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30 April 2012
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007
Australia

By email: standard@aasb.gov.au

Dear Sir/Madam,

We are pleased to submit our comments on Exposure Draft ED 223 Superannuation Entities ("the Exposure Draft"). The Fletcher Building Group has a number of subsidiaries operating in Australia and we have a number of superannuation entities. This submission is on their behalf.

Overall comments

We are not supportive of the board releasing this exposure draft as we are concerned that it may not actually improve the current level of financial reporting by superannuation plans in Australia. The reporting for superannuation plans has been established for a number of years and we believe it generally meets the information needs of the users. We are not aware of any major problems or issues and this seems to be a solution in search of a problem.

We note that in BC4 you considered the merits of adopting IAS 26 and concluded that it should not be adopted in Australia. The two specific objections stated were that IAS 26 permits assets to be measured at an amount other than fair value when an estimate of fair value is not possible and it allows the actuarial present value of retirement benefits to be based on either current or projected salary levels.

In contrast with IAS 26 you state that AAS 25 requires all assets to be measured at net market value and it requires that the actuarial present value of retirement benefits be based on projected salary levels.

We do not believe that the reasons you have given for disregarding IAS 26 are strong. In practical terms if a calculation of fair value is not possible, what do you realistically think happens? The standard setters can demand fair value to be used but if it is not possible to calculate it, most people will use an estimate or a valuation determined on another basis.

I have some sympathy for your position around current or projected salary levels. I believe that projected salary levels should be used. In this case where you have a choice which you disagree with, surely the best option is to work with the IASB to eliminate choices where they are not required.

I am not aware of how many countries have their own standard on accounting for superannuation plans and I would strongly recommend that you work with the IASB over your concerns with IAS 26.

I have the following comments on a number of specific points of the ED as follows:

Paragraph 20 (a)

We agree that defined contribution and defined benefit obligations can be reported as a liability of a superannuation plan. This is how we currently recognise the obligation in our plans accounts.

Paragraph 23

I do not believe that defined benefit obligations should be measured using the projected unit credit method in accordance with AASB 119. I disagree with the treatment used by IAS 19, i.e. to use a discount rated based on either government stock rates, or high quality corporate bonds where there is a deep market.

We believe that the most appropriate discount rate to use is the earnings rate on the plan’s assets as this determines the cashflows used to pay the pensions. We note that IAS 26 Accounting and Reporting by Retirement Benefit Plans is silent on how to calculate the discount rate, however we understand that most plans use their earnings rate. We believe that this gives the most appropriate answer and indeed a true and fair view.

Another concern we have is by using a high quality corporate bond rate we may end up using a rate higher than the earnings rate on the plans assets. We believe that this would be wrong and would understate the plan’s liabilities. We note that our plan’s assets are not all invested in high quality corporate bonds, or government stock, therefore we do not agree that we should use an earning rate on an individual class of assets.

Furthermore we would like to point out that some plans may have funding requirements built into their trust deeds, or in certain jurisdictions are imposed upon them by regulation. We believe that it would be misleading for a plan to have to remeasure their liabilities on a deliberate conservative basis. This will result in any surplus decreasing, or turning into a deficit, or a deficit increasing.

We believe that this may cause perception problems for the members. The members will see that the plan has a lower surplus and may perceive the plan as being more risky and withdraw from it, when this may not be in their best interests.

In addition if the obligation reported in the financial statements has increased then this will be reported to the members in their individual accounts. This may influence the members in their decision to stay in the plan or to take a lump sum. They may believe that they are entitled to a greater lump sum now and furthermore they can earn a better return than a government stock rate. Hence they may decide to withdraw from the plan, when nothing has actually changed.

The change that you are proposing is not just an accounting matter. It may have real cash consequences for sponsoring companies and for the members themselves. We believe that earnings rate on the plans assets is the most appropriate discount rate, to be used for purpose of determining cash funding to the plan, to determine the present value of the obligation owing to the members and as part of the members determination of their decision to stay in a plan or to accept a lump sum.

Paragraph 39

I disagree with the disclosure requirements of paragraph 39. I appreciate that some people consider that disclosing more information is always better, but this does not take into account the cost or the practicalities.

The objective is to help the user understand the non-performance risk and/or economic dependency to which the plan is exposed in relation to the employing sponsor. The plan will need to disclose the nature of the risk, its objectives, policies and process for managing the risk and the methods used to measure the risk and any changes in the assessment from the previous period.

Employing companies are not answerable to their superannuation plans and do have to disclose any information to them, aside from the requirements of the trust deed and laws and regulations. Superannuation plans should state the obligations, if any, of the sponsoring company under the trust deed.

This seems to be a case of disclosure for the sake of more disclosure without any consideration for the cost of doing this, the practicalities involved or if this is really required.

If you have any queries or require clarification of any matters in this submission, please contact me.

Yours sincerely,

John Hames

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