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Mr Kevin Stephenson
Chairman
Australian Accounting Standards Board
Via email: standard@aasb.gov.au

Dear Kevin

2 March 2014

Invitation to Comment – Fatal Flaw Draft – Superannuation Entities

Macquarie University's Department of Accounting and Corporate Governance is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on the Invitation to Comment – Fatal Flaw Draft – Superannuation Entities

Macquarie University's response reflects our position as a leading educator to the Australian and global community. This submission has benefited with input from discussions with key constituents.

We support the AASB's efforts over many years to update the former AAS 25 Superannuation Entities which was issued in 1993. However we question whether the AASB should have just restricted its work to a general purpose financial report for Superannuation Entities which will tend to mostly be the larger APRA regulated superannuation funds, instead of also developing a type of IFRS for SMEs style Superannuation Fund standard that could be applied by the smaller reporting entity Superannuation Funds.

We also question why the AASB has not specifically considered the Self-Managed Superannuation Funds industry which whilst generally being non-reporting entities, still follow some or most of the requirements of AAS 25.

Macquarie University would be pleased to discuss this submission as and when required. If you require any further information or comment, please contact Keith Reilly - *keith.reilly@mq.edu.au*

Yours sincerely

Keith Reilly - Industry Fellow
International Governance and Performance (IGAP) Research Centre
Department of Accounting and Corporate Governance, Macquarie University

26 February 2014

Mr Angus Thomson
Research Director
Australian Accounting Standards Board
Level 7, 600 Bourke Street
Melbourne VIC 3000

Email: standard@aasb.gov.au

Dear Mr Thomson

Comments on the AASB's Fatal Flaw Draft of AASB 105x - Superannuation Entities

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the superannuation industry and the development of superannuation regulation, reporting and disclosure, interpreting financial statistics, risk management and related practices in Australia for many years.

The attached submission sets out the Actuaries Institute's comments on the AASB's Fatal Flaw Draft of AASB 105x - Superannuation Entities.

Please do not hesitate to contact the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email david.bell@actuaries.asn.au), or the convenor of the Institute's Accounting Sub-committee, Tim Furlan (phone 02 9229 5216 or email tfurlan@russell.com), to discuss any aspect of this paper.

Yours sincerely

Daniel Smith
President

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Comments on the AASB's Fatal Flaw Draft of AASB 105x - Superannuation Entities

1. Paragraph 11 provides a reconciliation of the change in member benefit liabilities from one year to the next, broken down into the following items:

   (a) employer contributions;
   (b) member contributions;
   (c) taxes on contributions;
   (d) benefits transferred into the entity from other superannuation entities;
   (e) benefits to members;
   (f) insurance premiums charged to defined contribution member accounts;
   (g) net benefits allocated to defined contribution member accounts;
   (h) net changes to defined benefit member accrued benefits; and
   (i) amounts allocated to members from reserves.

   It wasn't immediately clear to us what the "net benefits allocated to defined contribution member accounts" is intended to include. We note that paragraph AG18 refers to investment earnings and expenses, which implies that this item represents all other changes in defined contribution member benefits not otherwise covered by items in paragraph 11. Is this correct? Would some further guidance in the application guidance be appropriate?

2. We have a similar comment about the item "net changes to defined benefit member accrued benefits" and the need for some further application guidance.

   We also note that we have assumed that item "(a) employer contributions" in the reconciliation includes defined benefit employer contributions. This differs from the approach under AASB 119 where a "current service cost" is used in the equivalent reconciliation (see para 141 of AASB 119 (2011)). The reason that a service cost is used rather than actual employer contributions is that the level of employer contribution may change from year to year with any surplus of deficit. For example if there was a large top up contribution paid in a particular year such that total contributions far exceeded benefit payments, the net amount in "net changes to defined benefit member accrued benefits" may be negative.

3. We note that paragraphs 18 and 19 provide treatment of DB "Employer-sponsor receivables", but there are no similar rules for DC contributions receivable. We also note that defined contribution member liabilities are defined in paragraph 16 as current account balances. Those account balances would typically only include contributions actually received by the fund and would not include contributions receivable. Hence there could be a mismatch if contributions receivable are included in the assets. The AASB may wish to consider whether it specifies that any allowance for contributions receivable is consistent with the measurement of the member liability.

4. We note that one interpretation of paragraph 17 could be that the liability is measured based on the discount rate associated with a matching portfolio (i.e. a fixed interest portfolio with coupon and principal payments that closely match the cash flows associated with the liability). Paragraph AG 23(e) refers to the current portfolio thus suggesting that a matching portfolio is not the AASB's intention, however that could be clarified in paragraph AG23.

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5. The definition of accrued benefits may benefit from the addition of the words "the value of", similar to the definition of vested benefits. AG23 mentions a discount rate, but does not explicitly mention that a present value would normally be appropriate.

6. The proposed definition of a defined benefit member is a:

   > *A member whose benefits are specified, or are determined, at least in part, by reference to a formula based on their years of membership and/or salary level.*

   This contrasts with the SIS definition which is

   > *defined benefit member means a member who is entitled, on retirement or termination of employment, to be paid a benefit defined wholly or in part by reference to:*
   >
   > *(a) the member's salary on retirement, termination of employment or an earlier date; or*
   >
   > *(b) the member's salary averaged over a period before retirement; or*
   >
   > *(c) both (a) and (b); or*
   >
   > *(d) a specified amount.*

   The key difference in the definition is the reference to retirement or termination of employment. A defined contribution member with salary based insurance arguably has a benefit, determined as least in part, by reference to salary. Hence, it could be interpreted that they are covered by the definition of a defined benefit member in AASB 105X.

7. Superannuation entity is defined in section 10 of the Superannuation Industry (Supervision) Act 1993 as:

   > *superannuation entity means:*
   >
   > *(a) a regulated superannuation fund; or*
   >
   > *(b) an approved deposit fund; or*
   >
   > *(c) a pooled superannuation trust.*

   We understand that the AASB definition excludes pooled superannuation trusts, so it may be appropriate to choose a different term to avoid the confusion of a dual meaning for "superannuation entity".

8. We note that paragraph AG 24 suggests that a roll forward estimate of accrued benefits (where data effective prior to the balance date is used for calculations and then the results are updated to provide an estimate effective at the balance date) is acceptable. Is that interpretation correct? Has the AASB considered whether there is a maximum period of roll forward that is acceptable, for example does the data need to be effective within 6 months or 12 months or 3 years of an actuarial investigation cycle? Is there any other guidance that the AASB wishes to give on the level of accuracy required in any roll forward?

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9. The Statement of Changes in Member Benefits in Illustrative Example II includes amounts being transferred from Defined Benefit member benefit liabilities to a foregone benefits reserve. Such an arrangement would be highly unusual. To the extent that Defined Benefit members forego any benefits on termination of employment those foregone benefits would typically remain in the pool of assets backing the defined benefit liabilities. Hence we found the reference to transfers to and from a foregone benefits reserve for Defined Benefit members confusing.

10. We note that paragraph BC 134 refers to "higher of benefits". We understand that the conclusion reached is that the AASB does not expect option like valuations. On a related issue we note that actuaries often place a minimum of vested benefits on their calculations of the present value of accrued benefits (either individually or in aggregate). We are not sure whether the AASB has considered whether the standard will require such a minimum, expressly prevent such a minimum, or provide flexibility.

11. We also noted some minor typographical errors in the draft. In Paragraph 20, "AG5" is repeated. In note B on page 44, the last sentence of the 2nd paragraph has a missing word "impact" or "effect" (i.e. "for which changes are reasonably possible that would have a material ... on the amount of the liabilities").

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From: Fiona Galbraith
Sent: Monday, 3 March 2014 5:14 PM
To: AASB Mailbox
Subject: AASB 105X Superannuation entities - fatal flaw comment process

The Chairman
Australian Accounting Standards Board
PO Box 204, Collins Street West Victoria 8007

Dear Sir,

ASFA has canvassed feedback from its members in relation to the proposed new accounting standard: AASB 105X Superannuation entities, issued for 'fatal flaw' review on 20 December 2013. We advise that none of our member have raised any fatal flaws in relation to the proposed standard. As such, we did not have any fatal flaw comments to provide to you.

ASFA is a non-profit, non-politically aligned national organisation. We are the peak policy and research body for the superannuation sector. Our mandate is to develop and advocate policy in the best long-term interest of fund members. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through its service provider membership, represent over 90% of the 12 million Australians with superannuation.

Regards

Fiona Galbraith

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INSTITUTE OF PUBLIC ACCOUNTANTS

28 February 2014

Mr Kevin Stevenson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kevin

Fatal Flaw of AASB 105X "*Superannuation Entities*"

Thank you for the opportunity to comment on the Fatal Flaw Review of AASB 105X *Superannuation Entities*. The Institute of Public Accountants (IPA) supports the issue of AASB 105X. While the IPA supports appropriate due process, the IPA is disappointed with the amount of time it has taken to provide a replacement to AAS 25 *Financial Reporting by Superannuation Plans*. We note that the development of the proposed standard has taken over seven years and that AAS 25 dates back to 1993.

While not wishing to delay the issue of the proposed standard, we have a number of fundamental concerns:

1. **Scope extension**: The standard has been designed to be applicable essentially applicable to APRA regulated funds with the exception of Small APRA funds (SAFs). However, we believe members of both SMSF and SAFs are dependent users. They are often not in the position to demand financial information in relation to the funds. Many SMSFs have external administration arrangements. Such external arrangements provide set reporting usually on tiered basis. In such arrangements, there is often a standard annual service which has a set reporting structure including annual financial reporting package. To obtain further information trustees must select a different service option at additional cost. Therefore, the financial report is the primary method for obtaining financial information in relation to the fund and the standard offering by most SMSF administration providers. Furthermore, despite the current AASB 25 being only applicable to reporting entities it is used as a defacto standard for SMSF financial reporting. The SMSF sector has over 500,000 funds with approximately $506 billion in assets i.e., 31% of all superannuation assets. By adopting the approach in the proposed standard that SMSFs are not subject to the proposed standard the AASB has abrogated its responsibility to a large sector of the superannuation industry.

   A similar situation exists in respect of SAFs. However, as there are two main providers who also provide "platform" based services the level of information available to members is more comprehensive. None-the-less these services are of "turn-key" nature and members are not in the position to readily obtain financial information outside that provided under the service.

   While a full adoption of this standard may not be appropriate, e.g., AASB 7, AASB 107 and AASB124 may not provide useful information, a "pared back" reporting standard (or reduced disclosure version) would improve consumer information for SMSF trustees.

   As a consequence the IPA believes the AASB should undertake a review of the proposed standard within 12 months of it's to determine its suitability for use by SMSFs and SAFs, make the necessary amendments to standards including comments relating to its applicability to SMSFs and SAFs.

2. **Performance reporting neglected**: The IPA believes that reporting of fund performance and comparability of performance between funds is an integral purpose of the production financial reports. As such, we consider the absence of any guidance in relation to key performance metrics a significant shortcoming of the proposed standard. The IPA would like to see the AASB include in work program a project to include within the scope of the Superannuation Entities standard to provide guidance on the reporting of key performance metrics such as fund return, management

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expense ratios including guidelines on how such metrics are to be formulated. It is recommended this be performed in conjunction with ASIC which oversees consumer reporting.

3. **Disaggregated information vague**: The IPA believes the guidance on disaggregated information is vague and not useful (AASB 105X.AG31-33). The guidance should provide a more thorough basis for the disaggregation of information especially in relation to "drill-down" of investment holdings including such information as type of assets held, fund manager by type (active, passive , total return etc.), liquidity etc. This will become increasingly important should the government implement new legislation aimed at encouraging lifetime pensions to address longevity risk.

4. **Related parties lacks specificity in the superannuation context**: The IPA believes additional guidance in relation to related parties should have been provided rather than a just stating that trustee is related party in accordance with AASB 124 "Related Parties" (AASB 105X.AG47). The guidance should have considered the directors of trustee companies as minimum and the nature of director related entities. The guidance should have provided specific consideration to relationship between trustee entities, their directors and various providers of services to the superannuation entity, including fund and asset managers, custodians, advisors and bankers including the consideration of additional disclosures that may have been applicable to superannuation in addition to those required by AASB 124.

5. **Relationship between "fair value" and "market value"**: The IPA believes some consideration should have been given in either the basis of conclusion or application guidance on any potential impact of the use of fair value in accordance with AASB 13 "Fair Value Measurement" and the concept of market value under SIS and the ATO's guidance on market value and, in particular any possible conflicts. Inconsistency in reporting between APRA funds and SMSFs will lead to increasing difficulty in comparing market places by investors and increase the need to adjust for differences by market statisticians.

Despite the above reservations the IPA believes AASB 105X should be issued as soon as possible. If the issues raised by us cannot be addressed without further delaying the implementation of the standard, they be should be addressed through due process with amendments made as soon as practicable.

If you would like to discuss our comments, please contact me or our technical advisers Stephen La Greca (0417 451 315, or stephenlagreca@aol.com) or Susan Orchard (03 9576 5620, or susan@sorchardca.com.au).

Yours sincerely

Andrew Conway FIPA
Chief Executive Officer