits for the reporting period: • benefit cost; • interest cost; • actuarial gains and losses; and • gains or losses on settlements. (footnote: Paragraphs AG91-AG96 of Appendix B provide guidance in relation to disclosure of information) We would be pleased to provide further comments on these components, when the issue of the appropriate measure of the plan's defined benefit obligations has been reviewed by the AASB in light of comments received to the exposure draft from industry. We believe that sensible and pragmatic measures (and titles) for the movement in Vested Benefits over the year could be determined, if the AASB accepts our recommendations.
CPA, ICA and NIA	"We suggest disclosures on member benefits are more relevant displayed in a note to the financial statements than a Statement of Changes in Members Benefits. In our view a Statement of Changes in Members' Benefits is not required to comply with IFRS. We suggest the level of detail provided should be relevant to the members' needs."
IAA	"We understand that the reasons this information is provided under AASB 119, is to provide some guidance to analysts seeking to estimate the impact of employee benefits on future profits. We do not believe that the users of Superannuation Plan accounts would be seeking to estimate future profits, particular given as most future profit will relate to future movements in investment markets which are unknown. Given that difference in users' needs it is not clear that this disclosure provides any useful information to users. However, if the AASB wishes to include such disclosure we believe that the movement due to changes in assumptions should be disclosed separately to other actuarial gains and losses."

SLCA	"With the number of defined benefit members declining we do not believe this information would provide any useful information to users."
NAB	"We believe the proposed disclosures in paragraph 46 are adequate."
PwC	"We agree with the requirement to disclose these details separately."

Table 16 - Respondents' views on Specific Matter for Comment (o) – whether it would be more useful if the Standard provided example financial statements for a superannuation plan comprising both defined contribution and defined benefit members rather than explaining how the financial statements of a plan with defined benefit members only would differ from those of a plan with defined contribution members only (as provided in Illustrative Examples A and B in Appendix C to ED 179).

Respondent	Comments
Unisuper	"The Standard should provide example financial statements for a superannuation plan comprising both defined contribution and defined benefit members. This will provide more information for hybrid funds and ensure that requirements for such funds are communicated more fully and reduce the potential for misinterpretation."
E&Y	"We agree that example financial statements which includes a defined benefit component would assist in further understanding financial reporting requirements applicable to defined benefit funds due to the complexity and the significance of changes proposed."
KPMG	"Given that the majority of funds in the industry are hybrid funds, it would be more useful if the examples in the back of ED 179 provided example financial statements for a superannuation plan which comprises both defined contributions and defined benefit members rather than explaining how the financial statements of a plan with defined benefit members only would differ from those of a plan with defined contribution members only."
ASFA	"We support the comments made by the Joint Accounting Bodies on all presentation matters."
WW	"We agree with the AASB's suggestion."
CSA	"In the event that the ED is adopted, we believe that there should be an appendix illustrating example financial statements of a superannuation plan that provides both defined benefit and defined contribution entitlements. The illustration should allow for a consolidation journal to eliminate any double counting where a member is entitled to a greater of Defined Benefit or Defined Contribution payment. Confusion may arise when using different measures of member liability, accrued benefit for defined benefits and vested in respect of defined contribution benefits."
CPA, ICA and NIA	"The illustrations cover only a simple accumulation plan. It would be useful to illustrate hybrid and/or defined benefit funds. There are no illustrative notes to the financial report. This would be useful guidance." "More example financial statements would be useful, including notes, and including parent entity and consolidated financial statements."
IAA	"We agree that further sample financial statements would be useful."
SLCA	"We would recommend that a more comprehensive example be provide in the final standard which would include fund with defined contribution, defined benefit and pension members be included." "…We would also like to see comprehensive examples of the notes to the accounts including a note 1 covering accounting policies adopted similar to the disclosures in current audited financial statements of superannuation funds." "Also mentioned above was the suggestion of example policy notes to reduce the differences in interpretation of preparers and auditors of the funds as to what needs to be disclosed in this note (and what does not need to be disclosed)." "As mentioned above we agree with this proposal. We also would add pension members into the example fund disclosures as more and more fund's are retaining members by offering pension products."

NAB	"Yes, it would be more helpful to have more example financial statements, notes to the financial statements include 'obtaining a subsidiary' and 'losing a subsidiary' notes."
PwC	"Yes, it would be more useful if the proposed standard provided example financial statements for a superannuation plan which comprises both a defined contribution and defined benefit section. There are few stand alone defined benefit funds left in Australia."

Table 17 - Respondents' views on Specific Matter for Comment (p) – whether the approach adopted in drafting ED 179 is helpful for understanding how a superannuation plan or approved deposit fund might apply the proposals in ED 179, particularly the disclosure principles, in conjunction with the relevant principles and requirements in other Australian Accounting Standards. If you do not consider the approach adopted in ED 179 to be helpful, please describe the type of approach you would prefer.

Respondent	Comments
E&Y	"Overall, the principles based approach to writing the standard provides Trustees with the flexibility to determine which disclosures are relevant to their individual circumstances. However, there is a risk that some Trustees may not embrace the principles based approach and not comply with the spirit of requirements. Some overriding guidance on material misstatements and/or non-compliance may assist in understanding mandatory application."
KPMG	"We would prefer a more concise version of the standard which only sets out the required accounting principles where the principles of AIFRS are being departed from. The reasons for the departures should be provided. We would prefer that the required disclosures are specified clearly and concisely in the body of the standard instead of including the detail of the disclosure requirements in a set of Application Guidance."
CPA, ICA and NIA	"The approach is useful, and we repeat our request for more guidance on industry specific issues."
IAA	"ED179 represents a substantial change to pre-existing disclosure requirements. On balance, we feel that: • The drafting approach adopted in preparing E179 is a reasonable summary of the issues considered to-date by the AASB. However, as stated in our response, the Institute has significant concerns with some of the conclusions reached within ED179. • There is insufficient detail in some of the guidance provided within the ED179 and (once the principles are adopted) we strongly recommend the AASB issue strong guidance in any finalised replacement standard for AAS25. (From our experience in AASB119, lack of guidance is the primary cause of quite legitimate professional differences in opinion in how that standard should be interpreted. Such differences in opinion have resulted in materially different disclosures under that statement, as well as adding significantly to the cost of preparing such statements.)"
SL	"Whilst the approach is useful, as discussed above there is need for more discussion, guidance and comprehensive examples."
NAB	"Please refer to our comment on Item (l) above."
PwC	"Subject to our comments in the covering letter and our responses to the specific questions above, we agree that the approach adopted is generally helpful."

Table 18 - Respondents' views on Specific Matter for Comment (q) – whether, overall, the proposals would result in general purpose financial statements that would be useful to users.

Respondent	Comments
E&Y	"Overall, we agree that the proposals will assist in greater uniformity across funds, enhance the current reporting framework, provide great transparency over fund structure, financial risks and management of super funds and provide readers with more meaningful information."
WW	Watson Wyatt is concerned that the proposed ED179 Accrued Benefit measure would fail to provide useful (and may even provide confusing) financial information to users. The four primary users of these financial statements would appear to be APRA, trustees, employer sponsors and plan members. Our key area of concern is in the measure proposed as the basis for defined benefit plan financial measurement. Primary users of the financial statements already receive significant financial information, which will openly conflict with the conclusions implied by the proposed ED179 measure. We are particularly concerned about the conclusions that would be drawn by members. As highlighted in this response: • members will be less able to reconcile the differing messages implied by the different measures of the defined benefit obligations; • we believe the ED179 Accrued Benefits measure (or even the AASB119 measure, for that matter) is a poor measure of the liabilities. Members (armed with the information required to be disclosed by Paragraph 44) will have an expectation that the ED179 benefit obligation will be fully funded. In fact, there are systematic reasons why funding up to an ED179 Accrued Benefits level will tend to overfunding the plan, when considered on a reasonable long term basis. These reasons were outlined in our response to the AASB Matter for Comment (c) above. If the measure can be changed (notably to Vested Benefits, as proposed in this response), then the risk of providing confusing users will be considerably reduced. We also believe that the proposed standard duplicates the considerable body of information already available to all of these groups of uses under other disclosure obligations under applicable legislation, including plan Product Disclosure Statements, trust deeds, annual reports, risk management plans, statements of investment objectives and policy, and material change and significant event information. We do not believe that users should form opinions on a superannuation plan solely on the basis for the plan's financial statements without considering this other body of information. Therefore, we do not believe that plans should be required to incur the considerable extra cost of including significant amounts of repeated (and, due to space constraints, necessarily simplified) information in the financial statements. In many plan, these costs will be passed on directly and in total to plan members. We fail to see how plan members, in particular, will benefit from this duplication and the consequent reduction in their end benefits."
CPA et al	"Overall we agree, however, we reiterate comments we have made in previous submissions that consolidation of superannuation plans and approved deposit funds does not add relevant information for the users of the financial statements"
IAA	"We do not believe that the proposed ED179 Accrued Benefit measure will provide useful (and even confusing) financial information to users. We have already noted that APRA, Trustees and Plan members already receive significant purpose-specific financial information which already measured Defined Benefit Superannuation Plan financial information using a variety of measures. In fact, we believe that the ED179 Accrued Benefit will confuse users of the information, when they compare this against other pre-existing sources of information available to them. Some users will be better able to reconcile the differences than others: • For APRA and Trustees, this information (together with their direct access to the Superannuation Plan Actuary) already provides them with scope to

	obtain sufficient information to understand and oversee each Superannuation Plan's financial management. Therefore, such bodies are unlikely to gain any new useful information from ED179 as drafted. Furthermore, if and when confusion about ED179 Accrued Benefit measures emerges amongst Trustees, we expect the education of Trustees to be manageable. By way of illustration, AASB119 has resulted in actuaries devoting considerable time explaining to Company offices and Trustees the differences between funding valuation sand AASB119 (corporate comparison) measures. The key message provided is around the different purposes for which the valuations are conducted; namely that the AASB119 measure is used for corporate comparisons by market analysts. Such discussions are technical, require face-to-face consultations, and are ultimately understood to sufficient extent – although this is not doubt aided by the amount of time spent and those officers' existing familiarity with financial issues. • By contrast, we are extremely concerned about the ability to instil a similar level of understanding in Defined Benefit members (compounded substantially by the impracticalities of gaining sufficient access to a superannuation actuary to gain this knowledge). We strongly believe that there is a high likelihood that Defined Benefit members either: • Continue to ignore published accounts; or • Misinterpret the ED179 Accrued Benefit measure, when it conflicts with other liability information they receive. This could lead to poor decisions about their superannuation. In turn, this will add further costs as Trustees devote resources to managing newly emerging concerns of their members. • Aside from confusion, there is no compelling 'comparison' argument from the member's perspective which would support the ED179 Accrued Benefit proposal. Arguably, a 'comparison' argument can be made to provide AASB119 disclosure information to stock analysts / investors within corporate accounts. But in the case of ED179, and because almost all Australian Defined Benefit Superannuation Plans are closed to new members, there is no opportunity for Defined Benefit members to join a different sponsoring employers' defined benefit Superannuation Plan. We have suggested alternative approaches to measuring the defined benefit obligations, and strongly recommend that consideration be given to their adoption on pragmatic grounds."
SL	"Overall the proposals should result in financial statements useful to users subject to the comments in our submission and the following points: • Greater use of notes to the accounts for the statement of financial position instead of the detail on the statement • Use of notes to expand some of the income and expense items on the income statement • In the statement of cash flows rename 'cash flows from financing activities' to 'cash flows from member activities' • In the income statement change 'profit' to 'investment earnings' and after income tax expense add 'on investment earnings'"
NAB	"Overall we agree with the proposals except the requirement for consolidation and the requirement for the level of segment reporting with regard to asset groups, as discussed above. We believe those two requirements in their current form would not be useful to report users. We also believe that the proposals would result in financial statements that would be more useful to report users if the issues raised elsewhere in this submission are addressed."
PwC	"We agree broadly with the proposals of the ED, subject to our comments on specific areas above."

Table 19 - Respondents' views on Specific Matter for Comment (r) – whether the proposals are in the best interests of the Australian economy.

Respondent	Comments
E&Y	"Given the size of the industry and estimated growth of the industry, we agree that the proposals to enhance the financial reporting of superannuation plans are in the best interest of the Australian economy."
WW	"Watson Wyatt is extremely concerned about the costs of annually producing ED179 accrued benefits measure (and hence whether the value of the additional information is greater than the associated cost increases). The AASB should bear in mind that the average expected future membership periods of such (typically closed) defined benefit plans is typically 8-12 years. Very roughly, the ED179 actuarial valuation might add at least one to two times the current audit fee. This additional expense will be incurred by each defined benefit plan or defined benefit sub-plan in the country. This is a significant premium for trustees to incur in return for revaluing a single actuarial result (in addition to the concerns we have raised above as to the usefulness and appropriateness of that measure). Our concern is increased by the additional cost of duplicating (or even simplifying) information already available elsewhere. We believe that the standard should recognise the existence of this considerable body of information, even if this requires variances from international accounting standards." "Other comments for consideration We consider that the additional costs to employers of having actuarial reviews conducted on an annual basis would be so great that, in the present economic climate, it would no longer be viable for many employers to continue supporting their defined benefit plans. In our view, many employer sponsors would have no practical alternative other than to consider terminating their defined benefit plans or explore available options to convert the plans to defined contribution plans. The persons most adversely affected would be the members of the defined benefit plans. The Superannuation Industry (Supervision) Act 1993 ('SIS Act') and SIS Regulations do not require that assets of defined benefit plans should be maintained at a level that covers members' accrued benefits. Regulation 9.04 of the SIS Regulations treats the financial position of a defined benefit plan as 'unsatisfactory' if the value of the assets of the plan is inadequate to cover the value of the liabilities of the plan in respect of benefits vested in members of the plan. An actuary's report following an actuarial investigation must, however, include a statement of the actuary's opinion on whether, at the valuation date, the value of the assets of the plan is adequate to meet the value of the liabilities of the plan in respect of accrued benefits in the plan (see SIS Regulation 9.31(1)(b)). We are particularly concerned at the additional practical stresses to be placed on the financial reporting timetable by the proposed changes. The measurement of accrued benefits will need to be finalised before the income statement and statement of financial position can be finalised. At present vested benefits and accrued benefits are generally disclosed only in the notes so that the main statements can be finalised before the liability for members' benefits has been calculated.
AIST	"The Cooper Review will focus on efficiencies in the superannuation industry and therefore changes that increase costs for little benefit are to be highly discouraged. This is evident in our arguments against consolidation, insurance accounting, and the potential for a fourth measurement of accrued benefits."
CPA, ICA and NIA	"In relation to consolidation, as we have outlined in this submission we do not believe the proposals will result in relevant information for the users of the financial statements. As such the cost of providing the information outweighs the benefits and we do not believe these proposals are in the best interests

	of the Australian economy. We also believe measuring and recognising accrued benefits as proposed in the ED would add significantly to the costs of preparing financial statements for a superannuation plan without adding relevant information. This proposal is not in the best interest of the Australian economy. Elsewhere we applaud the AASB for aligning superannuation accounting and IFRS and agree the proposals are in the best interest of the Australian economy, subject to the AASB addressing the issues raised in this submission. In the future, the best interests of the economy will be met if the superannuation standard remains relatively consistent with IFRS. Accordingly, we recommend the standard refer to IFRS rather than repeating requirements from other standards wherever possible. Applying this approach will retain consistency with the principles in IFRS and reduce the need for the superannuation standard to be amended every time the standard it quotes is amended."
IAA	"The Institute's view is that the changes in ED179 will only be in the interests of the Australian economy if the perceived value of the additional information received by users is greater than the associated increases in costs. Almost all Australian Defined Benefit Superannuation Plans have now been closed off to new members, and therefore the membership will only fall. In our experience, the average expected future membership periods of such Superannuation Plans is typically 8-12 years. Costs The direct costs of calculating the ED179 measure of the benefit obligation will include: • Additional valuation fees. Requiring actuarial input to generate a valuation figure will incur annual actuarial fees, which will vary considerably depending on the level of complexity and level of assistance needed in completing the required disclosure notes. As a broad indication, the ED179 actuarial valuation might add something like one times the current audit fee. This will be incurred by each Defined Benefit Superannuation Plan or Defined Benefit sub-plan in the country (the work depends primarily on complexity and category numbers, more than Superannuation Plan or sub-plan size). This is a significant premium for Trustees to incur in return for revaluing a single result. • Additional consultation time between auditors, actuaries and Trustees to agree on assumptions used The indirect costs will include • Time spent responding to Defined Benefit members' questions about the conflicting measures of the Defined Benefit liability, when comparing the ED179 measure against their Vested Benefit and Accrued Benefit measure for funding purposes. • Poor decisions being made by individual defined benefit members, who may be misled about the security o their benefits by the Accrued Benefit measure proposed under ED179. Benefits As noted in our response to (q) above, the Institute is extremely concerned that the new Benefit Obligation measurement advocated under ED179 will add very little useful information to that already in existence. In fact, the additional information emerging has a high risk of being misleading to members. Given the absence of any apparent 'gains' for users of the financial statements, in the face of additional compliance costs for measuring defined benefit obligations, the Institute strongly opposes the Benefit Obligation aspect of ED179 proposal."
SLCA	"The proposed new standard which aligns superannuation fund accounting with IFRS is welcome and subject to our comments above we believe is in the best interests of the Australian economy."
NAB	"We agree the proposals are in the best interest of the Australian economy except the proposed requirements in relation to the following items, the details

	of which are discussed elsewhere in the submission: • Consolidation. • Segment reporting with regard to asset groups • In the case where the effective date is not extended and/or the application of the proposed standard to the comparative information under the current proposed effective date is not exempted. We believe the three requirements, in their current form, would not be in the best interest of the Australian economy."
PwC	"If the AASB requires superannuation funds to prepare consolidated accounts, we strongly believe that the consolidation approach should be in accordance with AASB 127 without any modification. This standard is not the place to set new rules for the recognition and measurement of intangible assets in a transaction neutral environment. As mentioned in our response to question (f), we recommend the standard refer to other accounting standards rather than replicating those requirements in this standard, wherever possible. Applying this approach will retain consistency across all standards and reduce the need for the superannuation standard to be amended every time the other accounting standards if replicates from is amended or revised."

Table 20 - Respondents' views on other matters

Respondent	Comments
	Presentation of Financial Statements
Unisuper	"Cash flows from investing activities in the example cash flow statement The level of detail shown in the illustrative example of both purchases and proceeds at an asset type level is onerous and of questionable value."
KPMG	"The change in the classification of contributions, transfers and benefits paid as a movement in a liability (members' benefits) rather than a profit and loss item aligns the presentation of superannuation funds more closely with the presentation of managed investment schemes, and is more consistent with the conceptual framework definitions of income and expense than the current AAS 25. It also provides a better indication of the fund's underlying performance. We do note, however, that these classifications are not specifically set out in the ED but are only referred to more generally in paragraph 28. We agree with the suite of five financial statements proposed in the ED. Although the most recent version of AASB 101 requires a Statement of Comprehensive Income, superannuation funds will have very little comprehensive income in the form of movements through equity. Under the most recent AASB 101, a balance sheet, income statement, statement of cash flows and statement of changes in equity still have to be prepared, so the only additional requirement from this for a superannuation fund is the preparation of a statement of changes in member's accrued benefits, which we believe is relevant to users." "There is an inconsistent between the consolidated reporting requirements of ED 179 and the reporting requirements of APRA. Paragraph 31 of the Exposure Draft requires parent financial statements to be presented together with consolidated financial statements whereas APRA only requires parent entity financial statements to be prepared. Whilst we agree that it is appropriate to present both parent and consolidated financial statements together in order to provide suers with all relevant information, we would like to emphasis that this will continue to cause practical difficulties for some superannuation funds that rely on the audited financial statements of subsidiaries in order to prepare consolidated financial statements. In practice, many superannuation funds have little influence on the financial reporting timetables of investment trusts, even if they own a controlling percentage of the units in the trust."
ASFA	"We support the comments made by the Joint Accounting Bodies on all presentation matters."
WW	"In relation to the proposed new requirements for the preparation of financial statements, Watson Wyatt offers these comments: • We do not support any proposal to require a statement of financial position which includes members' benefits as any form of liability. Whilst technical arguments can be framed both for and against an 'equity' argument, we strongly disagree with any proposal to treat members' accrued benefits as equity, given the significant likelihood of misleading members and other users about their legal rights to such 'surplus'. • We acknowledge there is interest in including a Statement of Changes in Members' Benefits. Currently, we are concerned at the appropriateness of some of the particular line items to be included in any such reconciliation. After the key issue relating to the measurement of members' benefits by Vested Benefits versus the proposed ED179 Accrued Benefits measure has been finalised, we would be pleased to suggest specific alternatives. • We recommend the continuation of the present requirement under AAS 25 to produce only a Statement of Net Assets for defined benefit plans. • We support the proposal to require defined benefit plans to prepare a statement of cash flows.

	• Consistent with our comments above regarding treatment of members' accrued benefits as equity, we disagree with the proposal to require the preparation of a Statement of Changes in Equity for plans. • It is important to recognise that defined benefit plans do not generally have formal earmarked 'reserves'. Instead, they have an all-purposes plan which is held on an unallocated basis and which is used to pay all members' benefits and all costs and expenses associated with the plan. Contributions to that plan may vary in order to ensure its long term financial stability and actuaries play an active role in ensuring that the recommended rate of contributions is sufficient to ensure the long term stability of the plan. • Any suggestion that defined benefit plans have reserves earmarked for specific purposes is important because it has important implications and flow-on effects for the disclosure obligations of trustees. trustees have legislative obligations: - to disclose movements in reserves for the past 3 years in annual reports (Regulation 7.9.37(1)(k) of the Corporations Regulations 2001); and - to formulate and give effect to a strategy for the prudential management of those reserves (see Section 52(2)(g) of the Superannuation Industry (Supervision) act 1993).
AIST	"ED179 proposes a total of five financial statements: a balance sheet, income statement, cash flow statement, a statement of changes in equity, and a statement of changes in member benefits. The key change is that contributions, rollovers and benefits that are normally presented in an income statement, are now presented in a statement of changes in member benefits. Arguments for The separation of contributions and rollovers from the income statement increases the transparency of the income statement, which is a logical and desirable outcome. Counting rollovers and contributions as income, as has been the process in the past, is inappropriate, and AIST welcomes the proposed changes. Arguments against The proposed changes will increase the costs of funds of producing such statements; however, any increase will be marginal. Preferred position AIST welcomes the changes with regard to the cash flow statement and the statement of changes in member benefits. With regard to the statement of changes in equity, AIST believes that given superannuation is essentially about the matching of assets and liabilities a statement of changes in equity offers little value. In most instances the equity component of a fund is predominantly made up of fund reserves, be they contingency provisions, insurance reserves, or investment fluctuation reserves. An interesting question to ask in the case of a defined benefit scheme is: who does the equity belong to? Does it below to the employers or fund members? Equally, should a scheme really have equity at all? Our preferred position is to remove the requirement for a statement of equity in preference for a comprehensive not disclosure. Should the Board choose to persist with a statement of equity, we believe characterising this as a 'statement of reserves' would be more in keeping with the trust structure of super funds"
CSA	"Statement of changes in equity We are concerned about the introduction of this new statement for the following reasons: • it is not clear, as argued above, that this statement would be used by anyone; • if presented to users (e.g. via published Annual Report) the statement would highlight certain reserves as if available to members, when generally any reserve is created for a specific purpose and should not be presented as if available for distribution. Indeed some reserves would be a reflex of

<table>
<tr><td></td><td>specific accounting treatment: a case in point would be defined benefit accrual which would be more appropriately classified as a Balance Sheet liability or note disclosure.
Recognition of equity implies entitlement, but in the case of a superannuation fund, this is thorny ground. The legal position regarding entitlement to reserves is often uncertain, with arguments supporting entitlements for current members, past members, employer sponsor or some combination, depending on factors such as the trust deed, employment agreements and evolving trust law."
"Number of Financial Statements
As discussed above we believe that the proposed number of reports is excessive and that the Statement of changes in equity in particular may lead to member confusion. We also believe that rather than requiring both an income statement and a statement of changes in member benefits that there be a single statement of comprehensive income, distinguishing between operational movements and movements in member entitlements."
"Conclusion
We would favour a simple and concise model for reporting, consistent with the SIS Act requirements that can be used as the basis for presentation of brief financial reports in the fund's published Annual Report."</td></tr>
<tr><td>Vision</td><td>"We believe that the proposal for a Statement of Changes in Equity does not add any value. Four statements seem ample and the 'unallocated' portion of the Equity Statement could merely be included as a line item within another statement.
Consistent with our comments above we believe that the Statement of Accrued Benefits should be changed to reflect vested benefits."</td></tr>
<tr><td>CPA, ICA and NIA</td><td>"Members' insurance premiums should be incorporated in the statement of movements in members' vested benefits."
"We also have some comments on the requirements for the presentation of the financial statements:
• The use of the word 'profit' in the income statement is misleading and not reflective of a superannuation fund's activities. We prefer the AAS 25 Financial Reporting by Superannuation Plans terminology of 'benefits accrued as a result of operations'.
• Income tax expense in the operating statement would be better described as income tax on net investment earnings
We note that the income tax legislation does not distinguish between tax on investment earnings and tax on contributions, that is, all 'income tax' and income tax is calculated on taxable income which is the fund's total investment income plus contributions less deductible investment expenses and other expenses. Difficulties may arise if the accounting standard requires separation of the tax between the operating statement and the change in member benefits which does not reflect the actual tax position of the plan.
Balance Sheet
• There is too much detail on the face of the balance sheet"
"Format of financial statements
In this submission we have proposed the standard include three rather than the proposed five statements, being:
1. Statement of Financial Position
2. Income Statement
3. Statement of Cash Flows
The Statement of Financial Position could include assets, investments and liabilities (including Vested Benefits) netting to Excess of Net Assets over Vested Benefits or Excess of Vested Benefits over Net Assets. In our view this is more relevant disclosure than suggesting a plan is in a deficit or</td></tr>
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<table>
<tr><td></td><td>surplus situation.”</td></tr>
<tr><td>SLCA</td><td>“Statement of cash flows

An issue with respect to the cash flow is that member activities to be recorded in the Statement of Changes in Members’ Benefits the reconciliation note will only be with respect to the operating activities in the Income Statement. Previously the member activities were included in operating activities. As such the movements in the asset and liabilities relating to member activities will be excluded.

We request that the AASB provide clarification that the reconciliation only includes operating activities in the Income Statement and excludes any reconciliation with net benefits accrued from member activities.

We also have some concerns whether the Statement of Cash Flows will capture all the cash flows.

This is especially relevant for funds that use a custodian for their investments where the majority of investment and redemptions are transacted through a bank account held by the custodian or are transfers between investments which are processed by the custodian and not through the fund’s bank account.

These significant cash flows may be excluded from the cash flow statement and therefore understating investment activities.

Another concern is the inconsistency with respect to disclosure of non-cash items such as dividends, distributions and fee rebates reinvested and investment manager fees paid by the redemption of units and investing activities discussed above.

AASB 107 Cash Flow Statements in paragraphs 43 and 44 states that non-cash items should be disclosed elsewhere in the financial reports.

We recommend the AASB provide guidance on the treatment of non-cash items in the new standard. This would include examples of non cash items and be part of a comprehensive example of superannuation financial statements that would include the note on the reconciliation of net cash provided by operating activities to benefits accrued from investing activities.

Non cash investing activities would be disclosed after the reconciliation note as follows:

<table>
<tr><td>Non cash investing activities</td><td></td><td></td></tr>
<tr><td>During the year the following non cash investing activities occurred:</td><td>2010</td><td>2009</td></tr>
<tr><td></td><td>$’000</td><td><b>$’000</td></tr>
<tr><td>Distributions reinvested</td><td>25,020</td><td>23,621</td></tr>
<tr><td>Management fee rebates</td><td>20</td><td>21</td></tr>
<tr><td>Direct investment expenses</td><td>330</td><td>299</td></tr>
</table>
</td></tr>
<tr><td>PwC</td><td>“In a transaction neutral environment, the overall requirements for the presentation of financial statements should be the same for superannuation funds and other entities. However, dur to the specific nature of superannuation funds, we believe that a Statement of Changes in Equity does not have the same importance and relevance for these funds as it does for other entities.

As such, all types of superannuation funds should have the following financial statements in order to meet the objective of providing information that is useful to users in making economic decisions:

• Statement of Financial Position
• Statement of Comprehensive Income
• Statement of Cash Flows</td></tr>
</table>

	In addition to the above, we can also see the merit of providing the information required in the Statement of Changes in Equity and Statement of Changes in Members Benefits. However, prepares should be given a choice of providing this information either as a separate primary statement or as notes to the accounts." "Other Comments on the ED • The example cashflow statement includes a contribution surcharge tax paid. As the contribution surcharge tax was abolished in 2005 we would suggest this be deleted. • Loss attributable to members as provided in the illustrative financial statements is misleading, as it represents merely a timing difference between earnings and allocations, not a loss. • The illustration provided has too much detail in respect of investing activities separating purchase and proceeds by class of asset. This is significantly more that is typically provided in a set of financial statement of a unit trust which reports under IFRS, where all purchases and all proceeds are shown together…."
Possible Areas for Further Practice Guidance	
ASFA	"The ED does not appear to have specifically dealt with certain transactions which have traditionally been included in 'reserves' or 'unallocated amounts' in super funds, under AAS 25. These include: • Bonus received from insurance companies Bonus amounts are received from insurance companies based on past claims information. • Income tax surpluses Income tax surpluses arise when the tax taken from members based on taxable contributions is greater than the tax liability of the fund due to various reasons, for example where expense credits have not been passed on to members and where the fund has b/f tax losses. Our understanding of the ED position is to show these amounts as 'other liabilities'. ASFA believes that more clarification in the ED concerning amounts which have traditionally been treated as 'reserves' will be useful. The clarification could cover the issue of equity vs. liability and also who the liability may be owed to (that is, members or trustee) and the circumstances which would define these."
SLCA	"Recognition of contributions receivable Contributions receivable after year end but relating to the current year are treated as contributions receivable by some funds but not all funds. Fund administrators account for contribution sin the members' accounts either on a date received basis or on the effective data to which the contributions relate. Funds that offer member investment choice ('MIC') credit contributions to members accounts on a date received basis. We are concerned that there is no consistency within the superannuation industry with respect to accounting for contributions receivable. In some cases the amounts are only estimates and are therefore not allocated to member accounts.

	We also question the fact that the fund may not have a right or entitlement to receive the contribution from either a member of the employer until such time as the contribution is received. In many cases, the fund does not control when the contributions will be received nor does the fund have any legal rights to enforce the payment of the contributions by the employer or member. This means that contributions receivable may not satisfy the definition of an asset or income. We request that the AASB address this issue in the new standard. Our suggestion is that the accounting treatment of contributions received after year end be consistent with administration system for crediting contributions to member accounts which is also used to determine vested benefits. That is, if members are credited with contributions on the date the contributions are banked then contribution revenue should be accounted for on a cash basis. The consequence of not adopting a cash basis would result in a fund booking a receivable but the contributions not having being credited to member accounts and/or appearing on member's statement. The vested benefit number would exclude these contributions and therefore a manual adjustment of the receivable would need to be made to the vested benefits when reporting this in the financial statements. The contribution receivable for funds with MIC does not satisfy the definition of an asset in that the benefit from the contributions for the members is not reflected in their entitlement in the fund until the contribution is received by the fund. By booking the contributions receivable the fund may be overstating the assets and vested benefits of the fund. In the case of fund's that credit members on the effective date of the contribution a contribution receivable should be booked as the contribution will be included in the vested benefits at year end. To not book the receivable would understate the assets of the fund whereas the liability for member entitlements would include the amount. The contribution receivable in this case will meet the definition of an asset in that the benefit of the contribution is included in member entitlements at year end. Our recommendation is that the accounting for contribution revenue should be consistent with the method the fund uses for crediting members with contributions. Recognition of benefits payable Generally, a benefit payable arises when a member notifies the fund that he or she wishes to withdraw their entitlement from the fund. However, in certain instances members are treated as 'inactive members' when they satisfy a condition of release such as resignation or retirement. However, the member has not notified the fund of their intention to either exit the fund or retain their benefit in the fund. Should a liability be booked for benefits payable at year end where the member has simply retired but fully intends to retain their benefits in that fund? Paragraph 91 of the AASB publication Framework for the *Preparation and Presentation of Financial Statements* states that 'A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably'. We believe that in some cases an unpaid benefit at year end does not meet all the requirements to be booked as a benefit payable for the following reasons: • The amount of the benefit at year end cannot be reliably measured as the member's entitlement continues to accrue earnings until the benefit is paid. • Most funds are encouraging members to retain their benefit in the fund either as a 'retained account' or in a lot of cases as a 'pension member' upon

	retirement. In both cases no benefit is paid out after year end. We recommend the following with respect to benefits unpaid at year end: • Members who have provided a notice of their intention to have their benefit paid out of the fund but have not been paid prior to year end, should be booked as a benefit payable subject to reliable measurement. • Members who satisfy a condition of release but have not provided a notice to the funds of their intentions with respect to their benefit should be treated as members of the fund at year end and be included in vested benefits. • Where the fund has received insurance proceeds for a death or TPD claim and not paid out the benefit to the member or beneficiary a benefit payable should be booked.
AustralianSuper	"We understand that the Standard will continue to require disclosure of investment expenses that are paid or accrued by the Fund. In many cases the investment expenses are netted off returns or not easy to determine in fund of fund arrangements. Whilst we acknowledge this difficulty, the disclosure of only that component that is paid or accrued is misleading. Funds are required to disclose in their ICR (Indirect Cost Ratio) calculations in their PDS such information. It is information that rating agencies also collect for research and comparative reports. Whilst there may be some inconsistencies, the Funds normally put a great deal of effort to make such calculations, particularly as they are required by Law. It is information members find particularly interesting and useful in assessing performance of their fund. We would welcome the Board addressing this issue to improve disclosure of what is typically the largest cost to members."
Users of the Financial Statements of Superannuation Plans and Approved Deposit Funds	
Unisuper	"The primary users of superannuation fund financial statements are employer sponsors and regulators. However, these parties are already provided significant information on the financial position of superannuation plans and can already request additional information as required. Members and beneficiaries, while able to access the financial statements on request, are more interested in information provided in the annual report to members and their periodic member statement, both required under SIS regulations, including details of investment returns, asset allocations and account balances. Increasingly members are using fund websites to access more real time information." The number of member request for copies of the fund financial statements is miniscule relative to the number of members in our fund. It is also arguable that parties employed to act on behalf of members would predominantly be accessing fund websites as well as fund product disclosure statements for the information they require to advise members rather than the fund annual financial statements."
AIST	"The most important question to consider when discussion the financial statements of superannuation funds is: who are the users? Although the answer appears obvious, it is essential to contemplate this point, as it is central to the debate: the users of these statements must be catered for if we are to successfully adopt a principles-based approach to financial reporting of superannuation assets and liabilities. Evidence suggests that, to date, common practice for the majority of funds is to operate a two-tiered approach: • General purpose financial statements are the statutory requirement and are normally used by regulators, financial intermediaries, employer sponsors, creditors, and finance professionals. While these are required to be made available to members under law, they are usually not circulated to all members, but only on request, and the number of requests is negligible; and • Special purpose financial statements are an abridged simplified set of financial statements (usually one page)for member reporting and are circulated to all members, as required under laws.

	Furthermore, several studies of member behaviour to date have revealed that the level of member engagement within the superannuation sector is quite low. As members are relatively unengaged, the conclusion that members will be better informed as to the risks impacting a fund's ability to pay benefits through the proposed changes is difficult to digest. If you were to put a set of general purpose financial statements in the hands of a typical member the reaction would be confusion. Many superannuation professionals without an accounting background might react in a similar manner. Our research indicates that members are mainly concerned with a fund's current earning rate, its historical earning rate, and the costs associated with earning the return. It is difficult to argue against the broad principles of the proposed changes. However, members of the accounting and finance profession are likely to be the only people equipped to decipher the capacity of an entity to meet its members' benefits. Typical superannuation fund members are likely to end up feeling further alienated by highly complex financial statements. While outside the scope of this consultation, we support a review of the Corporations Act disclosure rules to make the abridged financial information more useful to members.
CSA	"A primary concern for us is the purpose for which the accounts are prepared. The needs of superannuation stakeholder groups are diverse. These needs are not met through the full financial reports, but through specific tailored reports derived from the systems and sources used to prepare the financial reports: • Existing members: these are catered for by specific member statements which reflect the movements in their own interest in the funds. Aggregate movements in member accounts would be reflected in the financial reports, but would not normally be of strong interest to a specific member. For collated information, the members have access to the fund's Annual Report which contains abridged financial reports. • Potential members and potential contributing employers: the needs of these parties are met through product disclosure statements (the contents of which are regulated, and which provide information about investments, performance and fees) and published annual reports, which contain abridged financial reports. • Contributing employers: these will receive purpose-designed reports on their participation, and have access to the fund's Annual Report which contains abridged financial reports. • Regulators: these have their own purpose-designed reporting requirements through which their specific needs are met. We conclude that: • it is important that full financial reports be prepared, as a matter of proper trustee reporting, and these reports need to be audited; • however, because the needs of users of the reports are so disparate, special statements have evolved to meet these needs. These reports are derived from the same sources and records as are used to prepare the full financial reports. • From the above, it appears that few use the full financial reports. The reports are of importance mainly as an output from the reporting systems, as an indicator of their robustness and as a reflection of the integrity of those who manage the fund. The audit will focus on these systems and on the reports derived from them. Our view is that given the restricted use to which the financial reports are put, what is vital is that they should form a suitable basis for audit, and as a resource from which information can be compiled for communication to members and other users by way of the abridged report in the fund's Annual Report. Hence, we believe that the focus in ED 179 should be on ensuring that the financial reports provide: • a satisfactory reflection of the custody of the fund in a format that is, above all, in a suitable format for the auditors to provide assurance on the

	accounts; and • a suitable resource from which the abridged version is prepared for the users of the Annual Report. The focus in the Annual Report is on clear and concise communication, and accounts in full AAS25 or ED 179 format simply cannot be reproduced in this context. The above comments may assist in providing a focus for standards for preparing the full financial statements. Although these full reports provide output from systems from which user reports are prepared, it is our view that they are not in themselves used as the basis for user decision-making. We value the function that the full reports perform in demonstrating trustees' fulfilment of fiduciary duty, but we believe that the detailed reporting and disclosure requirements under the new standard should be framed with this background in mind."
GT	"The Basis for Conclusions (BC 10) states that a primary user would be members of superannuation funds and their beneficiaries. We question whether this is so, as members receive a summary of their own holdings and we are not aware of the members accessing or reading the actual financial statements, instead they mainly relay upon a summary of the performance of the superannuation fund. This is particularly so with most superannuation funds having a multiple of different sub plans or funds which are consolidated into the final group fund. On that basis there may be less of a need for the level of complexity that has been built into ED 179."
Dr Isabel Gordon	"In the Preface to ED 179 it is stated that one of the reasons for issuing ED 179 was to address those users in the superannuation context 'whose information needs were not the focus of considerations in the promulgation of other Australian Accounting Standards'. To this extent, it is further argued by ED 179 that other Australian accounting standard requirements are not necessarily appropriate for the needs of users of the financial statements of superannuation or approved deposit funds. Paragraph 1 of ED 179 states that 'The objective of this standard is to specify requirements for the general purpose financial statements of a superannuation plan or approved deposit fund …to provide users with information that is useful for decision making in a superannuation plan or approved deposit fund context. Most superannuation funds in Australia are trusts, where the superannuation assets are held in trust by the plan trustee for the benefit of members. The trustee is accountable to the members to show how the assets have been managed and disbursed (the trustee's duties are set out in the Superannuation Industry (Supervision) Act 1993 (SIS) and regulations). This is the stewardship function of accounting. On the other hand, international standard-setters now centre on the decision usefulness of financial information and emphasise the relevance of financial information to enable users to make resource allocation decisions. I make the following comments: 1. While members are the principal stakeholders of a superannuation fund, they may also be regarded as one of the user groups of the general purpose financial reports for a superannuation plan (as stated in para. BC10). In this way, members received information about the superannuation entity (rather than just individual member balances). Currently there are at least three layers of reporting by a superannuation fund: reporting to APRA; preparing audited financial statements; and (unaudited) annual reports to members (with abridged financial statements). APRA's superannuation reporting requirements occur within an institutional framework aimed at the protection of members while accounting requirements traditionally focus on the interests of investors and shareholders. Regulators emphasise prudence (manifested by lower asset and higher liability values) while international financial reporting standards focus on fair values. There is frequently a disconnect between the accounting requirements contained in accounting standards and the prudential requirements imposed by a regulator because they normally serve different stakeholders. To this extent, it is not clear how ED 179 fits into the overall reporting framework for superannuation funds. Further, it is unclear how, in practice, employer sponsors would be regarded as 'general purpose' users (see BC11). 2. With choice of fund legislation introduced in 2005 there may be a greater role for general purpose financial reports of superannuation funds for users (although this is an empirical issue). However, often it is very difficult to access the general purpose financial reports of superannuation funds. Unlike

	publicly listed companies that prepare audited general purpose financial statements, the financial accounts of superannuation plans are not freely available. Further, to compare the performance of superannuation plans is often fraught with difficulties, for example, the lack of comparability of available financial data. 3. Another issue concerns the definition of a defined benefit plan (DBP). ED 179 Appendix A defines a defined benefit member as 'A member whose benefits are specified, or are determined, at least in part, by reference to a formula based on their years of membership and/or salary level'. This definition is not risk based. Further, it is not consistent with AASB 119 that defines DBP (by exclusion relative to a DCP) where there is a legal or constructive obligation to pay further contributions in the event of insufficient fund assets to pay all employee benefits. To the extent that the definition of the DBP in ED 179 is not risk based, then the discussion in paragraph AG62 re the sponsor's credit risk is redundant. That is, if the sponsoring employer does jot accept the investment risk of the DBP (a situation possible under the current ED 179 definition of a DBP), there is no difference between a DBP and a DCP, and the bankruptcy risk of the sponsor is no longer relevant to the DBP member (and the discussion in para. AG62 is irrelevant). (I am also unsure of the analogy between the measurement of a DBP accrued benefit and an insurance contract in para. BC46(a) if there is no transfer of risk per the current definition of a DBP in ED 179)." "If the actuary's report is presented separately from the plan's financial accounts, it is difficult to see how the audit report can be interpreted separately from the actuary's report. The actuary's report should be presented as part of the plan's financial statements."
IAA	"A recurring concern of the Institute is whether the information provided under ED179 will be useful (and not misleading) to users of the information, particularly in light of the wide range of (more detailed and extensive) information and reporting which is currently provided to each group of users. We believe that it would be helpful for the AASB to confirm that the usefulness of information for users is the main objective for the proposals in the standard or to set out any other objectives." "Turning to each potential 'user of the information': • A Superannuation Plan Trustee has full access to their appointed actuary, and is required to monitor the financial position of their Superannuation Plan on an ongoing basis. The prudential framework for such monitoring in Australia is extensive and a Superannuation Plan Trustee is required under the Superannuation Industry (Supervision) Legislation to obtain a detailed triennial Actuarial Review report (again, governed by actuarial professional standards) which already measures the Superannuation Plan's benefits using differing methodologies. This report already provides detailed information which is far more detailed than that provided under ED179 and the different measures of the Superannuation Plan obligations are carefully explained and contrasted in the triennial Actuarial Review report. Such information is specifically designed to ensure the Trustee is provided with differing short and long term solvency measures. The Superannuation Industry (Supervision) Legislation also imposes obligations on Auditors and Actuaries to report on specific solvency measures to the Trustee and/or Regulator. • Members are most likely to relate to a 'Vested Benefit' measure of the Superannuation Plan's benefit obligations (being the benefit paid out by the Superannuation Plan if the member voluntarily left service). This measure is already provided annually within existing AAS25 reporting, along with the actuaries' longer term measure of the last actuarial review results (provided as a disclosure note). It is the Institute's view that members are unlikely to understand the relevance of alternative measures of the benefit obligation. Note also that if is unlikely that a defined benefit member will become a defined benefit member of some other sponsoring employer's Superannuation Plan, given that almost all Australian defined benefit plans are closed to new members. Therefore, in reality, there is limited need for comparison by such members. • The regulator of Australian superannuation plans, APRA, already has the ability to request any actuarial analysis provided for Superannuation Plans. Like the Trustee, they can therefore also access the Actuarial Report of the Superannuation Plan which includes short and long term measures of the

	liabilities. • Auditors similarly have full access to the results of the triennial Actuarial Review, annual calculation of the Superannuation Plan's Vested Benefits, as well as any actuarial analysis prepared between triennial reviews. • Investors already have access to AASB119 reporting disclosed in sponsoring employers' accounts (which provides a similar – but not identical – benefit obligation measurement to that drafted in ED179, plus prescribed information regarding cash contribution requirements). Where these users have a need for information contained in the financial statements is in relation to the fair value of the Superannuation Plan's assets. Some of the issues which the superannuation industry is grappling with at the moment are in relation to the valuation of unlisted assets and the treatment of deferred tax assets. These are areas where the standard can provide assistance to suers of Superannuation Plan financial statements. To the extent that the standard pursues measures that are costly to produce and of limited value to users, we are concerned that they may be a detriment to the users (some of whom ultimately meet the costs of preparation) rather than a benefit."
Drafting issues	
NAB	"On a separate issue, we note that BC23 commented that assets under AAS 25 are currently measured at 'asking' price. We believe that they are currently measured at 'mid-price' rather than at 'asking price'. We recommend the drafting of BC23 be clarified."