



AASB Extra

AASB 1056 *Superannuation Entities* – A new approach

What are the key changes?

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Key points

Why did we develop AASB 1056?

Key changes and impacts

1. Who has to apply the Standard?
2. Member benefit liabilities, contributions and benefit payments
3. Presentation of financial statements
4. Asset and liability measurement
5. Consolidation – investment entity status
6. Employer-sponsor receivables
7. Insurance arrangements
8. Information sources

Why did we develop AASB 1056?

Objective

AASB 1056 *Superannuation Entities* replaces AAS 25 *Financial Reporting by Superannuation Plans* and was developed to:

- reflect the substance of the relationship between superannuation entities and members' entitlements as liabilities
- recognise significant changes in the superannuation industry since AAS 25 was issued in 1993
- more closely align financial reporting with similar entities, eg Pooled Superannuation Trusts (PSTs) and Managed Investment Schemes (MISs).

Which entities are affected?

Those regulated under:

- the *Superannuation Industry (Supervision) Act 1993*
- similar legislative requirements (in the case of exempt public sector plans)
- Approved Deposit Funds (ADFs).

When does it apply?

Annual reporting periods beginning on or after 1 July 2016.



Key changes and impacts

1. Who has to apply the Standard?

AASB 1056

Applies to *superannuation entities*, which constitute:

- one or more superannuation plans¹ or
- an approved deposit fund.

AAS 25

Applied to superannuation plans, ie arrangements between employers and employees providing benefits upon retirement, resignation, death, disablement or other specified events.

Impact

No change expected in identities of entities having to apply AASB 1056 compared with those applying AAS 25.

Plans whose only assets are endowment, whole-of-life or other long-term insurance policies that match and fully guarantee the benefits to be paid to individual members must apply AASB 1056 in full (no specific exemptions, unlike AAS 25).

PSTs do not apply AASB 1056.

¹ Plans are identified by reference to the *Superannuation Industry (Supervision) Act 1993* or similar legislative requirements for exempt public sector plans.

2. Member benefit liabilities, contributions and benefit payments

AASB 1056

Recognises all member benefits as liabilities. Consequently:

- employer and member contributions, transfers from other funds and benefit payments to members are increases or decreases in member liabilities (similar to MIS schemes)
- taxes on contributions are deductions from contributions
- net benefits from the Statement of Financial Performance are allocated to defined contribution (DC) member liabilities
- net changes to defined benefit (DB) member accrued benefits are recognised in the Statement of Financial Performance.

AAS 25

Recognised employer and member contributions and benefit payments, contribution taxes etc in the Operating Statement for DC plans and Statement of Changes in Net Assets for DB plans as revenues and expenses.

Impact

- **Member benefits recognised as liabilities for all funds.**
- **Contributions received, associated taxes and benefits payments no longer treated as income and expenses.**
- **Accumulated surplus/deficits arise when funds are over- or under-funded.**



3. Presentation of financial statements

AASB 1056

Requires superannuation entities (DC, DB or hybrid) to present:

- an Income Statement
- a Statement of Financial Position
- a Statement of Changes in Equity/Reserves
- a Statement of Cash Flows
- a Statement of Changes in Member Benefits.

AAS 25

Required DC plans – and permitted DB plans (if they remeasured accrued benefits each period end) – to present:

- a Statement of Financial Position
- an Operating Statement
- a Statement of Cash Flows.

DB plans could present only a Statement of Net Assets and a Statement of Changes in Net Assets.

Impact

- New Statement of Member Benefits.
- New Statement of Changes in Equity/Reserves showing movement in the Investment and Operational Risk Reserves and Accumulated Surplus/Deficit if over- or under-funded.
- For entities with DB plans – a Statement of Financial Position and Statement of Cash Flows is now required.



4. Asset and liability measurement

AASB 1056

Requires assets and liabilities to be measured at fair value through profit or loss in accordance with AASB 13 *Fair Value Measurement* (ie no transaction costs), with specific exceptions. The exceptions include member liabilities and tax balances.

Measures DC member liabilities at the member benefit account balance at each reporting date.

Measures DB member liabilities at the amount of “a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due”. No particular methodologies for measuring DB member liabilities are identified, and estimates, averages and computational shortcuts may be used.

AAS 25

Required assets and financial liabilities to be measured at ‘net market values’ (ie after disposal costs), with similar exceptions to those in AASB 1056.

Required DC member liabilities to be determined as the difference between assets and ‘other’ liabilities and DB member liabilities to be determined as the present value of expected future payments arising from membership of the plan (remeasured at least once each three years).

Impact

- Entities with DB plans will need to measure DB member liabilities at each reporting date and present them in the Statement of Financial Position. At transition date (generally 1 July 2015) an opening member liability amount is required.
- Materially different asset values are only expected when there would be significant disposal costs associated with those assets.
- Statements provided to individual members may still include transaction costs on disposal.

5. Consolidation – investment entity status

Most superannuation funds will meet the investment entity exception, which permits subsidiaries to be recognised as investments at fair value rather than consolidated. Subsidiaries that provide services relating to the investment entity's investment activities must be consolidated.

AASB 1056

Requires AASB 10 *Consolidated Financial Statements* to be applied.

AAS 25

Did not explicitly address consolidated financial statements.

Impact

Superannuation entities are expected to be in the nature of investment entities, with their subsidiaries measured at fair value through profit or loss and not consolidated.

6. Employer-sponsor receivables

AASB 1056

Requires unfunded superannuation funds to recognise a receivable from an employer-sponsor if the recognition criteria for an asset are met (must be controlled by the fund, ie not a discretionary choice of the employer or sponsor).

The asset is measured at its 'intrinsic value' (the difference between DB member liabilities and the other recognised assets, unless capped).

AAS 25

Did not address employer-sponsor receivables.

Impact

The most likely impacts are on public sector plans with sponsors that have statutory obligations to fund member benefits.

For private sector plans, the requirement is expected to have limited impact.

7. Insurance arrangements

AASB 1056

Requires superannuation entities bearing insurance risks (ie acting as principal) to measure insurance contract liabilities and assets consistent with DB member liability measurement. Insurance risk arises where the entity must pay an amount to members regardless of how much reimbursement is received from a reinsurer.

For DC members, any insurance liabilities, assets, premiums, claims, reinsurance expenses/recoveries would be shown separately in the Statement of Financial Position, Income Statement, or notes. For DB members, liabilities and assets arising from insurance arrangements can be presented as part of member liabilities.

Claims, reinsurance premiums or claim recoveries relating to insurance risks, revenues and/or expenses relating to insurance arrangements are disclosed separately only if there are explicit direct premiums.

Requires superannuation entities not bearing insurance risks (ie acting as agent) to disclose only the cash flow impacts, in the Statement of Cash Flows and Statement of Changes in Member Benefits.

AAS 25

Did not address insurance arrangements provided to members.

Impact

For DC members, it is expected that superannuation entities will not bear insurance risk, although they might be responsible for helping to ensure members receive appropriate benefits from insurers under group policies.

For DB members, any insurance liabilities will typically be top-ups to retirement levels.

7. Insurance arrangements

8. Information sources

AASB 1056 Superannuation Entities

Standard, Application Guidance, Illustrative Examples and Basis for Conclusions

EY Endeavour Superannuation Financial Statements, 30 June 2015

An illustration of annual financial statements for Australian Superannuation Funds in accordance with AASB 1056 Superannuation Entities

KPMG Reporting Update, 16 June 2015 15RU-008

What's new in financial reporting for superannuation entities?

CPA Australia AASB 1056 Superannuation Entities

Fact Sheet

Actuaries Institute Practice Guideline 499.06

Australian Accounting Standard AASB 1056 Superannuation Entities

Grant Thornton Technical Accounting Alert 2014-07

AASB issues new Superannuation Standard