



Staff FAQs

(Developed by PricewaterhouseCoopers for the AASB Staff – Principal author: Meina Rose)

1. Do member benefits have to be presented as liabilities as done in the illustrative financial statements in AASB 1056, or could they also be presented as equity on the basis that the members are akin to shareholders of the fund?.....	1
2. Is the format of the illustrative financial statements and note disclosures in AASB 1056 mandatory, or could alternative forms of presentation be acceptable?.....	3
3. AASB 1056 paragraph 32 requires disclosure of disaggregated information. Does this mean we have to disclose separate financial statements for each of our underlying plans and identify individual employer-sponsors?	6
4. Is there a requirement to present three columns in the Statement of Financial Position or in the notes?.....	9
5. Do I need to prepare a Statement of Changes in Equity if I have no reserves or unallocated profits/losses?	9
6. In the Statement of Changes in Member Benefits, what are the disclosure requirements for fees which are fixed (monthly fees) vs fees which are included in the fund’s unit price? This would impact disclosures in the line items Net investment income and Administration fees.	9
7. Are all superannuation entities presumed to be investment entities, therefore able to fair value their investments in subsidiaries rather than consolidate them in accordance with AASB 10 <i>Consolidated Financial Statements</i> ?	10
8. How do you determine whether a superannuation entity acts ‘in the capacity of an insurer’ or only as an agent for the insurer?	10

1. Do member benefits have to be presented as liabilities as done in the illustrative financial statements in AASB 1056, or could they also be presented as equity on the basis that the members are akin to shareholders of the fund?	
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Member benefits must be presented as liabilities, regardless of the type of fund, but can be presented separately from other liabilities as done in the illustrative examples in AASB 1056.

The AASB considered the legal/contractual obligations of superannuation entities and employer-sponsors and concluded that member entitlements should be recognised as liabilities of superannuation entities as the fund does not have an unconditional right to avoid paying the member benefits:

- The obligation to fund a member's defined contribution entitlements falls on the member's superannuation entity and is legally enforceable, particularly with member choice options to switch funds. Recognising a liability for the vested benefits is consistent with the treatment of a financial liability with a demand feature under AASB 139 *Financial Instruments: Recognition and Measurement*.
- The obligation to fund a member's defined benefit entitlements falls primarily on the member's plan and this obligation is contractual and/or constructive in nature. Any restrictions on only paying what is available in the fund does not change the nature of the underlying obligation. Similar to a bank loan, the insufficiency of funds of the borrower will not remove the obligation to pay back the loan. Recognising a liability is consistent with the recognition of net defined benefit member liabilities of employers under AASB 119. Any obligation of the employer to fund the member's benefits is recognised separately as an asset. Further explanations are provided in the basis for conclusions to AASB 1056, paragraphs BC100-BC105.

In contrast, equity participants have no rights to ask for their investment to be repaid. Equity reflects an entity's unconditional right to avoid paying members.

The presentation of member liabilities in the illustrative examples is consistent with the classification and presentation of liabilities to unitholders of investments funds, where the units are classified as liabilities based on the guidance in AASB 132 *Financial Instruments: Presentation*. Hence many users of the financial statements will already be familiar with this format.

Classifying the member benefits as liabilities also affects the other financial statements:

- Contributions received from employers and members and benefit payments are no longer considered to be income and expense, respectively, of the superannuation entity, but are included in the Statement of Changes in Member Benefits (see BC 83, BC84). Taxes on

contributions received is also shown as a reduction in member contributions in the Statement of Changes in Member Benefits, as it is effectively paid for by the member, rather than the fund itself.

- Contributions received and benefits paid will be classified as cash flows from financing activities in the Statement of Cash Flows, as they result in changes in the liabilities of the entity and are not related to the revenue-producing activities of the entity (AASB 107 Statement of Cash Flows paragraph 6 definitions of operating and financing activities).

[back to top](#)

2. Is the format of the illustrative financial statements and note disclosures in AASB 1056 mandatory, or could alternative forms of presentation be acceptable?

The style and format of the illustrative financial statements and note disclosures are not mandatory. Alternative formats and presentations are acceptable as long as they comply with the requirements of AASB 1056 and other applicable standards, including AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*.

Income Statement

Paragraph 9 of AASB 1056 sets out the line items that must be presented in the Income Statement, where material and applicable. While superannuation entities are also required to comply with AASB 101, including the minimum line items to be disclosed where material in the statement of profit or loss and other comprehensive income (paragraphs 81A to 105), many of the line items will not apply to superannuation entities (eg there are no items of other comprehensive income).

The order of the line items and added sub-totals are also not mandatory. For example, while the illustrative examples show the income tax expense line *after* net benefits allocated to members' accounts/net change in defined benefit member benefits, it would also be acceptable to present a profit from operating activities after income tax subtotal before benefits allocated to members/net change in defined benefit member benefits.

At the same time, superannuation entities could choose to disclose a breakdown of tax expense into tax attributable to superannuation activities and tax attributable to insurance activities, as long as the total tax expense is also disclosed to satisfy AASB 1056 paragraph 9(f). Using illustrative example I, this could look as follows:

	\$'000
Superannuation activities	
Interest revenue	8,152
...	xxx

Total superannuation activities revenue	2,967,682
Investment expenses	(55,972)
Administration expenses	(41,662)
Other operating expenses	(1,642)

Total expenses	99,276

Superannuation operating profit	2,868,406
Insurance activities operating loss	(36)

Profit from operating activities before income tax	2,868,370
Income tax	
Superannuation activities	235,548
Insurance activities	5

Total income tax	235,553
Profit from operating activities after income tax	2,632,817
Less: net benefits allocated to members' accounts	(2,635,776)

Loss after income tax	(2,959)

An alternative way of presenting the income statement in example II, again switching the order of tax expense and net changes in member liabilities/net change in defined benefit member benefits, is as follows:

	\$'000
Superannuation activities	
Interest revenue	190,696
...	xxx

Total revenue	729,093
Investment expenses	(27,404)
Administration expenses	(12,042)
Other operating expenses	(998)

Total expenses	40,444

Operating result	688,649
Income tax expense attributable to net result	(38,470)

Operating result after income tax	650,179
Net benefits allocated to defined benefit contribution members	(142,293)
Net change in defined benefit member benefits	(580,138)

Loss after income tax	<u>(72,252)</u>

However, preparers will need to keep in mind that AASB 1056 limits the taxes that are recognised in the Income Statement to those relating to the superannuation entity's activities, not those relating specifically to members. For example, income tax levied on contributions must be recognised directly in the Statement of Changes in Member Benefits. See paragraph 12, AG15 and BC93 – BC 99.



Presenting tax rebates to members

Some funds give tax rebates to their members in relation to administration fees charged. For example, if members are charged \$1 administration fee per month, they will get a 15c tax rebate in relation to this fee. To make this more transparent, funds could choose the following presentation in the Statement of Changes in Member Benefits:

		\$'000
Opening balance of member benefits		xxx
...		xxx

Net after tax contributions		xxx
Benefits to members		(xxx)
Insurance premiums charged to members' accounts		(xxx)
Death and disability benefits credited to members' accounts		xxx
Net benefits allocated to members' accounts, comprising		
Net investment income	2,677,097	
Administration fees	(47,471)	
Tax rebate on administration fees	6,150	2,635,776
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Closing balance of member benefits		xxx

[back to top](#)

3. AASB 1056 paragraph 32 requires disclosure of disaggregated information. Does this mean we have to disclose separate financial statements for each of our underlying plans and identify individual employer-sponsors?

Paragraph 32 states that an entity shall disclose disaggregated information 'when it is necessary to explain the risks and benefit arrangements relating to different categories of members'.

The disclosure is meant to highlight different risks and different benefit arrangements to which different categories of members are exposed. The categories of members are based on the nature of the member's interest in the fund. There are two points to note:

1. Not all information must be disaggregated.
2. There can be different levels of disaggregation, depending on the actual disclosure concerned.

While the Statement of Changes in Member Benefits would normally be disaggregated at least into DB vs DC members, it will not usually be necessary to disaggregate all of the line items in the primary financial statements. Superannuation entities should focus instead on individual line items where disaggregated information would be relevant for users, eg member liabilities.

In many cases, a disaggregation based on DC vs DB members will be sufficient. However, some information may need to be further disaggregated if there are other categories of members, eg members with 'higher of' promises or hybrid members (ie members whose benefit entitlements have characteristics of both DB and DC entitlements), or if there are plans that are in surplus vs plans that are in deficit.

A plan-by-plan disaggregation will only be necessary if the individual plans expose the entity to significantly different risks and this is relevant for the type of information provided.

For example, information about key assumptions used in measuring DB member liabilities (paragraph 25) should be disaggregated if they differ between plans. If there is a difference between the net assets attributable to DB members and the DB member liabilities (over-or underfunded plans), the net amount shown in the statement of financial position should be disaggregated in the notes to show which plans are over- and which are underfunded. The additional information required by paragraphs 28 and 29 in relation to the surplus or deficit may also need to be disaggregated accordingly.

Further guidance on the disaggregation of information can be found in paragraphs AG33 - 35.

The requirement to disclose employer-sponsors only applies when an employer-sponsor receivable is recognised (paragraph 27).



[back to top](#)

4. Is there a requirement to present three columns in the Statement of Financial Position or in the notes?

There is no requirement to have three columns in the Statement of Financial Position or in the notes on transition to AASB 1056. A specific transitional exemption is provided by paragraph 37. However, DB funds in particular still need the information to enable the movements in the comparative period to be determined. (ie 1 July 2015 opening numbers are required to work out the income and expenses for the year ended 30 June 2016). When explaining the impact of the change, a table showing the impact may be the most effective. However if the changes are reclassifications only, such as for DC funds, narrative alone may suffice.

[back to top](#)

5. Do I need to prepare a Statement of Changes in Equity if I have no reserves or unallocated profits/losses?

Unlike MIS funds which need to prepare a 'nil' statement of changes in equity, as a result of ASIC's interpretation of the Corporations Act, there is no similar requirement for superannuation entities. However, funds with reserve accounts (ie investment reserves), unfunded liabilities resulting in accumulated deficits, or surplus funds, are expected to have a Statement of Changes in Equity.

[back to top](#)

6. In the Statement of Changes in Member Benefits, what are the disclosure requirements for fees which are fixed (monthly fees) vs fees which are included in the fund's unit price? This would impact disclosures in the line items Net investment income and Administration fees.

There are no specific disclosure requirements. However, AASB 101 paragraph 31 requires additional disclosure of information if it is material and relevant in understanding the financial statements. Accordingly, it may be appropriate to disclose the fees allocated per the PDS and the actual fees paid separately in the Statement of Changes in Member Benefits. Net investment income and Administration fees allocated to members can be further disaggregated to show the fees separately (see Q2 for an example).

[back to top](#)

7. Are all superannuation entities presumed to be investment entities, therefore able to fair value their investments in subsidiaries rather than consolidate them in accordance with AASB 10 *Consolidated Financial Statements*?

No. However, most superannuation entities should meet the investment entity definition in AASB 10 that permits subsidiaries (controlled entities) to be recognised as investments at fair value rather than consolidated, as they exist to provide investment management services to members, typically hold investments only for capital appreciation, investment income or both, and measure performance substantially using fair value. The exit strategy for investments in subsidiaries (AASB 10 para B85F-H) will need to be documented. Subsidiaries that provide services relating to the investment entity's investment activities must be consolidated.

[back to top](#)

8. How do you determine whether a superannuation entity acts 'in the capacity of an insurer' or only as an agent for the insurer?

Superannuation entities must recognise liabilities and assets arising from their insurance and reinsurance arrangements if they are acting in the capacity of an insurer (paragraph 33) by taking on insurance risk (ie the fund has an obligation to pay the member regardless of whether any payment is received from an external insurer).

Paragraphs AG 41 and AG 42 set out factors to consider in determining whether a superannuation entity is taking on insurance risk, acting as a principal insurer, rather than an 'agent' for an insurer. Indicators that the entity is acting as an agent and need only recognise the premiums charged and benefit payments in the statement of member benefits, are:

- members (or their beneficiaries) will only receive insurance benefits if the external insurer/reinsurer pays the claims
- insurance premiums are only paid through the superannuation entity for administrative reasons

- insurance premiums are effectively set directly by reference to premiums set by an external insurer.

AG42 further confirms that a superannuation entity has not taken on insurance risk simply by:

- taking out (group) insurance cover in the name of the superannuation entity
- paying claim benefits to members (or their beneficiaries) via the superannuation entity
- making occasional ex gratia payments in respect of death and disability benefits.

Similarly, the following factors alone would not generally be indicative of insurance risk:

- the entity has oversight over the claims process as required by APRA Prudential Standard SPS250, reviews declined claims and occasionally agrees to pay a claim out of reserves, or
- the entity is assisting the insurer by administering the claims and is charging an administration fee for these service to the members.

To assess whether the entity has a legal or constructive obligation in relation to the insurance cover, superannuation entities should consider their trust deeds and review the communications provided to members. For example:

- What have the members been told in relation to the insurance arrangements?
- Are they aware that the insurance is provided by a third party, or is it implied that the superannuation entity will be ultimately responsible for providing the benefits?
- Do the documents provided to members refer to the third party insurance policy for the terms and conditions, or do they set out their own terms and conditions under which claims will be paid?
- If the documents repeat the terms and conditions of a third party insurance arrangement, is it clear that these may change if the insurance policy is renewed, and are there procedures in place to ensure members are informed of any changes?

Where insurance arrangements are material, superannuation entities should document their assessment and their reasons for concluding whether they have taken on insurance risk in their files and review this each year. Where the insurance arrangements could have a significant impact on the financial performance and position of a superannuation entity, the entity should consider disclosing details of the judgement made in the notes to the financial statements, as per AASB 101, paragraph 122.

While AASB 1056 specifically refers to the entity acting as agent in AG40 onwards, the critical point is whether the entity has taken on insurance risk. It is not necessary to refer to a 'principal' vs 'agent' assessment in the disclosures.

[back to top](#)