

## Disclosure of Disaggregated Information by Superannuation Entities

The purpose of this paper is to provide relevant information for the Board to decide on the disaggregated information disclosure principles and any related application guidance that should be included in the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans*.

Disaggregation could be taken to mean different things in different contexts. One context is identifying the different businesses in which an entity is engaged and the information (whether GAAP<sup>1</sup> or non-GAAP) reported to the chief operating decision maker, which is the focus of AASB 8 *Operating Segments*. Another context is the sub-classification of GAAP information based on its nature or function within a business (or businesses), which is the focus of a number of standards, including for example AASB 101 *Presentation of Financial Statements* and AASB 119 *Employee Benefits*.

A key issue in the area of disclosure more generally is catering to all types of relevant superannuation entities – whether they comprise, for example:

- \* one stand-alone defined benefit plan;
- \* multiple defined benefit plans; or
- \* multiple defined benefit plans in combination with defined contribution plans.

This issues discussed in this paper are related to the issue discussed in agenda paper 7.6 on the presentation of accrued defined benefit liabilities and assets and related deficits and surpluses.

### 1. Background

1.1 ED 223 *Superannuation Entities* (December 2011) proposed the following:

**ED 223.43 A superannuation entity shall disclose disaggregated financial information that provides users with a basis for understanding the risks, financial position and financial performance of the entity.**

ED 233.44 To meet the objective in paragraph 43, an entity discloses disaggregated financial information in accordance with the principles and requirements in AASB 8 *Operating Segments*, except that a superannuation entity:

- (a) discloses information about each segment that meets any of the quantitative thresholds in paragraph 13 of AASB 8 or has liabilities that are 10% or more of the total liabilities of all segments;
- (b) identifies additional segments [even if they do not meet the quantitative thresholds described in (a) above] until at least 75% of the entity's revenues, expenses, assets or liabilities are included in reportable segments;
- (c) is not required to apply the second sentence of paragraph 16 or paragraphs 23, 24, 28 and 31-34 of AASB 8;<sup>1</sup>

1. These paragraphs address specific disclosures about revenue sources from 'all other segments', profit or loss and assets and liabilities, segment reconciliation, entity-wide, product and service, geographical and major customer information.

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1 For the purposes of this paper, GAAP information means the information recognised in general purpose financial statements.

- (d) provides disaggregated disclosures consistent with the information regularly reviewed by the entity's chief operating decision maker to manage the entity (which may or may not include the types of information described in paragraphs 23 and 24 of AASB 8); and
- (e) provides reconciliations of the disaggregated disclosures with corresponding amounts at the entity level (which may or may not include the types of information described in paragraph 28 of AASB 8).

ED 223.AG31 Paragraph 43 requires a superannuation entity to provide disaggregated disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*, except where it is appropriate to modify the requirements for application in a superannuation context. In applying the principles and requirements in AASB 8, an entity would interpret the term 'production process' in paragraph 12 of AASB 8 to mean the manner in which the benefit arrangements provided to members are developed and/or administered.

## **2. Feedback on ED 223 – written comments and December 2011 roundtables**

- 2.1 Some constituents commented that it is not clear that disaggregated information would be useful and expressed uncertainty about what the AASB's objective is in seeking disaggregated information. For example, is it intended to provide information that is comparable across superannuation entities; or to provide an insight into the management of superannuation entities? Most constituents expressing a view on this topic doubted whether comparability of disaggregated information is achievable in general purpose financial statements because of the disparate mix of entities in the superannuation sector.
- 2.2 Some constituents agreed with applying the principles in AASB 8 to help ensure consistency with corporate reporting and 'through management's eyes' disclosure. Some of those supporting the use of AASB 8 noted that it would need to be applied at the principle level, and with materiality in mind, to enable each superannuation entity's circumstances to be taken into account and achieve sensible outcomes.
- 2.3 Some of those not supporting the use of AASB 8 noted that it is intended to apply to listed entities and is either not relevant or not sufficiently well-tailored to the circumstances of superannuation entities. Consistent with this view, some constituents commented that, if the Board decides to require disaggregated disclosures, they should be specifically designed for application by superannuation entities.
- 2.4 Constituents also made specific comments, including the following:
  - \* Superannuation entities could potentially show information classified by: (1) defined benefit; (2) defined contribution; and (3) pension phase.
  - \* Superannuation entities could potentially show information classified by: (1) accumulation; (2) corporate; and (3) pension phase.
  - \* Prime possibilities for disaggregation are a 'product driven view' and an 'investment driven view', but there needs to be more information and greater clarity around the requirements.
  - \* A cost-benefit analysis involving consideration of the practicalities of providing segment reporting would need to be made on a plan-by-plan basis.

- \* Some plans might manage only particular variables based on a specific segmentation and may need to make costly systems upgrades to provide all the proposed information at a segment level.
- \* Aggregating defined benefit amounts from different plans would not produce useful information.
- \* Each superannuation entity can have unique characteristics that give rise to subtle differences between each entity's costs and benefits to members.
- \* The Australian Prudential Regulation Authority (APRA) seems likely to require separate disclosure of information about amounts relating to MySuper and to make that information publicly available, which could be regarded as special purpose financial reporting.
- \* MySuper could become like any other investment option and, therefore, not a basis for segment-type disclosure.
- \* Disaggregation by investment choice would be highly impracticable because of the number of investment choices offered by most superannuation entities.
- \* There is uncertainty about how to apply the 'operating segment' notion from AASB 8, in particular for master trusts with sub-plans. Meeting the AASB 8 requirements for segments to be identified until 75% of liabilities are disclosed could involve identifying hundreds of sub-plans and great cost. Annual reports for a master trust already usually include for each sub-plan, information on investments, asset movements and funding position.
- \* The chief operating decision makers (usually the trustees) are likely to have a very different focus from superannuation entity members, since members would normally have a variety of different financial interests in superannuation entities. Accordingly, the principles in AASB 8 are not readily applicable to superannuation entities.
- \* In general, the application of the requirements of AASB 8 (designed with listed entities in mind) would be highly subjective in a superannuation context.
- \* Information about the manner in which superannuation entities are endeavouring to ensure that the various types of entitlements are met might be the most useful.
- \* 'Hybrid' entities should prepare two sets of separate financial statements – one for their defined benefit plan(s) and one for their defined contribution plan(s).

2.5 This last point about having two sets of separate financial statements raises the issue of the identity or scope of the entities that are required to report. Although the AASB can formulate requirements about reporting entities, it is not within the AASB's mandate to require them to report. Staff consider that the issue of the scope of superannuation reporting entities is extremely important, but that it will need to be addressed as part of a wider process involving other relevant regulators, such as the APRA, and legislators.

### **3. Board tentative decisions since ED 223**

- 3.1 At its June 2012 meeting, the Board tentatively decided to proceed along the lines proposed in ED 223 and that “the principles in AASB 8 *Operating Segments* should be applied by superannuation entities and guidance should be provided on the key aspects of those principles that might apply in a superannuation context”.
- 3.2 The discussions at the meeting leading up to this tentative decision indicated that members are interested in disaggregated information that provides some insight into the manner in which each superannuation entity is managed. Accordingly, there is no intention that the requirements of the replacement standard for AAS 25 would cause a superannuation entity to incur costs in developing new systems to produce disaggregated information.
- 3.3 Members had also noted in meetings earlier in 2012 that:
- (a) they acknowledge it would not be relevant (and may not be feasible) to require each investment option to be treated as a segment and that there are other, more suitable, channels through which this type of information is provided by superannuation entities, such as through investment updates made to members and often made publicly available; and
  - (b) the varied types and structures of entities operating in the superannuation sector mean that any disclosure principles need to be broad and that the same type of information may not be disclosed by each entity.

### **4. Consultation since November 2012**

- 4.1 Staff undertook targeted consultation with key constituents in February and March 2013 that included discussions on disaggregated information. Much of the feedback received from the consultation reflected the same views expressed on the ED 223 proposals in 2011.
- 4.2 Some constituents who had responded earlier to ED 223 also took the opportunity to elaborate on their thinking, and the following points were raised in discussion with AASB staff.
- \* Superannuation entities can be regarded as being in only one segment (wealth management) under AASB 8. Superannuation activities constitute a single segment, or part of a single segment, in the context of operating segment reporting by banks and by life insurers – usually described as the ‘wealth management’ or ‘wealth and private banking segment’.
  - \* AASB 8 focuses on the information reported to the chief operating decision maker, which may or may not be GAAP information. In the case of superannuation entities, much of that information might be driven by APRA requirements. Other aspects of that information might be driven by regulation more generally, for example, the requirement to have and follow an investment strategy.

- \* It may be difficult to determine from among all the information that goes to the trustees (being the most likely party to be identified as the chief operating decision maker) that information which is relevant in a financial reporting sense.

## 5. Analysis of relevant requirements in AASB 8

### 5.1 AASB 8 defines an operating segment as follows:

AASB 8.5 An *operating segment* is a component of an entity:

- (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
- (c) for which discrete financial information is available.

AASB 8.7 The term 'chief operating decision maker' identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others.

### 5.2 The main disclosure requirement/principle in AASB 8 is as follows:

**AASB 8.20 An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.**

### 5.3 In later paragraphs of AASB 8, the disclosure requirements are quite specific. Among other things, AASB 8 calls for the following for each reportable segment:

- \* profit or loss
- \* total assets and liabilities
- \* various categories of revenues and expenses.

### 5.4 In considering the criterion in paragraph 5(a) of AASB 8, the revenues of superannuation entities include various categories of investment returns. Some constituents would also regard member and employer-sponsor contributions to be revenues, and although the AASB has agreed that contributions are movements in member benefits rather than revenues, perhaps in a superannuation context, 'revenues' in sub-paragraph (a) of the operating segment definition should be read as including those contributions. The expenses of superannuation entities include investment losses, investments management fees, administration costs, and actuarial and trustee fees.

### 5.5 In respect of paragraphs 5(b) and 7 of AASB 8 and identifying a 'chief operating decision maker' there seems general agreement among constituents that in a superannuation entity context, it would be the trustee.

- 5.6 In terms of making “decisions about resources to be allocated” to segments [AASB 8, paragraph 5(b)], if ‘resources’ is taken to mean the investments, the trustee usually has virtually no discretion about allocation in the case of defined contribution members’ interests because those members choose their investment option(s). The trustee has some discretion about the nature, range and make-up of each investment option and in selecting asset managers (or investing directly). In respect of investment allocations for defined benefit members, the trustee usually exercises its discretion in consultation with the relevant employer-sponsor(s). Furthermore, the trustee is obliged to exercise that discretion to achieve an investment strategy designed to fulfil the defined benefits as they become due and payable.
- 5.7 In relation to expenses, trustees have some discretion in terms of selecting investment managers and other suppliers, such as actuaries and administration services. However, the nature and amount of the expenses is largely determined by the needs or choices of the members.
- 5.8 More generally, the notion underlying the description of the chief operating decision maker function in paragraph 7 of AASB 8 as a resource allocator does not fit neatly into the superannuation context because the members and any employer-sponsors have substantially all the capacity to direct resource allocation.

## **6 Meaningful disaggregation for individual members and employer-sponsors**

- 6.1 An interest of an individual member or employer-sponsor in a superannuation entity is different from the interest of an individual equityholder because, in the superannuation entity case, the members or employer-sponsor rarely has a proportional interest in the whole of the entity.
- 6.2 For an individual member or advisor to that member of a stand-alone defined benefit plan; or an individual member or advisor to that member of a stand-alone defined contribution plan with only one investment choice, the general purpose financial statements of those superannuation entities would be directly relevant in meeting their information needs. The same would apply to individual employer-sponsors whose employees are members of such entities.
- 6.3 In the more common cases of superannuation entities that comprise multiple plans (often both defined benefit and defined contribution) and that have multiple investment choices, the general purpose financial statements of those entities are less directly relevant to individual members and employer-sponsors. In concept, a meaningful disaggregation within the general purpose financial statements of these entities would help make them more directly relevant to these potential users.
- 6.4 However, based on the information gathered in response to various proposals for disaggregated disclosure requirements made in ED 179 *Superannuation Plans and Approved Deposit Funds*<sup>2</sup> and in ED 223, constituents have questioned the

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2 Paragraph 36 of ED 179 proposed: A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding how the plan or fund arranges and manages assets attributable to different groups of members, and the related obligations to those members. Paragraph 38 referred to using the ‘through the eyes of management’ approach in AASB 8.

practicability of making disaggregated information available that is relevant to potential users.

6.5 The Board has acknowledged that because of the large number of investment choices offered by many superannuation entities and the large number of both defined benefit and defined contribution plans within some superannuation entities, it is not practicable to require disaggregated information for each investment choice or each plan.

6.6 The difficulties of identifying useful information for individual members and plans was also recognised in the Commonwealth Government's Super System Review, which proposed to deal with the problem by recommending the introduction of the MySuper option. The final report arising from the Super System Review noted:

The MySuper product is intended to provide a simple superannuation option for members. It will be treated, for some purposes, as separate from other types of superannuation products, and operated so that member interests are transparently paramount and there will be an enhanced focus on optimising net investment returns and reducing overall costs. The Panel believes that by imposing some degree of homogeneity on the product, price competition might reasonably be expected to produce more positive outcomes for members and to help trustees contain costs. It would also be easier for engaged members and their advisers to make comparisons between MySuper products offered by different funds. ... [Super System Review, Final Report, Chapter 1 MySuper and choice architecture, page 10]

6.6 The Stronger Super reforms that are expected to take effect over the next few years include the introduction of the MySuper regime and most large superannuation entities are expected to provide a MySuper option. The MySuper option itself might be the basis for disaggregated disclosure in general purpose financial statements – that is disaggregating between amounts related to MySuper and all other amounts. However, the current intention is that the APRA will take the lead in this respect and publish reasonably comprehensive information comparing the performance of the various MySuper offerings.

## **7. Consideration of relevant requirements in other standards**

7.1 There are disaggregation or sub-classification requirements in many of the existing standards already applicable to superannuation entities, including the relevant requirements of AASB 101.

7.2 There are also specific disaggregations required in other standards that are not applicable to superannuation entities. These include AASB 119 in relation to employer-sponsor accounting for plan assets, which has the following:

AASB 119.142 An entity shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in AASB 13 *Fair Value Measurement*<sup>1</sup>) and those that do not. For example, and considering the level of disclosure discussed in paragraph 136, an entity could distinguish between:

- (a) cash and cash equivalents;
- (b) equity instruments (segregated by industry type, company size, geography etc);

- (c) debt instruments (segregated by type of issuer, credit quality, geography etc);
- (d) real estate (segregated by geography etc);
- (e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc);
- (f) investment funds (segregated by type of fund);
- (g) asset-backed securities; and
- (h) structured debt.

1. If an entity has not yet applied AASB 13, it may refer to paragraph AG71 of AASB 139 *Financial Instruments: Recognition and Measurement*, or paragraph B.5.4.3 of AASB 9 *Financial Instruments* (December 2010), if applicable.

7.3 If a disclosure principle can be drawn from these AASB 119 requirements it would appear to be that information should be disaggregated by its ‘nature and risks’. Similar disaggregated information about assets is already usually disclosed by superannuation entities in complying with the requirements in paragraphs 54 to 59 of AASB 101 to disclose line items, headings and subtotals relevant to an understanding of the entity’s financial position.

7.4 AASB 101 also includes a requirement to include line items, headings and subtotals relevant to an understanding of the entity’s financial performance.

## **8 Staff comments and recommendations**

8.1 AASB staff consider that, if the Board should clearly identify that the replacement standard for AAS 25 requires the disclosure of disaggregated information with the objective of providing an insight into the manner in which each superannuation entity is managed.

8.2 Although this objective is consistent with the focus of AASB 8 on information reported to the chief operating decision maker (which may or may not be GAAP information), the staff consider we should not rely on the use of AASB 8 principles. This is on the basis of the analysis in section 5 of this paper and, in particular, because:

- \* the role of the chief operating decision maker (the trustee) and their capacity to allocate resources in the superannuation entity context is different from that role in the context of entities to which AASB 8 normally applies (listed entities); and
- \* there is at least a perception that the Board is asking superannuation entities to provide segment information despite them occupying only one operating segment in an AASB 8 context.

8.3 On the basis of the analysis in section 6 of this paper, staff consider that would not be appropriate to specifically require disaggregated GAAP information on particular investment choices or sub-plans of superannuation entities.



- 8.4 Staff consider that the disclosure principles in AASB 101 would be helpful together with application guidance in a superannuation context. Although superannuation entities already apply AASB 101, they do so in the context of the existing AAS 25 financial statement requirements.
- 8.5 The application guidance could outline the potential disaggregations that might be expected to be made in complying with AASB 101 and some of these could be included in the illustrative examples. The illustrative examples in ED 223 showed a disaggregation (using two separate columns) in the statement of changes in member benefits between defined benefit member interests and the defined contribution member interests.
- 8.6 Further examples and illustrations could be included, particularly in relation to disaggregating member liabilities, for example, between (1) defined contribution members; (2) defined benefit members in the accumulation phase; and (3) members in the pension phase.
- 8.7 In concept, superannuation entities with multiple defined benefit plans should also be providing information on the financial position of each plan because the assets of one defined benefit plan would only in rare cases be available to meet the liabilities of another plan. However, this may not be feasible in all circumstances because some superannuation entities include very large numbers of defined benefit plans. Staff consider that application guidance should emphasise that this type of disaggregated disclosure should be made when practicable.

**Board members are asked to identify their views on the staff comments and recommendations in paragraphs 8.1 to 8.7.**