



AASB Comprehensive Review of AAS 25 *Financial Reporting by Superannuation Plans*

(Last Updated: 20 December 2010)

The staff of the AASB have prepared this summary for information purposes only. The AASB decisions described here are tentative and do not change current accounting pronouncements. Official positions of the AASB are determined only after extensive due process and deliberations. While this summary is occasionally updated, it does not provide a comprehensive review or statement of events and should not be treated as such.

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CURRENT STATUS

ED 179 *Superannuation Plans and Approved Deposit Funds* was issued in May 2009. Twenty responses were received in relation to this ED. AASB is currently redeliberating a number of proposals in ED 179. To date the AASB has tentatively decided that the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans* should:

- (a) not permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction costs, in contrast to the proposal in ED 179;
- (b) consistent with the proposal in ED 179, require a parent superannuation plan or parent approved deposit fund (ADF) to prepare and present consolidated financial statements. However, in contrast to the proposal in ED 179, the consolidated financial statements should be prepared in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*;

The Australian Accounting Standards Board (AASB) is the government agency responsible for developing, issuing and maintaining accounting standards. The Board's functions and powers are set out in the Australian Securities and Investments Commission Act 2001.

- (c) require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 *Employee Benefits* for defined benefit obligations, in contrast to the proposals in ED 179;
- (d) where necessary and applicable, refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements [see, for example, (e), (j), (k), (l) and (m) below];
- (e) require a plan or ADF to apply the principles and requirements in AASB 7 *Financial Instruments: Disclosures*, as appropriate. Accordingly, under the replacement Standard, a plan or ADF would provide disclosures that enable users to evaluate, among other things, the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks;
- (f) require any obligations to defined benefit members arising from insurance arrangements provided by a plan to be measured as a part of the plan's obligation for such members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations;
- (g) require any obligations to defined contribution members arising from insurance arrangements provided by a plan or ADF to be measured by the plan or ADF in accordance with the approach in AASB 119 for defined benefit obligations; and
- (h) a plan with obligations for defined benefit members' accrued benefits should not be required to present the insurance and retirement components of such obligations separately;
- (i) a plan or ADF should disclose, when appropriate, information that:
 - (i) identifies and explains the amounts in the entity's financial statements arising from the insurance arrangements it provides to its members, including the key actuarial assumptions used to measure obligations arising from such arrangements and any uncertainties surrounding the assumptions; and
 - (ii) enables users of its financial statements to evaluate the nature and extent of risks arising from the insurance arrangements it provides to its members;
- (j) a plan should provide, when appropriate, liquidity risk disclosures in relation to obligations for defined contribution and defined benefit members' benefits in accordance with the relevant principles and requirements in AASB 7;
- (k) a plan with defined benefit members should provide qualitative disclosures in respect of the non-performance risk and/or economic dependency risk in relation to the dependence on future employer contributions, consistent with the types of information disclosed in accordance with the qualitative disclosure requirements in AASB 7;
- (l) a plan or ADF should provide liquidity risk disclosures in respect of material non-financial items consistent with the types of information required under AASB 7;

- (m) require a plan or ADF to provide disaggregated financial disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*, except where it is appropriate to modify the requirements for application in a superannuation context [some of the proposed exceptions are discussed in the Summary of Tentative Board Decisions (December 2010) below];
- (n) deem a trustee company to be a related party of its plan or ADF for the purpose of related party disclosures;
- (o) not require a plan to disclose the present value of any obligations for defined benefit members' accrued benefits, adjusted to exclude future salary growth ('accumulated benefit obligation'); and
- (p) require a plan to disclose information about the actuarial risks arising from any obligations for defined benefit members' accrued benefits but not preclude a plan disclosing sensitivity analyses in relation to significant actuarial assumptions.

The AASB has also tentatively decided that a revised Exposure Draft should:

- (a) be re-exposed and comments sought from constituents on selected proposals in the document;
- (b) propose a two-year transition period from the date the replacement Standard is made, with early adoption permitted;
- (c) propose that the replacement Standard for AAS 25 be applied retrospectively when it is first adopted; and
- (d) ask constituents whether there are any plans or ADFs that would meet the criteria in AASB 1053 *Application of the Tiers of Australian Accounting Standards* for applying Tier 2 reporting requirements (rather than include a supplement setting out proposed Tier 2 disclosure requirements under the replacement Standard).

At its December 2010 meeting, the AASB decided that a sub-committee of Board members should review a draft revised ED prior to final deliberation by the Board and a four-month exposure period. The AASB expects to publish the revised ED in early 2011.

BACKGROUND

AAS 25 was issued by the Australian Accounting Research Foundation and is effective for reporting periods ending on or after 30 June 1993. When originally drafted, AAS 25 was intended to provide a 'one-stop-shop' for financial reporting by superannuation plans and thereby apply in place of other Australian Accounting Standards on most critical issues relating to superannuation plans. AAS 25 was also intended to address the financial accounting and reporting issues that superannuation plans were specifically dealing with at the time. Consequently, some of the requirements in AAS 25 may now be unsuitable in view of the recent developments in the Australian superannuation industry and the adoption of International Financial Reporting Standards (IFRSs), both of which have served to highlight some gaps in the scope of AAS 25.

Increasingly sophisticated investment arrangements involving hedging instruments and derivatives represent one development in the superannuation industry that has served to highlight deficiencies in AAS 25. During

its October 2005 meeting, the AASB considered the potential implications of a superannuation plan having to treat credit balances of hedging instruments and derivatives in accordance with the recognition, measurement and disclosure requirements in AASB 132 *Financial Instruments: Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. During this meeting, the AASB decided to issue the Invitation to Comment *Superannuation Plans – Financial Liabilities*. At its December 2005 meeting, after considering the submissions on the Invitation to Comment, the AASB approved amendments to AAS 25 to require that hedging instruments and derivatives held by a superannuation plan be measured at their net market values, irrespective of whether they appear as debit or credit balances, and that any changes in these net market values be recognised in the profit or loss of the superannuation plan for the reporting period.

During its October 2005 and December 2005 meetings, the AASB also considered the implications of a superannuation plan with a subsidiary applying AASB 3 and AASB 127. While the issue had not necessarily arisen as a consequence of the introduction of IFRSs, the convergence of Australian Accounting Standards with IASB Standards had served to highlight a growing trend among superannuation plans to hold controlling interests in leveraged investment vehicles. At its December 2005 meeting, the AASB decided that, notwithstanding the practical issues that could arise in relation to the impact of AASB 3 and AASB 127 on AAS 25, a superannuation plan is required to consolidate its subsidiaries in accordance with AASB 3 and AASB 127 for annual reporting periods beginning on or after 1 January 2005.

Although the AASB's decisions at its October 2005 and December 2005 meetings clarified the treatment of hedging instruments, derivatives and subsidiaries held by a superannuation plan, the AASB decided that a comprehensive review of the requirements in AAS 25 is necessary, and that all of the issues in relation to these items should be revisited in the context of such a review.

PROJECT OUTLINE

Prior to the adoption of IFRSs, the AASB decided that it would consider IAS 26 *Accounting and Reporting by Retirement Benefit Plans* in the context of a separate project relating to AAS 25 and not as a convergence issue. During its March 2003 meeting, while discussing the convergence of Australian Accounting standards with IASB Standards, the AASB decided to retain AAS 25 beyond 2005 on the basis that there seemed to be little point in forcing Australian superannuation plans to adopt IAS 26 as many of the accounting issues facing superannuation plans are the consequence of the domestic environment.

During its April 2006 meeting, the AASB decided to give a high priority to a domestic project to comprehensively review the requirements in AAS 25. Although the AASB decided not to adopt IAS 26, it decided that it should 'benchmark' any proposed replacement standard for AAS 25 against both IAS 26 and the corresponding requirements in IFRSs. Nevertheless, the Board noted that, since some of the IAS 26 requirements are different from the corresponding requirements in other IFRSs, it might not be feasible for a proposed replacement for AAS 25 to be consistent with both IAS 26 and other IFRSs.

While IAS 26 is a part of the general suite of IASB Standards, the AASB noted that many of the countries that have adopted or are in the process of harmonising with IASB Standards will not be requiring retirement

benefit plans within their jurisdictions to apply IAS 26. For instance, while all European Union (EU) member countries have adopted IASB Standards, such Standards will only apply to stock exchange listed groups.

With regard to the application of any proposed replacement for AAS 25, the AASB decided at its April 2006 meeting that:

- (a) the reporting entity concept should be retained and any proposed replacement for AAS 25 should apply to all superannuation plans, including defined contribution superannuation plans, defined benefit superannuation plans, private sector superannuation plans and public sector superannuation plans;
- (b) the comprehensive review of AAS 25 should at least initially be conducted on the basis that any proposed replacement for AAS 25 would also apply to pooled superannuation trusts (PSTs). The Board decided to reconsider the application of any proposed replacement for AAS 25 to PSTs as the comprehensive review progressed. The AASB subsequently decided that PSTs should be outside the scope of any replacement standard for AAS 25 (see Summary of tentative Board decisions for September 2007 below); and
- (c) managed investment schemes should not be included in any proposed replacement for AAS 25.

To facilitate the AASB's proposed comprehensive review of the requirements in AAS 25, the Board decided that it would seek to liaise with those National Standard Setters in other countries that have retirement and pension arrangements similar to Australia's superannuation arrangements and are about to commence, or have commenced, a review of their own domestic reporting requirements for retirement benefit plans. The Board identified the United Kingdom as one such jurisdiction.

PROJECT ADVISORY PANEL

During the April 2006 meeting, the Board also decided that, prior to the commencement of the review, a Project Advisory Panel should be formed from key constituents with relevant experience. The purpose of the Panel would be to provide the AASB with input and feedback regarding the key issues over the life of the project.

Following the Board's April 2006 meeting, a Project Advisory Panel was formed and currently comprises representatives from:

- each of the 'Big 4' chartered accounting firms;
- Australian Prudential Regulation Authority (APRA);
- CPA Australia;
- Investment and Financial Services Association (IFSA);
- Industry Funds Services (IFS);
- Institute of Actuaries of Australia (IAA);
- Association of Superannuation Funds of Australia (ASFA); and
- academia.

To date, the Project Advisory Panel has provided AASB staff with feedback on a number of issues, including the consolidation of subsidiaries by superannuation entities.

SUMMARY OF TENTATIVE BOARD DECISIONS

The decisions below are excerpts from the AASB Action Alerts issued after the Board Meetings. Action Alerts report on the meetings of the AASB but the decisions reported are tentative and may be changed or modified by the AASB. The decisions are only final once the formal processes required to issue documents is completed.

April 2006

The Board decided to give a high priority to a domestic project to comprehensively review the requirements in AAS 25. To facilitate this review, the Board decided that it would liaise with those national standard setters in other countries that have retirement and pension arrangements similar to Australia's, and to form a Project Advisory Panel from key constituents with relevant experience.

In addition, the Board decided that:

- (a) the reporting entity concept should be retained in determining the application of any proposed replacement for AAS 25;
- (b) the comprehensive review of AAS 25 should at least initially be conducted on the basis that any proposed replacement for AAS 25 might also apply to PSTs; and
- (c) managed investment schemes should be excluded from any proposed replacement for AAS 25.

The Board also noted that the potential users of the financial reports of superannuation plans are a broader class of user than is normally envisaged in many other jurisdictions. Accordingly, a comprehensive review of AAS 25 would provide an opportunity to examine presentation and disclosure issues that often confront these types of users.

October 2006

The Board considered an issues paper that discusses three alternative approaches for determining the treatment of assets held by superannuation entities in the context of IFRSs and Australian Accounting Standards:

- (a) Approach A – all assets of superannuation entities are treated in a manner consistent with the approach adopted in AAS 25 (i.e. measured on a consistent basis using a method equivalent to net market value);
- (b) Approach B – all assets of superannuation entities are treated in accordance with the requirements in relevant IFRSs; and
- (c) Approach C – all assets of superannuation entities are treated in a manner consistent with the 'fair value approach' as described in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

The Board acknowledged that, if it were developing an industry-specific replacement Standard for AAS 25 from first principles, Approach A would be appropriate for determining the treatment of assets held by superannuation entities. The Board decided, however, that Approach A appears inconsistent with the Board's policy of transaction neutrality, under which like transactions are treated in the same way for all entities.

The Board noted that there are a number of issues for which the appropriate accounting policy in the context of superannuation entities may be inconsistent with the policy of transaction neutrality. Accordingly, the Board decided it is necessary to establish whether, in the context of the policy of transaction neutrality, there is justification for superannuation entities being treated differently from other entities, particularly other investment vehicles such as managed investment schemes.

November 2006

The Board considered an issues paper on rationales for the Board treating superannuation entities differently from other entities, particularly other investment vehicles such as managed investment schemes. The Board noted a number of features that distinguish superannuation entities from other entities offering financial products, including compulsory contributions, restrictions over the release of benefits and concessional taxation treatment. The Board further noted that this effectively means that superannuation entities in Australia do not compete internationally for contributions, and international comparability is not a compelling reason for IFRSs to be applied to superannuation entities. The Board also decided that there are a number of compelling arguments for requiring superannuation entities to measure all of their assets at fair value less selling costs, including aligning financial reporting requirements with member reporting arrangements and the wider prudential framework applicable to superannuation entities.

The Board decided that an issues paper examining the justifications for a full fair value accounting model that incorporates realisation costs being applied to superannuation entities, compared with the treatments required and permitted under IFRSs, should be prepared for the Board's consideration.

The Board also decided to explore the alternative ways in which subsidiaries could be treated in the context of a full fair value accounting model and the theoretical arguments for and against each approach. In addition, the Board decided that this study should consider the practical implications of superannuation entities consolidating entities that they control, including entities that are controlled for a period less than one financial year or controlled on a number of different occasions during a financial year.

February 2007

The Board considered an issues paper discussing the implications of requiring the accrued benefits of defined benefit members to be measured at fair value in accordance with IFRSs and SFAS 157 *Fair Value Measurements*. The Board noted that the fair value measurement of the accrued benefits of defined benefit members would potentially be different from the amount of the defined benefit obligation measured in accordance with AASB 119. The Board decided to adopt the current requirements in AASB 119 in relation to the measurement of defined benefit obligations as a basis for developing equivalent requirements for the purpose of a replacement standard for AAS 25. The Board also decided that an issues paper examining the

implications of applying the measurement principles for defined benefit obligations in AASB 119 to superannuation plans, including the potential benefits to users, should be prepared for the Board's consideration.

March 2007

The Board considered an issues paper in relation to the consolidation of subsidiaries by superannuation entities and alternative ways in which subsidiaries held by superannuation entities might be treated in the context of a full fair value accounting model. The Board decided that consolidated financial statements provide useful information to users in addition to that which could be provided by the separate financial statements of a parent superannuation entity prepared on a full fair value basis. While fair value information in the parent financial statements is useful for determining the capacity of a superannuation entity to pay benefits to its members and beneficiaries, the Board expressed the view that presenting a subsidiary as a net investment in the balance sheet of a superannuation entity provides insufficient information to users about the financial performance and financial position of the subsidiary and the group as a whole.

The Board decided that a draft consultation paper should be prepared for consideration at its May 2007 meeting that considers the main implications of parent superannuation entities being required to prepare separate and consolidated financial statements in accordance with a full fair value accounting model for all assets and liabilities.

April 2007

The Board considered an issues paper in relation to the justifications for a full fair value accounting model that incorporates realisation costs being applied to superannuation entities in the context of the IASB's *Fair Value Measurements* (FVM) Discussion Paper and IFRSs. The Board decided it should propose that a replacement Standard for AAS 25 should require superannuation entities to treat anticipated disposal costs as a reduction in the carrying amounts of assets. The Board noted that:

- (a) users would regard information about assets net of anticipated disposal costs as useful because it has a direct bearing on their decisions in relation to a superannuation entity's capacity to pay benefits; and
- (b) the IASB's FVM Discussion Paper does not preclude transaction costs from being deducted from fair values for recognition and presentation purposes.

May 2007

The Board discussed a draft consultation paper that considers, among other things, the main implications of:

- (a) parent superannuation entities being required to prepare separate and consolidated financial statements in accordance with a full fair value accounting model for all assets and liabilities; and
- (b) the different ways in which anticipated disposal costs could be disclosed by superannuation entities.

The Board decided that a revised version of the draft consultation paper should be considered at its June 2007 meeting.

June 2007

The Board discussed a revised version of a draft consultation paper on fair value accounting and the consolidation of subsidiaries by superannuation entities that discussed, among other things, whether parent superannuation entities should prepare consolidated financial statements in accordance with:

- (a) a fair value model;
- (b) AASB 3 and AASB 127; or
- (c) a proportionate consolidation model that ensures the net asset figures reported in the parent's separate and consolidated financial statements are the same amount.

The Board decided to narrow the focus of the supporting discussion but still seek the views of constituents on whether parent superannuation entities should be required to prepare consolidated financial statements in accordance with either:

- (a) a fair value; or
- (b) AASB 3 and AASB 127.

The Board decided that a revised version of the draft consultation paper should be considered at its August 2007 meeting.

August 2007

The Board considered a further revised draft consultation paper that discusses, among other things, whether parent superannuation entities should prepare consolidated financial statements in accordance with:

- (a) a fair value accounting model; or
- (b) AASB 3 and AASB 127.

The Board is contemplating fair value models for the consolidated financial statements because it has already decided that a fair value model is suitable for the parent entity financial statements.

The Board decided that the draft consultation paper should be revised in order to seek the preferences of constituents in relation to the following:

- (a) a full fair value accounting model for all assets and liabilities (whether recognised or unrecognised in the separate financial statements of the parent or a subsidiary);
- (b) a model that involves:
 - (i) subsidiary assets and liabilities being measured at fair values in the consolidated financial statements when fair value measurement is possible under the relevant Standards; and
 - (ii) a balancing item being recognised in the consolidated financial statements [similar to that previously required under AASB 1038 *Life Insurance Business* (1998)] incorporating measurement differences arising from those assets and liabilities recognised by a subsidiary for which fair value measurement is not permissible under the Standard and any internally generated goodwill; and

- (c) a model that requires subsidiary assets and liabilities to be measured at fair value in the consolidated financial statements when fair value measurement is permissible under Standards [consistent with the approach currently applied in AASB 1023 and AASB 1038].

The Board decided that, following the above changes, the draft consultation paper should be reviewed by the Chairman and the two Board Advisors to the project prior to being issued for public consultation.

Subsequent to the Board's August 2007 meeting the consultation paper was released.

September 2007

The Board noted the August 2007 report of the Parliamentary Joint Committee on Corporations and Financial Services on the structure and operation of the Australian superannuation industry and that a number of the recommendations in that report are potentially relevant to the Board's comprehensive review of AAS 25.

The Board considered an issues paper on proposed definitions for the purpose of developing a replacement Standard for AAS 25. The Board decided that:

- (a) the proposed definitions of a superannuation plan and an ADF should be consistent with the equivalent definitions in the *Superannuation Industry (Supervision) Act 1993* and accompanying regulations;
- (b) the Standard should apply to public sector and private sector superannuation plans and ADFs, but not PSTs; and
- (c) self-managed superannuation funds should be exempted from applying the Standard.

The Board also considered an issues paper on a proposed approach to the different types of superannuation entitlements and decided that the defined contribution/defined benefit entity dichotomy in AAS 25 should not be retained and that any proposed differences in reporting requirements should reflect the different natures of entitlements.

December 2007

The Board considered submissions received on its Consultation Paper on the consolidation of subsidiaries by superannuation entities. The submissions included matters raised by participants at the roundtable discussions held in Sydney and Melbourne during November.

The Board noted that, of the four consolidation models discussed in the Consultation Paper, the overwhelming majority of submissions expressed a preference for a full fair value accounting model, but expressed significant reservations with the proposal to measure defined benefit member entitlements at fair value.

In light of these responses, the Board tentatively decided to propose that a parent superannuation plan or a parent ADF recognise all assets and liabilities held by a subsidiary at their fair values less or plus anticipated disposal costs in its consolidated financial statements. In addition, the Board decided to give further consideration to the measurement of defined benefit obligations and directed staff to prepare an issues

paper that considers, among other things, the defined benefit measurement requirements in AAS 25 and AASB 119.

The Board also considered three issues papers on the potential consequences of a superannuation plan or an ADF preparing its financial statements in accordance with IFRSs. The Board tentatively decided to propose that:

- (a) the current exemption in relation to the presentation of a statement of cash flows by a defined benefit superannuation plan should not be retained. Accordingly, each superannuation plan and ADF should be required to present a statement of cash flows;
- (b) a residual interest in the net assets of a superannuation plan or an ADF should be classified as equity and disclosed in accordance with the relevant requirements in AASB 101 *Presentation of Financial Statements*. However, the Board noted that the presentation of a defined benefit surplus or deficiency in accordance with paragraphs 79 and 80 of AASB 101 may not facilitate the provision of useful information to users. Accordingly, the Board directed staff to prepare an issues paper discussing presentation and disclosure requirements for a defined benefit surplus or deficiency; and
- (c) the principles in AASB 101 (September 2007) in relation to the presentation and disclosure of assets should apply to a superannuation plan or an ADF. However, the Board noted that the application of AASB 101 (September 2007) may not facilitate the provision of useful information about all of the assets held by a superannuation plan or an ADF, particularly assets held indirectly through one or more investment vehicles. Accordingly, the Board directed staff to prepare an issues paper discussing additional disclosure requirements relevant to the investment arrangements of a superannuation plan or an ADF.

February 2008

The Board tentatively decided to:

- (a) use the approach in AASB 119 as a basis for developing a proposed treatment of defined benefit obligations;
- (b) propose that a superannuation plan be required to measure both the vested and accrued benefits of its defined benefit members on an annual basis and that such plans be permitted to employ estimates, averages and computational short-cuts in the same manner as permitted by AASB 119 in respect of long-term employee benefits;
- (c) give further consideration to the practical difficulties that preparers might face if required to measure defined benefit entitlements in accordance with a current exit value model, and how they might overcome these difficulties; and
- (d) give further consideration to the discount rates employed and, in particular, justifications for using expected asset earning rates (as presently required by AAS 25).

March 2008

The Board received a presentation from Mr Tim Furlan (Russell Investment Group) and Mr Andrew Boal (Watson Wyatt) regarding:

- (a) the measurement of accrued benefits of defined benefit superannuation members;
- (b) the practical difficulties that preparers might face if required to measure defined benefit entitlements in accordance with a current exit value model, and how they might overcome these difficulties; and
- (c) justifications for using expected asset earning rates (as presently required by AAS 25).

The Board decided to give further consideration to the respective legal obligations of superannuation plans and employer sponsors in relation to members' superannuation entitlements, particularly defined benefit entitlements. The Board also decided to:

- (a) give further consideration to a set of principles to guide disclosure requirements for superannuation plans and ADFs; and
- (b) consider the implications of the requirements in AASB 7 for the disclosure of information regarding the nature of investments held indirectly by a superannuation plan or ADF through an investment vehicle.

April 2008

The Board decided that:

- (a) the accrued benefits of members of a superannuation plan or an ADF should be recognised as liabilities in the financial statements of the plan or ADF; and
- (b) the amendments to AASB 101 and AASB 132 arising from AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* should not apply to superannuation plans or ADFs as it would produce different presentations for similar entities.

The Board also decided to give further consideration to whether a deficiency in relation to a superannuation plan's defined benefit members compared with the members' accrued benefits represents an asset that would be recognised in the plan's financial statements, and how it might be measured.

May 2008

For the purposes of preparing a draft ED, the Board decided:

- (a) that the primary users of the financial statements of superannuation entities are:
 - (i) members and beneficiaries;
 - (ii) parties that are employed to act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and
 - (iii) employer sponsors;

- (b) to adopt, as a starting point, the general principle that, if a particular IFRS recognition, measurement or presentation requirement applies to a superannuation plan or ADF, the entity should also apply the relevant accompanying IFRS disclosure requirements. The Board noted, however, that information disclosed under this general principle may not be regarded by some users as essential for making economic decisions in a superannuation context, and may vary with respect to different items. Accordingly, the Board decided to consider additional principles to facilitate consistent disclosures that users would regard as essential for decision making in a superannuation context;
- (c) that superannuation plans that have members who are entitled to the higher of a defined benefit entitlement or a contribution-based amount should:
 - (i) separate such entitlements into a 'host promise' and a 'higher of' option;
 - (ii) recognise and account for the host promise in the same way as defined benefit entitlements; and
 - (iii) recognise the higher of option separately and measure it at its fair value, assuming the terms of the entitlements do not change; and
- (d) that a deficiency in assets attributable to the plan's defined benefit members compared with the members' accrued benefits would not give rise to a receivable from the employer sponsor, unless there is a specific contractual agreement between an employer sponsor and its superannuation plan, because the superannuation plan does not control future contributions from the employer sponsor; and
- (e) that a plan that presents a defined benefit deficiency should disclose information that enables users to evaluate the nature and implications of the deficiency.

June 2008

The Board tentatively decided that:

- (a) the requirements in AASB 7 should be used as a basis for developing principles that would facilitate the disclosure of information in relation to the risks associated with both the financial and non-financial assets of a superannuation plan or ADF;
- (b) a superannuation plan or ADF that has a subsidiary should not be required to present parent entity financial statements in addition to its consolidated financial statements. Accordingly, the note disclosures required would relate to the consolidated financial statements and the Board will give further consideration to the parent entity information that should be disclosed in the consolidated financial statements;
- (c) the principles underlying the requirements in AASB 8 should be used as a basis for developing a set of principles that would facilitate the disclosure of information about:
 - (i) how the trustee of a superannuation plan or ADF arranges the entity's assets for the purposes of evaluating performance and allocating resources; and
 - (ii) the financial performance of each group of assets identified by the trustee for these purposes;

- (d) a superannuation plan or ADF should disclose information that provides users with a basis for understanding the nature of the entity, the benefits the entity provides to its members and the entity's liability for its members' accrued benefits. In addition, the Board decided to give further consideration to the information needed by users to understand the impact of changes in the assumptions used on the measurement of the accrued benefits of defined benefit members;
- (e) the requirements in AASB 124 *Related Party Disclosures* should apply, when appropriate, to a superannuation plan or ADF. In addition:
 - (i) a superannuation plan should disclose information needed by users to understand the nature of the entity's relationship with its employer sponsor (or sponsors); and
 - (ii) a superannuation plan or ADF should disclose information needed by users to understand:
 - the nature of the entity's relationship with its trustee; and
 - any transactions between the entity and its trustee or an employer sponsor other than 'normal' transactions; and
- (f) accrued benefits should be defined broadly to cover both defined contribution and defined benefit arrangements. Accordingly, the Board decided to propose that accrued benefits be defined as the present obligation for benefits that members and beneficiaries are entitled to receive in the future as a result of membership of the superannuation plan or ADF up to the reporting date.

The Board plans to consider a first draft ED at its August 2008 meeting.

August 2008

The Board considered a draft ED for a replacement Standard for AAS 25 and associated issues papers. The Board tentatively decided that the ED should propose, among other things, that:

- (a) superannuation contributions, transfers and rollovers are not in the nature of revenues, and benefit payments are not in the nature of expenses, of a superannuation plan or ADF. Accordingly, the current presentation requirements in AAS 25 in relation to these items should not be retained;
- (b) a superannuation plan or ADF present:
 - (i) an income statement in accordance with AASB 101 that presents separately income and expense items attributable to investment and other operating activities from changes in members' accrued benefits;
 - (ii) a statement of changes in members' accrued benefits;
 - (iii) a statement of financial position, a cash flows statement and, where relevant, a statement of changes in equity in accordance with applicable Australian Accounting Standards; and
 - (iv) notes in accordance with applicable Australian Accounting Standards, except where the disclosure principles specified in the ED apply instead.

In addition, the Board decided the ED should propose that contributions and members' accrued benefits be presented gross of any applicable tax and that the amount of any tax be presented separately. The Board also decided that example financial statements should be prepared for the Board's consideration;

- (c) a superannuation plan or ADF recognise assets and liabilities in accordance with other applicable Australian Accounting Standards, measured at fair value adjusted for estimated costs to sell, except that:
 - (i) a deferred tax asset or liability be measured in accordance with AASB 112 *Income Taxes*;
 - (ii) members' accrued benefits be recognised consistent with the draft ED, with defined benefit members' accrued benefits measured at present value using the Projected Unit Credit Method; and
 - (iii) in the consolidated financial report of a parent entity, the recognised assets and liabilities of a subsidiary be measured at fair value adjusted for estimated costs to sell (except for deferred tax balances). The ED will also propose that a balancing item representing the difference between the market value of a subsidiary and the fair value of its recognised net assets be presented in the statement of financial position;
- (d) a superannuation plan with defined benefit members disclose information that provides users with a basis for understanding:
 - (i) the key assumptions used to measure the obligation for defined benefit members' accrued benefits;
 - (ii) the uncertainties surrounding the key assumptions, including the amount and timing of benefit payments;
 - (iii) any changes in the key assumptions from the previous reporting period; and
 - (iv) whether the key assumptions used to calculate the defined benefit obligation in the previous reporting period are consistent with experience;
- (e) a superannuation plan that is exposed to insurance risk in relation to its members' death and disability cover measure its insurance liabilities using AASB 1038;
- (f) a defined benefit member be defined as 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;
- (g) a defined contribution member be defined as a member whose benefits are determined by reference to accumulated contributions made by them and on their behalf, together with investment earnings thereon; and
- (h) if a parent entity prepares separate financial statements that were held out to be general purpose financial statements, they be presented with the entity's consolidated financial statements.

The Board also tentatively decided that the ED should not propose requiring the disclosure of a Management Expense Ratio for a superannuation plan or ADF as a whole.

The Board will consider a revised draft ED at its September 2008 meeting.

September 2008

The Board considered a revised version of the draft ED for a replacement Standard for AAS 25. The Board decided to:

- (a) retain the overall approach that other Standards apply unless otherwise specified;
-

- (b) include a core principle that outlines the information that needs to be reported to provide users with an understanding of the capacity to meet members' benefits and the financial risks to which the entity is exposed;
- (c) include more of the explanatory material from the Application Guidance in the body of the draft ED; and
- (d) require a superannuation plan that has defined benefit members to determine the present value of its obligation for those members' accrued benefits by attributing benefits to periods of service/membership under the plan's benefit formula. Accordingly, if a plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, the plan would not be permitted to attribute members' benefits on a straight-line basis, even though that approach is required by AASB 119 in respect of a defined benefit obligation of an employer sponsor.

The Board will consider a further revised version of the draft ED at a future meeting.

October 2008

The Board considered a revised version of the draft ED for a replacement Standard for AAS 25. The Board decided, among other things, to:

- (a) remove the paragraphs dealing with the measurement and presentation of "higher of" benefit options from the ED and include a question asking constituents whether the ED should stipulate how such a benefit option should be measured;
- (b) further consider the implications of measuring a non-controlling interest in a subsidiary in accordance with AASB 3 and AASB 127;
- (c) further consider the manner in which the proposals relating to the preparation and presentation of consolidated financial statements could be articulated; and
- (d) further consider to manner in which the proposed measurement principle to be applied to defined benefit members' accrued benefits could be articulated.

The Board will continue its deliberations on a revised version of the draft ED at its November meeting.

November 2008

The Board considered a revised version of the draft ED for a replacement Standard for AAS 25 and decided to:

- (a) propose that obligations for defined contribution members' vested benefits (rather than their accrued benefits) be recognised as liabilities of a plan or ADF;
- (b) propose that any non-controlling interests in a subsidiary be measured by a parent plan or parent ADF in a manner consistent with the requirements in AASB 127;
- (c) include examples in an appendix to the ED illustrating aspects of the measurement of a superannuation plan's obligation for defined benefit members' accrued benefits;

- (d) not require contributions surcharge amounts to be disclosed;
- (e) propose that a plan or ADF that comprises two or more 'sub-plans' disclose, among other things, the type and nature of the assets attributable to each sub-plan, the total fair value less transaction costs of the assets attributable to each sub-plan, and the financial risks to which each sub-plan is exposed; and
- (f) include example financial statements in an appendix to the ED.

The Board will consider a revised draft ED at its next meeting.

December 2008

The Board considered a revised version of the draft ED for a replacement Standard for AAS 25 and decided:

- (a) to propose that all superannuation plans that have defined benefit members determine the present value of their obligations for such members' accrued benefits by attributing benefits to reporting periods on a basis appropriate to the plan's circumstances;
- (b) to clarify that, at each reporting date, non-controlling interests be allocated a relevant share of net assets of subsidiaries that are recognised by the parent at that date;
- (c) to propose that a plan or ADF disclose information about its expected rates of return; and
- (d) that the example financial statements in the draft ED should be 'road tested' against some published superannuation plan financial statements.

The Board will consider a further revised draft ED at its February 2009 meeting.

February 2009

The Board considered a revised version of a draft ED for a replacement Standard for AAS 25 and decided to:

- (a) propose that parent plans or parent ADFs recognise and present a 'discount of subsidiaries' as a remeasurement gain in their consolidated income statements in the period in which it occurs subsequent to initial recognition;
- (b) propose that a superannuation plan with defined benefit members:
 - (i) recognise and present the difference between any remeasurement change in defined benefit members' accrued benefits during a reporting period and the net contributions received and receivable in relation to such members in the same reporting period as a gain or loss in the income statement; and
 - (ii) disclose the components of any remeasurement change in such members' accrued benefits in the notes;
- (c) clarify that, for the purpose of disclosing information about how a plan or ADF arranges and manages its assets, the 'through the eyes of management' approach used in AASB 8 should be applied, which

in some circumstances may give rise to disclosures about groups of assets based on member investment choices;

- (d) clarify that, unless life insurance cover is offered to members of a superannuation plan directly by an external insurer (with the plan only acting as an agent of the insurer), insurance premiums would be recognised as expenses and proceeds from insurance policies would be recognised as income by the plan;
- (e) clarify that a 'hybrid' superannuation plan could present a single statement of changes in members' benefits rather than separate statements for defined contribution and defined benefit members; and
- (f) not require a plan or ADF to disclose information about its expected rates of return.

The Board will consider a further draft ED at its April 2009 meeting with a view to approving it for public comment.

April 2009

The Board considered a revised version of a draft ED and formally approved ED 179 for issue, subject to making a number of amendments. The amendments agreed by the Board at the meeting included:

- (a) the illustrative financial statements in Appendix C should be replaced with statements that contain amounts clearly showing the linkages between the various financial statements;
- (b) the guidance in Appendix B should be amended to clarify that, consistent with the approach under AASB 119 for measuring defined benefit obligations, defined benefit members' accrued benefits should be measured on a 'best estimates' basis; and
- (c) the ED should include a question asking constituents whether information about the components of a remeasurement change in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains or losses, would be useful to users and, if so, how this information should be presented.

The Board decided to have a four-month comment period from the date of issuing the ED. ED 179 is currently available from the AASB website. Roundtable discussions were conducted with constituents on ED 179 in Sydney on 26 August 2009 and in Melbourne on 28 August 2009. Comments on ED 179 are due by 30 September 2009.

September 2009

The Board received a report on the main issues discussed with constituents at its roundtable discussions held in August 2009 on the proposals in ED 179, including:

- (a) the preparation and presentation of consolidated financial statements;
- (b) insurance contracts;
- (c) defined benefit obligations;
- (d) presentation of financial statements; and

- (e) disclosure of segregated information.

The Board noted that submissions on ED 179 are due by 30 September 2009.

December 2009

The Board commenced its redeliberations on ED 179. ED 179 contains the proposals for a new Australian Accounting Standard to replace AAS 25.

The Board considered constituents' comments on ED 179 and made a number of tentative decisions, including that the replacement Standard for AAS 25 should:

- (a) in contrast to the proposal in ED 179, not permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction costs;
- (b) in contrast to the proposal in ED 179, identify the overriding measurement objective for defined benefit obligations as fair value, noting it is likely to be a Level 3 measurement whereby obligations for defined benefit members' accrued benefits would be measured in accordance with the approach under AASB 119 for defined benefit obligations;
- (c) consistent with the proposal in ED 179, require a plan or ADF that reinsures some or all of the insurance arrangements that it provides to its members with an external insurer to account for such arrangements in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 [although see (a) below];
- (d) consistent with the proposal in ED 179, not provide additional guidance in respect of applying the concept of control in a superannuation context. Accordingly, the Board affirmed that the replacement Standard should require a parent plan or parent ADF to apply the concept of control as defined in Australian Accounting Standards to identify its subsidiaries; and
- (e) consistent with the proposal in ED 179, require a parent plan or parent ADF to prepare and present consolidated financial statements. However, in contrast to the proposal in ED 179, the consolidated financial statements should be prepared in accordance with AASB 3 and AASB 127 [and see (b) below].

In addition, the Board decided to give further consideration to a number of matters, including:

- (a) the implications of measuring any obligations to defined benefit members arising from insurance arrangements under the approach in AASB 119 for measuring defined benefit obligations;
- (b) how any difference between the fair value of a subsidiary and the carrying amount of the net assets of the subsidiary that would be recognised by the parent plan or fund in the consolidated financial statements might be disclosed by the parent, whether or not there is a non-controlling interest in the subsidiary; and
- (c) the outcomes from APRA's enhanced superannuation statistics collections proposals in respect of sub-fund information, and whether the principles and guidance in respect of segregated financial disclosures should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information.

The Board also decided that financial reporting by superannuation entities should be a topic of discussion with the FRSB in the context of convergence between Australian and New Zealand Accounting Standards.

The Board will continue its deliberations on ED 179 at its February 2010 meeting.

February 2010

The Board continued its redeliberations on ED 179. The Board considered the balance of constituents' comments on ED 179 and made a number of decisions, including that the replacement Standard for AAS 25 should:

- (a) where necessary and applicable, refer to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicate or paraphrase those disclosure principles and requirements;
- (b) consistent with the proposals in ED 179, the Standard should require a parent plan that prepares separate financial statements to present its separate and consolidated financial statements together; and
- (c) consistent with the approach proposed in ED 179, not require a plan or ADF to disclose its management expense ratio, but require disclosure of information relevant to calculating such a ratio.

In addition, the Board reconsidered the basis for measurement of defined benefit members' accrued benefits and decided that the replacement Standard for AAS 25 should:

- (a) require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 for defined benefit obligations;
- (b) note in the Basis for Conclusions that it would be more consistent for defined benefit members' accrued benefits to be measured at fair value. Although the approach under AASB 119 for measuring defined benefit obligations is not fair value, the Board noted that, in due course, the IASB's proposed fundamental review of post-employment benefit accounting might result in fair value measurement for defined benefit obligations; and
- (c) require the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, including benefit cost, interest cost and actuarial gains and losses, consistent with the proposals in ED 179.

Furthermore, the Board decided that, despite APRA's decision to defer the update of its superannuation statistical collections and publications pending the outcome of the Cooper Review, the Board should commence redeliberations at a future meeting on the disclosure proposals in ED 179 in relation to the arrangement and management of assets ('segregated financial disclosures').

The Board will continue its deliberations on ED 179 at its April 2010 meeting.

April 2010

The Board continued its redeliberations on ED 179. The Board considered constituents' comments on issues not directly related to a specific matter for comment in ED 179 and made a number of decisions, including that the replacement Standard for AAS 25 should:

- (a) clarify that a plan or ADF that recognises a surplus or deficiency of net assets should present additional line items, headings and subtotals in the financial statements when such presentation is relevant to understanding the entity's financial position;
- (b) not require a plan or ADF to separately disclose investment management fees from other investment related expenses;
- (c) require a plan to disclose information in relation the amount of benefits payable to defined contribution members in circumstances where their departure is not voluntary if the amount of benefits payable is greater than the amount of such members' vested benefits;
- (d) require a plan or ADF to apply the principles and requirements in AASB 7, as appropriate. Accordingly, under the replacement Standard, a plan or ADF would provide disclosures that enable users to evaluate, among other things, the nature and extent of risks arising from financial instruments to which the entity is exposed, and how the entity manages those risks; and
- (e) refer to the principles and requirements anticipated in the IASB's forthcoming *Fair Value Measurement* Standard.

The Board also briefly discussed the IASB's and FASB's tentative decisions to date in relation to accounting for a subsidiary by an investment company. The Board decided that, as the issue of investment company accounting has implications beyond superannuation entities, the issue may need to be dealt with separately from the Board's deliberations on ED 179, subject to the timing of any IASB ED on investment company accounting and the timing of completion of a replacement Standard for AAS 25.

The Board will continue its redeliberations at its June 2010 meeting.

June 2010

The Board tentatively decided that, under a replacement Standard for AAS 25:

- (a) any obligations to defined benefit members arising from insurance arrangements provided by a plan should be measured as a part of the plan's obligation for such members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations;
- (b) to facilitate consistency with the measurement of insurance obligations in relation to defined benefit members, any obligations to defined contribution members arising from insurance arrangements provided by a plan or ADF should be measured in accordance with the approach in AASB 119 for defined benefit obligations; and
- (c) consistent with the approach under AASB 1038, any assets arising from insurance arrangements provided by a plan or ADF, such as reinsurance assets, should be recognised separately from insurance liabilities in the plan's or ADF's statement of financial position.

The Board decided that it would reconsider the accounting for insurance contracts by superannuation plans once the IASB has finalised its thinking on its Insurance Contracts phase II project.

The Board will continue its redeliberations at its July 2010 meeting.

July 2010

The Board continued its redeliberations on ED 179. The Board tentatively decided that, under a replacement Standard for AAS 25:

- (a) obligations arising from insurance arrangements provided to members of a plan or ADF should be recognised (and derecognised) in accordance with the approach under AASB 119 for defined benefit obligations;
- (b) a plan with obligations for defined benefit members' accrued benefits should not be required to present the insurance and retirement components of such obligations separately;
- (c) assets arising from the insurance arrangements that a plan or ADF provides to its members should be recognised and measured in accordance with the relevant requirements in AASB 1038;
- (d) a plan or ADF should disclose, when appropriate, information that:
 - (i) identifies and explains the amounts in the entity's financial statements arising from the insurance arrangements it provides to its members, including the key actuarial assumptions used to measure obligations arising from such arrangements and any uncertainties surrounding the assumptions; and
 - (ii) enables users of its financial statements to evaluate the nature and extent of risks arising from the insurance arrangements it provides to its members;
- (e) a plan should provide, when appropriate, liquidity risk disclosures in relation to obligations for defined contribution and defined benefit members' benefits in accordance with the relevant principles and requirements in AASB 7;
- (f) a plan with defined benefit members should provide qualitative disclosures in respect of the non-performance risk and/or economic dependency risk in relation to the dependence on future employer contributions, consistent with the types of information disclosed in accordance with the qualitative disclosure requirements in AASB 7; and
- (g) a plan or ADF should provide liquidity risk disclosures in respect of material non-financial items consistent with the types of information required under AASB 7.

The Board will continue its redeliberations at its September 2010 meeting.

September 2010

The Board tentatively decided that the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans* should:

- (a) require a plan or ADF to provide disaggregated financial disclosures in accordance with the principles and requirements in AASB 8. The Board also decided to consider whether superannuation-specific

guidance might be necessary to facilitate a plan or ADF applying the principles and requirements in AASB 8;

- (b) deem a trustee company to be a related party of its plan or ADF under the replacement Standard. The Board also noted that an individual trustee would meet the definition of key management personnel in AASB 124;
- (c) consistent with the proposals in ED 179, not require a plan to disclose the present value of any obligations for defined benefit members' accrued benefits, adjusted to exclude future salary growth ('accumulated benefit obligation');
- (d) consistent with the proposals in ED 179, require a plan to disclose information about the actuarial risks arising from any obligations for defined benefit members' accrued benefits but not preclude a plan disclosing sensitivity analyses in relation to significant actuarial assumptions; and
- (e) in light of the findings of the 'Cooper' Review, discuss in more detail the objectives and potential limitations of general purpose financial statements as a source of information for superannuation members.

The Board also tentatively decided that a revised version of ED 179 should be re-exposed and comments sought from constituents on selected proposals in the document.

The Board discussed possible transition arrangements and an application date for the replacement Standard for AAS 25 and decided to consider these issues at a future meeting prior to re-exposing the revised version of ED 179.

December 2010

The Board continued its redeliberations on ED 179 *Superannuation Plans and Approved Deposit Funds* for the purposes of determining proposals to be included in a revised ED of the replacement Standard for *AAS 25 Financial Reporting by Superannuation Plans*.

The Board tentatively decided that the revised ED should:

- (a) include a comment in the Basis for Conclusions that a superannuation plan or approved deposit fund (ADF) would apply AASB 1031 *Materiality* in deciding whether it is necessary to present a statement of changes in equity;
- (b) propose to require a plan or ADF to provide disaggregated financial disclosures in accordance with AASB 8 *Operating Segments*, except where it is appropriate to modify the requirements for application in a superannuation context. The proposed exceptions include that a plan or ADF would:
 - (i) disclose separately information about a segment that meets any of the quantitative thresholds in paragraph 13 of AASB 8 or has liabilities that are 10% or more of the total liabilities of all segments;

- (ii) provide reconciliations of the disaggregated disclosures and corresponding amounts at the entity level; and
 - (iii) not be required to apply paragraphs 31-34 of AASB 8; and
- (c) propose a two-year transition period from the date the replacement Standard is made, with early adoption permitted. The Board also confirmed its previous tentative decision that the replacement Standard should be applied retrospectively when it is first adopted.

In addition, the Board tentatively decided that the revised ED should ask constituents whether there are any plans or ADFs that would meet the criteria in AASB 1053 *Application of the Tiers of Australian Accounting Standards* for applying Tier 2 reporting requirements (rather than include a supplement setting out proposed Tier 2 disclosure requirements under the replacement Standard).

A sub-committee of Board members will review a draft revised ED prior to final deliberation by the Board and a four-month exposure period. The Board expects to publish the revised ED in early 2011.

CONTACT INFORMATION

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BOARD MINUTES

For the Board decisions on the major conceptual and technical issues considered to date, refer to the following approved Board minutes:

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