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Australian Accounting Standards Board

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Subject: Mercer response to ED338 Application of AASB 18 and AASB 107 by Superannuation and Not-for-profit Entities and Operating Cash flow Reconciliation

Mercer welcomes the opportunity to respond to AASB's exposure draft 338. Our comments are limited to the specific topics raised in the exposure drafts that are relevant for superannuation entities (Q1 – Q11).

Who is Mercer?

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over \$20 billion. Through its market leading businesses including Marsh, Guy Carpenter, Mercer and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment. Mercer Australia provides customised administration, technology and total benefits outsourcing solutions to many employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have over \$150 billion in funds under administration locally and provide services to over 2.4 million superannuation members. This includes the Mercer Super Trust, which has over 1 million members and more than \$80 billion in assets under management.

Q1 Reconciliation of net cash flow from operating activities to the operating profit or loss subtotal in the statement of profit or loss.

Agree. If the entity presents a subtotal in the statement of profit or loss, comparing operating profit or loss to net cash flow from operating activities enables like for like comparison.

Q2 Proposed amendments to AASB 1039.21

Agree. A consistent approach between concise and annual reporting is preferable.

Q3 Proposed paragraph Aus23.1(a) and AusB8.1

Agree. Consistent presentation of line items in the primary statements promotes consistency and comparability of superannuation fund financial statements.

Observations to note:

Concept	AASB 18	AASB 1056
Primary financial statements	(1) Statement of profit or loss or Statement presenting comprehensive income (2) Statement of financial position (3) Statement of changes in equity (4) Statement of cash flow	(1) Income statement (2) Statement of financial position (3) Statement of changes in equity/reserve (4) Statement of cash flow (5) Statement of changes in member benefits

The proposed addition of Aus23.1(a) and AusB8.1 communicated the intention at a high level, but DID NOT clearly articulate the expected outcome of 'superannuation fund required to present all applicable line items in accordance with AASB 1056' due to:

- (a) The difference in scope/names of the primary financial statements between the 2 standards;
- (b) The proposed addition of Aus 46.1 for statement of profit or loss (or income statement in the context of AASB 1056) addresses the expectation for this statement, but similar addition is not proposed for statement of financial position and statement of changes in equity.

See observations for statement of cash flow and statement of changes in member benefits noted separately below.

Q4 Proposed paragraph Aus46.1(a) in AASB 18 and Paragraphs 10A and 22A in AASB 1056

Agree with AASB's note that the AASB 18's categories of income and expenses are unlikely to provide additional useful information to users of superannuation entities' GPFS. Most, possibly all, income and expenses of a superannuation entity are expected to be classified under the 'operating category' (only) under AASB 18.

Q5 Proposed paragraph Aus78.1(a) in AASB 18

Agree. The existing list under AASB 1056 AG29 is considered to be most relevant in assisting members and employers to make informed decision about their superannuation fund of choice and default superannuation fund respectively. The flexibility intended in the original AASB 18.78 has the potential to impede the objective of comparable superannuation fund financial statements.

Q6 Proposed paragraph Aus6.1 and Aus34D.1 in AASB 107

Agree. Aus46.1 removed the basis of classifying interest and dividends for superannuation entities (who would otherwise fulfil the AASB 107.34B requirements). The addition of Aus34D.1 provides the required clarification.

Q7 Proposed paragraph Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054

Agree on inclusion of Aus20.2 in AASB 107 and paragraph 16(b) in AASB 1054. Specific comments on Aus20.2:

Given this is specific to superannuation entities, suggest to:

- change “unrealised foreign currency gains and losses” to “unrealised gains and losses” (as foreign currency are typically immaterial compared to the unrealised fair value changes of investment portfolios)
- remove “inventories”

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| (a) | the effects of transactions of a non-cash nature, such as depreciation, provisions, deferred taxes, unrealised foreign currency gains and losses; |
| (b) | any deferrals or accruals of past or future operating cash receipts or payments, including changes during the period in inventories and operating receivables and payables; and |

Q8 Proposed paragraph Aus12A in AASB 1056

Given the significant amount of exclusions/customisation of AASB 18 requirements for the superannuation entities (primary statements, line items disclosure etc), we consider it clearer if the specific requirements of AASB 18 applicable to the statement of changes in member benefits is identified.

Q9 Aggregation and Disaggregation

Agree. The AASB 1056.32 requirements are specific to different membership types for superannuation entities and the associated risks and benefits of each. AASB 18's principles of aggregation and disaggregation did not contradict the requirements of AASB 1056.32 but rather provided guiding principles on other items not specifically covered under AASB 1056.

Q10 MPM disclosure requirements

Agree, AASB 18's disclosure requirements enhance the connectivity and flow of information for superannuation funds' public facing communications (ie. between financial statements and other disclosures).

Q11 Effective Date

We are comfortable with the proposed start date of on or after 1 January 2028. Superannuation entities, depending on their size, are mostly either group 2 or group 3 sustainability reporting entities with the first reporting due either in FY2027 or FY2028. Staggered implementation of sustainability reporting and AASB 18 changes will be a welcome approach enabling entities to implement the required changes effectively.

Yours sincerely,

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