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Dear Kevin

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on Exposure Draft ED 223 Superannuation Entities (the ED). We have considered the ED and set out our comments below.

Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies and businesses, and this submission has benefited with input from our clients, discussions with key constituents and the roundtable discussions held by the AASB in April 2012 on this ED which Grant Thornton participated in.

#### **Support for the ED**

We broadly support the thrust of the ED however we have three observations that we believe the AASB needs to further consider.

#### **1. Complexity of ED 223**

As detailed in our 29 August 2009 submission on the earlier Superannuation ED 179, we remain concerned about the level of complexity in the ED, particularly with the requirement for up to 5 separate financial statements. As discussed at the Sydney Roundtable, we question the need for a separate Statement of Changes in Members Benefits and suggest that this be combined with the Income Statement. We also question the need for the Statement of Changes in Equity given the reality that this is the members' equity.

Grant Thornton does not support the theoretical 'projected unit credit method' and instead favours the industry standard 'vested benefits', which we note Superannuation Funds that are regulated by APRA are required to follow.

#### **2. Consolidated Financial Statements**

As detailed in our 29 August 2009 submission on the earlier Superannuation ED 179"

“We question whether it is reasonable to require a superannuation fund to consolidate an investment where the acquisition of a majority ownership in that investment was other than on the basis of being in a position to control the financial and operating policies of that investment, and there is no intention that control will be exercised. This can occur for example when a fund acquires a holding in investment A and it at some later time finds that another investment B has acquired a holding in investment A that on ‘grouping’ would entitle the fund to more than 50% of the interest in investment A. We would prefer, given that the AASB has already determined that departures from IFRS are necessary in certain circumstances (BC 12-13), for a suitable exemption from consolidation in such an instance, or more preferably provide guidance on what constitutes control in the superannuation industry, given the ‘exceptional circumstances’ exception in AASB 127 Consolidated and Separate Financial Statements (paragraph 13).”

More recently the International Accounting Standards Board (IASB) issued ED 220 Investment Entities which provides an exemption to consolidation in instances similar to Superannuation Funds as set out above. We therefore recommend that the AASB does not finalise ED 223 until the results of the IASB’s deliberations are known on ED 220.

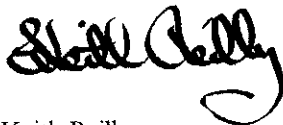
### **3. APRA Agreement**

Given that APRA as the Prudential Regulator has a significant role to play in financial reporting, we expect that a revised Superannuation Fund Accounting Standard will need to be broadly consistent with APRA requirements from an efficiency perspective. Any departures from the APRA requirements would need support from key constitutions.

Our comments on the specific issues that the AASB has requested comment on, are attached as an Appendix.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards

## Appendix

### AASB Issues

- a. Are there any superannuation entities that would meet the criteria in AASB 1053 Application of the Tiers of Australian Accounting Standards for applying Tier 2 disclosure requirements, that is, they need to prepare general purpose financial statements but do not have ‘public accountability’ [as defined in AASB 1053]?**

We do not see a need for Tier 2 disclosures. We note that self-managed superannuation funds (SMSFs) are likely to produce special purpose financial reports and therefore not meet the criteria under AASB 1053.

- b. Are there any significant practical difficulties that would inhibit a superannuation entity disclosing:**
- (i) information about defined contribution or defined benefit members’ benefits in accordance with the relevant principles and requirements in AASB 7 Financial Instruments: Disclosures [as proposed in paragraphs 37, 38 and AG27 – AG28 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we are not aware of any issues at this time.

- (ii) in relation to defined benefit members, qualitative information about non-performance risk and/or economic dependency risk to which the plan is exposed in respect of employer sponsors of such members [as proposed in paragraphs 39 and 40 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we are not aware of any issues at this time.

- (iii) liquidity risks relating to any non-financial liabilities other than tax liabilities held by the entity [as proposed in paragraphs 41 and 42 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we are not aware of any issues at this time.

**(iv) disaggregated financial information based on the principles and requirements of AASB 8 Operating Segments [as proposed in paragraphs 43, 44 and AG31 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome.**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we are not aware of any issues at this time.

**c. Would it be reasonable to require retrospective application of the replacement Standard for AAS 25 to annual reporting periods beginning two years from the date of issuing that Standard?**

Given the significant changes that will be required by most Superannuation Funds in adopting the proposals in ED 223, we believe that a 3 year period should elapse before the accounting standard becomes effective; it should be prospective; and early adoption be allowed.

**d. Overall, would the proposals result in general purpose financial statements that would be useful to users?**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we see benefits in updating AAS 25 with the proposals in ED 223.

**e. Are the proposals are in the best interest of the Australian economy?**

Subject to our earlier comments on Complexity, Consolidations and APRA support, we see benefits in updating AAS 25 with the proposals in ED 223.

**f. In quantitative or qualitative terms, unless already provided in response to specific matters for comment (a)-(e) above, what are the costs and benefits associated with the proposals?**

Given the increased costs that ED 223 will result in, we believe that a 3 year period should elapse before the accounting standard becomes effective; it should be prospective; and early adoption be allowed.