

Issues paper discussing alternative approaches for facilitating the disclosure of segregated financial information by a superannuation plan or approved deposit fund

Introduction

At its December 2009 meeting, the Board decided to give further consideration to the outcomes from APRA's enhanced superannuation statistics collections proposals in respect of 'sub-plan' information, and whether the principles and guidance in respect of segregated financial disclosures in ED 179 *Superannuation Plans and Approved Deposit Funds* should be aligned with the anticipated prudential reporting requirements in respect of sub-fund information. However, subsequent to this meeting, APRA decided to defer the update of its superannuation statistics collections and publications pending the outcome of the Review of the Governance, Efficiency, Structure and Operation of Australia's Superannuation System (Cooper Review). Despite APRA's decision, the Board decided at its February 2010 meeting to redeliberate on the segregated financial disclosure proposals in ED 179.

Segregated financial disclosures

1. Appendix A to this Agenda paper provides the main paragraphs in ED 179 dealing with segregated financial disclosures. Appendix B to this Agenda paper provides a collation of respondents' comments in relation to the segregated financial disclosure proposals in ED 179. This collation was provided to Board members as a part of Agenda paper 6.3 to the Board's December 2009 meeting.
2. As noted in Agenda paper 6.2 to the Board's December 2009 meeting:
 - (a) thirteen of the twenty respondents commented on the segregated financial disclosure proposals in ED 179;
 - (b) three of these respondents expressed agreement with the notion of superannuation entities disclosing segregated information whereas five expressed disagreement;
 - (c) the remaining five respondents expressed neither agreement or disagreement with the proposals but recommended amendments to the proposals; and
 - (d) all thirteen respondents identified practical difficulties which they considered to be significant and would inhibit the disclosure of useful information to users.
3. The main difficulties identified by respondents were:
 - (a) identifying segregated groups of assets.

Two respondents noted that trustees generally manage members' benefits on a segregated basis but usually pool assets for efficiency and administrative purposes. Accordingly, very few plans would provide meaningful information if segregated groups of assets were the main criteria for disclosure.

In addition, two respondents noted that, even though paragraph AG81 of Appendix B to ED 179 suggests that a plan would not generally consider different investment options as segregated groups of assets, the following relatively common situations may satisfy the criteria for the management of assets on a segregated basis:

 - (i) the trustee adjusts the actual allocation between different asset classes within a particular investment option to match the target allocation following movements in investment markets; and

- (ii) the trustee adjusts the actual allocation of assets between investment options to match the obligations to members.

The respondents noted that, in both of these cases, management would have had to evaluate separate asset and obligation information for the purpose of allocating resources and assessing performance. Accordingly, requiring superannuation entities to make additional disclosures in such circumstances would be arguably inappropriate and potentially onerous;

- (b) applying the proposals to master trusts and multi-employer sponsored plans.

Four respondents expressed concerns about a master trust or multi-employer sponsored plans being required to provide separate disclosures for each sub-plan. The respondents noted that some master trusts and multi-employer sponsored plans have in excess of 100 sub-plans. Accordingly, the proposals would probably impose significant preparation and auditing costs on these entities and make their financial statements excessively long. In addition, if investment options were also to be considered segregated groups of assets, the disclosure proposals would be regarded as even more onerous; and

- (c) avoiding duplication, additional costs and confusion by aligning the proposed disclosures with proposed APRA requirements.

One respondent noted that APRA is proposing that plans provide the regulator with additional information regarding their sub-plans. However, unlike the proposals in ED 179, APRA's proposed definition of a sub-plan is linked to identifiable groups of members and their benefits.

- 4. Respondents recommended a number of ways in which the proposed disclosure principles and associated guidance could be amended to mitigate the significant practical difficulties identified. Staff have considered respondents' recommendations and identified the following approaches:
 - (a) require a superannuation plan or approved deposit fund (ADF) to provide segmented financial information on the basis of the entity's membership groups; or
 - (b) require a plan or ADF to apply the principles and requirements in AASB 8 *Operating Segments*, as appropriate.

The merits of each of these approaches is discussed below.

Segmented financial disclosures based on a plan's or ADF's membership groups

- 5. A member of an Australian superannuation plan can be categorised as either a defined contribution member or a defined benefit member, subject to the manner in which the member's benefits at normal retirement age are determined. As discussed in Agenda papers to previous Board meetings, a defined contribution member's benefits are determined by reference to the contributions made by or on behalf of the member, plus investment earnings on the contributions, less the member's share of the costs incurred by the plan in relation to the member's interest in the plan, including administration costs and insurance premiums. In contrast, a defined benefit member's benefits at normal retirement date are normally calculated on the basis of the member's salary at or

near retirement, a benefit factor and years of employment service or else years of membership of the plan.

6. Defined benefit members are prohibited from transferring their entitlements to another plan under the 'Super Choice' legislation, and their entitlements are generally retained by their plans until the member achieves a condition of release. Accordingly, approved deposit funds (ADF) comprise only members with defined contribution entitlements.
7. An approach that requires a plan or ADF to provide segmented financial disclosures on the basis of its membership groups has a number of advantages, including:
 - (a) it would facilitate a plan with both defined contribution and defined benefit members providing risk-based disclosures in respect of their obligations for different types of member benefits.

Defined benefit members potentially expose plans to many of the same types of risks that defined contribution members do, including liquidity risk. However, defined benefit members potentially expose plans to some risks that defined contribution members do not, including investment risk and non-performance risk and/or economic dependency risk (arising from the employer sponsors of such members) and actuarial risk;

- (b) it is consistent with the way in which some plans and ADFs manage their obligations for members' benefits.

Some plans, particularly hybrid plans and master trust arrangements, manage their obligations for defined benefit members' entitlements separately from any obligations for defined contribution members' entitlements. Accordingly, requiring plans and ADFs to provide segmented financial disclosures on the basis of their membership groups would facilitate the disclosure of information that is consistent with what would otherwise be provided under a 'through the eyes of management' approach;

- (c) it would potentially address some of the concerns raised by respondents in relation to the segmented financial disclosure proposals in ED 179.

For instance, requiring segmented financial disclosures on the basis of membership groups would potentially avoid:

- (i) a plan having to evaluate whether different investment options are segments on the basis that the trustee adjusts the actual asset allocation between different asset classes or investment options.

Paragraph AG81(b) of Appendix B to ED 179 suggests that investment options for which the chief operating decision maker receives investment return and/or unit price information only do not constitute segments under the proposals in ED 179. However, ED 179 does not clarify the level and types of information a chief operating decisions maker would need to receive in order for an investment option to be considered a segment. This is consistent with approach under AASB 8. Accordingly, requiring segmented financial disclosures on the basis of membership groups would potentially facilitate the provision of more consistent and comparable information for users; and

- (ii) master trusts and multi-employer sponsored plans providing segmented financial disclosures in respect of each separately identifiable group of members, notwithstanding that:
 - (A) plans are generally exposed to relatively few significant risks in respect of defined contribution members; and
 - (B) the benefits promised to most defined benefit members are similar in nature and therefore the risks to which plans are exposed in respect of defined benefit members generally relate to non-performance and/or economic dependency risk arising from the employer sponsor; and
- (d) it would provide useful information given the likely future structure of the superannuation industry.

It is generally accepted that the number of APRA-regulated superannuation entities will continue to reduce over time. Furthermore, this reduction will be primarily driven by 'stand alone' corporate defined benefit plans merging into larger industry or retail plans. Consequently, 'hybrid' plans are likely to become more prevalent as the industry continues to rationalise.

- 8. However, an approach that requires a plan or ADF to provide segmented financial disclosures on the basis of its membership groups also has a number of drawbacks. For instance, requiring a plan to disclose information on the basis of membership groups may not be consistent with the manner in which a plan arranges and manages its obligations for defined benefit members' benefits.
- 9. Staff have discussed the segregated financial disclosure proposals in ED 179 with a number of constituents subsequent to the ED being published. Several of these constituents noted that some 'hybrid' plans do not manage their obligations for defined contribution and defined benefit members' entitlements separately as distinct groups of liabilities and/or related assets. In addition, some plans and ADFs manage their obligations for different groups of defined contribution members separately.

Apply the principles and requirements in AASB 8, as appropriate

- 10. The main principle underlying the disclosure requirements in AASB 8 is that an entity should provide disaggregated disclosures that are consistent with the information provided to the entity's chief operating decision maker for the purpose of managing the entity. In doing so, the entity would provide information that enables users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates (paragraph 1 of AASB 8).
- 11. Requiring a plan or ADF to apply the principles and requirements in AASB 8, as appropriate, has a number of advantages, including:
 - (a) it would facilitate the disclosure of disaggregated information that is consistent with the manner in which a plan or ADF arranges and manages its assets and related obligations for members' benefits.

From discussions with constituents, staff note that the manner in which superannuation entities manage and arrange their assets and related obligations

for members' benefits varies significantly. We also gathered from these discussions that the manner in which some entities arrange and manage their assets and members' benefits might change in the future as a consequence of, for instance, changes in investment management arrangements and changes in the demand for superannuation products as membership profiles change. A principles-based approach, such as that required under AASB 8, might be expected to accommodate such changes better than the proposed approach in ED 179;

- (b) it would facilitate plans and ADFs providing disaggregated information that is prepared using the same principles and requirements as other entities applying Australian Accounting Standards. Accordingly, plans and ADFs could potentially benefit from:
 - (i) the experiences of advisors and auditors that have been involved in the application of the principles and requirements in AASB 8 in other industries; and
 - (ii) any developments in practice adopted by other entities in relation to AASB 8 disclosures;
- (c) it would arguably facilitate more consistent disclosures between entities because AASB 8 provides more detailed guidance in relation to issues that generally arise in the context of preparing and presenting disaggregated disclosures, including:
 - (i) differences between the sum of the reportable segment results and the reported results of the entity as a whole; and
 - (ii) the treatment of restructured reportable segments;
- (d) it would potentially address some of the concerns raised by respondents in relation to the segmented financial disclosure proposals in ED 179. For instance:
 - (i) AASB 8 is a principles-based Standard that has been drafted with the intention of being applied to different types of entities and different types of business activities. Accordingly, the principles and requirements in AASB 8 do not, for instance, anticipate that an entity arranges its assets in any particular way to meet its obligations;
 - (ii) the criteria for identifying an operating segment in AASB 8 are more comprehensive than the corresponding criteria proposed in ED 179 in relation to identifying a 'sub-plan'. For instance, paragraph 5 of AASB 8 states that an operating segment is a component of an entity:
 - “(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
 - (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance; and
 - (c) for which discrete financial information is available.”

Accordingly, under AASB 8 a plan or ADF would not necessarily be required to disclose an investment option as an operating segment merely because the entity's chief operating decision maker regularly reviews information in relation to the option for the purpose of monitoring and, when necessary, adjusting asset allocations; and

- (iii) AASB 8 contains guidance that would facilitate plans and ADFs providing cost-beneficial disclosures. For instance:
 - (A) paragraph 12 of AASB 8 permits an entity to aggregate two or more operating segments into a single operating segment if the segments have similar economic characteristics and are similar in other respects, including the type or class of customers and the nature of the regulatory environment to which the segments are exposed; and
 - (B) paragraphs 13-18 of AASB 8 provide quantitative thresholds that an operating segment must meet to be considered reportable. In addition, paragraph 19 of AASB 8 anticipates that there may be a practical limit (possibly ten segments) to the number of reportable segments that an entity separately discloses beyond which segment information may become too detailed; and
- (e) the principles in AASB 8 are arguably consistent with the reporting requirements proposed to date by APRA.

In its Discussion Paper *Enhanced APRA Superannuation Statistics Collections*,¹ APRA proposes collecting data on any defined contribution or defined benefit sub-funds. For the purpose of the proposals, APRA defines a sub-fund as:

“A part of a regulated superannuation fund which satisfies the following conditions:

- (a) the sub-fund has separately identifiable assets and separately identifiable beneficiaries; and
- (b) the interest of each beneficiary of the sub-fund is determined by reference only to the conditions governing that sub-fund.”²

12. However, requiring a plan or ADF to apply the principles and requirements in AASB 8, as appropriate, also has a number of potential drawbacks, including:
- (a) some of the terms used in AASB 8 may be ambiguous or not relevant in a superannuation context. For instance, as noted in paragraph 11(c)(ii) of this Agenda paper, one of the characteristics of an operating segment is that its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resource allocations. However, some preparers and auditors may interpret this to mean that investment options could never be considered to be operating segments as members, rather than the entity's chief operating decision maker, generally decide how the assets of a plan are allocated; and

1 It is relevant to note that APRA has deferred the update of its superannuation statistical collections and publications pending the outcome of the Cooper Review.

2 Page 5 of APRA's Discussion Paper *Enhanced APRA Superannuation Statistics Collections*.

- (b) some plans might provide limited or no detailed segment information, even when they have both defined contribution and defined benefit members. For instance, as alluded to in paragraph 9 of this Agenda paper, staff anticipate that some 'hybrid' plans would not report any segment information under AASB 8 because the operating results regularly reviewed by the plan's chief operating decision maker do not distinguish between the two groups of members or their related assets. While this potential outcome is arguably inconsistent with the expectations underlying the proposals in ED 179, it is consistent with the expectations of AASB 8.

Staff views

On balance, staff consider that the replacement Standard for AAS 25 should require a plan or ADF to apply the principles and requirements in AASB 8, as appropriate.

Appendix A - Main paragraphs in ED 179 *Superannuation Plans and Approved Deposit Funds* dealing with segregated financial disclosures

Arrangement and Management of Assets

- 36 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding how the plan or fund arranges and manages assets attributable to different groups of members, and the related obligations to those members.**
- 37 Superannuation plans and approved deposit funds can manage the assets attributable to different groups of members, and the related obligations to those members, in a number of different ways, including:
- (a) on a single fund (or ‘pooled’) basis, whereby all of the contributions attributable to different groups of members are pooled for investment purposes and individual, or groups of, assets are not notionally or actually attributable to particular members or groups of members; or
 - (b) on a ‘segregated’ basis, whereby the contributions attributable to different groups of members are invested separately and individual, or groups of, assets are at least notionally attributable to particular members or groups of members.
- 38 For a superannuation plan or approved deposit fund to be considered to be managing the assets attributable to different groups of members, and the related obligations to those members, on a ‘segregated’ basis, separate financial information in respect of the segregated groups of assets and related member obligations must be available and evaluated regularly by management of the plan or fund for the purpose of allocating resources and assessing performance. In these circumstances, a plan or fund would use the information reported to its management for decision-making purposes as the basis for determining the appropriate level of disaggregation with respect to disclosures about its assets and related member obligations, consistent with the ‘through the eyes of management’ approach applied under AASB 8 *Operating Segments* to operating segments. Paragraphs AG78 and AG80-AG81 of Appendix B to this Standard provide further guidance for determining the appropriate level of disaggregation with respect to disclosures about a plan’s or fund’s assets and related member obligations.
- 39 To meet the objective in paragraph 36, an entity discloses, as a minimum and as appropriate, the information specified in paragraph AG79 or AG82 of Appendix B to this Standard.
- 40 Where a superannuation plan or approved deposit fund manages its 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.**
- 41 Paragraphs AG83-AG88 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 40.

Arrangement and Management of Assets

- AG77 To comply with paragraph 36 and, when applicable, paragraph 40 of this Standard, a superannuation plan or approved deposit fund discloses information in accordance with paragraphs AG78-AG88 of this Appendix, as appropriate, in a manner consistent with the ‘through the eyes of management’ approach applied under AASB 8 *Operating Segments* to operating segments. Under AASB 8, an entity discloses disaggregated information that corresponds to the information provided to the entity’s chief operating decision maker for the purpose of managing the entity.
- AG78 A superannuation plan or approved deposit fund might arrange and manage its assets and obligations to particular groups of members on a single fund (or ‘pooled’) basis, whereby all of the contributions or transfers the plan or fund receives are pooled for investment purposes and individual or groups of assets are not notionally or actually attributable to particular members or groups of members. In these circumstances, the plan’s or fund’s chief operating decision maker would be expected to assess the entity’s performance and allocate resources based on financial information for the entity’s assets as a whole.

- AG79 To comply with paragraph 36 of this Standard, a superannuation plan or approved deposit fund that arranges and manages its assets and obligations to members on a single fund (or 'pooled') basis would disclose, as a minimum, that the assets of the plan or fund are managed as a single group of assets and individual assets are not actually or notionally attributable to particular members or groups of members.
- AG80 Alternatively, a superannuation plan or approved deposit fund might arrange and manage the assets attributable to different groups of members, and the related obligations to those members, on a 'segregated' basis, whereby the contributions attributable to different groups of members are invested separately and individual or groups of assets are at least notionally attributable to particular members or groups of members. The purpose of this might be to facilitate the plan or fund meeting its obligations to particular groups of members. For example, contributions attributable to defined benefit members might be invested 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. When determining the appropriate level of disaggregation with respect to the plan's or fund's assets and related member obligations, consistent with the 'through the eyes of management' approach applied under AASB 8 to operating segments, separate financial information about the different segregated groups would, at a minimum, need to be available and evaluated regularly by the plan's or fund's chief operating decision maker for the purpose of assessing performance and deciding how to allocate resources before disclosure is required.
- AG81 Determining the appropriate segregated groups may require judgement in some cases. The following examples are provided to assist in making such judgements.
- (a) Fund A operates as two separate segregated groups of members and related assets, a defined benefit group and a defined contribution group. The assets of the two groups are maintained as two separate segregated pools of assets, and invested in accordance with different investment mandates. Accordingly, Fund A would treat the two groups as two segregated groups of members and related assets for the purpose of applying paragraphs 36 and 40 of this Standard.
 - (b) Fund B provides members with twenty five different investment options. Each member allocates a portion of their member account to selected investment options. While investment returns/unit prices are calculated for each individual investment choice, financial information other than investment returns provided to the chief operating decision maker is prepared on a single fund basis. Accordingly, Fund B would not treat the different investment options as separate segregated groups of assets for the purpose of applying paragraph 36 of this Standard.
- AG82 To comply with paragraph 36 of this Standard, a superannuation plan or approved deposit fund that manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, would disclose, as a minimum:
- (a) that the plan or fund arranges and manages the assets attributable to different groups of members on a segregated basis; and
 - (b) information in relation to the member obligations that each segregated group of assets is being held to meet.
- AG83 To evaluate the overall financial performance and financial position of a superannuation plan or approved deposit fund that arranges and manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, it is necessary to evaluate the financial performance and financial position of each segregated group of assets of the plan or fund. Accordingly, to comply with paragraph 40(b) of this Standard, a plan or fund that arranges and manages the assets attributable to different groups of members and the related obligations on a segregated basis would disclose:
- (a) a measure of profit or loss for each segregated group; and
 - (b) information in relation to the financial position of each segregated group.
- AG84 A measure of the profit or loss of a segregated group would include the income and expense items directly attributable to the segregated group, 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) gains and losses; and
 - (d) tax expense or income.

- AG85 To enable users to evaluate overall financial 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 income and expense information disclosed in the income statement of the plan or fund.
- AG86 Information in relation to the financial position of each segregated group would include, but is not restricted to, the following:
- (a) the fair value less transaction costs of the total assets; and
 - (b) the amount of obligations for member benefits.
- AG87 When a superannuation plan or approved deposit fund manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, the levels of financial risks attributable to a segregated group of assets and the levels of risks attributable to the related obligations may differ materially from the levels of the corresponding risks attributable to the plan or fund as a whole. In these circumstances, to comply with paragraph 40(c) of this Standard, a plan or fund discloses:
- (a) the significant financial risks to which each segregated group is exposed;
 - (b) how the levels of the financial risks attributable to each segregated group differ from the levels of the corresponding risks at the entity level; and
 - (c) the main reasons for the differences.
- AG88 Where the levels of the financial risks attributable to a segregated group are not materially different from the levels of the corresponding risks at the superannuation plan or approved deposit fund level, this is disclosed by the plan or fund.

Arrangement and management of assets

- BC121 Information in relation to the way in which a superannuation plan or approved deposit fund arranges and manages assets attributable to different groups of members, and the related obligations to those 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 plan or fund is exposed.
- BC122 The AASB considered the different ways in which a superannuation plan or approved deposit fund could arrange and manage its assets and related obligations to members and concluded that the ‘through the eyes of management’ approach applied under AASB 8 *Operating Segments* to operating segments provides an appropriate basis for disclosures when a plan or fund manages its assets on a ‘segregated’ basis.
- BC123 The AASB noted that the application of a ‘through the eyes of management’ approach would facilitate the provision of information that corresponds to the information provided in internal management reports for managing a superannuation plan or approved deposit fund. The AASB also noted that a ‘through the eyes of management’ approach is generally less costly to apply than alternative approaches because it uses information that is generated internally for management’s use.
- BC124 The AASB concluded that, although superannuation plans and approved deposit funds are not required to apply AASB 8 under the proposals in ED 179, the ‘through the eyes of management’ approach applied under AASB 8 to operating segments is an appropriate approach for a plan or fund to apply in respect of the disclosure of information about assets attributable to different groups of members and the related obligations to those members because:
- (a) while plans and funds generally do not have identifiable operating segments, some plans and funds segregate their assets into different groups to facilitate meeting their obligations to different groups of members. In these circumstances, users would arguably benefit from these plans and funds disclosing information about such groups of assets and the related member obligations that corresponds to the information provided in management reports;
 - (b) the approach is sufficiently generic to be applied in respect of the disclosure of information about assets attributable to different groups of members; and
 - (c) the approach is consistent with that proposed in respect of other disclosures, such as disclosures about risks and risk management arrangements.

Appendix B – Collation of the written comments received from respondents on the segregated financial disclosure proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*,

Respondents’ views on Specific Matter for Comment (m) – whether there are any significant practical difficulties that would inhibit a superannuation plan or approved deposit fund disclosing information in relation to any segregated groups of assets attributable to different groups of members, and the related obligations to those members, in accordance with paragraph 40 of ED 179 and paragraphs AG80-AG88 of Appendix B to ED 179. If so, please describe the nature of these difficulties and how they might be overcome.

Respondent	Comments
Unisuper	<p>“This section deals with segregation of the different groups of members and the requirement for separate information on each group based on financial position and profit and loss. In our case there are probably four segregated groups from a liability perspective – accumulation, defined benefit, allocated pension and indexed pension. In practice for this hybrid fund there is segregation for the liability side but pooling for the asset and profit and loss components due to the use of a common ‘balanced’ asset allocation across the defined benefit, indexed pension and balanced investment choice components of the fund as well as pooled asset used for the different asset sectors supporting the remaining investment choice portfolios within the remaining accumulation and allocated pension liabilities.</p> <p>The level of detail required for the assets and profit and loss components for the segregated groups is problematic in relation to the ability to accurately calculate in our case. Is the possibility of a liability only measurement of segregation contemplated under ED 179?”</p>
Ernst and Young	<p>“Difficulties include:</p> <ul style="list-style-type: none"> • Defining segregated groups of members • Multi-employer sponsored plans and identifying segregated groups • Members may belong to more than one group • Pooling of assets across different groups <p>Difficulties could be overcome by:</p> <ul style="list-style-type: none"> • Applying materiality thresholds to minimize number of segregated groups”
Mercer	<p>“Mercer recommends that the circumstances in which plans must disclose separate financial information in respect of segregated groups of assets be clarified</p> <p>If a plan is required to disclose separate financial information in respect of each sub-fund that operates and/or each investment option offered, this will add significant costs and time spent to the production of the financial statements. This will be particularly the case for large master trusts. The large amount of additional information provided will add no value to the readers of the financial statements.</p> <p>Mercer suggests that the notes to the financial statements inform readers that they can obtain more detailed information on a particular segregated group of assets from the trustee of the fund.”</p> <p>“Paragraph 40 of the Exposure Draft and the guidance in paragraphs AG83-AG88 requires a plan to disclose information on assets, the financial position and significant financial risks for each segregated group of assets within a plan. A segregated group of assets is defined as a section of</p>

a plan for which separate financial information is available and evaluated regularly by management of the Superannuation Plan to allocate resources and assess performance.

The Application Guidance to the Exposure Draft suggests that a plan with multiple investment options would not need to disclose separate information for each option, where financial information for management is prepared on a single plan basis. We support the conclusion in the example in paragraph AG81(b), whereby a fund that calculates information returns/unit prices for each investment option and prepares other financial information on a single fund basis would not be required to treat each option as a separate segregated group of assets for disclosure purposes.

We do not believe that there are any circumstances in which disclosure of financial information for separate investment options is warranted. It is not clear from the guidance whether the following common situations satisfy the criteria for the management of assets and obligations on a 'segregated basis':

- the actual allocation between different asset classes within a particular investment option is adjusted to match the stated benchmark allocations following movements in investment markets (eg to increase the allocation to equities following a devaluation of equity investments); and
- the actual allocation of assets between investment options is adjusted to match the obligations of members (eg to reflect the changes in the options selected by members).

In each case a strict interpretation of the wording of the Exposure Draft could mean that the management of the plan is evaluating separate asset and obligation information for the purpose of allocating resources and assessing performance. We do not believe the fact that these tasks are undertaken from time to time should trigger the significant additional disclosures outlined in the Exposure Draft.

Requiring this level of detail would add significant additional costs and time spent on preparing financial statements. For example, the recent APRA publication of the level of investment returns for the 200 largest funds showed that more than 10% of these funds had more than 100 investment options.

It would appear from the guidance in the Exposure Draft that a sub-plan in a master trust would also be considered a segregated group of assets. For example, where a master trust contains defined benefit sub-plans, the Trustee would be provided with information on the performance of the sub-plans at regular intervals (at least once every 3 years). If this is the intention of the Exposure Draft, this would add significant additional time and expense to the preparation of the financial statements.

Some master trusts have tens or even hundreds of sub-plans – for example, the Mercer Super Trust has approximately 260 sub-funds, of which about 100 are defined benefit in nature. To require a master trust to disclose asset, profit or loss and financial position information for each sub-fund would be extremely onerous, particularly for the defined benefit sub-plans. It would add significantly to the size of the financial statements and hence the cost of producing them, and add little value to the readers of the statements.

If the requirements were extended to different investment options as well, this would add even more complexity to the financial statements of a master trust. Where a master trust has multiple sub-plans, each of which offers its members investment choice (such as the Mercer Super Trust), how would the plan determine the segregation of assets under the proposed requirements? Would it need to disclose separate information for each investment option? This would be totally impractical. The financial statements for the Mercer Super Trust could well run to thousands of pages if separate disclosures were required for every sub-fund and every investment option within each sub-fund. The sheer size of the statements would outweigh any possible benefit to readers (ie members) from the information disclosed.

An alternative to disclosing this information for every sub-plan or investment option could be to inform readers of the financial statements that they can obtain more detailed information on a particular sub-plan or investment option from the Trustee of the master trust (eg the report on the

	<p>actuarial valuation of a defined benefit sub-plan).</p> <p>If the AASB believes that there are circumstances in which separate disclosure is warranted, we suggest that the new standard is much clearer in defining segregation. The current wording of the standard and the guidance could easily be interpreted differently for the same set of circumstances, and plans could spend considerable time and expense producing information for disclosure that is not intended by the standard.”</p>
The Association of Superannuation Funds of Australia Limited	<p>“More clarification is needed in the ED to establish the circumstances where segregated reporting may be appropriate in superannuation funds. We support the comments made by the Joint Accounting Bodies on this matter.”</p>
Watson Wyatt	<p>“Paragraphs 36 to 41: Arrangement and Management of Assets: These paragraphs require disclosure of information in relation to the arrangement and management of assets including, where a superannuation plan manages its assets on a segregated basis, information that provides users with a basis for understanding:</p> <p>(a) the type and nature of the assets within each segregated group of assets;</p> <p>(b) the financial performance and financial position of each segregated group of assets; and</p> <p>(c) the significant financial risk to which each segregated group of assets is exposed when the levels of such risk differ materially from the levels of the corresponding risks at the entity level.</p> <p>If, as we expect, this requirement will apply to plans which offer their members separate investment options, the additional disclosure required could be substantial. In some cases, particularly with plans operated by retail providers, the number of separate investment options is very large. This information will already be disclosed in other documents required to be produced by plans including the plan’s annual report. We do not believe that plans should be required to go to the expense of duplicating and summarising this information in the financial statements. Interested users should seek this information from the source documents on in the plan disclosure documents prepared specifically for that purpose.</p> <p>We do not consider that there is sufficient need or demand for information on a segregated basis to warrant the additional cost and expense that would be incurred to make the additional disclosures at an investment option level.”</p> <p>“To ensure consistent (and a level playing field) in the financial reporting statements of multiemployer plans, versus standalone plans, we would suggest that an ED179 compliant report (as amended, following industry comments) be mandated for each different ‘sub-plan’ as that expression is used in the Corporations Regulation 2001. It would be important, however, that individual investment option portfolios not be treated as sub-plans.</p> <p>If the AASB adopts ED179, it is likely that mastertrusts and multiemployer plans will be concerned about the length of their resulting ED179 financial statements, and the usefulness of these long reports to users (given the differing sponsoring employers of subplans). The suggestion above is not intended to combine each and every ED179 report into an extended disclosure report for the entity as a whole – however, individual ED179 could be issued for each sub-plan which meet the spirit of the required reporting standard. This will overcome the concern about length of the reports, and yet be tailored to meet the needs of each sub-plans users.”</p>
Australian Institute of Superannuation Trustees	<p>“AASB Operating Segments</p> <p>ED179 proposes that superannuation plans report on the logical segments that their business decisions are based on, in accordance with AASB 8.</p>

Arguments for

Logical segments do exist – segments are especially important in the case of a hybrid fund, where defined benefit and defined contribution options share a liquidity pool. In such scenarios, it is possible that one of the plan’s needs places the other plan’s members at a disadvantage. Likewise, another logical segment exists with pension assets, which are treated differently for taxation purposes. Arguably, the move to operating segments will enhance the management of the fund.

Increased transparency – operating segments increase investor transparency, facilitate easier reconciliation of performance calculations and may, over time, increase the comparability of funds.

Management efficiency – management expense ratios enable management and investors to ascertain the investment efficiencies that the fund is able to achieve. Operating segments increase the ability to cross check these calculations, thereby focusing investor attention and aiding fund comparability. As the industry matures, efficiency becomes critical and segmented reporting will facilitate such analysis.

Arguments against

Under the draft, segment reporting is based on management decisions and, where the assets of a fund are managed as a pool, it can be argued that segments do not exist. However, the view expressed consistently during our consultation is that while the assets are managed as a pool, the management of the assets focuses on matching of liabilities, and it is here that the real segments exist. Asset pooling is used for cost and operating efficiency; to use this argument is a reason for not segregating is inappropriate.

Preferred position

AIST is favourable towards segment reporting as it fosters transparency and facilitates unit pricing. Segmented reporting forces cost allocations to be documented and scrutinised. Over time, segmented reporting will reduce the ability for trustees to cross-subsidise costs within funds. However, we believe further guidance is required in the draft to ensure sector reporting is focused on liabilities, and also to ensure that segments align with the APRA concept of ‘sub-fund’.”

“APRA Alignment

Following the aftermath of the worst financial crisis since the Great Depression, APRA identified a shortfall within its existing superannuation data collections. With the objective of increasing regulatory oversight and risk mitigation, APRA released a discussion paper entitled *Enhanced APRA superannuation statistics collections* on 25 May 2009. The paper clearly details the regulator’s desire to delve deeper into the operations of superannuation funds by dissecting them into logical sub-funds.

The most important aspect of the APRA paper is that we are able to get high level information for each of the fund’s logical sub-funds. One of the interesting elements of the APRA paper is that it proposes a series of requirements for sub-funds, with the definition of a sub-fund based on the fund’s liabilities.

The assumption is that ED179 proposes that funds report on segments with the distinction being an asset-based distinction, given superannuation is about liability management it follows that the appropriate distinction be liability based. The focus on segments enables users to foster a better understanding of how the fund manages the assets attributable to different member groups. The dominant view that emerged from AIST’s roundtable discussions was that if a fund can demonstrate that it manages assets as a pool, there is no logical sub-fund for ED179 purposes.

This argument, that assets are pooled and managed as a whole, is not a legitimate reason to avoid segmented reporting. Asset pooling has evolved over time for efficiency and cost minimisation purposes and it should therefore be ignored as an argument against segmented reporting. To support this argument indicates that segmented reporting is only valid if a fund has a segmented structure. In fact, pooling achieves

	<p>economies of scale for the management of all assets, the returns of which are then apportioned appropriately. Sub-funds do exist and they are defined by their products, the products' members, and their associated assets.</p> <p>Both the Accounting Standards Board and APRA appear to be working with the same focus: risk mitigation and reporting. It seems logical that the APRA definitions for sub-funds and ED179's proposed segmentation definitions align, thereby eliminating the possibility for conflicting definitions which result in funds operating two levels of segmenting reporting: one for APRA and one for AASB requirements. We have made a submission to APRA suggesting that they provide further guidance on the definition of 'sub-fund'.</p> <p>Irrespective of whether it is from an asset or liability perspective, it is imperative that the definitions align for efficiency and, more importantly, to limit confusion. Once this is achieved, reporting systems and risk management systems will align and lead to a sophisticated reporting system that is monitored from two angles: reporting under the Accounting Standards, and reporting to APRA through returns."</p>
Corporate Super Association	<p>"In the context of users, it is questionable whether segment reporting will be of use or relevant in the context of full financial reports. Typically plan and investment option reporting information is provided in fund annual reports, and regulators also receive fund level reporting. By way of these other reports, the users receive segmented reports appropriate to the context."</p>
CPA Australia, Institute of Chartered Accountants and National Institute of Accountants	<p>"It is appropriate to disclose segregated information in some circumstances, but we would like the AASB to provide more guidance on what is required. The ED could be interpreted to mean a plan would need to disclose segregated information for every sub-plan, in some cases amounting to hundreds of disclosures.</p> <p>A plan may be disaggregated into many sub-plans for tracking purposes, but managed at a significantly higher level. We recommend they standard clarify the segregation be based on the way a plan is managed, rather than how it is tracked. This is akin to the segment disclosures 'through the eyes of management' as required by AASB 8 <i>Operating Segments</i>. Such clarification should consider issues such as investment choices made by members."</p>
Dr Isabel Gordon	<p>"How assets are managed between groups of members is also relevant for DBP members for whom the choice of fund legislation does not apply."</p>
Institute of Actuaries of Australia	<p>"Paragraph 40 of the Exposure Draft and the guidance in paragraphs AG83-AG88 require a plan to disclose information on assets, the financial position and significant financial risks for each segregated group of assets within a plan. A segregated group of assets is defined as a section of a plan for which separate financial information is available and evaluated regularly by management of the Superannuation Plan to allocate resources and assess performance.</p> <p>It would appear from the guidance in the Exposure Draft that a sub-plan in a master trust would be considered a segregated group of assets. For example, where a master trust contains defined benefit sub-plans, the Trustee would be provided with information on the performance of the sub-plans at regular intervals (at least once every 3 years). If this is the intention of the Exposure Draft, this would add significant additional item and expense to the preparation of the financial statements.</p> <p>Some master trusts have tens or even hundreds of sub-plans – to require the master trust to disclose asset, profit or loss and financial position information for each one would be extremely onerous, particularly where a sub-plan provides defined benefits to its members. It would add significantly to the size of the financial statements, and the cost of producing them, and add little value to the readers of the statements (who, if they are members, would generally only be interested in the sub-plan of which they are a member. We could envisage the financial statements for a large master trust running to hundreds of pages in order to comply with these requirements. The sheer size of the statements would outweigh any possible benefit from the information disclosed.</p> <p>An alternative to disclosing this information for every sub-plan could be to inform readers of the financial statements that they can obtain more</p>

	<p>detailed information on a particular sub-plan from the Trustee of the master trust (eg the report on the actuarial valuation of a defined benefit sub-plan).</p> <p>The Application Guidance to the Exposure Draft suggests that a plan with multiple investment options would not need to disclose separate information for each option where financial information for management is prepared on a single plan basis. It is not clear from this guidance what the requirements would be if management uses information to rebalance the plan's assets between investment options to match assets and member liabilities. Does this represent segregation of assets, and hence mean separate disclosures are required? If so, this would result in the same issues as for a master trust with multiple sub-plans – significant additional costs and time spent on preparing financial statements.</p> <p>Where a master trust has multiple sub-plans, each of which offers it members investment choice, how would the plan determine the segregation of assets under the proposed requirements? Would it need to disclose separate information for each sub-plan, and then within each sub-plan separate information for each investment option? This would seem to be impractical.</p> <p>We do not believe that plans should be required to disclose separate information for each sub-plan or each investment option, as the benefits of disclosure are limited compared with the significant additional costs that would be incurred. If the AASB believes that there are circumstance sin which separate disclosure is warranted, we suggest that the new standard is very clear in defining segregation The current wording of the standard and the guidance could easily be interpreted differently for the same set of circumstances, and plans could spend considerable time and expense producing information for disclosure that is not intended by the standard.”</p>
<p>Sharyn Long Chartered Accountants</p>	<p>“This could be quite an onerous disclosure requirement without some guidance as to what level the segregation would be required to be disclosed.</p> <p>We recommend an approach similar to AASB 8 <i>Operating Segments</i> which is more focused operating segments rather than on an administered basis. This would make the measurement the assets, performance and risk a relatively easier process. This is because the information would, in all likelihood, already have been prepared for management and the trustees.”</p>
<p>National Australia Bank</p>	<p>“We believe the level of the disclosures proposed for segregated groups of assets are onerous and we struggle to support the proposal. In particular, AG84 and AG85 are problematic. In our view, the cost of providing such disclosure probably outweighs the benefit. Most of the superannuation funds have got their back office functions outsourced. Therefore, the more disclosure information is required, the more the plans will have to pay for it. This will in turn impact the bottom line of the plans. We recommend the amount of disclosure required for asset groups to be reduced.”</p>
<p>PricewaterhouseCoopers</p>	<p>“We concur with the AASB that there are many plans for which some level of disaggregation is appropriate. However we believe that the industry should be given a reasonable amount of flexibility in terms of the requirement to provide disaggregated information. For example, where there are multiple sub groups of defined benefit members in a master trust where the majority of members are defined contribution members, the trustee allocates the assets on a defined benefit/defined contribution sub-plan level and the ED could be interpreted to mean a plan would need to disclose disaggregated information for every sub-plan. The ED should clarify that the disaggregation be based on the way a plan is managed, which is akin to the segment disclosures ‘through the eyes of management’ as required by AASB 8 <i>Operating Segments</i>.”</p>