Main differences between AAS 25 and AASB decisions to date in the current Superannuation Entities project

The purpose of this paper is to highlight the main differences between AAS 25 *Financial Reporting by Superannuation Plans* and the decisions of the Board to date on a replacement standard for AAS 25 for the benefit of new Board members and as a reminder to other Board members on the status of the project. It is not a comprehensive summary of the differences.

AAS 25 requires superannuation entities to apply, where appropriate, Australian Accounting Standards, but with some significant exceptions. There would be fewer exceptions under the replacement standard.

Entities covered by the standard and tiers of general purpose financial reporting

AAS 25 applies to superannuation entities regulated by the Australian Prudential Regulation Authority (APRA), other than small APRA Funds (SAFs) and Pooled Superannuation Trusts (PSTs) and contemplates only Tier 1 general purpose financial statements (GPFSs), with one limited exception[1]. The replacement standard would have the same application and the Board tentatively decided that there is no need for Tier 2 (Reduced Disclosure Requirements) in respect of superannuation entities, subject to further targeted consultation.[2]

AAS 25 assumes that superannuation entities are either defined contribution or defined benefit in nature and constituents have had to manage with its requirements in an environment where 'hybrid' entities with both defined contribution and defined benefit members are common. The replacement standard would be based on the current industry environment.

Consolidated and Separate Financial Statements

Although not specifically stated, under AAS 25, superannuation entities must apply the consolidation standards.[3]

ED 223 *Superannuation Entities* proposed that consolidated financial statements would be required and separate financial statements could (at the entity's option) also be presented.

The IASB recently amended IFRS 10 *Consolidated Financial Statements* to require 'investment entities' to recognise and measure subsidiaries at fair value through profit or loss, rather than consolidate them. The AASB has issued ED 233 *Australian Additional Disclosures – Investment Entities* proposing to adopt the IFRS 10 change with additional disclosure of consolidated financial statements. Superannuation entities would appear to meet the investment entity description, although most superannuation entities would not have material subsidiaries.

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1 Paragraph 66 of AAS 25 exempts superannuation plans whose only assets are long-term insurance policies that match and fully guarantee member benefits. However, the exemptions include recognition and measurement requirements and, therefore, their treatment is not a Tier 2 issue.

2 AASB 1053 *Application of Tiers of Australian Accounting Standards* currently deems APRA-regulated superannuation entities, other than SAFs, to have public accountability. [paragraph B2, AASB 1053]

3 AASB 127 *Consolidated and Separate Financial Statements* or AASB 10 *Consolidated Financial Statements* (applicable to periods beginning on or after 1 January 2013).

If the Board proceeds with the ED 233 (investment entity) proposals, in relation to in the replacement standard for AAS 25, it would probably have to re-think its decision on requiring consolidated financial statements with the option to also present separate financial statements.

Financial Statements

AAS 25 requires a defined contribution plan, and permits a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows. Alternatively, defined benefit plans can present a statement of net assets and a statement of changes in net assets.

The replacement standard would require superannuation entities to present:

- a statement of financial position;
- an income statement;
- a statement of changes in equity, where relevant;
- a statement of cash flows;
- a statement of changes in member benefits.

Measurement

AAS 25 requires assets and financial liabilities to be measured at net market values.

The replacement standard would require assets and liabilities to be measured at fair value through the income statement with exceptions. The exceptions are member benefits, tax balances, acquired goodwill and amounts relating to insurance arrangements.[4]

Member Benefits

AAS 25 requires accrued benefits for defined contribution members to be determined as the difference between assets and 'other' liabilities. It requires accrued defined benefits to be determined as the present value of expected future payments (remeasured at least once each three years).

The replacement standard would require accrued benefits for defined contribution members to be recognised as liabilities and measured at the amount payable on demand.[5] Accrued benefits are likely to be materially the same as vested benefits in most cases. It would require obligations for accrued defined benefits to be recognised as liabilities and measured as the expected present value determined as the expected cash outflows discounted by a rate that reflects the returns on an investment portfolio that would be expected to generate cash inflows that would meet accrued benefit cash outflows when they are expected to fall due. The relevant investment portfolio would reflect the opportunities available in investment markets and not necessarily the actual assets held by the superannuation entity to meet accrued defined benefit liabilities and, accordingly, the discount rate is not dependent on whether the benefits

4 The exceptions do not currently include acquired intangible assets, which would mean measurement and re-measurement at fair value through the income statement (a departure from AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*) and staff plan to bring this issue back to the Board as a sweep issue.

5 This includes withdrawing benefits to place in another superannuation entity.

are fully funded, under/over funded or completely unfunded. There is, however, expected to be a strong relationship between the investment portfolio and, where relevant, the superannuation entity's investment strategy.

Tax Balances

AAS 25 effectively requires, and the replacement standard would require, application of AASB 112 *Income Taxes*.

Goodwill and Non-controlling Interests

AAS 25 does not explicitly deal with this topic. The replacement standard would require that AASB 3 *Business Combinations*, AASB 10 *Consolidated Financial Statements* and AASB 136 *Impairment of Assets* be applied in recognising and measuring goodwill and non-controlling interests, with the latter required to be initially measured at fair value under AASB 3.[6]

Insurance Arrangements

AAS 25 does not explicitly deal with insurance arrangements provided to members.

The replacement standard would require assets and liabilities arising from insurance arrangements provided to members with defined benefits to be recognised and measured in accordance with the approach in AASB 119 *Employee Benefits* for defined benefit obligations. Insurance assets and liabilities relating to defined contribution members would be recognised and measured under the insurance standards, but only where the superannuation entity bears material insurance risk (which is not generally expected to be the case).

Changes in Assets and Liabilities

AAS 25 requires changes in the net market value of assets and financial liabilities to be included as a component of revenue. Contributions from employers and members are also accounted for as revenue.

The replacement standard would require the following to be presented in the income statement:

- fair value changes in assets and liabilities measured at fair value;
- measurement changes in liabilities arising from insurance arrangements provided to members and changes in reinsurance assets;
- net benefits (from revenues) allocated to member accounts; and
- net change in defined benefit members' accrued benefits.

Current and deferred tax would be charged directly to member benefits and presented in the statement of changes in member benefits when relevant.

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6 Accordingly, the option under AASB 3 to measure a non-controlling interest at a proportionate share of the recognised amounts of the acquiree's identifiable net assets would not be available to superannuation entities.

Receivables relating to defined benefit liabilities

AAS 25 does not explicitly deal with receivables that might arise related to defined benefit liabilities.

The replacement standard would comment (probably in the Application Guidance section) that, in some cases, a superannuation entity might have an enforceable right to receive employer contributions to make up any deficit in relation to defined benefit liabilities that gives rise to a recognisable asset. The case of legislative guarantees for public sector defined benefit plans would be mentioned.

Statement of Changes in Member Benefits

The replacement standard would require the following to be presented in a statement of changes in member benefits:

- contributions, rollovers and transfers from employers and members;
- income tax on contributions;
- benefits paid/payable;
- investment income; and
- fees.

Equity

AAS 25 does not explicitly deal with this topic.

The replacement standard would envisage that a difference may exist between total assets and liabilities (including member benefits and any obligations to employer sponsors) that would be presented as equity in the statement of financial position. A statement of changes in equity would be presented when material.

Disclosure

AAS 25 requires some relatively specific disclosures regarding classes of assets, liabilities, investment revenue and expenses. Many of the specific disclosure requirements in AAS 25 relating to member benefits would be captured in the statement of changes in member benefits that would be required by the replacement standard.

Many of the other specific disclosure requirements in AAS 25, such as those about the measurement methods applied, would be dealt with in the replacement standard by reference to other Australian Accounting Standards.

The replacement standard would include disclosure principles, including:

- information that provides users with a basis for understanding the nature of the entity, the benefits provided to members and the expenses it incurs;
- information that provides users with a basis for understanding the entity's obligations for member benefits;

- when net assets attributable to defined benefit members differs from their accrued benefits, information that provides users with a basis for understanding the size, nature, causes of and any strategies for addressing the difference;
- the components of changes in defined benefit members' accrued benefits;
- in respect of defined benefit liabilities, the funding risks, liquidity risks and market risks; where relevant, using the principles underlying related requirements in other Standards (probably AASB 7 *Financial Instruments: Disclosures* and AASB 119 *Employee Benefits*);
- for an entity with defined benefit members, qualitative information that provides users with a basis for understanding risks relating to employer sponsors;
- deeming any non-financial liabilities other than tax liabilities to be within the scope of AASB 7 (but not the fair value disclosures); and
- disaggregated financial information based on the principles and requirements of AASB 8 *Segment Reporting* with guidance on key aspects of those principles that might apply in a superannuation context.