Australian Government
Australian Accounting Standards Board

# Superannuation Entities

## Project summary

This is a (domestic) AASB project. The objective of the project is to develop a standard to replace AAS 25 *Financial Reporting by Superannuation Plans* issued in 1993. AAS 25 was intended to address the financial reporting issues that superannuation plans were specifically dealing with at the time. However, recent developments in the superannuation industry and the adoption of International Financial Reporting Standards (IFRSs) mean there is the need for a comprehensive review of the general purpose financial reporting requirements applicable to superannuation entities. The replacement Standard is intended to address deficiencies in AAS 25 and make the requirements for superannuation entities more consistent with current requirements in Australian Accounting Standards.

## Project contact

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**Project priority:** High

### Issued documents

- ED 179 *Superannuation Plans and Approved Deposit Funds* (May 2009)
- ED 223 *Superannuation Entities* (December 2011)
- Standard for fatal flaw review (December 2013)

### Project status

- Redeliberations have occurred on a Pre-ballot Draft Standard and the final Standard is expected to made in Q2 2014

### AASB outreach

- Comment letters received on ED 179
- Comment letters on ED 223
- Comment letters on Standard for fatal flaw review

## Project Background

**The main differences between AAS 25 and the Pre-ballot Draft Standard for fatal flaw comment (the Draft Standard) are highlighted**

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| **Application of Australian Accounting Standards** | AAS 25 required superannuation entities to apply, where appropriate, Australian Accounting Standards, but with some significant exceptions. The Draft Standard takes a similar approach, but is far more integrated with other Australian Accounting Standards (and therefore with International Financial Reporting Standards).<br><br>Under AAS 25, superannuation plans whose only assets (other than temporary deposits at call with a bank) are endowment, whole of life or other long-term insurance policies which match and fully guarantee the benefits to be paid to individual members were not required to comply with a number of the recognition, measurement, presentation and disclosure requirements of AAS 25 [paragraph 66]. The general purpose financial report of such plans needed only to report a limited amount of information.<br><br>No equivalent exemption is provided in the Draft Standard. |
| **Superannuation Entity Definition** | The Draft Standard defines a 'superannuation entity' as an entity that constitutes one or more superannuation plan(s) or an approved deposit fund. A 'superannuation plan' is an entity that is: |

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| | (a) regulated under the Superannuation Industry (Supervision) Act 1993 or similar legislative requirements in the case of an exempt public sector superannuation plan; and<br>(b) established and maintained: (i) in order to receive superannuation contributions; and (ii) for the primary purpose of providing benefits to members upon their retirement, death, disablement or other event that qualifies as a condition of release for member benefits.<br>AAS 25 had a different definition; namely: an arrangement whereby it is agreed, between trustees and employers, employees or self-employed persons, that benefits be provided upon retirement of plan members or upon their resignation, death disablement or other specified event(s).<br>The entities identified as having to apply the Draft Standard comment are not expected to differ greatly from those identified as having to apply AAS 25. |
| **Presentation of Financial Statements** | The Draft Standard requires that superannuation entities present:<br>(a) a statement of financial position;<br>(b) an income statement;<br>(c) a statement of changes in equity/reserves;<br>(d) a statement of cash flows;<br>(e) a statement of changes in member benefits.<br>AAS 25 required a defined contribution plan, and permitted a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows. Alternatively, defined benefit plans could present a statement of net assets and a statement of changes in net assets.<br>**Income Statement**<br>The items that the Draft Standard requires to be presented in the income statement include: revenues; expenses; gains and losses arising from the remeasurement of assets and liabilities measured at fair value; net benefits allocated to member accounts; and net change in defined benefit member liabilities.<br>The Draft Standard regards contributions from employers and members and benefits to members as affecting member liabilities, not as income and expenses.<br>AAS 25 required changes in the net market value of assets and financial liabilities to be included as a component of revenue. Contributions from employers and members and benefits to members were accounted for as income and expenses.<br>**Statement of Changes in Equity/Reserves**<br>The Draft Standard envisages that a difference may exist between total assets and liabilities (including member liabilities and any obligations to employer-sponsors) in the nature of equity/reserves that would be presented in the statement of financial position, with changes from period to period presented in a statement of changes in equity/reserves.<br>AAS 25 did not explicitly address this topic.<br>**Statement of Changes in Member Benefits**<br>The Draft Standard requires a statement of changes in member benefits to be presented |

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| | and that it includes:<br>• contributions, rollovers and transfers from employers and members;<br>• income tax on contributions;<br>• benefits to members;<br>• net investment income allocated to members; and<br>• administration expenses charged to members.<br>The Draft Standard also requires that current and deferred tax be charged directly to member liabilities and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member liabilities.<br>AAS 25 did not require presentation of a statement of changes in member benefits. |
| **Assets and Liabilities Measured at Fair Value** | The Draft Standard requires the measurement approach of 'fair value through profit or loss' with specific exceptions. The exceptions include member liabilities and tax balances.<br>AAS 25 required assets and financial liabilities to be measured at 'net market values' with similar exceptions to those applying under the Draft Standard. |
| **Member Liabilities** | The Draft Standard requires both defined contribution and defined benefit member liabilities to be recognised and measured as the amount of accrued benefits. The measurement principle in the Draft Standard for a defined benefit member liability is the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would meet accrued benefits when they are expected to fall due.<br>The Draft Standard requires defined benefit member liabilities to be measured at each reporting date. However, it does not identify any particular methodologies that might be employed in measuring defined benefit member liabilities, for example, when an actuary is not engaged to conduct a full actuarial valuation, and superannuation entities may use estimates, averages and computational shortcuts provided that any shortcut techniques used yield a reliable approximation of the defined benefit member liabilities.<br>AAS 25 required defined contribution member liabilities to be determined as the difference between assets and 'other' liabilities. It required defined benefit member liabilities to be determined as the present value of expected future payments (remeasured at least once each three years). |
| **Employer-sponsor Receivables** | The Draft Standard requires an asset to be recognised to the extent there is a receivable from an employer-sponsor in respect of a difference between a defined benefit member liability and the fair value of assets available to meet that liability that meets the definition and recognition criteria for an asset. The asset is required to be measured at its 'intrinsic value' (the amount of the difference). The requirement is expected to give rise to the recognition of an asset in only a limited number of cases.<br>AAS 25 did not address employer-sponsor receivables. |
| **Disclosure** | The Draft Standard has of a number of disclosure 'principles', including requiring the following disclosures: |

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| | • information that provides users with a basis for understanding the nature of the entity, the benefits provided to members and the expenses it incurs;<br>• information about changes in key components of defined benefit member liabilities that provides users with a basis for understanding the overall change;<br>• deeming defined contribution member liabilities to be within the scope of AASB 7 in respect of credit risk, market risk and liquidity risk (not the fair value disclosures);<br>• in relation to accrued defined benefit member liabilities, the basis for the assumptions used in measurement, including the manner in which they are determined, the impact of changes to demographic assumptions compared with changes in financial assumptions, and the sensitivity of the liabilities to reasonably possible changes in key assumptions, and;<br>• when net assets attributable to defined benefit members differs from defined benefit member liabilities, information explaining the policies for managing the difference;<br>• disaggregated financial information where that would help to explain the risks to which different categories of members are exposed.<br><br>AAS 25 required relatively specific disclosures about classes of assets, liabilities, investment revenue and expenses. Many of these related to member liabilities and would be captured in the statement of changes in member benefits required by the Draft Standard. |
| **Insurance Arrangements** | Whether a superannuation entity has an obligation under insurance arrangements, or is only acting as an agent will depend on the nature of the arrangements. The Draft Standard requires that, when a superannuation entity has an obligation under insurance arrangements provided to members (whether defined contribution or defined benefit), any insurance contract liabilities are measured in a manner consistent with the way in which defined benefit member liabilities are measured. In respect of insurance arrangements relating to defined contribution members, any recognised assets, liabilities, premiums, claim expenses, reinsurance costs and reinsurance recoveries would be presented in the income statement.<br><br>AAS 25 did not address insurance arrangements provided to members other than in the context of providing an exemption from some of the requirements of AAS 25 for a plan that purchases insurance policies that match and guarantee benefits to members. |
| **Consolidated Financial Statements** | Consolidated financial statements are not specifically addressed in the Draft Standard. The requirements of AASB 10 Consolidated Financial Statements, as amended by AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities, would apply. There is an exception in AASB 105X from AASB 10 and AASB 138 Intangible Assets, which requires acquired intangible assets to be remeasured each period.<br><br>Consolidated financial statements were also not specifically addressed in AAS 25.<br><br>AASB 10 is relevant for determining when a consolidation takes place. The AASB 2013-5 amendments provide an exception from consolidation for investment entities, which could include superannuation entities. The exception applies to all subsidiaries of investment entities except subsidiaries that provide services relating to the investment entity's investment activities. |