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

Dear Sir,

ED 179 Superannuation Plans and Approved Deposit Funds

AXA Australia ("AXA") welcomes the opportunity to comment on ED 179 "Superannuation Plans and Approved Deposit Funds" (the Exposure Draft).

Background

AXA is a leading provider of superannuation, life insurance, managed investments, investor directed portfolio services and financial advice to retail clients in the Australian financial services market. As a provider of superannuation products, AXA is required to prepare financial statements for the trusts which comprise these products, and will be directly impacted by the proposals in the Exposure Draft. The proposals will have a particular impact on AXA's "master trust" or "platform" superannuation products.

The largest of these products, the Summit Master Trust Personal Superannuation and Pension Fund ("Summit") is a portfolio administration service that allows members to choose from a diverse range of investments while AXA performs the ongoing administration, reporting and communication to members. At 30 June 2009, Summit had approximately 95,000 members and \$10.2 billion in funds under administration.

Unlike a unitised product or defined benefit superannuation fund, member investments in Summit are not pooled. The member selects investments from the "Investment Menu" and these are recorded separately on behalf of the individual member. The Investment Menu offers investments from a range of different fund managers (eg. AMP, Colonial) and AXA managed options which are portfolios constructed by AXA to give members access to specific asset allocations i.e. Balanced or Growth. In addition, members can make direct investments in cash, fixed interest or equities.

The AXA managed options are separate Managed Investment Schemes ("MIS") where the Responsible Entity of each scheme is part of the AXA group. Summit has a significant holding in most of these MIS, and in fact has a "controlling interest" in 33 out of the 42 MIS offered by AXA. In addition, it is possible that Summit may own more than 50% of the units in the MIS operated by fund managers external to the AXA group.

Consolidation

Under the proposals in the Exposure Draft, AXA will be required to prepare consolidated financial statements for Summit as well as AXA's other superannuation products.

AXA's view is that consolidation is inappropriate for any superannuation entity which offers a choice of investments to its members, and that there should be a carve out from the consolidation rule for such entities.

Our rationale is outlined below.

Control

AASB 127 requires consolidated financial statements to be prepared where a parent entity controls a subsidiary.

"Control" is defined as the **power to govern** the financial and operating policies of an entity so as to obtain **benefits** from its activities.

Control is presumed to exist when the parent owns more than **half of the voting power** of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

Despite the fact that master trusts such as Summit may legally own more than half of the units issued by the relevant MIS, control of the MIS does not necessarily rest with the superannuation fund or its Trustee. In the situation where member investment choice is offered, it is the member who directs the purchase or sale of the units in the MIS. The Trustee is merely administering the member's instructions. The fact that the superannuation fund may own more than half of the units in a MIS is a result of member directed cash flows and is not a consequence of a Trustee decision.

If "control" of the MIS does lie with the member rather than with the Trustee, consolidation of the MIS would not be required. AXA considers that the meaning of "control" should be clarified in the revised standard and where the members rather than the Trustee of a fund are found to be directing the investment decisions, "control" by the Fund should be deemed not to exist and consolidated financial statements should not be required.

Conceptual Framework

One of the overarching principles behind the Conceptual Framework "Framework for the Preparation and Presentation of Financial Statements" is the objective of providing general purpose financial reporting to users that is useful for making and evaluating information about the allocation of scarce resources.

AXA is of the view that consolidation of the financial statements of the "controlled" MIS into the financial statements of Summit is contrary to this objective.

In the case of Summit, investment of member funds is not directed by the Trustee but rather by the members themselves when they choose investments from the approved investment menu. Member funds are not pooled except where two members choose the same option.

Therefore, inclusion of the financial statements for MIS, where the member has not chosen that option, provides no information of relevance to that member. Since Summit "controls" 33 MIS, it is highly unlikely that any member will have chosen to invest in all 33 of those schemes. Under such a scenario, consolidated financial statements do not provide useful

and relevant information to members and, in fact, could actually be misleading to members who do not fully understand the basis on which the financial statements are prepared.

Materiality

In the financial statements of Summit and other similar products, MIS are valued at redemption price as quoted by the relevant fund manager. This valuation approximates fair value less anticipated disposal costs.

The Exposure Draft provides guidance on how goodwill should be calculated by superannuation funds when preparing consolidated financial statements. Under this guidance, Summit would not recognise any goodwill upon consolidation of the "controlled" MIS.

Therefore, since the fair value of the net assets of the "controlled" MIS (as measured by the unit price) does not differ from the carrying value of the "controlled" MIS in the financial statements of Summit, consolidation would not result in a net asset position that is materially different to the net assets of the parent entity (Summit).

Practical Difficulties

The primary difficulty associated with preparing consolidated financial statements for a master trust style product such as Summit lies in obtaining the required information. Where Summit owns more than 50% of the units in a MIS that is managed by a party who is not part of the AXA group, the financial statements for the MIS will not be available until 30 September (assuming a 30 June year end), leaving very little time to prepare and have audited the superannuation fund financial statements by 31 October. In addition, detailed information required to prepare consolidated disclosures such as those required by AASB 7 will generally not be available to AXA.

A significant issue for superannuation funds will be identifying which externally managed MIS they "control" and at what point throughout the period does "control" exist. Some funds will face the issue of moving in and out of "control" in the same period.

Further, there will be additional costs associated with preparing and auditing consolidated financial statements and these costs will likely be passed on to superannuation fund members.

We would be happy to discuss any aspect of our submission with the AASB. If you have any queries, please do not hesitate to contact me on 8688 3724.

Yours faithfully



Gary Dickson
Chief Financial Officer
AXA Australia