



Australian Government

**Australian Accounting
Standards Board**

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Mr David Coogan
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GPO Box 1331
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Dear David

**Update on Industry Feedback on
ED 179 Superannuation Plans and Approved Deposit Funds**

Thank you for your letter dated 30 August 2010. We appreciate you sharing the feedback you have received from participants in the workshops you have conducted on the proposals in ED 179.

As a member of the Project Advisory Panel on ED 179, you would be aware that the Australian Accounting Standards Board (AASB) decided at its September 2010 meeting that a revised version of ED 179 should be re-exposed and comments sought from constituents on selected proposals in the document. At this stage, it is anticipated that the revised version of ED 179 will be issued in December 2010.

The AASB appreciates the comments and recommendations that respondents, including PricewaterhouseCoopers, provided on ED 179 as they assisted it greatly in refining the proposals contained in the document. The AASB will be encouraging all of the constituents that provided comments on ED 179 to comment on the revised proposals.

Preparation and presentation of consolidated financial statements

During its deliberations on ED 179, the AASB considered a number of alternative ways in which a parent superannuation entity could account for a subsidiary, including a 'disclosure only' approach involving a parent measuring its investment in a subsidiary at fair value and providing detailed note disclosures regarding the underlying assets and liabilities.

As noted in your letter, a 'disclosure only' approach may provide useful information to users in a superannuation context. However, such an approach would be:

- inconsistent with current practice under Australian Accounting Standards, particularly AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*; and
- therefore, contrary to the AASB's transaction-neutrality policy.

A 'disclosure only' approach for parent superannuation entities would also be contrary to the objective of the AASB's project to comprehensively review financial reporting by superannuation entities, which is to align, to the extent feasible, the reporting requirements

applicable to superannuation entities with those applicable to entities under other Australian Accounting Standards.

As noted in your letter, the original and revised proposals in ED 179 regarding intangible assets are inconsistent with the current requirements in AASB 138 *Intangible Assets* to the extent that they would permit superannuation entities to revalue an intangible asset for which an active market as defined in the Standard does not exist. However, the proposals are consistent with the current approach under AAS 25 *Financial Reporting by Superannuation Plans*, except that plans are currently required to measure intangible assets at net market value rather than fair value.

The AASB is currently monitoring developments in the joint project between the International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) on consolidations. To this end, the AASB has held some preliminary discussions on the decisions the IASB and FASB have made, and the potential implications of these decisions for Australian entities, including superannuation entities. As you would appreciate, the AASB will not be in a position to consider the full implications of any particular investment company accounting for Australian entities, including superannuation entities, until the IASB and FASB complete their deliberations. Nevertheless, if the IASB were to issue a Standard that permitted or required entities to apply investment company accounting, its applicability to superannuation entities in the Australian context would be potentially subject to the following factors.

Firstly, the AASB would need to adopt the IASB Standard as an Australian Accounting Standard.

While the AASB has, to date, adopted IASB Standards as Australian Accounting Standards, the AASB follows a due process with respect to all the Accounting Standards it issues to satisfy itself that the proposed changes are, among other things, in the best interests of the Australian economy. Accordingly, when the IASB issues its proposals in respect of investment company accounting, the AASB will issue the IASB proposals as an Australian exposure draft (ED) and seek comment from constituents on the implications of the proposals for all entities potentially affected by the proposals, including superannuation entities.

Secondly, superannuation entities would need to meet any criteria identified in any requirements that might emerge from the standard setting process.

The IASB and FASB have identified a number of criteria that they intend to propose entities meet before they would be considered an investment company for consolidation purposes. While some superannuation entities would potentially meet these criteria, I am aware of some debate among constituents as to whether all superannuation entities that currently report under AAS 25 would also meet the IASB's and FASB's proposed criteria for investment company accounting. As an ED on investment company accounting has not yet been issued, it is entirely feasible that the criteria the IASB and FASB have agreed to date will change prior to any Standard being issued. Nevertheless, if superannuation entities do not meet all of the criteria identified in any IASB Standard for investment company accounting, the AASB may consider it inappropriate to modify the criteria in the equivalent Australian Accounting Standard to accommodate them.

Based on the AASB's decisions to date, it is unlikely that the AASB would delay issuing the revised version of ED 179 until after the IASB has published its ED on investment company accounting. During its April 2010 meeting, the AASB decided that, as the issue of investment company accounting has implications beyond superannuation entities, it may need to be dealt with separately from its redeliberations on ED 179. However, subject to the timing of any IASB ED on investment company accounting and the timing of the revised ED 179, the AASB may decide to include a question (or questions) in the revised version of ED 179 seeking comment on the implications for superannuation entities of the IASB's proposals in respect of investment company accounting. In addition, if the AASB were to adopt investment company accounting and superannuation entities could apply investment company accounting in respect of their subsidiaries, the AASB may consider aligning the effective dates of the replacement Standard for AAS 25 and any new Australian Accounting Standard on consolidation so that superannuation entities would not face two rounds of reporting changes in a short period of time.

Segmented or disaggregated reporting

In light of the comments received from respondents on ED 179, the AASB decided to redeliberate its proposals in respect of segmented financial disclosures. At its September 2010 meeting, the AASB considered a number of different ways in which a superannuation entity could disclose segmented or disaggregated financial information. At this meeting, the AASB decided to expose a proposal that the replacement Standard for AAS 25 require a superannuation entity to provide disaggregated financial disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*.

While AASB 8 currently only applies to entities that are listed (or are about to list) on a stock exchange, investment-type entities that are similar in many respects to superannuation entities are required to apply the Standard. Moreover, AASB 8 requires an entity to disclose information in accordance with the 'through the eyes of management' approach, which would potentially facilitate the disclosure of disaggregated information that is consistent with the manner in which a superannuation entity arranges and manages its assets and related obligations for members' benefits.

The AASB is yet to deliberate on the disclosures proposed in ED 179 that a 'Tier 2' superannuation entity may be relieved of providing under the Reduced Disclosure Regime (RDR). Nevertheless, as noted in AASB 1053 *Application of Tiers of Australian Accounting Standards*, superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds are deemed to have public accountability. Accordingly, I anticipate that 'Tier 1' superannuation entities would be subject to any disaggregated disclosure requirements under the replacement Standard for AAS 25.

Format of financial statements

As it is currently framed, a Statement of Changes in Member Benefits would only include members' vested and accrued benefits. Accordingly, amounts not vested in members or benefits not yet accrued would not be recognised in a Statement of Changes in Member Benefits under the proposals in ED 179. Nevertheless, I acknowledge that the proposals in ED 179 could be considered onerous relative to the presentation requirements that currently

apply to other entities reporting under Australian Accounting Standards. AASB staff will raise this issue with the Board when it deliberates on the matters on which the revised version of ED 179 will seek comment from constituents.

Again, thank you for sharing the feedback you have received from constituents on the proposals in ED 179.

If you have any queries regarding any matters in this letter, please contact me or Dean Ardern (dardern@asb.gov.au).

Yours sincerely,

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, sweeping initial "K".

Kevin M. Stevenson
Chairman and CEO