

**Staff analysis and proposals in relation to the written comments received on ED 179 *Superannuation Plans and Approved Deposit Funds* that are directly related to a Specific Matter for Comment**

***Notes to Members:***

[Paragraph omitted from observer notes.]

Paragraphs 8-20 and the accompanying staff views in this Agenda paper are identical to paragraphs 93-105 and the accompanying staff views in Agenda paper 6.2 to the Board's December 2009 meeting.

Except for the marked-up text, paragraphs 21-68 and the accompanying staff views in this Agenda paper are identical to paragraphs 115-162 and the accompanying staff views in Agenda paper 6.2 to the Board's December 2009 meeting.

## Background

1. At its December 2009 meeting, the Board commenced its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds*. This Agenda paper provides a high level summary of the main issues raised by respondents regarding the proposals in ED 179 that were not addressed by the Board at its December 2009 meeting. These issues include:
  - (a) the disclosure principles in paragraphs 32-35 and 42-50 of ED 179 [the Board considered respondents' comments on the disclosure principles in paragraphs 36-41 of ED 179 dealing with arrangement and management of assets ('segregated financial disclosures') at its December 2009 meeting];
  - (b) 'hybrid' superannuation plan example financial statements;
  - (c) the approach in drafting ED 179;
  - (d) whether, overall, the proposals would result in general purpose financial statements that would be useful to users;
  - (e) whether the proposals are in the best interests of the Australian economy; and
  - (f) other issues.
2. This Agenda paper also provides staff's analysis and proposals in relation to the main issues raised by respondents regarding the proposals in ED 179.
3. This Agenda paper cross-references to Agenda paper 6.4 to this meeting. Agenda paper 6.4 provides a collation of written comments on ED 179. Agenda paper 6.4 is identical to Agenda paper 6.3 to the Board's December 2009 meeting. [Remainder of paragraph omitted from observer notes.]
4. The purpose of this Agenda paper is to assist the Board in identifying the issues that it:
  - (a) considers should be subject to specific redeliberations at a future meeting, and the types of issues the Board would like staff to address in relation to the proposals at that meeting;
  - (b) considers should be redeliberated when the Board considers the draft Standard; or
  - (c) does not consider it necessary to redeliberate.
5. This Agenda paper considers respondents' views in relation to the approach in drafting ED 179. However, it does not deal with respondents comments regarding issues that are strictly of a drafting nature and/or are not directly related to a Specific Matter for Comment, including recommendations regarding:
  - (a) alternative terminology or phraseology;
  - (b) the level of detail in the Illustrative examples; and
  - (c) where particular material is located within the document.These matters are dealt with in Agenda Paper 6.3 to this meeting.
6. Staff have endeavoured to reflect faithfully in this Agenda paper the issues raised by respondents. However, in some circumstances staff have exercised judgement in

identifying and categorising the main points and interpreting respondents' comments. Consequently, some meaning may have been lost inadvertently in the process of summarisation. Accordingly, this Agenda paper should not be treated as a substitute for the full text of submissions. Electronic copies of all of the submissions on ED 179 were sent to Board members as a part of the mailout for the Board's December 2009 meeting. Board members who require copies of any or all of the submissions on ED 179 should contact Dean Ardern [dardern@asb.gov.au ph. (03) 9617 7621].

7. To assist Board members, Appendix A to this Agenda paper provides a list of the respondents to ED 179, the response number allocated to them and a description of the respondent. In addition, Appendix B to this Agenda paper provides selected paragraphs from ED 179.

***Note to Members:***

Paragraphs 8-20 and the accompanying staff views below are identical to paragraphs 93-105 and the accompanying staff views in Agenda paper 6.2 to the Board's December 2009 meeting.

**Specific matter for comment (I) – whether the disclosure principles in paragraphs 32-50 of ED 179: (i) are appropriate for a superannuation plan or approved deposit fund (ADF); (ii) would provide useful information for users of the general purpose financial statements of a plan or ADF; and (iii) would be sufficient to facilitate reliable and comparable disclosures between superannuation entities and over time**

8. Fourteen of the respondents provided comments on the proposed disclosure principles in paragraphs 32-50 of ED 179. Eight respondents expressed overall agreement with the proposed disclosure principles, seven of which recommended amendments to the proposed principles and application guidance. Four of the respondents expressed no views on the proposed principles overall and recommended amendments to some aspects of the proposed application guidance.
9. Respondents identified a number of areas in which they felt the proposed disclosure principles and accompanying application guidance could be improved upon. For instance:
  - (a) four of the respondents expressed concerns with the manner in which related party disclosures are dealt with in the ED, including:
    - (i) the proposals do not appear to include the materiality threshold that applies in relation to AASB 124 *Related Party Disclosures*; and
    - (ii) the term 'normal' may be difficult to apply in some circumstances to determine whether a transaction and/or balance between a plan, its trustee or an employer sponsor should be subject to disclosure;
  - (b) four respondents recommended that the proposal that a plan or ADF disclose the number of members and beneficiaries by benefit type and the number of members that are active, deferred or pensioner by benefit type should be deleted as this information is available from the plan's or ADF's annual report to members;

- (c) two of the respondents recommended that, where applicable, the resultant Standard should refer to the disclosure principles and requirements in other Standards by cross reference rather than replicate or paraphrase those disclosure principles and requirements;
  - (d) two respondents expressed disagreement with the proposal that credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to a plan because:
    - (i) many employer sponsors are not credit rated by rating agencies; and
    - (ii) the disclosure of this information is not justified on cost-benefit grounds;
  - (e) two respondents argued the proposed disclosure principles and associated guidance should be further tailored for superannuation entities and recommended that the replacement Standard for AAS 25 require enhanced disclosures in relation to investment management fees. One of these respondents also recommended that the replacement Standard for AAS 25 require enhanced disclosures in relation to:
    - (i) deficiencies in net assets attributable to defined benefit members; and
    - (ii) risk-based disclosures, particularly asset concentrations, sensitivity analysis, liquidity risks, operational risks and emerging risks;
  - (f) one respondent suggested that the fair value measurement guidance in paragraphs AG57-AG59 is unclear, particularly the distinction between Level 2 and Level 3 fair value measurements, and recommended that examples be provided to clarify the distinction between the levels of the fair value hierarchy. The respondent also suggested the proposed Level 3 fair value disclosures in paragraph AG 59 would be onerous.
10. One respondent expressed overall disagreement with the proposed disclosure principles, primarily because much of the information that would be disclosed under the proposals is available from other sources, such as product disclosure statements and annual reports to members. Accordingly, the proposed enhanced disclosures are not justified on cost-benefit grounds. The respondent also noted that some of the proposed disclosures could be misleading to users. For instance, paragraph 44 of ED 179 could be interpreted as implying net assets attributable to defined benefit members should always equal the amount of defined benefit members' accrued benefits.
11. Table 13 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding the disclosure principles and associated guidance in ED 179.

*Staff analysis*

12. Staff do not regard the proposed disclosure principles as excessive on the basis that:
- (a) most of the disclosure principles in ED 179 effectively replicate the disclosure principles and requirements that would otherwise apply to a plan or ADF under other Australian Accounting Standards. For instance:
    - (i) paragraph 32(b) and (c) of ED 179 require a plan or ADF to make the types of disclosures the entity might otherwise make under AASB 101 *Presentation of Financial Statements* in respect of profit or loss items, and under AASB 139 *Financial Instruments: Recognition and Measurement* in respect of fair value measurements;
    - (ii) paragraph 34 of ED 179 and the associated application guidance in Appendix B deals with the disclosures a plan or ADF might otherwise make under AASB 7 *Financial Instruments: Disclosures*; and
    - (iii) paragraphs 36 and 40 of ED 179 deal with the disclosures a plan or ADF might otherwise make under AASB 8 *Operating Segments*; and
  - (b) the remaining disclosure principles are arguably necessary to facilitate the provision of information that is relevant to the needs of users about items recognised in the income statement or statement of financial position of a superannuation entity. For instance, paragraph 42 of ED 179 proposes that:

A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding the entity's obligations for member benefits.

As member benefits are likely to represent the most significant line items on the statement of financial position of a plan or ADF, and not all member benefits are alike, staff consider disclosures in relation to member benefits are relevant to the information needs of users.
13. In relation to the respondents' comments described in sub-paragraphs 9(a), (c) and (f) above, staff consider that these types of issues would be most effectively dealt with by the replacement Standard for AAS 25 referring to the disclosure principles and requirements in other Standards by cross reference, rather than replicating or paraphrasing those disclosure principles and requirements. As noted by a number of respondents to ED 179, cross-references to the disclosure principles and requirements in other Standards:
- (a) would ensure that the principles and requirements in the replacement Standard for AAS 25 would remain up-to-date with changes in other relevant Australian Accounting Standards; and
  - (b) is unlikely to hinder preparers and auditors in their duties because they would expect to have to refer to the principles and requirements in other relevant Australian Accounting Standards, even if the replacement Standard replicated the relevant principles and requirements.
14. One respondent suggested that the replacement Standard for AAS 25 should refer to the resultant Standard from the IASB's ED on Fair Value for the principles of fair value measurement. As noted in paragraph 32 of Agenda paper 6.2 to the Board's December

2009 meeting, staff concur with this proposal. Furthermore, staff consider that the fair value disclosure proposals in paragraphs AG57-AG59 of Appendix B to ED 179 should be replaced by a reference to the fair value disclosure requirements in the resultant Standard from the IASB's ED on Fair Value.

15. Paragraphs AG57-AG59 of ED 179 propose that a plan or ADF provide fair value disclosures that are consistent with the disclosures that a plan or ADF would otherwise make under paragraphs 25-27B of AASB 7. Staff had originally advocated including amended versions of paragraphs 25-27B of AASB 7 in ED 179 on the basis that the fair value disclosure principles and requirements differ across Australian Accounting Standards, and most assets held by a plan or ADF are financial assets. Staff consider that the inclusion of a cross-reference to either the IASB's forthcoming Fair Value Standard or the corresponding Australian Accounting Standard (if the IASB's Standard has been adopted by the AASB by the time the replacement Standard for AAS 25 has been issued) would achieve the objectives of the fair value disclosure proposals in ED 179 by facilitating consistent practice across different types of assets and liabilities held by plans and ADFs.
16. Staff concur with respondents' comments regarding the term 'normal' in the context of related party disclosure proposals.
17. With respect to respondents' comments regarding the proposal that a plan or ADF disclose information in relation to member numbers, staff regard this information as relevant to users interested in understanding, for instance, the average cost per member of operating the plan or ADF. However, staff acknowledge that this information is potentially available to users through other sources, such as annual reports. Accordingly, it may not be considered necessary for a plan or ADF to disclose a detailed breakdown of its membership by benefit type and status for users. However, staff regard total membership as relevant information to users, particularly for comparing plans and ADFs.
18. With respect to respondents' comments regarding the proposal that credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to a defined benefit plan, staff acknowledge that this proposal may impose additional costs on plans. However, staff note that:
  - (a) non-superannuation entities are required to make credit risk disclosures in relation to non-credit rated entities under AASB 7; and
  - (b) the on-going support of an employer sponsor in the form of contributions is critical to a plan's capacity to meet defined benefit members' entitlements (solvency).
19. On the basis of the respondents' comments described in paragraphs 9(e) and 10 above, there would appear to be some justification for staff revisiting the proposed disclosure principle and associated guidance in relation to net assets attributable to defined benefit members. However, staff do not support the recommendation that the replacement Standard for AAS 25 provide additional guidance in relation to disclosures on asset concentrations, sensitivity analysis and liquidity risks, particularly if the Board decides that the disclosure principles and guidance in the replacement Standard for AAS 25 should refer to the disclosure principles and requirements in AASB 7 by cross

reference. The disclosure principles in AASB 7 are sufficiently detailed to be applied in a superannuation context and have been drafted to deal with many of the types of assets and liabilities that plans and ADFs hold. Moreover, by providing superannuation-specific guidance on the application of the disclosure principles and requirements in AASB 7, staff consider that the Board would be running the risk of interpreting IFRSs for superannuation entities in a manner that may not be consistent with the way in which other entities interpret the same IFRS principles and requirements.

20. In addition, staff do not support the replacement Standard for AAS 25 including additional requirements in relation to:
- (a) operational risks because these risks would include aspects of a plan's or ADF's operations that might be considered to be outside the scope of current financial accounting and auditing requirements, including assessments regarding the plan's or ADF's information technology and selection procedures for service providers; and
  - (ii) emerging risks because it is too general and would potentially include aspects of a plan's or ADF's operations that are considered to be outside the scope of current financial accounting and auditing requirements, such as marketing strategies or disaster recovery procedures.

#### ***Staff views***

Staff consider that the disclosure principles and requirements in ED 179 should be amended to:

- (a) refer to the disclosure principles and requirements in other Standards by cross reference, rather than replicating or paraphrasing those disclosure principles and requirements;
- (b) only provide superannuation-specific guidance where it is necessary to facilitate the reliable and consistent application of the disclosure principles and requirements that are particular to superannuation entities;
- (c) clarify [the types of transactions and balances between a plan or fund, its trustee and an employer sponsor that would be disclosed under the replacement Standard for AAS 25 as a related party transaction or balance](#)~~the meaning of 'normal' in a superannuation context~~;
- (d) only require the disclosure of the number of members and beneficiaries at the reporting date; and
- (e) clarify the proposed disclosure principle and associated guidance in relation to net assets attributable to defined benefit members.

Accordingly, staff do not consider that the disclosure principles and requirements in ED 179 should be amended to:

- (a) reduce the proposed level of disclosures;
- (b) relieve defined benefit plans from disclosing information in relation to the risk that an employer sponsor will encounter difficulty in making contributions to the plan;
- (c) provide additional superannuation-specific guidance in relation to disclosures on asset concentrations, sensitivity analysis and liquidity risks under AASB 7; or
- (d) include additional disclosure requirements in relation to operational or emerging risks.

**Note to Members:**

Except for the marked-up text, paragraphs 21-68 and the accompanying staff views in this Agenda paper are identical to paragraphs 115-162 and the accompanying staff views in Agenda paper 6.2 to the Board's December 2009 meeting.

**Specific matter for comment (n) – whether the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits would provide useful information for users.**

21. Paragraph 46 of ED 179 proposes that:

A superannuation plan shall 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:

- (a) benefit cost;
- (b) interest cost;
- (c) actuarial gains and losses; and
- (d) gains or losses on settlements.

22. Eight of the respondents commented on the proposal for the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits. Four of the respondents expressed agreement with the proposal, one of which agreed with the proposal on the proviso that the plan's disclosures match the corresponding disclosures made in the employer sponsor's financial statements under AASB 119 *Employee Benefits*. Another respondent suggested that the level of detail provided should be relevant to members' needs.

23. Four of the respondents expressed disagreement with the proposal for the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits. Two of these respondents disagreed with the proposals because they did not agree that defined benefit members' benefits should be measured at their accrued benefits. In addition, two respondents suggested that the information is not useful for users of the financial statements of plans and one respondent argued the proposed disclosures are not justified on cost-benefit grounds, principally because the number of defined benefit members is declining.

24. Table 15 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits.

**Staff analysis**

25. At its December 2009 meeting, the Board tentatively decided that the replacement Standard for AAS 25 should identify the overriding measurement objective for defined benefit obligations as fair value, noting it is likely to be a level 3 measurement, whereby obligations for defined benefit members' accrued benefits would be measured in accordance with the (unmodified) approach under AASB 119 for defined benefit

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obligations. Accordingly, where a plan measures its obligations for defined benefit members' accrued benefits using either level 1 or level 2 fair value measurement inputs, staff consider that:

- (a) the plan should disclose information in accordance with the relevant principles and requirements in the IASB's forthcoming Fair Value Measurement Standard; and
- (b) the plan should not also be required to make the disclosures proposed by paragraph 46 of ED 179 because this information is arguably not relevant in the context of either a level 1 or level 2 fair value measurement of the liability.

26. However, if a plan measures its obligations for defined benefit members' accrued benefits in accordance with the approach under AASB 119 as a level 3 fair value measurement, staff consider that the disclosures proposed in paragraph 46 of ED 179 would provide useful information to the users of the plan's financial statements. In addition, requiring a plan to make the disclosures:

- (a) required under the relevant principles and requirements in the IASB's forthcoming Fair Value Measurement Standard when it measures defined benefit members' accrued benefits using level 1 or level 2 fair value inputs; or
- (b) proposed by paragraph 46 of ED 179 when it measures its defined benefit members' accrued benefits in accordance with the approach under AASB 119,  
is consistent with the proposal in paragraph AG1 of ED 179 in respect of disclosures.

27. Paragraph AG1 of ED 179 outlines the proposed approach a plan or ADF would adopt in determining the disclosures it would make under the replacement Standard for AAS 25 in the context of other Australian Accounting Standards. Paragraph AG1 proposes that:

"When a superannuation plan or approved deposit fund applies the recognition or presentation principles and requirements in other Australian Accounting Standards, the plan or fund would also apply any relevant disclosure principles and requirements contained in those other Australian Accounting Standards unless they:

- (a) are not consistent with the measurement requirements in this Standard; or
- (b) address the same items or events as the disclosure principles in this Standard."

28. Paragraph 120A of AASB 119 requires an employer sponsor to disclose, among other things, service cost, interest cost, actuarial gains and losses and settlements for the reporting period. Accordingly, staff consider that, consistent with paragraph AG1 of ED 179, a plan that measures its obligations for defined benefit members' accrued benefits in accordance with the approach under AASB 119 should also be required to make the disclosures proposed by paragraph 46 of ED 179. However, staff do not consider that a plan that applies the measurement approach under AASB 119 for defined benefit obligations should be required to make all of the disclosures required under AASB 119 in respect of defined benefit obligations.

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29. Some of the disclosures required under paragraphs 120 and 120A of AASB 119 have been adapted for the purposes of ED 179. For instance, paragraph AG89(g) of ED 179 requires a plan to disclose information in relation to the actuarial assumptions used in measuring defined benefit members' accrued benefits, including the key assumptions and any uncertainties surrounding these assumptions(see Appendix B to this Agenda paper). These disclosure proposals are similar to the disclosures required by an employer sponsor under paragraph 120A(n) of AASB 119. However, most of the disclosures required under paragraph 120A of AASB 119 are not relevant in the context of the measurement and presentation proposals in ED 179 because they relate to:

- (a) the implications of applying the 'corridor' approach for measuring the defined benefit obligation; or
- (b) the measurement of any plan assets.

In contrast to AASB 119, ED 179 proposes that a plan recognise the net change in defined benefit members' accrued benefits in the income statement in the period in which it occurs, and measure nearly all of its assets at fair value and recognise all remeasurement changes in assets measured at fair value in the income statement in the period in which they occur.

#### *Staff views*

~~Subject to the Board's tentative decision at its December 2009 meeting that the replacement Standard for AAS 25 should identify the overriding measurement objective for defined benefit obligations as fair value, noting it is likely to be a level 3 measurement, whereby obligations for defined benefit members' accrued benefits would be measured in accordance with the (unmodified) approach under AASB 119 for defined benefit obligations. Accordingly, staff consider that that the replacement Standard for AAS 25 should retain:~~

- ~~(a) paragraphs 46 and 47 and the accompanying application guidance relating to the disclosure of components of remeasurement changes in obligations for defined benefit members' accrued benefits (see Appendix B to this Agenda paper); and~~
- ~~(b) paragraph AG89(g), which deals with the disclosure of actuarial assumptions;~~

~~for application by a plan that measures its defined benefit members' accrued benefits in accordance with the approach under AASB 119 for defined benefit obligations as a level 3 fair value measurement. in relation to Specific Matter for Comment (c)—the measurement of defined benefit obligations, staff consider that the proposals in relation to the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits should be retained in a replacement Standard for AAS 25.~~

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**Specific matter for comment (o) – whether it would be more useful if the Standard provided example financial statements for a plan comprising both defined contribution and defined benefit members**

30. Twelve of the respondents commented on the proposal that the replacement Standard for AAS 25 provide example financial statements for a ‘hybrid’ plan. All of these respondents expressed support for the proposal. Respondents noted that example financial statements for a ‘hybrid’ plan:
- (a) would ensure that the reporting requirements for such plans are communicated more fully and reduce the potential for misinterpretation; and/or
  - (b) are justified on the grounds of the complexity and significance of the changes proposed in ED 179, and the increasing prevalence of such plans in Australia.
31. In addition:
- (a) four respondents recommended that the example financial statements in the Standard should include example note disclosures;
  - (b) one respondent recommended that the example financial statements include obligations for pension members; and
  - (b) one respondent recommended that the Standard provide example consolidated and separate financial statements.
32. Table 16 in Agenda paper 6.4 to this meeting provides respondents’ detailed comments regarding the example financial statements in Appendix C to ED 179.

**Staff analysis**

33. Consistent with respondents’ comments, staff agree that example financial statements for a ‘hybrid’ plan comprising both defined contribution and defined benefit members would assist preparers, auditors and users in understanding how the presentation requirements in ED 179 would apply to such entities. However, staff do not agree that the replacement Standard for AAS 25 should provide comprehensive illustrative notes to the example financial statements, but that consideration should be given to whether the replacement Standard for AAS 25 should provide selected illustrative notes on matters of particular relevance to plans and ADFs, such as:

- (a) member benefits;
- (b) arrangement and management of assets; and
- (c) net assets attributable to defined benefit members.

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**Staff views**

Staff consider that:

- (a) an example set of financial statements for a 'hybrid' plan should be included in the replacement Standard for AAS 25;
- (b) an example set of consolidated and separate financial statements should be included in the replacement Standard for AAS 25; and
- (c) the replacement Standard for AAS 25 provide selected illustrative notes on matters of particular relevance to plans and ADFs, ~~such as:~~
  - ~~(i) member benefits;~~
  - ~~(ii) arrangement and management of assets; and~~
  - ~~(iii) net assets attributable to defined benefit members.~~

**Specific matter for comment (p) – whether the approach in drafting ED 179 is helpful for understanding how a plan or ADF might apply the proposals in ED 179, particularly the disclosure principles**

- 34. Seven respondents commented on the approach in drafting ED 179, all of which expressed general agreement with the approach. Respondents noted that:
  - (a) as the proposals are principle-based, the drafting provides a trustee with flexibility to determine which disclosures are relevant to its plan's circumstances. However, there is the possibility that trustees will not embrace the approach and comply with the spirit of the requirements so the Standard should provide some guidance on material misstatements and/or non-compliance;
  - (b) the Standard should, when applicable, refer to the disclosure principles and requirements in other Standards by cross reference rather than replicate or paraphrase those disclosure principles and requirements;
  - (c) the Standard should be as concise as possible, only set out the required accounting principles where the principles depart from the IFRS principles that would otherwise apply, and clearly set out the reasons for departure from IFRS; and
  - (d) more discussion, guidance and examples would assist in interpreting and applying the Standard.
- 35. Table 17 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding the approach adopted in drafting ED 179.

**Staff analysis**

- 36. As discussed in paragraphs 13-15 of this Agenda paper, staff agree with the recommendation by some respondents that the replacement Standard should, when applicable, refer to the disclosure principles and requirements in other Standards by cross reference rather than replicate or paraphrase those disclosure principles and requirements. Staff consider that this approach would facilitate the adoption of several of the other recommendations made by respondents described in paragraph 34,

particularly the recommendations that the Standard should be as concise as possible and only set out the required accounting principles where the principles depart from the IFRS principles that would otherwise apply.

37. Most of the respondents that recommended more discussion, guidance and examples be included in the replacement Standard for AAS 25 made this recommendation in the context of proposals in relation to the:
- (a) measurement of obligations and assets arising from insurance contracts issued by a plan or ADF;
  - (b) preparation and presentation of consolidated financial statements; and
  - (c) disclosure of segregated financial information.

38. At its December 2009 meeting, the Board tentatively decided:

- (a) to require a plan or ADF that reinsures all of the insurance arrangements it provides to its members with an external insurer to account for such arrangements in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*;
- (b) to give further consideration to the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 for measuring defined benefit obligations;
- (c) that a parent plan or ADF should prepare consolidated financial statements in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, although all recognised assets and liabilities except for:
  - (i) tax assets and tax liabilities;
  - (ii) obligations for defined contribution members' benefits;
  - (iii) assets and liabilities arising from insurance contracts issued by a plan or ADF; and
  - (iv) goodwill,should be measured at their fair values; and
- (d) to give further consideration to the outcomes from APRA's enhanced superannuation statistics collections proposals in respect of sub-fund information, and whether the principles and guidance in respect of segregated financial disclosures should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information.

~~As noted in paragraphs 54-56 and 112-114 of this Agenda paper, staff consider that measurement of insurance obligations and assets, and the disclosure of segregated financial information, should be subject to further research. Accordingly, staff anticipate that the need for guidance and illustrative examples in respect of 'self-insured' defined benefit arrangements and segmented financial disclosures would be considered as a part of the Board's redeliberations on these issues this research.~~  
 However, as noted in paragraph 19 of this Agenda paper, staff do not consider that the replacement Standard for AAS 25 should include additional guidance in respect of IFRS principles and requirements because this would run the risk of introducing

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interpretations into Australian Accounting Standards that are not consistent with ways in which the equivalent IFRS principles and requirements are interpreted in other contexts. [Consistent with this, staff do not consider that the replacement Standard for AAS 25 should include additional guidance in respect of the preparation and presentation of consolidated financial statements.](#)

#### *Staff views*

Consistent with respondents' comments [and the Board's tentative decisions to date](#), staff consider that the approach adopted in drafting ED 179 should be retained in the replacement Standard, subject to the Board's decisions in relation to the:

- (a) measurement of obligations ~~and assets~~ arising from ['self-insured' defined benefit arrangements](#) ~~insurance contracts issued by a plan or ADF~~; [and](#)
- ~~(b) preparation and presentation of consolidated financial statements; and~~
- [\(b\)](#) disclosure of segregated financial information.

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#### **Specific matter for comment (q) – whether, overall, the proposals would result in general purpose financial statements that would be useful to users.**

- 39. Seven respondents commented on the overall benefit of the proposals in ED 179 to users. Five of these respondents expressed agreement with the suggestion that, overall, the proposals in ED 179 would facilitate the provision of useful information to users, subject to their comments in relation to other specific matters for comment.
- 40. Two respondents expressed disagreement with the suggestion that the proposals would facilitate the provision of useful information to users. Both respondents argued that the measurement proposals in relation to defined benefit members' benefits:
  - (a) would not provide useful information to users, particularly members, regarding the financial position of a plan with defined benefit members; and
  - (b) would be potentially confusing to some users as:
    - (i) most users, including members, are not sufficiently familiar with the notion of accrued benefits, how it is calculated and its implications for plan solvency; and
    - (ii) plans are currently required to measure defined benefit members' accrued benefits for prudential and legislative purposes, and these amounts are likely to differ from the amount of accrued benefits measured under the proposals in ED 179.
- 41. Table 18 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding whether, overall, the proposals in ED 179 would result in general purpose financial statements would be useful to users.

*Staff analysis*

42. The issues raised by respondents in respect of whether, overall, the proposals would result in general purpose financial statements that would be useful to users have been discussed [at the Board's December 2009 meeting](#) ~~elsewhere in this Agenda paper~~, particularly in relation to the:
- (a) measurement of defined benefit members' accrued benefits;
  - (b) measurement of obligations and assets arising from insurance contracts issued by a plan or ADF;
  - (c) preparation and presentation of consolidated financial statements; and
  - (d) disclosure of segregated financial information.

Staff have considered respondents' comments in respect of Specific Matter for Comment (q) [in relation to the aforementioned issues](#) ~~elsewhere in this~~ Agenda paper [6.2 to the Board's December 2009 meeting](#). Accordingly, staff do not have any further views to add here.

**Specific matter for comment (r) – whether the proposals are in the best interests of the Australian economy**

43. Eight respondents commented on whether the proposals in ED 179 are in the best interests of the Australian economy. Four of these respondents expressed agreement with the suggestion that the proposals in ED 179 are in the best interests of the Australian economy, subject to their comments in relation to other specific matters for comment. These respondents noted, among other things, that:
- (a) given the size of the industry and its estimated future growth, proposals that enhance the financial reporting of plans are in the best interests of the Australian economy; and
  - (b) aligning the reporting requirements for superannuation entities with IFRS is beneficial for the Australian economy.
44. Four respondents expressed disagreement with the suggestion that the proposals are in the best interests of the Australian economy. All four respondents argued that the additional costs that would be imposed on plans to comply with the measurement proposals in relation to defined benefit members' accrued benefits would exceed the benefits to users. In particular, these respondents argued that the defined benefit measurement proposals would impose increased costs, including:
- (a) actuarial fees. Two respondents suggested that the proposals might increase annual financial audit fees by a factor of between two and three;
  - (b) consultation fees. Additional consultation time between auditors, actuaries and trustees would be required to agree on assumptions to be used in annual calculations; and
  - (c) indirect costs, such as time spent responding to defined benefit member queries and the costs to members of sub-optimal decision making.

In addition, one of these respondents noted that, in the current financial climate, employer sponsors are under significant financial pressure, and imposing increased

costs on employers that provide defined benefit arrangements would probably make them more inclined to either terminate their defined benefit arrangements or convert their arrangements into defined contribution arrangements.

45. Three of the four respondents that expressed disagreement with the suggestion that the measurement proposals in relation to defined benefit members' accrued benefits proposals are in the best interests of the Australian economy also suggested that the disclosure proposals in ED 179 are arguably not in the best interests of the Australian economy. This is because they would impose costs on superannuation entities but users would gain little, if any, incremental benefits from the information because much of it is currently available from other sources, such as product disclosure statements and annual reports to members.
46. Four respondents argued that the proposals in ED 179 in respect of consolidated financial statements are arguably not in the best interests of the Australian economy. One of these respondents recommended that a parent plan or parent ADF should prepare consolidated financial statements in accordance with AASB 127 *Consolidated and Separate Financial Statements* without any modification. Another respondent recommended that superannuation entities be relieved from the requirement to prepare consolidated financial statements altogether because consolidated reporting by superannuation entities is arguably not justifiable on cost-benefit grounds.
47. Table 19 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding whether the proposals are in the best interests of the Australian economy.

#### *Staff analysis*

48. The issues raised by respondents in respect of whether, overall, the proposals would result in general purpose financial statements that would be useful to users have been discussed [at the Board's December 2009 meeting](#) ~~elsewhere in this Agenda paper~~, particularly in relation to the:
  - (a) measurement of defined benefit members' accrued benefits;
  - (b) disclosure principles in paragraphs 32-50 of ED 179; and
  - (c) preparation and presentation of consolidated financial statements.

Staff have considered respondents' comments in respect of Specific Matter for Comment (r) [in relation to the aforementioned issues](#) ~~elsewhere in this Agenda paper 6.2 to the Board's December 2009 meeting and this Agenda paper~~. Accordingly, staff do not have any further views to add here.

#### **Other issues raised by respondents**

49. Respondents to ED 179 identified a number of issues not specifically addressed in the Specific Matters for Comment. For the purpose of analysis, these issues have been categorised into one of the following four broad categories:
  - (a) presentation of financial statements;
  - (b) areas for further guidance;
  - (c) disclosure of management expense ratio; or

(d) users of the financial statements of plans and ADFs and their information needs.

50. Table 20 in Agenda paper 6.4 to this meeting provides respondents' detailed comments regarding issues not specifically addressed in the Specific Matters for Comment.

***Presentation of financial statements***

51. Ten of the respondents commented on the proposals in respect of the presentation of financial statements by plans and ADFs. These respondents made a number of recommendations regarding the proposals, including:
- (a) a statement of changes in equity would not provide sufficient useful information to users to justify preparation and auditing costs and, in some cases, may be misleading. Accordingly, the information that would otherwise be presented in such a statement should be included:
    - (i) in the statement of financial position as a line item;
    - (ii) disclosed as a note;
  - (b) separate financial statements should either be permitted or required to be presented with consolidated financial statements to facilitate prudential reporting to APRA;
  - (c) the current requirement to present a statement of net assets for defined benefit plans should be retained because the presentation of members' benefits in the statement of financial position is likely to be misleading to users and create incorrect expectations about any surplus or deficit recognised;
  - (d) the proposed suite of five financial statements for a plan or ADF is appropriate. In addition, four respondents expressed agreement with defined benefit plans presenting a statement of cash flows;
  - (e) the *Income Tax Assessment Act (1997)* does not distinguish between income tax on investment earnings and tax on contributions. Accordingly, if the replacement Standard for AAS 25 requires a plan to present tax on earnings in the income statement and tax on contributions in the statement of changes in members' benefits, some plans may find it difficult to reliably measure the two amounts. In addition, depending upon how the amounts are calculated, neither amount may bear any relation to the plan's effective tax rate;
  - (f) that the ED should further address the disclosure requirements in relation to reserves, particularly the reconciliation of opening and closing balances of investment and administration reserves;
  - (g) rather than requiring both an income statement and a statement of changes in members' benefits, a single statement of comprehensive income, distinguishing between operational movements and movements in member entitlements, should be provided; and
  - (h) realised gains and losses should be presented separately from unrealised gains and losses.

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### *Staff analysis*

#### *Statement of changes in equity*

52. At its December 2007 meeting, the Board decided that a residual interest in the net assets of a plan or ADF should be classified as equity and disclosed in accordance with the relevant requirements in AASB 101. However, the Board noted that the presentation of a defined benefit surplus or deficiency in accordance with paragraphs 79 and 80 of AASB 101 may not facilitate the provision of useful information to users. Accordingly, at its May 2008 meeting, the Board decided that a plan that presents a defined benefit deficiency should disclose information that enables users to evaluate the nature and implications of the deficiency. These disclosures are in addition to presenting the defined benefit deficiency as a part of the plan's statement of changes in equity.
53. While staff consider information in relation to the equity items of a plan or ADF would be useful to users of the financial statements of some plans and ADFs, particularly those plans and ADFs that have significant reserves, staff acknowledge the concerns expressed by some respondents that the proposals are likely to impose additional preparation and auditing costs on plans and ADFs that have relatively small amounts in reserves.
54. Staff note that paragraph 79 of AASB 101 permits an entity to disclose information in relation to some equity items either in the statement of financial position or the statement of changes in equity, or in the notes. However, an entity that prepares its financial statements in accordance with Australian Accounting Standards is required to present a statement of changes in equity for each reporting period in accordance with paragraph 10 of AASB 101.
55. With respect to the recommendation by a respondent that the replacement Standard for AAS 25 include additional guidance in relation to the disclosure of reserves, particularly the reconciliation of opening and closing balances of investment and administration reserves, staff note that:
  - (a) AASB 101 contains limited guidance regarding the presentation and disclosure of information in relation to reserves; and
  - (b) other than the example statements of changes in equity in Appendix C, ED 179 contains no specific guidance in relation to reserves.

#### *Separate financial statements*

56. At its June 2008 meeting, the Board decided that a plan or ADF that has a subsidiary should not be required to present parent entity financial statements in addition to its consolidated financial statements. In addition, at its August 2008 meeting, the Board decided that, if a parent plan or parent ADF prepares separate financial statements for the information of users who are unable to command information tailored to their needs, the entity should present the separate financial statements together with its consolidated financial statements.

57. Staff acknowledge respondents' concerns regarding the potential inconsistency between ED 179 and the prudential reporting requirements that apply to plans and ADFs in respect of separate financial statements. Staff also consider that some users of the financial statements of plans, particularly members, would consider the level of detail provided in a set of consolidated financial statements to be confusing and excessive for their needs. In addition, staff note that the requirements in ED 179 in respect of the presentation of separate financial statements are arguably inconsistent with AASB 127.

58. Paragraph 38 of AASB 127 states, in part, that:

This Standard does not mandate which parent entities produce separate financial statements available for public use.

Accordingly, for the replacement Standard for AAS 25 to be consistent with AASB 127, paragraph 31 of ED 179 should arguably not be retained in the replacement Standard. Paragraph 31 of ED 179 proposes that:

A parent superannuation plan or parent approved deposit fund that prepares separate financial statements intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs shall present its separate and consolidated statements together.

*A statement of net assets for defined benefit plans*

59. Underlying the recommendation that the requirement under AAS 25 for a defined benefit plan to present a statement of net assets is the view that a defined benefit plan should not be required to recognise members' benefits as liabilities in the entity's statement of financial position. [At its December 2009 meeting, the Board affirmed its decision that obligations for defined contribution members' vested and defined benefit members' accrued benefits are liabilities of a plan or ADF.](#) ~~As noted in paragraph 16 of Agenda paper 6.2 to the Board's December 2009 meeting, staff consider member benefits to be liabilities of a plan or ADF.~~ Accordingly, staff consider that the members' benefits of a plan or ADF should be recognised in the plan's or ADF's statement of financial position.

*Separate presentation of tax on earnings from tax on contributions*

60. Staff consider that the main reasons for taxes on contributions being treated as income tax relate to the efficiency and administrative benefits that arise from the Australian Taxation Office collecting such taxes. Accordingly, staff consider that the tax attributable to contributions should approximate fifteen percent of contributions in each reporting period. Nevertheless, staff consider that there is some merit in the replacement Standard for AAS 25 specifying how a plan's tax liability for a reporting period should be allocated between the income statement and the statement of changes in members' benefits because diversity in practice could potentially arise. For instance, some plans would incur expenses that are deductible for tax purposes but only relate to contributions, such as the fees paid to third parties to collect and process contributions on behalf of the plan. Accordingly, these types of plans might consider the plan's effective tax rate (on both investment earnings and contributions) to be an appropriate basis for determining taxes on contributions, even when the plan's effective tax rate is less than fifteen percent.

*Statement of comprehensive income*

61. Paragraphs BC75-BC77 of the Basis for Conclusions to ED 179 state that:

“Under AAS 25, contributions, transfers and rollovers are treated as revenues, and payments to defined benefit members are treated as expenses.

The AASB considered the merits of this approach and concluded that it should not be retained because:

- (a) member contributions, transfers and rollovers in relation to a defined contribution member have the characteristics of liabilities as they fully vest in the member and are payable to, or on behalf of, the member upon demand; and
- (b) employer contributions on behalf of a defined contribution member have the characteristics of liabilities and employer contributions on behalf of a defined benefit member assist in funding the superannuation plan’s obligations to such members and therefore have characteristics of both liabilities and equity.

To facilitate a consistent treatment of employer contributions on behalf of defined contribution and defined benefit members, the AASB concluded that ED 179 should propose that all employer contributions be treated as giving rise to liabilities of a superannuation plan.

Consistent with its conclusions in respect of contributions, the AASB concluded that benefit payments are not in the nature of expenses of a superannuation plan or approved deposit fund.”

62. In addition, paragraph BC70 of the Basis for Conclusions to ED 179 states that:

“The AASB considered whether a superannuation plan or approved deposit fund should present a single statement of comprehensive income or a comprehensive statement of income in accordance with AASB 101 and concluded that neither statement would be appropriate in a superannuation context because:

- (a) the AASB concluded that all remeasurement changes in assets and liabilities, other than tax items that are credited or charged directly to member benefits, should be recognised in the income statement in the period in which they occur; and
- (b) the term ‘comprehensive income’ encompasses items that would not be recognised in equity under the proposals in ED 179, including profits or losses arising from applying the equity method of accounting or cash flow hedge accounting.

Accordingly, requiring a superannuation plan or approved deposit fund to prepare a statement of comprehensive income may be misleading to some preparers and users.”

63. Consistent with paragraphs BC70 and BC75-BC77, staff do not consider that a plan or ADF should be permitted to:

- (a) present a comprehensive income statement; or

- (b) recognise contributions, transfers and rollovers as revenues or payments to members as expenses.

*Separate presentation of realised and unrealised gains and losses*

64. While AAS 25 requires a plan or ADF to disclose in a note remeasurement changes in respect of the assets it realised during the reporting period and the assets it holds at the reporting date, other Australian Accounting Standards do not require an entity to present or disclose realised and unrealised gains and losses separately. Staff acknowledge that some users might regard the separate presentation or disclosure of realised and unrealised gains and losses as useful information. However, staff do not consider there to be any superannuation-specific reasons for requiring such disclosures. In addition, staff note that a plan or ADF could, if it considered the information useful for decision making, separately present or disclose realised and unrealised gains and losses under [the proposals in ED 179 and](#) other Australian Accounting Standards.

***Staff views***

Staff consider that:

- (a) the proposal that a plan or ADF present a statement of financial position, statement of cash flows, an income statement, a statement of changes in member benefits, notes and, where relevant, a statement of changes in equity be retained in a replacement Standard for AAS 25;
- (b) staff should prepare draft guidance in relation to the disclosure of reserves for consideration by the Board at a future meeting;
- (c) the replacement Standard for AAS 25 should permit a parent plan or parent ADF to separately present parent financial statements because it would be consistent with the approach under AASB 127 and would facilitate the provision of useful information to some users of plan and ADF financial statements. Accordingly, paragraph 31 of ED 179 should not be retained [in the replacement Standard for AAS 25](#);
- (d) staff should prepare draft guidance in relation to how a plan's tax liability for a reporting period should be allocated between the income statement and the statement of changes in members' benefits; and
- (d) gains and losses in respect of assets and liabilities held by a plan or ADF should be presented and disclosed in a manner consistent with other Australian Accounting Standards.

***Areas for further guidance***

65. Five respondents identified areas that they consider warrant superannuation-specific guidance in the replacement Standard for AAS 25. The issues raised by these respondents included:
- (a) whether the reconciliation to the statement of cash flows would only include operating activities in the income statement and excludes any reconciliations with net benefits accrued from member activities. Under AAS 25, plans and ADFs recognise contributions, transfers, rollovers and defined benefit payments in the income statement and are classified as operating activities for the purpose of preparing a statement of cash flows;

- (b) whether a plan or ADF should present income statement or cash flow statement items on a gross or net basis, particularly in relation to those plans and ADFs that conduct their investment activities through investment managers and/or a custodian and not through the plan's or ADF's own bank account;
- (c) the disclosure of non-cash items, such as dividends, distributions and fee rebates, that are transacted through a custodian;
- (d) how transactions that had traditionally been included in 'reserves' or 'unallocated amounts' should be treated under the replacement Standard for AAS 25, including bonuses received from insurance companies and income tax 'surpluses';
- (e) the circumstances in which contributions in respect of defined contribution members should be recognised on an accrual or a cash basis and the circumstances in which a plan would recognise contributions receivable in respect of defined benefit members for which there is a deficiency of net assets;
- (f) the circumstances in which members' benefits should be recognised as benefits payable (current liability); and
- (g) the need for additional guidance in relation to the valuation of unlisted investments and the treatment of deferred tax assets.

### **Staff analysis**

66. Overall, staff do not consider that the areas identified by respondents warrant superannuation-specific guidance in the replacement Standard for AAS 25, primarily because:

- (a) these areas are dealt with in other Australian Accounting Standards; and/or
- (b) many non-superannuation entities deal with these issues under Australian Accounting Standards without the benefit of additional guidance.

In addition, as noted in paragraphs 19 and 33 of this Agenda paper, staff do not support the replacement Standard for AAS 25 providing superannuation-specific guidance on the application of the principles and requirements in Australian Accounting Standards because it would run the risk of establishing interpretations of IFRS principles and requirements that are not consistent with the way in which the same IFRS principles and requirements are interpreted in other contexts.

67. Staff note the following with respect to the respondents' comments described in paragraph 65 above.

- (a) AASB 107 *Cash Flow Statements* requires:
  - (i) a reconciliation of cash flows arising from operating activities to profit or loss to be disclosed;
  - (ii) an entity to report cash flows from operating, investing and financing activities on a gross basis; and
  - (iii) non-cash investing or financing transactions to be disclosed in a way that provides all the relevant information about such activities;
- (b) AASB 112 *Income Taxes* specifies the treatment of tax assets and deferred tax assets;

- (c) to be recognised as an asset, contributions not yet received from an employer or member would need to meet the recognition criteria for an asset set out in the *Framework*;
- (d) to be recognised as a current liability, AASB 101 requires that the liability be, for instance, due to be settled within twelve months after the end of the reporting period; and
- (e) AASB 139 [currently](#) provides guidance in respect of the fair value measurement of financial assets and financial liabilities. [The IASB is proposing to relocate some of this guidance and provide additional guidance in the IASB's Fair Value Measurement Standard.](#)

#### ***Staff views***

Staff consider that, consistent with the Board's policy of transaction-neutrality, the replacement Standard for AAS 25 should not include superannuation-specific guidance in respect of the:

- (a) presentation of 'netted off' revenue and expense items;
- (b) preparation and presentation of cash flow statements;
- (c) treatment of tax assets or deferred tax assets;
- (d) recognition criteria for contributions receivable;
- (e) criteria for presenting members' benefits as a current liability; or
- (f) fair value measurement of assets or liabilities.

#### ***Management expense ratio (MER)***

68. One respondent recommended that the replacement Standard for AAS 25 require a plan or ADF to disclose its MER because:
- (a) superannuation entities are required to disclose their MER and therefore it would be consistent for any accounting standard to also require the disclosure of the MER; and
  - (b) an MER provides useful information to users regarding a plan's or ADF's efficiency, and some transparency and understanding in relation to the entity's structure.

#### ***Staff analysis***

69. At its August 2008 meeting, the Board decided that ED 179 should not propose that a plan or ADF disclose a management expense ratio for the entity as a whole. Accordingly, paragraph BC116 of the Basis for Conclusions to ED 179 states that:
- "The AASB considered whether a superannuation plan or approved deposit fund should be required to disclose a management expense ratio for the entity as a whole. The AASB concluded that ED 179 should not propose that such a ratio be disclosed because a key focus of Australian Accounting Standards is on facilitating the provision of reliable information from which users can calculate ratios, including management expense ratios, which they

regard as useful for their particular needs. The AASB is also concerned that an entity-wide ratio may be unhelpful to users in cases where a plan offers a variety of investment choices that carry a variety of management expenses.”

70. While staff acknowledge that users of the financial statements of plan or ADF might regard the entity’s MER as useful information, staff note that:
- (a) MERs of superannuation entities are publicly available from other sources; and
  - (b) with respect to MER information, the needs of users of the financial statements of plans and ADFs are arguably no different from the needs of users of the financial statements of other investment-type entities (such as pooled superannuation trusts and managed investment schemes) and other entities, particularly investment-type entities, are not required to disclose their MERs under Australian Accounting Standards.

Staff also note that, under the proposals in ED 179, a plan or ADF would be required to present or disclose its expenses for the period and net assets at the reporting date. Accordingly, a user could calculate an MER for a plan or ADF as a whole using the information presented and disclosed under the proposals in ED 179.

***Staff views***

Staff consider that the replacement Standard for AAS 25 should not require a plan or ADF to disclose its MER.

***Users of the financial statements of plans and ADFs and their information needs***

71. Six of the respondents provided comments on the users of the financial statements of plans and ADFs. These respondents noted, among other things, that:
- (a) the primary users of financial statements tend to be employer sponsors, ASIC and APRA. Other users include creditors, financial intermediaries and finance professionals. In contrast, members tend to rely on other sources of information, such as product disclosure statements and annual reports to members, and therefore rarely request copies of financial statements;
  - (b) plans and ADFs should be required to prepare a full set of financial statements for the purpose of fulfilling their fiduciary/stewardship obligations, to ensure that audited financial statements are prepared in accordance with the relevant legislative requirements, and to provide a basis for the abridged financial information which is included in the annual reports to members (as required by legislation). However, as members tend to rely on information from other sources, there is limited need for complex presentation formats and detailed note disclosures;
  - (c) members are the principal stakeholders in plans and ADFs and therefore should be considered to be users of the financial statements;
  - (d) it is not clear from ED 179 the principle the Board has used in determining when it should deviate from IFRS. In particular, it is not clear how the Board has determined that a particular treatment would facilitate the provision of more useful information to users than an alternative treatment;

- (e) it is unclear how, in practice, employer sponsors could be regarded as ‘general purpose’ users;

~~(f) if the actuary’s report is presented separately from the plan’s financial statements, 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; (Note: this issue is addressed in Agenda paper 6.3 to this meeting) and~~

- (f) under the Choice of Fund arrangements, there may be a greater role for general purpose financial reporting by plans and ADFs. However, relatively few plans and ADFs make their financial statements freely available to everybody .

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### *Staff analysis*

72. While some of the respondents do not regard members as the primary users of the financial statements of a plan or ADF, opinions amongst respondents on who the primary users are appears to be mixed. Nevertheless, some of the respondents that expressed disagreement with the notion that members are the primary users agreed that a plan or ADF should be required to prepare a full set of financial statements that are capable of being audited in accordance with the relevant professional and legislative requirements.
73. Staff acknowledge that the discussion in the Basis for Conclusions to ED 179 could be enhanced in respect of the respondents’ comments discussed in sub-paragraph 71(d); [and](#) (e) ~~and (f)~~. In addition, staff acknowledge that relatively few plans and ADFs make their financial statements readily available through publicly accessible media. A recent survey by AASB staff of superannuation entities that hold an extended public offer APRA licence found that less than half of these entities make their financial statements available on their websites. Nevertheless, staff consider that the availability of plan and ADF financial statements is outside the scope of the AASB’s project to review the requirements in AAS 25.

### *Staff views*

Staff consider that the Basis for Conclusions to ED 179 should be reviewed in light of respondents’ comments on:

- (a) the users of the financial statements of a plan or ADF and their respective information needs; and
- (b) the criteria used by the Board in determining when it should deviate from the principles and requirements under Australian Accounting Standards.

**Appendix A - Table of Respondents**

**Table of Respondents**

<b>Response number</b>	<b>Respondent</b>	<b>Constituent Group</b>
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 bodies
13	Grant Thornton	Accountant and auditor
14	Dr Isabel Gordon	Academic
15	Institute of Actuaries of Australia (IAA)	Professional actuarial 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

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**Appendix B – Selected paragraphs from ED 179 *Superannuation Plans and Approved Deposit Funds***

**Components of Remeasurement Changes in Defined Benefit Members' Accrued Benefits**

- 46 A superannuation plan shall 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:
- (a) *benefit cost*;
  - (b) *interest cost*;
  - (c) *actuarial gains and losses*; and
  - (d) *gains or losses on settlements*.
- 47 Paragraphs AG91-AG96 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 46.

**Components of remeasurement changes in defined benefit members' accrued benefits**

**Interest cost**

- AG91 Interest cost represents the cost of financing defined benefit members' accrued benefits in the reporting period. The interest cost reflects the 'unwinding' of a defined benefit obligation in the sense that the benefits are one period closer to settlement.
- AG92 Interest cost is calculated by multiplying the discount rate, as determined at the start of the reporting period, by the present value of defined benefit members' accrued benefits throughout that period, taking account of any material changes in the obligation for such members' accrued benefits.

**Actuarial gains and losses**

- AG93 Actuarial gains and losses may result from decreases or increases in the present value of an obligation for defined benefit members' accrued benefits. Causes of actuarial gains and losses include, for example:
- (a) unexpectedly high or low rates of member turnover or the effect of changes in estimates of future member turnover;
  - (b) unexpected increases in salaries or benefits or the effect of changes in estimates of salaries or benefits (if, for example, the formal terms of a superannuation plan provide for inflationary benefit increases); and
  - (c) the effect of changes in the discount rate.

**Gains or losses on settlements**

- AG94 A settlement occurs when an employer sponsor enters into a transaction that eliminates a superannuation plan's legal and/or constructive obligations for part or all of its defined benefit members' accrued benefits. For example, when the members of a plan agree to exchange their defined benefit entitlements for defined contribution entitlements.
- AG95 Before determining the effect of a settlement, a superannuation plan remeasures its obligation for defined benefit members' accrued benefits using current actuarial assumptions (including current market interest rates and other current market prices) as well as the net assets attributable to such members.
- AG96 A gain or loss on a settlement arises when the amount required to settle a superannuation plan's obligations to defined benefit members is less than or greater than the amount of those members' accrued benefits on the date of settlement.

### Member Benefits

AG89 To comply with paragraph 42 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum when relevant, the following:

- (a) the amount of defined benefit members' vested benefits at the end of the reporting period by member status (active, deferred and pensioner);
- (b) the amount of defined benefit members' accrued benefits at the end of the reporting period by member status;
- (c) the amount of any net assets attributable to defined contribution members but not allocated to those members at the end of the reporting period;
- (d) details of any guarantees provided in relation to members' or their beneficiaries' benefits, including:
  - (i) the identity of the guarantor;
  - (ii) the nature of the guarantee, including the benefit type and the number of members or beneficiaries to which the guarantee applies; and
  - (iii) the amount of vested benefits and the amount of accrued benefits subject to the guarantee;
- (e) the actuary's recommended level of contributions in respect of defined benefit members for the reporting period, and whether the level of contributions received by the plan is consistent with the actuary's recommendations;
- (f) the actuary's recommended level of contributions in respect of defined benefit members for the next reporting period; and
- (g) information in relation to the actuarial assumptions used in measuring defined benefit members' 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.