AASB Exposure Draft

ED 179
May 2009

Superannuation Plans and Approved Deposit Funds

Comments to AASB by 30 September 2009

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 30 September 2009. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

All non-confidential submissions to the AASB will be made available to the public on the AASB website: www.aasb.gov.au.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this Exposure Draft are available by contacting:

The Customer Service Officer
Australian Accounting Standards Board
Level 7
600 Bourke Street
Melbourne Victoria
AUSTRALIA

Phone: (03) 9617 7637
Fax: (03) 9617 7608
E-mail: publications@aasb.gov.au
Postal address:
PO Box 204
Collins Street West Victoria 8007

Other Enquiries

Phone: (03) 9617 7600
Fax: (03) 9617 7608
E-mail: standard@aasb.gov.au

ISSN 1030-5882

CONTENTS

[Draft] Australian Accounting Standard AASB 10XX *Superannuation Plans and Approved Deposit Funds* is set out in paragraphs 1-50 and Appendices A and B. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 10XX is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation and Application of Standards*, which identifies the Australian Accounting Interpretations. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and

(c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Private sector for-profit entities complying with Australian Accounting Standards will simultaneously comply with IFRSs. Many other entities complying with Australian Accounting Standards will also simultaneously comply with IFRSs.

Exposure Drafts

The publication of an Exposure Draft is a part of the due process that the AASB follows before making a new or amending an existing Australian Accounting Standard. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Australian Accounting Standards.

Reasons for Issuing this Exposure Draft

The AASB has adopted a transaction-neutral policy in relation to its accounting pronouncements, under which like transactions are, to the extent feasible, treated in a like manner by all entities. Consistent with this policy, the AASB issues Australian Accounting Standards that incorporate IFRSs.

In keeping with its policy of transaction-neutrality and adopting IFRSs, the AASB considered the merits of replacing AAS 25 *Financial Reporting by Superannuation Plans* with IAS 26 *Accounting and Reporting by Retirement Benefit Plans.* The AASB also considered the implications of withdrawing AAS 25 and requiring superannuation plans and approved deposit funds to apply, where appropriate, Australian Accounting Standards. However, based on a consideration of the needs of users, the AASB concluded that it is necessary to retain a domestic Standard that addresses a limited number of reporting issues of critical importance to superannuation plans and approved deposit funds in Australia. The AASB also concluded that, in light of developments in the superannuation industry since AAS 25 was originally drafted, and the recent introduction of IFRSs, a comprehensive review of the general purpose financial reporting requirements applicable to superannuation plans and approved deposit funds is necessary.

While the users of the financial statements of superannuation plans and approved deposit funds arguably have many of the same information needs as the users of financial statements of other entities, users in a superannuation context include groups whose information needs were not the focus of considerations in the promulgation of other Australian Accounting Standards. This is due, in part, to the compulsory nature of superannuation in Australia. As a consequence of this, the reporting requirements that would otherwise apply under Australian Accounting Standards, particularly in relation to the measurement of assets, the recognition and measurement of member benefits, the preparation and presentation of consolidated financial statements and the disclosure of information about superannuation-specific items and events, are not necessarily appropriate for the needs of users of the financial statements of superannuation plans or approved deposit funds. Accordingly, this Exposure Draft deals only with financial reporting issues for which the AASB considers there is a need to:

(a) depart from Australian Accounting Standards in respect of superannuation plans or approved deposit funds; and

(b) limit the accounting treatments available to superannuation plans or approved deposit funds in other Australian Accounting Standards;

in the interests of facilitating the provision of information that is useful for decision making by users in a superannuation context.

Differential Reporting and the Reporting Entity Concept

The application paragraphs in this Exposure Draft are based on the reporting entity concept as defined in SAC 1 *Definition of the Reporting Entity*. The reporting entity concept is used in this Exposure Draft to identify those entities to which the Standard would apply. This approach accords with the AASB's existing policy concerning application of Australian Accounting Standards, but differs from the AASB's tentative decisions to date in relation to its Differential Reporting project.

In May 2007, the AASB published Invitation to Comment (ITC) 12 Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB *Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*, which contains proposals for a revised differential reporting regime. Among other things, the AASB proposed changing the focus of the application of Australian Accounting Standards from 'reporting entity' to 'general purpose financial statements'. The AASB is currently redeliberating its ITC 12 proposals in the light of comments received from constituents. Accordingly, when the AASB has completed its deliberations in relation to its Differential Reporting project, it will reconsider the merits of retaining the reporting entity concept for the purpose of this Standard.

Main Features of this Exposure Draft

This Exposure Draft proposes that a superannuation plan or approved deposit fund prepare financial statements in accordance with other applicable Australian Accounting Standards unless otherwise specified in this Exposure Draft. This Exposure Draft proposes that a superannuation plan or approved deposit fund:

(a) recognise all of its assets and liabilities in accordance with other applicable Australian Accounting Standards and measure them at fair value adjusted for transaction costs, except that:

  (i) tax balances be measured in accordance with AASB 112 *Income Taxes*;

  (ii) obligations for defined contribution members' vested benefits and defined benefit members' accrued benefits always be recognised as liabilities;

(iii) obligations for defined contribution members' vested benefits be measured at the amount payable to, or on behalf of, such members on demand;

(iv) obligations for defined benefit members' accrued benefits be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method in a manner consistent with the approach required under AASB 119 *Employee Benefits* in respect of defined benefit obligations, except that:

(A) expected administration costs are not included in the measurement of accrued benefits;

(B) if a plan's benefit formula prescribes that defined benefit members accrue materially higher levels of benefits as they near retirement age, the plan attributes benefits to reporting periods on a basis appropriate to the plan's circumstances; and

(C) benefit payments be discounted for the time value of money using a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and terms of the obligations for such payments;

(v) obligations and assets arising from insurance contracts issued by the plan or fund be accounted for in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*; and

(vi) any difference at the end of the reporting period between:

(A) the sum of a parent plan's or parent fund's interest and the non-controlling interests in the subsidiary; and

(B) the amount of the net assets of the subsidiary that are recognised by the parent plan or parent fund;

be recognised and presented separately as goodwill in the consolidated statement of financial position or, if negative, as a remeasurement gain in the consolidated income statement;

(b) recognise and present all revenues, expenses, gains and losses in accordance with applicable Australian Accounting Standards, except that:

(i) all remeasurement changes in assets and liabilities measured at fair value adjusted for transaction costs be recognised and presented as gains or losses in the income statement;

(ii) changes in obligations and assets arising from insurance contracts issued by the entity be recognised and presented as gains or losses in the income statement;

(iii) remeasurement changes in goodwill be recognised and presented as a gain or loss in the consolidated income statement;

(iv) net benefits allocated to defined contribution members' accounts be recognised and presented as a gain or loss in the income statement;

(v) net changes in defined benefit members' accrued benefits be recognised and presented as a gain or loss in the income statement; and

(vi) current tax and deferred tax be charged or credited directly to member benefits and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged directly to member benefits;

(c) present:

(i) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with Australian Accounting Standards;

(ii) an income statement instead of a single statement of comprehensive income or a separate income statement and a statement of comprehensive income;

(iii) a statement of changes in member benefits; and

(iv) notes in accordance with other relevant Australian Accounting Standards except where the disclosure principles and requirements in other Australian Accounting Standards:

(A) are not consistent with the measurement requirements in this Exposure Draft; or

(B) address the same items or events as the disclosure principles in this Exposure Draft;

(d) present any difference between the amount of total assets and total liabilities (including member benefits and any obligations to employer sponsors) as equity in accordance with applicable Australian Accounting Standards;

(e) that prepares separate financial statements for the purpose of meeting the information needs of general purpose users, present its separate and consolidated financial statements together; and

(f) disclose in the notes information that provides users of its financial statements with a basis for understanding:

    (i) the nature of the entity and the nature of the benefits it provides to its members;

    (ii) the nature and amount of expenses incurred by the entity;

    (iii) how the fair values of assets and liabilities of the entity are determined;

    (iv) the nature and extent of the financial risks to which the entity is exposed during the reporting period and at the end of the reporting period;

    (v) how the entity manages the financial risks to which it is exposed;

    (vi) how the entity arranges and manages assets attributable to different groups of members, and the related obligations to those members;

    (vii) where an entity manages assets attributable to different groups of members, and the related obligations to those members, on a 'segregated' basis:

        (A) the type and nature of assets within each segregated group of assets;

        (B) the financial performance and financial position of each segregated group of assets; and

        (C) the significant financial risks to which each segregated group of assets is exposed when the levels of such risks differ materially from the levels of the corresponding risks at the entity level;

    (viii) the entity's obligations for member benefits;

(ix) the size, nature, causes of and any strategies for addressing any difference between the amount of net assets attributable to defined benefit members and such members' accrued benefits;

(x) the components of remeasurement changes in defined benefit members' accrued benefits;

(xi) the nature of the entity's relationships with its employer sponsors and trustee or trustees; and

(xii) any transaction during the reporting period or balance at the end of the reporting period involving the entity and an employer sponsor or trustee that would not be considered 'normal' in a superannuation context.

Comparison with AAS 25 *Financial Reporting by Superannuation Plans*

It is proposed that this Standard supersede AAS 25 *Financial Reporting by Superannuation Plans*. The main differences between this Standard and AAS 25 are that this Standard:

(a) does not differentiate between different types of superannuation plans and impose different reporting requirements on each type of plan;

(b) requires all superannuation plans and approved deposit funds to present a statement of cash flows, a statement of changes in member benefits and, where relevant, a statement of changes in equity;

(c) requires all assets except for tax assets, assets arising from insurance contracts issued by a superannuation plan or approved deposit fund and goodwill to be measured at fair value less transaction costs;

(d) requires all liabilities except for tax liabilities, obligations for defined contribution members' vested benefits, obligations for defined benefit members' accrued benefits and obligations arising from insurance contracts issued by a superannuation plan or approved deposit fund to be measured at fair value plus transaction costs;

(e) requires all tax assets and liabilities to be measured in accordance with AASB 112 *Income Taxes*;

(f) requires all assets and liabilities arising from insurance contracts issued by a superannuation plan or approved deposit fund to be recognised and measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*;

(g) requires any difference between:

   (i) the sum of a parent superannuation plan's or parent approved deposit fund's interest and the non-controlling interests in a subsidiary; and

   (ii) the amount of the net assets of the subsidiary that are recognised by the parent plan or parent fund;

   to be recognised and presented as goodwill or a remeasurement gain;

(h) requires obligations for defined contribution members' vested benefits to be recognised as a liability and measured at the amount payable to, or on behalf of, such members on demand;

(i) requires obligations for defined benefit members' accrued benefits to be recognised as a liability and measured using the Projected Unit Credit Method in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations, except that:

   (i) expected administration costs are not included in the measurement of accrued benefits;

   (ii) if a superannuation plan's benefit formula prescribes that defined benefit members accrue materially higher levels of benefits as they near retirement age, the plan attributes benefits to reporting periods on a basis appropriate to the plan's circumstances; and

   (iii) benefit payments be discounted for the time value of money using a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and terms of the obligations for such payments rather than at the rate of return the superannuation plan anticipates it could achieve if sufficient funds were available to meet its obligations for defined benefit members' accrued benefits as they fall due;

(j) requires contributions, transfers, rollovers and benefit payments to be presented in the statement of changes in member benefits;

(k) requires taxation amounts attributable to concessional contributions and member benefits, including any contributions surcharge tax amounts, to be presented in the statement of changes in member benefits;

(l) requires net benefits allocated to defined contribution members' accounts to be recognised and presented as gains or losses in the income statement;

(m) requires net changes in defined benefit members' accrued benefits to be recognised and presented as gains or losses in the income statement;

(n) requires all superannuation plans and approved deposit funds to disclose information that provides users with a basis for understanding superannuation-specific items and events;

(o) does not require all realised and unrealised gains or losses on assets to be separately disclosed; and

(p) does not require a copy or summary of the most recent actuarial report prepared for a defined benefit superannuation plan to be appended to its financial statements.

Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after 1 July 20XX with early adoption permitted for annual reporting periods beginning on or after 1 January 20XX.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 30 September 2009. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or critical on the major issues. The AASB regards supportive and critical comments as essential to a balanced review of the issues and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on whether:

(a) the recognition principles in paragraph 10 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund;

(b) a superannuation plan or approved deposit fund should be required to measure at fair value adjusted for transaction costs all of its:

  (i) assets, except for:

    (A) tax assets;

    (B) assets arising from insurance contracts issued by the entity; and

    (C) goodwill; and

  (ii) liabilities, except for:

    (A) tax liabilities;

    (B) obligations for defined contribution members' vested benefits;

    (C) obligations for defined benefit members' accrued benefits; and

    (D) obligations arising from insurance contracts issued by the entity;

(c) the guidance in paragraphs AG13-AG32 of Appendix B to this Exposure Draft is sufficient to facilitate reliable measurements of obligations for defined benefit members' accrued benefits and comparable measurements of such obligations between superannuation plans and over time. In particular, whether a superannuation plan with defined benefit members who will accrue materially higher levels of benefits as they near retirement age should be:

(i) permitted to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances, as proposed in paragraph AG17 of Appendix B to this Exposure Draft;

(ii) required to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations; or

(iii) required to attribute such members' benefits to reporting periods on a basis other than a straight-line basis;

(d) any superannuation plans in Australia have defined benefit members whose level of benefits could be altered by externally imposed requirements, such as the level of state retirement benefits, as noted in paragraph 18(c) of this Exposure Draft and paragraph AG30 of Appendix B to this Exposure Draft. If so, please describe the nature of these externally imposed requirements and how they are currently incorporated into the measurement of defined benefit members' entitlements;

(e) there are any significant practical difficulties that would inhibit the reliable measurement of obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts* as proposed in paragraph 21 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;

(f) there are any circumstances in which a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors) would not be equity as defined in Australian Accounting Standards;

(g) a superannuation plan that has members who are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement or other event that qualifies as a condition for releasing superannuation benefits (refer to paragraphs BC52-BC56 of the Basis for Conclusions to this Exposure Draft) should recognise the 'higher of' benefit option separately from the defined benefit 'host promise'.

If you agree that a superannuation plan should separately recognise a 'higher of' benefit option, how might the option be measured?

(h) there are any significant practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with paragraph 30 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;

(i) a parent superannuation plan or parent approved deposit fund should be permitted or required to separately recognise any internally generated intangible assets, internally generated goodwill, contingent assets or contingent liabilities that are attributable to a subsidiary and have arisen subsequent to the subsidiary's acquisition by the parent plan or parent fund when such items are reliably measurable;

(j) a parent superannuation plan or parent approved deposit fund should be required to recognise and present any excess of the amount of the net assets of a subsidiary that are recognised by the parent over the sum of the parent plan's or parent fund's interest and any non-controlling interests in the subsidiary as a remeasurement gain in the consolidated income statement in the reporting period in which it occurs;

(k) a parent superannuation plan or parent approved deposit fund should be permitted or required to measure any non-controlling interests at fair value of equity at the end of each reporting period in a manner consistent with the approach illustrated in Illustrative Example D of Appendix C to this Exposure Draft;

(l) the disclosure principles in paragraphs 32-50 of this Exposure Draft:

    (i) are appropriate for a superannuation plan or approved deposit fund;

    (ii) would provide useful information for users of the general purpose financial statements of a superannuation plan or approved deposit fund; and

    (iii) would be sufficient to facilitate reliable and comparable disclosures between superannuation entities and over time;

(m) there are any significant practical difficulties that would inhibit a superannuation plan or approved deposit fund disclosing information in relation to any segregated groups of assets attributable to different groups of members, and the related obligations to those members, in accordance with paragraph 40 of this Exposure Draft and paragraphs AG80-AG88 of Appendix B to this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;

(n) the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would provide useful information for users. If you agree that the proposals in paragraph 46 of this Exposure Draft would not be adequate for users' needs, please explain how this information should be presented;

(o) it would be more useful if the Standard provided example financial statements for a superannuation plan comprising both defined contribution and defined benefit members rather than explaining how the financial statements of a plan with defined benefit members only would differ from those of a plan with defined contribution members only (as provided in Illustrative Examples A and B in Appendix C to this Exposure Draft);

(p) the approach adopted in drafting this Exposure Draft is helpful for understanding how a superannuation plan or approved deposit fund might apply the proposals in this Exposure Draft, particularly the disclosure principles, in conjunction with the relevant principles and requirements in other Australian Accounting Standards. If you do not consider the approach adopted in this Exposure Draft to be helpful, please describe the type of approach you would prefer;

(q) overall, the proposals would result in general purpose financial statements that would be useful to users; and

(r) the proposals are in the best interest of the Australian economy.

ACCOUNTING STANDARD AASB 10XX

SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

Objective

1 The objective of this Standard is to specify requirements for the general purpose financial statements of a *superannuation plan* or *approved deposit fund*. This Standard requires compliance with other Australian Accounting Standards except as specified in this Standard. Financial statements prepared in accordance with this Standard are intended to provide users with information that is useful for decision making in a superannuation plan or approved deposit fund context.

Core Principle

2 A superannuation plan or approved deposit fund shall disclose information that provides users of its financial statements with a basis for understanding the:

(a) financial position, financial performance and cash flows of the entity;

(b) amount of, and the entity's capacity to meet, member benefits; and

(c) financial risks to which the entity is exposed that could affect the amount of, and the entity's capacity to meet, member benefits.

Application

3 This Standard applies to:

(a) each superannuation plan or approved deposit fund that is a reporting entity; and

(b) financial statements of a superannuation plan or approved deposit fund that are held out to be general purpose financial statements.

4 This Standard applies to annual reporting periods beginning on or after 1 July 20XX.

5 This Standard may be applied to annual reporting periods beginning on or after 1 January 20XX but before 1 July 20XX. When an entity applies this Standard to an annual reporting period beginning before 1 July 20XX it shall disclose that fact.

6 The requirements specified in this Standard apply to the financial statements where information resulting from their application is material in accordance with AASB 1031 *Materiality*.

Compliance with Australian Accounting Standards

7 Unless otherwise specified in this Standard, the financial statements of a superannuation plan or approved deposit fund shall be prepared in accordance with other applicable Australian Accounting Standards.

8 Except in a limited number of specified circumstances, this Standard requires all assets and liabilities of a superannuation plan or approved deposit fund to be:

(a) recognised in accordance with other applicable Australian Accounting Standards; and

(b) measured at fair value adjusted for *transaction costs*.

9 This Standard also requires a superannuation plan or approved deposit fund to apply the presentation and disclosure principles and requirements in other relevant Australian Accounting Standards unless the presentation or disclosure principles and requirements:

(a) are not consistent with the measurement requirements in this Standard; or

(b) address the same items or events as the presentation or disclosure principles in this Standard.

Assets and Liabilities

Recognition

10 **All assets and liabilities shall be recognised in accordance with other applicable Australian Accounting Standards, however:**

(a) **obligations for defined contribution members' *vested benefits* and defined benefit members' *accrued benefits* shall always be recognised as liabilities;**

(b) **all obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be recognised in accordance with the recognition criteria applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*; and**

(c) **assets and liabilities of a subsidiary shall be recognised in accordance with paragraph 30 of this Standard.**

Measurement

11 **All recognised assets except for:**

(a) **tax assets:**

(b) **assets arising from insurance contracts issued by the entity; and**

(c) **goodwill measured in accordance with paragraph 30 of this Standard;**

shall be measured at fair value less transaction costs.

12 **All recognised liabilities except for:**

(a) **tax liabilities;**

(b) **obligations for defined contribution members' vested benefits;**

(c) **obligations for defined benefit members' accrued benefits; and**

(d) obligations arising from insurance contracts issued by the entity;

shall be measured at fair value plus transaction costs.

Tax Balances

13 Tax assets and liabilities shall be measured in accordance with AASB 112 *Income Taxes*.

Defined Contribution Members' Vested Benefits

14 Obligations for defined contribution members' vested benefits shall be measured at the amount payable to, or on behalf of, such members on demand.

Defined Benefit Members' Accrued Benefits

15 Obligations for defined benefit members' accrued benefits shall be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method.

16 Application of the Projected Unit Credit Method requires a superannuation plan to make actuarial assumptions about the variables that will determine the ultimate cost of its obligation for defined benefit members' accrued benefits. Actuarial assumptions include assumptions about the demographic variables (such as rates of member turnover, disability and early retirement) and financial variables (such as future salary and benefit levels) that will affect the amount of expected future benefit payments. The reliable measurement of defined benefit members' accrued benefits necessarily requires that the assumptions used are the best estimates of the relevant variables.

Actuarial Assumptions

17 Actuarial assumptions shall be unbiased and mutually compatible.

Salaries and Benefits

18 Obligations for defined benefit members' accrued benefits shall be measured on a basis that reflects:

(a) estimated future salary increases;

(b) the benefits set out in the terms of the superannuation plan at the end of the reporting period and any constructive

obligation to members that goes beyond the formal terms of the plan; and

(c) estimated future changes in the level of any externally imposed requirements that affect the benefits payable under a superannuation plan, if, and only if, either:

(i) those changes were enacted before the end of the reporting period; or

(ii) past practice, or other reliable evidence, indicates that those externally imposed requirements will change in a manner that would permit the obligation to be reliably measured.

Discount Rate

19 Obligations for defined benefit members' accrued benefits shall be discounted for the time value of money using risk-free discount rates based on current observable, objective rates that relate to the nature, structure and terms of the obligations.

Defined Benefit or Defined Contribution

20 The definitions of a *defined contribution member* and a *defined benefit member* in Appendix A to this Standard cover most, if not all, types of benefits offered by superannuation plans and approved deposit funds in Australia. However, if an individual member's benefit entitlements have characteristics of both defined benefit and defined contribution entitlements, the member should be regarded as a defined benefit member.

Insurance Contracts

21 Obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038.

Remeasurement Changes in Assets and Liabilities

22 All revenues, expenses, gains and losses shall be recognised and presented in accordance with other applicable Australian Accounting Standards, except that:

(a) all remeasurement changes in assets and liabilities measured at fair value adjusted for transaction costs shall be recognised and presented as gains or losses in the income statement in the period in which they occur;

(b) changes in obligations and assets arising from insurance contracts issued by the entity shall be recognised and presented as gains or losses in the income statement in the period in which they occur;

(c) remeasurement changes in goodwill measured in accordance with paragraph 30 of this Standard shall be recognised and presented as a gain or loss in the consolidated income statement in the period in which they occur;

(d) the net benefits allocated to defined contribution members' accounts for a reporting period shall be recognised and presented as a gain or loss in the income statement in the reporting period;

(e) the net change in defined benefit members' accrued benefits for a reporting period shall be recognised and presented as a gain or loss in the income statement in the reporting period; and

(f) current tax and deferred tax shall be charged or credited directly to member benefits and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member benefits.

Presentation and Disclosure

23 A superannuation plan or approved deposit fund shall apply the presentation and disclosure principles and requirements in other relevant Australian Accounting Standards unless the presentation or disclosure principles and requirements:

(a) are not consistent with the measurement requirements in this Standard; or

(b) address the same items or events as the presentation or disclosure principles in this Standard.

24 Paragraph AG2 of Appendix B to this Standard identifies some Australian Accounting Standards that contain disclosure principles and

requirements that a superannuation plan or approved deposit fund would apply when relevant. In addition, paragraphs AG3 and AG4 of Appendix B to this Standard identify some Australian Accounting Standards that contain disclosure principles and requirements that a superannuation plan or approved deposit fund would not apply under this Standard.

Presentation of Financial Statements

25 A superannuation plan or approved deposit fund shall present:

(a) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with Australian Accounting Standards;

(b) an income statement;

(c) a statement of changes in member benefits; and

(d) notes in accordance with other relevant Australian Accounting Standards except where the disclosure principles and requirements in other Australian Accounting Standards:

(i) are not consistent with the measurement requirements in this Standard; or

(ii) address the same items or events as the disclosure principles in this Standard.

26 Where there exists a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors), the plan or fund would present the difference as equity in accordance with applicable Australian Accounting Standards, including paragraphs 79 and 80 of AASB 101 *Presentation of Financial Statements*.

27 A superannuation plan or approved deposit fund that presents an income statement in accordance with this Standard would not also need to present:

(a) a single statement of comprehensive income; or

(b) a separate income statement and a statement of comprehensive income;

in accordance with AASB 101.

28 A statement of changes in member benefits shows information in relation to items such as contributions, transfers, rollovers and benefit payments. This information provides a basis for making assessments about any change in a superannuation plan's or approved deposit fund's obligations for its defined contribution members' vested benefits and defined benefit members' accrued benefits during the reporting period.

29 A superannuation plan or approved deposit fund that presents a statement of changes in member benefits in accordance with this Standard would not also need to disclose information equivalent to that required by paragraphs 79(a) and 80 of AASB 101, including changes during the period in each category of membership, and the rights, preferences and restrictions attaching to each category of membership.

Preparation and Presentation of Consolidated Financial Statements

30 A parent superannuation plan or parent approved deposit fund shall prepare and present consolidated financial statements in accordance with AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*, except that in preparing its consolidated financial statements the parent shall:

(a) measure all of the assets and liabilities of a subsidiary that are recognised in the statement of financial position (except for tax balances) at their fair values adjusted for transaction costs at the end of the reporting period. Tax balances shall be measured in accordance with AASB 112;

(b) recognise any difference between:

(i) the sum of the parent's interest and the non-controlling interests in the subsidiary at the end of the reporting period; and

(ii) the amount of the net assets of the subsidiary that are recognised by the parent at the end of the reporting period;

as goodwill or a remeasurement gain; and

(c) present:

(i) any goodwill in the statement of financial position at the end of the reporting period; and

(ii) any remeasurement gain in the income statement in the period in which it occurs.

Separate Financial Statements

31 A parent superannuation plan or parent approved deposit fund that prepares separate financial statements intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs shall present its separate and consolidated financial statements together.

Disclosures

Nature of the Entity, Nature of Member Benefits, Expense Items and Fair Value Measurement

32 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:

(a) the nature of the entity and the nature of the benefits it provides to its members;

(b) the nature and amount of expenses incurred by the entity; and

(c) how the fair values of assets and liabilities of the entity are determined.

33 To meet the objectives in paragraph 32, an entity discloses, as a minimum, the information specified in paragraphs AG52, AG53-AG56 and AG57-AG60 of Appendix B to this Standard.

Nature, Extent and Management of Risks

34 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:

(a) the nature and extent of the financial risks to which the entity is exposed during the reporting period and at the end of the reporting period; and

(b) how the entity manages those risks.

35 To meet the objective in paragraph 34, an entity discloses, as a minimum, the information specified in paragraphs AG61-AG76 of Appendix B to this Standard.

Arrangement and Management of Assets

36 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding how the plan or fund arranges and manages assets attributable to different groups of members, and the related obligations to those members.

37 Superannuation plans and approved deposit funds can manage the assets attributable to different groups of members, and the related obligations to those members, in a number of different ways, including:

(a) on a single fund (or 'pooled') basis, whereby all of the contributions attributable to different groups of members are pooled for investment purposes and individual, or groups of, assets are not notionally or actually attributable to particular members or groups of members; or

(b) on a 'segregated' basis, whereby the contributions attributable to different groups of members are invested separately and individual, or groups of, assets are at least notionally attributable to particular members or groups of members.

38 For a superannuation plan or approved deposit fund to be considered to be managing the assets attributable to different groups of members, and the related obligations to those members, on a 'segregated' basis, separate financial information in respect of the segregated groups of assets and related member obligations must be available and evaluated regularly by management of the plan or fund for the purpose of allocating resources and assessing performance. In these circumstances, a plan or fund would use the information reported to its management for decision-making purposes as the basis for determining the appropriate level of disaggregation with respect to disclosures about its assets and related member obligations, consistent with the 'through the eyes of management' approach applied under AASB 8 *Operating Segments* to operating segments. Paragraphs AG78 and AG80-AG81 of Appendix B to this Standard provide further guidance for determining the appropriate level of disaggregation with respect to disclosures about a plan's or fund's assets and related member obligations.

39 To meet the objective in paragraph 36, an entity discloses, as a minimum and as appropriate, the information specified in paragraph AG79 or AG82 of Appendix B to this Standard.

40 Where a superannuation plan or approved deposit fund manages its assets on a segregated basis, the plan or fund shall disclose information that provides users with a basis for understanding:

(a) the type and nature of the assets within each segregated group of assets;

(b) the financial performance and financial position of each segregated group of assets; and

(c) the significant financial risks to which each segregated group of assets is exposed when the levels of such risks differ materially from the levels of the corresponding risks at the entity level.

41 Paragraphs AG83-AG88 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 40.

Member Benefits

42 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding the entity's obligations for member benefits.

43 To meet the objective in paragraph 42, an entity discloses, as a minimum, the information specified in paragraph AG89 of Appendix B to this Standard.

Net Assets Attributable to Defined Benefit Members

44 Where the amount of net assets attributable to defined benefit members does not equal defined benefit members' accrued benefits, the superannuation plan shall disclose information that provides users with a basis for understanding the size, nature, causes of and any strategies for addressing the difference between the two amounts.

45 To meet the objective in paragraph 44, an entity discloses, as a minimum, the information specified in paragraph AG90 of Appendix B to this Standard.

Components of Remeasurement Changes in Defined Benefit Members' Accrued Benefits

46 A superannuation plan shall disclose in the notes the following items in respect of remeasurement changes in its obligations for defined benefit members' accrued benefits for the reporting period:

(a) *benefit cost*;

(b) *interest cost*;

(c) *actuarial gains and losses*; and

(d) gains or losses on settlements.

47 Paragraphs AG91-AG96 of Appendix B to this Standard provide guidance in relation to the disclosure of information in accordance with paragraph 46.

Related Parties

48 A superannuation plan or approved deposit fund shall disclose information that provides users with a basis for understanding:

(a) the nature of any related party relationships during the reporting period; and

(b) the nature and amount of any:

(i) related party transactions during the reporting period; and

(ii) outstanding balances between the entity and a related party at the end of the reporting period.

49 To meet the objective in paragraph 48, a superannuation plan or approved deposit fund discloses, when relevant, information in accordance with paragraph AG97 of Appendix B to this Standard.

Insurance Contracts

50 A superannuation plan or approved deposit fund that issues insurance contracts shall disclose information in relation to such contracts in accordance with the disclosure principles and requirements applicable to life insurance contracts under AASB 1038.

APPENDIX A

DEFINED TERMS

This Appendix is an integral part of AASB 10XX.

accrued benefits	The present obligation for benefits that members or their beneficiaries are entitled to receive in the future as a result of membership of a superannuation plan up to the end of the reporting period.
actuarial gains and losses	Gains and losses that comprise: (a) experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and (b) the effects of changes in actuarial assumptions.
approved deposit fund	An entity that is an approved deposit fund within the meaning of section 10 of the *Superannuation Industry (Supervision) Act 1993*.

benefit cost	The change in the present value of an obligation for defined benefit members' accrued benefits resulting from: (a) members' service to their employer in the current period; and (b) the change in the obligation during the reporting period arising from a change in the formal terms of the superannuation plan.
defined benefit member	A member whose benefits are specified, or are determined, at least in part, by reference to a formula based on their years of membership and/or salary level.
defined contribution member	A member whose benefits are determined by reference to accumulated contributions made on their behalf and by them, together with investment earnings thereon.
interest cost	The change during a period in the present value of an obligation for defined benefit members' accrued benefits which occurs because the benefits are one period closer to settlement.

superannuation plan	An entity that is: (a) regulated under the *Superannuation Industry (Supervision) Act 1993* or similar legislative requirements in the case of an exempt public sector superannuation plan; and (b) established and maintained: (i) in order to receive superannuation contributions; and (ii) for the primary purpose of providing benefits to members upon their retirement, death, disablement or other event that qualifies as a condition of release for member benefits.
transaction costs	The incremental costs directly attributable to the disposal of an asset or the settlement or extinguishment of a liability, excluding finance costs and income tax expense or income.
vested benefits	The benefits to which members or their beneficiaries would be entitled on withdrawal from the superannuation plan or approved deposit fund at the end of the reporting period.

APPENDIX B

APPLICATION GUIDANCE

This Appendix is an integral part of AASB 10XX.

Compliance with disclosure principles and requirements in other Australian Accounting Standards

AG1 When a superannuation plan or approved deposit fund applies the recognition or presentation principles and requirements in other Australian Accounting Standards, the plan or fund would also apply any relevant disclosure principles and requirements contained in those other Australian Accounting Standards unless they:

(a) are not consistent with the measurement requirements in this Standard; or

(b) address the same items or events as the disclosure principles in this Standard.

AG2 Australian Accounting Standards that contain disclosure principles and requirements that a superannuation plan or approved deposit fund would apply, when relevant, include but are not limited to the following:

(a) AASB 3 *Business Combinations*;

(b) AASB 101 *Presentation of Financial Statements*;

(c) AASB 107 *Statement of Cash Flows*;

(d) AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*;

(e) AASB 110 *Events after the Reporting Period*;

(f) AASB 112 *Income Taxes*;

(g) AASB 118 *Revenue*;

(h) AASB 127 *Consolidated and Separate Financial Statements*; and

(i) AASB 1038 *Life Insurance Contracts.*

AG3 Except in a limited number of specified circumstances, this Standard requires all assets and liabilities of a superannuation plan or approved deposit fund to be measured at fair value adjusted for transaction costs. Accordingly, cost-based disclosure principles and requirements in other Australian Accounting Standards would not apply to a plan or fund. For example, a plan that holds an investment in plant and equipment would not be required to disclose the carrying amounts that would have been recognised had the assets been measured under the cost model in accordance with paragraph 77(e) of AASB 116 *Property, Plant and Equipment*.

AG4 Where the disclosure principles and requirements in other Australian Accounting Standards address the same items or events as the disclosure principles in this Standard, a superannuation plan or approved deposit fund makes disclosures in accordance with the principles in this Standard only. For example, a plan that holds an investment in property would make disclosures in accordance with paragraph 32(c) of this Standard instead of paragraphs 75(d) and (e) of AASB 140 *Investment Property* with respect to information in relation to the fair value measurement of the investment property.

AG5 When a superannuation plan or approved deposit fund applies another Australian Accounting Standard, the plan or fund also applies each relevant Australian Interpretation listed in AASB 1048 *Interpretation and Application of Standards* (see paragraphs BC90-BC92 of the Basis for Conclusions to this Exposure Draft for discussion on UIG Interpretation 1019 *The Superannuation Contributions Surcharge*).

Assets and Liabilities

Derecognition

AG6 In determining whether to derecognise an asset or liability, a superannuation plan or approved deposit fund considers the relevant derecognition criteria in other applicable Australian Accounting Standards.

Fair Value Measurement

AG7 In determining the fair value of an asset or liability, a superannuation plan or approved deposit fund considers the relevant Australian Accounting Standards.

Classification and Presentation

AG8 Some Australian Accounting Standards require assets or liabilities to be classified in a particular manner for the purpose of measurement. For example, AASB 139 *Financial Instruments: Recognition and Measurement* requires a financial asset to be classified as:

(a) a financial asset at fair value through profit or loss;

(b) a held to maturity investment;

(c) a loan or receivable; or

(d) an available-for-sale financial asset;

for the purpose of measurement after initial recognition. However, in the context of this Standard, such classifications would only be relevant if they are necessary to adequately convey the nature of an item that warrants separate disclosure.

AG9 Judgement needs to be exercised in the context of a superannuation plan or approved deposit fund about how to describe an investment presented in its statement of financial position. For example, an investment in a unit trust would be presented as such in the statement of financial position and the description of the unit trust would reflect the nature of the unit trust and/or the nature of the assets underlying the unit trust.

Transaction Costs

AG10 The term 'transaction costs' is defined in this Standard in a manner similar to the way in which the term 'costs to sell' is defined in AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* and AASB 141 *Agriculture*. Accordingly, transaction costs include:

(a) fees and commissions payable to an agent, adviser, broker or dealer and transaction costs levied by an exchange for the sale of an asset; or

(b) fees and charges payable to a creditor in order to extinguish a liability prior to the expected settlement date and transaction costs levied by an exchange for the settlement of a liability.

AG11 Transaction costs are treated as a reduction in the carrying amount of an asset or an increase in the carrying amount of a liability.

AG12 Paragraphs 125-133 of AASB 101 provide guidance in relation to the disclosure of information about estimation uncertainty, which would apply to any measurement uncertainty surrounding transaction costs as well as other fair value measurement uncertainties.

Measurement of Defined Benefit Members' Accrued Benefits

AG13 The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service/membership as giving rise to an additional unit of benefit entitlement (see paragraphs AG17-AG21 of this Appendix) and measures each unit separately to build up the final obligation (see paragraphs AG22-AG32 of this Appendix).

Example Illustrating Paragraph AG13

XYZ Superannuation Plan provides a lump-sum benefit to a member equal to 5% of their final salary for each year of employment with a sponsoring employer. Defined benefit entitlements are payable to a member upon reaching 60 years of age.

Jane has just commenced employment with a sponsoring employer of XYZ Superannuation Plan. Jane is 55 years of age and her salary in her first year of employment is $50,000. Jane's salary is expected to increase at 4% (compound) each year.

The following table illustrates how XYZ Superannuation Plan's obligation for Jane's defined benefit entitlements builds up over time. It also illustrates how benefits could be attributed to reporting periods under this Standard (refer to paragraphs AG17-AG21 of this Appendix). It is assumed that:

(a) Jane will continue to be employed by a sponsoring employer of XYZ Superannuation Plan until she retires at 60 years of age; and

(b) the discount rate relevant to XYZ Superannuation Plan's obligation for Jane's defined benefit entitlements is 4%.

Year	1	2	3	4	5
Jane's salary	$50,000	$52,000	$54,080	$56,244	$58,494
Benefit attributed to:					
Prior years	$0	$2,925	$5,850	$8,775	$11,700
Current year (5% of final salary)	$2,925	$2,925	$2,925	$2,925	$2,925
Current and prior years	$2,925	$5,850	$8,775	$11,700	$14,625
Opening defined benefit obligation	$0	$2,500	$5,200	$8,112	$11,250
Interest at 4%	$0	$100	$208	$325	$450
Current benefit cost*	$2,500	$2,600	$2,704	$2,813	$2,925
Closing defined benefit obligation	$2,500	$5,200	$8,112	$11,250	$14,625

***** The current benefit cost is the present value of the benefit attributed to the reporting period.

AG14 The Projected Unit Credit Method allows an entity to measure a defined benefit obligation with sufficient reliability to justify recognition of a liability. When applying the Projected Unit Credit Method, a superannuation plan may use estimates, averages and computational shortcuts to measure its defined benefit obligation.

AG15 In measuring the liability, a superannuation plan discounts the whole of its obligation for defined benefit members' accrued benefits, even if part of the obligation falls due within twelve months of the end of the reporting period.

AG16 Future administration costs are not included in the measurement of a superannuation plan's obligation for its defined benefit members' accrued benefits because the future administration costs are not an obligation of the entity to its members.

Attributing Benefits to Reporting Periods

AG17 In determining the present value of its obligation for defined benefit members' accrued benefits, a superannuation plan attributes benefits to reporting periods on a basis appropriate to the plan's circumstances.

AG18 The Projected Unit Credit Method requires benefits to be attributed to the current period (in order to determine benefit cost) and the current and prior periods (in order to determine the present value of defined benefit members' accrued benefits). A superannuation plan attributes benefits to periods in which the obligation to provide defined benefits occurs. That obligation arises as members render services to sponsoring employers in return for defined benefit entitlements which a superannuation plan expects to pay in future reporting periods.

Examples Illustrating Paragraphs AG17 and AG18

Example 1

XYZ Superannuation Plan provides a lump sum benefit to a member of $10,000 for each year of employment with a sponsoring employer.

XYZ Superannuation Plan could attribute a benefit of $10,000 in respect of the member to each reporting period. The current benefit cost would be the present value of the $10,000 attributed to each reporting period. The present value of the defined benefit obligation would be the present value of $10,000, multiplied by the number of years of the member's employment with a sponsoring employer up to the end of the reporting period.

If the lump sum benefit is payable immediately when the member exits the plan, the current benefit cost and the present value of the defined benefit obligation would reflect the date at which the member is expected to exit the plan. Accordingly, because of the effect of discounting, these amounts are less than the amounts that would otherwise be determined if the member exited the plan at the end of the reporting period.

Example 2

XYZ Superannuation Plan provides a monthly pension of 2% of a member's final salary for each year of employment with a sponsoring employer. The pension is payable after a member attains 65 years of age.

XYZ Superannuation Plan could attribute a benefit equal to the present value, at the member's expected retirement date, of a monthly pension of 2% of the member's estimated final salary payable from the member's expected retirement date until the date on which the member is expected to become deceased to each year of membership. The current benefit cost would be the present value of the benefit allocated to each reporting period. The present value of the defined benefit obligation would be the present value of monthly pension payments of 2% of the member's final salary, multiplied by the number of years of employment up to the end of the reporting period. The current benefit cost and the present value of the defined benefit obligation are discounted because the pension payments begin when the member attains 65 years of age.

AG19 A member's service to their employer gives rise to a defined benefit obligation under a superannuation plan even if the members' benefits are conditional on future employment (in other words they are not vested). Member service before the vesting date gives rise to a constructive obligation because, at the end of each successive reporting period, the amount of future service that a member will have to render before becoming entitled to benefits is reduced. In measuring defined benefit members' accrued benefits, a superannuation plan considers the probability that some members may not satisfy any vesting requirements. The probability that a member will exit the plan before the relevant vesting date affects the measurement of the obligation, but does not determine whether the obligation exists.

Examples Illustrating Paragraph AG19

Example 1

XYZ Superannuation Plan pays a lump sum benefit to a member equal to $10,000 for each year of employment with a sponsoring employer. The benefits vest in a member when the member has been employed with a sponsoring employer for 10 years.

XYZ Superannuation Plan could attribute a benefit of $10,000 to each reporting period. In each of the first 10 years of the member's employment period, the current benefit cost and the present value of the defined benefit obligation would reflect the probability that the member may not complete 10 years of service with a sponsoring employer.

Example 2

XYZ Superannuation Plan pays a lump sum benefit to a member equal to $10,000 for each year of employment with a sponsoring employer, excluding the period of employment prior to the member attaining 25 years of age. Benefits accrued by a member after they attain 25 years of age immediately vest in them.

XYZ Superannuation Plan attributes no benefits to the member for service to a sponsoring employer before the age of 25 because employment before that date does not lead to either conditional or vested benefits. XYZ Superannuation Plan could attribute a benefit of $10,000 to each year of service to a sponsoring employer subsequent to the member attaining 25 years of age.

AG20 A defined benefit member's accrued benefits increase until the date when further service by the member to their employer will lead to no material amount of further benefits. Therefore, all benefits are attributed to periods ending on or before that date.

AG21 Where the amount of a defined benefit member's benefits is a constant proportion of final salary for each year of service, future salary increases will affect the amount required to settle the obligation that exists for service before the end of the reporting period, but do not create an additional obligation. Therefore, salary increases do not lead to further benefits, even though the amount of the benefits is dependent on final salary.

Example Illustrating Paragraphs AG20 and AG21

XYZ Superannuation Plan pays a lump sum benefit to a member equal to 10% of the member's final salary for each year of employment with a sponsoring employer prior to the member attaining 55 years of age.

XYZ Superannuation Plan could attribute a benefit of 10% of the member's estimated final salary to each reporting period prior to the member attaining 55 years of age. XYZ Superannuation Plan would attribute no benefits to reporting periods in respect of the member after they attain 55 years of age because service with a sponsoring employer after that date will lead to no further benefits to the member under the plan.

Actuarial Assumptions

AG22 Actuarial assumptions comprise:

(a) demographic assumptions about the future characteristics of current and former members and their beneficiaries. Demographic assumptions deal with matters such as:

(i) rates of member turnover, disability and early retirement;

(ii) mortality; and

(iii) the proportion of defined benefit members with beneficiaries who will be eligible for benefits; and

(b) financial assumptions, dealing with items such as:

(i) future salary and benefit levels (see paragraphs AG27-AG30 of this Appendix); and

(ii) the discount rate (see paragraphs AG31-AG32 of this Appendix).

AG23 Actuarial assumptions are unbiased if they are neither imprudent nor conservative.

AG24 Actuarial assumptions are mutually compatible if they reflect the economic relationships between factors such as inflation, rates of salary increase and discount rates. For example, all assumptions which depend on a particular inflation level (such as assumptions about interest rates and salary and benefit increases) in any given future period assume the same inflation level in that period.

AG25 A superannuation plan determines its obligations for defined benefit members' accrued benefits on the basis of assumptions that are the best estimates for the relevant variables at the end of the reporting period. An assumption would be considered a best estimate when the estimate is no more or less likely to be the outcome. When obligations for defined benefit members' accrued benefits are measured using assumptions that are the best estimates of the relevant variables at the end of the reporting period, the obligations would be considered to have been measured with sufficient reliability for recognition as a liability at that date.

Financial assumptions

AG26 A superannuation plan's financial assumptions are based on market expectations at the end of the reporting period, for the period over which the obligations are to be settled.

Salaries and benefits

AG27 Estimates of future salary increases take account of inflation, seniority, promotion and other relevant factors, such as supply and demand in the employment market.

AG28 If the formal terms of a superannuation plan require the plan to change benefits in future periods, the measurement of the obligation reflects those changes. This is the case when, for example, the formal terms of the superannuation plan or legislation require that member benefits be enhanced to mitigate the effects of inflation.

AG29 In some circumstances an employer sponsor may agree to a superannuation plan making benefit payments to defined benefit members that are more generous than the benefits provided under the formal terms of the plan. If an employer sponsor has a past practice of paying enhanced benefits to defined benefit members, and there is no evidence to suggest that this practice will change in the future, the plan takes this into account when measuring its obligations for defined benefit members' accrued benefits.

AG30 Some superannuation benefits are linked to externally imposed requirements, such as the level of state retirement benefits. The measurement of such benefits reflects expected changes in such externally imposed requirements when past practice and other reliable evidence indicates that the requirements will change in a manner that would permit the obligation to be reliably measured. For example, when member benefits are enhanced in line with future changes in general price levels or general salary levels.

Discount rate

AG31 The discount rate adopted by a superannuation plan is not intended to reflect the risks inherent in the liability cash flows, which might be allowed for by an adjustment to the discount rate in a fair value measurement. For example, the risks that salary or benefit levels will be higher or lower than expected. In addition, the discount rate is not intended to reflect the non-financial risks and uncertainties reflected in defined benefit obligations. For example, the risk that the rate of member turnover will be higher or lower than expected.

AG32 Typically, yields on government bonds may represent appropriate discount rates for the purpose of this Standard, or they may be an appropriate starting point in determining such discount rates.

Presentation of Financial Statements

Statement of Financial Position

AG33 Where a superannuation plan's or approved deposit fund's total assets differs from its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors), the difference shall be classified as equity and presented in accordance with applicable Australian Accounting Standards.

AG34 A difference between the total assets and total liabilities of a superannuation plan normally only arises in relation to defined benefit members. In some cases, a difference between the total assets and total liabilities of a superannuation plan or approved deposit fund may arise in relation to defined contribution members. For example, a trustee may decide to charge members' accounts a set amount per week for administration. As a consequence, the trustee creates a reserve of unallocated assets which reflects the difference between the actual administration costs from year to year compared to the amounts charged to members' accounts.

Income Statement

Income and expense items

AG35 As a minimum, an income statement includes line items that present, when appropriate, the following amounts for the period:

(a) revenues;

(b) expenses;

(c) remeasurement changes in:

   (i) assets and liabilities measured at fair value adjusted for transaction costs; and

   (ii) goodwill;

(d) losses and gains attributable to obligations and assets arising from insurance contracts issued by the superannuation plan or approved deposit fund;

(e) net benefits allocated to defined contribution members' accounts;

(f) the net change in defined benefit members' accrued benefits;

(g) profit or loss; and

(h) income tax expense or benefit attributable to profit or loss.

AG36 Consistent with paragraphs 85, 87 and 97 of AASB 101, a superannuation plan or approved deposit fund:

(a) presents additional line items, headings and subtotals in an income statement when such presentation is relevant to an understanding of the entity's financial performance;

(b) is not permitted to present any items of income or expense as extraordinary items in the income statement or in the notes; and

(c) separately discloses items of income or expense that are material.

Net change in defined benefit members' accrued benefits

AG37 The net change in defined benefit members' accrued benefits for a reporting period is the difference between the opening and closing balances of the members' accrued benefits for the period, after adjusting for movements of member benefits into and out of accrued benefits, including:

(a) net after tax contributions received and receivable;

(b) benefits paid and payable; and

(c) transfers between reserves and accrued benefits.

Statement of Changes in Member Benefits

AG38 As a minimum, a statement of changes in member benefits includes line items that present, when appropriate, the following amounts attributable to defined contribution members and defined benefit members for the reporting period:

(a) vested (defined contribution) and accrued (defined benefit) entitlements at the beginning of the period;

(b) employer contributions received and receivable;

(c) member contributions received and receivable;

(d) benefits transferred into the superannuation plan or approved deposit fund;

(e) annuities received and receivable on behalf of members;

(f) taxes paid and payable on contributions received and receivable during the reporting period;

(g) net benefits allocated to defined contribution members' accounts;

(h) insurance premiums charged to members;

(i) the net change in defined benefit members' accrued benefits;

(j) benefits paid and payable (including any annuity payments);

(k) amounts allocated to members from reserves; and

(l) vested (defined contribution) and accrued (defined benefit) entitlements at the end of the period.

AG39 In addition, tax amounts attributable to items disclosed in a statement of changes in member benefits are presented separately. Accordingly, employer contributions are presented gross of any applicable tax and the amount of tax paid and payable on such contributions is presented separately.

AG40 Under this Standard, a superannuation plan that has both defined contribution and defined benefit members could present either a single statement of changes in member benefits or present separate statements for the different types of members.

Preparation and Presentation of Consolidated Financial Statements

AG41 To comply with paragraph 30 of this Standard, a parent superannuation plan or parent approved deposit fund would prepare and present consolidated financial statements in accordance with paragraphs AG42-AG51 of this Appendix, as well as any requirements in other relevant Australian Accounting Standards.

AG42 Consistent with AASB 3, the assets and liabilities of a subsidiary that are recognised in the consolidated financial statements of the parent superannuation plan or parent approved deposit fund at fair value adjusted for transaction costs at the end of the reporting period would include:

(a) all of the assets and liabilities recognised by the subsidiary at the end of the reporting period in accordance with Australian Accounting Standards; and

(b) all of the identifiable but not recognised assets and liabilities of the subsidiary at its <u>acquisition</u> date.

Accordingly, a parent superannuation plan or parent approved deposit fund would not separately recognise an intangible asset that had been internally generated by a subsidiary subsequent to the subsidiary's acquisition by the parent plan or parent fund. However, a parent plan or parent fund would separately recognise an intangible asset that was identifiable on the date of the subsidiary's acquisition and measure the intangible asset at its fair value less transaction costs at the end of each reporting period.

AG43 A parent superannuation plan or parent approved deposit fund measures any goodwill or remeasurement gain as the difference between:

(a) the aggregate of:

(i) the fair value less transaction costs of the parent's interest in the subsidiary at the end of the reporting period; and

(ii) the amount of any non-controlling interests in the subsidiary measured:

(A) in a manner consistent with AASB 127 at the end of the reporting period; or

(B) at their fair value of equity at the end of the reporting period; and

(b) the aggregate of:

(i) the fair value adjusted for transaction costs of the net assets (excluding tax balances) of the subsidiary that are recognised in the parent's consolidated statement of financial position at the end of the reporting period; and

(ii) the subsidiary's net tax assets or liabilities measured in accordance with AASB 112 at the end of the reporting period.

Illustrative Examples C and D of Appendix C to this Standard demonstrate how non-controlling interests in a subsidiary could be measured in accordance with paragraph AG43(a)(ii)(A) and (B) of this Appendix.

AG44 Any goodwill or remeasurement gain recognised on consolidation comprises movements in the values of a number of assets and/or liabilities that would not otherwise be recognised in accordance with other Australian Accounting Standards, including:

(a) internally generated brands, mastheads, publishing titles, customer lists and items similar in substance;

(b) internally generated goodwill;

(c) contingent assets; and

(d) contingent liabilities;

that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by its parent.

AG45 Before recognising any remeasurement gain, the parent superannuation plan or parent approved deposit fund reassesses:

(a) whether it has correctly identified all of the assets and liabilities of the subsidiary and recognised any additional assets and liabilities of the subsidiary that meet the recognition criteria in other relevant Australian Accounting Standards; and

(b) the procedures adopted in measuring the individual assets and liabilities of the subsidiary it has recognised in its consolidated statement of financial position and the procedures adopted in measuring its investment in the subsidiary;

to satisfy itself that the remeasurement gain reflects a true difference on consolidation, and not an error in the recognition and/or measurement of the subsidiary's net assets or the measurement of the parent's interest in the subsidiary.

AG46 If the excess of the amount of the identifiable net assets of the subsidiary recognised by the parent superannuation plan or parent approved deposit fund over the sum of the parent's interest and non-controlling interests in the subsidiary remains after applying the requirements in paragraph AG45 of this Appendix, the parent plan or parent fund recognises the resulting remeasurement gain in the consolidated income statement. While the remeasurement gain is attributed to the members of the parent plan or parent fund, it may not necessarily be allocated to defined contribution members of the plan or fund.

AG47 A parent superannuation plan or parent approved deposit fund that prepares consolidated financial statements in accordance with this Standard would not also need to comply with paragraphs 80-99 of

AASB 136 *Impairment of Assets* in respect of impairment testing of goodwill.

AG48 Paragraph 18(a) of AASB 127 requires that the carrying amount of a parent entity's investment in a subsidiary and the parent's portion of equity of the subsidiary be eliminated in the preparation of consolidated financial statements. A parent superannuation plan's or parent approved deposit fund's portion of a subsidiary's equity is determined on the basis of the net assets of the subsidiary that are recognised by the parent at the end of the reporting period.

AG49 In preparing consolidated financial statements, a parent superannuation plan or parent approved deposit fund reverses any remeasurement changes in its investment in a subsidiary. This is to prevent any remeasurement changes in the subsidiary's assets and liabilities that have been consolidated from being double counted.

AG50 As a result of applying the requirements in paragraphs 30 and AG42-AG49 of this Standard, it would normally be the case that the amounts of the consolidated and parent entity net assets available for member benefits will equate.

AG51 Consistent with paragraph 83 of AASB 101, a parent superannuation plan or parent approved deposit fund discloses profit or loss for the period attributable to:

(a) non-controlling interests; and

(b) members;

as allocations in the income statement.

Disclosure Principles

Nature of the Entity and Member Benefits

AG52 Information that would provide users with a basis for understanding the nature of the superannuation plan or approved deposit fund, and the nature of the benefits it provides to its members, would include the following:

(a) a description of the entity, including:

(i) the type of entity;

(ii) the name of its trustee or trustees;

(iii) an outline of the entity's registration with the Australian Prudential Regulation Authority (APRA); and

(iv) an outline of the trustee's or trustees' Regulated Superannuation Entity (RSE) Licence; and

(b) a description of the nature of the entity's members and beneficiaries, including:

(i) the types of benefits provided;

(ii) the numbers of members and beneficiaries holding each type of benefit;

(iii) the numbers of members and beneficiaries classified as active, deferred or pensioner by type of benefit; and

(iv) whether the entity can accept new defined benefit members.

Expense Items

AG53 Consistent with the requirements in paragraph 99 of AASB 101, a superannuation plan or approved deposit fund discloses an analysis of expenses recognised in the income statement using a classification that is considered appropriate for the needs of the users of its financial statements.

AG54 To provide users with a basis for understanding the nature and amount of a superannuation plan's or approved deposit fund's expense items, the plan or fund separately discloses, as a minimum, the following items when relevant:

(a) administration expenses;

(b) investment expenses such as investment manager fees, investment consultant fees and custodian fees;

(c) actuarial fees;

(d) audit fees;

(e) insurance contract revenue;

(f) commissions paid directly by the entity;

(g) trustee fees and reimbursements; and

(h) advertising and sponsorship expenses.

AG55 The disclosures an entity might need to make in relation to its expense items are not limited to the classifications identified in paragraph AG54 of this Appendix.

AG56 A superannuation plan or approved deposit fund that discloses information in accordance with paragraph 32(b) of this Standard would not also need to disclose information in accordance with paragraphs 99-105 of AASB 101.

Fair Value

AG57 To comply with paragraph 32(c) of this Standard, a superannuation plan or approved deposit fund discloses, for each class of asset and liability measured at fair value, the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of asset and liability measured at fair value. For example, if applicable, a plan or fund discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the plan or fund would disclose that change and the reasons for making it.

AG58 To make the disclosures required by paragraph AG59, a superannuation plan or approved deposit fund would classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy would have the following levels:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);

(b) inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices) (Level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

AG59 For fair value measurements recognised in the statement of financial position, a superannuation plan or approved deposit fund discloses for each class of asset or liability measured at fair value:

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety, segregating fair value measurements in accordance with the levels identified in paragraph AG58;

(b) any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance would be judged with respect to profit or loss, and total assets or total liabilities;

(c) for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in the income statement, and a description of where they are presented in the income statement (if presented);

(ii) purchases, sales, issues and settlements (each type of movement disclosed separately); and

(iii) transfers into or out of Level 3 (for example, transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 would be disclosed and discussed separately from transfers out of Level 3;

(d) the amount of total gains or losses for the period in (c)(i) above recognised in the income statement that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the income statement (if presented); and

(e) for fair value measurements in Level 3, if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the plan or fund would state that fact and disclose the effect of those changes. The plan or fund would disclose how the effect of the change to a reasonably possible alternative assumption was calculated. For this purpose, significance would be judged with respect to profit or loss, and total assets or total liabilities.

A plan or fund would present the quantitative disclosures required by this paragraph in tabular format unless another format is more appropriate.

AG60 Consistent with paragraph 125 of AASB 101, a superannuation plan or approved deposit fund would disclose information in relation to any major sources of estimation uncertainty that have a significant risk of resulting in material adjustments to the fair values of its assets or liabilities measured at fair value adjusted for transaction costs.

Nature, Extent and Management of Risks

AG61 To comply with paragraph 34 of this Standard, a superannuation plan or approved deposit fund discloses qualitative and quantitative information in relation to the financial risks to which the entity is exposed. These risks typically include, but are not limited to, liquidity risk, market risk and credit risk. Appendix A to AASB 7 *Financial Instruments: Disclosures* identifies a number of different types of financial risks to which a plan or fund might be exposed.

AG62 For the purpose of this Standard:

(a) liquidity risk includes the risk that a superannuation plan or approved deposit fund will encounter difficulty in meeting its obligations for member benefits; and

(b) credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to the superannuation plan at a level that would be expected to permit the plan to meet its obligations for defined benefit members' accrued benefits.

AG63 A superannuation plan or approved deposit fund may be exposed to financial risks directly as a consequence of, for example, holding financial instruments. A plan or fund may also be exposed to financial risks indirectly as a consequence of holding a controlling interest in an investment-type vehicle, such as a pooled superannuation trust.

AG64 When a parent superannuation plan or parent approved deposit fund is exposed indirectly to a financial risk through a controlling interest in another entity, the parent plan or parent fund applies the disclosure principles in paragraph 34 of this Standard to all of the items recognised in its consolidated financial statements.

Qualitative Disclosures

AG65 For each type of financial risk to which a superannuation plan or approved deposit fund is exposed, the plan or fund discloses:

(a) the source of the risk;

(b) its objectives, policies and processes for managing the risk;

(c) the methods used to measure the risk; and

(d) any changes in (a), (b) or (c) from the previous reporting period.

AG66 All superannuation entities regulated by APRA are required to have a Risk Management Plan (RMP) that formally documents, among other things, the plan's or fund's policies and procedures for managing various risks, including market and liquidity risks. While a plan's or fund's RMP may not address all of the different types of risks to which the entity may be exposed, it should provide a basis for the entity's qualitative disclosures with respect to:

(a) the main financial risks to which the entity is exposed;

(b) the entity's objectives, policies and processes for managing the main financial risks to which it is exposed; and

(c) the methods the entity uses to measure the main financial risks to which it is exposed.

AG67 Qualitative disclosures that a superannuation plan or approved deposit fund might need to make in relation to the financial risks to which the plan or fund is exposed would include:

(a) information in relation to the entity's arrangements with its investment managers, including:

(i) whether the entity has formal agreements in place with its investment managers; and

(ii) whether the entity receives regular reports from its investment managers;

(b) whether any assets held by the plan or fund are subject to lending arrangements, including:

(i) the nature of the assets;

(ii) the nature of the lending arrangements; and

(iii) the terms and conditions of the lending arrangements;

(c) information in relation to how the plan or fund intends to manage anticipated benefit payments to its members in the next reporting period if it has insufficient liquid assets at the end of the reporting period to meet such benefit payments; and

(d) specific information regarding the plan's or fund's controlling interests in other entities, including:

(i) whether a lender to a subsidiary has legal recourse to the assets of the plan or fund in the event that the subsidiary defaults on the loan;

(ii) whether the interest paid and payable on a subsidiary's loans is fixed or variable in nature; and

(iii) whether the plan or fund will purchase further ownership interests in the subsidiary in the future.

AG68 For a superannuation plan or approved deposit fund that has an exposure to derivative financial instruments, the qualitative disclosures would confirm that the plan or fund has a Derivative Risk Statement (DRS). A DRS documents the plan's, fund's or investment manager's risk management practices with respect to derivatives.

Quantitative Disclosures

AG69 For each type of financial risk, a superannuation plan or approved deposit fund discloses:

(a) summary quantitative data about its exposure to that risk at the end of the reporting period. This disclosure is based on the information provided internally to key management personnel (KMP) of the entity (as defined in AASB 124 *Related Party Disclosures*);

(b) information equivalent to that required by paragraphs 36-42 of AASB 7 for financial instruments, to the extent not provided in (a); and

(c) concentrations of risk if not apparent from (a) and (b).

AG70 If the quantitative data disclosed at the end of the reporting period are unrepresentative of a superannuation plan's or approved deposit fund's exposure to a financial risk during the period, the plan or fund provides further information that is representative.

AG71 The assets and liabilities of a superannuation plan or approved deposit fund can potentially expose the plan or fund to some or all of the financial risks identified in AASB 7. Accordingly, a plan or fund should provide disclosures that are consistent with, but not limited to, the types of information required by paragraphs 36-42 of AASB 7 for financial derivatives, to the extent that the requirements are appropriate in a superannuation context. For example, a plan or fund would disclose:

(a) a maturity analysis for non-derivative liabilities (including member benefits, any obligations to employer sponsors and financial guarantee contracts) that shows the remaining contractual maturities;

(b) a maturity analysis for derivative liabilities. The maturity analysis would include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows; and

(c) a description of how the entity manages the liquidity risk inherent in (a) and (b).

AG72 While some member benefits, particularly defined benefit entitlements, are subject to vesting conditions, most member benefits are due and payable immediately. Most defined contribution members are permitted to choose the superannuation plan or plans that will manage their retirement benefits. Accordingly, the vested benefits of most defined contribution members would be considered due and payable within three months of the end of the reporting period. With respect to defined benefit arrangements, because resignation is sufficient to generate the release of a defined benefit member's vested benefits, this amount would also be considered due and payable within three months of the end of the reporting period. To assist users in understanding the maturity profile of any unvested amounts, a superannuation plan or approved deposit fund would disclose a description of the vesting conditions that are applicable to members of the plan or fund.

AG73 Other disclosures that a superannuation plan or approved deposit fund would make, when relevant, would include the following:

(a) for interest-bearing assets that expose the plan or fund to material interest rate risks, the entity would disclose, as a minimum:

(i) the proportion of the assets subject to fixed or variable interest rates;

(ii) if different interest rates apply, the fair value amount that is subject to each of the different interest rates; and

(iii) a sensitivity analysis, showing how the entity's profit or loss[1] and, if applicable, equity would have been affected by changes in the interest rate risks to which the entity was exposed to at the end of the reporting period;

(b) for assets that expose the plan or fund to material currency risks, the entity would disclose, as a minimum:

(i) the fair value amount that is not subject to effective foreign currency hedges; and

(ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the currency risks to which the entity was exposed at the end of the reporting period;

(c) for assets that expose the plan or fund to material credit risk, the entity would disclose, as a minimum:

(i) the fair value amount that best represents the entity's maximum exposure to credit risk without taking

1 For the purpose of applying this paragraph and paragraphs AG73(b)(ii) and (c)(ii), the term 'profit or loss' refers to a superannuation plan's or approved deposit fund's net profit or loss that is attributable to members.

account of any collateral held or other credit enhancements; and

(ii) a sensitivity analysis showing how profit or loss and, if applicable, equity would have been affected by changes in the credit risks to which the entity was exposed at the end of the reporting period; and

(d) for assets that are considered to be illiquid, the plan or fund would disclose, as a minimum:

(i) the minimum period of time necessary for redemption; and

(ii) any upper limits on redemption amounts.

Risk Disclosures and Risk Management Arrangements

AG74 The risk management arrangements adopted by superannuation plans and approved deposit funds vary. For example, the key management personnel (KMP) of some superannuation plans generate their own quantitative information about the risks and risk management arrangements associated with the plan’s assets, particularly for directly held assets.

AG75 However, the KMP of most superannuation plans and approved deposit funds rely to some extent on reports provided by investment managers, particularly in relation to investments in collective investment vehicles. While investments in collective investment vehicles can potentially expose a plan or fund to some or all of the different types of risks identified in AASB 7, the plan or fund may not be able to reliably quantify the entity’s direct exposure to each risk due to the collective nature of such investments.

AG76 Irrespective of whether the KMP of a superannuation plan or approved deposit fund generate their own information or utilise information provided by service providers, the plan or fund would apply a ‘through the eyes of management’ approach with respect to its qualitative and quantitative risk disclosures. Accordingly, where an investment manager monitors the financial risks to which some or all of the assets of a plan or fund are exposed, and the investment manager reports on the relevant risks to the KMP using quantitative measures or data, this information is relevant to formulating the plan’s or fund’s disclosures in respect of the relevant risks.

Arrangement and Management of Assets

AG77 To comply with paragraph 36 and, when applicable, paragraph 40 of this Standard, a superannuation plan or approved deposit fund discloses information in accordance with paragraphs AG78-AG88 of this Appendix, as appropriate, in a manner consistent with the 'through the eyes of management' approach applied under AASB 8 *Operating Segments* to operating segments. Under AASB 8, an entity discloses disaggregated information that corresponds to the information provided to the entity's chief operating decision maker for the purpose of managing the entity.

AG78 A superannuation plan or approved deposit fund might arrange and manage its assets and obligations to particular groups of members on a single fund (or 'pooled') basis, whereby all of the contributions or transfers the plan or fund receives are pooled for investment purposes and individual or groups of assets are not notionally or actually attributable to particular members or groups of members. In these circumstances, the plan's or fund's chief operating decision maker would be expected to assess the entity's performance and allocate resources based on financial information for the entity's assets as a whole.

AG79 To comply with paragraph 36 of this Standard, a superannuation plan or approved deposit fund that arranges and manages its assets and obligations to members on a single fund (or 'pooled') basis would disclose, as a minimum, that the assets of the plan or fund are managed as a single group of assets and individual assets are not actually or notionally attributable to particular members or groups of members.

AG80 Alternatively, a superannuation plan or approved deposit fund might arrange and manage the assets attributable to different groups of members, and the related obligations to those members, on a 'segregated' basis, whereby the contributions attributable to different groups of members are invested separately and individual or groups of assets are at least notionally attributable to particular members or groups of members. The purpose of this might be to facilitate the plan or fund meeting its obligations to particular groups of members. For example, contributions attributable to defined benefit members might be invested separately from those attributable to defined contribution members so that the assets attributable to each group of members more closely matches the risks and estimated future cash flows associated with each group of members. When determining the appropriate level of disaggregation with respect to the plan's or fund's assets and related member obligations, consistent with the 'through the eyes of management' approach applied under AASB 8 to operating segments, separate financial information about the different segregated groups would, at a minimum, need to be available and evaluated regularly by the plan's or fund's chief operating decision maker for the purpose of assessing performance and deciding how to allocate resources before disclosure is required.

AG81 Determining the appropriate segregated groups may require judgement in some cases. The following examples are provided to assist in making such judgements.

(a) Fund A operates as two separate segregated groups of members and related assets, a defined benefit group and a defined contribution group. The assets of the two groups are maintained as two separate segregated pools of assets, and invested in accordance with different investment mandates. Accordingly, Fund A would treat the two groups as two segregated groups of members and related assets for the purpose of applying paragraphs 36 and 40 of this Standard.

(b) Fund B provides members with twenty five different investment options. Each member allocates a portion of their member account to selected investment options. While investment returns/unit prices are calculated for each individual investment choice, financial information other than investment returns provided to the chief operating decision maker is prepared on a single fund basis. Accordingly, Fund B would not treat the different investment options as separate segregated groups of assets for the purpose of applying paragraph 36 of this Standard.

AG82 To comply with paragraph 36 of this Standard, a superannuation plan or approved deposit fund that manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, would disclose, as a minimum:

(a) that the plan or fund arranges and manages the assets attributable to different groups of members on a segregated basis; and

(b) information in relation to the member obligations that each segregated group of assets is being held to meet.

AG83 To evaluate the overall financial performance and financial position of a superannuation plan or approved deposit fund that arranges and manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, it is necessary to evaluate the financial performance and financial position of each segregated group of assets of the plan or fund. Accordingly, to comply with paragraph 40(b) of this Standard, a plan or fund that arranges and manages the assets attributable to different groups of members and the related obligations on a segregated basis would disclose:

(a) a measure of profit or loss for each segregated group; and

(b) information in relation to the financial position of each segregated group.

AG84 A measure of the profit or loss of a segregated group would include the income and expense items directly attributable to the segregated group, including:

(a) revenues such as interest, dividends and rental income;

(b) expenses such as investment management fees, valuation fees and direct operating expenses in relation to rental properties;

(c) gains and losses; and

(d) tax expense or income.

AG85 To enable users to evaluate overall financial performance, a superannuation plan or approved deposit fund would also disclose a reconciliation between the income and expense information for each segregated group of assets and the aggregated income and expense information disclosed in the income statement of the plan or fund.

AG86 Information in relation to the financial position of each segregated group would include, but is not restricted to, the following:

(a) the fair value less transaction costs of the total assets; and

(b) the amount of obligations for member benefits.

AG87 When a superannuation plan or approved deposit fund manages the assets attributable to different groups of members, and the related obligations to those members, on a segregated basis, the levels of financial risks attributable to a segregated group of assets and the levels of risks attributable to the related obligations may differ materially from the levels of the corresponding risks attributable to the plan or fund as a whole. In these circumstances, to comply with paragraph 40(c) of this Standard, a plan or fund discloses:

(a) the significant financial risks to which each segregated group is exposed;

(b) how the levels of the financial risks attributable to each segregated group differ from the levels of the corresponding risks at the entity level; and

(c) the main reasons for the differences.

AG88 Where the levels of the financial risks attributable to a segregated group are not materially different from the levels of the corresponding risks at the superannuation plan or approved deposit fund level, this is disclosed by the plan or fund.

Member Benefits

AG89 To comply with paragraph 42 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum when relevant, the following:

(a) the amount of defined benefit members' vested benefits at the end of the reporting period by member status (active, deferred and pensioner);

(b) the amount of defined benefit members' accrued benefits at the end of the reporting period by member status;

(c) the amount of any net assets attributable to defined contribution members but not allocated to those members at the end of the reporting period;

(d) details of any guarantees provided in relation to members' or their beneficiaries' benefits, including:

(i) the identity of the guarantor;

(ii) the nature of the guarantee, including the benefit type and the number of members or beneficiaries to which the guarantee applies; and

(iii) the amount of vested benefits and the amount of accrued benefits subject to the guarantee;

(e) the actuary's recommended level of contributions in respect of defined benefit members for the reporting period, and whether the level of contributions received by the plan is consistent with the actuary's recommendations;

(f) the actuary's recommended level of contributions in respect of defined benefit members for the next reporting period; and

(g) information in relation to the actuarial assumptions used in measuring defined benefit members' accrued benefits, including:

  (i) the key actuarial assumptions used to measure members' accrued benefits at the end of the reporting period;

  (ii) any uncertainties surrounding the key actuarial assumptions used to measure members' accrued benefits at the end of the reporting period, including the amount and timing of benefit payments;

  (iii) the key actuarial assumptions used to measure members' accrued benefits at the end of the last annual reporting period;

  (iv) how, if at all, the key assumptions used to measure members' accrued benefits at the end of the reporting period differ from the corresponding key assumptions used to measure members' accrued benefits at the end of the last annual reporting period; and

  (v) whether the key assumptions used to measure defined benefit members' accrued benefits at the end of the last annual reporting period have been consistent with experience in the current reporting period.

Net Assets Attributable to Defined Benefit Members

AG90 To comply with paragraph 44 of this Standard, a superannuation plan or approved deposit fund discloses, as a minimum when relevant, the following:

(a) where the net assets attributable to defined benefit members is greater than such members' accrued benefits, information that enables users to evaluate the size, nature, causes of and implications of the 'surplus', including:

  (i) whether the 'surplus' has arisen, in part or whole, as a consequence of applying different assumptions for the purposes of determining funding levels and measuring defined benefit members' accrued benefits. If so, the plan would disclose, as a minimum, the nature of the differences between the two sets of assumptions; and

(ii) whether the trustee is aware of any decisions by the employer sponsor to seek to be paid some or all of the surplus or to reduce the level of its contributions in the future; or

(b) where the net assets attributable to defined benefit members is less than such members' accrued benefits, information that enables users to evaluate the size, nature, causes of and implications of the 'deficiency', including:

(i) whether the 'deficiency' has arisen, in part or whole, as a consequence of applying different assumptions for the purposes of determining funding levels and measuring defined benefit members' accrued benefits. If so, the plan would disclose, as a minimum, the nature of the differences between the two sets of assumptions;

(ii) to the extent that the 'deficiency' is not explained by (i), the entity's strategy for addressing the 'deficiency' and the anticipated timeframe over which the 'deficiency' will be eliminated; and

(iii) if there is a specific contractual agreement in place between the trustee and the relevant employer sponsor in relation to funding the 'deficiency', the main features of the agreement; or

(iv) if there is no specific contractual agreement in place between the trustee and the relevant employer sponsor, how the trustee monitors and manages the 'deficiency'.

Components of remeasurement changes in defined benefit members' accrued benefits

Interest cost

AG91 Interest cost represents the cost of financing defined benefit members' accrued benefits in the reporting period. The interest cost reflects the 'unwinding' of a defined benefit obligation in the sense that the benefits are one period closer to settlement.

AG92 Interest cost is calculated by multiplying the discount rate, as determined at the start of the reporting period, by the present value of defined benefit members' accrued benefits throughout that period, taking account of any material changes in the obligation for such members' accrued benefits.

Actuarial gains and losses

AG93 Actuarial gains and losses may result from decreases or increases in the present value of an obligation for defined benefit members' accrued benefits. Causes of actuarial gains and losses include, for example:

(a) unexpectedly high or low rates of member turnover or the effect of changes in estimates of future member turnover;

(b) unexpected increases in salaries or benefits or the effect of changes in estimates of salaries or benefits (if, for example, the formal terms of a superannuation plan provide for inflationary benefit increases); and

(c) the effect of changes in the discount rate.

Gains or losses on settlements

AG94 A settlement occurs when an employer sponsor enters into a transaction that eliminates a superannuation plan's legal and/or constructive obligations for part or all of its defined benefit members' accrued benefits. For example, when the members of a plan agree to exchange their defined benefit entitlements for defined contribution entitlements.

AG95 Before determining the effect of a settlement, a superannuation plan remeasures its obligation for defined benefit members' accrued benefits using current actuarial assumptions (including current market interest rates and other current market prices) as well as the net assets attributable to such members.

AG96 A gain or loss on a settlement arises when the amount required to settle a superannuation plan's obligations to defined benefit members is less than or greater than the amount of those members' accrued benefits on the date of settlement.

Related Parties

AG97 To comply with paragraph 48 of this Standard, a superannuation plan or approved deposit fund that has a related party relationship or is involved in a related party transaction applies AASB 124. In addition to any relevant disclosures that might need to be made under AASB 124, a plan or fund discloses information needed by users to understand:

(a) the nature of the entity's relationships with its:

  (i) employer sponsors; and

  (ii) trustee or trustees;

  during the reporting period; and

(b) any transaction during the reporting period or balance at the end of the reporting period between the entity and:

  (i) an employer sponsor; or

  (ii) its trustee or trustees;

  that would not be considered 'normal' in a superannuation context. For example, the recognition of contributions receivable by a plan would be regarded as 'normal' in a superannuation context, whereas the sale of assets by a plan to a trustee may not. Accordingly, normality should be judged on the basis of whether the information would affect a user's perception of the governance, financial performance or financial position of the plan or fund.

APPENDIX C

ILLUSTRATIVE EXAMPLES

The following examples accompany, but are not part of, AASB 10XX.

Illustrative Examples A and B provide examples of acceptable styles and formats for a superannuation plan that are consistent with the requirements of this Standard. For the purposes of Illustrative Examples A and B, the superannuation plan is assumed to be exposed to significant insurance risk with respect to the insurance contracts it issues to its members.

The styles and formats illustrated are not mandatory. Other styles and formats may be equally appropriate if they meet the requirements of this Standard and other applicable Australian Accounting Standards. For example, some of the information appearing in the financial statements in Illustrative Examples A and B could be disclosed in the notes.

ILLUSTRATIVE EXAMPLE A

EXAMPLE FINANCIAL STATEMENTS OF A PARENT SUPERANNUATION PLAN THAT PROVIDES DEFINED CONTRIBUTION ENTITLEMENTS ONLY

Consolidated Income Statement for Defined Contribution Superannuation Plan and its Controlled Entities for the Year Ended 30 June 20XX

	$000
Superannuation activities	
Interest revenue	138,152
Dividends received	386,794
Trust distributions received	282,068
Other income	5,426
Net remeasurement changes in:	
Assets measured at fair value less transaction costs	2,155,339
Goodwill	(97)
Investment expenses	(55,972)
Administration expenses	(42,662)
Borrowing costs	(12)
Other operating expenses	(630)
Net income from superannuation activities	**2,868,406**
Insurance activities	
Insurance contract revenue	77,810
Less: Outwards reinsurance expense	(77,806)
Net premium revenue	4
Reinsurance recoveries revenues	23,219
Insurance contract expenses	(23,259)
Net loss from insurance activities	**(36)**
Profit from operating activities	**2,868,370**
Less: Net benefits allocated to members' accounts	(2,635,776)
Profit before income tax	**232,594**
Income tax expense	(235,553)
Loss after income tax	**(2,959)**
Profit attributable to non-controlling interests	57
Loss attributable to members	(3,016)

Consolidated Statement of Financial Position for Defined Contribution Superannuation Plan and its Controlled Entities as at 30 June 20XX

	$000
Assets	
Cash	195,583
Receivables	331,367
Units in unlisted cash management trusts	4,921,700
Shares in Australian listed corporations	6,819,140
Shares in overseas listed corporations	4,615,556
Australian fixed interest securities	1,884,596
Overseas fixed interest securities	3,207,386
Units in unlisted property trusts	1,269,828
Units in hedge funds	436,978
Goodwill	17
Other assets	2,120
Deferred tax assets	50,221
Total assets	**23,734,492**
Liabilities	
Payables	236,506
Income tax payable on contributions	27,422
Income tax payable	121,139
Deferred tax liabilities	364,903
Insurance liabilities	6,519
Borrowings	135
Total liabilities excluding members' vested benefits	756,624
Net assets available for members' vested benefits	**22,977,868**
Benefits allocated to members' accounts	(22,960,396)
Unallocated contributions	(4,687)
Members' vested benefits	**(22,965,083)**
Total net assets	**12,785**
Equity	
Unallocated surplus/(deficiency)	0
Investment reserve	1,655
Administration reserve	11,029
Non-controlling interests	101
Total equity	**12,785**

Consolidated Statement of Cash Flows for Defined Contribution Superannuation Plan and its Controlled Entities for the Year ended 30 June 20XX

	$000
Cash flows from operating activities	
Interest received	64,038
Dividends received	287,044
Trust distributions received	481,302
Insurance premiums received	77,810
Reinsurance recoveries received	22,016
Other income received	3,785
Administration expenses paid	(42,846)
Investment expenses paid	(38,094)
Reinsurance premiums paid	(77,270)
Other expenses paid	(693)
Income tax paid	(78,831)
Net cash inflows from operating activities	**698,261**
Cash flows from investing activities	
Proceeds from sales of units in unlisted cash management trusts	680,654
Proceeds from sales of shares in Australian listed corporations	2,803,730
Proceeds from sales of shares in overseas listed corporations	6,845,218
Proceeds from sales of overseas fixed interest securities	2,444,826
Proceeds from sales of units in unlisted property trusts	259,428
Purchases of units in unlisted cash management trusts	(1,285,930)
Purchases of Australian fixed interest securities	(498,898)
Purchases of shares in Australian listed corporations	(2,944,767)
Purchases of shares in overseas listed corporations	(6,159,649)
Purchases of overseas fixed interest securities	(4,101,289)
Purchases of units in unlisted property trusts	(517,326)
Purchase of units in hedge funds	(423,468)
Purchases of other assets	(201)
Net cash outflows from investing activities	**(2,897,672)**
Cash flows from financing activities	
Employer contributions received	2,554,872
Member contributions received	235,548
Transfers from other superannuation plans received	704,162
Government co-contributions received	27,746
Benefits paid	(807,070)
Income tax paid on contributions received	(382,817)
Contributions surcharge tax paid	(25,274)
Repayment of borrowings	(25)
Interest paid	(13)
Dividends paid	(5)
Net cash inflows from financing activities	**2,307,124**
Net increase in cash and cash equivalents	**107,713**
Cash and cash equivalents at the beginning of the financial period	**87,870**
Cash and cash equivalents at the end of the financial period	**195,583**

Consolidated Statement of Changes in Members' Vested Benefits for Defined Contribution Superannuation Plan and its Controlled Entities for the Year Ended 30 June 20XX

		$000
Opening balance		**18,014,382**
Contributions received and receivable:		
Employer		2,622,940
Member		241,812
Transfers from other superannuation plans		704,162
Government co-contributions		27,746
Income tax on contributions received and receivable		(391,099)
Contributions surcharge tax		(25,274)
Net after tax contributions received and receivable		3,180,287
Less:		
Benefits paid and payable		(811,432)
Insurance premiums charged to members' accounts		(77,810)
Add:		
Death and disability benefits credited to members' accounts		23,880
Net benefits allocated to members' accounts, comprising		
Net investment income	2,677,097	
Administration fees	(41,321)	2,635,776
Closing balance		**22,965,083**

Consolidated Statement of Changes in Equity for Defined Contribution Superannuation Plan and its Controlled Entities for the Year Ended 30 June 20XX

	Unallocated surplus/ (deficiency)	**Investment reserve[3]**	**Administration reserve[2]**	**Non-controlling interests**	**Total equity**
	$000	**$000**	**$000**	**$000**	**$000**
Opening balance	**0**	**3,330**	**12,370**	**49**	**15,749**
Profit/(Loss) for the period	(3,016)			57	(2,959)
Dividends paid				(5)	(5)
Transfers to/from reserves	3,016	(1,675)	(1,341)		–
Closing balance	**0**	**1,655**	**11,029**	**101**	**12,785**

2 The Administration reserve comprises the difference over time between the amount of administration fees charged to members' accounts compared to actual administration costs over time.

3 The Investment reserve comprises the difference over time between the amount of investment income (net of investment expenses) allocated to members' accounts compared to the investment income (net of investment expenses) earned over time.

ILLUSTRATIVE EXAMPLE B

A DESCRIPTION OF THE MAIN DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS OF A SUPERANNUATION PLAN THAT PROVIDES DEFINED BENEFIT ENTITLEMENTS ONLY AND A SUPERANNUATION PLAN THAT PROVIDES DEFINED CONTRIBUTION ENTITLEMENTS ONLY

Under this Standard, a superannuation plan that provides defined benefit entitlements only would prepare its financial statements on the same basis as a superannuation plan that is similar in all significant respects except that it provides defined contribution entitlements only, apart from the following:

(a) obligations for defined benefit members' accrued benefits (rather than their vested benefits) would be recognised as liabilities in the statement of financial position; and

(b) the net change in defined benefit members' accrued benefits during a reporting period (rather than net benefits allocated to members' accounts) would be recognised and presented as a gain or loss in the income statement in the reporting period.

An example income statement, statement of changes in members' accrued benefits and statement of changes in equity for a superannuation plan that provides defined benefit entitlements only are presented below.

Income Statement for Defined Benefit Superannuation Plan for the Year Ended 30 June 20XX

	$000
Superannuation activities	
Interest revenue	89,696
Dividends and trust distributions received	534,216
Other income	1,496
Net remeasurement changes in assets measured at fair value less transaction costs	(1,327,167)
Investment expenses	(27,404)
Administration expenses	(12,042)
Other expenses	(714)
Net loss from superannuation activities	**(741,919)**
Insurance activities	
Insurance contract revenue	417
Less: Outwards reinsurance expense	(415)
Net premium revenue	2
Reinsurance recoveries revenues	3,440
Insurance contract expenses	(3,726)
Net loss from insurance activities	**(284)**
Loss from operating activities	**(742,203)**
Less: Net change in members' accrued benefits	(290,069)
Loss before income tax benefit	**(1,032,272)**
Income tax benefit	176,159
Loss after income tax	**(856,113)**

Statement of Changes in Members' Accrued Benefits for Defined Benefit Superannuation Plan for the Year Ended 30 June 20XX

	$000
Opening balance	**8,741,100**
Contributions received and receivable:	
Employer	466,419
Member	110,870
Income tax on contributions received and receivable	(102,578)
Contributions surcharge tax	(263)
Net after tax contributions received and receivable	474,448
Less:	
Benefits paid and payable	(748,371)
Benefits forgone by exiting members transferred to forgone benefits reserve[4]	(795)
Insurance premiums charged to members	(417)
Add:	
Death and disability benefits credited to members	4,932
Forgone benefits allocated to members transferred from forgone benefits reserve	823
Net change in accrued benefits	290,069
Closing balance	**8,761,789**

4 The trust deed of Defined Benefit Superannuation Plan permits but does not require the trustee to attribute benefits forgone by exiting members to active members. Accordingly, the forgone benefits reserve is equity as defined in Australian Accounting Standards.

Statement of Changes in Equity for Defined Benefit Superannuation Plan for the Year Ended 30 June 20XX

	Unallocated surplus/ (deficiency)	Forgone benefits reserve	Total equity
	$000	**$000**	**$000**
Opening balance	**722,671**	**3,686**	**726,357**
Loss for the period	(856,113)		(856,113)
Transfers from members' accrued benefits as benefits forgone by members		795	795
Transfers to members' accrued benefits as allocations to members		(823)	(823)
Closing balance	**(133,442)**	**3,658**	**(129,784)**

ILLUSTRATIVE EXAMPLE C

MEASUREMENT OF NON-CONTROLLING INTERESTS IN A MANNER CONSISTENT WITH THE APPROACH UNDER AASB 127

(refer to paragraph AG43(a)(ii)(A) in Appendix B to AASB 10XX)

On 1 July 20X1, XYZ Superannuation Plan (XYZ) purchased 75% of the outstanding shares (and control) of RO Pty Ltd (RO) for $55,000.

Table 1 below provides the carrying amounts of the items recognised in RO's statement of financial position and, where relevant, the fair values adjusted for transaction costs of RO's identifiable assets and liabilities as at 1 July 20X1. RO applies Australian Accounting Standards. RO measures its equipment in accordance with the cost model in AASB 116 *Property, Plant and Equipment*.

TABLE 1

	Carrying amount	**Fair value adjusted for transaction costs**
Cash	$15,900	$15,900
Debtors	$14,900	$13,600
Shares in listed corporations	$20,900	$20,900
Equipment	$37,200	$28,400
Internally generated software	$0	$15,000
Deferred tax assets	$0	*$2,640
Total assets	**$88,900**	**$96,440**
Accounts payable	$22,900	$22,900
Income tax payable	$3,300	*$3,300
Deferred tax liabilities	$5,190	*$6,300
Total liabilities	**$31,390**	**$32,500**
Share capital	$30,000	
Retained profits	$27,510	
Total equity	**$57,510**	

* These items are not measured at fair value adjusted for transaction costs. However, these items have been adjusted to reflect the fair values of RO's debtors and equipment, and for the recognition of the internally generated software. As at 1 July 20X1, the tax bases of RO's assets and liabilities apart from the debtors, the shares in listed corporations and the internally generated software are the same as their carrying amounts. The tax base of the debtors is $0, the tax base of the shares in listed corporations is $18,500 and the tax base of the internally generated software is $10,000. The applicable tax rate is 30%.

The amount of the non-controlling interests in RO as at 1 July 20X1 could be measured in one of the following two ways in accordance with AASB 127 *Consolidated and Separate Financial Statements*:

(a) on the basis of its fair value at the acquisition date (Alternative 1); or

(b) on the basis of its proportionate share of RO's identifiable net assets at the acquisition date (Alternative 2).

Table 2 below illustrates how the non-controlling interests in RO as at 1 July 20X1 could be measured in a manner consistent with the approaches under AASB 127. It is assumed for the purpose of measuring the fair value of the non-controlling interests in RO that there exists no control premium.

TABLE 2

Non-controlling interests in RO as at 1 July 20X1			
Measured at fair value as at the acquisition date (Alternative 1)		**Measured at the proportionate share of the RO's identifiable net assets as at the acquisition date (Alternative 2)**	
($55,000/75) x 25	$18,333	RO's identifiable assets	$96,440
		Less: identifiable liabilities	$32,500
		RO's identifiable net assets	$63,940
		Non-controlling interests' share of RO's identifiable net assets ($63,940 x 25%)	$15,985

Table 3 below provides the carrying amounts of the items recognised in RO's statement of financial position and, where relevant, the fair values adjusted for transaction costs of the assets and liabilities of RO that are recognised by XYZ in its consolidated statement of financial position as at 30 June 20X2.

TABLE 3

	Carrying amount	**Fair value adjusted for transaction costs**
Cash	$23,100	$23,100
Debtors	$15,200	$13,100
Shares in listed corporations	$22,500	$22,500
Equipment	$29,800	$21,500
Deferred tax assets	$0	*$2,490
Internally generated software	$0	$14,000
Total assets	**$90,600**	**$96,690**
Accounts payable	$15,000	$15,000
Income tax payable	$4,400	*$4,400
Deferred tax liabilities	$5,760	*$7,080
Total liabilities	**$25,160**	**$26,480**
Share capital	$30,000	
Retained profits	$35,440	
Total equity	**$65,440**	

* These items are not measured at fair value adjusted for transaction costs. However, these items have been adjusted to reflect the fair values of RO's debtors, equipment and internally generated software at 30 June 20X2. As at 30 June 20X2, the tax bases of RO's assets and liabilities apart from the debtors, the shares in listed corporations and the internally generated software are the same as their carrying amounts. The tax base of the debtors is $0, the tax base of the shares in listed corporations is $18,500 and the tax base of the internally generated software is $7,500. The applicable tax rate is 30%.

The amount of the non-controlling interests in RO as at 30 June 20X2 could be measured in one of the following two ways in accordance with AASB 127:

(a) on the basis of its fair value at the acquisition date plus the non-controlling interests' share of changes in equity recognised by XYZ in its consolidated financial statements since RO's acquisition by XYZ (Alternative 1); or

(b) on the basis of its proportionate share of RO's identifiable net assets at the acquisition date plus the non-controlling interests' share of changes in equity recognised by XYZ in its consolidated financial statements since RO's acquisition by XYZ (Alternative 2).

Table 4 below illustrates how the non-controlling interests in RO could be measured as at 30 June 20X2 in a manner consistent with the approaches under AASB 127.

TABLE 4

Non-controlling interests in RO as at 30 June 20X2			
Measured at fair value as at the acquisition date (Alternative 1)		**Measured at the proportionate share of RO's net assets that are recognised by XYZ (Alternative 2)**	
Fair value at acquisition date	$18,333	Proportionate share of RO's net assets recognised by XYZ at acquisition date	$15,985
Plus: non-controlling interests' share of the post-acquisition movement in RO's net assets recognised by XYZ ($6,270 x 25%)	$1,568	Plus: non-controlling interests' share of the post-acquisition movement in RO's net assets recognised by XYZ ($6,270 x 25%)	$1,568
	$19,901		$17,553

Table 5 below illustrates how the non-controlling interests' share of changes in equity recognised by XYZ in its consolidated financial statements since RO's acquisition by XYZ ($1,568 – refer to Table 4 above) could be calculated in a manner consistent with AASB 127.

TABLE 5

Non-controlling interests' share of changes in equity recognised by XYZ in its consolidated financial statements since RO's acquisition by XYZ	
RO's net assets that are recognised by XYZ as at 30 June 20X2 ($96,690 - $26,480 – refer to Table 3 above)	$70,210
Less: RO's net assets that were recognised by XYZ as at 1 July 20X1 ($96,440 - $32,500 - refer to Table 1 above)	$63,940
Post-acquisition movement in RO's net assets recognised by XYZ	$6,270
Non-controlling interests' share of changes in equity recognised by XYZ in its consolidated financial statements since RO's acquisition by XYZ ($6,270 x 25%)	$1,568

ILLUSTRATIVE EXAMPLE D

MEASUREMENT OF NON-CONTROLLING INTERESTS AT FAIR VALUE OF EQUITY

(refer to paragraph AG43(a)(ii)(B) in Appendix B to AASB 10XX)

Table 4 in Illustrative Example C of this Appendix illustrates how the non-controlling interests in RO Pty Ltd (RO) could be measured in reporting periods subsequent to the period in which XYZ Superannuation Plan (XYZ) acquired RO in accordance with AASB 127 *Consolidated and Separate Financial Statements*.

Under this Standard, a parent superannuation plan or parent approved deposit fund is permitted to measure non-controlling interests in a subsidiary at their fair value of equity as at the end of each reporting period. Accordingly, if the fair value of XYZ’s interest in RO at 30 June 20X2 were $62,000, the fair value of the non-controlling interests in RO at this date could be calculated as follows, assuming no control premium exists.

$$(\$62{,}000/75) \times 25 = \$20{,}667$$

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 10XX.

Background

BC1 This Basis for Conclusions summarises the considerations of the Australian Accounting Standards Board (AASB) in preparing ED 179 *Superannuation Plans and Approved Deposit Funds*.

Significant Issues

Reasons for Issuing ED 179

BC2 When originally drafted, AAS 25 *Financial Reporting by Superannuation Plans* was intended to provide the main recognition, measurement and disclosure requirements applicable to superannuation plans. Accordingly, the Standard was intended to apply in the place of other Australian Accounting Standards on critical financial reporting issues that were considered most significant to superannuation plans. AAS 25 was also intended to address the financial reporting issues that superannuation plans were specifically dealing with at the time. However, recent developments in the superannuation industry and the adoption of International Financial Reporting Standards (IFRSs) have both served to highlight the need for a comprehensive review of the general purpose financial reporting requirements applicable to superannuation plans, particularly the requirements in AAS 25. For instance, the increasing significance of defined contribution/defined benefit 'hybrid' superannuation plans has served to highlight some deficiencies in the AAS 25 requirement that defined contribution and defined benefit superannuation plans prepare their financial statements on different bases.

BC3 In late 2005, the AASB considered the potential implications of a superannuation plan applying other Australian Accounting Standards in respect of two circumstances not specifically addressed by AAS 25. These circumstances involved a superannuation plan holding:

(a) a hedging instrument or derivative that had a credit balance; and

(b) a controlling interest in another entity.

BC4 The AASB issued Invitation to Comment ITC 9 *Superannuation Plans – Financial Liabilities* in December 2005. After considering constituents' comments, the AASB agreed in December 2005 to amend AAS 25 to require that:

(a) a hedging instrument or derivative held by a superannuation plan be recognised at its net market value, irrespective of whether it has a debit or credit balance; and

(b) any changes in the net market value of a hedging instrument or derivative be recognised in the profit or loss of the plan for the reporting period.

The AASB also confirmed that, notwithstanding the practical issues that could arise (refer to paragraph BC93 of this Basis for Conclusions), a superannuation plan that holds a controlling interest in another entity is required to apply AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*.

BC5 While the AASB's decisions at its December 2005 meeting clarified the treatment of hedging instruments, derivatives and subsidiaries under AAS 25, the AASB agreed that a comprehensive review of the general purpose financial reporting requirements applicable to superannuation plans, including the matters considered at its December 2005 meeting, was needed.

BC6 Prior to commencing its comprehensive review, the AASB considered the implications for financial reporting by superannuation plans and approved deposit funds of its transaction-neutrality policy and the adoption of IFRSs. Under that policy, the AASB aims to require, to the extent feasible, like transactions to be treated in a like manner by all entities.

BC7 In keeping with its policy of transaction-neutrality and adopting IFRSs, the AASB considered the merits of IAS 26 *Accounting and Reporting by Retirement Benefit Plans* and concluded that it should not be adopted in Australia. This is because it has not been updated recently and includes treatments that would potentially reduce the quality of financial reporting by superannuation plans and approved deposit funds if it were adopted. For example, IAS 26 permits:

(a) assets to be measured at an amount other than fair value when an estimate of fair value is not possible; and

(b) the actuarial present value of promised retirement benefits to be based on either current or projected salary levels.

BC8 In contrast to IAS 26, AAS 25 requires all assets held by a superannuation plan to be measured at net market value. This approach is consistent with the domestic prudential measurement requirements and with the prudential requirement that superannuation investments be made and maintained on an arm's length basis. The AASB also considered other relevant Australian Accounting Standards and noted that AASB 119 *Employee Benefits* requires:

(a) plan assets attributable to defined benefit obligations to be measured at fair value; and

(b) defined benefit obligations to be measured on a basis that reflects estimated future salary increases.

BC9 In keeping with its policy of transaction-neutrality and adopting IFRSs, the AASB also considered the implications of withdrawing AAS 25 and requiring superannuation plans and approved deposit funds to apply, where appropriate, Australian Accounting Standards. The AASB concluded that, while the financial reporting requirements in relation to superannuation plans and approved deposit funds would, in many respects, be enhanced by being more closely aligned with corresponding requirements of other Australian Accounting Standards, this approach may not be entirely appropriate for the needs of users of the financial statements of plans and funds.

BC10 The AASB concluded that the primary users of the general purpose financial statements of superannuation plans and approved deposit funds are:

(a) members and beneficiaries;

(b) parties employed to act on behalf of members and beneficiaries, such as financial analysts, advisors and unions; and

(c) employer sponsors.

BC11 While the financial information needs of most financial analysts and advisors and some members and beneficiaries have been considered by the AASB in its deliberations on other Australian Accounting Standards, employer sponsors, for example, are normally considered preparers rather than users of financial statements. Accordingly, the users of the financial statements of superannuation plans and approved deposit funds include groups whose information needs would not have been the focus of considerations in the promulgation of other Australian Accounting Standards.

BC12 As a consequence of this, the AASB does not consider that all of the reporting requirements that would otherwise apply under Australian Accounting Standards would necessarily give rise to financial information that is appropriate for the needs of users of the financial statements of a superannuation plan or approved deposit fund. This is particularly the case in relation to the measurement of assets, the recognition and measurement of member benefits, the preparation and presentation of consolidated financial statements and the disclosure of information about superannuation-specific items and events. Accordingly, in the interests of facilitating the provision of information that is useful for decision making in a superannuation context, the AASB agreed there is a need to depart from its policy of transaction-neutrality and adopting IFRSs by:

(a) permitting superannuation plans and approved deposit funds to depart from Australian Accounting Standards on some topics; and

(b) limiting the accounting treatments available to superannuation plans or approved deposit funds in other Australian Accounting Standards.

BC13 The following discussion outlines the AASB's reasoning behind the departures from Australian Accounting Standards proposed in ED 179 as well as its reasons for not retaining some of the requirements of AAS 25.

Application of the Proposed Standard

BC14 AAS 25 applies to the financial statements of each private or public sector superannuation plan that is a reporting entity or prepares financial statements which purport to be general purpose in nature. In addition, a superannuation plan is broadly defined in AAS 25 to include approved deposit funds and eligible rollover funds.

BC15 The AASB considered the advantages and disadvantages of a replacement Standard for AAS 25 applying to different types of superannuation entities including superannuation plans, approved deposit funds, eligible rollover funds, pooled superannuation trusts, small Australian Prudential Regulation Authority (APRA) funds and self-managed superannuation funds (SMSF). The AASB concluded that the replacement Standard should:

(a) retain the reporting entity concept, thereby ensuring that superannuation plans that do not have any general purpose users are not required to prepare general purpose financial statements. For example, an SMSF would not normally be considered a reporting entity because each member of an SMSF is required to be a trustee and the primary external user of SMSF information is the Australian Taxation Office, which requires SMSFs to report specific information for its compliance and regulatory purposes; and

(b) apply to each reporting entity that is a defined contribution plan, defined benefit plan, hybrid plan, private sector plan, public sector plan, eligible rollover fund or approved deposit fund.

BC16 The AASB gave particular consideration to whether the replacement Standard for AAS 25 should apply to pooled superannuation trusts. The AASB noted that pooled superannuation trusts and superannuation plans, particularly defined contribution superannuation plans, share a number of characteristics. For example, a pooled superannuation trust:

(a) is required to comply with many of the same prudential requirements that apply to a superannuation plan;

(b) is taxed at the same concessional tax rate as a superannuation plan; and

(c) is only permitted to accept monies from other superannuation entities, including superannuation plans.

BC17 However, the AASB concluded that a pooled superannuation trust is more in the nature of an investment trust, such as a managed investment scheme, than a superannuation plan. For example:

(a) a pooled superannuation trust has unitholders rather than members; and

(b) there are no age-based restrictions over when a pooled superannuation trust can distribute funds to a unitholder. In contrast, a superannuation plan can only pay benefits to a member when the member achieves a condition of release, which is generally retirement related.

Accordingly, to facilitate comparable financial reporting by pooled superannuation trusts and other investment trusts, the AASB concluded that pooled superannuation trusts should apply Australian Accounting Standards.

Assets and Liabilities

Recognition of assets and liabilities

BC18 Under AAS 25, a superannuation plan recognises assets and liabilities in accordance with other relevant Australian Accounting Standards.

BC19 The AASB considered whether there are any compelling reasons for not retaining this approach and concluded that a superannuation plan or approved deposit fund should apply the definition and recognition criteria in respect of assets and liabilities in Australian Accounting Standards, except in relation to:

(a) member benefits;

(b) obligations and assets arising from insurance contracts issued by superannuation plans or approved deposit funds; and

(c) goodwill.

The AASB's reasons for proposing these departures are outlined below.

Measurement of assets

BC20 AAS 25 requires a superannuation plan to measure its assets at market value less costs that would be expected to be incurred in realising the proceeds from their disposal. The AASB considered a number of alternative approaches, including measuring assets:

(a) in a manner consistent with the approach under AAS 25;

(b) in accordance with the various requirements of relevant Australian Accounting Standards; and

(c) in a manner consistent with the 'fair value approach' as described in AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.

BC21 With respect to approaches (b) and (c), the AASB noted that some Australian Accounting Standards currently provide a choice between alternative measurement methods, particularly cost and fair value, for particular types of assets. However, the measurement of superannuation assets at cost is inconsistent with the interest of users in the investment performance of superannuation plans and approved deposit funds, and inconsistent with the prudential measurement requirements.

BC22 The AASB concluded that the approach under AAS 25 is an appropriate starting point for developing measurement principles for the assets of a superannuation plan or approved deposit fund. However, the AASB noted that there are a number of compelling arguments in favour of requiring a superannuation plan or approved deposit fund to use fair value rather than market value.

BC23 Both market value measurements and fair value measurements provide useful information for users of the financial statements of a superannuation plan or approved deposit fund about:

(a) the capacity of a superannuation plan, with defined contribution members, or an approved deposit fund to pay benefits as it reflects the interests of members; and

(b) the financial position (solvency) of a superannuation plan with defined benefit members as it reflects the capacity of the entity to meet member benefits.

However, the approach for measuring assets under AAS 25 is inconsistent with the approach for measuring equivalent assets under other Australian Accounting Standards. Under AAS 25, all assets are required to be measured at their 'asking' prices at the end of the each reporting period. In contrast, under other Australian Accounting Standards, assets measured at fair value are generally measured at their 'bid' prices. In addition, fair value measurement is more comprehensively dealt with in the accounting literature, which includes the relevant guidance in Australian Accounting Standards, than the way in which market value measurement is dealt with in AAS 25. For example, AASB 139 *Financial Instruments: Recognition and Measurement* provides detailed guidance on when a 'bid price' or an 'asking price' would be used to measure a financial liability. In contrast, AAS 25 provides no equivalent guidance with respect to the measurement of financial liabilities. Accordingly, the AASB considers that requiring superannuation plans and approved deposit funds to measure their assets at fair value would enhance the comparability of the financial statements of superannuation plans and approved deposit funds with other entities.

BC24 In the interests of providing useful information to users, and noting that fair value measurement is required for plan assets attributable to defined benefit members under AASB 119, the AASB concluded that ED 179 should propose that a superannuation plan or approved deposit fund measure all of its assets except for tax assets, assets arising from insurance contracts and goodwill at fair value, and that a plan or fund apply the concept of fair value as defined in Australian Accounting Standards.

BC25 The AASB's reasons for not requiring tax assets, assets arising from insurance contracts and goodwill to be measured at fair value are discussed below.

Transaction costs

BC26 Under AAS 25, a superannuation plan is required to measure its assets net of anticipated disposal costs. The AASB considered a number of different treatments for anticipated disposal costs in relation to assets, including:

(a) separate recognition as an expense when incurred; and

(b) as a reduction in the carrying amounts of assets.

BC27 The AASB concluded that a superannuation plan or approved deposit fund should treat transaction costs (anticipated disposal costs) as a reduction in the carrying amounts of assets because:

(a) members and beneficiaries would regard information about assets net of transaction costs as useful because it has a direct bearing on their decisions in relation to a superannuation plan's or approved deposit fund's capacity to pay benefits;

(b) it would facilitate an alignment between the financial reporting requirements and member reporting practices of superannuation plans and approved deposit funds; and

(c) it is consistent with the treatment of assets under some Australian Accounting Standards. For example, AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* requires assets held for immediate sale to be measured at fair value less anticipated disposal costs on the basis that rational decision-making by users requires an understanding of the estimated net future cash flows expected from the asset.

Measurement of liabilities other than tax liabilities, member benefits and obligations arising from insurance contracts

BC28 AAS 25 requires a superannuation plan to measure its financial liabilities at net market value.

BC29 The AASB considered the different ways in which a liability can be measured under Australian Accounting Standards, in particular:

(a) at fair value; and

(b) at amortised cost.

BC30 The AASB concluded that amortised cost is not an appropriate method of measuring liabilities in a superannuation context because it does not result in useful information to users. For example, measuring borrowings in a subsidiary at amortised cost is unlikely to provide users with information that is relevant for an understanding of the financial position of a parent superannuation plan or parent approved deposit fund and its subsidiaries. In addition, the AASB noted that measuring assets attributable to defined contribution members at cost can undermine trustees' efforts to treat members equitably, particularly during periods of rapid asset price inflation or deflation. Accordingly, the AASB concluded that a superannuation plan or approved deposit fund should measure all of its liabilities other than tax liabilities, member benefits and obligations arising from insurance contracts at fair value. In addition, consistent with its conclusions in relation to the treatment of transaction costs in respect of assets, the AASB concluded that a plan or fund should treat transaction costs attributable to a liability measured at fair value as an increase in the carrying amount of the liability.

BC31 The AASB's reasons for not requiring tax liabilities, member benefits and obligations arising from insurance contracts to be measured at fair value plus transaction costs are discussed below.

Tax Assets and Liabilities

BC32 Under AAS 25, a superannuation plan applies the recognition and measurement requirements of AASB 112 *Income Taxes* to determine its income tax expense.

BC33 The AASB considered the merits of requiring a superannuation plan or approved deposit fund to measure its tax assets and liabilities at fair value adjusted for transaction costs, which would imply a need for discounting, thereby requiring such entities to depart from AASB 112. The AASB noted that:

(a) under AASB 112, a superannuation plan or approved deposit fund would not be permitted to, for example, discount a tax liability payable in a future reporting period back to a present value at the end of the reporting period because the detailed scheduling necessary to ensure that tax assets and liabilities are reliably measured is usually impracticable or highly complex;

(b) a significant proportion of a superannuation plan's or approved deposit fund's tax balances are attributable to unrealised gains and losses on assets held to fund member benefits. Measuring these assets at fair value would ensure that any associated tax balances determined under AASB 112 would be recognised at amounts approximating fair value. For example, if a superannuation plan sold an asset for its carrying amount at the end of the reporting period, and that amount is above its tax base, the tax liability measured in accordance with AASB 112 would generally equate with the present value of tax the entity would have to pay in relation to the asset; and

(c) most of the transaction costs associated with tax balances relate to measuring the assets held to fund member benefits and maintaining adequate records of the measured amounts for tax purposes. Consequently, the costs directly attributable to extinguishing or settling a tax asset or liability are immaterial.

BC34 The AASB concluded that a superannuation plan or approved deposit fund should measure its tax balances in accordance with AASB 112 because:

(a) users' needs do not necessarily justify a departure from the measurement requirements of AASB 112 as the difference between a tax balance measured at fair value or in accordance with AASB 112 would, in most cases, be immaterial; and

(b) the benefits to users from fair value information for tax assets and liabilities are unlikely to outweigh the costs incurred by a superannuation plan or approved deposit fund in reliably determining their fair values.

Member Benefits

Recognition

BC35 Under AAS 25, a defined contribution superannuation plan is required to recognise its members' accrued benefits as a liability whereas a defined benefit superannuation plan can choose to either disclose its members' accrued benefits in a note or recognise members' accrued benefits as a liability of the plan.

BC36 The AASB considered the merits of retaining these reporting requirements, particularly the requirements in relation to defined benefit superannuation plans, and noted that:

(a) the disclosure of liabilities that would otherwise be recognised in the statement of financial position is inconsistent with other Australian Accounting Standards; and

(b) a liability does not necessarily have to be a legal obligation and can be contractual or constructive in nature.

BC37 The AASB considered the respective legal, contractual and constructive obligations of superannuation plans, approved deposit funds and employer sponsors and concluded that member benefits should be recognised as liabilities of a superannuation plan or approved deposit fund because:

(a) the obligation to fund a member's defined contribution entitlements falls on the member's superannuation plan or approved deposit fund and the obligation is legally enforceable in nature; and

(b) the obligation to fund a member's defined benefit entitlements, as specified in the trust deed of the member's superannuation plan, falls primarily on the member's plan and the obligation is contractual and/or constructive in nature.

BC38 The AASB also considered the main characteristics of superannuation members' vested and accrued benefits and noted that:

(a) contributions by a member to a superannuation plan and benefit transfers into a superannuation plan or approved deposit fund fully vest in the member upon receipt by the entity;

(b) employer contributions on behalf of a defined contribution member fully vest in the member upon their receipt by the superannuation plan whereas employer contributions on behalf of a defined benefit member may only fully vest in the member progressively in line with the plan's benefit formula. Accordingly, for the vast majority of defined contribution superannuation plans and all approved deposit funds, the difference between defined contribution members' vested and accrued benefits is immaterial. However, for some defined benefit and 'hybrid' superannuation plans, the amount of defined benefit members' vested benefits may be significantly different from the amount of such members' accrued benefits; and

(c) most defined contribution members are entitled to transfer their vested benefits to another regulated superannuation entity under the *Superannuation Guarantee (Administration) Act 2002*, whereas most defined benefit members are prohibited from transferring their defined benefit entitlements by the same legislation.

BC39 The AASB concluded that:

(a) consistent with the treatment of a financial liability with a demand feature under AASB 139, defined contribution members' vested benefits should be recognised as a liability of a superannuation plan or approved deposit fund; and

(b) consistent with the recognition of defined benefit obligations under AASB 119, defined benefit members' accrued benefits should be recognised as a liability of a superannuation plan.

Puttable financial instruments and obligations arising on liquidation

BC40 The AASB considered the implications of applying the amendments to AASB 132 *Financial Instruments: Presentation* arising from AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* to superannuation plans and approved deposit funds. AASB 2008-2 amends AASB 132 in line with the corresponding amendments made by the International Accounting Standards Board (IASB) to IAS 32 *Financial Instruments: Presentation* in February 2008. The amendments introduce an exception to the definition of financial liability in AASB 132 to classify as equity instruments certain puttable financial instruments and certain instruments that impose on an entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation of the entity.

BC41 Paragraph 10(a) of ED 179 prevents superannuation plans and approved deposit funds from applying the amendments to AASB 132 and other Australian Accounting Standards arising from AASB 2008-2 in respect of member benefits. If the amendments to AASB 132 and other Australian Accounting Standards arising from AASB 2008-2 were applied to superannuation plans and approved deposit funds they would give rise to different reporting outcomes. For example, under the amendments to AASB 132:

(a) defined contribution members' entitlements held by a superannuation plan or approved deposit fund that comprises only defined contribution members and that does not offer member investment choice would arguably meet the criteria necessary to be classified as equity;

(b) defined contribution members' entitlements held by a superannuation plan that comprises only defined contribution members and that offers member investment choice would arguably not meet the criteria necessary to be classified as equity;

(c) defined contribution members' entitlements held by a plan that comprises both defined contribution and defined benefit members would arguably not meet the criteria necessary to be classified as equity; and

(d) defined benefit members' entitlements would arguably not meet the criteria necessary to be classified as equity.

BC42 The AASB considered that having different reporting outcomes depending upon the nature of the superannuation plan:

(a) would be inconsistent with the objectives of principles-based standard-setting; and

(b) would potentially diminish the comparability and usefulness of the financial statements of superannuation plans and approved deposit funds and, therefore, would be inappropriate in a superannuation context.

Accordingly, the AASB concluded that, to ensure that defined contribution members' entitlements and defined benefit members' entitlements are always recognised as liabilities, the amendments to AASB 132 and other Australian Accounting Standards arising from AASB 2008-2 should not apply to a superannuation plan or approved deposit fund.

Measurement

Defined contribution members' vested benefits

BC43 The AASB noted that defined contribution members' vested benefits represent the amount that would be payable on demand:

(a) to such members or their beneficiaries upon their retirement, death, disablement or other event that qualifies as a condition for releasing their superannuation benefits; or

(b) to another regulated superannuation entity on behalf of such members under the *Superannuation Guarantee (Administration) Act 2002*.

BC44 The AASB also noted that defined contribution members' vested benefits are generally determined based upon the net assets attributable to such members recognised in the financial statements of the members' superannuation plan or approved deposit fund. Because the net assets attributable to defined contribution members would include items that ED 179 proposes be measured at amounts other than their fair values, such as tax assets and liabilities, defined contribution members' vested benefits would not be measured at their fair values under a replacement Standard for AAS 25. However, the AASB concluded that, as ED 179 requires most assets and liabilities attributable to defined contribution members to be measured at their fair values adjusted for transaction costs, the difference between defined contribution members' vested benefits measured at fair value or in accordance with ED 179 would in most cases not be material.

Defined benefit members' accrued benefits

BC45 The AASB considered a number of different ways in which defined benefit members' accrued benefits could be measured, including:

(a) at fair value consistent with the proposals in the IASB's Discussion Paper *Fair Value Measurement*;

(b) at current exit value consistent with the model proposed by the IASB in its Discussion Paper *Preliminary Views on Insurance Contracts*;

(c) at present value of the expected future benefit payments consistent with the requirements of AAS 25; and

(d) at present value of the expected future benefit payments consistent with the requirements of AASB 119 for defined benefit obligations.

BC46 During its deliberations on the measurement of defined benefit members' accrued benefits, the AASB noted that:

(a) a defined benefit obligation is, in substance, arguably akin to an insurance contract. Accordingly, the IASB's proposals in its Discussion Paper on insurance contracts are potentially relevant to the AASB's deliberations on the measurement of defined benefit members' accrued benefits;

(b) a fair value or current exit value measurement could potentially:

(i) provide useful information to users, particularly in relation to the amount, timing and uncertainty of future benefit payments; and

(ii) facilitate consistency of reporting, as ED 179 proposes that most assets of a superannuation plan or approved deposit fund be measured at fair value. At present, asymmetrical results sometimes arise under AASB 119 because that Standard requires a plan's assets to be measured at fair value and defined benefit obligations to be discounted at a rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds. When a plan's assets are invested to achieve higher returns than high quality corporate bonds, a 'structural deficit' in relation to the plan can appear in the employer sponsor's statement of financial position, making the plan appear under funded, despite being fully funded on an actuarially-determined basis;

(c) defined benefit obligations are not traded as stand-alone items and are generally extinguished in the normal course of business. While the absence of an active market for defined benefit obligations does not preclude such obligations being measured in accordance with a fair value or current exit value model, significant guidance in relation to a number of issues would be necessary to achieve consistency across all superannuation plans with defined benefit members. Such issues would include the estimation of risk margins, service margins and costs of capital; and

(d) the absence of an active market for defined benefit obligations is due, in part, to the 'moral hazard' implications of an employer sponsor transferring their defined benefit obligations to a third party and potentially avoiding the full consequences of their decisions regarding employees' wages and salaries. Accordingly, the fair value or current exit value of a defined benefit obligation could be significantly different from the amount of the defined benefit obligation measured in accordance with the 'value in settlement' approach in AASB 119.

BC47 While some AASB members consider fair value and current exit value models to have a number of advantages over other models available for measuring defined benefit obligations, the AASB decided against proposing that defined benefit members' accrued benefits be measured at fair value or current exit value. The AASB noted that either approach would potentially produce results that are inconsistent with:

(a) the preference among some constituents for a closer alignment between the treatment of defined benefit obligations recognised in the statements of financial position of employer sponsors and superannuation plans; and

(b) recent IASB thinking in relation to provisions. During its deliberations on the responses received to the Exposure Draft of proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*, the IASB confirmed that the amount an entity would rationally pay to extinguish a liability is the lower of its settlement or transfer amounts.

BC48 When it considered the existing AAS 25 requirements, the AASB noted that, while the requirements in AAS 25 for measuring defined benefit members' accrued benefits are conceptually consistent with the requirements in AASB 119 for measuring defined benefit obligations, the requirements in AAS 25 are arguably more permissive. For example, AAS 25:

(a) does not specify the actuarial valuation method required to measure defined benefit members' accrued benefits;

(b) provides little or no guidance in relation to actuarial assumptions;

(c) does not require a superannuation plan to separately disclose:

  (i) benefit cost; or

  (ii) actuarial gains and losses; and

(d) requires a superannuation plan to measure its defined benefit members' accrued benefits as frequently as it is required to for statutory purposes. Accordingly, a superannuation plan might not measure its defined benefit members' accrued benefits annually.

BC49 In addition, the AASB noted that AAS 25 requires a superannuation plan to discount defined benefit members' accrued benefits at the rate of return the plan anticipates it could achieve if, at the end of the reporting period, sufficient funds were available to meet members' accrued benefits as they fall due. The AASB considered the merits of this approach and rejected it because the types of assets held by a plan to meet defined benefit obligations would not affect the nature or amounts of the plan's obligations. Moreover, under AAS 25, a plan could potentially recognise a smaller amount for its defined benefit obligations than it would otherwise by holding riskier assets with higher expected rates of return. Accordingly, the AASB concluded that, to achieve greater consistency across superannuation plans, and facilitate consistency with the manner in which defined benefit and other obligations are measured by entities, the approach in AASB 119 should be used as a basis for developing a proposed measurement method for defined benefit members' accrued benefits.

BC50 The AASB considered the measurement requirements of AASB 119 for defined benefit obligations and concluded that, consistent with the approach under AASB 119, a superannuation plan should be:

(a) required to use actuarial techniques and assumptions to make a reliable estimate of its obligations for defined benefit members' accrued benefits;

(b) required to determine the present value of its obligations for defined benefit members' accrued benefits using the Projected Unit Credit Method;

(c) permitted to apply estimates, averages and computational shortcuts for determining its obligations for defined benefit members' accrued benefits; and

(d) required to measure its obligations for defined benefit members' accrued benefits at the end of each reporting period to ensure that users are provided useful information on a timely basis.

BC51 However, the AASB also concluded that some of the requirements of AASB 119 for defined benefit obligations need to be modified for application in a superannuation plan context. In particular, the AASB concluded that:

(a) expected administration costs should not be included in the measurement of defined benefit members' accrued benefits. While expected administration costs may be regarded as a component of the ultimate cost of an employer's defined benefit obligations (as is the case under AASB 119), they do not constitute a part of member's accrued benefits;

(b) if a superannuation plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, rather than attribute benefits to reporting periods on a straight-line basis as required under AASB 119, the superannuation plan would attribute member benefits to reporting periods on a basis appropriate to the plan's circumstances. When a plan's benefit formula prescribes that members accrue materially higher levels of benefits as they near retirement age, the allocation of service cost to reporting periods in accordance with the benefit formula would not provide a reliable measure of the employer's periodic cost of providing such benefits to employees, particularly in the earlier years of employees' service. Accordingly, in such circumstances, AASB 119 requires employers to attribute defined benefits to reporting periods on a straight-line basis, which is likely to more closely reflect the periodic cost of providing such benefits to employees than an allocation based on the plan's benefit formula. In contrast to employers, superannuation plans do not receive services from their members in exchange for defined benefit entitlements. Accordingly, a plan should attribute member benefits to reporting periods on a basis appropriate to the plan's particular circumstances, taking into account the formal terms of the plan and any constructive obligations that go beyond the formal terms of the plan;

(c) AASB 119 states that actuarial assumptions are unbiased if they are neither imprudent nor excessively conservative. The AASB concluded that, consistent with the *Framework*, a superannuation plan would consider its actuarial assumptions to be unbiased if they are not imprudent or conservative;

(d) expected future benefit payments should be discounted for the time value of money using a risk-free discount rate based on current observable, objective rates that relate to the nature, structure and terms of the obligations for future benefit payments. The AASB noted that AASB 119 requires defined benefit obligations to be discounted at a rate determined by reference to market yields on high quality corporate bonds or, in the absence of such bonds, market yields on government bonds. However, the AASB concluded that market yields on high quality corporate bonds are not appropriate rates for discounting defined benefit members' accrued benefits. The use of such rates in the context of an employer's defined benefit obligation may be justified on the grounds that they reflect the rates at which the entity could borrow funds to settle the obligation. However, as superannuation plans are not permitted to borrow directly, there is no clear rationale for application of such rates to a superannuation plan. In addition, discounting defined benefit members' accrued benefits at the market yield on a high quality corporate bond is inconsistent with the AASB's views on what is, in principle, an appropriate approach to discounting similar types of obligations, such as insurance contracts; and

(e) yields on government bonds may be an appropriate rate for discounting obligations for defined benefit members' accrued benefits, provided that they relate to the nature, structure and terms of the particular obligations for defined benefit members' accrued benefits.

'Higher of' benefit options

BC52 During its deliberations on the measurement of member benefits, the AASB noted that AAS 25 does not require a 'higher of' benefit option to be measured separately from member benefits.

BC53 A 'higher of' benefit option arises as a consequence of members being entitled to the higher of a defined benefit entitlement and a contributions-based amount upon their retirement from full-time employment or other event that qualifies as a condition for releasing superannuation benefits to members. This type of arrangement is arguably akin to an insurance contract that permits the holder to require the issuer to reacquire the instrument for an amount of cash or other assets determined on the basis of the value of the total contributions made by or on behalf of the holder.

BC54 Under AAS 25, a 'higher of' benefit option might be measured at its intrinsic value as:

(a) the difference between the defined benefit members' accrued benefits and their account balances when the account balances are greater than accrued benefits; and

(b) at nil when the account balances are less than accrued benefits.

BC55 In contrast to the approach that might be applied under AAS 25, the IASB has proposed in its Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits* that an employer sponsor account for a higher of benefit option in a manner consistent with the approach applied to an embedded option under IAS 39 *Financial Instruments: Recognition and Measurement*. Accordingly, the IASB's Discussion Paper proposes that an employer sponsor:

(a) recognise and account for the host defined benefit promise in the same way as a defined benefit obligation under AASB 119;

(b) account for the higher of benefit option separately; and

(c) measure the higher of benefit option at its fair value assuming the terms of the benefit promise will not change.

BC56 The AASB considered the IASB's proposals for a 'higher of' benefit option and concluded that ED 179 should seek input from constituents about a superannuation plan accounting for a higher of benefit option separately from member benefits, and how the benefit option might be measured prior to making any proposals on the matter. The AASB came to this conclusion on the basis that the IASB's proposals are at an early stage of development and have been specifically developed for application by an employer sponsor. Therefore, the implications of applying equivalent proposals in a superannuation context have yet to be fully considered.

Obligations and Assets Arising from Insurance Contracts

BC57 The AASB noted that many superannuation plans offer life insurance cover to their members and some also offer income protection to their members, and that AAS 25 is silent about how such arrangements should be treated. The AASB also noted that the forms the insurance arrangements take differ across plans. The AASB considered the various forms of insurance arrangements, including those where life insurance cover is:

(a) offered to members directly by an external insurer, with the plan only acting as agent;

(b) offered to defined contribution members whose accounts are charged on a weekly or monthly basis for the relevant premium; or

(c) provided to defined benefit members in relation to their projected retirement benefit.

BC58 The AASB noted that, in the case of (a), the superannuation plan is not likely to be exposed to significant insurance risk with respect to its members' insurance arrangements as the members or their beneficiaries would not generally have recourse to the assets of the plan, even in the event that the insurer fails. Accordingly, in such circumstances the plan would not, for example, recognise insurance premiums paid on behalf of members or proceeds from insurance claims received on behalf of members as expenses or revenues. However, in cases (b) and (c), the plan would potentially be exposed to significant insurance risk with respect to any outstanding insurance claims and any incurred but not reported claims. Accordingly, in such circumstances the plan would be expected to recognise, for example, insurance premiums charged to members as revenues and premiums ceded to reinsurers as expenses. The AASB also noted that, in cases (b) and (c), the plan may or may not reinsure 100% of the risk with a third party insurer.

BC59 The AASB considered a number of alternative approaches to accounting for insurance contracts issued by superannuation plans, including requiring the application of:

(a) AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*;

(b) AASB 4 *Insurance Contracts*;

(c) AASB 1023; and

(d) AASB 1038.

The AASB also considered the nature of the various arrangements and the cases where the ultimate risk to the plan is mitigated by reinsurance. The AASB noted that, under the insurance standards, an insurer that reinsures some or all of its risk is nevertheless considered to be exposed to the direct risks of entering into insurance contracts.

BC60 The AASB considered that the insurance contacts entered into by many superannuation plans would meet the definition of an insurance contract, and that most would be akin to life insurance contracts, and would meet the life insurance contract definition were it not for the fact that the definition applies only to contracts regulated under the *Life Insurance Act 1995*. Accordingly, the AASB concluded that ED 179 should propose that superannuation plans account for their insurance contracts by applying the recognition, measurement and disclosure requirements of AASB 1038 on the basis that:

(a) insurance contracts entered into by plans generally have the same characteristics as life insurance contracts, and AASB 1038 has comprehensive requirements dealing with both insurance contract liabilities and assets;

(b) AASB 4 does not include initial liability recognition requirements or comprehensive measurement requirements;

(c) the liability recognition and measurement requirements of AASB 1023 are based on a premium deferral model, which would not suit the circumstances of plans because they would generally not receive significant premiums in advance that could be deferred; and

(d) AASB 137 applies only to liability recognition and measurement.

BC61 The AASB noted that AASB 1038 includes requirements relating to direct insurance contracts and reinsurance arrangements that would potentially change the way in which many superannuation plans currently account for their members' insurance arrangements. In particular, the AASB noted that, under AASB 1038, a plan that issues insurance contracts to its members would be required to recognise:

(a) insurance contract premiums and claim recoveries as income;

(b) insurance contract claims and premiums ceded to reinsurers as expenses;

(c) claim recoveries and other inflows not yet received from reinsurers as assets; and

(d) obligations arising from insurance contracts as liabilities.

Presentation of Financial Statements

BC62 AAS 25 differentiates between defined contribution and defined benefit superannuation plans and imposes different reporting requirements on each type of plan. However, this approach does not facilitate the provision of comparable information that is useful for users making decisions in a superannuation context. For example, under AAS 25:

(a) a defined contribution plan presents different types of financial statements compared to a defined benefit plan. However, this approach is not necessarily reflective of the needs of the users of the different types of entities. Furthermore, it potentially diminishes the comparability of financial statements between plans and over time;

(b) a defined benefit plan is not required to present a statement of cash flows. However, it seems highly likely that users of the financial statements of such plans would regard cash flow information to be as necessary for decision making as users of the financial statements of defined contribution plans; and

(c) requiring a ‘hybrid’ plan to adopt the same reporting format as a defined benefit plan could limit the usefulness of the hybrid plan’s financial statements. For example, under AAS 25, a hybrid plan with immaterial defined benefit obligations could prepare its financial statements on a different basis from a defined contribution plan that is similar in all significant respects.

Accordingly, the AASB concluded that the approach under AAS 25, whereby different reporting requirements apply to different types of plans, should not be retained.

BC63 The AASB considered the implications of a superannuation plan or approved deposit fund applying AASB 101 *Presentation of Financial Statements* and concluded that a plan or fund should present:

(a) a statement of financial position, a statement of cash flows and, where relevant, a statement of changes in equity, in accordance with applicable Australian Accounting Standards;

(b) an income statement instead of a single statement of comprehensive income or a separate income statement and a statement of comprehensive income;

(c) a statement of changes in member benefits; and

(d) notes in accordance with other relevant Australian Accounting Standards except where the disclosure principles and requirements in other Australian Accounting Standards:

(i) are not consistent with the measurement requirements in ED 179; or

(ii) address the same items or events as the disclosure principles in ED 179.

Statement of financial position

BC64 The AASB noted that a superannuation plan or approved deposit fund would recognise a difference between its total assets and its total liabilities (including defined contribution members’ vested benefits, defined benefit members’ accrued benefits and any obligations to employer sponsors) in a number of circumstances, including when:

(a) the trustee applies a crediting rate to defined contribution members’ accounts that is less than the corresponding earnings rate on the net assets attributable to such members; and

(b) the amount of net assets attributable to defined benefit members is greater or less than the amount of such members' accrued benefits.

BC65 A trustee of a superannuation plan or approved deposit fund may decide to create a reserve of unallocated assets by charging defined contribution members' accounts a set amount per week for administration. As a consequence, the trustee creates a reserve of unallocated assets which reflects the difference between the actual administration costs attributable to defined contribution members from year to year compared to the amounts charged to such members' accounts. While defined contribution members that remain in the plan or fund over the longer-term would be expected to benefit from the trustee utilising the reserve of unallocated assets, members exiting the plan or fund prior to the reserve being utilised would not be entitled to a share of the reserve.

BC66 The AASB noted that the net assets attributable to defined benefit members would not exceed such members' accrued benefits if:

(a) the formal terms of the superannuation plan or the relevant legislation required that any surplus assets be applied for the benefit of defined benefit members, in which case the plan would be presently obliged to such members;

(b) an employer sponsor had voluntarily agreed to use surplus assets to enhance defined benefit members' benefits in the past, and it is reasonable to assume that this practice would continue in the future, in which case the superannuation plan would arguably have a contingent obligation to meet the obligation for enhanced benefits; or

(c) the trustee formally agreed that a payment from surplus assets to an employer sponsor can occur and the proposed payment meets the relevant prudential requirements, in which case the superannuation plan would be presently obliged to the employer sponsor.

BC67 The AASB also noted that, where the formal terms of a superannuation plan or the relevant legislation is silent with respect to the treatment of surplus assets, and there is no established practice of applying surplus assets for the benefit of members or refunding surplus assets to an employer sponsor, the plan would present a residual interest in the net assets as equity because the plan has no present obligation with respect to surplus assets to its members or an employer sponsor.

BC68 With respect to a situation where net assets attributable to defined benefit members is less than defined benefit members' accrued benefits, the AASB noted that, unless there is a specific contractual agreement between the superannuation plan and the employer sponsor, the deficiency in assets would not give rise to a receivable that is controlled by the plan. This is because, in the absence of a contract, the payment of any future contributions by the employer sponsor to address the deficiency:

(a) would not meet the definition of a financial instrument under AASB 132; and

(b) would not be virtually certain to be received by the superannuation plan, as required to recognise a 'reimbursement' under AASB 137.

BC69 The AASB concluded that, where the amount of a superannuation plan's or approved deposit fund's total assets does not equal its total liabilities (including defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors), the residual is in the nature of equity as defined in Australian Accounting Standards. Accordingly, to ensure consistency with the treatment of equity by other reporting entities, a plan or fund should classify any residual interest as equity and present the amount in accordance with applicable Australian Accounting Standards.

Income statement

BC70 The AASB considered whether a superannuation plan or approved deposit fund should present a single statement of comprehensive income or a comprehensive statement of income in accordance with AASB 101 and concluded that neither statement would be appropriate in a superannuation context because:

(a) the AASB concluded that all remeasurement changes in assets and liabilities, other than tax items that are credited or charged directly to member benefits, should be recognised in the income statement in the period in which they occur; and

(b) the term 'comprehensive income' encompasses items that would not be recognised in equity under the proposals in ED 179, including profits or losses arising from applying the equity method of accounting or cash flow hedge accounting.

Accordingly, requiring a superannuation plan or approved deposit fund to prepare a statement of comprehensive income may be misleading to some preparers and users.

Income and expense items

BC71 Under AAS 25, a superannuation plan recognises all income and expense items, including revaluation increments and decrements on assets measured at net market value, in profit or loss in the period in which they occur.

BC72 The AASB considered the merits of retaining this approach and noted that defined contribution members may choose between superannuation plans based on investment returns. In addition, some employer sponsors of defined benefit superannuation members would rely on the investment returns generated from past contributions to minimise the likelihood of them being required to make additional contributions in the future.

BC73 The AASB also noted that some Australian Accounting Standards currently require the revaluation increments and decrements attributable to some types of assets to be credited directly to equity. However, this treatment:

(a) would not facilitate a clear presentation of the performance of a superannuation plan or approved deposit fund;

(b) is inconsistent with the general practice among superannuation plans and approved deposit funds to credit unrealised gains and losses to defined contribution members; and

(c) is generally inconsistent with prudential reporting and may therefore increase reporting costs for superannuation plans and approved deposit funds.

BC74 Accordingly, the AASB concluded that all remeasurement changes in assets and liabilities other than tax items that are credited or charged directly to member benefits should be recognised in profit or loss in the period in which they occur to facilitate a clear presentation of a superannuation plan's or approved deposit fund's financial performance.

Presentation of contributions, rollovers, transfers and benefit payments

BC75 Under AAS 25, contributions, transfers and rollovers are treated as revenues, and payments to defined benefit members are treated as expenses.

BC76 The AASB considered the merits of this approach and concluded that it should not be retained because:

(a) member contributions, transfers and rollovers in relation to a defined contribution member have the characteristics of liabilities as they fully vest in the member and are payable to, or on behalf of, the member upon demand; and

(b) employer contributions on behalf of a defined contribution member have the characteristics of liabilities and employer contributions on behalf of a defined benefit member assist in funding the superannuation plan's obligations to such members and therefore have characteristics of both liabilities and equity.

To facilitate a consistent treatment of employer contributions on behalf of defined contribution and defined benefit members, the AASB concluded that ED 179 should propose that all employer contributions be treated as giving rise to liabilities of a superannuation plan.

BC77 Consistent with its conclusions in respect of contributions, the AASB concluded that benefit payments are not in the nature of expenses of a superannuation plan or approved deposit fund.

Net benefits allocated to defined contribution members' accounts

BC78 Under AAS 25, the difference between a defined contribution superannuation plan's revenues and expenses is presented in the plan's operating statement as benefits accrued for the plan's members and their beneficiaries during the reporting period.

BC79 The AASB considered the merits of this approach and noted that it could be interpreted by some users to mean that all revenues and expenses attributable to defined contribution members are allocated to their accounts and therefore vest in such members. However, this might not be the case where, for example, a trustee creates a reserve of unallocated assets by charging defined contribution members' accounts a set amount per period for administration services which is greater than the amount of administration expenses incurred by the plan or fund for the period in respect of such members. In these circumstances, the amount of profit recognised for the period would be greater than the amount of net benefits allocated to such members' accounts during the period.

BC80 The AASB also noted that:

(a) other Australian Accounting Standards that permit or require liabilities to be remeasured, generally require any remeasurement changes to be recognised as gains or losses in profit or loss in the period in which the change occurs. For example, under AASB 137, changes in provisions are recognised as gains or losses in profit or loss in the period in which they occur; and

(b) it had concluded that most of a superannuation plan's or approved deposit fund's assets and other liabilities should be measured at fair value adjusted for transaction costs, and any remeasurement changes in these assets and liabilities should be recognised as gains or losses in the income statement in the period in which the changes occur.

BC81 Accordingly, in the interests of having information that can provide users with an understanding of the net benefits allocated to defined contribution members' accounts, and consistent with the treatment of remeasurement changes in liabilities required by some other Australian Accounting Standards and the AASB's conclusions with respect to the treatment of most other superannuation assets and liabilities, the AASB concluded that a superannuation plan or approved deposit fund should recognise and present the net benefits allocated to defined contribution members' accounts for a reporting period as a gain or loss in the income statement for the period.

Net changes in defined benefit members' accrued benefits

BC82 Under AAS 25, a defined benefit superannuation plan that measures its members' accrued benefits at the end of each reporting period is permitted (but not required) to recognise the remeasurement change in members' accrued benefits for the period as an expense in the operating statement. In contrast, a defined benefit superannuation plan that does not measure its members' accrued benefits at the end of each reporting period would disclose in the notes the amount of members' accrued benefits at the most recent measurement date and the amount of such benefits at the previous measurement date.

BC83 The AASB considered the merits of this approach and noted that:

(a) it does not facilitate the provision of comparable information that is useful for users making decisions in a superannuation context. For example, under AAS 25, defined benefit superannuation plans that are similar in all significant respects could prepare their financial statements on different bases;

(b) it had concluded that, in the interests of providing users with useful information on a timely basis, and consistent with the treatment of similar types of obligations, such as insurance contracts, a superannuation plan should recognise obligations for defined benefit members' accrued benefits as a liability and measure defined benefit members' accrued benefits at the end of each reporting period;

(c) other Australian Accounting Standards that permit or require liabilities to be remeasured generally require any remeasurement changes to be recognised as gains or losses in profit or loss in the period in which the change occurs; and

(d) it had concluded that most of a superannuation plan's or approved deposit fund's assets and other liabilities should be measured at fair value adjusted for transaction costs, and any remeasurement changes in these assets and liabilities should be recognised as gains or losses in the income statement.

BC84 However, the AASB also noted that, unlike many other types of liabilities, defined benefit members' accrued benefits are funded, at least in part, by contributions from the employers of such members and the defined benefit members themselves. Consequently, the cost to a superannuation plan of providing defined benefit entitlements for a reporting period is the net rather than the gross change in the plan's obligations for defined benefit members' accrued benefits for the period. The net change in defined benefit members' accrued benefits for a reporting period is the difference between the opening and closing balances of members' accrued benefits for the period, after adjusting for movements of member benefits into and out of accrued benefits, including net after tax contributions received and receivable, benefits paid and payable and transfers between reserves and accrued benefits. Accordingly, the AASB concluded that a superannuation plan should recognise and present the net change in defined benefit members' accrued benefits for a reporting period as a gain or loss in the income statement for the period.

Statement of changes in member benefits

BC85 The AASB noted that paragraph 80 of AASB 101 requires an entity without share capital to disclose information in relation to owners' interests equivalent to that required by paragraph 79(a) of AASB 101. However, the AASB concluded that the presentation of member benefits in accordance with paragraph 79(a) of AASB 101 may not facilitate the provision of useful information to users of the financial statements of a superannuation plan or approved deposit fund. For example, many of the items of information described in paragraph 79(a) of AASB 101 do not have readily identifiable equivalents in the context of a superannuation plan with defined benefit members.

BC86 The AASB concluded that, given the significance of member benefits, the financial statements of a superannuation plan or approved deposit fund should clearly present information that provides users with a basis for understanding changes in a plan's or fund's obligations for member benefits. The AASB also concluded that a statement of changes in member benefits is necessary to ensure that contributions, transfers, rollovers and benefit payments are separately presented in the financial statements in a manner that enables users to evaluate their significance in relation to the plan's or fund's obligations for member benefits.

Presentation of taxation amounts

BC87 Tax is levied on a superannuation plan in respect of:

(a) concessional contributions received; and

(b) taxable earnings.

Tax is normally only levied on the earnings of approved deposit funds because these entities are not permitted to receive concessional contributions.

BC88 Under AAS 25, tax attributable to concessional contributions is recognised as a part of income tax expense in the period in which the contributions are received. This approach is consistent with the treatment of contributions under AAS 25. However, as noted above, the AASB concluded that the presentation of contributions as revenues should not be retained under the proposed Standard.

BC89 The AASB considered the nature of tax levied on concessional contributions and concluded that it should be presented separately in the statement of changes in member benefits because:

(a) information in relation to tax on contributions is important for decision making by users;

(b) tax on concessional contributions is effectively paid by the superannuation plan on behalf of members making the contributions, and is therefore more appropriately associated with member benefits; and

(c) recognising tax on contributions as a part of income tax expense attributable to a superannuation plan's earnings would understate the plan's operating and investment performance.

BC90 The AASB also considered the treatment of amounts attributable to the superannuation contributions surcharge (the surcharge). The AASB noted that, under UIG Interpretation 1019 *The Superannuation Contributions Surcharge*, an obligation for the surcharge gives rise to a liability and an expense of a superannuation plan. The AASB also noted that, while the surcharge no longer applies to deductible contributions, the surcharge will continue to be paid by defined benefit members who have made surchargeable contributions or who had surchargeable contributions made on their behalf between 1996 and 2005 and the surcharge has not yet been paid. Accordingly, under UIG Interpretation 1019, any accrued interest on a surcharge amount payable is treated as an expense by the plan.

BC91 The AASB considered the nature of the surcharge and concluded that, while the relevant legislation places the obligation for the payment of the surcharge on a superannuation provider such as a superannuation plan, the plan is essentially acting as an agent for its members in this respect because the surcharge was determined on the basis of surchargeable contributions of a member whose personal taxable income exceeds a certain specified threshold. The AASB also concluded that, in many circumstances, contribution surcharge amounts would not be material in the context of a plan's obligations for member benefits.

BC92 The AASB noted that the notion that a superannuation plan is essentially acting as an agent for its members in respect of contribution surcharge amounts is inconsistent with the current treatment under UIG Interpretation 1019. Accordingly, the AASB concluded that, when it has completed its deliberations on ED 179, it will reconsider the status of UIG Interpretation 1019.

Consolidated Financial Statements

BC93 The proposal that a superannuation plan or approved deposit fund fair value most of its assets and liabilities raises a number of significant conceptual and practical issues in the context of the current consolidation requirements. For example, the application of AASB 3 and AASB 127 in the context of a fair value accounting model would cause some entities to breach the requirements of AASB 138 *Intangible Assets* in relation to the recognition of internally generated goodwill. However, the failure to recognise internally generated goodwill when it exists could impact on the decisions of users, particularly members and beneficiaries, in relation to a parent plan's or parent fund's capacity to pay benefits.

BC94 The AASB considered a number of different ways in which a parent superannuation plan or parent approved deposit fund could treat a subsidiary, including:

(a) the presentation of consolidated financial statements prepared in accordance with a full fair value accounting model that involves all assets and liabilities, whether recognised or unrecognised in the separate financial statements of the parent or a subsidiary, to be measured at their fair values;

(b) the presentation of consolidated financial statements prepared in accordance with a model that involves all assets and liabilities recognised by a subsidiary being measured at their fair values in the consolidated financial statements when fair value measurement is required or permitted under the relevant Australian Accounting Standards (consistent with the approach currently applied under AASB 1023 and AASB 1038);

(c) the presentation of consolidated financial statements prepared in accordance with (b) with the addition, when applicable, of a balancing item in relation to subsidiaries being recognised in consolidated financial statements [similar to the approach previously required under AASB 1038 *Life Insurance Business* (1998)]. That balancing item would comprise:

    (i) acquired goodwill, to the extent that it remains at the end of the reporting period;

    (ii) changes in internally generated goodwill associated with subsidiaries subsequent to their acquisition; and

    (iii) measurement differences resulting from subsidiaries' assets and liabilities being recognised in consolidated financial statements at amounts other than their fair values adjusted for transaction costs;

(d) the presentation of consolidated financial statements prepared in accordance with AASB 3 and AASB 127. Under AASB 3 and AASB 127, a subsidiary's identifiable assets and liabilities are recognised in the consolidated financial statements at their fair values at the date of acquisition of the subsidiary. Subsequent to their acquisition, a subsidiary's assets and liabilities would be recognised in the consolidated financial statements in accordance with relevant Australian Accounting Standards, which treat the fair value of an asset or a liability acquired in a business combination as the cost of the item from the date of the subsidiary's acquisition for the purposes of subsequent accounting;

(e) the presentation of consolidated financial statements prepared in accordance with a proportionate consolidation model that ensures the net assets figures reported in the parent's separate and consolidated financial statements are the same amount; and

(f) the recognition of an entity's interest in a subsidiary at its fair value less transaction costs in its separate financial statements and the provision of detailed note disclosures regarding each significant subsidiary instead of the presentation of consolidated financial statements (a 'disclosure only' approach).

BC95 The AASB concluded that (e) – a proportionate consolidation model, is not an appropriate reporting approach because it is inconsistent with:

(a) the concept of control as defined in Australian Accounting Standards; and

(b) the economic entity notion.

BC96 The concept of control and the economic entity notion are integral parts of the current financial reporting regime. Accordingly, the AASB considered any movement away from either of these precepts would seriously undermine the usefulness of financial statements.

BC97 The AASB also concluded that a 'disclosure only' approach is not an appropriate reporting solution for a number of reasons, including:

(a) under Australian Accounting Standards, all resources an entity controls and all present obligations held by an entity are required to be recognised in the entity's general purpose financial statements;

(b) presenting a subsidiary as a net investment in the statement of financial position of an entity provides insufficient information to users about the financial performance and financial position of the subsidiary and the group as a whole;

(c) the disclosure of items that would otherwise be recognised in the financial statements is inconsistent with other Australian Accounting Standards; and

(d) the provision of note disclosures as opposed to consolidated financial statements may not necessarily produce reliable or comparable financial information.

BC98 To assist it in its deliberations in relation to the ways in which a parent superannuation plan or parent approved deposit fund could consolidate a subsidiary, the AASB issued the Consultation Paper *Consolidation of Subsidiaries by Superannuation Entities* in September 2007 and sought feedback from constituents on the issues discussed in the Consultation Paper. The AASB also held roundtable meetings to enable constituents to discuss issues in relation to the consolidation of subsidiaries by parent superannuation entities directly with AASB members.

BC99 The Consultation Paper discussed the consolidation models outlined in paragraph BC94(a) to (d) above. Of these four models, the overwhelming majority of respondents, including the participants at the roundtable discussions, expressed a preference for (a) – a full fair value accounting model. However, many respondents expressed significant reservations with the proposal to measure defined benefit members' accrued benefits at fair value. In addition, the overwhelming majority indicated that (d) – application of AASB 3 and AASB 127, is the least preferred of the four approaches discussed in the paper. This is because it would cause some parent superannuation plans and parent approved deposit funds to recognise a difference in the net assets figures reported in its separate and consolidated statements of financial position, thereby potentially impacting on members' perceptions about their entitlements

BC100 The AASB considered the needs of users of the financial statements of a parent superannuation plan or parent approved deposit fund and concluded that they would be best served by the parent plan or parent fund:

(a) recognising in its consolidated statement of financial position all assets and liabilities of a subsidiary, whether recognised or unrecognised in the statement of financial position of the subsidiary; and

(b) measuring all of the assets and liabilities of a subsidiary (except for tax balances) at fair value adjusted for transaction costs.

BC101 The AASB noted that, apart from the recognition of transaction costs, the approach described above is the same as the approach a parent superannuation plan or parent approved deposit fund would follow in preparing consolidated financial statements in accordance with AASB 3 on a subsidiary's acquisition date. The AASB also noted that this approach would:

(a) ensure that the financial statements of a parent plan or parent fund are prepared in a manner consistent with the way in which the financial statements of a plan or fund that has no subsidiaries are prepared; and

(b) facilitate the disclosure of information that would provide users of consolidated financial statements with an understanding of the assets and liabilities that comprise a parent plan's or parent fund's interest in a subsidiary.

BC102 However, the AASB also concluded that requiring a parent superannuation plan or parent approved deposit fund to recognise and measure at fair value adjusted for transaction costs at the end of each reporting period items such as internally generated brands, customer lists and items similar in substance, internally generated goodwill and contingent items that are attributable to the subsidiary and arise subsequent to the subsidiary's acquisition may be difficult to apply in practice and impose significant preparation costs on some parent plans and parent funds.

BC103 The AASB noted that the potential benefits derived by users from a parent superannuation plan or parent approved deposit fund separately recognising all of a subsidiary's assets and liabilities may not exceed the costs of providing such information. For example, the separate recognition and measurement of all assets of a subsidiary would involve identifying and measuring internally generated intangible assets at the end of each reporting period. Accordingly, the AASB concluded that a parent plan or parent fund should:

(a) recognise in its consolidated statement of financial position all of the assets and liabilities of a subsidiary in accordance with Australian Accounting Standards; and

(b) measure all of a subsidiary's assets and liabilities except for tax balances at their fair values adjusted for transaction costs at the end of each reporting period. Tax balances should be measured in accordance with AASB 112.

BC104 The AASB also concluded that ED 179 should ask constituents whether the replacement Standard for AAS 25 should permit or require a parent superannuation plan or parent approved deposit fund to separately recognise any internally generated intangible assets, internally generated goodwill or contingent items that are attributable to the subsidiary and have arisen subsequent to the subsidiary's acquisition by the plan or fund when such items are reliably measurable.

Recognition and measurement of goodwill or remeasurement gain on consolidation

BC105 The AASB considered how any difference between the sum of a parent superannuation plan's or parent approved deposit fund's interest and the non-controlling interests in a subsidiary at the end of the reporting period and the amount of the net assets of the subsidiary that are recognised by the parent plan or parent fund at the end of the reporting period should be treated. The AASB concluded that:

(a) any excess of the sum of the parent's interest and non-controlling interests in a subsidiary over the amount of the net assets of the subsidiary recognised by the parent should be recognised and presented as goodwill in the consolidated statement of financial position at the end of the reporting period. This is because the excess would normally arise as a consequence of the subsidiary holding assets that are not capable of being individually identified and separately recognised under other Australian Accounting Standards; and

(b) any excess of the amount of the net assets of a subsidiary recognised by the parent over the sum of the parent's interest and non-controlling interests in the subsidiary should be treated as a remeasurement gain and recognised in the consolidated income statement in the period in which it occurs. This is because this treatment:

    (i) is consistent with the approach under AASB 3; and

    (ii) facilitates a clear presentation of the performance of the subsidiary and the economic entity in the context of the proposals in ED 179.

BC106 An excess in the amount of a subsidiary's net assets recognised by the parent over the sum of the parent's interest and non-controlling interests in the subsidiary may arise subsequent to the subsidiary's acquisition by its parent as a consequence of the subsidiary's recognised and identifiable net assets changing at a differential rate from the parent's and non-controlling interests in the subsidiary.

BC107 The AASB considered the implications of an excess in the amount of a subsidiary's net assets recognised by the parent over the sum of the parent's interest and non-controlling interests in the subsidiary being treated in a manner symmetrical to the treatment of goodwill. The AASB noted that such an approach would necessitate the excess being treated as either a liability or as a 'negative' asset and concluded that neither treatment is appropriate because:

(a) the excess might not be in the nature of a liability; and

(b) to recognise the excess as a 'negative' asset would be inconsistent with the definition of an asset in the *Framework*.

The AASB also noted that, if such an excess was treated as a liability or a 'negative' asset, the remeasurement change in respect of the subsidiary's net assets that would be recognised in the consolidated income statement would be less than the equivalent amount recognised by the subsidiary in its own accounts under the proposals in ED 179. Accordingly, the AASB concluded that it is necessary to propose that any excess in the amount of a subsidiary's net assets recognised by the parent over the sum of the parent's and non-controlling interests in the subsidiary be treated as a remeasurement gain to prevent the investment performances of some subsidiaries being understated in the parent superannuation plan's or parent approved deposit fund's consolidated income statement.

Measurement of non-controlling interests

BC108 The AASB considered whether to permit a parent superannuation plan or parent approved deposit fund to measure any non-controlling interests in its subsidiaries at fair value. The AASB noted that AASB 127 permits parents to measure any non-controlling interests in their subsidiaries at fair value on the date of acquisition, but does not permit fair value measurement subsequent to the date of acquisition. The AASB also noted that the consolidation model underlying AASB 127 is essentially a cost-based model, whereas the model underlying ED 179 is predominantly fair value in nature. Accordingly, the AASB concluded that, to be consistent with the principles underlying ED 179, a parent plan or parent fund should be permitted to measure any non-controlling interests in a subsidiary at fair value of equity at the end of each reporting period. The AASB also concluded that ED 179 should seek input from constituents about whether a parent plan or parent fund should be permitted or required to measure non-controlling interests at fair value of equity at the end of each reporting period.

Separate Financial Statements

BC109 Consistent with AASB 127, a parent superannuation plan or parent approved deposit fund is not required to present separate financial statements in addition to its consolidated financial statements. The AASB considered whether there is any information that a user of the general purpose financial statements of a parent plan or parent fund might need that is not available in consolidated financial statements and concluded that consolidated financial statements would normally provide such users with the information they need in a superannuation context. However, if a parent plan or parent fund prepares separate financial statements for general purpose users of its financial statements, the AASB concluded that the entity presumably considers this information necessary for an understanding of the reported results of the group. Accordingly, the AASB concluded that ED 179 should propose that a parent plan or parent fund that prepares separate financial statements for general purpose users should present such statements together with its consolidated financial statements.

Disclosures

BC110 As prescribed by the *Framework*, financial statement disclosures provide information about the risks and uncertainties affecting an entity. In some circumstances, the disclosure requirements of Australian Accounting Standards might provide some users with useful information. However, many disclosure principles and requirements of Australian Accounting Standards do not facilitate the provision of information that users, particularly members and beneficiaries, would consider useful for decision making in a superannuation context. For example:

(a) AASB 116 *Property, Plant and Equipment* requires an entity that applies the revaluation model to disclose the carrying amount of each revalued class of property, plant and equipment that would have been recognised had the assets been carried under the cost model. However, there are very few circumstances in which users of the financial statements of a superannuation plan or approved deposit fund might require historical cost information for decision making; and

(b) information disclosed in accordance with Australian Accounting Standards may vary with respect to different types of assets, particularly in relation to the methods and assumptions applied in determining fair values.

BC111 Accordingly, ED 179 proposes a set of disclosure principles that facilitate the provision of information that:

(a) is consistent and comparable across the different types of assets and liabilities that a superannuation plan or approved deposit fund might hold; and

(b) users, particularly members and beneficiaries, would consider useful for decision making in a superannuation context.

BC112 The following section discusses the AASB's conclusions in relation to the key proposed disclosure principles.

Disclosure principles

Expense items

BC113 Most defined contribution members have the ability to choose the superannuation plan or plans that will manage their retirement benefits. However, to make such decisions, members need to be able to compare plans, particularly with respect to expenses. Because defined contribution members bear the costs associated with the management of their retirement benefits, the level of a plan's expenses can provide a basis for understanding the level of fees that might be charged to members' accounts.

BC114 Employer sponsors may also be interested in understanding the nature and amount of expenses incurred by a superannuation plan. For example, in attempting to identify a default plan for employees with defined contribution arrangements, an employer might consider cost to be the decisive factor.

BC115 In the context of defined benefit arrangements, employer sponsors are likely to have a keen interest in understanding the nature and amount of the expenses incurred by their employees' superannuation plans. This is because employer sponsors generally bear the costs of providing such arrangements.

Management expense ratio

BC116 The AASB considered whether a superannuation plan or approved deposit fund should be required to disclose a management expense ratio for the entity as a whole. The AASB concluded that ED 179 should not propose that such a ratio be disclosed because a key focus of Australian Accounting Standards is on facilitating the provision of reliable information from which users can calculate ratios, including management expense ratios, which they regard as useful for their particular needs. The AASB is also concerned that an entity-wide ratio may be unhelpful to users in cases where a plan offers a variety of investment choices that carry a variety of management expenses.

Nature, extent and management of risks

BC117 The AASB considered the merits of a superannuation plan or approved deposit fund applying AASB 7 *Financial Instruments: Disclosures* and concluded that some of the specific disclosure requirements of this Standard are either not relevant in a superannuation context or would not apply under the proposals in ED 179. For example:

(a) a superannuation plan or approved deposit fund would not be permitted to issue a compound financial instrument with multiple embedded derivatives; and

(b) under ED 179, a superannuation plan or approved deposit fund is required to measure most of its assets and liabilities at fair value adjusted for transaction costs and recognise remeasurement changes in assets and liabilities measured at fair value in the income statement. In addition, ED 179 proposes that, when appropriate, a plan or fund disclose information in relation to those items not measured at fair value, such as member benefits and obligations and assets arising from insurance contracts.

BC118 The AASB also concluded that some of the requirements of AASB 7 would be costly for a superannuation plan or approved deposit fund to apply and would not yield information that users would regard as necessary in a superannuation context. Furthermore, some of these requirements have been drafted to address particular issues that are not pertinent in a superannuation context.

BC119 The Bases for Conclusions to IAS 32, IAS 39 and IFRS 7 *Financial Instruments: Disclosures* suggest that paragraphs 9-11 of AASB 7 were adopted to address concerns among some constituents about the manner in which some entities would exercise their choice to designate financial instruments at fair value through the profit or loss. However, the issues that these paragraphs address are less relevant in a superannuation context because:

(a) ED 179 proposes that a superannuation plan or approved deposit fund measure most of its assets and liabilities at fair value; and

(b) superannuation plans and approved deposit funds do not generally make loans and are prohibited from holding a borrowing directly. Accordingly, accounting mismatches in relation to related loans and liabilities are less relevant to a superannuation plan or approved deposit fund than they would be to, for example, a bank.

BC120 Having considered the types of risks to which a superannuation plan or approved deposit fund could be exposed, the AASB concluded that:

(a) the disclosure requirements in paragraphs 6-30 of AASB 7 should not apply to a plan or fund; and

(b) disclosure principles based on paragraphs 31-42 of AASB 7 and tailored for a superannuation context would facilitate the disclosure of necessary information in relation to the significant risks to which a plan or fund is exposed.

Arrangement and management of assets

BC121 Information in relation to the way in which a superannuation plan or approved deposit fund arranges and manages assets attributable to different groups of members, and the related obligations to those members, can provide users with a basis for understanding the financial performance and financial position of the entity as a whole. It can also facilitate an understanding of the particular risks to which a plan or fund is exposed.

BC122 The AASB considered the different ways in which a superannuation plan or approved deposit fund could arrange and manage its assets and related obligations to members and concluded that the 'through the eyes of management' approach applied under AASB 8 *Operating Segments* to operating segments provides an appropriate basis for disclosures when a plan or fund manages its assets on a 'segregated' basis.

BC123 The AASB noted that the application of a 'through the eyes of management' approach would facilitate the provision of information that corresponds to the information provided in internal management reports for managing a superannuation plan or approved deposit fund. The AASB also noted that a 'through the eyes of management' approach is generally less costly to apply than alternative approaches because it uses information that is generated internally for management's use.

BC124 The AASB concluded that, although superannuation plans and approved deposit funds are not required to apply AASB 8 under the proposals in ED 179, the 'through the eyes of management' approach applied under AASB 8 to operating segments is an appropriate approach for a plan or fund to apply in respect of the disclosure of information about assets attributable to different groups of members and the related obligations to those members because:

(a) while plans and funds generally do not have identifiable operating segments, some plans and funds segregate their assets into different groups to facilitate meeting their obligations to different groups of members. In these circumstances, users would arguably benefit from these plans and funds disclosing information about such groups of assets and the related member obligations that corresponds to the information provided in management reports;

(b) the approach is sufficiently generic to be applied in respect of the disclosure of information about assets attributable to different groups of members; and

(c) the approach is consistent with that proposed in respect of other disclosures, such as disclosures about risks and risk management arrangements.

Expected rates of return

BC125 The AASB considered whether a superannuation plan or approved deposit fund should be required to disclose its expected rates of return. The AASB noted that other Accounting Standards do not typically require forward-looking forecasts of future returns. Accordingly, the AASB concluded that ED 179 should not propose that expected rates of return be disclosed. The AASB also noted that requiring expected rates of return to be disclosed in the context of member investment choice is arguably inconsistent with the economic entity notion, which is an integral part of the current financial reporting regime.

Member benefits

BC126 The nature and timing of an obligation to a defined contribution member differs from the nature and timing of an obligation to a defined benefit member. As these differences are likely to affect a user's understanding of an entity's obligations for member benefits, the AASB concluded that a superannuation plan or approved deposit fund should disclose information that provides users with a basis for understanding the entity's obligations for member benefits.

Vested benefits

BC127 AAS 25 requires a superannuation plan to disclose defined benefit members' vested benefits at the end of the reporting period. The AASB considered the merits of continuing to require a superannuation plan to disclose information in relation to defined benefit members' vested benefits and concluded that vested benefits is useful information to users because:

(a) items that may be regarded as equivalent to vested benefits are reported by other entities. For example, 'demand deposits' are reported by banks and other deposit-taking entities; and

(b) vested benefits may be regarded as akin to the current portion of a superannuation plan's obligations for defined benefit members' accrued benefits. AASB 101 requires separate presentation of current and non-current liabilities in the statement of financial position.

Accordingly, ED 179 proposes that a superannuation plan disclose defined benefit members' vested benefits at the end of each reporting period.

Net assets attributable to defined benefit members

BC128 At any point in time, the amount of net assets attributable to defined benefit members may not equal such members' accrued benefits. However, the existence of such a difference does not necessarily imply that the superannuation plan will or will not be able to pay these members or their beneficiaries their benefits when due. Other factors can influence the capacity of a plan to pay its defined benefit members or their beneficiaries their benefits, including the expected earnings rate on the net assets attributable to such members and the expected level of future contributions by defined benefit members and/or their employer sponsors. Nevertheless, as the relationship between the net assets attributable to defined benefit members and such members' accrued benefits is important for an understanding of a plan's financial position (solvency), the AASB concluded that information about the size, nature, causes of and any strategies for addressing a surplus or deficiency of assets attributable to defined benefit members would be a matter of profound interest to defined benefit members and employer sponsors alike.

Remeasurement changes in defined benefit members' accrued benefits

BC129 The AASB considered whether separately disclosing the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would provide users with useful information. The AASB noted that some users might consider the amount of benefit cost for a period to be useful information as it provides an indication of the recurring cost to the superannuation plan of providing defined benefit entitlements. The AASB also noted that some users might consider the amount of any actuarial gains and losses for a period to be useful information as it provides an indication how accurately the superannuation plan has predicted the key determinants of defined benefit members' accrued benefits. However, the AASB also noted that information about the components of remeasurement changes in defined benefit obligations might be regarded as relatively more useful in an employer sponsor context because AASB 119 requires only a portion of any actuarial gains and losses for a period to be recognised in the profit or loss. In contrast, the AASB concluded that a plan should recognise and present the net change in defined benefit members' accrued benefits for a reporting period, which comprises the total actuarial gains and losses for the period, as a gain or loss in the income statement for the period. Accordingly, the AASB concluded that ED 179 should ask constituents whether the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits would provide useful information for users and, if so, how this information should be presented.

Related parties

BC130 While the disclosure principles and requirements of AASB 124 *Related Party Disclosures* would apply to most of the related party relationships and transactions that a superannuation plan or approved deposit fund would be involved in, it may not facilitate consistent disclosures across all superannuation plans and approved deposit funds.

BC131 The definition of related party in AASB 124 focuses predominantly upon relationships premised on control, joint control or significant influence. However, in a superannuation context:

(a) trustees are not considered to control or significantly influence their superannuation plans or approved deposit funds; and

(b) employer sponsors are not considered to control or significantly influence trustees, superannuation plans or approved deposit funds.

BC132 However, the AASB concluded that trustees and employer sponsors are, in essence, related parties of superannuation plans and approved deposit funds because they can affect their plan's or fund's financing and operating policies. For example, by having surplus assets paid to it, an employer sponsor could affect their plan's financing policies. In addition, a trustee could alter their plan's operating policies by deciding to outsource the administration of members' accounts.

BC133 At the time of its deliberations on the disclosure of related party information by a superannuation plan or approved deposit fund, the AASB noted that the IASB had proposed that IAS 24 *Related Party Disclosures* be amended to clarify that a sponsoring employer is a related party of a post-employment benefit plan. However, the AASB concluded that, to facilitate the disclosure of useful related party information, ED 179 should propose that a superannuation plan or approved deposit fund only disclose related party information about its relationships with its trustees and employer sponsors, any transactions with trustees or employer sponsors during the reporting period, and any outstanding balances with trustees and employer sponsors at the end of the reporting period, if the nature of these relationships, transactions or balances were not considered 'normal' in a superannuation context. Consistent with the principles in AASB 124, normality would be judged according to whether information in relation to the relationship, transaction or balance was likely to affect a user's perception of the governance, financial performance or financial position of the entity. The AASB also concluded that the related party disclosure principles and requirements in any replacement Standard for AAS 25 should reflect the status of AASB 124 at that time.