30 April 2012

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

Email: standard@aasb.gov.au

Dear Kevin

ED 223 *Superannuation Entities*

CPA Australia, the Institute of Chartered Accountants in Australia and the Institute of Public Accountants (the Joint Accounting Bodies) are pleased to respond to the AASB's Exposure Draft 223 *Superannuation Entities*.

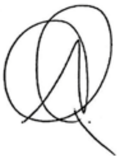
The Joint Accounting Bodies represent over 210,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies are supportive of the AASB's project to replace AAS 25 *Financial Reporting by Superannuation Plans* however we continue to have concerns in relation to the proposals on consolidation and defined benefit liabilities, as outlined in the attached Appendix 2. We are concerned that the financial statements based on these and other proposals will not meet the information needs of fund members, who are more interested in the performance of and balances within their own fund account. Our response to matters on which specific comment is requested is included in the attached Appendix 1.

In progressing with the replacement standard to AAS 25, we encourage the Board to continue to work closely with APRA and that this work is cognisant of the new APRA reporting/disclosure standards, to ensure that each complements the other. Cooperation in this matter will minimise any unnecessary burden and an increase in costs due to divergence between the two sets of requirements, which will need to be funded by members.

If you require further information on any of our views, please contact Mark Shying, CPA Australia by email mark.shying@cpaaustralia.com, Kerry Hicks, the Institute of Chartered Accountants by email kerry.hicks@charteredaccountants.com.au or Tom Ravlic, the Institute of Public Accountants by email tom.ravlic@publicaccountants.org.au.

Yours sincerely



Alex Malley
Chief Executive Officer
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Andrew Conway
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(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 are not aware of any superannuation entities that would meet the criteria in AASB 1053. 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;

The guidance provided in paragraph AG 27 should be expanded through inclusion of some illustrative examples, as it otherwise seems very broad and vague to simply refer to the 'relevant principles and requirement in AASB 7'. It is likely there will be divergence in practice in choosing principles and requirements that are considered 'relevant', if further guidance is not provided.

(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;

Whilst we support this proposal in theory, there is the potential for boiler plate disclosures that would add little of no any value. There may be some difficulty encountered by entities with many employer sponsors in providing such information. We recommend providing further guidance to address these issues.

(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;

There are no practical difficulties with this proposal, as any non-financial liability balances would be insignificant for this industry.

(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.

Similar to our comments in relation to the reference to AASB 7 in question (b)(i) above, further guidance is required, with illustrative examples. This guidance should take into account the requirements of the new APRA standards that could require similar information to be disclosed so that both requirements complement each other and do not add any unnecessary burden.

(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?

It would be reasonable to set an application date that is two years from the date of issuance of the final standard to allow the industry sufficient time to implement the new requirements. We would also recommend inclusion of an option for early adoption.

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

We consider the proposals to be an improvement on AAS 25. However, based on our concerns raised in Appendix 2 we are not convinced on the usefulness to users, particularly those users that may exist for defined benefit funds..

(e) Are the proposals are in the best interest of the Australian economy?

We support the improvement of superannuation reporting and the replacement of AAS 25 with a more IFRS compliant standard where it suits the needs of the industry and members. Based on our responses above and concerns raised in Appendix 2, we do not consider the current proposals adequately address the needs of the industry and members, particularly as they relate to defined benefit funds. We believe further development work is necessary to ensure the standard provides for consistent reporting that adequately meets user information needs.

(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?

Due to our concerns with the proposals noted in Appendix 2, we consider the benefits to be minimal, whilst the costs to implement the proposals to be significant for the industry, particularly as it relates to defined benefit funds.

The Joint Accounting Bodies wish to bring the following matters in relation to the proposals to the Board's attention. We have raised some of these matters in previous submissions, and we believe it is appropriate to revisit our comments in the context of this Exposure Draft.

Consolidation

The comments in our letter dated 30 September 2009 in response to ED 179 on the issue of consolidation noted that we accepted it as a necessary outcome of complying with IFRS. However, given the current IASB/AASB exposure draft *Investment Entities*, which we supported in our letter dated 7 December 2011, this issue should be revisited, as our preference would be that superannuation entities should not be required to consolidate. The underlying premise of ED 220 *Investment Entities* is that for certain entities there is no relevance to users in consolidating investments, the information needs of these users are better met by presenting the fair value of the investments, as this better reflects the business model of such entities. This is the core issue some of our members in the superannuation industry have been in dialogue with the Board about for some time.

We note that the current proposals in ED 220 would not exclude most superannuation entities from the consolidation requirements, as one of the criteria for an exemption is based on the entity being unitised, and most superannuation entities are not unitised. However many managed investment schemes are unitised and hence would be required to fair value rather than consolidate. We consider the objectives and management of these two different sectors to be similar and hence the same accounting outcomes in relation to consolidation should be required.

We suggest that the Board reconsider its position on requiring superannuation entities to consolidate their investments not only in light of the *Investment Entities* ED, but also because otherwise it ignores the needs of the users of the superannuation industry as noted above.

Defined benefit liability – recognition and measurement

Our members in the superannuation industry have also expressed concerns about the recognition and measurement of the defined benefit liability, as explained below. While we recognise that there are not a lot of funds having defined benefit liabilities, many of those remaining are quite sizeable.

In relation to recognition, the issue is that the employer sponsor already recognises this liability as its own, which it rightfully is, so requiring the superannuation entity to also recognise it means that the same liability is recognised by two separate entities. Although the superannuation entity pays out the benefit when it is due, this is funded by the employer and not directly from the superannuation entity. So while the superannuation entity does pay out the benefit, the obligation to fund the amount to be paid is on the employer, who transfers this to the superannuation entity for it to be transferred to the member. Paragraph BC120 outlines the AASB's reasons for why this liability should be recognised. However, it does not consider the fact that the liability is already recognised by the employer who ultimately is responsible for the funding the liability. We recommend that this information is disclosed in the notes along with disclosures as to how the trustee manages the process over funding requirements, surplus/deficit positions.

In relation to measurement of the liability, we do not agree with the proposal to measure the defined benefit liability using the 'projected unit credit method' and recommend that the vested benefit approach is more appropriate, similar to our comments in our letter dated 30 September 2009. Paragraph BC140 of the ED states that the Board's decision to require the AASB 119 approach is 'on cost-benefit grounds'. However we consider that the reasons in our letter dated 30 September 2009 and those presented in paragraphs BC136,BC137, BC139(b) and BC139(c) against the AASB 119 approach and for the vested benefits approach clearly explain that the cost of implementing the AASB 119 approach is far greater than any perceived benefit in adopting this approach.

The new APRA standards are likely to require the defined benefit liability to be disclosed in the notes based on the vested benefit approach, which we consider to be the best way in which to deal with this liability. We strongly recommend that the Board reconsider this issue and only require disclosure in the notes based on the vested benefit approach, as this best serves the needs of the users of the superannuation industry and does not result in misleading information or extra costs for the sector for no real perceived benefit.

We note that the costs of producing vested benefit information is already incurred annually (for APRA as noted above) and hence, no additional cost is required, However calculations of AASB 119 numbers would require additional costs to be incurred by the fund, as employer reports could not be re-used for this requirement.

Financial Statements

We consider the requirement to present five statements to be overly complicated and would not be useful information to users.

We suggest combining the income statement with the statement of changes in members' benefits, but ensure there is clear distinction between the income and expenditure of entity and the transactions with members in the form of contributions received and benefits paid out. This could be achieved through using appropriate headings and sections within the combined statement. Whilst presenting a combined statement, retaining a surplus or deficit line item (rather than profit or loss) is still seen as an important disclosure.

We also recommend dropping the statement of changes in equity altogether given it is misleading to users to refer to 'equity' in superannuation entities. Where an entity has reserves, it would be more appropriate to include note disclosure of any changes rather than presenting it as a primary statement.

In relation to the example cash flow statement, it appears to be too detailed and as the cash inflows and outflows shown could represent a significant amount of "churn" especially with investment activities undertaken, the information could be misleading. Our suggestion would be to present the net amounts, similar to what is permitted in AASB 107 *Cash Flow Statements*.

APRA reporting standards

We understand that APRA will be issuing new reporting/disclosure standards for the superannuation industry and that the Board has been liaising with APRA. We encourage the Board to continue to work closely with APRA in relation to both the replacement standard for AAS 25 and the APRA standards to ensure that each complements the other. Cooperation in this matter will minimise any unnecessary burden and an increase in costs due to divergence between the two sets of requirements, which will need to be funded by members