

Exposure Draft

ED 16X
X 2009

Superannuation Plans and Approved Deposit Funds

Prepared by the
Australian Accounting Standards Board

Draft ED 16X Superannuation Plans and Approved Deposit Funds will be considered by the Board at its meeting on 5 February 2009. Please note that the Draft ED does not reflect settled positions by the AASB and may change or be modified by the AASB. This draft is not an authoritative pronouncement of the AASB. Decisions become final only after completion of the formal processes required to issue an Exposure Draft. No responsibility is taken for the results of actions or omission to act taken on the basis of any information in this draft or for any errors or omissions.



Australian Government

**Australian Accounting
Standards Board**

Commenting on this Exposure Draft

Comments on this Exposure Draft are requested by XX 2009. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aab.gov.au

All non-confidential submissions to the AASB will be made available to the public on the AASB website: www.aasb.gov.au.

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The Customer Service Officer	Phone: (03) 9617 7637
Australian Accounting Standards Board	Fax: (03) 9617 7608
Level 7	E-mail: publications@aab.gov.au
600 Bourke Street	Postal address:
Melbourne Victoria	PO Box 204
AUSTRALIA	Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aab.gov.au

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AASB 10XX SUPERANNUATION PLANS AND APPROVED DEPOSIT
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**[DRAFT] BASIS FOR CONCLUSIONS ON AASB
10XX10XX10XX**

[Draft] Australian Accounting Standard AASB ~~10XX10XX10XX~~
Superannuation Plans and Approved Deposit Funds
Superannuation Plans and Approved Deposit Funds
Superannuation Plans and Approved Deposit Funds is set out in paragraphs 1-46 and Appendices A and B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB ~~10XX10XX10XX~~ 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

The AASB has adopted a transaction-neutral policy in relation to its accounting pronouncements, under which like transactions are treated in a like manner by all entities. Consistent with this policy, the AASB issues Australian Accounting Standards that incorporate IFRSs. In keeping with its transaction-neutral policy, the AASB considered the suite of Australian Accounting Standards for application to superannuation plans and approved deposit funds. However, as a consequence of the needs of users of the financial statements of superannuation plans and approved deposit funds, the AASB found it necessary to depart from this policy in respect of a limited number of reporting issues that are of critical importance to such entities.

The users of the financial statements of superannuation plans and approved deposit funds include groups whose information needs would not have been considered in the promulgation of other Australian Accounting Standards. This is due, in part, to the compulsory nature of superannuation in Australia. As a consequence of this, the reporting requirements that would otherwise apply under Australian Accounting Standards, particularly in relation to the measurement of assets, the recognition and measurement of members' benefits, the preparation and presentation of consolidated financial statements and the disclosure of information about superannuation-specific risks and uncertainties, are not appropriate for the needs of users of the financial statements of superannuation plans or approved deposit funds. Accordingly, this Exposure Draft deals only with financial reporting issues for which the AASB considers there is a need to:

- (a) depart from Australian Accounting Standards in respect of superannuation plans or approved deposit funds; and
- (b) limit the accounting treatments available to superannuation plans or approved deposit funds in other Australian Accounting Standards;

in the interests of facilitating the provision of information that is relevant for decision making by users in a superannuation context.

Differential Reporting and the Reporting Entity Concept

The application paragraphs in this Exposure Draft are based on the reporting entity concept as defined in SAC 1 *Definition of the Reporting Entity*. The reporting entity concept is used in this Exposure Draft to identify those entities to which the Standard would apply. This approach accords with the AASB's existing policy concerning application of Australian Accounting Standards, but differs from the AASB's tentative decisions to date in relation to its Differential Reporting project.

In May 2007 the AASB published Invitation to Comment (ITC) 12 'Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*', which contains proposals for a revised differential reporting regime. Among other things, the AASB proposed changing the focus of the application of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements'. The AASB is currently redeliberating its ITC 12 proposals in the light of comments received from constituents. Accordingly, when the AASB has completed its deliberations in relation to its Differential Reporting project, it will reconsider the merits of retaining the reporting entity concept for the purpose of this Standard.

Main Features of this Exposure Draft

This Exposure Draft proposes that a superannuation plan or approved deposit fund prepare financial statements in accordance with other applicable Australian Accounting Standards unless otherwise specified in this Exposure Draft. This Exposure Draft proposes that a superannuation plan or approved deposit fund:

- (a) recognise all of its assets and liabilities in accordance with other applicable Australian Accounting Standards and measure them at fair value adjusted for transaction costs, except that:
 - (i) tax balances be measured in accordance with AASB 112 *Income Taxes*;
 - (ii) obligations for defined contribution members' vested benefits and defined benefit members' accrued benefits always be recognised as liabilities;
 - (iii) obligations for defined contribution members' vested benefits be measured at the amount payable to or on behalf of such members on demand;
 - (iv) obligations for defined benefit members' accrued benefits be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method;
 - (v) obligations and assets arising from insurance contracts issued by the plan or fund be accounted for in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*; and
 - (vi) any difference at the reporting date between:

Note to Board:

Paragraph (vi) is subject to the Board's decisions in relation to Agenda Paper 3.2.

- the sum of the parent's interest and the non-controlling interests in the subsidiary; and
- the amount of the net assets of the subsidiary that are recognised by the parent;
- the aggregate of:
 - the fair value less transaction costs of a plan's or fund's interest in a subsidiary; and
 - the amount of any non-controlling interests in the subsidiary measured in a manner consistent with *AASB 127 Consolidated and Separate Financial Statements*; and
- the aggregate of:
 - the fair value adjusted for transaction costs of the subsidiary's recognised and identifiable net assets (except for tax balances); and
 - the subsidiary's net tax assets or liabilities measured in accordance with *AASB 112*;

be recognised and presented separately as goodwill or discount of subsidiaries in the consolidated statement of financial position;

- (b) recognise and present all revenues, expenses, gains and losses in accordance with applicable Australian Accounting Standards, except that:
- (i) all remeasurement changes in:
- assets and liabilities measured at fair value adjusted for transaction costs;
 - obligations and assets arising from insurance contracts issued by the entity; and
 - defined benefit members' accrued benefits;

be recognised and presented as gains or losses in the income statement; and

- (ii) current tax and deferred tax be charged or credited directly to members' benefits and presented in the statement of changes in members' benefits when:
- the tax relates to items that are credited or charged directly to members' benefits; ~~and~~
 - ~~—the items that are charged or credited directly to members' benefits are not income statement items;~~
- (c) present:
- (i) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with Australian Accounting Standards;
 - (ii) notes in accordance with ~~other relevant~~ applicable Australian Accounting Standards except where the disclosure principles and requirements in other Australian Accounting Standards:
 - are not ~~consistent with~~ relevant in view of the fair value measurement requirements in this Exposure Draft; or
 - address the same items or events as the disclosure principles in this Exposure Draft;
 - (iii) an income statement instead of a single statement of comprehensive income or a separate income statement and a statement of comprehensive income; and
 - (iv) a statement of changes in members' benefits;
- (d) present any difference between the amount of total assets and total liabilities, including members' benefits and any obligations to employer sponsors, as equity in accordance with applicable Australian Accounting Standards;
- (e) that prepares separate financial statements for the purpose of meeting the information needs of general purpose users, present its separate and consolidated financial statements together;
- ~~(f) disclose either in the income statement or in the notes the main components of remeasurement changes in defined benefit members' accrued benefits;~~
- (f) disclose in the notes information that provides users of its financial statements with a basis for understanding:

- (i) the nature of the ~~entity plan or fund~~ and the nature of the benefits it provides to its members;
- (ii) the nature and amount of expenses incurred by the ~~entity plan or fund~~;
- (iii) how the fair values of assets and liabilities of the ~~entity plan or fund~~ are determined;
- (iv) the nature and extent of the financial risks to which the ~~entity plan or fund~~ is exposed during the reporting period and at the reporting date;
- (v) how the trustee manages the financial risks to which the ~~entity plan or fund~~ is exposed;
- (vi) how the trustee arranges and manages the ~~entity's plan's or fund's~~ assets for the purpose of meeting its obligations to members;
- (vii) where a trustee manages an ~~entity's plan's or fund's~~ assets on a 'segregated' or 'sub-plan' basis:
 - the type and nature of assets within each segregated group of assets;
 - the financial performance and financial position of each segregated group of assets; and
 - the significant financial risks to which each segregated group of assets is exposed when the levels of such risks differ materially from the levels of the corresponding risks at the ~~entity plan or fund~~ level;
- (viii) the expected rates of return in respect of the entity's net assets and, if applicable, each segregated group of assets held by the entity;
- (ix) the ~~entity's plan's or fund's~~ obligations for members' benefits;
- (x) the size, nature and any strategies for addressing any difference between the amount of net assets attributable to defined benefit members and such members' accrued benefits; ~~and~~
- (xi) disclose either in the statement of changes in members' benefits or the notes the main components of remeasurement changes in defined benefit members' accrued benefits;

- (xii) ~~any related party relationships or transactions during the reporting period, or related party balances at the reporting date, in accordance with AASB 124 *Related Party Disclosures*. In addition, a plan or fund discloses information in relation to:~~
- ~~— individual trustees or trustee directors and other key management personnel (KMP), including their names and the aggregate remuneration paid and payable to KMP in respect of the reporting period;~~
 - ~~— the nature of the entity's plan's or fund's relationships with its employer sponsors and trustee or trustees; and~~
- (xiii) ~~any transaction during the reporting period or balance at the reporting date involving the entity plan or fund and a member of its KMP, the trustee or an employer sponsor or trustee that would not be considered 'normal' in a superannuation context.~~

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 be permitted.

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) the core principle identified in paragraph 2 of this Exposure Draft is appropriate for a superannuation plan or approved deposit fund and encapsulates the main objectives of financial reporting by a plan or fund;
- (b) the recognition principles in paragraph 9 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund; ~~In particular, whether a plan or fund should be:~~
 - ~~(i) required to recognise defined contribution members' vested benefits rather than their accrued benefits as the fund's or plan's liability for such members' benefits; and~~
 - ~~(i) required to recognise any unvested amounts received on behalf of defined contribution members as equity;~~

as proposed in this Exposure Draft;
- ~~(c) the measurement principles in paragraphs 10-19 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund;~~
- (c) the guidance in paragraphs AG13-AG32 of Appendix B to this Exposure Draft is sufficient to facilitate reliable measurements of obligations for defined benefit members' accrued benefits and comparable measurements of such obligations between superannuation plans and over time; In particular, whether
 - ~~(d) a superannuation plan with defined benefit members who will accrue materially higher levels of benefits as they near retirement age should be:~~

- (i) permitted to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances, as proposed in paragraph AG17 of Appendix B to this Exposure Draft;
 - (ii) required to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations; or
 - (iii) required to attribute such members' benefits to reporting periods on a basis other than a straight-line basis;
- (d) the circumstances described in paragraph 17(c) of this Exposure Draft and paragraph AG30 of Appendix B to this Exposure Draft in relation to externally imposed requirements are relevant to any Australian superannuation plans;
- ~~(f) the recognition and presentation requirements in paragraph 20 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund;~~
- (e) a superannuation plan or approved deposit fund should be required to present:
- ~~(i) an income statement instead of a single statement of comprehensive income or a separate income statement and a statement of comprehensive income; and~~
 - ~~(i) a statement of changes in members' benefits;~~
- as proposed in paragraph 22 of this Exposure Draft;
- (f) there are any circumstances in which a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities, including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors, would not be equity as defined in Australian Accounting Standards;
- (g) a superannuation plan that has members who are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement or other event that qualifies as a condition for releasing superannuation benefits (refer to paragraphs BC51-BC55 of the Basis for Conclusions to this Exposure Draft) should recognise the 'higher of' benefit option separately from the defined benefit 'host promise'. If you agree that a superannuation plan should separately recognise a higher of benefit option, how might the option be measured?

- (h) there are any significant practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with paragraph 27 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;
- (i) a superannuation plan or approved deposit fund should be required to present in its consolidated financial statements any goodwill of subsidiaries as a single amount or whether a plan or fund should be permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets and contingent liabilities that comprise goodwill or discount of subsidiaries when such items are reliably measurable;
- (j) a superannuation plan or approved deposit fund should be required to:
- (i) treat goodwill and discount of subsidiaries in a symmetrical manner as proposed in this Exposure Draft, whereby goodwill of subsidiaries is presented as an asset and discount of subsidiaries is presented as a liability in the consolidated statement of financial position; or
 - (ii) present goodwill of subsidiaries as an asset in the consolidated statement of financial position and treat discount of subsidiaries in a manner consistent with the treatment of a 'gain on a bargain purchase' under AASB 3 *Business Combinations*, whereby discount of subsidiaries would be recognised as a gain in the income statement in the reporting period in which it is recognised;
- (k) a superannuation plan or approved deposit fund should be permitted ~~or required~~ to measure any non-controlling interests in a subsidiary ~~in accordance with any of the following approaches:~~
- ~~(i) a manner consistent with either of the two measurement methods permitted under AASB 127 *Consolidated and Separate Financial Statements* as proposed in this Exposure Draft and illustrated in Illustrated Example C in Appendix C to this Exposure Draft;~~
 - ~~(ii) in a manner consistent with only one of the two measurement methods in AASB 127 for non-controlling interests;~~
 - ~~(iii) in a manner consistent with the approach illustrated in Illustrated Example D of Appendix C to this Exposure Draft; or~~

Note to Board:

Paragraphs (i) and (j) are subject to the Board's decisions in relation to Agenda Paper 3.2.

~~(h)~~ at fair value at each reporting date in a manner consistent with the approach illustrated in Illustrated Example ~~DE~~ of Appendix C to this Exposure Draft;

- (l) the terms 'goodwill of subsidiaries' or 'discount of subsidiaries' are appropriate for describing a difference recognised as a result of a superannuation plan or approved deposit fund applying paragraph 27 of this Exposure Draft or whether there are other terms that might more clearly convey to users the nature of such amounts;
- (m) the disclosure principles in paragraphs 29-46 of this Exposure Draft:
 - (i) are appropriate for a superannuation plan or approved deposit fund;
 - (ii) would provide relevant information for users of the general purpose financial statements of a superannuation plan or approved deposit fund; and
 - (iii) ~~would be (c) the guidance in paragraphs AG48-AG84 of Appendix B to this Exposure Draft~~ is sufficient to facilitate reliable and comparable disclosures by a superannuation plan or approved deposit fund;
- ~~(p) the benefit cost attributable to defined benefit members is sufficiently relevant to users generally to warrant separate disclosure as proposed in paragraph 41(a) of this Exposure Draft;~~
- (n) the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits as proposed in paragraph 42~~(b)~~ ~~(d)~~ of this Exposure Draft would provide relevant information for users of the financial statements of a superannuation plan;
- (o) the approach adopted in drafting this Exposure Draft is helpful for understanding how a superannuation plan or approved deposit fund might apply the proposals in this Exposure Draft in conjunction with the relevant principles and requirements in other Australian Accounting Standards? If you do not consider the approach adopted in this Exposure Draft to be helpful, please describe the type of approach you would prefer;
- (p) **OTHER QUESTIONS AS IDENTIFIED BY THE BOARD;**
- (q) overall, the proposals would result in financial reports that would be useful to users; and

- (r) the proposals are in the best interest of the Australian economy.

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**ACCOUNTING STANDARD AASB
~~10XX10XX10XX~~**

**SUPERANNUATION PLANS AND APPROVED
DEPOSIT FUNDSSUPERANNUATION PLANS
AND APPROVED DEPOSIT
FUNDSSUPERANNUATION 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 are intended to provide users with information that is relevant for decision making in a superannuation plan or approved deposit fund context.

Core Principle

- 2 A superannuation plan or approved deposit fund shall disclose information that provides users of its financial statements with a basis for understanding the:
 - (a) financial position, financial performance and cash flows of the entity;
 - (b) the amount of, and the entity's capacity to meet, members' benefits; and
 - (c) financial risks to which the entity is exposed that could affect the amount of, and the entity's capacity to meet, members' benefits.

Application

- 3 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.
- 4 This Standard applies to annual reporting periods beginning on or after 1 July 200X. Early adoption of this standard is permitted.**
- 5 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

- 6 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.**
- 7 Except in a limited number of specified circumstances, this Standard requires all assets and liabilities of a superannuation plan or approved deposit fund to be:
- (a) recognised in accordance with other applicable Australian Accounting Standards; and
 - (b) measured at fair value adjusted for transaction costs.
- 8 This Standard also requires a superannuation plan or approved deposit fund to apply the disclosure principles and requirements in other relevant Australian Accounting Standards unless the disclosure principles and requirements:
- (a) are not consistent with relevant in view of the fair value measurement requirements in this Standard; or
 - (b) address the same items or events as the disclosure principles in this Standard.

Paragraph AG2 of Appendix B to this Standard identifies some Australian Accounting Standards that contain disclosure principles and requirements that a superannuation plan or approved deposit fund would apply when relevant.

(SOURCE: the Board's decisions at its November and December 2008 meetings)

Assets and Liabilities

Recognition

- 9 All assets and liabilities shall be recognised in accordance with other applicable Australian Accounting Standards, however:
- (a) obligations for defined contribution members' vested benefits and defined benefit members' accrued benefits shall always be recognised as liabilities;
 - (b) all obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be recognised in accordance with the recognition criteria applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*; and
 - (c) assets and liabilities of a subsidiary shall be recognised in accordance with paragraph 27 of this Standard.

Measurement

- 10 All recognised assets except for:
- (a) tax assets;
 - (b) assets arising from insurance contracts issued by the entity; and
 - (c) goodwill of subsidiaries measured in accordance with paragraph 27 of this Standard;
- shall be measured at fair value less transaction costs.
- 11 All recognised liabilities except for:
- (a) tax liabilities;

Note to Board: Paragraph 11(e) is subject to the Board's decisions in relation to Agenda Paper 3.2.

- (b) obligations for defined contribution members' vested benefits;
- (c) obligations for defined benefit members' accrued benefits;
- (d) obligations arising from insurance contracts issued by the entity; and
- (e) discount of subsidiaries measured in accordance with paragraph 27 of this Standard;

shall be measured at fair value plus transaction costs.

Tax Balances

- 12 Tax assets and liabilities shall be measured in accordance with AASB 112 *Income Taxes*.

Defined Contribution Members' Vested Benefits

- 13 Obligations for defined contribution members' vested benefits shall be measured at the amount payable to or on behalf of such members on demand.

(SOURCE: the Board's decisions at its December 2008 meeting)

Defined Benefit Members' Accrued Benefits

- 14 Obligations for defined benefit members' accrued benefits shall be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method.
- 15 Application of the Projected Unit Credit Method requires a superannuation plan to make actuarial assumptions about the variables that will determine the ultimate cost of its obligation for defined benefit members' accrued benefits. In particular, assumptions about the demographic variables (such as rates of member turnover, disability and early retirement) and financial variables (such as future salary and benefit levels) that will affect the amount of expected future benefit payments. The reliable measurement of defined benefit members' accrued benefits necessarily requires that the assumptions used are the best estimates of the relevant variables. (SOURCE: based on paragraphs 50(a) and 73 of AASB 119 and the Board's decisions at its October, November and December 2008 meetings)

Actuarial Assumptions

- 16 Actuarial assumptions shall be unbiased and mutually compatible. (SOURCE: paragraph 72 of AASB 119)**

Salaries and Benefits

- 17 Obligations for defined benefit members' accrued benefits shall be measured on a basis that reflects:**
- (a) estimated future salary increases;**
 - (b) the benefits set out in the terms of the superannuation plan at the reporting date and any constructive obligation to members that goes beyond the formal terms of the plan; and**
 - (c) estimated future changes in the level of any externally imposed requirements that affect the benefits payable under a ~~defined benefit~~ superannuation plan, if, and only if, either:**
 - (i) those changes were enacted before the reporting date; or**
 - (ii) past practice, or other reliable evidence, indicates that those externally imposed requirements will change in a manner that would permit the obligation to be reliably measured. (SOURCE: paragraph 83 of AASB 119 and the Board's decisions at its August 2008 meeting)**

Discount Rate

- 18 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*)**

Defined Benefit or Defined Contribution

- 19 The definitions of a defined contribution member and a defined benefit member in Appendix A to this Standard cover most, if not all, types of benefits offered by superannuation plans and approved deposit funds in Australia. However, if ~~the entitlements of a member's benefits~~ have both defined contribution and defined benefit characteristics, the member should be regarded as a defined benefit member. (SOURCE: **relocated from paragraph 10 of the Application Guidance in draft****

ED 16X presented to the Board's October 2008 meeting in accordance with the Board's decisions at that meeting)

Insurance Contracts

- 20 Obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038.

Remeasurement Changes in Assets and Liabilities

- 21 All revenues, expenses, gains and losses shall be recognised and presented in accordance with other applicable Australian Accounting Standards, except that:
- (a) all remeasurement changes in:
 - (i) assets and liabilities measured at fair value adjusted for transaction costs;
 - (ii) obligations and assets arising from insurance contracts issued by the entity; and
 - (iii) defined benefit members' accrued benefits;shall be recognised and presented as gains or losses in the income statement in the period in which they occur; and
 - (b) current tax and deferred tax shall be charged or credited directly to members' benefits and presented in the statement of changes in members' benefits when:
 - (i) the tax relates to items that are credited or charged, in the same or a different period, directly to members' benefits; ~~and~~
 - (ii) ~~the items that are charged or credited directly to members' benefits are not income statement items.~~(SOURCE: based on paragraph 61 of AASB 112 in accordance with the Board's decisions at its October, November and December 2008 meetings. Relocated from paragraph 26 of draft ED 16X presented to the Board's November and December 2008 meetings)

Presentation of Financial Statements

- 22 A superannuation plan or approved deposit fund shall present:
- (a) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with Australian Accounting Standards;
 - (b) notes in accordance with other relevant applicable Australian Accounting Standards except where the disclosure principles and requirements in other Australian Accounting Standards:
 - (i) are not inconsistent with the fair value measurement requirements in paragraphs 10 and 11 of this Standard; and
 - (ii) address the same items or events as the disclosure principles in paragraphs 28-45 of this Standard;
 - (c) an income statement; and
 - (d) a statement of changes in members' benefits.
- 23 Where there exists a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities, including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors, the plan or fund would present the difference as equity in accordance with applicable Australian Accounting Standards, including paragraphs 79 and 80 of AASB 101 *Presentation of Financial Statements*. (SOURCE: paragraph 29 in the body of the draft ED presented to the Board's October 2008 meeting)
- 24 A superannuation plan or approved deposit fund that presents an income statement in accordance with this Standard would not also need to present:
- (a) a single statement of comprehensive income; or
 - (b) a separate income statement and a statement of comprehensive income;
- in accordance with AASB 101. (SOURCE: paragraph 38 of the Application Guidance to draft ED presented to the Board's September 2008 meeting)

- 25 A statement of changes in members' benefits shows information in relation to items such as contributions, transfers, rollovers and benefit payments in respect of defined contribution members, and remeasurement changes in accrued benefits and benefit payments in respect of defined benefit members. This information provides a basis for making assessments about any change in a superannuation plan's or approved deposit fund's obligations for its defined contribution members' vested benefits and defined benefit members' accrued benefits during the reporting period. **(SOURCE: based on paragraph BC76 in accordance with the Board's decisions at its October 2008 meeting)**
- 26 A superannuation plan or approved deposit fund that presents a statement of changes in members' benefits in accordance with this Standard would not also need to disclose information equivalent to that required by paragraph 79(a) of AASB 101, including changes during the period in each category of membership, and the rights, preferences and restrictions attaching to each category of membership. **(SOURCE: paragraph 41 of the Application Guidance to the draft ED presented to the Board's September 2008 meeting)**

Preparation and Presentation of Consolidated Financial Statements

- 27 A parent superannuation plan or parent approved deposit fund shall prepare and present consolidated financial statements in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, except that the ~~parent entity~~ shall:
- (a) measure all of the assets and liabilities ~~recognised by of a subsidiary that are recognised by the parent~~ (except for tax balances) at their fair values adjusted for transaction costs at the reporting date. Tax balances shall be measured in accordance with AASB 112;
 - (b) recognise any difference between:
 - (i) the sum of the parent's interest and the non-controlling interests in the subsidiary at the reporting date; and
 - (ii) the amount of the net assets of the subsidiary that are recognised by the parent at the reporting date;

Note to Board:

Paragraph 27(c) is subject to the Board's decisions in relation to Agenda Paper 3.2.

~~as goodwill or discount of the subsidiary; and all of the identifiable assets and liabilities of a subsidiary at the acquisition date in a manner consistent with AASB 3 and measure them at fair value adjusted for transaction costs at the reporting date;~~

- (c) recognise and present the sum of any goodwill or discount of all subsidiaries in the consolidated statement of financial position as goodwill or discount of subsidiaries.

(SOURCE: the Board's decisions at its December 2008 meeting)

Separate Financial Statements

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

Disclosures

Nature of the Entity and Members' Benefits, Expense Items and Fair Value Measurement

- 29 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:
- (a) the nature of the entity and the benefits it provides to its members;
 - (b) the nature and amount of expenses incurred by the entity; and
 - (c) how the fair values of assets and liabilities of the entity are determined.
- 30 To meet the objectives in paragraph 29, an entity discloses, as a minimum, the information specified in paragraphs AG47, AG48-AG51 and AG52-AG55 of Appendix B to this Standard.

Nature, Extent and Management of Risks

- 31 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 financial 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)**
- 32 To meet the objective in paragraph 31, an entity discloses, as a minimum, the information specified in paragraphs AG56-AG70 of Appendix B to this Standard.

Arrangement and Management of Assets

- 33 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.**
- 34 Trustees of superannuation plans and approved deposit funds can 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' or 'sub-plan' basis, whereby the contributions attributable to different groups of members are invested separately.
- 35 To meet the objective in paragraph 33, an entity discloses, as a minimum, the information specified in paragraph AG72 of Appendix B to this Standard.
- 36 Where a trustee manages a superannuation plan's or approved deposit fund's assets on a segregated basis, the plan or fund shall disclose information that provides users with a basis for understanding:**

- (a) **the type and nature of the assets within each segregated group of assets;**
- (b) **the financial performance and financial position of each segregated group of assets; and**
- (c) **the significant financial risks to which each segregated group of assets is exposed when the levels of such risks differ materially from the levels of the corresponding risks at the entity level.**

37 Paragraphs AG73-AG78 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 36.

Members' Benefits

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

39 To meet the objective in paragraph 38 an entity discloses, as a minimum, the information specified in paragraph AG79 of Appendix B to this Standard.

Net Assets Attributable to Defined Benefit Members

40 **Where the amount of net assets attributable to defined benefit members does not equal defined benefit members' accrued benefits, the superannuation plan shall disclose information that provides users with a basis for understanding the size, nature and any strategies for addressing theany difference between the two amounts.**

41 To meet the objective in paragraph 40, an entity discloses, as a minimum, the information specified in paragraph AG80 of Appendix B to this Standard.

Components of Remeasurement Changes in Defined Benefit Members' Accrued Benefits

42 **A superannuation plan shall ~~disclose~~present separately in the income statement statement of changes in members' benefits or notes the following items in respect of remeasurement changes in its liability for defined benefit members' accrued benefits:**

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

(SOURCE: relocated from paragraph 27 of draft ED 16X presented to the Board's November 2008 meeting)

- 43 Paragraphs AG81-AG86 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 42.

Related Parties

- 44 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 during the reporting period; 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.

- 45 ~~A superannuation plan or approved deposit fund that has a related party relationship or is involved in a related party transaction during the reporting period, 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 To meet the objective in paragraph 44, a superannuation plan or approved deposit fund discloses, when relevant, the information in accordance with specified in paragraph AG87 of Appendix B to this Standard.~~
(SOURCE: Board's decisions at its December 2008 meeting)

Insurance Contracts

- 46 A superannuation plan or approved deposit fund that issues insurance contracts shall disclose information in relation to such contracts in accordance with the disclosure principles and

**requirements applicable to life insurance contracts under
AASB 1038.**

**(SOURCE: Board's September 2008 meeting. Relocated from
paragraph 32 of draft ED 16X presented to the Board's November
2008 meeting in accordance with the Board's decisions at that
meeting)**

DRAFT

APPENDIX A

DEFINED TERMS

This Appendix is an integral part of AASB ~~10XX10XX10XX~~.

accrued benefits	The present obligation for benefits that members or their beneficiaries are entitled to receive in the future as a result of membership of the superannuation plan or approved deposit fund up to the reporting date. (SOURCE: Board's June 2008 meeting)
actuarial gains and losses	Gains and losses that comprise: <ul style="list-style-type: none">(a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and(b) the effects of changes in actuarial assumptions. (SOURCE: paragraph 7 of AASB 119)
approved deposit fund	An entity that is an approved deposit fund within the meaning of section 10 of the <i>Superannuation Industry (Supervision) Act 1993</i> . (SOURCE: Board's September 2007 meeting)

benefit cost	<p>The change in the present value of an obligation for defined benefit members' accrued benefits resulting from:</p> <ul style="list-style-type: none">(a) members' service to their employer in the current period; and(b) the change in the obligation during the reporting period arising from a change in the formal terms of the superannuation plan. (SOURCE: based on paragraph 7 of AASB 119)
defined benefit member	<p>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. (SOURCE: Board's August 2008 meeting. Based on paragraph 10 of AAS 25)</p>
defined contribution member	<p>A member whose benefits are determined by reference to accumulated contributions made on their behalf and by them, together with investment earnings thereon. (SOURCE: Board's August 2008 meeting. Based on paragraph 10 of AAS 25)</p>
interest cost	<p>The increase during a period in the present value of an obligation for defined benefit members' accrued benefits which occurs because the benefits are one period closer to settlement. (SOURCE: based on paragraph 7 of AASB 119)</p>

superannuation plan

An entity that is:

- (a) regulated under the *Superannuation Industry (Supervision) Act 1993* or similar legislative requirements in the case of an exempt public sector superannuation plan; and
- (b) established and maintained:
 - (i) in order to receive superannuation contributions; and
 - (ii) for the primary purpose of providing benefits to members upon their retirement, death, disablement or other event that qualifies as a condition of release for members' benefits.

(SOURCE: Board's September 2007 meeting)

transaction costs

The incremental costs directly attributable to the disposal of an asset or the settlement or extinguishment of a liability, excluding finance costs and income tax expense or income.

(SOURCE: based on the definition of costs to sell in AASB 5 and AASB 141 and the Board's decisions at its October 2008 meeting)

vested benefits

The benefits to which members or their beneficiaries would be entitled on withdrawal from the superannuation plan or approved deposit fund at the reporting date. **(SOURCE: Board's March and May 2008 meetings)**

APPENDIX B

APPLICATION GUIDANCE

This Appendix is an integral part of AASB ~~10XX10XX10XX~~.

Compliance with disclosure principles and requirements in other Australian Accounting Standards

- AG1 When a superannuation plan or approved deposit fund applies the recognition or presentation principles and requirements in other Australian Accounting Standards, the plan or fund would also apply any relevant disclosure principles and requirements contained in those other Australian Accounting Standards ~~linked to such recognition or presentation principles and requirements unless they disclose principles and requirements:~~
- (a) are not consistent with ~~relevant in view of the fair value~~ measurement requirements in this Standard; or
 - (b) address the same items or events as the disclosure principles in this Standard.
- AG2 Australian Accounting Standards that contain disclosure principles and requirements that a superannuation plan or approved deposit fund would apply, when relevant, include but are not limited to the following:
- (a) AASB 3 *Business Combinations*;
 - (b) AASB 101 *Presentation of Financial Statements*;
 - (c) AASB 107 *Cash Flow Statements*;
 - (d) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;
 - (e) AASB 110 *Events after the Balance Sheet Date*;
 - (f) AASB 112 *Income Taxes*; ~~and~~
 - (g) AASB 118 *Revenue*;

- (h) AASB 127 Consolidated and Separate Financial Statements; and
- (i) AASB 1038 Life Insurance Contracts.

(SOURCE: paragraph AG1A of the Application Guidance in draft ED 16X presented to the Board's November 2008 meeting. Amendments in accordance with the Board's decisions at its December 2008 meeting)

- AG3 Except in a limited number of specified circumstances, this Standard requires all assets and liabilities of a superannuation plan or approved deposit fund to be measured at fair value adjusted for transaction costs. Accordingly, cost-based disclosure principles and requirements in other Australian Accounting Standards would not apply to a ~~superannuation plan or approved deposit fund~~. For example, a ~~superannuation plan~~ that holds an investment in plant and equipment would not be required to disclose the carrying amounts that would have been recognised had the assets been measured under the cost model in accordance with paragraph 77(e) of AASB 116 *Property, Plant and Equipment*.
- AG4 Where the disclosure principles and requirements in other Australian Accounting Standards address the same items or events as the disclosure principles in this Standard, a superannuation plan or approved deposit fund makes disclosures in accordance with the principles in this Standard only. For example, a ~~superannuation plan~~ that holds an investment in property would make disclosures in accordance with paragraph 29(c) of this Standard instead of paragraphs 75(d) and (e) of AASB 140 *Investment Property* with respect to information in relation to the fair value measurement of the investment property.
- AG5 When a superannuation plan or approved deposit fund applies another Australian Accounting Standard, the plan or fund also applies each relevant Australian Interpretation listed in AASB 1048 *Interpretation and Application of Standards* (see paragraphs BC83-BC85 of the Basis for Conclusions to this Exposure Draft for discussion on UIG Interpretation 1019 *The Superannuation Contributions Surcharge*).
(SOURCE: the Board's decisions at its December 2008 meeting)

Assets and Liabilities

Derecognition

- AG6 In determining whether to derecognise an asset or liability, a superannuation plan or approved deposit fund considers ~~applies, when the relevant, the~~ derecognition criteria in other applicable Australian Accounting Standards, ~~including the derecognition criteria in paragraphs 15-42 of AASB 139 *Financial Instruments: Recognition and Measurement*.~~ (SOURCE: Board's decisions at its December 2008 meeting)

Fair Value Measurement

- AG7 In determining the fair value of an asset or liability, a superannuation plan or approved deposit fund considers the relevant Australian Accounting Standards. (SOURCE: the Board's decisions at its November 2008 meeting)

Classification and Presentation

- AG8 Some Australian Accounting Standards require assets or liabilities to be classified in a particular manner for the purpose of measurement. For example, AASB 139 *Financial Instruments: Recognition and Measurement* requires a financial asset to be classified as:
- (a) a financial asset at fair value through profit or loss;
 - (b) a held to maturity investment;
 - (c) a loan or receivable; or
 - (d) an available-for-sale financial asset;

for the purpose of measurement after initial recognition. However, in the context of this Standard, such classifications would only be relevant if they are necessary to adequately convey the nature of an item that warrants separate disclosure.

- AG9 Judgement needs to be exercised in the context of a superannuation plan or approved deposit fund about how to describe an investment presented in its statement of financial position. For example, an investment in a unit trust would be presented as such in the statement of financial position and the description of the unit trust would reflect the nature of the unit trust and/or the nature of the assets underlying

the unit trust. (SOURCE: the Board's decisions at its December 2007 and November 2008 Board meetings)

Transaction Costs

- AG10 The term 'transaction costs' is defined in this Standard in a manner similar to the way in which the term 'costs to sell' is defined in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and AASB 141 *Agriculture*. Accordingly, transaction costs include:
- (a) fees and commissions payable to an agent, adviser, broker or dealer and transaction costs levied by an exchange for 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 for the settlement of a liability.
- AG11 Transaction costs are treated as a reduction in the carrying amount of an asset or an increase in the carrying amount of a liability.
- AG12 Paragraphs 125 to 133 of AASB 101 *Presentation of Financial Statements* provide guidance in relation to the disclosure of information about estimation uncertainty which would apply to any measurement uncertainty surrounding transaction costs as well as other fair value measurement uncertainties. (SOURCE: the Board's decisions at its October 2008 meeting)

Measurement of Defined Benefit Members' Accrued Benefits

- AG13 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 AG17-AG21 of this Appendix) and measures each unit separately to build up the final obligation (see paragraphs AG22-AG32 of this Appendix). (SOURCE: paragraph 65 of AASB 119)

Example Illustrating Paragraph AG13

XYZ Superannuation Plan provides a lump-sum benefit to a member equal to 5% of their final salary for each year of employment with a

sponsoring employer. Defined benefit entitlements are payable to a member upon them reaching 60 years of age.

Jane has just commenced employment with a sponsoring employer of XYZ Superannuation Plan. Jane is 55 years of age and her salary in her first year of employment is \$50,000. Jane's salary is expected to increase at 4% (compound) each year.

The following table illustrates how XYZ Superannuation Plan's obligation for Jane's defined benefit entitlements builds up over time. It also illustrates how benefits could be attributed to reporting periods under this Standard (refer to paragraphs AG17-AG21 of this Appendix). It is assumed that:

- (a) Jane will continue to be employed by a sponsoring employer of XYZ Superannuation Plan until she retires at 60 years of age; and
- (b) the discount rate relevant to XYZ Superannuation Plan's obligation for Jane's defined benefit entitlements is 4%.

Year	1	2	3	4	5
Jane's salary	\$50,000	\$52,000	\$54,080	\$56,243	\$58,493
Benefit attributed to:					
Prior years	\$0	\$2,925	\$5,850	\$8,775	\$11,700
Current year (5% of final salary)	\$2,925	\$2,925	\$2,925	\$2,925	\$2,925
Current and prior years	\$2,925	\$5,850	\$8,775	\$11,700	\$14,625
Opening defined benefit obligation	\$0	\$2,500	\$5,201	\$8,113	\$11,251
Interest at 4%	\$0	\$100	\$208	\$325	\$450
Current benefit cost*	\$2,500	\$2,600	\$2,704	\$2,813	\$2,925
Closing defined benefit obligation	\$2,500	\$5,201	\$8,113	\$11,251	\$14,625

* The current benefit cost is the present value of the benefit attributed to the reporting period.

- AG14 The Projected Unit Credit Method allows an entity to measure a defined benefit obligation with sufficient reliability to justify recognition of a liability. **(SOURCE: based on the last sentence in paragraph 68 of AASB 119)** When applying the Projected Unit Credit Method, a superannuation plan may use estimates, averages and computational shortcuts to measure its defined benefit obligation. **(SOURCE: based on paragraph 51 of AASB 119)**
- AG15 In measuring the liability, a superannuation plan discounts the whole of its obligation for defined benefit members' accrued benefits, even if part of the obligation falls due within twelve months of the reporting date. **(SOURCE: paragraph 66 of AASB 119)**
- AG16 Future administration costs are not included in the measurement of a superannuation plan's obligation for its defined benefit members' accrued benefits because they are not an obligation of the entity to its members. **(SOURCE: Board's decisions at its August 2008 meeting)**

Attributing Benefits to Reporting Periods

- AG17 In determining the present value of its obligation for defined benefit members' accrued benefits, a superannuation plan shall attribute benefits to reporting periods of service/membership under the plan's benefit formula. **(SOURCE: based on the first sentence in paragraph 67 of AASB 119)** If a plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, the plan would attribute members' benefits to reporting periods on a basis appropriate to the plan's circumstances. **(SOURCE: Board's decisions at its November and December 2008 meetings)**
- AG18 The Projected Unit Credit Method requires benefits to be attributed to the current period (in order to determine benefit cost) and the current and prior periods (in order to determine the present value of defined benefit members' accrued benefits). A superannuation plan attributes benefits to periods in which the obligation to provide defined benefits occurs. That obligation arises as members render services to sponsoring employers in return for defined benefit entitlements which a superannuation plan expects to pay in future reporting periods. **(SOURCE: first part of paragraph 68 of AASB 119)**

Examples Illustrating paragraph AG18**Example 1**

XYZ Superannuation Plan provides a lump sum benefit to a member of \$10,000 for each year of employment with a sponsoring employer.

XYZ Superannuation Plan could attribute a benefit of \$10,000 in respect of the member to each reporting period. The current benefit cost would be the present value of the \$10,000 attributed to each reporting period. The present value of the defined benefit obligation would be the present value of \$10,000, multiplied by the number of years of the member's employment with a sponsoring employer up to the reporting date.

If the lump sum benefit is payable immediately when the member exits the plan, the current benefit cost and the present value of the defined benefit obligation would reflect the date at which the member is expected to exit the plan. Accordingly, because of the effect of discounting, these amounts are less than the amounts that would otherwise be determined if the member exited the plan at the reporting date.

Example 2

XYZ Superannuation Plan provides a monthly pension of 2% of a member's final salary for each year of employment with a sponsoring employer. The pension is payable after a member attains 65 years of age.

XYZ Superannuation Plan could attribute a benefit equal to the present value, at the member's expected retirement date, of a monthly pension of 2% of the member's estimated final salary payable from the member's expected retirement date until the date on which the member is expected to become deceased to each year of membership. The current benefit cost would be the present value of the benefit allocated to each reporting period. The present value of the defined benefit obligation would be the present value of monthly pension payments of 2% of the member's final salary, multiplied by the number of years of employment up to the reporting date. The current benefit cost and the present value of the defined benefit obligation are discounted because the pension payments begin when the member attains 65 years of age.

AG19 A member's service to their employer gives rise to an defined benefit obligation under a ~~defined benefit superannuation~~ plan even if the members' benefits are conditional on future employment (in other words they are not *vested*). Member service before the vesting date gives rise to a constructive obligation because, at each successive reporting date, the amount of future service that a member will have to render before becoming entitled to benefits is reduced. In measuring defined benefit members' accrued benefits, a superannuation plan considers the probability that some members may not satisfy any vesting requirements. The probability that a member will exit the plan before the relevant vesting date affects the measurement of the obligation, but does not determine whether the obligation exists. (SOURCE: based on paragraph 69 of AASB 119)

Examples Illustrating Paragraph AG19

Example 1

XYZ Superannuation Plan pays a lump sum benefit to a member equal to \$10,000 for each year of employment with a sponsoring employer. The benefits vest in a member when the member has been employed with a sponsoring employer for 10 years.

XYZ Superannuation Plan could attribute a benefit of \$10,000 to each reporting period. In each of the first 10 years of the member's employment period, the current benefit cost and the present value of the defined benefit obligation would reflect the probability that the member may not complete 10 years of service with a sponsoring employer.

Example 2

XYZ Superannuation Plan pays a lump sum benefit to a member equal to \$10,000 for each year of employment with a sponsoring employer, excluding their period of employment prior to the member attaining 25 years of age. Benefits accrued by a member after they attain 25 years of age immediately vest in them.

XYZ Superannuation Plan attributes no benefits to the member for service to a sponsoring employer before the age of 25 because employment before that date does not lead to benefits (conditional or vested). XYZ Superannuation Plan could attribute a benefit of \$10,000 to each year of service to a sponsoring employer subsequent to the member attaining 25 years of age.

AG20 A defined benefit member's accrued benefits increase until the date when further service by the member to their employer will lead to no material amount of further benefits. Therefore, all benefits are attributed to periods ending on or before that date. ~~Benefits are attributed to individual reporting periods under a superannuation plan's benefit formula.~~ (SOURCE: paragraph 70 of AASB 119 and the Board's decisions at its September and December 2008 meetings)

AG21 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) — 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.~~

(SOURCE: paragraph 71 of AASB 119 and the Board's decisions at its December 2008 meeting)

Example Illustrating Paragraphs AG20 and AG21

XYZ Superannuation Plan pays a lump sum benefit to a member equal to 10% of the member's final salary for each year of employment with a sponsoring employer prior to the member attaining 55 years of age.

XYZ Superannuation Plan could attribute a benefit of 10% of the member's estimated final salary to each reporting period prior to the member attaining 55 years of age. XYZ Superannuation Plan would attribute no benefits to reporting periods in respect of the member after they attain 55 years of age because service with a sponsoring employer after that date will lead to no further benefits to the member under the plan.

Actuarial Assumptions

AG22 Actuarial assumptions comprise:

- (a) demographic assumptions about the future characteristics of current and former members (and their beneficiaries). Demographic assumptions deal with matters such as:
 - (i) rates of member turnover, disability and early retirement;
 - (ii) mortality; and
 - (iii) the proportion of defined benefit members with beneficiaries who will be eligible for benefits; and
- (b) financial assumptions, dealing with items such as:
 - (i) future salary and benefit levels (see paragraphs AG27-AG30 of this Appendix); and

- (ii) the discount rate (see paragraphs AG31-AG32 of this Appendix).

(SOURCE: based on paragraph 73 of AASB 119)

AG23 Actuarial assumptions are unbiased if they are neither imprudent nor conservative. **(SOURCE: based on paragraph 74 of AASB 119)**

AG24 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase 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 and the Board's decisions at its October 2008 meeting)**

AG25 Consistent with paragraphs 42 and 43 of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, a superannuation plan takes into account the relevant risks and uncertainties when determining its demographic assumptions and its assumptions in relation to future salary and benefit levels for the purpose of measuring its obligations for defined benefit members' accrued benefits. **(SOURCE: Board's decisions at its August 2008 meeting)**

Financial assumptions

AG26 A superannuation plan's financial assumptions are 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)**

Salaries and benefits

AG27 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)**

AG28 If the formal terms of a superannuation plan require the plan to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example, the formal terms of the superannuation plan or legislation require that members' benefits be enhanced to mitigate the effects of inflation. **(SOURCE: based on paragraph 85 of AASB 119)**

- AG29 In some circumstances an employer sponsor may agree to a superannuation plan making benefit payments to defined benefit members that are more generous than the benefits provided under the formal terms of the plan. If an employer sponsor has a past practice of paying enhanced benefits to defined benefit members, and there is no evidence to suggest that this practice will change in the future, the plan takes this into account when measuring its obligations for defined benefit members' accrued benefits. **(SOURCE: based on paragraph 85 of AASB 119 and the Board's decisions at its August 2008 meeting)**
- AG30 Some superannuation benefits are linked to external factors, such as the level of state retirement benefits. The measurement of such benefits reflects expected changes in such variables when past practice and other reliable evidence indicates that the external factors will change in a manner that would permit the obligation to be reliably measured, for example, in line with future changes in general price levels or general salary levels. **(SOURCE: based on paragraph 87 of AASB 119. Relocated from paragraph 18(c)(ii) of draft ED 16X presented to the Board's September 2008 meeting)**

Discount rate

- AG31 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. For example, the risks that salary or benefit levels will be higher or lower than expected. In addition, the discount rate is not intended to reflect the non-financial risks and uncertainties reflected in defined benefit obligations. For example, the risk that the rate of member turnover will be higher or lower than expected. **(SOURCE: based on paragraph 8.8.1 of AASB 1038 and written comments received from a Board member)**
- AG32 ~~For some superannuation plans, Typically, yields on government bonds may represent a risk-free rate that is appropriate for discounting rates for the purposes of this Standard, or they may be an appropriate starting point in determining such discount rates, obligations for defined benefit members' accrued benefits. For other superannuation plans yields on government bonds may form an appropriate basis for determining an appropriate risk-free discount rate. (SOURCE: based on paragraph 8.8.2 of AASB 1038 as per the Board's decisions at its December 2008 meeting)~~

Presentation of Financial Statements

Statement of Financial Position

AG33 Where a superannuation plan's or approved deposit fund's total assets differs from its total liabilities, including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors, the difference shall be classified as equity and presented in accordance with applicable Australian Accounting Standards. **(SOURCE: relocated from paragraph 27 in the body of the Standard in accordance with the Board's decisions at its October 2008 meeting)**

AG34 A difference between the total assets and total liabilities of a superannuation plan or approved deposit fund normally only arises in relation to defined benefit members. However, in some cases such a difference can arise in relation to defined contribution members. For example, a trustee may decide to create a use an investment reserve of unallocated assets to meet the anticipated costs of a new administration system by to smooth the crediting to defined contribution members' accounts amounts less than the corresponding earnings rate on the net assets attributable applied to such defined contribution members' accounts. **(SOURCE: relocated from paragraph 28 in the body of the Standard in accordance with the Board's decisions at its October 2008 meeting and amended in accordance with the Board's decisions at its December 2008 meeting)**

Income Statement

Income and expense items

AG35 As a minimum, an income statement includes line items that present the following amounts for the period:

- (a) revenues;
- (b) expenses;
- (c) realised gains and losses on the disposal of assets and the settlement or extinguishment of liabilities;
- (d) remeasurement changes in:
 - (i) assets and liabilities measured at fair value adjusted for transaction costs;

- (ii) obligations and assets arising from insurance contracts; and
 - (iii) defined benefit members' accrued benefits;
 - (e) profit or loss; and
 - (f) income tax expense attributable to profit or loss.
- AG36 Consistent with paragraphs 85, 87 and 97 of AASB 101, a superannuation plan or approved deposit fund;
- (a) presents additional line items, headings and subtotals in an income statement when such presentation is relevant to an understanding of the entity's financial performance;
 - (b) is not permitted to present any items of income or expense as extraordinary items in the income statement or in the notes; and
 - (c) separately discloses items of income or expense that are material.

Statement of Changes in Members' Benefits

- AG37 As a minimum, a statement of changes in members' benefits includes line items that present, when appropriate, the following amounts attributable to defined contribution members and defined benefit members for the reporting period:
- (a) benefits at the beginning of the period;
 - (b) employer contributions;
 - (c) member contributions;
 - (d) benefits transferred into the entity;
 - (e) annuities received and receivable on behalf of members;
 - (f) profit or loss allocated to defined contribution members;
 - (g) remeasurement changes in defined benefit members' accrued benefits;
 - (h) benefits paid and payable (including any annuity payments);

- (i) amounts allocated to members from reserves; and
- (j) benefits at the end of the period.

AG38 In addition, tax amounts attributable to items disclosed in a statement of changes in members' benefits are presented separately. Accordingly, employer contributions are presented gross of any applicable tax and the amount of tax paid and payable on such contributions is presented separately.

Preparation and Presentation of Consolidated Financial Statements

AG39 Consistent with AASB 3, a parent superannuation plan or parent approved deposit fund recognises:

- (a) all of the assets and liabilities recognised by a subsidiary at the reporting date in accordance with Australian Accounting Standards; and
- (b) all of the identifiable ~~but not recognised~~ assets and liabilities of a subsidiary at its acquisition date ~~that are identifiable at the reporting date.~~

Accordingly, subsequent to a subsidiary's acquisition by its parent, an asset or liability of a subsidiary would only be recognised if it meets the relevant recognition criteria in the applicable Australian Accounting Standard. For example, a parent superannuation plan would not separately recognise a brand that had been internally generated by a subsidiary subsequent to the subsidiary's acquisition by the parent plan.

AG40 A parent superannuation plan or parent approved deposit fund measures the goodwill or discount of a subsidiary as the difference between:

- (a) the aggregate of:
 - (i) the fair value less transaction costs of the parent's interest in the subsidiary at the reporting date; and
 - (ii) the amount of any non-controlling interests in the subsidiary measured:
 - in a manner consistent with AASB 127 at the reporting date; or

- at their fair value at the reporting date; and
- (b) the aggregate of:
 - (i) the fair value adjusted for transaction costs of the net assets of the subsidiary (excluding tax balances) that are recognised by the parent at the reporting date; and
 - (ii) the subsidiary's net tax assets or liabilities measured in accordance with AASB 112 at the reporting date.

(SOURCE: relocated from paragraph 26C of draft ED 16X presented to the Board's December 2008 meeting and amended in accordance with the Board's decisions at this meeting)

AG41 Goodwill or discount of subsidiaries comprises any acquired goodwill or 'gain on a bargain purchase' to the extent that the amount is still present at the reporting date. It also potentially comprises a number of assets and liabilities that would not otherwise be recognised in accordance with other Australian Accounting Standards, including:

- (a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;
- (b) internally generated goodwill;
- (c) contingent assets; and
- (d) contingent liabilities;

that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by its parent.

Note to Board:
Paragraph AG42 is subject to the Board's decisions in relation to Agenda Paper 3.2.

AG42 Where a discount of subsidiaries is recognised, the parent superannuation plan or parent approved deposit fund presents it in the consolidated statement of financial position rather than recognises the amount as a gain in the consolidated income statement in accordance with paragraph 34 of AASB 3.

AG43 A parent superannuation plan or parent approved deposit fund that prepares 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 of subsidiaries.

AG44 Paragraph 18(a) of AASB 127 requires that the carrying amount of a parent entity's investment in a subsidiary and the parent's portion of

equity of the subsidiary be eliminated in the preparation of consolidated financial statements. A parent superannuation plan's or parent approved deposit fund's portion of a subsidiary's equity is determined on the basis of the net assets of the subsidiary that are recognised by the parent at the reporting date.

- (a) ~~fair value adjusted for transaction costs of the subsidiary's recognised net assets other than tax balances; and~~
- (b) ~~the subsidiary's net tax assets or liabilities measured in accordance with AASB 112;~~

~~at the reporting date.~~ **(SOURCE: amended in accordance with the Board's decisions at its December 2008 meeting)**

- AG45 In preparing consolidated financial statements, a parent superannuation plan or parent approved deposit fund reverses any remeasurement changes in the parent's investment in a subsidiary. This is to prevent any remeasurement changes in the subsidiary's assets and liabilities that have been consolidated from being double counted.
- AG46 Consistent with paragraph 82 of AASB 101, a parent superannuation plan or parent approved deposit fund discloses profit or loss for the period attributable to non-controlling interests and members as allocations in the income statement.

Disclosure Principles

Nature of the Entity and Members' Benefits

- AG47 Information that would provide users with a basis for understanding the nature of the entity and the benefits it provides to its members would include the following:
- (a) a description of the entity, including:
 - (i) the type of entity it is;
 - (ii) the name of its trustee;
 - (iii) an outline of the entity's registration with the Australian Prudential Regulation Authority (APRA); and

- (iv) an outline of the trustee's Regulated Superannuation Entity (RSE) Licence; and
- (b) a description of the nature of the entity's members and beneficiaries, including:
 - (i) the types of benefits provided;
 - (ii) the numbers of members and beneficiaries holding each type of benefit;
 - (iii) the numbers of members and beneficiaries classified as active, deferred or pensioner by type of benefit; and
 - (iv) whether the entity can accept new defined benefit members.

Expense Items

AG48 Consistent with the requirements in paragraph 99 of AASB 101, a superannuation plan or approved deposit fund discloses an analysis of expenses recognised in the income statement using a classification that is considered appropriate for the needs of the users of its financial statements.

AG49 To provide users with a basis for understanding the nature and amount of a superannuation plan's or approved deposit fund's expense items, the entity separately discloses, as a minimum, the following items when relevant:

- (a) administration expenses;
- (b) investment expenses such as investment manager fees, investment consultant fees and custodian fees;
- (c) actuarial fees;
- (d) accounting fees;
- (e) insurance premiums;
- (f) commissions paid directly by the entity;
- (g) trustee fees and reimbursements; and
- (h) advertising and sponsorship expenses.

AG50 The disclosures an entity might need to make in relation to its expense items are not limited to the classifications identified in paragraph AG49.

AG51 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 29(b) of this Standard would not also need to disclose information in accordance with paragraphs 99-105 of AASB 101.

Fair Value

AG52 To make the disclosures required by paragraphs ~~AG53(b)-(f) and AG5427B and 27C~~, a superannuation plan or approved deposit fund ~~would~~ shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy ~~would~~ shall have the following levels:

- (a) quoted prices in active markets for the same instrument (~~that is, ie~~ without, for example, modification or repackaging) (Level 1);
- (b) quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and
- (c) valuation techniques for which any significant input is not based on observable market data (Level 3).

For the purposes of the fair value hierarchy, a significant input is an input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgement. **(SOURCE: paragraph 27A of the proposed amendments to IFRS 7 in the IASB's ED *Improving Disclosures about Financial Instruments*)**

- ~~(a) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG69-AG82 of AASB 139); and~~
- ~~(b) when a valuation technique is used:

 - ~~(i) the method used;~~
 - ~~(ii) the main assumptions adopted for the purpose of the method; and~~~~

(iii) ~~the main assumptions, if any, that are not based on market data obtained from sources independent of the entity.~~

~~(SOURCE: based on paragraphs 27(a)–(c) of AASB 7 and decisions at the Board’s November 2008 meeting)~~

AG53 To comply with paragraph 29(c) of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum, the following for each class of asset and liability measured at fair value:

- (a) the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of ~~financial assets and/or financial liabilities~~ measured at fair value. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity ~~would~~ shall disclose that change and the reasons for making it; **(SOURCE: paragraph 27 of the proposed amendments to IFRS 7 in the IASB’s ED *Improving Disclosures about Financial Instruments*)**
- (b) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety;
- (c) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
 - (i) total gains or losses for the period (realised and unrealised) recognised in ~~the income statement~~ profit or loss, and a description of where they are presented in the ~~income statement~~ statement of comprehensive income;
 - ~~(ii) total gains or losses recognised in other comprehensive income;~~
 - (ii) purchases, sales, issues and settlements (net); and
 - (iii) transfers into and/or out of Level 3 (~~for example, eg~~ transfers attributable to changes in the observability of market data);

- (d) the total amount of unrealised gains or losses for the period in ~~(b)(c)(i) recognised in the income statement included in profit or loss~~ for those assets and liabilities still held at the end of the reporting period and a description of where those unrealised gains or losses are presented in the income statement~~statement of comprehensive income~~;
- (e) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the entity ~~would~~shall state that fact and disclose the effect of those changes for each class of asset and liability~~financial instrument~~. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, ~~or, when changes in fair values are recognised in other comprehensive income, total equity,~~ and
- (f) any movements between the levels of the fair value hierarchy ~~([in addition to those disclosed to comply with paragraph 27(b)(iv)AG53(c)(iii)])~~. The entity ~~would~~shall also disclose the reasons for all movements between any of the levels of the hierarchy. **(SOURCE: paragraphs 27B(a)-(e) of the proposed amendments to IFRS 7 in the IASB's ED *Improving Disclosures about Financial Instruments*)**

AG54 An entity ~~would~~shall provide the information required by ~~this paragraph AG53(b)-(f)~~ in tabular form unless another format is more appropriate. In addition, an entity ~~would~~shall also disclose any other information that is necessary for users to evaluate the quantitative information disclosed ~~(for example, eg information about those assets and liabilities)~~instruments in one level of the hierarchy that are hedged by instruments in another level of the hierarchy). **(SOURCE: the last two sentences of paragraph 27B of the proposed amendments to IFRS 7 in the IASB's ED *Improving Disclosures about Financial Instruments*)**

AG55 Consistent with paragraph 125 of AASB 101, a superannuation plan or approved deposit fund would ~~also~~ disclose information in relation to any major sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the fair values of its assets or liabilities measured at fair value. **(SOURCE: decisions at the Board's November 2008 meeting)**

Nature, Extent and Management of Risks

AG56 To comply with paragraph 31 of this Standard, a superannuation plan or approved deposit fund discloses qualitative and quantitative information in relation to the financial risks to which the entity is exposed. These risks typically include, but are not limited to, liquidity risk, market risk and credit risk. Appendix A to AASB 7 *Financial Instruments: Disclosures* identifies a number of different types of financial risks to which a plan or fund might be exposed.

AG57 For the purpose of this Standard:

- (a) liquidity risk includes the risk that a superannuation plan or approved deposit fund will encounter difficulty in meeting its obligations for members' benefits; and
- (b) credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to the superannuation plan at a level that would be expected to permit the plan to meet its obligations for defined benefit members' accrued benefits. **(SOURCE: Board's decisions at its December 2008 meeting)**

AG58 A superannuation plan or approved deposit fund may be exposed to financial risks directly as a consequence of, for example, holding financial instruments. A plan or fund may also be exposed to financial risks indirectly as a consequence of holding a controlling interest in an investment-type vehicle, such as a pooled superannuation trust.

AG59 When a superannuation plan or approved deposit fund is exposed indirectly to a financial risk through a controlling interest in another entity, the parent ~~entity~~ applies the disclosure principles in paragraph 31 of this Standard to all of the items recognised in its consolidated financial statements. **(SOURCE: Board's decisions at its November 2008 meeting)**

Qualitative Disclosures

AG60 For each type of financial risk to which a superannuation plan or approved deposit fund is exposed, the entity discloses:

- (a) the source of the risk;
- (b) the trustee's objectives, policies and processes for managing the risk;

- (c) the methods used to measure the risk; and
- (d) any changes in (a), (b) or (c) from the previous reporting period.

(SOURCE: based on paragraph 33 of AASB 7)

AG61 All superannuation entities regulated by APRA are required to have a Risk Management Plan (RMP) that formally documents, among other things, the trustee's policies and procedures for managing various risks, including market and liquidity risks. While an entity's RMP may not address all of the different types of risks to which the entity may be exposed, it should provide a basis for the entity's qualitative disclosures with respect to:

- (a) the main financial risks to which the entity is exposed;
- (b) the trustee's objectives, policies and processes for managing the main financial risks to which the entity is exposed; and
- (c) the methods the trustee uses to measure the main financial risks to which the entity is exposed.

(SOURCE: based on paragraph 21 of Agenda Paper 3.4 to the Board's June 2008 meeting)

AG62 Qualitative disclosures that a superannuation plan or approved deposit fund might need to make in relation to the financial risks to which the entity is exposed would include:

- (a) information in relation to the plan's or fund's arrangements with its investment managers, including:
 - (i) whether the trustee has formal agreements in place with the plan's or fund's investment managers; and
 - (ii) whether the trustee receives regular reports from the plan's or fund's investment managers;
- (b) whether any assets held by the plan or fund are subject to lending arrangements, including:
 - (i) the nature of the assets;
 - (ii) the nature of the lending arrangements; and
 - (iii) the terms and conditions of the lending arrangements;

- (c) information in relation to how the trustee intends to manage anticipated benefit payments to members in the next reporting period if the plan or fund holds insufficient liquid assets at the reporting date to meet such benefit payments; and
- (d) specific information regarding the plan's or fund's controlling interests in other entities, including:
 - (i) whether a lender to a subsidiary has legal recourse to the assets of the plan or fund in the event that the subsidiary defaults on the loan;
 - (ii) whether the interest paid and payable on a subsidiary's loans is fixed or variable in nature; and
 - (iii) whether the trustee has agreed that the plan or fund will purchase further ownership interests in the subsidiary in the future.

(SOURCE: based on paragraph 22 of Agenda Paper 3.4 to the Board's June 2008 meeting)

AG63 For a superannuation plan or approved deposit fund that has an exposure to derivative financial instruments, the qualitative disclosures would confirm that the trustee has a Derivative Risk Statement (DRS). A DRS documents the trustee's or the investment manager's risk management practices with respect to derivatives.
(SOURCE: based on paragraph 22 of Agenda Paper 3.4 to the Board's June 2008 meeting. Relocated from paragraph 65 of draft ED 16X presented to the Board's October 2008 meeting)

Quantitative Disclosures

- AG64 For each type of financial risk, a superannuation plan or approved deposit fund discloses:
- (a) summary quantitative data about its exposure to that risk at the reporting date. This disclosure is based on the information provided internally to key management personnel (KMP) of the entity (as defined in AASB 124 *Related Party Disclosures*);
 - (b) information equivalent to that required by paragraphs 36-42 of AASB 7 for financial instruments, to the extent not provided in (a); and
 - (c) concentrations of risk if not apparent from (a) and (b).

(SOURCE: paragraph 34 of AASB 7)

AG65 If the quantitative data disclosed as at the reporting date are unrepresentative of an entity's exposure to a financial risk during the period, the entity provides further information that is representative.
(SOURCE: paragraph 35 of AASB 7)

AG66 The assets and liabilities of a superannuation plan or approved deposit fund can potentially expose the entity to some or all of the financial risks identified in AASB 7. Accordingly, a ~~superannuation plan or approved deposit fund~~ should provide disclosures that are consistent with, but not limited to, the types of information required by paragraphs 36-42 of AASB 7 for financial derivatives, to the extent that the requirements are appropriate in a superannuation context. For example, a ~~superannuation plan or approved deposit fund~~ would disclose:

- (a) a maturity analysis for derivative liabilities that is based on how the entity manages the liquidity risk associated with such instruments;
- (b) a maturity analysis for non-derivative liabilities, including members' benefits and any obligations to employer sponsors, that shows the remaining contractual maturities for such financial liabilities. If the entity manages liquidity on the basis of expected maturities, it also discloses the remaining expected maturities for those financial liabilities~~the remaining contractual maturities;~~ and
- (c) a description of how the trustee manages the liquidity risk inherent in (a) and (b).

(SOURCE: based on the proposed amendments to IFRS 7 contained in the IASB's ED *Improving Disclosures about Financial Instruments* in accordance with the Board's decisions at its December 2008 decisions)

AG67 Other disclosures that a superannuation plan or approved deposit fund would make, when relevant, would include the following:

- (a) for interest-bearing assets that expose the entity to material interest rate risks, the entity would disclose, as a minimum:
 - (i) the proportion of the assets subject to fixed or variable interest rates; and

- (ii) if different interest rates apply, the fair value amount that is subject to each of the different interest rates; and
 - (iii) a sensitivity analysis, showing how the entity's profit or loss¹ and, if applicable, equity would have been affected by changes in the interest-rate risks to which the entity was exposed to at the reporting date;
- (b) for assets that expose the entity to material currency risks, the entity would disclose, as a minimum:
- (i) the fair value amount that is not subject to effective foreign currency hedges; and
 - (ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the currency risks to which the entity was exposed at the reporting date;
- (c) for assets that expose the entity to material credit risk, the entity would disclose, as a minimum:
- (i) the fair value amount that best represents the entity's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements; and
 - (ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the credit risks to which the entity was exposed at the reporting date; and
- (d) for assets that are considered to be illiquid, the entity would disclose, as a minimum:
- (i) the minimum period of time necessary for redemption; and
 - (ii) any upper limits on redemption amounts.

(SOURCE: based on paragraph 25 of Agenda Paper 3.4 to the Board's June 2008 meeting. Relocated from subparagraph (a) of

¹ For the purpose of applying this paragraph and paragraphs AG67(b)(ii) and (c)(ii), the term 'profit or loss' refers to a superannuation plan's or approved deposit fund's net profit or loss that is attributable to members.

the corresponding paragraph in draft ED 16X presented to the Board's decisions at its November and December 2008 meetings)

Risk Disclosures and ~~KMP~~ Risk Management Arrangements

- AG68 The risk management arrangements adopted by ~~the KMP of~~ superannuation plans and approved deposit funds varies across entities. For example, the trustees of some superannuation plans generate their own quantitative information about the risks and risk management arrangements associated with the plan's assets, particularly for directly held assets. **(SOURCE: based on paragraph 26 of Agenda Paper 3.4 to the Board's June 2008 meeting and amended in accordance with the Board's decisions at its December 2008 meeting)**
- AG69 However, most ~~KMP of~~ superannuation plans and approved deposit funds rely to some extent on reports provided by investment managers, particularly in relation to investments in collective investment vehicles. While investments in collective investment vehicles can potentially expose a plan or fund to some or all of the different types of risks identified in AASB 7, the ~~KMP of the~~ plan or fund may not be able to reliably quantify the entity's direct exposure to each risk due to the collective nature of such investments. **(SOURCE: based on paragraph 27 of Agenda Paper 3.4 to the Board's June 2008 meeting and amended in accordance with the Board's decisions at its December 2008 meeting)**
- AG70 Irrespective of whether the ~~KMP of a~~ superannuation plan or approved deposit fund generates their own information or utilises information provided by service providers, a plan or fund would apply a 'through the eyes of management' approach with respect to its qualitative and quantitative risk disclosures. Accordingly, where an investment manager monitors the financial risks to which some or all of the assets of a ~~superannuation plan or approved deposit fund~~ are exposed, and the investment manager reports on the relevant risks to the trustee of the plan or fund using quantitative measures or data, this information ~~is relevant to formulating~~ would form the basis of the plan's or fund's disclosures in respect of the relevant risks. **(SOURCE: relocated from last sentence of AG69 in draft ED 16X presented to the Board's November 2008 meeting and amended in accordance with the Board's decisions at its December 2008 meeting)**

Arrangement and Management of Assets

- AG71 A trustee might manage superannuation assets on a 'segregated' or 'sub-plan' basis to facilitate the superannuation plan or approved

deposit fund meeting its obligations to particular groups of members. For example, a trustee might invest the contributions attributable to defined benefit members separately from those attributable to defined contribution members so that the assets attributable to each group of members more closely matches the risks and estimated future cash flows associated with each group of members. To evaluate a plan's or fund's overall performance, it is necessary to evaluate the performance of each segregated group of assets of the plan or fund.

AG72 To comply with paragraph 33 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum, the following:

- (a) whether the assets of the ~~entity plan or fund~~ are managed on a 'pooled' basis (as a single group of assets) or on a 'segregated' or 'sub-plan' basis (as a number of distinct and separate groups of assets); ~~and~~
- (b) if the trustee manages the ~~entity's plan's or fund's~~ assets on a segregated basis, the member obligations that each segregated group of assets is being held to meet; ~~and~~
- (c) information about the expected rate or rates of return in respect of:
 - (i) the entity's net assets; and
 - (ii) if applicable, each segregated group of assets held by the entity;

for the current reporting period and the next reporting period.

AG73 To comply with paragraph 36(b) of this Standard, a superannuation plan or approved deposit fund discloses information about the financial performance and financial position of each segregated group of assets in a manner consistent with the approach applied under AASB 8 *Operating Segments* to operating segments. Accordingly, a ~~superannuation plan or approved deposit fund~~ would disclose a measure of profit or loss and information in relation to the financial position of each segregated group of assets.

AG74 A measure of the profit or loss of a segregated group of assets would include the income and expense items directly attributable to the segregated group of assets, including:

- (a) revenues such as interest, dividends and rental income;

- (b) expenses such as investment management fees, valuation fees and direct operating expenses in relation to rental properties;
- (c) realised and unrealised gains and losses; and
- (d) current tax expense or income.

AG75 To enable users to evaluate overall performance, a superannuation plan or approved deposit fund would also disclose a reconciliation between the income and expense information for each segregated group of assets and the aggregated revenue and expense information disclosed in the income statement of the plan or fund.

AG76 Information in relation to the financial position of each segregated group of assets would include, but is not restricted to, the following:

- (a) the amount of obligations for members' benefits; and
- ~~(b) the fair value less transaction costs of each asset; and~~
- (b) the fair value less transaction costs of the total assets.

(SOURCE: relocated from paragraph AG72 in draft ED 16X presented to the Board's November meeting. Amendments in accordance with the Board's decisions at its December 2008 meeting)

AG77 When a trustee manages ~~an~~ superannuation plan's or approved deposit fund's ~~entity's~~ assets on a segregated basis, the levels of financial risks attributable to a segregated group of assets may differ materially from the levels of the same financial risks attributable to the entity as a whole. In these circumstances, to comply with paragraph 36(c) of this Standard, ~~a~~ plan or fund ~~entity~~ discloses:

- (a) the significant financial risks to which each segregated group of assets is exposed;
- (b) how the levels of the financial risks attributable to each segregated group of assets differ from the levels of the corresponding risks at the entity level; and
- (c) the main reasons for the differences.

AG78 Where the levels of the financial risks attributable to a segregated group of assets are not materially different from the levels of the corresponding risks at the entity level, this is disclosed by the superannuation plan or approved deposit fund ~~entity~~.

Members' Benefits

AG79 To comply with paragraph 38 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum when relevant, the following:

- (a) the amount of defined benefit members' vested benefits at the reporting date by member status (for example, active, deferred or pensioner);
- (b) the amount of defined benefit members' accrued benefits at the reporting date by member status;
- (c) the amount of any net assets attributable to defined contribution members but not allocated to those members as at the reporting date;
- (d) details of any guarantees provided in relation to members' or beneficiaries' benefits, including:
 - (i) the identity of the guarantor;
 - (ii) the nature of the guarantee, including the benefit type and the number of members or beneficiaries to which the guarantee ~~applies~~relates; and
 - (iii) the amount of vested benefits and the amount of accrued benefits subject to the guarantee;
- (e) the actuary's recommended level of contributions in respect of defined benefit members for the reporting period and whether the level of contributions received by the plan is consistent with the actuary's recommendations; **(SOURCE: relocated from paragraph AG79 in draft ED 16X presented to the Board's November 2008 meeting)**
- (f) the actuary's recommended level of contributions in respect of defined benefit members for the next reporting period; and **(SOURCE: relocated from paragraph AG79 in draft ED 16X presented to the Board's November 2008 meeting)**
- (g) information in relation to the actuarial assumptions used in measuring defined benefit members' accrued benefits, including:
 - (i) the key actuarial assumptions used in the current reporting period;

- (ii) any uncertainties surrounding the key actuarial assumptions used in the current reporting period, including the amount and timing of benefit payments;
- (iii) any changes in the key assumptions used in the current period from those used in the previous reporting period; and
- (iv) whether the key assumptions used to measure defined benefit members' accrued benefits at ~~in~~ the previous reporting ~~date~~period ~~have been~~are consistent with experience in the current reporting period.

Net Assets Attributable to Defined Benefit Members

AG80 To comply with paragraph 40 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum when relevant, the following:

- (a) where the net assets attributable to defined benefit members is greater than the defined benefit members' accrued benefits, information that enables users to evaluate the nature and implications of the 'surplus', including whether the trustee is aware of any decisions by the employer sponsor to seek to be paid some or all of the surplus or to reduce the level of its contributions in the future; or
- (b) where the net assets attributable to defined benefit members is less than defined benefit members' accrued benefits, information that enables users to evaluate the nature and implications of the 'deficiency', such as:
 - (i) the ~~trustee's plan's~~ strategy for addressing the deficiency and the anticipated timeframe over which the deficiency will be eliminated; and
 - (ii) if there is a specific contractual agreement in place between the trustee and the relevant employer sponsor in relation to funding the deficiency, the main features of the agreement; or
 - (iii) if there is no specific contractual agreement in place between the trustee and the relevant employer sponsor, how the trustee monitors and manages the deficiency.

Components of Remeasurement changes in defined benefit members' accrued benefits

Interest cost

AG81 Interest cost represents the cost of financing defined benefit members' accrued benefits in the reporting period. The interest cost reflects the 'unwinding' of a defined benefit obligation in the sense that the benefits are one period closer to settlement. **(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)**

AG82 Interest cost is computed by multiplying the discount rate as determined at the start of the reporting period by the present value of defined benefit members' accrued benefits throughout that period, taking account of any material changes in the obligation for defined benefit members' accrued benefits. **(SOURCE: based on paragraph 82 of AASB 119)**

Actuarial gains and losses

AG83 Actuarial gains and losses may result from decreases or increases in the present value of an obligation for defined benefit members' accrued benefits. Causes of actuarial gains and losses include, for example:

- (a) unexpectedly high or low rates of member turnover or the effect of changes in estimates of future member turnover;
- (b) unexpected increases in salaries or benefits or the effect of changes in estimates of salaries or benefits (if, for example, the formal terms of a superannuation plan provide for inflationary benefit increases); and
- (c) the effect of changes in the discount rate.

(SOURCE: paragraph 94 of AASB 119)

Gains or losses on settlements

AG84 A settlement occurs when an employer sponsor enters into a transaction that eliminates a superannuation plan's legal and/or constructive obligations for part or all of its defined benefit members' accrued benefits. An example of this is when the members of a plan agree to exchange their defined benefit entitlements for defined

contribution entitlements. **(SOURCE: based on paragraph 112 of AASB 119 and relocated from paragraph AG33 of draft ED 16X presented to the Board's December 2008 meeting)**

- AG85 Before determining the effect of a settlement, a superannuation plan remeasures its obligation for defined benefit members' accrued benefits using current actuarial assumptions (including current market interest rates and other current market prices) as well as the net assets attributable to such members. **(SOURCE: based paragraph 110 of AASB 119 and relocated from paragraph AG34 of draft ED 16X presented to the Board's December 2008 meeting)**
- AG86 A gain or loss on a settlement arises when the amount required to settle a superannuation plan's obligations to ~~existing~~ defined benefit members is less than or greater than the amount of those members' accrued benefits on the date of settlement. **(SOURCE: paragraph 109 of AASB 119 and Board members' written comments received following the Board's October 2008 meeting)**

Related Parties

AG87 To comply with paragraph 44 of this Standard, a superannuation plan or approved deposit fund that has a related party relationship or is involved in a related party transaction applies AASB 124. In addition to any relevant disclosures that might need to be made under AASB 124, a ~~superannuation plan or approved deposit fund~~ discloses information needed by users to understand, as a minimum when relevant, the following:

- ~~(a) information in relation to the individual trustees or trustee directors and any other KMP for the reporting period, including:

 - ~~(i) their names; and~~
 - ~~(ii) the aggregate remuneration paid and payable to KMP of the plan or fund. An entity that discloses this information would not also need to disclose information in accordance with paragraph 16 of AASB 124;~~~~
- (a) information needed by users to understand the nature of the entity's ~~plan's or fund's~~ relationships with its:
 - (i) employer sponsors; and
 - (ii) trustee or trustees;

during the reporting period; and

- (b) ~~information needed by users to understand~~ any transaction during the reporting period or balance at the reporting date between the ~~entity plan or fund~~ and:
- ~~(i) a member of its KMP;~~
 - (i) an employer sponsor~~the trustee~~; or
 - (ii) its trustee or trustees~~an employer sponsor~~;

that would not be considered 'normal' in a superannuation context. For example, the recognition of contributions receivable by a ~~superannuation plan~~ would be regarded as normal in a superannuation context whereas the sale of assets by a plan to a ~~trustee member of its KMP~~ may not. Accordingly, normality should be judged on the basis of whether the information would affect a user's perception of the governance, financial performance or financial position of the entity. **(SOURCE: amended in accordance with the Board's decisions at its December 2008 meeting)**

APPENDIX C

ILLUSTRATIVE EXAMPLES

The following examples accompany, but are not part of, AASB 10XX.

		<i>Page</i>
A	<u>Example Ffinancial statements of a parent superannuation plan that provides defined contribution entitlementsbenefits only.</u>	60-64
B	<u>A description of the main differences between the Ffinancial statements of a superannuation plan that provides defined benefit entitlements only and a superannuation plan that provides defined contribution entitlements only.</u>	65-70
C	<u>Measurement of non-controlling interests in a manner consistent with the approach under AASB 127 Consolidated and Separate Financial Statements.</u>	71-77
D	<u>An alternative approach for measuring non-controlling interests.</u>	78-80
D E	<u>Measurement of non-controlling interests at fair value.</u>	78

Illustrative Examples A and B provide examples of acceptable formats for a superannuation plan that are consistent with the requirements of this Standard.

The styles and formats illustrated are not mandatory. Other styles and formats may be equally appropriate if they meet the requirements of this Standard and other applicable Australian Accounting Standards.

**ILLUSTRATIVE EXAMPLE A – EXAMPLE
FINANCIAL STATEMENTS OF A PARENT
SUPERANNUATION PLAN THAT PROVIDES
DEFINED CONTRIBUTION ENTITLEMENTS
ONLY**

**Consolidated Income Statement for XYZ Superannuation Plan and its
Controlled Entities for the Year ended 30 June 20XX**

	20XX \$000	20XW \$000
Income		
Interest	xx	xx
Dividends	xx	xx
Distributions from unit trusts	xx	xx
Property rental revenues	xx	xx
Net remeasurement changes in:		
Assets measured at fair value	xx	xx
Goodwill of subsidiaries	xx	xx
Other assets	xx	xx
Other income	xx	xx
Total income	xx	xx
Expenses		
Custodian and investment manager fees	xx	xx
Administration fees	xx	xx
Trustee fees	xx	xx
Auditor's remuneration	xx	xx
Net remeasurement changes in:		
Liabilities measured at fair value	xx	xx
Obligations arising from insurance contracts	xx	xx
Other operating expenses	xx	xx
Total expenses	xx	xx
Net operating profit before income tax	xx	xx
Income tax expense	(xx)	(xx)
Net operating profit for the period after income tax	xx	xx
Attributable to:		
Members of the parent	xx	xx
Net profit after income tax attributable to Non- controlling minority interests	(xx)	(xx)
Net profit or loss	xx	xx

**Consolidated Statement of Financial Position for XYZ Superannuation
Plan and its Controlled Entities as at 30 June 20XX**

	20XX \$000	20XW \$000
Assets		
Cash and cash equivalents	xx	xx
Contributions receivable	xx	xx
Interest receivable	xx	xx
Dividends receivable	xx	xx
Australian government securities	xx	xx
Shares in Australian corporations	xx	xx
Shares in overseas corporations	xx	xx
Hedging derivatives	xx	xx
Units in managed investment schemes	xx	xx
Units in pooled superannuation trusts	xx	xx
Units in property trusts	xx	xx
Units in hedge funds	xx	xx
Reinsurance assets	xx	xx
Equipment	xx	xx
Property	xx	xx
Intangible assets	xx	xx
Goodwill of subsidiaries	xx	xx
Deferred tax assets	xx	xx
Total assets	<u>xx</u>	<u>xx</u>
Liabilities		
Benefits payable	xx	xx
Income tax payable	xx	xx
Deferred tax liabilities	xx	xx
Other payables	xx	xx
Insurance liabilities	xx	xx
Borrowings	xx	xx
Total liabilities excluding members' vested benefits	<u>xx</u>	<u>xx</u>
Net assets available for members' vested benefits	xx	xx
Members' vested benefits	<u>(xx)</u>	<u>(xx)</u>
Total net assets	<u>xx</u>	<u>xx</u>
Equity		
Reserves	xx	xx
Unallocated surplus	xx	xx
Equity attributable to members of the parent entity	xx	xx
Equity attributable to non-controlling minority interests	xx	xx
Total equity	<u>xx</u>	<u>xx</u>

**Consolidated Cash Flow Statement for XYZ Superannuation Plan and
its Controlled Entities for the Year ended 30 June 20XX**

	20XX	20XW
	\$000	\$000
Cash flow from operating activities		
Interest received	xx	xx
Dividends received	xx	xx
Distributions received	xx	xx
Property rentals received	xx	xx
Group life insurance premiums	(xx)	(xx)
Payments to service providers	(xx)	(xx)
Other operating expenses paid	(xx)	(xx)
Income tax paid	(xx)	(xx)
Net cash flows from operating activities	<u>xx</u>	<u>xx</u>
Cash flows from investing activities		
Purchase of property	(xx)	(xx)
Purchase of investments	(xx)	(xx)
Proceeds from sales of investments	xx	xx
Interest costs	(xx)	(xx)
Net cash flows used in investing activities	<u>(xx)</u>	<u>(xx)</u>
Cash flows from financing activities		
<u>Net contributions received:</u>		
Employer	xx	xx
Member	xx	xx
<u>Tax paid on net contributions received</u>	<u>(xx)</u>	<u>(xx)</u>
Annuities received	xx	xx
Benefits paid	(xx)	(xx)
Transfers from other <u>superannuation plans</u>	xx	xx
Borrowings	xx	xx
Net cash flows from financing activities	<u>xx</u>	<u>xx</u>
Net increase in cash and cash equivalents	xx	xx
Cash and cash equivalents at beginning of the financial period	<u>xx</u>	<u>xx</u>
Cash and cash equivalents at the end of the financial period	<u>xx</u>	<u>xx</u>

**Consolidated Statement of Changes in Members' Vested Benefits for
XYZ Superannuation Plan and its Controlled Entities for the Year
Ended 30 June 20XX**

	20XX \$000	20XW \$000
Opening balance Benefits at the beginning of the financial period	xx	xx
<hr/>		
Net cContributions received and receivable:		
Employer	xx	xx
Member	xx	xx
Less: Tax on contributions	(xx)	(xx)
Net after tax contributions received and receivable	xx	xx
<hr/>		
Benefits transferred into the plan	xx	xx
Annuities received and receivable on behalf of members	xx	xx
Benefits accrued as a result of operations	xx	xx
Transfers from reserves to members' accounts	xx	xx
Benefits paid and payable	(xx)	(xx)
Closing balance Benefits at the end of the financial period	xx	xx
<hr/>		

**Consolidated Statement of Changes in Equity for XYZ Superannuation
Plan and its Controlled Entities for the Year Ended 30 June 20XX**

	20XX \$000	20XW \$000
Reserves		
<i>Administration</i>		
Opening B balance at the beginning of the period	xx	xx
Transfers from net profit for the period loss	xx	xx
Transfers to unallocated surplus	(xx)	(xx)
Transfers from unallocated surplus	xx	xx
Closing B balance at the end of the period	xx	xx
<i>Investment</i>		
Opening B balance at the beginning of the period	xx	xx
Allocated to members' accounts during the period	(xx)	(xx)
Transfers from net profit or loss	xx	xx
Closing B balance at the end of the period	xx	xx
Unallocated surplus		
Opening B balance at the beginning of the period	xx	xx
Transfers from net profit or loss	xx	xx
Transfers from administration reserve	xx	xx
Transfers to administration reserve	(xx)	(xx)
Closing B balance at the end of the period	xx	xx

ILLUSTRATIVE EXAMPLE B - A
DESCRIPTION OF THE MAIN DIFFERENCES
BETWEEN THE FINANCIAL STATEMENTS OF
A SUPERANNUATION PLAN THAT PROVIDES
DEFINED BENEFIT ENTITLEMENTS ONLY
AND A SUPERANNUATION PLAN THAT
PROVIDES DEFINED CONTRIBUTION
ENTITLEMENTS ONLY

Under this Standard, a superannuation plan that provides defined benefit entitlements only would prepare its financial statements on the same basis as a superannuation plan that is similar in all significant respects except that it provides defined contribution entitlements only, apart from the following:

- (a) obligations for defined benefit members' accrued benefits (rather than their vested benefits) would be recognised as liabilities in the statement of financial position; and
- (b) all remeasurement changes in defined benefit members' accrued benefits would be recognised and presented as gains or losses in the income statement in the reporting period in which they occur.

In addition, a superannuation plan that provides defined benefit entitlements only could present a statement of changes in members' accrued benefits and a statement of changes in equity in accordance with the approaches presented below.

**Consolidated Income Statement for XYZ Superannuation Plan and its
Controlled Entities for the Year ended 30 June 20XX**

	20XX \$000	20XW \$000
Income		
Interest	**	**
Dividends	**	**
Distributions from unit trusts	**	**
Property rental revenues	**	**
Net remeasurement changes in:		
Assets measured at fair value	**	**
Goodwill of subsidiaries	**	**
Other assets	**	**
Other income	**	**
Total income	<hr/> **	<hr/> **
Expenses		
Custodian and investment manager fees	**	**
Administration fees	**	**
Trustee fees	**	**
Auditor's remuneration	**	**
Net remeasurement changes in:		
Liabilities measured at fair value	**	**
Obligations arising from insurance contracts	**	**
Other operating expenses	**	**
Total expenses	<hr/> **	<hr/> **
Net operating profit before income tax	**	**
Income tax expense	<hr/> (**)	<hr/> (**)
Net operating profit after income tax	<hr/> **	<hr/> **
Net remeasurement changes in members' accrued benefits	(**)	(**)
Net profit after income tax attributable to minority interests	<hr/> (**)	<hr/> (**)
Net profit or loss	<hr/> **	<hr/> **

**Consolidated Statement of Financial Position for XYZ Superannuation
Plan and its Controlled Entities as at 30 June 20XX**

	20XX \$000	20XX \$000
Assets		
Cash and cash equivalents	xx	xx
Contributions receivable	xx	xx
Interest receivable	xx	xx
Dividends receivable	xx	xx
Australian government securities	xx	xx
Shares in Australian corporations	xx	xx
Shares in Overseas corporations	xx	xx
Hedging derivatives	xx	xx
Units in managed investment schemes	xx	xx
Units in pooled superannuation trusts	xx	xx
Units in property trusts	xx	xx
Units in hedge funds	xx	xx
Reinsurance assets	xx	xx
Equipment	xx	xx
Property	xx	xx
Intangible assets	xx	xx
Goodwill of subsidiaries	xx	xx
Deferred tax assets	xx	xx
Total assets	<hr/> xx	<hr/> xx
Liabilities		
Benefits payable	xx	xx
Income tax payable	xx	xx
Deferred tax liabilities	xx	xx
Other payables	xx	xx
Insurance liabilities	xx	xx
Borrowings	xx	xx
Total liabilities excluding members' accrued benefits	<hr/> xx	<hr/> xx
Net assets available for members' accrued benefits	xx	xx
Members' accrued benefits	xx	xx
Total net assets	<hr/> xx	<hr/> xx
Equity		
Reserves	xx	xx
Unallocated surplus	xx	xx
Equity attributable to the parent entity	xx	xx
Equity attributable to minority interests	xx	xx
Total equity	<hr/> xx	<hr/> xx

**Consolidated Cash Flow Statement for XYZ Superannuation Plan and
its Controlled Entities for the Year ended 30 June 20XX**

	20XX	20XW
	\$000	\$000
Cash flow from operating activities		
Interest received	xx	xx
Dividends received	xx	xx
Distributions received	xx	xx
Property rentals received	xx	xx
Group life insurance premiums	(xx)	(xx)
Payments to service providers	(xx)	(xx)
Other operating expenses paid	(xx)	(xx)
Income tax paid	(xx)	(xx)
Net cash flows from operating activities	xx	xx
Cash flows from investing activities		
Purchase of property	(xx)	(xx)
Purchase of investments	(xx)	(xx)
Proceeds from sales of investments	xx	xx
Interest costs	(xx)	(xx)
Net cash flows used in investing activities	(xx)	(xx)
Cash flows from financing activities		
Contributions received		
Employer	xx	xx
Member	xx	xx
Annuities received	xx	xx
Benefits paid	(xx)	(xx)
Borrowings	xx	xx
Net cash flows from financing activities	xx	xx
Net increase in cash and cash equivalents	xx	xx
Cash and cash equivalents at beginning of the financial period	xx	xx
Cash and cash equivalents at the end of the financial period	xx	xx

**Consolidated Statement of Changes in Members' Accrued Benefits for
XYZ Superannuation Plan and its Controlled Entities for the Year
Ended 30 June 20XX**

	20XX \$000	20XW \$000
<u>Opening balance</u> Benefits at the beginning of the financial period	xx	xx
Remeasurement change in members' accrued benefits, comprising:		
Benefit cost	xx	xx
Interest cost	xx	xx
Actuarial gains	(xx)	(xx)
Gain on settlements	(xx)	(xx)
	xx	xx
<u>Benefits paid and payable</u>	(xx)	(xx)
<u>Closing balance</u> Benefits at the end of the financial period	xx	xx

**Consolidated Statement of Changes in Equity for XYZ Superannuation
Plan and its Controlled Entities for the Year Ended 30 June 20XX**

	20XX	20XW
	\$000	\$000
Forfeited benefits reserve		
Balance at the beginning of the period	xx	xx
Benefits forfeited by members during the period	xx	xx
Forfeited benefits allocated to members during the period	(xx)	(xx)
Balance at the end of the period	<u>xx</u>	<u>xx</u>
Unallocated surplus		
Opening Bbalance at the beginning of the period	xx	xx
Plus: Change in net assets available to pay members' accrued benefits, comprising :		
Net pProfit or loss for the period	xx	xx
Net after tax contributions received and receivable	xx	xx
Annuities received and receivable	xx	xx
Benefits paid and payable	(xx)	(xx)
Less: Net rRemeasurement changes in members' accrued benefits	(xx)	(xx)
Closing Bbalance at the end of the period	<u>xx</u>	<u>xx</u>

**ILLUSTRATIVE EXAMPLE C –
MEASUREMENT OF NON-CONTROLLING
INTERESTS IN A MANNER CONSISTENT
WITH THE APPROACH UNDER AASB 127**

On 1 July 20X1, XYZ Superannuation Plan (XYZ) purchased 75% of the outstanding shares (and control) of RO Pty Ltd (RO) for \$55,000.

Table 1 below provides the carrying amounts and, where relevant, the fair values adjusted for transaction costs of the items recognised in RO's statement of financial position as at 1 July 20X1. RO applies Australian Accounting Standards. RO measures its equipment in accordance with the cost model in AASB 116 *Property, Plant and Equipment*. In addition to the items listed in Table 1, RO had internally generated software. On 1 July 20X1, the fair value less transaction costs of the software was \$15,000.

TABLE 1

	Carrying amount	Fair value adjusted for transaction costs
Cash	\$15,900	\$15,900
Debtors	\$14,900	\$13,600
Shares in listed corporations	\$20,900	\$20,900
Equipment	\$37,200	\$28,400
Deferred tax assets	\$0	*\$2,640
	\$88,900	\$81,440
Accounts payable	\$22,900	\$22,900
Income tax payable	\$3,300	*\$3,300
Deferred tax liabilities	\$5,190	*\$6,300
	\$31,390	\$32,500
Shareholders' equity	\$30,000	
Retained profits	\$27,510	
	\$57,510	

* These items are not measured at fair value adjusted for transaction costs. However, deferred tax assets and deferred tax liabilities have been adjusted to reflect the fair value measurement adjustments to RO's debtors and equipment, and for the recognition of the internally generated software. ~~As at 1 July 20X1~~ For the purpose of this example, the tax bases of RO's assets and liabilities apart from the debtors, the shares in listed corporations and the internally generated

software are the same as their carrying amounts. As at 1 July 20X1, the tax base of the debtors is \$0, the tax base of the shares in listed corporations is \$18,500 and the tax base of the internally generated software is \$10,000. The applicable tax rate is 30%.

Table 2 below illustrates how the non-controlling interests in RO as at 1 July 20X1 could be measured in a manner consistent with the approach under AASB 127 *Consolidated and Separate Financial Statements*. It is assumed for the purpose of measuring the fair value of the non-controlling interests in RO that there exists no control premium.

TABLE 2

Non-controlling interests in RO as at 1 July 20X1	
Measured at fair value	Measured at the proportionate share of the RO's identifiable net assets
$(\$55,000/75) \times 25\%$	<u>\$18,333</u>
	RO's recognised assets \$81,440
	Less: recognised liabilities \$32,500
	Plus: internally generated software <u>\$15,000</u>
	RO's identifiable net assets <u>\$63,940</u>
	Non-controlling interests' share of RO's identifiable net assets ($\$63,940 \times 25\%$) <u>\$15,985</u>

The amount of the non-controlling interests in RO as at 30 June 20X2 could be measured in one of two of the following ways in accordance with AASB 127 *Consolidated and Separate Financial Statements*:

- (a) on the basis of its fair value at the acquisition date in accordance with AASB 3 *Business Combinations* plus the non-controlling interests' share of recognised changes in equity since RO's acquisition by XYZ; or
- (b) on the basis of its proportionate share of RO's identifiable net assets at the acquisition date in accordance with AASB 3 plus the non-controlling interests' share of recognised changes in equity since RO's acquisition by XYZ.

Table 3 below demonstrates how XYZ could measure the non-controlling interests in RO as at 30 June 20X2 in a manner consistent with the approach under AASB 127.

For the reporting period ended 30 June 20X2, RO's recognised equity increased by \$16,270.

TABLE 3

Non-controlling interests in RO as at 30 June 20X2	
Measured at fair value	Measured at the proportionate share of RO's identifiable net assets
Fair value at acquisition date ————— \$18,334	Proportionate share of RO's identifiable net assets at acquisition date — \$15,985
Plus: non-controlling interests' share of the change in RO's recognised equity (\$16,270 x. 25%) ————— <u>\$4,068</u>	Plus: non-controlling interests' share of the change in RO's recognised equity ————— <u>\$4,068</u>
————— <u>\$22,402</u>	————— <u>\$20,053</u>

ILLUSTRATIVE EXAMPLE D

Under the approach demonstrated in Illustrative Example C, the non-controlling interests' share of post-acquisition changes in RO's equity is based on the subsidiary's net assets recognised and measured in accordance with relevant Australian Accounting Standards. Accordingly, in Illustrative Example C, the non-controlling interests are not allocated a share of the post-acquisition movements in the fair values of RO's:

- (a) — internally generated software; and
- (b) — equipment.

An alternative approach to that illustrated in Illustrative Example C measures non-controlling interests as the aggregate of:

- (a) — the amount of the non-controlling interests at the date of the subsidiary's acquisition by the parent entity measured in a manner consistent with the approach under AASB 3 *Business Combinations*; and

- (b) ~~the non-controlling interests' share of any post-acquisition changes in the fair values of the subsidiary's:~~
- (i) ~~assets and liabilities recognised in accordance with relevant Australian Accounting Standards; and~~
 - (ii) ~~assets and liabilities that were identifiable at the acquisition date in accordance with the relevant recognition criteria in AASB 3.~~

~~Under this alternative approach, the non-controlling interests in RO at 1 July 20X1 would be measured in the same manner as it is measured in Illustrative Example C on that date.~~

~~Table 31 below provides the carrying amounts and, where relevant, the fair values adjusted for transaction costs of the assets and liabilities of items recognised in RO's that are recognised by XYZ in its consolidated statement of financial position as at 30 June 20X2. RO applies Australian Accounting Standards and measures its equipment in accordance with the cost model in AASB 116 *Property, Plant and Equipment*.~~

TABLE 31

	Carrying amount	Fair value adjusted for transaction costs
Cash	\$23,100	\$23,100
Debtors	\$15,200	\$13,100
Shares in listed corporations	\$22,500	\$22,500
Equipment	\$29,800	\$21,500
Deferred tax assets	\$0	*\$2,490
Internally generated software	\$0	\$14,000
	\$90,600	\$96,690
Accounts payable	\$15,000	\$15,000
Income tax payable	\$4,400	*\$4,400
Deferred tax liabilities	\$5,760	*\$7,080
	\$25,160	\$26,480
Shareholders' equity	\$30,000	
Retained profits	\$35,440	
	\$65,440	

* These items are not measured at fair value adjusted for transaction costs. However, deferred tax assets and deferred tax liabilities have

been adjusted to reflect the fair value measurement adjustments to RO's debtors, equipment and internally generated software. As at 30 June 20X2 ~~For the purpose of this example,~~ the tax bases of RO's assets and liabilities apart from the debtors, the shares in listed corporations and the internally generated software are the same as their carrying amounts. ~~As at 30 June 20X2,~~ the tax base of the debtors is \$0, the tax base of the shares in listed corporations is \$18,500 and the tax base of the internally generated software is \$7,500. The applicable tax rate is 30%.

The amount of the non-controlling interests in RO as at 30 June 20X2 could be measured in one of the following two ways in accordance with AASB 127:

- (a) on the basis of its fair value at the acquisition date plus the non-controlling interests' share of recognised changes in equity since RO's acquisition by XYZ; or
- (b) on the basis of its proportionate share of RO's identifiable net assets at the acquisition date plus the non-controlling interests' share of recognised changes in equity since RO's acquisition by XYZ.

Table ~~42~~ below illustrates how the non-controlling interests' share of the post-acquisition movements in the net fair values of RO's ~~recognised and identifiable~~ net assets that are recognised by XYZ for the reporting period ending 30 June 20X2 could be calculated in a manner consistent with AASB 127.

TABLE 42

Non-controlling interests' share of the post-acquisition movements in RO's the net assets fair values of RO's recognised by XYZ and identifiable net assets	
RO's net assets that are recognised by XYZ and identifiable net assets-as at 30 June 20X2 (\$96,690 - \$26,480)	\$70,210
Less: RO's net assets that were recognised by XYZ and identifiable net assets-as at 1 July 20X1 (see Table 2 above in Illustrative Example C)	<u>\$63,940</u>
Post-acquisition movement in RO's the net assets recognised by XYZ fair value of RO's Recognised and identifiable net assets	<u>\$6,270</u>
Non-controlling interests' share of the post-acquisition movement in RO's the net assets that are fair value of RO's recognised by XYZ and identifiable net assets (\$6,270 x 25%)	<u>\$1,568</u>

Table 53 below illustrates how the non-controlling interests in RO could be measured as at 30 June 20X2 in a manner consistent with AASB 127 accordance with the alternative approach. It is assumed for the purpose of measuring the fair value of the non-controlling interests in RO that there exists no control premium.

TABLE 53

Non-controlling interests in RO as at 30 June 20X2	
Measured at fair value at acquisition date	Measured at the proportionate share of RO's identifiable net assets that are recognised by XYZ
Fair value at acquisition date	Proportionate share of RO's identifiable net assets recognised by XYZ at acquisition date
\$18,333	\$15,985
Plus: non-controlling interests' share of the post-acquisition movement in the fair value of RO's net assets recognised by XYZ and identifiable	Plus: non-controlling interests' share of the post-acquisition movement in the fair value of RO's net assets recognised by XYZ and identifiable
net assets (\$6,270 x 25%)	net assets
\$1,568	\$1,568
<u>\$19,901</u>	<u>\$17,553</u>

ILLUSTRATIVE EXAMPLE DE –
MEASUREMENT OF NON-CONTROLLING
INTERESTS AT FAIR VALUE

Table 2 in Illustrative Example C illustrates how the non-controlling interests in RO Pty Ltd (RO) could ~~might~~ be measured at fair value on the date of RO's acquisition by XYZ Superannuation Plan (XYZ). Consistent with this approach, if the fair value of XYZ's interest in RO at 30 June 20X2 were \$62,000, the fair value of the non-controlling interests in RO at this date could be calculated as follows, assuming no control premium exists:

$$(\$62,000/75) \times 25\% = \$20,667$$

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB ~~10XX10XX10XX~~.

Background

BC1 This Basis for Conclusions summarises the considerations of the Australian Accounting Standards Board (AASB) in preparing ED 16X *Superannuation Plans and Approved Deposit Funds* ~~*Superannuation Plans and Approved Deposit Funds*~~ ~~*Superannuation Plans and Approved Deposit Funds*~~.

Significant Issues

Reasons for Issuing ~~ED 16X~~ **this Exposure Draft**

BC2 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 the 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, recent developments in the superannuation industry and the adoption of International Financial Reporting Standards (IFRSs) have both served to highlight the need for a comprehensive review of AAS 25. In addition, the increasing significance of defined contribution/defined benefit 'hybrid' superannuation plans has served to highlight some deficiencies in having different reporting requirements for defined contribution and defined benefit superannuation plans.

BC3 In late 2005, the AASB considered the potential implications of a superannuation plan applying other Australian Accounting Standards 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
- (b) a controlling interest in another entity.

- BC4 The AASB issued Invitation to Comment ITC 9 *Superannuation Plans – Financial Liabilities* in December 2005. After considering constituents' comments, the AASB agreed in December 2005 to amend AAS 25 to require that:
- (a) 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
 - (b) any changes in the net market value of a hedging instrument or derivative be recognised in the profit or loss of the plan for the reporting period.

The AASB also confirmed that, notwithstanding the practical issues that could arise (refer to paragraph BC86 of this Basis for Conclusions), a superannuation plan that holds a controlling interest in another entity is required to apply AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*.

- BC5 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 of AAS 25, including the matters considered at its December 2005 meeting, is needed.
- BC6 Prior to commencing its review of the requirements of AAS 25, the AASB considered the merits of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* and concluded that it should not be adopted in Australia. This is because it has not been updated recently and includes treatments that would potentially reduce the quality of financial reporting by superannuation plans and approved deposit funds if it were adopted. For example, IAS 26 permits:
- (a) assets to be measured at an amount other than fair value when an estimate of fair value is not possible; and
 - (b) the actuarial present value of promised retirement benefits payments to be based on either current or projected salary levels.
- BC7 In contrast to IAS 26, AAS 25 requires all assets held by a superannuation plan to be measured at net market value. This approach is consistent with the domestic prudential measurement requirements and with the prudential requirement that superannuation investments be made and maintained on an arm's length basis. The AASB also considered other relevant Australian Accounting Standards and noted that AASB 119 *Employee Benefits* requires:

- (a) plan assets attributable to defined benefit obligations to be measured at fair value; and
- (b) defined benefit obligations to be measured on a basis that reflects estimated future salary increases.

BC8 The AASB ~~also~~ considered the implications of withdrawing AAS 25 and requiring superannuation plans and approved deposit funds to apply, where appropriate, Australian Accounting Standards. The AASB concluded that, while the financial reporting requirements in relation to superannuation plans and approved deposit funds would, in many respects, be enhanced by being more closely aligned with corresponding requirements of other Australian Accounting Standards, this approach would not be entirely appropriate for the needs of users of the financial statements of such entities.

BC9 The AASB concluded that the primary users of the general purpose financial statements of superannuation plans and approved deposit funds are:

- (a) members and beneficiaries;
- (b) parties employed to act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and
- (c) employer sponsors.

BC10 While most financial analysts and advisors would be considered relatively sophisticated users of financial statements, many members and beneficiaries are not. In addition, employer sponsors are normally considered preparers rather than users of financial statements. Accordingly, the users of the financial statements of superannuation plans and approved deposit funds include groups whose information needs would not have been the focus of considerations in the promulgation of other Australian Accounting Standards.

BC11 As a consequence of this, the AASB does not consider that the reporting requirements that would otherwise apply under Australian Accounting Standards would give rise to financial information that is appropriate for the needs of users of the financial statements of a superannuation plan or approved deposit fund. This is particularly the case in relation to the measurement of assets, the recognition and measurement of members' benefits and the preparation and presentation of consolidated financial statements. Accordingly, in the interests of facilitating the provision of information that is relevant

for decision making in a superannuation context, the AASB agreed there is a need to:

- (a) depart from Australian Accounting Standards on some topics in respect of superannuation plans or approved deposit funds; and
- (b) limit the accounting treatments available to superannuation plans or approved deposit funds in other Australian Accounting Standards.

BC12 The following discussion outlines the AASB's reasoning behind the departures from Australian Accounting Standards proposed in ED 16X as well as its reasons for not retaining some of the requirements of AAS 25.

Application of the Proposed Standard

BC13 AAS 25 applies to the financial statements of each superannuation plan in the private or public sector that is a reporting entity or prepares financial statements which purport to be general purpose in nature. In addition, a superannuation plan is broadly defined in AAS 25 to include approved deposit funds and eligible rollover funds.

BC14 The AASB considered the advantages and disadvantages of a replacement Standard for AAS 25 applying to different types of superannuation entities, including superannuation plans, approved deposit funds, eligible rollover funds, pooled superannuation trusts, small Australian Prudential Regulation Authority (APRA) funds and self-managed superannuation funds (SMSF). The AASB concluded that the replacement Standard should:

- (a) retain the reporting entity concept, thereby ensuring that superannuation plans that do not have any general purpose users are not required to prepare general purpose financial statements. For example, a ~~self-managed superannuation fund~~ (SMSF) would not normally be considered a reporting entity because: (i) each member of a SMSF is required to be a trustee; and (ii) the primary external user of SMSF information is the Australian Taxation Office, which requires SMSFs to report specific information for its compliance and regulatory purposes; and
- (b) apply to each entity that is a defined contribution plan, defined benefit plan, hybrid plan, private sector plan, public sector plan, eligible rollover fund or approved deposit fund.

BC15 The AASB gave particular consideration to whether the replacement Standard for AAS 25 should apply to pooled superannuation trusts. The AASB noted that pooled superannuation trusts and superannuation plans, particularly defined contribution superannuation plans, share in common a number of characteristics. For example, a pooled superannuation trust:

- (a) is required to comply with many of the same prudential requirements that apply to a superannuation plan;
- (b) is taxed at the same concessional tax rate as a superannuation plan; and
- (c) is only permitted to accept monies from other superannuation entities, including superannuation plans.

BC16 However, the AASB concluded that a pooled superannuation trust is more in the nature of an investment trust, such as a managed investment scheme, than a superannuation plan. For example:

- (a) a pooled superannuation trust has unitholders rather than members; and
- (b) there are no restrictions over when a pooled superannuation trust can distribute funds to a unitholder. In contrast, a superannuation plan can only pay benefits to a member when the member achieves a condition of release, which is generally retirement related.

Accordingly, to facilitate comparable financial reporting by pooled superannuation trusts and other investment trusts, the AASB concluded that pooled superannuation trusts should apply Australian Accounting Standards.

Assets and Liabilities

Recognition of assets and liabilities

BC17 Under AAS 25, a superannuation plan recognises assets and liabilities in accordance with other relevant Australian Accounting Standards.

BC18 The AASB considered whether there are any compelling reasons for not retaining this approach and concluded that a superannuation plan or approved deposit fund should apply the definition and recognition criteria in respect of assets and liabilities in Australian Accounting Standards, except in relation to:

- (a) members' benefits; ~~and~~
- (b) obligations and assets arising from insurance contracts issued by superannuation plans or approved deposit funds; and
- (c) goodwill or discount of subsidiaries.

The AASB's reasons for proposing these departures are outlined below.

Measurement of assets

- BC19 AAS 25 requires a superannuation plan to measure its assets at market value less costs that would be expected to be incurred in realising the proceeds from their disposal. The AASB considered a number of alternative approaches, including measuring assets:
- (a) in a manner consistent with the approach under AAS 25;
 - (b) in accordance with the various requirements of relevant Australian Accounting Standards; and
 - (c) in a manner consistent with the 'fair value approach' as described in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
- BC20 With respect to approaches (b) and (c), the AASB noted that some Australian Accounting Standards currently provide a choice between alternative measurement methods, particularly cost and fair value, for particular types of assets. However, the measurement of superannuation assets at cost is inconsistent with the interest of users in the investment performance of superannuation plans and approved deposit funds and inconsistent with the prudential measurement requirements.
- BC21 The AASB concluded that a superannuation plan or approved deposit fund should ~~continue to measure its assets other than tax assets, assets arising from insurance contracts and goodwill or discount of subsidiaries,~~ in a manner consistent with the approach under AAS 25. However, the AASB noted that there are a number of compelling arguments in favour of requiring a superannuation plan or approved deposit fund to use fair value rather than market value.
- BC22 Both market value measurements and fair value measurements provide useful information for users of the financial statements of a superannuation plan or approved deposit fund about:

- (a) the capacity of a superannuation plan with defined contribution members or an approved deposit fund to pay benefits as it reflects the interests of members; and
- (b) the financial position (solvency) of a superannuation plan with defined benefit members as it reflects the capacity of the entity to meet members' benefits.

However, in contrast to market value measurement, fair value measurement is more comprehensively dealt with in the accounting literature, which includes the relevant guidance in Australian Accounting Standards. The AASB considers that this would generally lead to greater consistency in the measurement of superannuation assets, particularly unlisted assets, than market value under AAS 25.

- BC23 In the interests of providing relevant information to users, and noting that fair value measurement is required for plan assets attributable to defined benefit members under AASB 119, the AASB concluded that ED 16X should propose that a superannuation plan or approved deposit fund measure all of its assets except for tax assets, assets arising from insurance contracts and any goodwill or discount of subsidiaries at fair value, and that a superannuation plan or approved deposit fund apply the concept of fair value as defined in Australian Accounting Standards.
- BC24 The AASB's reasons for not requiring tax assets, assets arising from insurance contracts and goodwill and discount of subsidiaries to be measured at fair value in a manner consistent with the approach under AAS 25 are discussed below.

Transaction costs

- BC25 Under AAS 25, a superannuation plan is required to measure its assets net of anticipated disposal costs. The AASB considered a number of different treatments for anticipated disposal costs in relation to assets, including:
- (a) separate recognition as an expense when incurred; and
 - (b) as a reduction in the carrying amount of an asset.
- BC26 The AASB concluded that a superannuation plan or approved deposit fund should treat transaction costs (anticipated disposal costs) as a reduction in the carrying amounts of assets because:

- (a) members and beneficiaries would regard information about assets net of ~~transaction~~~~anticipated disposal~~ costs as useful because it has a direct bearing on their decisions in relation to a superannuation plan's or approved deposit fund's capacity to pay benefits;
- (b) it would facilitate an alignment between the financial reporting requirements and member reporting practices of superannuation plans and approved deposit funds; and
- (c) it is consistent with the treatment of assets under some Australian Accounting Standards. For example, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires assets held for immediate sale to be measured at fair value less anticipated disposal costs on the basis that rational decision-making by users requires an understanding of the estimated net future cash flows expected from the asset.

Measurement of liabilities other than tax liabilities, members' benefits and obligations arising from insurance contracts

- BC27 AAS 25 requires a superannuation plan to measure its financial liabilities at net market value.
- BC28 The AASB considered the different ways in which a liability can be measured under Australian Accounting Standards, in particular:
- (a) at fair value; and
 - (b) at amortised cost.
- BC29 The AASB concluded that amortised cost is not an appropriate method of measuring liabilities in a superannuation context because it does not result in relevant information to users. For example, measuring borrowings in a subsidiary at amortised cost is unlikely to provide users with information that is relevant for an understanding of the financial position of a parent superannuation plan or parent approved deposit fund and its subsidiaries. Accordingly, the AASB concluded that a superannuation plan or approved deposit fund should measure all of its liabilities other than tax liabilities, members' benefits and obligations arising from insurance contracts at fair value plus transaction costs.
- BC30 The AASB's reasons for not requiring tax liabilities, members' benefits, obligations arising from insurance contracts and discount of

subsidiaries to be measured at fair value less transaction costs are discussed below.

Tax Assets and Liabilities

BC31 Under AAS 25, a superannuation plan applies the recognition and measurement requirements of AASB 112 *Income Taxes* to determine its income tax expense.

BC32 The AASB considered the merits of requiring a superannuation plan or approved deposit fund to measure its tax assets and liabilities at fair value adjusted for anticipated disposal costs, which would imply a need for discounting, thereby requiring such entities to depart from AASB 112. The AASB noted that:

- (a) under AASB 112, a superannuation plan or approved deposit fund would not be permitted to, for example, discount a tax liability payable in a future reporting period back to a present value at the reporting date. ~~The AASB also noted that, while fair value measurement would normally imply discounting, AASB 112 prohibits tax balances from being discounted~~ because the detailed scheduling necessary to ensure that tax assets and liabilities are reliably measured is usually impracticable or highly complex; **(SOURCE: relocated from paragraph BC32 of draft ED 16X presented to the Board's December 2008 meeting)**
- (b) a significant proportion of a superannuation plan's or approved deposit fund's tax balances are attributable to unrealised gains and losses on assets held to fund members' benefits. Measuring these assets at fair value would ensure that any associated tax balances determined under AASB 112 would be recognised at amounts approximating fair value. For example, if a superannuation plan sold an asset for its carrying amount at the reporting date, and that amount is above its tax base, the tax liability measured in accordance with AASB 112 would generally equate with the present value of tax the entity would have to pay in relation to the asset; and
- (c) most of the 'disposal' costs associated with ~~a tax balances asset or liability~~ relate to measuring the assets held to fund members' benefits or liability and maintaining adequate records of the measured amounts for tax purposes. Consequently, the costs directly attributable to extinguishing or settling a tax asset or liability are immaterial.

BC33 The AASB concluded that a superannuation plan or approved deposit fund should measure its tax balances in accordance with AASB 112 because:

- (a) users' needs do not necessarily justify a departure from the measurement requirements of AASB 112 as the difference between a tax balance measured at fair value or in accordance with AASB 112 would in most cases be immaterial; and
- (b) the benefits to users from fair value information for tax assets and liabilities is unlikely to outweigh the costs incurred by a superannuation plan or approved deposit fund in reliably determining their fair values.

Members' Benefits

Recognition

BC34 Under AAS 25, a defined contribution plan is required to recognise its members' accrued benefits as a liability whereas a defined benefit superannuation plan can choose to either disclose its members' accrued benefits in a note or recognise members' accrued benefits as a liability of the plan.

BC35 The AASB considered the merits of retaining these reporting requirements, particularly the requirements in relation to defined benefit superannuation plans, and noted that:

- (a) the disclosure of liabilities that would otherwise be recognised in the statement of financial position statements is inconsistent with other Australian Accounting Standards; and
- (b) a liability does not necessarily have to be a legal obligation and can be contractual or constructive in nature.

BC36 The AASB considered the respective legal, contractual and constructive obligations of superannuation plans, approved deposit funds and employer sponsors and concluded that members' benefits should be recognised as liabilities of a superannuation plan or approved deposit fund because:

- (a) the obligation to fund a member's defined contribution entitlements benefits falls on the member's superannuation plan or approved deposit fund and the obligation is legally enforceable in nature; and

- (b) the obligation to fund a member's defined benefits entitlements as specified in the trust deed of the member's superannuation plan falls primarily on the member's plan and the obligation is contractual and/or constructive in nature.

BC37 The AASB also considered the main characteristics of superannuation members' vested and accrued benefits and noted that:

- (a) contributions by a member to a superannuation plan and benefit transfers into a superannuation plan or approved deposit fund fully vest in the member upon receipt by the entity;
- (b) employer contributions on behalf of a defined contribution member fully vest in the member upon their receipt by the superannuation plan whereas employer contributions on behalf of a defined benefit member may only fully vest in the member progressively in line with the plan's benefit formula. Accordingly, for the vast majority of superannuation plans and all approved deposit funds, the difference between defined contribution members' vested and accrued benefits is immaterial. However, for some superannuation plans, the amount of defined benefit members' vested benefits may be significantly different from the amount of such members' accrued benefits; and
- (c) most defined contribution members are entitled to transfer their vested benefits to another regulated superannuation entity under the *Superannuation Guarantee (Administration) Act 2002*, whereas most defined benefit members are prohibited from transferring their defined benefit entitlements by the same legislation.

BC38 The AASB concluded that:

- (a) consistent with the treatment of a financial liability with a demand feature under AASB 139 *Financial Instruments: Recognition and Measurement*, defined contribution members' vested benefits should be recognised as a liability of a superannuation plan or approved deposit fund; and
- (b) consistent with the recognition of defined benefit obligations under AASB 119 *Employee Benefits*, defined benefit members' accrued benefits should be recognised as a liability of a superannuation plan.

Puttable financial instruments and obligations arising on liquidation

BC39 The AASB considered the implications of applying the amendments to AASB 132 *Financial Instruments: Presentation* arising from AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* to superannuation plans and approved deposit funds. AASB 2008-2 amends AASB 132 in line with the corresponding amendments made by the International Accounting Standards Board (IASB) to IAS 32 *Financial Instruments: Presentation* in February 2008. The amendments introduce an exception to the definition of financial liability in AASB 132 to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity.

BC40 If the amendments to AASB 132 and other Australian Accounting Standards arising from AASB 2008-2 were applied to a superannuation plan and/or approved deposit funds they would give rise to different reporting outcomes. For example, under the amendments to AASB 132:

- (a) defined contribution member's entitlements held by a superannuation plan or approved deposit fund that comprises only defined contribution members and that does not offer member investment choice would arguably meet the criteria necessary to be classified as equity;
- (b) defined contribution member's entitlements held by a superannuation plan that comprises only defined contribution members and that offers member investment choice would arguably not meet the criteria necessary to be classified as equity;
- (c) defined contribution member's entitlements held by a plan that comprises both defined contribution and defined benefit members would arguably not meet the criteria necessary to be classified as equity; and
- (d) defined benefit member's entitlements would arguably not meet the criteria necessary to be classified as equity.

BC41 The AASB considered that having different reporting outcomes depending upon the nature of the superannuation plan:

- (a) would be inconsistent with the objectives of principles-based standard-setting; and
- (b) would potentially diminish the comparability and usefulness of the financial statements of superannuation plans and approved deposit funds and, therefore, would be inappropriate in a superannuation context.

Accordingly, the AASB concluded that, to ensure that defined contribution members' entitlements and defined benefit members' entitlements/benefits are always recognised as liabilities, the amendments to AASB 132 and other Australian Accounting Standards arising from AASB 2008-2 should not apply to a superannuation plan or approved deposit fund.

Measurement

Defined contribution members' vested benefits

- BC42 The AASB noted that defined contribution members' vested benefits represents the amount that would be payable on demand:
- (a) to such members or their beneficiaries upon their retirement, death, disablement or other event that qualifies as a condition for releasing their superannuation benefits; or
 - (b) to another regulated superannuation entity on behalf of such members under the *Superannuation Guarantee (Administration) Act 2002*.
- BC43 The AASB also noted that defined contribution members' vested benefits are generally determined based upon the net assets attributable to such members recognised in the financial statements of the members' superannuation plan or approved deposit fund. Because the net assets attributable to defined contribution members would include items that ED 16X proposes be measured at amounts other than their fair values, such as tax assets and liabilities, defined contribution members' vested benefits would not be measured at their fair values under a replacement Standard for AAS 25. However, the AASB concluded that, as ED 16X requires most assets and liabilities attributable to defined contribution members to be measured at their fair values adjusted for transaction costs, the difference between defined contribution members' vested benefits measured at fair value or in accordance with ED 16X would in most cases be immaterial.

Defined benefit members' accrued benefits

BC44 The AASB considered a number of different ways in which defined benefit members' accrued benefits could be measured, including:

- (a) at fair value consistent with the proposals in the IASB's Discussion Paper *Fair Value Measurement*;
- (b) at current exit value consistent with the model proposed by the IASB in its Discussion Paper *Preliminary Views on Insurance Contracts*;
- (c) at present value of the expected future benefit payments consistent with the requirements of AAS 25; and
- (d) at present value of the expected future benefit payments consistent with the requirements of AASB 119 for defined benefit obligations.

BC45 During its deliberations on the measurement of defined benefit members' accrued benefits, the AASB noted that:

- (a) a defined benefit obligation is, in substance, arguably akin to an insurance contract. Accordingly, the IASB's proposals in its Discussion Paper on insurance contracts are potentially relevant to the AASB's deliberations on the measurement of defined benefit members' accrued benefits; **(SOURCE: paragraph BC43 of draft ED 16X presented to the Board's October 2008 meeting)**
- (b) a fair value or current exit value measurement could potentially:
 - (i) provide useful information to users, particularly in relation to the amount, timing and uncertainty of future benefit payments; and **(SOURCE: paragraph BC42(a) of draft ED 16X presented to the Board's October 2008 meeting)**
 - (ii) facilitate consistency of reporting, as ED 16X proposes that most assets of a superannuation plan or approved deposit fund be measured at fair value. At present, asymmetrical results sometimes arise under AASB 119 because that Standard requires a plan's assets to be measured at fair value and defined benefit obligations to be discounted at a rate determined by reference to market yields at the reporting date on

high quality corporate bonds. When a plan's assets are invested to achieve higher returns than high quality corporate bonds, a 'structural deficit' in relation to the plan can appear in the employer sponsor's statement of financial position, making the plan appear under funded, despite being fully funded on an actuarially-determined basis; (**SOURCE: paragraph BC42(b) of draft ED 16X presented to the Board's October 2008 meeting**)

- (c) defined benefit obligations are not traded as stand-alone items and are generally extinguished in the normal course of business. While the absence of an active market for defined benefit obligations does not preclude such obligations being measured in accordance with a fair value or current exit value model, significant guidance in relation to a number of issues would be necessary to achieve consistency across all superannuation plans with defined benefit members. Such issues would include the estimation of risk margins, service margins and costs of capital; and
- (d) the absence of an active market for defined benefit obligations is due, in part, to the 'moral hazard' implications of an employer sponsor transferring their defined benefit obligations to a third party and potentially avoiding the full consequences of their decisions regarding employees' wages and salaries. Accordingly, the fair value or current exit value of a defined benefit obligation would potentially be significantly different from the amount of the defined benefit obligation measured in accordance with the 'value in settlement' approach in AASB 119.

BC46 While some AASB members consider fair value and current exit value models to have a number of advantages over other models available for measuring defined benefit obligations, the AASB decided against proposing that defined benefit members' accrued benefits be measured at fair value or current exit value. The AASB noted that either approach would potentially produce results that are inconsistent with:

- (a) the preference among some constituents for a closer alignment between the treatment of defined benefit obligations recognised in the statements of financial position of employer sponsors and superannuation plans; and
- (b) recent IASB thinking in relation to provisions. During its deliberations on the responses received to the Exposure Draft

of proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*, the IASB confirmed that the amount an entity would rationally pay to extinguish a liability is the lower of its settlement or transfer amounts.

- BC47 When it considered the existing AAS 25 requirements, the AASB noted that, while the requirements in AAS 25 for measuring defined benefit members' accrued benefits are conceptually consistent with the requirements in AASB 119 for measuring defined benefit obligations, the requirements in AAS 25 are arguably more permissive. For example, AAS 25: ~~the Standard:~~
- (a) does not specify the actuarial valuation method required to measure defined benefit members' accrued benefits;
 - (b) provides little or no guidance in relation to actuarial assumptions;
 - (c) does not require a superannuation plan to separately disclose:
 - (i) benefit cost; or
 - (ii) actuarial gains or losses; and
 - (d) requires a superannuation plan to measure its defined benefit members' accrued benefits as frequently as it is required to for statutory purposes. Accordingly, a superannuation plan might not measure its defined benefit members' accrued benefits annually.
- BC48 In addition, the AASB noted that AAS 25 requires a superannuation plan to discount defined benefit members' accrued benefits at the rate of return the plan anticipates it could achieve if, at the reporting date, sufficient funds were available to meet members' accrued benefits as they fall due. The AASB considered the merits of this approach and rejected it because the types of assets held by a plan to meet defined benefit obligations would not affect the nature or amounts of the obligations. Moreover, under AAS 25, a plan could potentially recognise a smaller defined benefit obligation than it would otherwise by holding riskier assets with higher expected rates of return. **(SOURCE: based on paragraph BC27 of the Basis for Conclusions to IAS 19)** ~~The AASB also noted that, while the requirements in AAS 25 for measuring defined benefit members' accrued benefits are conceptually similar to the requirements in AASB 119 for measuring defined benefit obligations, the requirements in AAS 25 are arguably more permissive. Accordingly,~~

the AASB concluded that, to achieve greater consistency across superannuation plans, and facilitate consistency with the manner in which defined benefit and other obligations are measured by entities employer sponsors, the approach in AASB 119 should be used as a basis for developing a proposed measurement method for defined benefit members' accrued benefits.

BC49 The AASB considered the measurement requirements of AASB 119 for defined benefit obligations and concluded that, consistent with the approach under AASB 119, a superannuation plan should be:

- (a) required to use actuarial techniques and assumptions to make a reliable estimate of its obligation for defined benefit members' accrued benefits;
- (b) required to determine the present value of its obligation for defined benefit members' accrued benefits using the Projected Unit Credit Method;
- (c) permitted to apply estimates, averages and computational shortcuts for determining its obligation for defined benefit members' accrued benefits; and
- (d) required to measure its obligation for defined benefit members' accrued benefits at each reporting date to ensure that users are provided relevant information on a timely basis.

BC50 However, the AASB also concluded that some of the requirements of AASB 119 for defined benefit obligations need to be modified for application in a superannuation plan context. In particular, the AASB concluded that:

- (a) expected administration costs should not be included in the measurement of defined benefit members' accrued benefits. While expected administration costs may be regarded as a component of the ultimate cost of an employer's defined benefit obligation (as is the case under AASB 119), because they do not constitute a part of member's accrued benefits;
- (b) if a superannuation plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, rather than attribute benefits to reporting periods on a straight-line basis as required under AASB 119, the superannuation plan would attribute members' benefits to reporting periods on a basis appropriate to the plan's circumstances. When a plan's benefit formula prescribes that members accrue materially higher levels of benefits as they

near retirement age, the allocation of service cost to reporting periods in accordance with the benefit formula would not provide a reliable measure of the employer's periodic cost of providing such benefits to employees, particularly in the earlier years of employees' service. Accordingly, in such circumstances, AASB 119 requires employers to attribute defined benefits to reporting periods on a straight-line basis, which is likely to more closely reflect the periodic cost of providing such benefits to employees than an allocation based on the plan's benefit formula. In contrast to employers, plans do not receive services from their members in exchange for defined benefit entitlements. Accordingly, a plan should attribute members' benefits to reporting periods on a basis appropriate to the plan's particular circumstances, taking into account the formal terms of the plan and any constructive obligations that go beyond the formal terms of the plan; The AASB concluded that requiring a superannuation plan to allocate defined benefit members' accrued benefits on a straight line basis when the actual basis of accrual is not linear in nature is inconsistent with the qualitative characteristics of faithful representation and neutrality in the *Framework for the Preparation and Presentation of Financial Statements*;

- (c) AASB 119 states that actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative. The AASB concluded that, consistent with the *Framework*, a superannuation plan would consider its actuarial assumptions to be unbiased if they are neither imprudent nor conservative; and
- (d) consistent with the measurement of provisions under AASB 137, a superannuation plan would take into account the relevant risks and uncertainties when determining expected future benefit payments to defined benefit members. Accordingly, expected future benefit payments to defined benefit members should be discounted for the time value of money using a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and term of the obligations for future benefit payments. ~~BC51~~The AASB noted that AASB 119 requires defined benefit obligations to be discounted at a rate determined by reference to market yields on high quality corporate bonds or government bonds. However, the AASB concluded that market yields on high quality corporate bonds are not appropriate rates for discounting the accrued benefits of defined benefit members' accrued benefits. The use of such

rates in the context of an employer's defined benefit obligation may be justified on the grounds that they reflect the rates at which the entity could borrow funds to settle the obligation. However, as superannuation plans are not permitted to borrow directly, because they there is not a clear rationale for application of such rates to a superannuation plan. In addition, discounting defined benefit members' accrued benefits at the market yield on a high quality corporate bond and are inconsistent with the AASB's views on what is, in principle, an appropriate approach to discounting rate for similar types of obligations, such as insurance contracts; and.

- (e) ~~The AASB also concluded that~~ yields on government bonds may be an appropriate rate for discounting obligations for defined benefit members' accrued benefits, provided that they relate to the nature, structure and term of the particular obligations for defined benefit members' accrued benefits.

'Higher of' benefit options

- BC51 During its deliberations on the measurement of members' benefits, the AASB noted that AAS 25 does not require a 'higher of' benefit option to be measured separately from members' benefits.
- BC52 A higher of benefit option arises as a consequence of members being entitled to the higher of a defined benefit entitlement and a contributions-based amount upon their retirement from full-time employment or other event that qualifies as a condition for releasing superannuation benefits to members. This type of arrangement is arguably akin to 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.
- BC53 Under AAS 25 a higher of benefit option might be measured at its intrinsic value as:
- (a) the difference between the defined benefit members' accrued benefits and their account balances when the account balances are greater than accrued benefits; and
 - (b) at nil when the account balances are less than accrued benefits.
- BC54 In contrast to the approach that might be applied under AAS 25, the IASB has proposed in its Discussion Paper *Preliminary Views on*

Amendments to IAS 19 Employee Benefits that an employer sponsor account for a higher of benefit option in a manner consistent with the approach applied to an embedded option under IAS 39 *Financial Instruments: Recognition and Measurement*. Accordingly, the IASB's Discussion Paper proposes that an employer sponsor:

- (a) recognise and account for the host defined benefit promise in the same way as a defined benefit obligation under AASB 119;
- (b) ~~account for~~ recognise the higher of benefit option separately; and
- (c) measure the higher of benefit option at its fair value assuming the terms of the benefit promise will not change.

BC55 The AASB considered the IASB's proposals for a higher of benefit option and concluded that ~~ED 16X the Exposure Draft~~ should seek input from constituents about a superannuation plan accounting for a higher of benefit option separately from members' benefits, and how the benefit option might be measured prior to making any proposals on the matter. The AASB came to this conclusion on the basis that the IASB's proposals are at an early stage of development and have been specifically developed for application by an employer sponsor. Therefore, the implications of applying equivalent proposals in a superannuation context have yet to be fully considered. (SOURCE: **Board's decisions at its October 2008 meeting**)

Obligations and Assets Arising from Insurance Contracts

BC56 The AASB noted that many superannuation plans offer life insurance cover to their members and some also offer income protection to their members, and that AAS 25 is silent about how such arrangements should be treated. The AASB also noted that the forms the insurance arrangements take differ across plans. The AASB considered the various forms of insurance arrangements, including those whereby life insurance cover is:

- (a) offered to members directly by an external insurer, with the plan only acting as agent;
- (b) offered to defined contribution members whose accounts are charged on a weekly or monthly basis for the relevant premium; or
- (c) provided to defined benefit members in relation to their projected retirement benefit.

The AASB also noted that, in the case of (b) and (c), the plan may or may not reinsure 100% of the risk with a third party insurer.

BC57 The AASB considered a number of alternative approaches to accounting for insurance contracts issued by superannuation plans, including requiring the application of:

- (a) AASB 137 ~~Provisions, Contingent Liabilities and Contingent Assets~~;
- (b) AASB 4 *Insurance Contracts*;
- (c) AASB 1023; and
- (d) AASB 1038.

The AASB also considered the nature of the various arrangements and the cases where the ultimate risk to the ~~superannuation~~ plan is mitigated by reinsurance. The AASB noted that, under the insurance standards, an insurer that reinsures some or all of its risk is nevertheless considered to be exposed to the direct risks of entering into insurance contracts.

BC58 The AASB considered that the insurance contracts entered into by many superannuation plans would meet the definition of an insurance contract, and that most would be akin to life insurance contracts, and would meet the life insurance contract definition were it not for the fact that the definition applies only to contracts regulated under the *Life Insurance Act 1995*. The AASB noted that AASB 1038 includes requirements relating to direct insurance contracts and reinsurance arrangements, which would often give rise to both insurance liabilities and assets, such as reinsurance assets.

BC59 The AASB concluded that ED 16X should propose that superannuation plans account for their insurance contracts by applying the recognition, measurement and disclosure requirements of AASB 1038 on the basis that:

- (a) insurance contracts entered into by ~~superannuation~~ plans generally have the same characteristics as life insurance contracts, and AASB 1038 has comprehensive requirements dealing with both insurance contract liabilities and assets;
- (b) AASB 4 does not include initial liability recognition requirements or comprehensive measurement requirements;

- (c) the liability recognition and measurement requirements of AASB 1023 are based on a premium deferral model, which would not suit the circumstances of ~~superannuation~~ plans because they would generally not receive significant premiums in advance that could be deferred; and
- (d) AASB 137 applies only to liability recognition and measurement.

Presentation of Financial Statements

BC60 AAS 25 differentiates between defined contribution and defined benefit ~~superannuation~~ plans and imposes different reporting requirements on each type of plan. However, this approach does not facilitate the provision of comparable information that is relevant for users' making decisions in a ~~superannuation~~ context. For example, under AAS 25:

- (a) a defined contribution ~~superannuation~~ plan presents different types of financial statements compared to a defined benefit ~~superannuation~~ plan. However, this approach is not necessarily reflective of the needs of the users of the different types of entities. Furthermore, it potentially diminishes the comparability of financial statements between ~~superannuation~~ plans and over time;
- (b) a defined benefit ~~superannuation~~ plan is not required to present a statement of cash flows. However, it seems highly likely that users of the financial statements of such plans would regard cash flow information to be as necessary for decision making as users of the financial statements of defined contribution ~~superannuation~~ plans; and
- (c) requiring a 'hybrid' ~~superannuation~~ plan to adopt the same reporting format as a defined benefit ~~superannuation~~ plan could limit the usefulness of the hybrid plan's financial statements. For example, under AAS 25 a hybrid plan with immaterial defined benefit obligations could prepare its financial statements on a different basis from a defined contribution plan that is similar in all significant respects.

Accordingly, the AASB concluded that the approach under AAS 25, whereby different reporting requirements apply to different types of plans, should not be retained.

BC61 The AASB considered the implications of a superannuation plan or approved deposit fund applying AASB 101 *Presentation of Financial Statements* and concluded that a plan or fund should present:

- (a) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with applicable Australian Accounting Standards;
- (b) notes in accordance with other relevant Australian Accounting Standards unless the disclosure principles and requirements:
 - (i) are not ~~consistent with~~ relevant in view of the fair value-measurement requirements in ED 16X~~this Exposure Draft~~; or
 - (ii) address the same items or events as the disclosure principles in this Exposure Draft;
- (c) ~~an single~~ income statement instead of a single statement of comprehensive income or a separate income statement and a statement of comprehensive income; and
- (d) a statement of changes in members' benefits.

Statement of financial position

BC62 The AASB noted that a superannuation plan or approved deposit fund would recognise a difference between its total assets and its total liabilities, including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors, in a number of circumstances, including when:

- (a) the trustee applies a crediting rate to defined contribution members' accounts that is less than the corresponding earnings rate on the net assets attributable to such members; and
- (b) the amount of net assets attributable to defined benefit members is greater or less than the amount of such members' accrued benefits.

BC63 A trustee may decide to create a reserve of unallocated assets by crediting to defined contribution members' accounts ~~an amounts less than the corresponding superannuation plan's or approved deposit fund's earnings on the net assets attributable to defined contribution such members' accounts~~ for a number of reasons, including

smoothing the crediting rate applied to members' accounts or building up assets in order to meet anticipated future expenditures, such as the purchase of a new administration system. Members exiting the fund prior to the reserve being utilised would not be entitled to a share of the reserve.

- BC64 The AASB noted that the net assets attributable to defined benefit members would not exceed such members' accrued benefits if:
- (a) the formal terms of the superannuation plan or the relevant legislation required that any surplus assets be applied for the benefit of members, in which case the plan would be presently obliged to members;
 - (b) an employer sponsor had voluntarily agreed to use surplus assets to enhance defined benefit members' benefits in the past, and it is reasonable to assume that this practice would continue in the future, in which case the superannuation plan would arguably have a contingent obligation to meet the obligation for enhanced benefits; and
 - (c) the trustee formally agreed that a payment from surplus assets to an employer sponsor can occur and the proposed payment meets the relevant prudential requirements, in which case the superannuation plan would be presently obliged to the employer sponsor. **(SOURCE: relocated from paragraph BC61 in draft ED 16X presented to the Board's October 2008 meeting)**
- BC65 However, the AASB also noted that, where the formal terms of a superannuation plan or the relevant legislation is silent with respect to the treatment of surplus assets, and there is no established practice of applying surplus assets for the benefit of members, the plan would not present a residual interest in the net assets attributable to defined benefit members as equity simply because there is uncertainty as to whether the residual interest would be payable to members or an employer sponsor.
- BC66 With respect to a situation where net assets attributable to defined benefit members is less than defined benefit members' accrued benefits, the AASB noted that, unless there is a specific contractual agreement between the superannuation plan and the employer sponsor, the deficiency in assets would not give rise to a receivable that is controlled by the plan. This is because in the absence of a contract the payment of any future contributions by the employer sponsor to address the deficiency:

- (a) would not meet the definition of a financial instrument under AASB 132; and
- (b) would not be virtually certain to be received by the superannuation plan, as required to recognise a 'reimbursement' under AASB 137-*Provisions, Contingent Liabilities and Contingent Assets*.

BC67 The AASB concluded that, where the amount of a superannuation plan's or approved deposit fund's total assets ~~net assets attributable to members~~ does not equal its total liabilities, including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors, the residual is in the nature of equity as defined in Australian Accounting Standards. Accordingly, to ensure consistency with the treatment of equity by other reporting entities, a superannuation plan or approved deposit fund should classify any residual interest as equity and present the amount in accordance with applicable Australian Accounting Standards.

Income statement

BC68 The AASB considered whether a superannuation plan or approved deposit fund should present a single statement of comprehensive income or a comprehensive statement of income in accordance with AASB 101 and concluded that neither statement would be appropriate in a superannuation context because:

- (a) the term 'comprehensive income' encompasses items that would not be recognised under ED 16X, including profits or losses accounted for using the equity method of accounting. Accordingly, requiring a superannuation plan or approved deposit fund to prepare a statement of comprehensive income may be misleading to some preparers and users; and
- (b) ED 16X proposes that all remeasurement changes in assets and liabilities other than tax items that are credited or charged directly ~~balances attributable to members' benefits~~ be recognised in the income statement in the period in which they occur.

Income and expense items

BC69 Under AAS 25, a superannuation plan recognises all income and expense items, including revaluation increments and decrements on assets measured at net market value, in profit or loss in the period in which they occur.

BC70 The AASB considered the merits of retaining this approach and noted that defined contribution members may choose between superannuation plans based on investment returns. In addition, some employer sponsors of defined benefit superannuation members would rely on the investment returns generated from past contributions to minimise the likelihood of them being required to make additional contributions in the future.

BC71 The AASB also noted that some Australian Accounting Standards currently require the revaluation increments and decrements attributable to some types of assets to be credited directly to equity. However, this treatment:

- (a) would not facilitate a clear presentation of the performance of a superannuation plan or approved deposit fund;
- (b) is inconsistent with the general practice among superannuation plans and approved deposit funds to credit unrealised capital gains and losses to defined contribution members; and
- (c) is generally inconsistent with prudential reporting and may therefore increase reporting costs for superannuation plans and approved deposit funds.

BC72 Accordingly, the AASB concluded that all remeasurement changes in assets and liabilities other than tax items that are credited or charged directly ~~balances attributable to~~ members' benefits should be recognised in profit or loss in the period in which they occur to facilitate a clear presentation of a superannuation plan's or approved deposit fund's performance.

Remeasurement changes in defined benefit members' accrued benefits

BC73 The AASB concluded that, consistent with the treatment of changes in a defined benefit obligation by an employer sponsor under AASB 119, a superannuation plan should recognise and present remeasurement changes in defined benefit members' accrued benefits as gains or losses in the income statement in the period in which they occur ~~and present separately the main components of each change.~~

BC74 The AASB considered whether presenting benefit cost separately from other changes in an obligation for defined benefit members' accrued benefits would provide users with useful information, particularly about the likely recurring costs associated with members' benefits. The AASB noted that some users would consider this information relevant to their decision making. However, the AASB

concluded that ~~ED 16X~~the Exposure Draft should ask constituents whether the benefit cost is sufficiently relevant to users generally to warrant separate disclosure. Consistent with this conclusion, the AASB also concluded that ~~ED 16X~~the Exposure Draft should ask constituents whether the replacement Standard for AAS 25 should require other components of remeasurement changes in defined benefit members' accrued benefits, including interest cost, actuarial gains and losses and any gains or losses on settlements, to be separately disclosed.

Presentation of contributions, rollovers, transfers and benefit payments

- BC75 Under AAS 25, contributions, transfers and rollovers are treated as revenues, and payments to defined benefit members are treated as expenses.
- BC76 The AASB considered the merits of this approach and concluded that it should not be retained because:
- (a) member contributions, transfers, rollovers and employer contributions on behalf of a defined contribution member are not in the nature of income of a superannuation plan or approved deposit fund as they fully vest in the member, and members' interests are a liability of a superannuation plan or approved deposit fund; and
 - (b) employer contributions on behalf of a defined benefit member would ~~either~~ give rise to an obligation to the member and/or a residual interest in the net assets of the superannuation plan or an obligation to the member. Consequently, employer contributions on behalf of a defined benefit member are either in the nature of a liability or an equity contribution ~~or a liability~~.
- BC77 Consistent with its conclusions in respect of contributions, the AASB concluded that benefit payments are not in the nature of expenses of a superannuation plan or approved deposit fund.

Statement of changes in members' benefits

- BC78 The AASB noted that paragraphs 79(a) and 80 of AASB 101 require an entity without share capital to disclose information in relation to owners' interests. However, the AASB concluded that the presentation of members' benefits in accordance with paragraphs 79(a) and 80 of AASB 101 may not facilitate the provision of useful information to users of the financial statements of a superannuation plan or approved deposit fund. For example, many

of the items of information described in paragraph 79(a) of AASB 101 do not have readily identifiable equivalents in the context of a ~~superannuation~~ plan with defined benefit members.

- BC79 The AASB concluded that, given the significance of members' benefits, the financial statements of a superannuation plan or approved deposit fund should clearly present information that provides users with a basis for understanding changes in a plan's or fund's obligation for members' benefits. The AASB also concluded that a statement of changes in members' benefits is necessary to ensure that contributions, transfers, rollovers and benefit payments in respect of defined contribution members, and remeasurement changes in accrued benefits and benefit payments in respect of defined benefit members are separately presented on the face of the financial statements in a manner that enables users to evaluate their significance in relation to the plan's or fund's ~~entity's~~ obligations for members' benefits.

Presentation of taxation amounts

- BC80 Tax is levied on a superannuation plan in respect of:

- (a) concessional contributions received; and
- (b) taxable earnings.

Tax is normally only levied on the earnings of approved deposit funds because these entities are not permitted to receive ~~concessional deductible~~ contributions.

- BC81 Under AAS 25, tax attributable to concessional contributions is recognised as a part of income tax expense in the period in which the contributions are received. This approach is consistent with the treatment of contributions under AAS 25. However, as noted above, the AASB concluded that the presentation of contributions as revenues should not be retained under the proposed Standard.

- BC82 The AASB considered the nature of tax levied on concessional contributions and concluded that it should be presented separately in the statement of changes in members' benefits because:

- (a) information in relation to tax on contributions is important for decision making by users;
- (b) tax on concessional contributions is effectively paid by the plan on behalf of members making the contributions, and is

therefore more appropriately associated with members' benefits; and

- (c) recognising tax on contributions as a part of income tax expense attributable to a plan's earnings would understate a plan's operating and investment performance.

BC83 The AASB also considered the treatment of amounts attributable to the superannuation contributions surcharge (the surcharge). The AASB noted that, under UIG Interpretation 1019 *The Superannuation Contributions Surcharge*, an obligation for the surcharge gives rise to a liability and an expense of a superannuation plan. The AASB also noted that, while the surcharge no longer applies to deductible contributions, surcharge will continue to be paid by defined benefit members who have made surchargeable contributions or who had surchargeable contributions made on their behalf between 1996 and 2005 and the surcharge has not yet been paid. Accordingly, under UIG Interpretation 1019, any accrued interest on a surcharge amount payable is treated as an expense by the superannuation plan.

BC84 The AASB considered the nature of the surcharge and noted that, while the relevant legislation places the obligation for the payment of surcharge on a superannuation provider such as a superannuation plan, the plan is essentially acting as an agent for its members in this respect because surcharge was determined on the basis of a member's surchargeable contributions whose personal taxable income exceeds a certain specified threshold. The AASB also noted that, in most circumstances, contribution surcharge amounts would not be material in the context of a superannuation plan's obligations for members' benefits. Accordingly, the AASB concluded that, rather than proposing that a superannuation plan or approved deposit fund be required to separately disclose contribution surcharge amounts, ED 16X should ask constituent whether the separate disclosure of such amounts would provide useful information to users of the financial statements of superannuation plans and approved deposit funds.

BC85 The AASB noted that the notion that the superannuation plan is essentially acting as an agent for its members in respect of contribution surcharge amounts is inconsistent with the current treatment under UIG Interpretation 1019. When the AASB has completed its deliberations on ED 16X, it will reconsider the status of UIG Interpretation 1019.

Consolidated Financial Statements

- BC86 The proposal that a superannuation plan or approved deposit fund fair value most of its assets and liabilities raises a number of significant conceptual and practical issues in the context of the current consolidation requirements. For example, the application of AASB 3 and AASB 127 in the context of a fair value accounting model would cause some entities to breach the requirements of AASB 138 *Intangible Assets* in relation to the recognition of internally generated goodwill. However, the failure to recognise internally generated goodwill when it exists could impact on the decisions of users, particularly members and beneficiaries, in relation to a parent superannuation entity's capacity to pay benefits.
- BC87 The AASB considered a number of different ways in which a parent superannuation plan or parent approved deposit fund could treat a subsidiary, including:
- (a) the presentation of consolidated financial statements prepared in accordance with a full fair value accounting model that involves all assets and liabilities, whether recognised or unrecognised in the separate financial statements of the parent ~~entity~~ or a subsidiary, to be measured at their fair values;
 - (b) the presentation of consolidated financial statements prepared in accordance with a model that involves all assets and liabilities recognised by a subsidiary being measured at their fair values in the consolidated financial statements when fair value measurement is required or permitted under the relevant Australian Accounting Standards (consistent with the approach currently applied in AASB 1023 and AASB 1038);
 - (c) the presentation of consolidated financial statements prepared in accordance with (b) above with the addition, when applicable, of a balancing item in relation to subsidiaries being recognised in consolidated financial statements [similar to the approach previously required under AASB 1038 *Life Insurance Business* (1998)]. That balancing item would comprise:
 - (i) acquired goodwill, to the extent that it remains at the reporting date;
 - (ii) changes in internally generated goodwill associated with subsidiaries subsequent to their acquisition; and

- (iii) measurement differences resulting from subsidiaries' assets and liabilities being recognised in consolidated financial statements at amounts other than their fair values adjusted for transaction costs;
 - (d) the presentation of consolidated financial statements prepared in accordance with AASB 3 and AASB 127. Under AASB 3 and AASB 127, a subsidiary's identifiable assets and liabilities are recognised in the consolidated financial statements at their fair values at the date of acquisition of the subsidiary. Subsequent to their acquisition, a subsidiary's assets and liabilities would be recognised in the consolidated financial statements in accordance with relevant Australian Accounting Standards, which treat the fair value of assets and liabilities acquired in a business combination as the cost of the item from the date of the subsidiary's acquisition for the purposes of subsequent accounting;
 - (e) the presentation of consolidated financial statements prepared in accordance with a proportionate consolidation model that ensures the net assets figures reported in the parent's separate and consolidated financial statements are the same amount; and
 - (f) the recognition of an entity's interest in a subsidiary at its fair value less transaction costs in its separate financial statements and the provision of detailed note disclosures regarding each significant subsidiary instead of the presentation of consolidated financial statements ('disclosure only' approach).
- BC88 The AASB concluded that (e) – a proportionate consolidation model, is not an appropriate reporting approach for a parent superannuation plan or parent approved deposit fund. This is because the approach it is inconsistent with:
- (a) the concept of control as defined in Australian Accounting Standards; and
 - (b) the economic entity notion.
- BC89 The concept of control and the economic entity notion are integral parts of the current financial reporting regime. Accordingly, the AASB considered any movement away from either of these precepts would seriously undermine the usefulness of financial statements.

BC90 The AASB also concluded that a 'disclosure only' approach is not an appropriate reporting solution for a superannuation plan or approved deposit fund for a number of reasons, including:

- (a) general purpose financial statements provide information about all of the resources that an entity controls, including the resources and obligations held by entities that an entity controls;
- (b) presenting a subsidiary as a net investment in the balance sheet of an entity provides insufficient information to users about the financial performance and financial position of the subsidiary and the group as a whole;
- (c) the disclosure of items that would otherwise be recognised in the financial statements is inconsistent with other Australian Accounting Standards; and
- (d) the provision of note disclosures as opposed to consolidated financial statements may not necessarily produce reliable or comparable financial information.

BC91 To assist it in its deliberations in relation to the ways in which a parent superannuation plan or parent approved deposit fund could consolidate a subsidiary, the AASB issued the Consultation Paper *Consolidation of Subsidiaries by Superannuation Entities* in September 2007 and sought feedback from constituents on the issues discussed in the Consultation Paper. The AASB also held roundtable meetings to enable constituents to discuss issues in relation to the consolidation of subsidiaries by parent superannuation entities directly with AASB members.

BC92 The Consultation Paper discussed the consolidation models outlined in paragraph BC87(a) to (d) above. Of these four models, the overwhelming majority of respondents, including the participants at the roundtable discussions, expressed a preference for (a) – a full fair value accounting model. However, many respondents expressed significant reservations with the proposal to measure defined benefit members' accrued benefits at fair value. In addition, the overwhelming majority indicated that (d) – application of AASB 3 and AASB 127, is the least preferred of the four approaches discussed in the Paper. This is because it would cause some parent superannuation plans and parent approved deposit funds to recognise a difference in the net assets amounts reported in the entity's separate and consolidated statements of financial position, thereby potentially impacting on members' perceptions about their entitlements

BC93 The AASB considered the needs of users of the financial statements of a superannuation plan or approved deposit fund and concluded that they would be best served by the entity:

- (a) recognising in its consolidated statement of financial position all assets and liabilities of a subsidiary, whether recognised or unrecognised in the statement of financial position of the subsidiary; and
- (b) measuring all of the assets and liabilities of a subsidiary (except for tax balances) at fair value adjusted for transaction costs.

BC94 The AASB noted that, apart from the recognition of transaction costs, the approach described above is the same as the approach an entity would follow in preparing consolidated financial statements in accordance with AASB 3 on a subsidiary's acquisition date. The AASB also noted that this approach would:

- (a) ensure that the financial statements of a superannuation plan or approved deposit fund with a subsidiary are prepared in a manner consistent with the way in which ~~on the same basis as~~ the financial statements of a plan or fund that has no subsidiaries are prepared; and
- (b) facilitate the disclosure of information that would provide users of consolidated financial statements with an understanding of the assets and liabilities that comprise a superannuation plan's or approved deposit fund's interest in a subsidiary.

BC95 However, the AASB also concluded that the potential benefits derived by users from a superannuation plan or approved deposit fund separately recognising all of a subsidiary's recognised and unrecognised assets and liabilities may not exceed the costs of providing such information. For example, the separate recognition and measurement of all unrecognised assets of a subsidiary would involve identifying and measuring internally generated intangible assets at each reporting date. Accordingly, the AASB concluded that a parent superannuation plan or parent approved deposit fund should:

- (a) recognise in its consolidated statement of financial position all of the assets and liabilities of a subsidiary in accordance with Australian Accounting Standards;
- (b) measure all of the assets and liabilities of a subsidiary that are recognised by ~~the parent~~ the parent ~~subsidiary~~ (except for tax balances)

at their fair values adjusted for transaction costs at the reporting date. Tax balances should be measured in accordance with AASB 112;

~~(e) recognise all of the identifiable assets and liabilities of a subsidiary at the acquisition date in a manner consistent with AASB 3 and measure them at fair value adjusted for transaction costs at the reporting date;~~

(c) recognise any difference between:

(i) the sum of the parent's interest and the non-controlling interests in the subsidiary at the reporting date; and

(ii) the amount of the net assets of the subsidiary that are recognised by the parent at the reporting date;

as goodwill or discount of the subsidiary; and

~~(iii) measure goodwill or discount of a subsidiary as the difference between:~~

~~(iv) the aggregate of:~~

~~A the fair value less transaction costs of the entity's interests in the subsidiary at the reporting date; and~~

~~B the amount of any non-controlling interests in the subsidiary measured in a manner consistent with AASB 127 at the reporting date; and~~

~~(v) the aggregate of:~~

~~A fair value adjusted for transaction costs of the subsidiary's recognised and identifiable net assets (except for tax balances) at the reporting date; and~~

~~B the subsidiaries' net tax assets or liabilities measured in accordance with AASB 112 at the reporting date; and~~

(d) recognise and present the sum of any goodwill or discount of all subsidiaries in the consolidated statement of financial position as goodwill or discount of subsidiaries.

Note to Board:

Paragraph BC95(d) is subject to the Board's decisions in relation to Agenda Paper 3.2.

Separate Financial Statements

BC96 Consistent with AASB 127, a superannuation plan or approved deposit fund that has a subsidiary is not required to present separate financial statements in addition to its consolidated financial statements. The AASB considered whether there is any information that a user of the general purpose financial statements of a ~~superannuation plan or approved deposit fund~~ might need that is not available in consolidated financial statements and concluded that consolidated financial statements would normally provide such users with the information they need in a superannuation context. However, if a parent ~~entity~~ prepares separate financial statements for general purpose users of its financial statements, the AASB concluded that the entity presumably considers this information necessary for an understanding of the reported results of the group. Accordingly, the AASB concluded that ED 16X should propose that a parent superannuation plan or parent approved deposit fund that prepares separate financial statements for general purpose users should present such statements together with its consolidated financial statements.

Disclosures

BC97 As prescribed by the *Framework*, financial statement disclosures provide information about the risks and uncertainties affecting an entity. In some circumstances, the disclosure requirements of Australian Accounting Standards might provide some sophisticated users, such as parties employed to act on behalf of members and beneficiaries, with useful information. However, many disclosure principles and requirements of Australian Accounting Standards do not facilitate the provision of information that users, particularly members and beneficiaries, would consider relevant for decision making in a superannuation context. For example:

- (a) AASB 116 *Property, Plant and Equipment* requires an entity that applies the revaluation model to disclose the carrying amount of each revalued class of property, plant and equipment that would have been recognised had the assets been carried under the cost model. However, there are very few circumstances in which users of the financial statements of a superannuation plan or approved deposit fund might require historical cost information for decision making; and
- (b) information disclosed in accordance with Australian Accounting Standards may vary with respect to different

types of assets, particularly in relation to the methods and assumptions applied in determining fair values.

- BC98 Accordingly, ED 16X proposes a set of disclosure principles that facilitate the provision of information that:
- (a) is consistent and comparable across the different types of assets and liabilities that a superannuation plan or approved deposit fund might hold; and
 - (b) users, particularly members and beneficiaries, would consider relevant for decision making in a superannuation context.
- BC99 The following section discusses the AASB's conclusions in relation to the key proposed disclosure principles.

Disclosure principles

Expense items

- BC100 Most defined contribution members have the ability to choose the superannuation plan or plans that will manage their retirement benefits. However, to make such decisions members need to be able to compare ~~superannuation~~ plans, particularly with respect to expenses. Because defined contribution members bear the costs associated with the management of their retirement benefits, the level of a ~~superannuation~~ plan's expenses can provide a basis for understanding the level of fees that might be charged to members' accounts.
- BC101 Employer sponsors may also be interested in understanding the nature and amount of expenses incurred by a superannuation plan. For example, in attempting to identify a default plan for employees with defined contribution arrangements, an employer might consider cost to be the decisive factor.
- BC102 In the context of defined benefit arrangements, employer sponsors are likely to have a keen interest in understanding the nature and amount of the expenses incurred by their employees' superannuation plans. This is because employer sponsors generally bear the costs of providing such arrangements. (**SOURCE: paragraphs 2-4 of Agenda Paper 3.5 to the Board's June 2008 meeting**)

Management expense ratio

- BC103 The AASB considered whether a superannuation plan or approved deposit fund should be required to disclose a management expense

ratio for the entity as a whole. The AASB concluded that ~~ED 16X~~^{the Exposure Draft} should not propose that such a ratio be disclosed because a key focus of Australian Accounting Standards is on facilitating the provision of reliable information, from which users can calculate ratios, including management expense ratios, which they regard as relevant to their particular needs. The AASB is also concerned that an entity-wide ratio may be unhelpful to users in cases where a ~~superannuation~~ plan offers a variety of investment choices that carry a variety of management expenses.

Nature, extent and management of risks

BC104 The AASB considered the merits of a superannuation plan or approved deposit fund applying AASB 7 *Financial Instruments: Disclosures* and concluded that some of the specific disclosure requirements of this Standard are either not relevant in a superannuation context or would not apply under the proposals in ED 16X. For example:

- (a) a superannuation plan or approved deposit fund would not be permitted to issue a compound financial instrument with multiple embedded derivatives; and
- (b) under ED 16X, a superannuation plan or approved deposit fund is required to measure most of its assets and liabilities at fair value adjusted for transaction costs and recognise remeasurement changes in assets and liabilities measured at fair value in ~~the income statement~~^{profit or loss}. In addition, ED 16X proposes that, when appropriate, ~~superannuation-a~~^{plans and approved deposit funds} disclose information in relation to those items not measured at fair value, such as members' benefits and obligations and assets arising from insurance contracts.

BC105 The AASB also concluded that some of the requirements of AASB 7 would be costly for a superannuation plan or approved deposit fund to apply and would not yield information that users would regard as necessary in a superannuation context. Furthermore, some of these requirements have been drafted to address particular issues that are not pertinent in a superannuation context.

BC106 The Bases for Conclusions to IAS 32 *Financial Instruments: Presentation*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* suggest that paragraphs 9-11 of AASB 7 were adopted to address concerns among some constituents about the manner in which some entities would exercise their choice to designate financial instruments at fair

value through the profit or loss. However, the issues that these paragraphs address are less relevant in a superannuation context because:

- (a) ED 16X proposes that a superannuation plan or approved deposit fund measure most of its assets at fair value; and
- (b) superannuation plans and approved deposit funds do not generally make loans and are prohibited from holding a borrowing directly. Accordingly, accounting mismatches in relation to related loans and liabilities are less relevant to a superannuation plan or approved deposit fund than they would be to, for example, a bank.

BC107 Having considered the types of risks to which a superannuation plan or approved deposit fund could be exposed, the AASB concluded that:

- (a) the disclosure requirements in paragraphs 6-30 of AASB 7 should not apply to a plan or fund; and
- (b) disclosure principles based on paragraphs 31-42 of AASB 7 and tailored for a superannuation context would facilitate the disclosure of necessary information in relation to the significant risks to which a plan or fund is exposed.

Arrangement and management of assets

BC108 Information in relation to the way in which a trustee arranges and manages a superannuation plan's or approved deposit fund's assets to meet its obligations to groups of members can provide users with a basis for understanding the financial performance and financial position of the entity as a whole. It can also facilitate an understanding of the particular risks to which a ~~superannuation plan or approved deposit fund~~ is exposed.

BC109 The AASB considered the different ways in which a trustee could arrange and manage superannuation assets and concluded that the principles in AASB 8 *Operating Segments* provide an appropriate basis for disclosures when a trustee manages a superannuation plan's or approved deposit fund's assets on a 'segregated' or 'sub-plan' basis.

Members' benefits

BC110 The nature and timing of an obligation to a defined contribution member differs from the nature and timing of an obligation to a

defined benefit member. As these differences are likely to affect a user's understanding of an entity's obligation for members' benefits, the AASB concluded that a superannuation plan or approved deposit fund should disclose information that provides users with a basis for understanding the entity's obligation for members' benefits.

Vested benefits

BC111 AAS 25 requires a superannuation plan to disclose members' vested benefits as at the reporting date. The AASB considered the merits of continuing to require a superannuation plan or approved deposit fund to disclose information in relation to defined benefit members' vested benefits and concluded that vested benefits is useful information to users because:

- (a) items that may be regarded as equivalent to vested benefits are reported by other entities. For example, 'demand deposits' are reported by banks and other deposit-taking entities; and
- (b) vested benefits may be regarded as akin to the current portion of ~~an superannuation plan's obligation for defined benefit members' accrued benefits~~ ~~employer sponsor's defined benefit obligation~~. AASB 101 requires separate presentation of current and non-current liabilities in the statement of financial position.

Accordingly, ED 16X proposes that a superannuation plan or approved deposit fund disclose defined benefit members' vested benefits at each reporting date.

Net assets attributable to defined benefit members

BC112 At any point in time, the amount of net assets attributable to defined benefit members may not equal members' accrued benefits. However, the existence of such a difference does not necessarily imply that the superannuation plan will or will not be able to pay these members or their beneficiaries their benefits when due. Other factors can influence the capacity of a ~~superannuation~~ plan to pay its defined benefit members or their beneficiaries their benefits, including the expected earnings rate on the ~~net plan's~~ assets attributable to such members and the expected level of future contributions by defined benefit members and/or their employer sponsors. Nevertheless, as the relationship between the net assets attributable to defined benefit members and such members' accrued benefits is important for an understanding of ~~a the superannuation~~ plan's financial position (solvency), the AASB concluded that

information about size, nature and any strategies for addressing a surplus or deficiency of assets attributable to defined benefit members would be a matter of profound interest to defined benefit members and employer sponsors alike.

Related parties

BC113 While the disclosure principles and requirements of AASB 124 *Related Party Disclosures* would apply to most of the related party relationships and transactions that a superannuation plan or approved deposit fund would be involved in, it may not facilitate consistent disclosures across all superannuation plans and approved deposit funds.

BC114 The definition of related party in AASB 124 focuses predominantly upon relationships premised on control, joint control or significant influence. However, in a superannuation context:

- (a) corporate trustee entities are not considered to control or significantly influence their superannuation plans or approved deposit funds; and
- (b) employer sponsors are not considered to control or significantly influence trustees, superannuation plans or approved deposit funds.

BC115 However, the AASB concluded that trustees and employer sponsors are in essence related parties of superannuation plans and approved deposit funds because they can affect their plan's or fund's financing and operating policies. For example, by having a surplus of ~~net~~ assets paid to it, an employer sponsor could affect their plan's financing policies. In addition, a trustee could alter their plan's operating policies by deciding to outsource the administration of members' accounts. The AASB also noted that the definition of related party in AASB 124 includes a post-employment benefit plan of an entity as a related party of the entity.

BC116 To facilitate the disclosure of relevant related party information, the AASB concluded that a superannuation plan or approved deposit fund should disclose information about its relationships with its trustees and employer sponsors, any; transactions with trustees or employer sponsors during the reporting period, and any ~~and~~ outstanding balances with trustees and employer sponsors at the reporting date if the nature of these relationships, transactions or balances were not considered normal in a superannuation context. Consistent with the principles in AASB 124, normality would be judged according to whether information in relation to the

relationship, transaction or balance was likely to affect a user's perception of the governance, financial performance or financial position of the entity.

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