

30 April 2012

Mr Kevin Stevenson  
 Chairman  
 Australian Accounting Standards Board  
 PO Box 204  
 Collins Street West  
 VIC 8007

Dear Kevin,

### **Invitation to comment on ED223: Superannuation Entities**

Thank you for the opportunity to respond to the Board's proposal and to participate in the roundtable discussion.

AustralianSuper is one of Australia's largest superannuation funds, servicing 1.8 million members with over \$42 billion in funds under management. AustralianSuper is a hybrid fund with accumulation, pension and corporate divisions. Our corporate division includes 1,781 defined benefit members within 19 sub-plans.

Whilst we are supportive of ED223 general concepts we have fundamental concerns on some aspects of ED223. These are set out below. The responses to the specific questions included within ED223 are in Appendix A to this submission.

### **Measurement of defined benefit liability**

Our main concern with ED223 is the proposal to measure defined benefit member's liability using the accrued benefit value and measurement requirements under AASB 119.

AustralianSuper does not have a constructive liability to the defined benefit members. Our primary obligation is to manage the assets of AustralianSuper to provide members with the best possible retirement outcome. It is not our obligation to remunerate employees over the remaining term of their employment. If an employer has made a promise to continue to provide a benefit over the remainder of a working relationship; it is the employer that has the constructive liability.

AustralianSuper only has a liability to pay out benefits held for members from the assets already held in the fund. AustralianSuper is not liable to pay benefits to the member where they are based upon an employer's promise that has not been met by the sponsoring employer (i.e. contributions have not been made). Under our Trust Deed, which complies with all relevant requirements in the *Superannuation Industry (Supervision) Act 1993*, if an employer has not provided the assets to support the defined benefit, we will equitably reduce the benefits of all members affected.

We are subject to financial product disclosure requirements under the *Corporations Act 2001* and contend that it would be misleading to disclose an employer's promise as if it was an obligation of AustralianSuper. Further, such disclosures would give rise to an obligation that simply does not exist under the *Superannuation Industry (Supervision) Act 1993* or the trust deed for those defined benefit members. It is misleading to characterise an employer's promise as a 'liability' in employer's accounts and also in superannuation fund's accounts simultaneously – it cannot be both. In terms of members' legal entitlements, the trust deed obligations on employers to contribute to a fund can be ended by that same employer, reducing any obligation to pay further benefits to existing defined benefit members of the superannuation fund concerned, and in compliance with the requirements of the *Superannuation Industry (Supervision) Act 1993*.

A vested benefit approach to measuring the defined benefit liability is more appropriate as it reflects our liability. Any defined benefit member can request to have their money rolled over into another fund at any point in time. The amount they would receive is the vested benefit amount. This would also ensure that the measurement of defined benefit and defined contribution liabilities are consistent.

### **Disclosure relating to defined benefit liability**

We recommend that information relating to management of the defined benefit liability be included within the notes to the financial statements. This would include information on the solvency position of the defined benefit sub-plan (as monitored by our actuaries), the key figures from the latest actuarial assessment (such as the vested benefits, accrued benefits and underlying assets) plus how we are managing any unsatisfactory sub-plans and our dealings with the sponsoring employers.

We already disclose this information within our financial statements.

We disagree with the proposal to include the credit risk disclosures on the employer sponsors. AustralianSuper is not responsible for assessing the credit ratings of sponsoring employers. We also note that there is no requirement for the assessment of the credit ratings of debtors for other corporate entities.

### **Consolidation**

Our users of the financial statements (being the members, employers, regulators and general public) are concerned with the value of our investments. We account for all our investments using net market value (this will change to fair value under ED223). We also manage our investments using their fair value.

The consolidation of investments would not provide the users with any additional useful information. The principles of *ED220 Investment Entities*, should be built into the superannuation standard and applied to superannuation entities.

### **Equity**

ED223 proposes that reserves of a fund be included under an "equity" heading in the relevant statements. We disagree with this proposal as all money within the fund, including those allocated to reserves, are members' funds. We propose that the reserves be treated as a liability.

Should you wish to discuss any aspects of our submission, please feel free to contact me on 03 8648 3880 or Ros McCallum on 03 8648 3948.

Yours faithfully



Tony Cavanagh  
General Manager, Finance and Risk  
AustralianSuper



## Response to specific questions

The AASB requested specific comments for the following questions.

**a) Are there any superannuation entities that would meet the criteria for applying Tier 2 disclosure requirements?**

We suggest that the only funds that do not have public accountability and therefore meet the requirements of Tier 2 reporting are self managed superannuation funds within the meaning of section 17A of the *Superannuation Industry (Supervision) Act 1993*.

If a superannuation fund has been set up to mimic Investor Directed Portfolio Services fund offerings / member directed investment they are still a regulated superannuation funds where the trustees obligations to members can override member choice. The trustees are publicly accountable to those members and are reporting entities presently – we submit that this should not change.

**b) Are there any significant practical difficulties that would inhibit a superannuation entity disclosing:**

*Information about defined contribution or defined benefit members' benefits in accordance with the relevant principles and requirements in the AASB7: Financial Instruments: Disclosures*

We do not believe that any practical difficulties exist.

*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*

We propose that information relating to how we manage the defined benefit liability be included. This would include information on the solvency position of the defined benefit sub-plan (as monitored by our actuaries), the key figures from the latest actuarial assessment (such as the vested benefits, accrued benefits and underlying assets) plus how we are managing any unsatisfactory sub-plans.

We disagree with the proposal to include the credit risk disclosures on the employer sponsors. The Trustee is not responsible for assessing the credit ratings of sponsoring employers. We also note that there is no requirement for the assessment of the credit ratings of debtors for other corporate entities.

*Liquidity risks relating to any non-financial liabilities other than tax liabilities held by the entity*

We have no comments on this question.

*Disaggregated financial information based on the principles and requirements of AASB8 Operating Segments*

We propose that ED223 refer to the existing AASB8 standard to ensure consistency with corporate reporting environment and that the disclosure be through the eyes of the chief operating decision maker.

- c) **Would it be reasonable to require retrospective application of the replacement standard for AAS25 to annual reporting periods beginning two years from the date of issuing that standard?**

We do not have any comments on this issue.

- d) **Overall, would the proposals result in general purpose financial statements that would be useful to members?**

We do not believe that the current ED would result in financial statements that would be more useful to members.

- e) **Are the proposals in the best interest of the Australian economy?**

The current proposal for measurement of defined benefit obligations could inhibit consolidation within the corporate superannuation industry due to the increased disclosure and measurement obligations.

- f) **In quantitative or qualitative terms, what are the costs and benefits associated with the proposal?**

We would expect the costs of preparing and auditing our financial statements would increase if ED223 in its current form is adopted, with the main increase in costs relating to the measurement of the defined benefit liabilities.