



9 October 2009

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Email: standard@asb.gov.au

Dear Sir,

AASB Exposure Draft 179 Superannuation Plans and Approved Deposit Funds

We, at NAB Asset Servicing, would like to thank you for the opportunity to provide comment on the proposals included in the Exposure Draft 179 *Superannuation Plans and Approved Deposit Funds* ("ED 179").

NAB Asset Servicing provides settlement and custody services, and back office functions including financial reporting, regulatory reporting, accounting and taxation services, to domestic and international institutions covering all classes of securities. Our client groups comprise government related superannuation funds, investment managers, federal and state government agencies, corporate superannuation funds, industry funds, managed investment funds and other types of investment funds.

Broadly, we support the revision of the current Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans* in the context of International Financial Reporting Standards ("IFRS") resulting in the issue of ED 179.

We also support the overall proposals included in ED 179, subject to our specific concerns and comments discussed in the summary below and further in APPENDIX A attached.

In brief, we believe that:

- Superannuation plans should not be required to account for insurance contracts in accordance with AASB 1038 *Life Insurance Contracts* in the case where it is determined that the plans do not undertake the insurance risk in their own names.
- The requirement to consolidate a subsidiary is exempted in the case where it is determined that the plans have neither effective control over the subsidiary nor any power to direct the subsidiary's activities.
- It would be in the best interest of the Australian economy if the proposed level of segment reporting proposed for asset groups is reduced.
- More clarification and explanation is needed for the pricing method of investment assets and liabilities.

- Consideration be given to exempting the application of the proposed standard to comparative information given that the standard arising out of ED 179 has not been finalised at this stage and reporting entities would need sufficient time to amend current systems, policies and procedures to accommodate the new requirements. This is especially relevant in light of the current strain on resources in the superannuation business and the superannuation and information technology industries in coping with system amendments required for TOFA (“Taxation of Financial Arrangements”) implementation. It would be in the best interest of the Australian economy if the proposed effective date can be delayed and/or the exemption regarding the comparatives discussed above can be given.
- It would be more consistent with the concept of fair value if the movement in the fair value of a subsidiary is recognised as ‘unrealised gain/(loss)’, as opposed to goodwill, in the same way as any other assets or investments that are designated at ‘fair value through profit or loss’.
- With regard to the drafting of disclosure requirements, we recommend the proposed standard to refer to AASB 7 *Financial Instruments: Disclosure* rather than repeating requirements from that Standard.
- ED 179 makes no mention of the treatment for transaction costs which are incurred upon the purchase and/or sale of an investment. Currently they are capitalised into the cost of the investment. It would be helpful to the preparers of the reports if this treatment can be clarified in the standard arising from ED 179.

If you have any queries regarding this submission or wish to discuss any comments, please do not hesitate to contact either myself (on 8641 1901) or Anne Vuong, Head of Accounting Policy, (on 8641 4604). Our email addresses are ray.lester@nab.com.au and anne.vuong@nab.com.au.

Yours faithfully,



Ray Lester
Director, Delivery Services
NAB Asset Servicing

Specific Matters for Comment

(a) the recognition principles in paragraph 10 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund;

We agree with the recognition principles stated in paragraph 10 that are applicable to all assets and liabilities, and in particular, to obligations for members' benefits in the case of defined benefit plans and defined contribution plans.

With regard to obligations and assets arising from insurance contracts, we note that there are cases where the insurance contracts are not issued directly by the superannuation plans. In these cases, the plans are probably only acting as agents for the underlying insurance companies and may not undertake insurance risks in their own name. Accordingly, in these cases it is probably not appropriate to require the superannuation plans to recognise the insurance contracts in accordance with AASB 1038. We agree that where the plans undertake the insurance risk in their own name it is appropriate to recognise the contracts in accordance with AASB 1038. We believe that this distinction should be made in the accounting standard arising from ED 179. Appropriate guidance should also be provided to assist the plans in identifying the difference.

With regard to the requirement for a superannuation plan to consolidate its subsidiaries, we acknowledge there are cases where consolidation should be required, in particular, in the case where the plans clearly own and controls another entity, e.g. a business or an operating company. In the case where there is no effective or real control, e.g. the plan has no control over (i) investment decisions which are made by the fund managers in accordance with investment mandates predetermined by Product Disclosure Statements; (ii) the running of the subsidiary; and has no power to direct the activities of the subsidiary to generate returns. In many of these cases, we believe that ownership of 50% or over of the subsidiary alone is not sufficient to determine that the subsidiary should be consolidated. In those cases, we recommend the requirement to consolidate be exempted.

(b) a superannuation plan or approved deposit fund should be required to measure at fair value adjusted for transaction costs all of its:

(i) assets, except for:

(A) tax assets;

(B) assets arising from insurance contracts issued by the entity; and

(C) goodwill; and

(ii) liabilities, except for:

(A) tax liabilities;

(B) obligations for defined contribution members' vested benefits;

(C) obligations for defined benefit members' accrued benefits; and

(D) obligations arising from insurance contracts issued by the entity;

Currently investment assets of a superannuation plan are measured at net market value which, we believe, is determined using the mid price of the assets. We note there is no definition of 'fair value' in ED 179. Therefore we can only assume that the definition of 'fair value' in AASB 139 *Financial Instruments: Recognition and Measurement* would apply to ED 179 as well. Based on the concept of 'fair value' in AASB 139, assets are valued using 'bid price' and liabilities are valued using 'asking price'. Following from this, we understand that ED 179 would propose to require assets to be

measured at bid price and liabilities at ask price. This proposal in itself presents a change to the valuation of the investments, in our view. For superannuation plans whose unit price is struck at net market value (as currently the case), this difference in pricing method would present a reconciliation discrepancy between the value of investments used for unit pricing and financial reporting purposes. This, in turn, will create an impact on the plans. We recommend the AASB reconsider this proposal. In the event that the proposal is proceeded, we recommend the impact resulting from the difference in the two pricing methods be explained in the Basis for Conclusions.

We note that the operative date for the standard arising from ED 179 is likely from 1 July 2010 and that prior period comparative information will be required for the first year of adoption of the standard. This would effectively require adjustments made to financial information for annual year commencing from 1 July 2009. Given that the standard arising out of ED 179 has not been finalised, reporting entities may not have sufficient time to adjust systems, policies and procedures to produce the adjustments to the comparative information. This is particularly essential to the superannuation business and to the superannuation and information technology industries as a whole where the respective resources have already been stretched to cope with the demands of TOFA. Accordingly we urge the AASB to reconsider the proposed effective date and/or the possibility of exempting the application of the standard to comparative information in the first year of adoption of the standard if the current proposed effective date cannot be extended.

On a separate issue, we note that BC23 commented that assets under AAS 25 are currently measured at 'asking' price. We believe that they are currently measured at 'mid-price' rather than at 'asking price'. We recommend the drafting of BC23 be clarified.

- (c) **the guidance in paragraphs AG13-AG32 of Appendix B to this Exposure Draft is sufficient to facilitate reliable measurements of obligations for defined benefit members' accrued benefits and comparable measurements of such obligations between superannuation plans and over time. In particular, whether a superannuation plan with defined benefit members who will accrue materially higher levels of benefits as they near retirement age should be:**
- (i) **permitted to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances, as proposed in paragraph AG17 of Appendix B to this Exposure Draft;**
 - (ii) **required to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations; or**
 - (iii) **required to attribute such members' benefits to reporting periods on a basis other than a straight-line basis;**

We have no comment on this matter.

- (d) **any superannuation plans in Australia have defined benefit members whose level of benefits could be altered by externally imposed requirements, such as the level of state retirement benefits, as noted in paragraph 18(c) of this Exposure Draft and paragraph AG30 of Appendix B to this Exposure Draft. If so, please describe the nature of these externally imposed requirements and how they are currently incorporated into the measurement of defined benefit members' entitlements;**

We have no comment on this matter.

- (e) **there are any significant practical difficulties that would inhibit the reliable measurement of obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts* as proposed in paragraph 21 of**

this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;

We believe that the plans may not be able to carry out the measurement of insurance contracts as required by AASB 1038 themselves due to the inherent lack of expertise by the plans in this area. Hence they may have no choice but having to commission external valuations at additional cost to the plans. It is likely that the trustee to the plans will pass on such costs to the plan members thereby impacting the members' benefits ultimately. On this basis, we recommend the AASB to reconsider whether the costs outweigh the benefits (if any) to the members with regard to this proposal.

- (f) there are any circumstances in which a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors) would not be equity as defined in Australian Accounting Standards;**

We have no comment on this matter.

- (g) a superannuation plan that has members who are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement or other event that qualifies as a condition for releasing superannuation benefits (refer to paragraphs BC52-BC56 of the Basis for Conclusions to this Exposure Draft) should recognise the 'higher of' benefit option separately from the defined benefit 'host promise'.**

If you agree that a superannuation plan should separately recognise a 'higher of' benefit option, how might the option be measured?

We do not believe a superannuation plan should be required to separately recognise a 'higher of' benefit option.

- (h) there are any significant practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with paragraph 30 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;**

There are many perceived significant practical difficulties inherently experienced by the plans in the preparation of consolidated financial statements. Some of these include:

- Where the consolidation involves external investment trusts, it is difficult to obtain financial data from entities external to the plans to enable the consolidated financial statement to be prepared. The plans have neither control over these entities nor any power to direct their activities.
- It is struggling for the plans to carry out sensitivity analysis (as required by AASB 7) for the subsidiary's investment where they are from external investment funds.
- Operational challenging and practical difficulties in managing and identifying individual investments that is attributable to a change in ownership in controlled entities that are not resulted in loss of control. These investments are required to be reported as part of equity in the statement of changes in equity and the associated cash flows are required to be reported as financing activities in the statement of cash flows.
- We perceive that there is an interpretational issue with regard to the application of the current amending standard (AASB 2008-3) on cash flow statement. AASB 2008-3 requires cash flows associated with a change in ownership in controlled entities to be shown as financing activities on the statement of cash flows when the change in ownership does not result in loss of control. We question whether this requirement applies to the case where the plan's subsidiary is designated at 'fair value through profit or loss'.

- Plans are required to consolidate and deconsolidate constantly each year depending on whether the level of its ownership in the subsidiary under, equal to or over 50%. It is time-consuming and difficult to manage operationally and information produced does not mean much to report users in any event.

- (i) a parent superannuation plan or parent approved deposit fund should be permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities that are attributable to a subsidiary and have arisen subsequent to the subsidiary's acquisition by the parent plan or parent fund when such items are reliably measurable;**

We do not support the recognition of movement in the fair value of a subsidiary as internally generated goodwill. We believe it would be more appropriate to recognise it as 'unrealised gain/(loss)' in the same way as any other assets or investments that are designated at 'fair value through profit or loss' in accordance with AASB 139. Typically, the parent's investment in subsidiary is accounted for at fair value through profit or loss in accordance with AASB 139 where any movement in its fair value is taken to profit or loss.

- (j) a parent superannuation plan or parent approved deposit fund should be required to recognise and present any excess of the amount of the net assets of a subsidiary that are recognised by the parent over the sum of the parent plan's or parent fund's interest and any non-controlling interests in the subsidiary as a remeasurement gain in the consolidated income statement in the reporting period in which it occurs;**

We agree with the proposal.

- (k) a parent superannuation plan or parent approved deposit fund should be permitted or required to measure any non-controlling interests at fair value of equity at the end of each reporting period in a manner consistent with the approach illustrated in Illustrative Example D of Appendix C to this Exposure Draft;**

We agree with the proposal.

- (l) the disclosure principles in paragraphs 32-50 of this Exposure Draft:**

- (i) are appropriate for a superannuation plan or approved deposit fund;**
- (ii) would provide useful information for users of the general purpose financial statements of a superannuation plan or approved deposit fund; and**
- (iii) would be sufficient to facilitate reliable and comparable disclosures between superannuation entities and over time;**

We believe that:

- The proposed disclosure at AG52(b) should not have to be prescribed or required to be included in the financial reports. It may be included in the general information section of the annual report, but it is not appropriate for it to be prescribed within an accounting standard.
- We understand the approach taken in ED 179 associated with the specification of the disclosure requirements was intended to specify only the principles for disclosure. However, given the current drafting, the requirements appear to be prescriptive. We would prefer the proposed standard refers to disclosure requirements of AASB 7 rather than repeating requirements from that Standard. This approach would help minimise any potential implementational and interpretational issues and difficulties to the preparers and the users of the reports. Also, it would reduce the need to amend the proposed standard every time AASB 7 or other relevant standards are amended.

- (m) 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 this Exposure Draft and paragraphs AG80-AG88 of Appendix B to this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;**

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.

- (n) the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would provide useful information for users. If you agree that the proposals in paragraph 46 of this Exposure Draft would not be adequate for users' needs, please explain how this information should be presented;**

We believe the proposed disclosures in paragraph 46 are adequate.

- (o) it would be more useful if the Standard provided example financial statements for a superannuation plan comprising both defined contribution and defined benefit members rather than explaining how the financial statements of a plan with defined benefit members only would differ from those of a plan with defined contribution members only (as provided in Illustrative Examples A and B in Appendix C to this Exposure Draft);**

Yes, it would be more helpful to have more example financial statements, notes to the financial statements including 'obtaining a subsidiary' and 'losing a subsidiary' notes.

- (p) the approach adopted in drafting this Exposure Draft is helpful for understanding how a superannuation plan or approved deposit fund might apply the proposals in this Exposure Draft, particularly the disclosure principles, in conjunction with the relevant principles and requirements in other Australian Accounting Standards. If you do not consider the approach adopted in this Exposure Draft to be helpful, please describe the type of approach you would prefer;**

Please refer to our comment on Item (l) above.

- (q) overall, the proposals would result in general purpose financial statements that would be useful to users; and**

Overall we agree with the proposals except the requirement for consolidation and the requirement for the level of segment reporting with regard to asset groups, as discussed above. We believe those two requirements in their current form would not be useful to report users. We also believe that the proposals would result in financial statements that would be more useful to report users if the issues raised elsewhere in this submission are addressed.

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

We agree the proposals are in the best interest of the Australian economy except the proposed requirements in relation to the following items, the details of which are discussed elsewhere in the submission:

- Consolidation.
- Segment reporting with regard to asset groups
- In the case where the effective date is not extended and/or the application of the proposed standard to the comparative information under the current proposed effective date is not exempted.

We believe the three requirements, in their current form, would not be in the best interest of the Australian economy.