AASB ED 223 *Superannuation Entities* Roundtables
12 April (Sydney) and 13 April (Melbourne) 2012

The following notes are based on comments made by participants at the two Roundtables.

The purpose of the Roundtables was to obtain views, concerns and ideas in the context of the proposals in ED 223 *Superannuation Entities*. The notes do not necessarily show a consensus of the views of participants and, in some cases, may represent comments of an individual.

The input received from the Roundtables will be used by the AASB in conjunction with comments in written submissions on ED 223 in finalising a revised accounting standard for superannuation entities.

1. Financial statements

[ED 223, paragraphs 13 to 19, AG9 to AG18, and Appendix C Illustrative Examples]

Do you agree that superannuation entities should present:

(a) a statement of changes in member benefits?

(b) a statement of changes in equity, where relevant?

One statement for inflows and outflows

The basic content of the proposed Statement of Changes in Member Benefits is helpful, but it would be better presented as part of a Statement of Comprehensive Income. That would provide a better presentation of the flows for the period because it would show all the transactions affecting members. If there is not one comprehensive statement, at the least, there should be a note linking the Income Statement and Statement of Changes in Member Benefits.

One statement showing all the relevant inflows and outflows would also be a closer match (at an entity level) with the information provided to individual members in respect of their particular interests in a superannuation entity.

Having one statement for ‘income’ and ‘capital’ amounts would also offer the opportunity to show the impacts of tax in one line item, whether it relates to investment income or contributions or any other inflows or outflows or is affected by imputation credits.

Although presenting the contributions tax after contributions in the Statement of Changes in Member Benefits is not ideal, if all the relevant tax impacts for a period are presented in one amount, it would be more understandable/justifiable that tax is presented after contributions (when compared with showing ‘contributions tax’ as a separate line item in a Statement of Changes in Member Benefits).

The separate identification of ‘contributions tax’ in the Statement of Changes in Member Benefits would mis-characterise that tax from the perspective of the superannuation entity. If ‘contributions tax’ is separately identified, then all manner of tax impacts of particular items could potentially be identified for no useful purpose. There is no one figure that corresponds to contributions tax because tax paid is a function of many items, including tax levied in relation to contributions, tax on investment income, deductions and dividend imputation credits.

Tax is deducted in determining the amounts attributable to members' accounts, but there is probably no simple way of presenting the impact of tax to reflect that fact that remains consistent with accounting standards.

'Looking-through' managed investment vehicles

Some superannuation entities invest through Pooled Superannuation Trusts (PSTs) and other investment vehicles and show amounts relating to those PSTs/other vehicles in their financial statements, rather than the amounts relating to the underlying assets of those PSTs/other vehicles. This may not be sufficiently transparent, however, the underlying information may be difficult to obtain on a timely basis. It was suggested that there may need to be additional disclosure about the nature of the returns and assets underlying amounts for PSTs/other vehicles included in superannuation entity financial statements.

Terminology/location of information

Having a Statement of Changes in Equity may be misleading and a note about the movements might be better.

The Statement of Changes in Equity might be better labelled a Statement of Changes in Reserves because the reserves generally relate to the members and are more in the nature of liabilities. Alternatively, 'unallocated amounts' might be a better description than 'equity'.

The terms 'profit' and 'equity' are not particularly suitable in a member-based context. The terms surplus/deficiency would be better than 'profit'.

The description in the Statement of Cash Flows 'cash flows from financing' is not very apt. It may be better to use a description such as 'cash flows relating to member activity' or 'cash flows relating to member contributions'.

Statement of Cash Flows

The Statement of Cash Flows may not provide useful information about, or may give a wrong impression about, the activities of superannuation entities because the flows may be affected by many events, such as a change of fund manager and the nature of some investments such as index funds. Investments in hedge funds could add significantly to the gross cash flows for a range of investment classes because quick turnover is often a feature of such funds.

The issue of investment turnover and the related fees is generally managed by the superannuation entity in the context of the overall returns by investment manager or investment class (or both) and the Statement of Cash Flows would not provide any insights into this activity.

If the revised Standard requires a Statement of Cash Flows, superannuation entities should be able to report cash flows relating to investments in cash and debt securities on a net basis when they turn over frequently (consistent with AASB 107 *Statement of Cash Flows*, paragraphs 22 to 24). An alternative view is that the gross information is appropriate for accountability purposes.

The Statement of Cash Flows in the example financial statements in ED 223 is quite detailed. Obtaining detailed timely information from custodians on particular cash flows relating to particular asset classes is often not feasible. For example, this can be the case with investments in PSTs. There may be particular difficulties when a superannuation entity changes one or more fund managers during the period.

Advertising and sponsorship

The proposal for a separate line item for advertising and sponsorship expenses is unlikely to give rise to consistent/comparable information, because some such expenses are incurred directly (and be identifiable) and others are incurred as part of management fees (and not be separately identifiable).

2. Measurement of member benefits and related disclosure

(a) Do you agree obligations for defined contribution vested benefits should be:

(i) recognised as liabilities?
[ED 223, paragraph 20(a)]

(ii) measured at the amount payable on demand?
[ED 223, paragraph 22]

(b) Do you agree obligations for defined benefit accrued benefits should be:

(i) recognised as liabilities?
[ED 223, paragraph 20(b)]

(ii) measured using the 'projected unit credit method' in accordance with the approach in AASB 119 Employee Benefits for defined benefit obligations?
[ED 223, paragraphs 23, AG7 and AG8]

(c) Do you agree that qualitative information should be disclosed that provides users with a basis for understanding the non-performance risk and/or economic dependency risk to which the plan is exposed in relation to employer sponsors?
[ED 223, paragraph 39]

Issues relating to defined benefits

The trustees of a superannuation entity that has defined benefit members are not liable for any shortfall of benefits. A superannuation entity has a liability to members in respect of the assets it holds on their behalf. Where the benefits are under-funded, any further liability would not arise at least until members meet a 'condition of release' (such as retirement). In that case, the trustees would seek to have the employer top up the benefit for the relevant employee(s). In general, if the employer provides the top up, the employee(s) receive their full benefits; and when the employer does not top up, the trustees pay out less than the full benefits.

There is no contractual obligation between the superannuation entity and its members in respect of a shortfall of benefits. The trustees need to use their best endeavours to have employer sponsors meet their relevant obligations.

'Negative equity' caused by recognising an accrued benefits liability might mislead members into making a poor decision, for example, exiting the defined benefit fund when continued membership would be in their best interests.

Surpluses/deficits will give rise to equity/negative equity, yet there are no equityholders in superannuation entities – members would regard themselves as creditors.

Many superannuation entities (for example, master trusts) have multiple defined benefit plans and adding together deficits from one or more plans and surpluses from one or more plans would not reveal any useful information, and may be misleading for members of particular plans.

Employers show the net defined benefit obligation under AASB 119 *Employee Benefits* and requiring the superannuation entity to recognise a liability that incorporates a deficiency is akin to the same liability being recognised twice.

There are significant practical challenges with the proposed use of the approach for defined benefits in AASB 119. It may be difficult to obtain timely information and there are likely to be significant actuarial costs involved. Usually, the superannuation entity that has defined benefit members would have such members relating to multiple employers and there would be little or no synergy from using AASB 119. Even in the few cases where there is a close correspondence between an employer and a particular superannuation plan's defined benefit members (and therefore, potentially, some correspondence between the employer's defined benefit amounts and those for the plan), the employer and plan may use different assumptions, have different balance dates, or have different processes for finalising the figures. In some cases, the defined benefit amounts may not be material for some employers, but be material for a plan.

A potential advantage with the AASB 119 approach is that the actuarial profession is familiar with the projected unit credit method.

Vested benefits

If a liability with respect to defined benefits (beyond the assets available) is to be recognised by a superannuation entity it should be vested benefits, not accrued benefits. Vested benefits are already calculated for the purposes of member information and, if you believe the superannuation entity's liability extends beyond the assets held on members' behalf, better reflects that liability because it more clearly relates to past events/service.

The amount of vested benefits is likely to be known on a far more timely basis than the amount of accrued benefits.

Assuming the superannuation guarantee percentage rises, the gap between vested benefits and accrued benefits should shrink in most cases (all other things being equal).

The use of vested benefits for defined benefit members would be consistent with using vested benefits for defined contribution members.

The proposed 'Stronger Super' reforms support having prudential requirements that focus on superannuation entities funding defined benefit liabilities at the vested benefits level.[1]

Qualitative information about non-performance risk

A requirement to disclose qualitative information about non-performance risk and/or economic dependency risk to which the plan is exposed in relation to employer sponsors would give rise to 'boilerplate' disclosure. The trustees are unlikely to have more information about a superannuation entity's reliance on employer sponsors than is already publicly available.

In some cases, such a requirement might put the trustees in a position where they have to make judgements about the overall viability of an employer that may already be the subject of speculation in the business community.

1 Discussion Paper *Prudential standards for superannuation*, Chapter 10, page 49, APRA, 28 September 2011.

Perhaps the disclosure could focus on the process superannuation entities use to assess risks associated with employer sponsors.

Information focusing on the funding plans of a superannuation entity in relation to defined benefits would be helpful. Consideration of funding would generally involve consideration of risks relating to employer sponsors.

Other issues

Referring to the 'amount payable on demand' for defined contribution members seems inappropriate because the amounts are not payable directly to the member until the member satisfies a condition of release. In some cases, there may also be a surrender penalty for immediate withdrawal, but it would be expected that members would do their best to avoid incurring that penalty.

3. Insurance arrangements

Do you agree that:

(a) liabilities arising from insurance arrangements provided to members (whether defined contribution or defined benefit) should be recognised and measured in accordance with the approach in AASB 119 for defined benefit obligations?
[ED 223, paragraphs 25, AG22 and AG23]

(b) any reinsurance assets should be recognised in accordance with AASB 1038 Life Insurance Contracts?
[ED 223, paragraphs 20(c) and AG25]

(c) information should be disclosed that explains and provides users with a basis for understanding the amount, timing and uncertainty of future cash flows arising from insurance obligations to members?
[ED 223, paragraphs 45, 46]

Most superannuation entities offer members life insurance and some offer disability insurance either as an integral part of member superannuation or as something a member can elect to have. It is expected that MySuper will include life insurance as a default.

It is clear those superannuation entities that overtly self-insure should be accounting for any insurance assets and liabilities, and that AASB 119 is a reasonable basis for recognising and measuring the liabilities. It was noted that such self-insurance is becoming less prevalent.

Some superannuation entities clearly state that members will only receive insurance benefits if the insurer/reinsurer pays, and these superannuation entities are therefore acting only as agents.

Those superannuation entities offering group insurance cover that members can elect to have would reinsure those risks with a registered insurer. In many of these arrangements it may not be entirely clear whether the superannuation entities are taking on insurance risk that should cause them to account for insurance assets and liabilities.

In most of the cases that attendees could recall, the insurance offered to defined contribution members can be re-priced at short notice. That is, the premiums charged to member accounts can be adjusted as the insurance costs faced by the superannuation entities change (for example, as the reinsurance premiums change). Accordingly, in such cases, the 'contract boundary' for any insurance contracts that might exist between the superannuation entities and their members are short in duration and the associated insurance assets and liabilities are likely to be immaterial.

On occasions, superannuation entities make ex gratia payments in respect of death and disability claims where the trustees judge that a benefit should be paid even though it is not covered by reinsurance. Even if such practices were considered to give rise to constructive obligations, they would not be material.

Referring to both AASB 119 and AASB 1038 in relation to insurance is potentially confusing, particularly to those who are not familiar with accounting for insurance liabilities.

4. Disaggregated information

[ED 223, paragraphs 43, 44 and AG31]

Do you agree that superannuation entities should:

(a) disclose disaggregated financial information that provides users with an understanding of the risks, financial position and financial performance of the entity?

(b) make the disclosures in line with the principles in AASB 8 Operating Segments?

It is not clear that disaggregated information would be useful. It is also not clear what the objective is – to obtain information that is comparable across superannuation entities; or to gain an insight into the management of superannuation entities.

Some superannuation entities might show information by:

* defined benefit;
* defined contribution; and
* pension phase.

Others might show information by:

* accumulation;
* corporate; and
* pension phase.

However, it was again noted that aggregating defined benefit amounts from different plans would not produce useful information. Also, each superannuation entity can have unique characteristics that give rise to subtle differences between their costs and benefits to members.

Accordingly, comparability does not seem achievable in general purpose financial statements. The APRA seems likely to require separate disclosure of information about amounts relating to MySuper and to make that information publicly available, which could be regarded as special purpose financial reporting.

Some considered that MySuper could become like any other investment option and, therefore, not a basis for segment-type disclosure.

Disaggregation by investment choice would be highly impracticable because of the number of investment choices offered by most superannuation entities.

The Chief Operating Decisions Makers are likely to have a very different focus from superannuation entity members, since members usually have heterogeneous interests in superannuation entities. Accordingly, the requirements of AASB 8 are not readily applicable to superannuation entities.

In general, the application of the requirements of AASB 8 (designed with listed entities in mind) would be highly subjective in a superannuation context.

Information about the manner in which superannuation entities plan to fund the various types of entitlements might be the most useful.

5. Consolidation

[ED 223, paragraphs 11 and AG4]

Do you agree that superannuation entities should consolidate all their controlled entities?

The most relevant information for members, financial advisers, employers and the APRA is information about fair values.

The vast majority of subsidiaries of superannuation entities are likely to be investment vehicles and most superannuation entities play no governance role in those vehicles. If a superannuation entity is unhappy with the performance of an investment vehicle, it will withdraw some or all of its members funds and place them in an alternative vehicle (consistent with members' investment choices).

Superannuation entities invest in such vehicles to obtain exposure to a particular class of assets based on the investment choices of their members.

Getting timely information from subsidiaries of superannuation entities can be difficult. They are generally geared up to provide fair value information, but not information about particular line items for a consolidation.

If there are borrowings or other material liabilities within subsidiaries, relevant information could be provided through note disclosure, rather than through consolidation.

If there are concerns about asset concentration, that might best be handled through note disclosure.

The IASB's ED/2011/4 *Investment Entities* would generally apply to the circumstances of many superannuation entities. Some of the criteria proposed in ED/2011/4 may be problematic for some types of superannuation entities, particularly those that are not unitised.

The relief from consolidation contemplated in ED/2011/4 should be available to all superannuation entities.

The timing of the IASB's investment entities project and the AASB's superannuation entities project might be awkward.

6. Other matters

Are there other matters that you wish to raise?

Other matters on which the AASB has specifically requested comment include the following.

(a) Are there superannuation entities that would meet the criteria in AASB 1053 Application of 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?

(b) Are there any significant practical difficulties that would inhibit a superannuation entity disclosing information about defined contribution or defined member benefits in accordance with the relevant principles and requirements (other than those relating to fair value) in AASB 7 Financial Instruments: Disclosures? [ED 223, paragraphs 37, 38, AG29 and AG30]

(c) Are there any significant practical difficulties that would inhibit a superannuation entity disclosing information about non-performance risk and/or economic dependency risk in respect of employer sponsors in relation to defined benefits? [ED 223, paragraphs 39 and 40]

(d) Would 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?

Tier 2

Potential candidates for a Tier 2 of general purpose financial statements (GPFS) might be:

* paragraph 66 funds (AAS 25, paragraph 66 permits superannuation entities with assets that are insurance policies that match the relevant liabilities to make certain disclosures rather than apply most of the other requirements in AAS 25);

* platform funds that provide member-directed investment (effectively a collective investment vehicle for SMSFs).

Given the tax advantages provided to superannuation entities, those preparing GPFS should probably be in Tier 1.

Transition

The time allowed between issue of a revised standard and its mandatory application date should be at least two years. If defined benefit member benefits must be measured as accrued benefits, probably at least a further year would be needed to achieve the relevant systems changes.

Level of aggregation of assets

Superannuation entities often invest in vehicles such as pooled superannuation trusts (PST) and the nature of the underlying investments is often not readily apparent. In many cases it is difficult to obtain information identifying the underlying investments by class, and the only timely information is a fair value for units in a PST as a whole. This may compromise the quality of the information presented by superannuation entities in terms of the types of assets held and the nature of income for a period.

Disclosure of costs

Information about particular costs is presented differently by different superannuation entities. Transparency around the amounts of particular costs (such as: administration, investment management) are a significant issue for regulators and members and more consistent classification and disclosure would be helpful.

Related party disclosures

Information about the remuneration of key management personnel (KMP) is often lacking and is inconsistent across superannuation entities. There is currently scope for having KMP remuneration effectively included with other costs and not separately identified. This is an important governance issue that the AASB and/or the APRA may need to pursue.

Property, plant and equipment

Although it is unlikely to be material, the AASB should reconsider the need to fair value property, plant and equipment used in the administration of a superannuation entity because of the potential costs involved. [Fair valuing of investments in infrastructure for the purposes of making a return for members is supported.]

Liaison with the APRA

AASB needs to liaise with the APRA, in particular, in respect of those aspects of the proposed Stronger Super reforms relating to reporting.[2]

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2 The proposed Stronger Super reforms are outlined in Discussion Paper *Prudential standards for superannuation*, APRA, 28 September 2011.

Sydney Participants

Name	Organisations
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Tim Furlan	Russell Investments Institute of Actuaries of Australia
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Graeme Robson	Sharyn Long Chartered Accountants
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Melbourne Participants

Name	Organisations
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David Coogan	PricewaterhouseCoopers
John Dyer	UniSuper
Fiona Galbraith	Association of Superannuation Funds of Australia
Natalie Gallery	Queensland University of Technology
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Sue Highland	Australian Accounting Standards Board
Sean Hill	KPMG The Institute of Chartered Accountants in Australia
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