

**Exposure Draft**

**ED 16X**  
X 2008

# **Superannuation Plans and Approved Deposit Funds**

Prepared by the  
**Australian Accounting Standards Board**

DRAFT



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ISSN 1030-5882

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#### **[DRAFT] BASIS FOR CONCLUSIONS ON AASB 10XX**

[Draft] Australian Accounting Standard AASB 10XX *Superannuation Plans and Approved Deposit Funds* is set out in paragraphs 1-89 and Appendices A and B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. Terms defined in this Standard are in *italics* the first time they appear in the Standard. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

## **PREFACE**

### **Background**

#### **Australian Accounting Standards**

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for profit or not for profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not for profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

#### **Exposure Drafts**

The publication of an Exposure Draft is an essential part of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

## Reasons for Issuing this Exposure Draft

When originally drafted, AAS 25 *Financial Reporting by Superannuation Plans* was intended to provide the main recognition, measurement and disclosure requirements applicable to superannuation plans. Accordingly, the Standard was intended to apply in place of other Australian Accounting Standards on critical financial reporting issues that were considered most significant to superannuation plans. AAS 25 was also intended to address the financial reporting issues that superannuation plans were specifically dealing with at the time. However, developments in the superannuation industry since AAS 25 was first issued and the introduction of IFRSs have both served to highlight the need for a comprehensive review of AAS 25. In addition, the increasing significance of 'hybrid' superannuation plans has served to highlight some deficiencies in the differential reporting requirements in AAS 25.

In late 2005, the AASB considered the potential implications of a superannuation plan applying IFRS requirements in respect of two circumstances not specifically addressed by AAS 25. These circumstances involved a superannuation plan holding:

- (a) a hedging instrument or derivative that has a credit balance and applying AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*; and
- (b) a controlling interest in another entity and applying AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*.

The AASB issued Invitation to Comment ITC 9 *Superannuation Plans – Financial Liabilities* in December 2005. After considering constituents' comments on ITC 9, in December 2005 the AASB agreed to amend AAS 25 to require that a hedging instrument or derivative held by a superannuation plan be recognised at its net market value, irrespective of whether it has a debit or credit balance, and that any changes in the net market value be recognised in the profit or loss of the plan for the reporting period. The AASB also clarified that, notwithstanding the practical issues that could arise, a superannuation plan that holds a controlling interest in another entity is required to apply AASB 3 and AASB 127.

While the AASB's decisions at its December 2005 meeting clarified the treatment of hedging instruments, derivatives and subsidiaries under AAS 25, the AASB agreed that a comprehensive review of the requirements in AAS 25, including the matters considered at its December 2005 meeting, is needed.

The aim of the AASB is to put in place transaction-neutral Accounting Standards for the Australian economy that treat like transactions and events consistently across entities in all sectors. To this end, the AASB issues Australian Accounting Standards that incorporate IFRSs. The AASB, however, may choose not to adopt an IFRS requirement if there is a sound reason for a different treatment in a particular circumstance. For instance, where the reporting requirements that would otherwise apply are not appropriate for the needs of the relevant users.

The Standard to be developed from ED 16X is intended to replace AAS 25. Rather than develop a domestic Standard to replace AAS 25, the AASB could have proposed:

- (a) replacing AAS 25 with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; or
- (b) withdrawing AAS 25 and requiring superannuation plans and approved deposit funds to apply, where appropriate, IFRSs.

Having considered the merits of both of these approaches, the AASB concluded that a comprehensive review remains appropriate because:

- (a) there a number of financial reporting issues facing Australian superannuation plans and approved deposit funds that are the consequence of the domestic retirement savings and regulatory environment; and
- (b) these reporting issues are either:
  - (i) not adequately addressed by IAS 26 or the current suite of IFRSs; or
  - (ii) the reporting requirements that would apply under IAS 26 or the applicable IFRSs may not be appropriate for the needs of users of the financial statements of a superannuation plan or an approved deposit fund.

These reporting issues are discussed in the Basis for Conclusions to ED 16X.

## **Main Features of this Exposure Draft**

This Exposure Draft proposes that a superannuation plan or approved deposit fund:

- (a) measure all of its assets except for deferred tax assets at fair value less anticipated disposal costs;

- (b) measure all of its liabilities except for deferred tax liabilities and members' accrued benefits at fair value plus anticipated disposal costs;
- (c) recognise its obligations for accrued benefits of members as liabilities;
- (d) measure the accrued benefits of defined contribution members as the difference between:
  - (i) the carrying amount of total assets attributable to defined contribution members at the reporting date; and
  - (ii) the carrying amount of the assets attributable to defined contribution members that have not been allocated to those members at the reporting date;
- (e) measure the accrued benefits of defined benefit members in a manner similar to the approach under AASB 119 *Employee Benefits* in respect of defined benefit obligations, except that:
  - (i) administration costs are excluded from the measurement of obligations for defined benefit members' accrued benefits; and
  - (ii) obligations for defined benefit members' accrued benefits are discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the obligations;
- (f) account for any 'higher of option' attaching to members' accrued benefits separately from the 'host promise' and measure the option at its fair value on the basis that the terms of the benefit entitlements will not change;
- (g) recognise all changes in the carrying amounts of assets and liabilities except for deferred tax assets and liabilities in the profit or loss;
- (h) that is a parent entity prepare consolidated financial statements in accordance with the principles in AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, except that:
  - (i) all assets and liabilities apart from deferred tax assets and liabilities held by subsidiaries are measured at their fair values adjusted for anticipated disposal costs at the reporting date; and
  - (ii) any goodwill attributable to subsidiaries at the reporting date, whether acquired or internally generated, is recognised;

- (i) that is a parent entity either present its separate and consolidated financial statements together or present its consolidated financial statements and disclose information in relation to the assets and liabilities other than accrued benefits recognised in the entity's separate statement of financial position;
- (j) present any surplus or deficiency of assets attributable to defined benefit members compared with members' accrued benefits in the statement of financial position;
- (k) present either in the statement of comprehensive income or in the notes the main components of any change in the carrying amounts of:
  - (i) defined benefit members' accrued benefits; and
  - (ii) higher of options;
- (l) disclose information that is essential for decision making by users of the entity.

### **Application Date**

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 July 200X. It is proposed that early adoption of this Standard will not be permitted in the interests of maintaining comparability between superannuation fund and approved deposit fund reporting to the extent feasible.

## Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by XX 200X. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

## Specific Matters for Comment

The AASB would particularly value comments on whether:

- (a) there are any practical difficulties in identifying and measuring a 'higher of option' that a superannuation plan recognises separately from the defined benefit 'host promise'? If so, what are they? **(based on Question 13(a) to the IASB's Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*)**
- (b) you have any other comments on the proposals for superannuation benefits with a 'higher of option'? If so, what are they? **(based on Question 13(b) to the IASB's Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*)**
- (c) there are any practical difficulties in applying the consolidation approach identified in paragraphs 48-51 of ED 16X? If so, please describe the nature of these difficulties;
- (d) the disclosure of information in relation to the assets and liabilities other than accrued benefits recognised in the separate financial statements of a parent superannuation plan or parent approved deposit fund is sufficient for the needs of users in the event that the entity does not present its consolidated and separate financial statements together?
- (e) **OTHER QUESTIONS AS IDENTIFIED BY THE BOARD;**
- (f) overall, the proposals would result in financial reports that would be useful to users; and
- (g) the proposals are in the best interest of the Australian economy.

**ACCOUNTING STANDARD AASB 10XX**  
***SUPERANNUATION PLANS AND APPROVED  
DEPOSIT FUNDS***

**Objective**

- 1 The objective of this Standard is to specify requirements for the general purpose financial statements of a superannuation plan or approved deposit fund. This Standard requires compliance with other Australian Accounting Standards except as specified in this Standard. Financial statements prepared in accordance with this Standard and other applicable Australian Accounting Standards provide users with information that is essential for decision making in a superannuation plan or approved deposit fund context.

**Application**

- 2 **This Standard applies to:**
  - (a) **each superannuation plan or approved deposit fund that is a reporting entity; and**
  - (b) **financial statements of a superannuation plan or approved deposit fund that are held out to be general purpose financial statements.**
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 200X. Early adoption of this standard is not permitted.**
- 4 **The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.**

**Compliance with Australian Accounting Standards**

- 5 **Unless otherwise specified in this Standard, the financial statements of a superannuation plan or approved deposit fund shall be prepared in accordance with other applicable Australian Accounting Standards.**

## Measurement of Assets and Liabilities

- 6 All assets except for deferred tax assets shall be measured at fair value less anticipated disposal costs.
- 7 All liabilities except for:
- (a) deferred tax liabilities; and
  - (b) members' accrued benefits;
- shall be measured at fair value plus anticipated disposal costs.
- 8 In determining the fair value of an asset or liability for the purpose of applying this Standard, a superannuation plan or approved deposit fund considers the relevant guidance in Australian Accounting Standards, including paragraphs AG69-AG82 of Appendix A to AASB 139 *Financial Instruments: Recognition and Measurement*.
- 9 Anticipated disposal costs include:
- (a) fees and commissions payable to an agent, adviser, broker or dealer, and transaction costs levied by an exchange in respect of the sale of an asset; or
  - (b) fees and charges payable to a creditor in order to extinguish a liability prior to the expected settlement date and transaction costs levied by an exchange in respect of settlement of a liability.
- (SOURCE: based on paragraph AG13 in AASB 139)
- 10 Anticipated disposal costs do not include financing costs, income tax expense or income, or internal administrative costs. (SOURCE: based on the definition of 'costs to sell' in Appendix A of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*)
- 11 A superannuation plan or approved deposit fund measures a deferred tax asset or liability in accordance with AASB 112 *Income Taxes*.
- 12 Members' accrued benefits are measured in accordance with paragraphs 14-41.

## Accrued Benefits

### Recognition

- 13 **Accrued benefits of defined contribution or defined benefit members shall be recognised as liabilities of a superannuation plan or approved deposit fund.**

### Measurement

#### Defined Contribution

- 14 **Accrued benefits of defined contribution members shall be measured as the difference between:**
- (a) **the carrying amount of total assets attributable to defined contribution members at the reporting date; and**
  - (b) **the carrying amount of the assets attributable to defined contribution members that have not been allocated to those members at the reporting date.**

#### Defined Benefit

- 15 **A superannuation plan ~~an entity~~ shall use the Projected Unit Credit Method to determine the present value of its obligation for defined benefit members' accrued benefits ~~obligations~~ and the related current service cost and, where applicable, past service cost. (SOURCE: paragraph 64 of AASB 119)**
- 16 **The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service/membership as giving rise to an additional unit of benefit entitlement (see paragraphs 20-24) and measures each unit separately to build up the final obligation (see paragraphs 25-37). Paragraph 65 of AASB 119 Employee Benefits provides an example illustrating the application of the Projected Unit Credit Method in respect of an employer sponsor's defined benefit obligation. (SOURCE: paragraph 65 of AASB 119)**
- 17 **Actuarial techniques allow a superannuation plan ~~an entity~~ to measure a defined benefit ~~that~~ obligation with sufficient reliability to justify recognition of a liability. (SOURCE: last sentence in paragraph 68 of AASB 119) A superannuation plan ~~an entity~~ shall measure ~~determine~~ its obligation for the present value of defined benefit members' accrued benefits ~~obligations~~ and the fair value of any plan assets with**

sufficient regularity to ensure that the ~~liabilities amounts~~ recognised in the financial statements do not differ materially from the ~~liabilities amounts~~ that would be determined at the reporting date. (SOURCE: paragraph 56 of AASB 119) In some cases, estimates, averages and computational shortcuts may provide a reliable approximation of the ~~amounts that would be determined using detailed computations illustrated in this Standard.~~ (SOURCE: paragraph 51 of AASB 119)

- 18 ~~A~~In measuring the liability, a superannuation ~~plan entity~~ discounts the whole of ~~its~~ obligation for defined benefit members' accrued ~~benefits~~post-employment benefit obligation, even if part of the obligation falls due within twelve months of the reporting date. (SOURCE: paragraph 66 of AASB 119)
- 19 In accordance with the definition of accrued benefits in this Standard, future administration costs are excluded from the measurement of a superannuation plan's obligation for its defined benefit members' accrued benefits.

#### *Attributing Benefits to Reporting Periods*

- 20 In determining the present value of its ~~obligation for defined benefit members' accrued benefits obligations and the related current benefit service cost and, where applicable, past benefit service cost,~~ a superannuation ~~plan entity~~ shall attribute benefits to periods of service/~~membership~~ under the plan's benefit formula. However, if an ~~member's employee's~~ service to their employer in later years will lead to a materially higher level of benefits than in earlier years, an ~~superannuation plan entity~~ shall attribute benefits on a straight-line basis from:
- (a) the date when service by the ~~member~~employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
  - (b) the date when further service by the ~~member~~employee will lead to no material amount of further benefits under the plan, other than from further salary increases. (SOURCE: paragraph 67 of AASB 119)
- 21 The Projected Unit Credit Method requires ~~benefits to be an entity to~~ attributed ~~benefit~~ to the current period (in order to determine current ~~benefits~~service cost) and the current and prior periods (in order to determine the present value of defined benefit ~~members' accrued benefits obligations~~). An ~~superannuation plan entity~~ attributes benefits to periods in which the obligation to provide ~~defined~~post-employment

benefits arises. That obligation arises as memberemployees render services to sponsoring employers in return for defined benefit superannuation entitlements post-employment benefits which an superannuation planentity expects to pay in future reporting periods. Paragraph 68 of AASB 119 provides an example illustrating the application of the Projected Unit Credit Method in respect of an employer sponsor's defined benefit obligation. **(SOURCE: first part of paragraph 68 of AASB 119)**

- 22 A member'sEmployee service to their employer gives rise to an obligation under a defined benefit plan even if the benefits are conditional on future employment (in other words they are not vested). MemberEmployee service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that an memberemployee will have to render before becoming entitled to the benefits is reduced. In measuring defined benefit members' accrued benefits its defined benefit obligation, a superannuation planentity considers the probability that some memberemployees may not satisfy any vesting requirements. Similarly, although certain post-employment benefits, for example, post-employment medical benefits, become payable only if a specified event occurs when an employee is no longer employed, an obligation is created when the employee renders service that will provide entitlement to the benefit if the specified event occurs. The probability that a member will exit the plan before the relevant vesting datethe specified event will occur affects the measurement of the obligation, but does not determine whether the obligation exists. Paragraph 69 of AASB 119 provides examples illustrating how vesting conditions can affect an employer sponsor's defined benefit obligation. **(SOURCE: paragraph 69 of AASB 119)**
- 23 A defined benefit members' accrued benefits The obligation increases until the date when further service by the memberemployee to their employer will lead to no material amount of further benefits. Therefore, all benefits areis attributed to periods ending on or before that date. Benefits areis attributed to individual reporting periods under the plan's benefit formula. However, if an member'semployee's service in later years will lead to a materially higher level of benefits than in earlier years, a superannuation planentity attributes benefits on a straight-line basis until the date when further service by the memberemployee will lead to no material amount of further benefits. That is because the member'semployee's service throughout the entire period will ultimately lead to benefits at that higher level. Paragraph 70 of AASB 119 provides examples illustrating this in respect of an employer sponsor's defined benefit obligation. **(SOURCE: paragraph 70 of AASB 119)**

- 24 Where the amount of a defined benefit member's benefits is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the reporting date, but do not create an additional obligation. Therefore:
- (a) for the purpose of paragraph 20(b), salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary; and
  - (b) the amount of benefits attributed to each period is a constant proportion of the salary to which the benefit is linked.

Paragraph 71 of AASB 119 provides an example illustrating this in respect of an employer sponsor's defined benefit obligation.  
**(SOURCE: paragraph 71 of AASB 119)**

#### *Actuarial Assumptions*

- 25 **Actuarial assumptions shall be unbiased and mutually compatible.**  
**(SOURCE: paragraph 72 of AASB 119)**
- 26 ~~Actuarial assumptions are an entity's best estimates of the variables that will determine the ultimate cost of providing post-employment benefits.~~ Actuarial assumptions comprise:
- (a) demographic assumptions about the future characteristics of current and former ~~member~~ employees (and their ~~beneficiaries dependants~~) who are eligible for benefits. Demographic assumptions deal with matters such as:
    - (i) rates of ~~member~~ employee turnover, disability and early retirement;
    - (ii) mortality, ~~both during and after employment; and~~
    - (iii) the proportion of plan members with ~~beneficiaries dependants~~ who will be eligible for benefits; and
    - ~~(iv) claim rates under medical plans; and~~
  - (b) financial assumptions, dealing with items such as:
    - (i) the discount rate (see paragraphs 30-32); and
    - (ii) future salary and benefit levels (see paragraphs 33-37);<sup>3</sup>

- (iii) ~~in the case of medical benefits, future medical costs, including, where material, the cost of administering claims and benefit payments (see paragraphs 88-91); and~~
  - (iv) ~~the expected rate of return on plan assets (see paragraphs 105-107).~~ **(SOURCE: paragraph 73 of AASB 119)**
- 27 Actuarial assumptions are unbiased if they are neither imprudent nor ~~excessively~~ conservative. **(SOURCE: paragraph 74 of AASB 119)**
- 28 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase, ~~the return on plan assets~~ and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period. **(SOURCE: paragraph 75 of AASB 119)**
- 29 **Financial assumptions shall be based on market expectations, at the reporting date, for the period over which the obligations are to be settled. (SOURCE: paragraph 77 of AASB 119)**

*Discount Rate*

- 30 **Obligations for defined benefit members' accrued benefits shall be discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and term of the obligations. (SOURCE: based on paragraph 8.7 of AASB 1038 *Life Insurance Contracts*)**
- 31 The discount rate adopted by a superannuation plan is not intended to reflect the risks inherent in the liability cash flows, which might be allowed for by a reduction in the discount rate in a fair value measurement. In addition, the discount rate is not intended to reflect the non-financial risks and uncertainties reflected in defined benefit obligations. **(SOURCE: based on paragraph 8.8.1 of AASB 1038)**
- 32 Typically, yields on government bonds may be an appropriate discount rate for the purposes of this Standard, or may be an appropriate basis for determining such a discount rate. **(SOURCE: based on paragraph 8.8.2 of AASB 1038)**

*Salaries and Benefits*

- 33 **Obligations for defined benefit members' accrued benefits** ~~Post-employment benefit obligations~~ shall be measured on a basis that reflects:
- (a) estimated future salary increases;
  - (b) the benefits set out in the terms of the plan ~~(or resulting from any constructive obligation that goes beyond those terms)~~ at the reporting date; and
  - (c) estimated future changes in the level of any state retirement benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
    - (i) those changes were enacted before the reporting date; or
    - (ii) past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.  
(SOURCE: paragraph 83 of AASB 119)
- 34 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market. (SOURCE: paragraph 84 of AASB 119)
- 35 If the formal terms of a superannuation plan ~~(or a constructive obligation that goes beyond those terms)~~ require the plan an entity to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example, ~~(a) the has a past history of increasing benefits, for example, to mitigate the effects of inflation, and there is no indication that this practice will change in the future; or, (b) a surplus of assets over defined benefit members' accrued benefits exists actuarial gains have already been recognised in the financial statements and the entity is obliged, by either the formal terms of a the superannuation plan (or a constructive obligation that goes beyond those terms) or legislation, require that to use any surplus of assets attributable to defined benefit members in the plan be applied for the benefit of such plan members participants (see paragraph 98(c)).~~ (SOURCE: paragraph 85 of AASB 119)
- 36 Actuarial assumptions do not reflect future benefit changes that are not set out in the formal terms of the superannuation plan ~~(or a~~

~~constructive obligation~~) at the reporting date. Such changes will result in:

- (a) past ~~benefit~~service cost, to the extent that they change benefits for a member's service to their employer before the change; and
- (b) current ~~benefit~~service cost for periods after the change, to the extent that they change benefits for the member's service to their employer after the change. (SOURCE: **paragraph 86 of AASB 119**)

- 37 Some ~~superannuation post-employment~~ benefits are linked to variables such as the level of state retirement benefits or ~~state medical care~~. The measurement of such benefits reflects expected changes in such variables, based on past history and other reliable evidence. (SOURCE: **paragraph 87 of AASB 119**)

#### *Past Benefit Cost*

- 38 **In measuring its the present value of its obligation for defined benefit members' accrued benefits defined benefit liability under paragraph 15, an superannuation plan entity shall, subject to paragraph 58A, recognise past benefit service cost as an expense on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are already vested immediately following the introduction of, or changes to, a defined benefit superannuation plan, the plan an entity shall recognise past benefit service cost immediately.** (SOURCE: **paragraph 96 of AASB 119**)

- 39 Past ~~benefit~~service cost arises when an ~~employer sponsor~~ entity introduces a superannuation defined benefit plan to provide defined benefit superannuation arrangements for its employees or changes the defined benefits payable under an existing superannuation defined benefit plan. Such changes are in return for employee service over the period until the benefits concerned are vested. Therefore, past ~~benefit~~service cost is recognised over that period, regardless of the fact that the cost refers to ~~member~~employee service in previous periods. Past ~~benefit~~service cost is measured as the change in the liability resulting from the amendment (see paragraph 15). (SOURCE: **paragraph 97 of AASB 119**) Paragraph 97 of AASB 119 provides an example illustrating the calculation of past service cost in respect of an employer sponsor's defined benefit obligation.

- 40 Past ~~benefit~~service cost excludes:

- (a) the effect of differences between actual and previously assumed salary increases on the obligation to pay benefits for a member's service in prior years (there is no past benefit service cost because actuarial assumptions allow for projected salaries);
- (b) under and over estimates of ~~discretionary~~ pension increases where the formal terms of a superannuation plan ~~an entity has a constructive obligation to grant such increases~~ (there is no past service cost because actuarial assumptions allow for such increases);
- (c) estimates of benefit improvements that result from actuarial gains that have already been recognised in the financial statements if the superannuation plan entity is obliged, by either the formal terms of a superannuation plan ~~(or a constructive obligation that goes beyond those terms)~~ or legislation, to use any surplus attributable to defined benefit members in the superannuation plan for the benefit of such members ~~participants~~, even if the benefit increase has not yet been formally awarded (the resulting increase in the obligation is an actuarial loss and not past benefit service cost, see paragraph 35(b));
- (d) the increase in vested benefits when, in the absence of new or improved benefits, members/employees complete vesting requirements (there is no past benefit service cost because the estimated cost of benefits was recognised as current benefit service cost as the service to the employer sponsor was rendered); and
- (e) the effect of superannuation plan amendments that reduce benefits for future service to an employer sponsor (a curtailment). (SOURCE: paragraph 98 of AASB 119)

41 Appendix B to this Standard provides guidance in relation to accounting for past benefit costs in the context of a curtailment or settlement of defined benefit members' accrued benefits.

### **'Higher of Option'**

42 A superannuation plan that has members who are entitled to the higher of a defined benefit entitlement and a contributions-based amount shall:

- (a) account for such entitlements as a 'host promise' and a 'higher of option';

- (b) **measure the host promise in accordance with paragraphs 15-41 of this Standard; and**
- (c) **measure the higher of option at its fair value on the basis that the terms of the benefit entitlements will not change.**

**(SOURCE: based on paragraphs PV16 and PV17 on page 12 of the IASB's DP Preliminary Views on Amendments to IAS 19 Employee Benefits)**

- 43 Members of some superannuation plans are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement from full-time employment or other event that qualifies as a condition of release. This type of arrangement is akin to a put option embedded in an insurance contract that permits the holder to require the issuer to reacquire the instrument for an amount of cash or other assets determined on the basis of the value of the total contributions made by or on behalf of the holder.
- 44 Paragraph 42 is consistent with the requirements in AASB 132 *Financial Instruments: Presentation* and AASB 139 in respect of embedded options.

### **Recognition of Changes in the Carrying Amounts of Assets and Liabilities**

- 45 **A superannuation plan shall recognise changes in the carrying amounts of:**
- (a) **assets except for deferred tax assets; and**
  - (b) **liabilities except for deferred tax liabilities;**
- as income or expense in the reporting period in which the change occurs.**
- 46 In accordance with paragraph 45, a superannuation plan or approved deposit fund recognises any change in the carrying amount of members' accrued benefits and any change in the carrying amount of a higher of option in the profit or loss. **(SOURCE: based on paragraph PV18 on page 12 of the IASB's DP Preliminary Views on Amendments to IAS 19 Employee Benefits)**
- 47 A superannuation plan or approved deposit fund accounts for any change in the carrying amount of a deferred tax asset or liability in accordance with AASB 112.

## Consolidated Financial Statements

**48** A superannuation plan or approved deposit fund that is a parent entity shall prepare and present consolidated financial statements in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, except for the following:

- (a) goodwill at the reporting date shall be measured as the excess of (i) over (ii) below:
  - (i) the aggregate of:
    - A the fair value less anticipated disposal costs of the parent entity's interest in the subsidiary at the reporting date (see paragraphs 6 and 8-10); and
    - B the fair value of any non-controlling interest in the subsidiary at the reporting date.
  - (ii) the net of:
    - A the fair value less anticipated disposal costs of the subsidiary's assets at the reporting date;
    - B the fair value at the reporting date of any indemnification assets that are directly attributable to the acquisition of the subsidiary;
    - C the fair value plus anticipated disposal costs of the subsidiary's liabilities at the reporting date; and
    - D the fair value at the reporting date of any contingent liabilities of the subsidiary that existed at the date on which the parent entity acquired the subsidiary; and
- (b) a non-controlling interest in the net assets of a subsidiary is recognised at fair value at the reporting date.

(SOURCE: based on paragraph 32 of AASB 3)

**49** This Standard requires that a parent superannuation plan or parent approved deposit fund apply the principles in AASB 3 and AASB 127,

but assume for the purpose of preparing consolidated financial statements that each subsidiary was acquired at the reporting date. By applying this Standard in conjunction with the principles in AASB 3 and AASB 127, a parent superannuation plan or parent approved deposit fund conducts a hypothetical business combination in respect of each of its subsidiaries at each reporting date, primarily for identifying internally generated intangible assets held by subsidiaries and measuring goodwill at the reporting date. Accordingly, for the purpose of applying the principles in AASB 3 and AASB 127, a parent superannuation plan or parent approved deposit fund should regard:

- (a) the acquisition date to be the reporting date; and
- (b) the consideration transferred to be the carrying amount of the parent entity's interest in the subsidiary at the reporting date.

- 50 Consistent with the requirements in this Standard, a parent superannuation plan or parent approved deposit fund accounts for the potential tax effects of temporary differences and carryforwards of a subsidiary that exist at the reporting date in accordance with AASB 112.
- 51 A superannuation plan or approved deposit fund that prepares its consolidated financial statements in accordance with this Standard would not also need to comply with paragraphs 80-99 of AASB 136 *Impairment of Assets* in respect of impairment testing of goodwill.

## Separate Financial Statements

- 52 **A superannuation plan or approved deposit fund that is a parent entity shall present either:**
- (a) **its separate financial statements and consolidated financial statements together; or**
  - (b) **information in relation to the assets and liabilities other than accrued benefits recognised in the entity's separate statement of financial position as a note to the consolidated financial statements.**
- 53 Consistent with AASB 127, a superannuation plan or approved deposit fund that has a subsidiary is not required to present parent entity financial statements in addition to its consolidated financial statements. If a parent superannuation plan or parent approved deposit plan does not present separate financial statements, the entity discloses information in relation to the assets and liabilities other than accrued

benefits recognised in its separate financial statements in a note to the consolidated financial statements. Information in relation to assets and liabilities other than accrued benefits is disclosed in accordance with the principles or requirements in paragraphs 54-76 of AASB 101 *Presentation of Financial Statements*. A parent entity's decision to present separate financial statements or provide note disclosures is guided by the needs of users of its financial statements.

### **Information to be Presented in the Statement of Financial Position**

#### **Surplus or Deficiency of Assets**

- 54 A superannuation plan that has a surplus or deficiency of assets attributable to defined benefit members compared with members' accrued benefits shall present the surplus or deficiency in its statement of financial position.

### **Information to be Presented either in the Statement of Comprehensive Income or in the Notes**

#### **Accrued Benefits**

- 55 A superannuation plan shall present separately in the income statement or notes the following items in respect of changes in the carrying amount of its liability for defined benefit members' accrued benefits:
- (a) total benefit cost;
  - (b) interest cost;
  - (c) actuarial gains and losses; and
  - (d) gains or losses on curtailments or settlements.
- 56 A superannuation plan that recognises any change in its liability for defined benefit members' accrued benefits in accordance with paragraph 55 would not also need to comply with paragraphs 79 and 80 of AASB 101 in respect of its defined benefit members' accrued benefits.

#### **Total Benefit Cost**

- 57 The total benefit cost in relation to an obligation for defined benefit members' accrued benefits comprises:

- (a) the increase in the present value of the obligation resulting from members' service to their employer in the current period; and
- (b) the portion of any past benefit cost recognised in the current period in accordance with paragraph 38 of this Standard.

#### *Interest Cost*

- 58 Interest cost represents the cost of financing defined benefit members' accrued benefits in the period. The interest cost reflects the 'unwinding' of a defined benefit obligation in the sense that the benefits are one period closer to settlement. **(SOURCE: based in part on paragraph 9.6 of the IASB's DP Preliminary Views on Amendments to IAS 19 Employee Benefits and the definition of interest cost in paragraph 7 of AASB 119)**
- 59 Interest cost is computed by multiplying the discount rate as determined at the start of the period by the present value of the defined benefit members' accrued benefit obligation throughout that period, taking account of any material changes in the obligation. ~~The present value of the obligation will differ from the liability recognised in the balance sheet because the liability is recognised after deducting the fair value of any plan assets and because some actuarial gains and losses, and some past service costs are not recognised immediately. (Appendix A illustrates the computation of interest cost, among other things.)~~ **(SOURCE: paragraph 82 of AASB 119)**

#### *Actuarial Gains and Losses*

- 60 Actuarial gains and losses may result from ~~decreases~~ increases or ~~increases~~ decreases in either the present value of an obligation for defined benefit members' accrued benefits ~~a defined benefit obligation~~ or the fair value of any related plan assets. Causes of actuarial gains and losses include, for example:
- (a) unexpectedly high or low rates of ~~member~~ employee turnover, early retirement or mortality or of increases in salaries or benefits (if, for example, the formal or ~~constructive~~ terms of a plan provide for inflationary benefit increases) ~~or medical costs;~~
  - (b) the effect of changes in estimates of future ~~member~~ employee turnover, early retirement or mortality or of increases in salaries, or benefits (if, for example, the formal or ~~constructive~~ terms of a plan provide for inflationary benefit increases) ~~or medical costs;~~ and
  - (c) the effect of changes in the discount rate; ~~and~~

- (d) ~~differences between the actual return on plan assets and the expected return on plan assets (see paragraphs 105–107).~~  
(SOURCE: paragraph 94 of AASB 119)

*Gains or Losses on Curtailments or Settlements*

- 61 ~~An entity shall recognise gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement shall~~ comprises:
- (a) any resulting change in the present value of the defined benefit obligation; and
  - ~~(b) any resulting change in the fair value of the plan assets; and~~
  - ~~(c) any related actuarial gains and losses and past benefit service cost that, under paragraph 38, had not previously been recognised.~~  
(SOURCE: paragraph 109 of AASB 119)
- 62 Paragraphs 8-13 of Appendix B to this Standard provide guidance in relation to accounting for gains or losses on a curtailment or settlement of defined benefit members' accrued benefits.

**'Higher of Option'**

- 63 A superannuation plan shall present separately in the income statement or notes the following in respect of changes in the carrying amount of its liability for a 'higher of option':
- (a) benefit cost; and
  - (b) other fair value changes.
- (SOURCE: based on paragraph PV18 on page 12 of the IASB's DP Preliminary Views on Amendments to IAS 19 Employee Benefits)
- 64 The benefit cost in relation to a higher of option is the increase in the fair value of the liability resulting from a member's service to their employer in the current period. (SOURCE: based on paragraph 9.4 of the IASB's DP Preliminary Views on Amendments to IAS 19 Employee Benefits). Other fair value changes are likely to arise mainly from movements in the carrying amounts of the assets of the superannuation plan.

## Disclosures

### Nature of the Entity and Members' Benefits

- 65 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding the nature of the entity and the benefits it provides to its members.**
- 66 To meet the objective in paragraph 65, a superannuation plan or approved deposit fund discloses, as a minimum, the information specified in paragraph 20 of Appendix B to this Standard.

### Expense Items

- 67 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding the nature and amount of expense items incurred by the entity.**
- 68 Consistent with the requirements in paragraph 99 of AASB 101, a superannuation plan or approved deposit fund discloses an analysis of expenses recognised in profit or loss using a classification that is considered appropriate for the needs of users in a superannuation context.
- 69 Paragraphs 21 and 22 of Appendix B to this Standard provide guidance in relation to the information that might be considered appropriate for the needs of users of the financial statements of a superannuation plan or approved deposit fund.

### Fair Value

- 70 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding how the fair values of the assets and liabilities of the entity are determined.**
- 71 Paragraph 23 of Appendix B to this Standard provides guidance in relation to the disclosure of information in accordance with paragraph 70.
- 72 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 70 would not also need to apply fair value disclosure requirements in other Australian Accounting Standards, including in particular:
- (a) *AASB 7 Financial Instruments: Disclosures*;

- (b) AASB 116 *Property, Plant and Equipment*;
- (c) AASB 138 *Intangible Assets*; and
- (d) AASB 140 *Investment Property*.

### **Nature, Extent and Management of Risks**

**73 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:**

- (a) **the nature and extent of the risks to which the entity is exposed during the reporting period and at the reporting date; and**
- (b) **how the trustee manages those risks.**

**(SOURCE: based on paragraph 1 of AASB 7)**

- 74 To meet the objective in paragraph 73, a superannuation plan or approved deposit fund discloses, as a minimum, the information specified in paragraphs 24-36 of Appendix B to this Standard.
- 75 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 73 would not also need to apply the disclosure requirements in relation to assets and liabilities in other Australian Accounting Standards, including in particular:
- (a) AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*;
  - (b) AASB 7;
  - (c) AASB 102 *Inventories*;
  - (d) AASB 111 *Construction Contracts*;
  - (e) AASB 117 *Leases*;
  - (f) AASB 128 *Investments in Associates*; and
  - (g) AASB 131 *Interests in Joint Ventures*.
- 76 When appropriate, a parent superannuation plan or parent approved deposit fund would, however, apply the disclosure principles and requirements in AASB 3, AASB 127 and AASB 121 *The Effects of Changes in Foreign Exchange Rates*.

## Arrangement and Management of Assets

- 77 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding how the trustee arranges and manages the entity's assets for the purpose of meeting its obligations to members.**
- 78 The trustee of a superannuation plan or approved deposit fund could manage the assets attributable to different groups of members and beneficiaries in a number of different ways, including:
- (a) on a 'pooled' basis, whereby all of the contributions attributable to different groups of members are pooled for investment purposes; or
  - (b) on a 'segregated' basis, whereby the contributions attributable to different groups of members are invested separately.
- 79 To meet the objective in paragraph 77, a superannuation plan or approved deposit fund discloses, as a minimum, the information specified in paragraph 37 of Appendix B to this Standard.
- 80 Where a trustee manages a superannuation plan's or approved deposit fund's assets on a segregated basis, the entity shall disclose information that provides users with a basis for understanding:**
- (a) the significant assets within each material group of assets;**
  - (b) the financial performance of each material group of assets; and**
  - (c) the significant risks to which each material group of assets is exposed when the levels of such risks differ materially from the levels of the corresponding risks at the entity level.**
- 81 Paragraphs 38-43 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 80.
- 82 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 77 and, if applicable, paragraph 80 would not also need to apply AASB 8 *Operating Segments* or AASB 114 *Segment Reporting*.

### **Accrued Benefits**

- 83 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding the entity's obligation for accrued benefits.**
- 84 To meet the objective in paragraph 83, a superannuation plan or approved deposit fund discloses, as a minimum, the information specified in paragraph 44 of Appendix B to this Standard.

### **Surplus or Deficiency of Assets**

- 85 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding any surplus or deficiency in assets attributable to members compared with members' accrued benefits.**
- 86 To meet the objective in paragraph 85, a superannuation plan or approved deposit fund discloses, as a minimum, the information specified in paragraph 45 of Appendix B to this Standard.
- 87 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 85 would not also need to comply with paragraphs 79 and 80 of AASB 101 in respect of any residual interest (positive or negative) in the entity's assets that would otherwise be presented as equity.

### **Related Parties**

- 88 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:**
- (a) the nature of any related party relationships; and**
  - (b) the nature and amount of any:**
    - (i) related party transactions during the reporting period; and**
    - (ii) outstanding balances between the entity and a related party at the reporting date.**
- 89 A superannuation plan or approved deposit fund that has a related party relationship, is involved in a related party transaction or has a related party balance at the reporting date applies AASB 124 *Related Party Disclosures*. In addition to any relevant disclosures that might need to

be made under AASB 124, a superannuation plan or approved deposit fund discloses the information specified in paragraph 46 of Appendix B to this Standard.

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