**AASB Exposure Draft** **ED 223**

December 2011

# Superannuation Entities

Comments to the AASB by 30 April 2012

**Australian Government**

**Australian Accounting Standards Board**

## Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 30 April 2012.
Comments should be addressed to:

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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential.  The latter will occur only if the public interest warrants such treatment.

## 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:

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Appendices:



[Draft] Australian Accounting Standard AASB 10XX *Superannuation Entities* is set out in paragraphs 1 – 46 and Appendices A – C. 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 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

## Introduction

### 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.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements 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.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs.[1] Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

1 For the reasons identified in paragraphs BC4 to BC14 of the Basis for Conclusions on AASB 10XX, this would not be the case for superannuation entities reporting under the proposals in this Exposure Draft (in the event that superannuation entities are regarded as being for-profit entities).

Tier 2 requirements comprise the recognition, measurement and presentation requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

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. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. 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.

### Exposure Drafts

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

## Reasons for Issuing this Exposure Draft

The AASB considered a comprehensive review of the general purpose financial reporting requirements applicable to superannuation entities is necessary in light of developments in the superannuation industry since AAS 25 *Financial Reporting by Superannuation Plans* was originally promulgated and the introduction of IFRSs.

In May 2009, the AASB published ED 179 *Superannuation Plans and Approved Deposit Funds*, containing proposals for a replacement Standard for AAS 25.

The AASB received 20 comment letters on the proposals in ED 179 and conducted roundtable discussions with constituents with an interest in the superannuation industry. Most respondents and roundtable participants expressed broad support for the AASB developing a replacement Standard for AAS 25 that substantially aligns reporting by superannuation entities with other entities applying Australian Accounting Standards; that is, it does not propose unique treatments for superannuation entities. Many of those commenting also expressed concerns with one or more of the proposals in ED 179, particularly on cost-benefit grounds. In light of constituents' feedback, this Exposure Draft includes amendments to a number of the ED 179 proposals, including those relating to:

(a) preparing and presenting consolidated financial statements on a basis more consistent with AASB 3 *Business Combinations* and AASB 10 *Consolidated Financial Statements*;

(b) measuring any liabilities arising from insurance arrangements provided to members in accordance with the approach in AASB 119 *Employee Benefits* for defined benefit obligations;

(c) not adjusting for transaction costs for those assets and liabilities at fair value,

(d) disclosing information about the nature, extent and management of financial risks more in line with AASB 7 *Financial Instruments: Disclosures*; and

(e) making disaggregated financial disclosures more in line with AASB 8 *Operating Segments*.

While this Exposure Draft has the same broad objectives as those underlying ED 179, the AASB concluded that the revised proposals are sufficiently different from those in ED 179 to warrant public re-exposure.

## Main Features of this Exposure Draft and Comparison with AAS 25

This section highlights the main features of this Exposure Draft and is not a comprehensive summary of the proposals.

AAS 25 requires superannuation entities to apply, where appropriate, Australian Accounting Standards, but with some significant exceptions. ED 179 proposed fewer exceptions than AAS 25, and this Exposure Draft proposes fewer again. In particular, this Exposure Draft has fewer exceptions than ED 179 in respect of consolidation, insurance arrangements and disclosure. The differences between this Exposure Draft and ED 179 are dealt with in some detail in the context of the Basis for Conclusions.

The following provides a high-level comparison of the proposals in this Exposure Draft with the requirements of AAS 25.

## Tier 1 General Purpose Financial Statements

Earlier in this Preface it is noted AASB 1053 introduced two tiers of general purpose financial statements (GPFSs). ED 179 was issued before AASB 1053.

AASB 1053 specifically deems superannuation plans regulated by the Australian Prudential Regulation Authority (APRA), other than Small APRA Funds,[2] to be entities that have public accountability. Accordingly, those APRA-regulated superannuation plans prepare Tier 1 GPFSs. This Exposure Draft has no specific proposals as to whether there might be superannuation entities that would qualify instead to present Tier 2 GPFSs because the AASB considers it needs further input from constituents on the matter – refer to Specific Matters for Comment (a).

AAS 25 requires superannuation plans that are 'reporting entities' to present GPFSs, and comments that the following would not normally be identified as reporting entities:

- single member plans;
- plans where members are employed by entities other than public companies, and the members and the owners of the employer are an identical group.

## Consolidated and Separate Financial Statements

This Exposure Draft proposes a superannuation entity that is a parent must present consolidated financial statements and a parent choosing to present separate financial statements must present them with the consolidated financial statements.[3] Although not specifically stated, under AAS 25, superannuation entities must apply AASB 127 *Consolidated and Separate Financial Statements*.

The AASB noted that the IASB has released ED/2011/4 *Investment Entities*[4], which proposes that 'investment entities' account for subsidiaries at fair value through profit or loss, rather than consolidating them. The AASB would need to consider the impact on superannuation entities of any requirements that may result from ED/2011/4.

2 As defined by APRA Superannuation Circular No. III.E.1 *Regulation of Small APRA Funds,* December 2000.
3 AASB 10 *Consolidated Financial Statements* and AASB 127 *Separate Financial Statements* would apply to periods beginning on or after 1 January 2013.
4 ED/2011/4 *Investment Entities* (August 2011) is open for comment by 5 January 2012. ED/2011/4 is incorporated in AASB ED 220 *Investment Entities*.

## Financial Statements

This Exposure Draft proposes that superannuation entities present:

- a statement of financial position;
- an income statement;
- a statement of changes in equity, where relevant;
- a statement of cash flows;
- a statement of changes in member benefits.

AAS 25 requires a defined contribution plan, and permits a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows. Alternatively, defined benefit plans can present a statement of net assets and a statement of changes in net assets.

## Measurement

This Exposure Draft proposes the measurement approach of "fair value through the income statement" with exceptions. The exceptions are member benefits, tax balances, acquired goodwill and amounts relating to insurance arrangements. The exceptions do not include acquired intangible assets. Accordingly, they would be measured and remeasured at fair value (with fair value changes recognised in the income statement), which would be a departure from AASB 3 *Business Combinations* and AASB 138 *Intangible Assets*.

AAS 25 requires assets and financial liabilities to be measured at net market values.

## Member Benefits

This Exposure Draft proposes that obligations for defined contribution vested benefits be recognised as liabilities and measured at the amount payable on demand. It also proposes that obligations for defined benefit accrued benefits be recognised as liabilities and measured using the 'projected unit credit method' in accordance with the approach in AASB 119 *Employee Benefits* for defined benefit obligations.

AAS 25 requires accrued benefits of defined contribution plans to be determined as the difference between assets and 'other' liabilities. It requires accrued benefits of defined benefit plans to be determined as the present value of expected future payments (remeasured at least once each three years).

## Tax Balances

This Exposure Draft proposes that tax balances be recognised and measured in accordance with AASB 112 *Income Taxes*.

AAS 25 requires the application of[5] AASB 112.

## Goodwill and Non-controlling Interests

This Exposure Draft proposes that AASB 3, AASB 10 *Consolidated Financial Statements* and AASB 136 *Impairment of Assets* be applied in recognising and measuring goodwill and non-controlling interests, with the latter required to be initially measured at fair value under AASB 3.[6]

AAS 25 does not explicitly deal with this topic.

## Insurance Arrangements

This Exposure Draft proposes that liabilities arising from insurance arrangements provided to members (whether defined contribution or defined benefit) be recognised and measured in accordance with the approach in AASB 119 for defined benefit obligations, and any reinsurance assets be recognised in accordance with AASB 1038 *Life Insurance Contracts*.

AAS 25 does not deal with insurance arrangements provided to members other than in the context of a plan that purchases insurance policies that match and guarantee benefits to members.

## Changes in Assets and Liabilities

This Exposure Draft proposes that the following be presented as gains and losses in the income statement:

- changes in assets and liabilities measured at fair value;
- changes in liabilities arising from insurance arrangements provided to members and changes in reinsurance assets;

5 By virtue of the requirements for superannuation entities to apply Australian Accounting Standards except to the extent AAS 25 differs from those Standards.
6 Accordingly, the option under AASB 3 to measure a non-controlling interest at a proportionate share of the recognised amounts of the acquiree's identifiable net assets would not be available to superannuation entities.

- net benefits allocated to member accounts; and
- net change in defined benefit members' accrued benefits.

This Exposure Draft also proposes that current and deferred tax be charged directly to member benefits and presented in the statement of changes in member benefits when relevant.

AAS 25 requires changes in the net market value of assets and financial liabilities to be included as a component of revenue. Contributions from employers and members are accounted for as revenue.

## Statement of Changes in Member Benefits

This Exposure Draft proposes presenting a statement of changes in member benefits that includes the following:

- contributions, rollovers and transfers from employers and members;
- income tax on contributions;
- benefits paid/payable;
- investment income; and
- fees.

AAS 25 does not require a statement of changes in member benefits.

## Equity

This Exposure Draft envisages that a difference may exist between total assets and liabilities (including member benefits and any obligations to employer sponsors) that would be presented as equity in the statement of financial position. Furthermore, a statement of changes in equity would be presented when relevant.

AAS 25 does not explicitly deal with this topic.

## Disclosure

This Exposure Draft proposes a number of disclosure 'principles', including:

- information that provides users with a basis for understanding the nature of the entity, the benefits provided to members and the expenses it incurs;

- information that provides users with a basis for understanding the entity's obligations for member benefits;
- when net assets attributable to defined benefit members differs from their accrued benefits, information that provides users with a basis for understanding the size, nature, causes of and any strategies for addressing the difference;
- the components of changes in defined benefit members' accrued benefits;
- deeming obligations for member benefits to be within the scope of AASB 7 (but not the fair value disclosures);
- for an entity with defined benefit members, qualitative information that provides users with a basis for understanding risks relating to employer sponsors;
- deeming any non-financial liabilities other than tax liabilities to be within the scope of AASB 7 (but not the fair value disclosures); and
- disaggregated financial information based on the principles and requirements of AASB 8 that provides users with a basis for understanding risks, financial position and performance as 'seen through the eyes' of the chief operating decision maker.

AAS 25 requires some relatively specific disclosures regarding classes of assets, liabilities, investment revenue and expenses. Many of the specific disclosure requirements in AAS 25 relating to member benefits would be captured in the statement of changes in members benefits proposed in the Exposure Draft.

Many of the other specific disclosure requirements in AAS 25, such as those about the measurement methods applied, are dealt with in this Exposure Draft by reference to other Australian Accounting Standards.

## Application Date

It is proposed that this Standard be applicable to annual reporting periods beginning on or after two years after the issue of the Standard. It is proposed that early adoption of this Standard will not be permitted.

## Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 30 April 2012. The AASB is most interested in comments on the proposals that are different from those in ED 179 (see pages 6 and 7 of this Preface).

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. 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 the following.

(a) Are there any superannuation entities that would meet the criteria in AASB 1053 *Application of the Tiers of Australian Accounting Standards* for applying Tier 2 disclosure requirements, that is, they need to prepare general purpose financial statements but do not have 'public accountability' [as defined in AASB 1053]?

(b) Are there any significant practical difficulties that would inhibit a superannuation entity disclosing:

  (i) information about defined contribution or defined benefit members' benefits in accordance with the relevant principles and requirements in AASB 7 *Financial Instruments*: *Disclosures* [as proposed in paragraphs 37, 38 and AG27 – AG28 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;

  (ii) in relation to defined benefit members, qualitative information about non-performance risk and/or economic dependency risk to which the plan is exposed in respect of employer sponsors of such members [as proposed in paragraphs 39 and 40 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;

  (iii) liquidity risks relating to any non-financial liabilities other than tax liabilities held by the entity [as proposed in paragraphs 41 and 42 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome;

(iv) disaggregated financial information based on the principles and requirements of AASB 8 *Operating Segments* [as proposed in paragraphs 43, 44 and AG31 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome.

(c) Would it be reasonable to require retrospective application of the replacement Standard for AAS 25 to annual reporting periods beginning two years from the date of issuing that Standard?

(d) Overall, would the proposals result in general purpose financial statements that would be useful to users?

(e) Are the proposals are in the best interest of the Australian economy?

(f) In quantitative or qualitative terms, unless already provided in response to specific matters for comment (a)-(e) above, what are the costs and benefits associated with the proposals?

# ACCOUNTING STANDARD AASB 10XX

## *SUPERANNUATION ENTITIES*

## Objective

1 The objective of this Standard is to specify requirements for the general purpose financial statements of superannuation entities with a view to providing users with information useful for decision making in a superannuation context.

## Core Principle

**2 A superannuation entity 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 entity that is a reporting entity; and**

**(b) financial statements of a superannuation entity that are held out to be general purpose financial statements.**

**4 This Standard applies to annual reporting periods beginning on or after two years after the issue of the Standard. Early adoption of this Standard is not permitted.**

5 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*.

6 When applicable, this Standard supersedes AASB 25 *Financial Reporting by Superannuation Plans* issued in December 2005.

7 When applicable, this Standard supersedes AAS 25 *Financial Reporting by Superannuation Plans* issued in December 2005.

## Compliance with Australian Accounting Standards

**8 Unless otherwise specified in this Standard, the financial statements of a superannuation entity shall be prepared in accordance with other applicable Australian Accounting Standards.**

9 Except in a limited number of specified circumstances, this Standard requires a superannuation entity to apply other applicable Australian Accounting Standards. One of the main exceptions is to require most assets and liabilities to be measured at fair value.

10 A superannuation entity that applies this Standard would not also apply the measurement requirements of AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## Preparation and Presentation of Financial Statements

**11 In preparing and presenting financial statements, a superannuation entity that is a parent shall present consolidated financial statements.**

**12 A parent superannuation entity that chooses to present separate financial statements shall present them together with the consolidated financial statements.**

### Presentation of Financial Statements

**13 A superannuation entity shall present, in addition to those statements required by other applicable Australian Accounting Standards, a statement of changes in member benefits.**

#### Statement of Financial Position

14 Where there exists a difference between a superannuation entity's total assets and its total liabilities (including defined contribution members' vested benefits and defined benefit members' accrued benefits and any obligations to employer sponsors), the difference shall be presented as equity in accordance with applicable Australian Accounting Standards.

**Income Statement**

15 As a minimum, the income statement shall include line items that present, when appropriate, the following amounts for the period:

(a) revenues;

(b) expenses;

(c) gains and losses arising from the remeasurement of assets and liabilities measured at fair value;

(d) losses and gains attributable to liabilities arising from the insurance arrangements the superannuation entity provides to its members and from reinsurance assets;

(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.

16 A superannuation entity that presents an income statement in accordance with this Standard does not 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 *Presentation of Financial Statements*.

**Statement of Changes in Member Benefits**

17 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 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 entity from other superannuation entities;

(e) taxes paid and payable on contributions received and receivable for the period;

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

(g) insurance premiums charged to members' accounts;

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

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

(j) amounts allocated to members from reserves; and

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

18 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.

19 There is no need to disclose 'equity' information equivalent to that required by paragraphs 79(a) and 80 of AASB 101, in relation to members.

## Assets and Liabilities

### Recognition

**20 In applying Australian Accounting Standards:**

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

**(b) liabilities arising from insurance arrangements provided to members shall be recognised in accordance with the approach applicable to defined benefit obligations under AASB 119 *Employee Benefits*; and**

**(c) reinsurance assets arising from insurance arrangements provided to members shall be recognised in accordance with the approach in paragraphs 6.1-6.1.2 of AASB 1038 *Life Insurance Contracts*.**

## Measurement

**21 All recognised assets and liabilities except those relating to member benefits, tax, acquired goodwill and insurance arrangements, shall be measured at fair value at each reporting date.**

**Defined Contribution Members' Vested Benefits**

**22 Obligations for defined contribution members' vested benefits shall be measured at the amount payable on demand.**

**Defined Benefit Members' Accrued Benefits**

**23 Obligations for defined benefit members' accrued benefits shall be measured at the present value of the expected future benefit payments using the projected unit credit method in accordance with the approach in AASB 119 for defined benefit obligations.**

**Non-controlling Interests**

**24 At initial recognition, non-controlling interests arising on a business combination shall be measured in accordance with the fair value option in AASB 3 *Business Combinations*.**

**Insurance Arrangements**

**25 Liabilities arising from insurance arrangements a superannuation entity provides to its members shall be measured in accordance with the approach in AASB 119 for defined benefit obligations.**

# Changes in Assets and Liabilities

**26 The following items are recognised and presented as gains or losses in the income statement in the period in which they occur:**

**(a) changes in assets and liabilities measured at fair value;**

**(b) changes in obligations and assets arising from insurance arrangements that a superannuation entity provides to its members;**

**(c) net benefits allocated to defined contribution members' accounts for the period; and**

**(d) net change in defined benefit members' accrued benefits for the period.**

**27 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.**

# Disclosure

28 Paragraph AG2 of Appendix B to this Standard identifies some Australian Accounting Standards that contain disclosure principles and requirements that a superannuation entity applies when relevant.

## Nature of the Entity, Nature of Member Benefits and Expense Items

**29 A superannuation entity 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 members; and**

**(b) the nature and amounts of expenses incurred.**

30 As a minimum, to meet the objectives in paragraph 29(a), an entity discloses 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 number of members and beneficiaries at the reporting date; and

(iii) when relevant, whether the entity can accept new defined benefit members.

31 To meet the objectives in paragraph 29(b), an entity separately discloses, as a minimum, the following 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) commissions paid directly by the entity;

(f) trustee fees and reimbursements; and

(g) advertising and sponsorship expenses.

## Member Benefits Obligation

**32 A superannuation entity shall disclose information that provides users with a basis for understanding the member benefits obligation.**

33 As a minimum, to meet the objective in paragraph 32, an entity discloses the following when relevant:

(a) the amount of defined benefit members' vested benefits at the end of the period;

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

(c) 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;

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

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

(f) 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 period;

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

(iii) 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 period.

## Net Assets Attributable to Defined Benefit Members

**34 Where the amount of net assets attributable to defined benefit members differs from the amount of such members' accrued benefits, the entity 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.**

35 To meet the objective in paragraph 34, an entity discloses information that includes the following:

(a) whether the difference 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, as a minimum, the plan would disclose the nature of the differences between the two sets of assumptions;

(b) in the case of a surplus, 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;

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

(d) in the case of a deficiency, whether 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 if there is no specific contractual agreement in place, how the trustee monitors and manages the deficiency.

## Components of Changes in Defined Benefit Members' Accrued Benefits

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

**(a) benefit cost;**

**(b) interest cost;**

**(c) actuarial gains and losses; and**

**(d) the effects of other items, including settlements, curtailments and amendments.**

## Financial Liabilities

**37 For the purpose of this Standard, a superannuation entity's obligations for member benefits are within the scope of AASB 7 *Financial Instruments*: *Disclosures*.**

38 Notwithstanding that employers' rights and obligations arising from employee benefit plans accounted for under AASB 119 are outside the scope of AASB 7, a superannuation entity would provide disclosures in relation to obligations for member benefits in accordance with the

relevant principles and requirements in AASB 7, with the exception of the requirements relating to fair value disclosures.

## Extent and Management of Risks Relating to Employer Sponsors of Defined Benefit Members

**39 A superannuation entity with defined benefit members shall disclose qualitative information that provides users with a basis for understanding the non-performance risk and/or economic dependency risk to which the plan is exposed in relation to the employer sponsor(s) of such members.**

40 To meet the objective in paragraph 39, an entity provides qualitative disclosures that are consistent with the types of information disclosed in accordance with paragraph 33 of AASB 7.

## Liquidity Risks Relating to Non-financial Liabilities other than Tax Liabilities

**41 A superannuation entity shall disclose information that provides users with a basis for understanding the liquidity risks to which the entity is exposed to in relation to any non-financial liabilities other than tax liabilities that it holds.**

42 To meet the objective in paragraph 41, an entity provides disclosures that are consistent with the types of information disclosed in accordance with paragraphs 33 and 39 of AASB 7.

## Disaggregated Financial Information

**43 A superannuation entity shall disclose disaggregated financial information that provides users with a basis for understanding the risks, financial position and financial performance of the entity.**

44 To meet the objective in paragraph 43, an entity discloses disaggregated financial information in accordance with the principles and requirements in AASB 8 *Operating Segments*, except that a superannuation entity:

(a) discloses information about each segment that meets any of the quantitative thresholds in paragraph 13 of AASB 8 or has liabilities that are 10% or more of the total liabilities of all segments;

(b) identifies additional segments [even if they do not meet the quantitative thresholds described in (a) above] until at least 75%

of the entity's revenues, expenses, assets or liabilities are included in reportable segments;

(c) is not required to apply the second sentence of paragraph 16 or paragraphs 23, 24, 28 and 31-34 of AASB 8;[1]

(d) provides disaggregated disclosures consistent with the information regularly reviewed by the entity's chief operating decision maker to manage the entity (which may or may not include the types of information described in paragraphs 23 and 24 of AASB 8); and

(e) provides reconciliations of the disaggregated disclosures with corresponding amounts at the entity level (which may or may not include the types of information described in paragraph 28 of AASB 8).

## Insurance Arrangements

**45 A superannuation entity that recognises assets or liabilities in respect of insurance arrangements (reported as part of member benefits and changes in member benefits) shall disclose information that explains and provides users with a basis for understanding the amount, timing and uncertainty of future cash flows arising from insurance arrangements it provides to its members.**

46 As a minimum, to meet the objective in paragraph 45, an entity discloses information in relation to key actuarial assumptions used to measure liabilities arising from insurance arrangements it provides to its members; and any uncertainties surrounding those key actuarial assumptions; and any uncertainties surrounding reinsurance assets.

1 These paragraphs address specific disclosures about revenue sources from 'all other segments', profit or loss and assets and liabilities, segment reconciliation, entity-wide, product and service, geographical and major customer information.

# 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. |
| **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:<br>(a) members' service to their employer in the reporting period; and<br>(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.<br><br>*If an individual member's benefit entitlements have characteristics of both defined benefit and defined contribution entitlements, the member is regarded as a defined benefit member for the purpose of this Standard.* |

**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 entity** — An entity that is either a superannuation plan or an approved deposit fund.

**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.

*Superannuation plans may be constituted as separate entities or as a number of separate entities established to administer aspects of the plan (such as when one entity administers contributions and another administers benefit payments).*

**vested benefits** — The benefits to which members or their beneficiaries would be entitled on voluntary withdrawal from the superannuation entity at the end of the reporting period.

*In the context of a defined benefit member's vested benefits, withdrawal means withdrawal by a member from either the defined benefit section of their superannuation plan or withdrawal from the plan itself.*

# 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 entity applies the recognition or presentation principles and requirements in other Australian Accounting Standards, the entity would also apply any relevant disclosure principles and requirements contained in those other Standards unless they are specifically modified by this Standard. Accordingly, when 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 entity makes disclosures in accordance with the principles in this Standard only. For example, a plan that discloses information in accordance with paragraph 31 does not need to disclose information in accordance with paragraphs 99-105 of AASB 101 *Presentation of Financial Statements* regarding an analysis of expenses.

AG2 Australian Accounting Standards that contain disclosure principles and requirements some or all of which a superannuation entity would apply, when relevant, include but are not limited to the following:

(a) AASB 3 *Business Combinations*;

(b) AASB 7 *Financial Instruments: Disclosures*;

(c) AASB 12 *Disclosure of Interests in Other Entities*;

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

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

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

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

(h) AASB 112 *Income Taxes*;

(i) AASB 118 *Revenue*; and

(j) AASB 124 *Related Party Disclosures*.

AG3 When a superannuation entity applies another Australian Accounting Standard, the entity also applies each relevant Australian Interpretation listed in AASB 1048 *Interpretation of Standards*.

## Preparation and Presentation of Consolidated Financial Statements

AG4 In preparing consolidated financial statements, among other things, a parent entity would:

(a) apply the concept of control as defined in AASB 10 *Consolidated Financial Statements* to identify all of its subsidiaries;

(b) recognise identifiable assets and liabilities acquired in a business combination in accordance with AASB 3;

(c) initially measure any non-controlling interests applying the fair value approach in accordance with AASB 3 at the subsidiary's acquisition date and in accordance with AASB 10 at the end of each subsequent period;

(d) initially measure goodwill in accordance with AASB 3 and subsequently in accordance with AASB 136 *Impairment of Assets*, bearing in mind that any non-controlling interests must be initially measured at fair value;

(e) not 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;

(f) measure acquired intangible assets at fair value (including those acquired in a business combination); and

(g) remeasure acquired intangible assets at fair value, with changes recognised in the income statement [which is a departure from AASB 3 and AASB 138 *Intangible Assets*].

## Fair Value Measurement

AG5 Except in a limited number of specified circumstances, this Standard requires all assets and liabilities of a superannuation entity to be measured at fair value through the income statement. Accordingly, when fair value measurements are used, cost-based disclosure principles and requirements in other Australian Accounting Standards do not apply. For example, a superannuation entity that holds an investment in plant and equipment is not 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*.

AG6 In determining the fair value measurement of an asset or liability and accounting for any transaction costs, a superannuation entity applies the relevant principles and requirements in other applicable Australian Accounting Standards, including in particular AASB 13 *Fair Value Measurement*.

## Measurement of Defined Benefit Obligations

AG7 AASB 119 *Employee Benefits* requires defined benefit obligations to be measured at the present value of the expected future benefit payments using the 'projected unit credit method', which involves making an actuarial assessment of the variables that will determine the ultimate cost of defined benefit obligations. The assumptions underlying that assessment 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 assumptions used to measure obligations for defined benefit members' accrued benefits are the best estimates of the relevant variables. Expected future defined benefit payments are discounted at a rate determined by reference to market yields at the end of the period on high quality corporate bonds or, in the absence of a deep market for such bonds, the market yields at the end of the period on government bonds.

AG8 AASB 119 permits the use of estimates, averages and computational shortcuts to measure defined benefit obligations, provided that any short-hand techniques used yield a reliable approximation of the defined benefit obligations.

## Presentation of Financial Statements

AG9 A superannuation entity presents:

(a) a statement of financial position;

(b) an income statement;

(c) a statement of changes in equity, where relevant;

(d) a statement of cash flows;

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

(f) notes to the financial statements.

AG10 Some Australian Accounting Standards require assets or liabilities to be classified in a particular manner for the purpose of measurement. For example, AASB 9 *Financial Instruments* requires entities to classify financial assets as subsequently measured at either amortised cost or fair value. 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.

### Statement of Financial Position

AG11 Where a superannuation entity'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 is classified as equity and presented in accordance with applicable Australian Accounting Standards. In these circumstances, consistent with paragraph 55 of AASB 101, the entity may need to present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position.

AG12 Differences between the total assets and total liabilities of a superannuation entity would typically only arise in relation to defined benefit members. In some cases, such a difference 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.

AG13 A superannuation entity that has both defined contribution and defined benefit members would present separately its obligations for the two types of benefits in accordance with paragraph 59 of AASB 101.

AG14 Judgement needs to be exercised in the context of a superannuation entity about how to describe an investment presented in its statement of financial position so as to explain the nature of the investment to users. For example, an investment in a unit trust might need to be described so as to reflect the nature of the assets underlying the unit trust.

## Income Statement

AG15 The tax levied on concessional contributions is included in the statement of changes in member benefits and impacts on the amount of net benefits allocated to members. Accordingly, the income tax expense or benefit attributable to profit or loss does not include the taxes levied on concessional contributions.

AG16 The net change in defined benefit members' accrued benefits for a 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

AG17 A statement of changes in member benefits shows information in relation to items such as contributions, transfers and benefit payments. This information provides a basis for making assessments about any change in a superannuation entity's obligations for its defined contribution members' vested benefits and defined benefit members' accrued benefits during the period.

AG18 A superannuation entity that has both defined contribution and defined benefit members could present either a single statement of changes in member benefits with columns for the different membership groups or separate statements for the different types of members.

## Insurance Arrangements

AG19 Superannuation entities often have insurance arrangements in place for their members and the extent to which they affect the income statement and statement of financial position vary depending on the nature of those arrangements.

AG20 When a superannuation entity is acting as an agent for an external insurer, the only impact on the financial statements is to present insurance premiums charged to members' accounts as a line item in the statement of changes in member benefits. The premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance liabilities or reinsurance assets.

AG21 When a superannuation entity is acting in the capacity of an insurer, in addition to being presented as a line item in the statement of changes in member benefits, the relevant premiums are revenue, and the relevant reinsurance costs are expenses of the superannuation entity to be recognised in the income statement. The entity may also have material insurance liabilities and reinsurance assets to be recognised in the statement of financial position.

AG22 Insurance liabilities in respect of both defined contribution and defined benefit members are recognised and measured in accordance with the requirements relating to defined benefit obligations in AASB 119. Consistent with the AASB 119 approach, short-hand techniques could be applied to measure insurance obligations, for example, deferring and matching premiums over the period, provided the amount is not materially different from the amount that would be determined using the projected unit credit method identified in AASB 119.

AG23 Consistent with the approach under AASB 119, liabilities arising from insurance arrangements a superannuation entity provides to defined benefit members:

(a) are measured as part of the entity's obligations for such members' accrued benefits; and

(b) need not be presented separately from the entity's obligations for such members' accrued retirement benefits in the statement of financial position.

AG24 When a superannuation entity recognises material liabilities arising from insurance arrangements it provides to defined contribution members, it presents them separately from its obligations for such members' vested benefits.

AG25 Consistent with the approach under AASB 1038 *Life Insurance Contracts*, any assets arising from the reinsurance arrangements of a superannuation entity are presented separately from any insurance liabilities in the statement of financial position.

# Disclosures

## Member Benefits

AG26 Paragraph 32 requires a superannuation entity to disclose information that provides users with a basis for understanding the member benefits obligation. Superannuation entities are not required to make the disclosures required in AASB 119.

AG27 Paragraph 37 requires a superannuation entity to treat its obligations for member benefits as being within the scope of AASB 7. In applying the relevant principles and requirements of AASB 7, an entity would give consideration to the characteristics of member benefits in determining the information it would provide. For example:

(a) if the benefits of defined contribution members are subject to vesting arrangements, the plan would consider the implications of the vesting arrangements for the expected benefits payable to such members in preparing its liquidity and solvency risk disclosures; and

(b) an entity with defined benefit members would disclose information in relation to whether it has a current funding and solvency certificate and, if so, the date on which the certificate is expected to expire, in the context of its disclosures in relation to liquidity risks if such information would provide users with an understanding of the entity's capacity to meet its obligations for member benefits.

AG28 For the purpose of applying the disclosure principles and requirements in AASB 7, an entity would consider assets and liabilities relating to member benefits measured under AASB 119 to be measured at fair value through profit or loss and the fair value disclosure requirements of AASB 7 need not be applied to these assets and liabilities.

## Financial Instruments

AG29 For the purpose of applying the disclosure principles and requirements in AASB 7, an entity would consider financial assets and any financial liabilities to be measured at fair value through profit or loss and the fair value disclosure requirements of AASB 7 need not be applied to these assets and liabilities.

AG30 For the purpose of applying the disclosure principles and requirements in AASB 7, an entity would read references in AASB 7 to 'statement of comprehensive income' to mean 'income statement'.

## Disaggregated Financial Information

AG31 Paragraph 43 requires a superannuation entity to provide disaggregated disclosures in accordance with the principles and requirements in AASB 8 *Operating Segments*, except where it is appropriate to modify the requirements for application in a superannuation context. In applying the principles and requirements in AASB 8, an entity would interpret the term 'production process' in paragraph 12 of AASB 8 to mean the manner in which the benefit arrangements provided to members are developed and/or administered.

## Comparative Information

AG32 In complying with the comparative information requirements of AASB 101 a superannuation entity would disclose:

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

(b) how, if at all, those assumptions differ from the corresponding key assumptions used to measure members' accrued benefits at the end the current period.

## Related Parties

AG33 A trustee of a superannuation entity is a related party of the entity for the purpose of applying AASB 124.

# APPENDIX C

## ILLUSTRATIVE EXAMPLES

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



Illustrative Examples I and II provide examples of acceptable styles and formats for a superannuation entity that are consistent with the requirements of this Standard. They are not comprehensive.

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 illustrative convenience, particular notes have been located next to the financial statements to which they most closely relate. Some of the information illustrated as appearing in the financial statements could be disclosed in the notes, and some of the information illustrated as appearing in the notes could be shown in the financial statements.

For ease of formatting, comparative information is not shown.

For the purposes of the examples, it is assumed the insurance arrangements involve the superannuation entity taking on insurance risk and that the entity fully reinsures those risks, giving rise to both obligations and assets.

# ILLUSTRATIVE EXAMPLE I

## Consolidated Income Statement for Defined Contribution Superannuation Plan for the year ended 30 June 20XX

| | Note | $000 |
|---|---|---|
| **Superannuation activities** | | |
| Interest revenue | | 238,152 |
| Dividend revenue | | 286,794 |
| Trust distribution revenue | | 282,068 |
| Other income | | 5,426 |
| Net remeasurement changes in assets measured at fair value | | 2,155,242 |
| Investment expenses | | (55,972) |
| Administration expenses | | (42,662) |
| Other operating expenses | A | (642) |
| **Net income from superannuation activities** | | **2,868,406** |
| **Net loss from insurance activities** | B | **(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) |

* * * * * * * * *

| **Note A – Other operating expenses** | **$000** |
|---|---|
| Trustee fees | (98) |
| Commissions paid directly | (123) |
| Advertising and sponsorship | (409) |
| Borrowing costs | (12) |
| **Other operating expenses** | **(642)** |

| **Note B – Insurance activities** | **$000** |
|---|---|
| Insurance contract revenue | 77,810 |
| Less: Outwards reinsurance premiums | (77,806) |
| Net premium revenue | 4 |
| Reinsurance recoveries revenues | 23,219 |
| Insurance contract claims expenses | (22,833) |
| Movement in insurance liabilities | (1059) |
| Movement in reinsurance assets | 633 |
| **Net loss from insurance activities** | **(36)** |

## Consolidated Statement of Financial Position for Defined Contribution Superannuation Plan as at 30 June 20XX

| | **$000** |
|---|---|
| **Assets** | |
| Cash | 195,583 |
| Receivables | 324,909 |
| Units in unlisted cash management trusts | 4,921,700 |
| Shares in listed corporations | 11,434,696 |
| Fixed interest securities | 5,091,982 |
| Units in unlisted property trusts | 1,269,828 |
| Units in hedge funds | 436,978 |
| Goodwill | 17 |
| Reinsurance assets | 6,458 |
| 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) | -- |
| 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 for the year ended 30 June 20XX

| | $000 |
|---|---|
| **Cash flows from operating activities** | |
| Interest received | 251,038 |
| Dividends received | 307,044 |
| Trust distributions received | 291,302 |
| Insurance premiums received | 77,810 |
| Reinsurance recoveries received | 22,016 |
| Other income received | 3,785 |
| Administration expenses paid | (42,846) |
| Investment expenses paid | (55,094) |
| 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 Member Benefits for Defined Contribution Superannuation Plan for the year ended 30 June 20XX

| | | $000 |
|---|---|---|
| **Opening balance of vested benefits** | | **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 of vested benefits** | | **22,965,083** |

## Consolidated Statement of Changes in Equity for Defined Contribution Superannuation Plan for the year ended 30 June 20XX

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

1 The investment reserve comprises the difference between the cumulative amount of investment income (net of investment expenses) allocated to members' accounts compared to the cumulative investment income (net of investment expenses) earned.

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

# ILLUSTRATIVE EXAMPLE II

## Income Statement for Hybrid Superannuation Plan for the year ended 30 June 20XX

| | Note | $000 |
|---|---|---|
| **Superannuation activities** | | |
| Dividend revenue | | 232,338 |
| Trust distribution revenue | | 261,878 |
| Interest revenue | | 129,696 |
| Other income | | 1,496 |
| Net remeasurement changes in assets measured at fair value | | 103,685 |
| Investment expenses | | (27,404) |
| Administration expenses | | (12,042) |
| Other operating expenses | A | (714) |
| **Net result from superannuation activities** | | **688,933** |
| **Net insurance activities loss re: defined contribution members** | B | **(284)** |
| **Operating result** | | **688,649** |
| Less: Net benefits allocated to defined contribution member accounts | | (142,293) |
| Less: Net change in defined benefit members' accrued benefits | | (580,138) |
| **Operating result before income tax benefit** | | **(33,782)** |
| Income tax expense | | (38,470) |
| **Operating result after income tax** | | **(72,252)** |

* * * * * * * * *

| **Note A – Other operating expenses** | **$000** |
|---|---|
| Trustee fees | (98) |
| Actuarial fees | (172) |
| Commissions paid directly | (123) |
| Advertising and sponsorship | (321) |
| **Other operating expenses** | **(714)** |

| **Note B – Insurance activities** | **$000** |
|---|---|
| Insurance contract revenue | 37,810 |
| Less: Outwards reinsurance premiums | (37,808) |
| Net premium revenue | 2 |
| Reinsurance recoveries revenues | 19,406 |
| Insurance contract claims expenses | (19,332) |
| Movement in insurance liabilities | (559) |
| Movement in reinsurance assets | 199 |
| **Net loss from insurance activities** | **(284)** |

The impacts of insurance activities relating to defined benefit members are dealt with in the context of their accrued benefits.

## Statement of Financial Position for Hybrid Superannuation Plan as at 30 June 20XX

| | $000 | $000 |
|---|---|---|
| **Assets** | | |
| Cash | | 448,042 |
| Receivables | | 210,980 |
| Shares in listed corporations | | 7,327,831 |
| Fixed interest securities | | 1,214,391 |
| Investment-linked insurance contracts | | 289,148 |
| Derivatives | | 32,328 |
| Reinsurance assets | | 5,839 |
| Deferred tax assets | | 38,333 |
| Other assets | | 5,345 |
| **Total assets** | | **9,572,237** |
| **Liabilities** | | |
| Benefits payables | | 148,058 |
| Other payables | | 42,347 |
| Tax payable | | 202,812 |
| Insurance liabilities | | 6,315 |
| Deferred tax liabilities | | 797 |
| **Total liabilities excluding member benefits** | | **400,329** |
| **Net assets available for member benefits** | | **9,171,908** |
| Liabilities for member benefits, comprising: | | |
| Defined contribution members' vested benefits | (2,258,229) | |
| Defined benefit members' accrued benefits | (6,954,622) | (9,212,851) |
| **Total net liabilities** | | **(40,943)** |
| **Equity** | | |
| Forgone benefits reserve[3] | | 3,658 |
| Administration reserve | | 2,000 |
| Investment reserve | | 2,980 |
| Deficit in net assets, comprising: | | |
| Differences in investment valuations for unit pricing for defined contribution members and financial statement amounts | (142) | |
| Differences resulting from different assumptions being applied for funding and financial statement purposes | (30,156) | |
| Accrued benefits of members of the following employer sponsors that are over or (under) funded | | |
| ABC | (2,316) | |
| OPQ | (4,277) | |
| RST | (5,733) | |
| XYZ | (6,957) | (49,581) |
| **Total equity** | | **(40,943)** |

3 The trust deed of Hybrid Superannuation Plan permits but does not require the trustee to attribute (defined) benefits forgone by exiting members to active members and the forgone benefits reserve is equity.

## Statement of Cash Flows for Hybrid Superannuation Plan for the year ended 30 June 10XX

| | |
|---|---|
| **Cash flows from operating activities** | **$000** |
| Dividends | 210,250 |
| Trust distributions | 278,002 |
| Interest | 128,368 |
| Insurance premiums | 417 |
| Reinsurance recoveries | 4,556 |
| Other income | 1,295 |
| Administration expenses | (11,289) |
| Investment expenses | (26,560) |
| Reinsurance premiums | (415) |
| Other expenses | (714) |
| Income tax | (98,299) |
| **Net cash inflows from operating activities** | **485,611** |
| **Cash flows from investing activities** | |
| Sales of shares in listed corporations | 601,110 |
| Sales of fixed interest securities | 128,908 |
| Sales of derivatives | 4,219 |
| Sales of investment-linked insurance contracts | 530,886 |
| Purchases of fixed interest securities | (179,108) |
| Purchases of shares in listed corporations | (942,316) |
| **Net cash outflows from investing activities** | **143,699** |
| **Cash flows from financing activities** | |
| Employer contributions | 487,185 |
| Member contributions | 110,870 |
| Benefit payments | (881,361) |
| Tax paid on contributions | (89,224) |
| **Net cash inflows from financing activities** | **(372,530)** |
| **Net increase in cash** | **256,780** |
| **Cash at the beginning of the financial period** | **191,262** |
| **Cash at the end of the financial period** | **448,042** |

## Statement of Changes in Member Benefits for Hybrid Superannuation Plan for the Year Ended 30 June 20XX

| | | Defined contribution members' vested benefits **$000** | Defined benefit members' accrued benefits **$000** |
|---|---|---|---|
| **Opening balance** | | **2,185,275** | **6,555,825** |
| Contributions received and receivable: | | | |
| Employer | | 116,605 | 349,814 |
| Member | | 17,717 | 93,153 |
| Income tax on contributions received/receivable | | (20,148) | (66,445) |
| Net after tax contributions received/receivable | | 114,174 | 376,522 |
| Less: | | | |
| Benefits paid and payable | | (187,093) | (561,278) |
| Benefits forgone by exiting members transferred to forgone benefits reserve | | -- | (795) |
| Insurance premiums charged to members | | (105) | (312) |
| Add: | | | |
| Death and disability benefits credited to members | | 1,233 | 3,699 |
| Forgone benefits allocated to members transferred from forgone benefits reserve | | -- | 823 |
| Transfers from reserves | | 2,452 | -- |
| Net benefits allocated to defined contribution members' accounts, comprising: | | | |
| Net investment income | 145,701 | | |
| Net administration fees | (3,408) | 142,293 | -- |
| Net change in defined benefit members' accrued benefits | | -- | 580,138 |
| **Closing balance** | | **2,258,229** | **6,954,622** |

## Statement of Changes in Equity for Hybrid Superannuation Plan for the year ended 30 June 20XX

| | Forgone benefits reserve $000 | Investment reserve[4] $000 | Admin reserve[5] $000 | Unallocated surplus/ (deficiency) $000 | Total equity $000 |
|---|---|---|---|---|---|
| **Opening balance** | **3,686** | **4,219** | **3,213** | **22,671** | **33,789** |
| Benefits forgone by exiting defined benefit members | 795 | | | | 795 |
| Transfers to defined benefit members' accrued benefits as allocations to members | (823) | | | | (823) |
| Transfers from reserves to vested benefits of defined contribution members | | (1,239) | (1,213) | | (2,452) |
| Operating result for the period | | | | (72,252) | (72,252) |
| **Closing balance** | **3,658** | **2,980** | **2,000** | **(49,581)** | **(40,943)** |

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

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

# BASIS FOR CONCLUSIONS

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

## Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board (AASB) considerations in reaching the conclusions in the ED 223 *Superannuation Entities*. Individual Board members gave greater weight to some factors than to others.

## Background

### Comprehensive Review of the General Purpose Reporting Requirements Applicable to Superannuation Entities

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) mean there is the need for a comprehensive review of the general purpose financial reporting requirements applicable to superannuation plans, particularly the requirements in AAS 25. For example, the increasing significance of defined-contribution/defined-benefit 'hybrid' superannuation plans highlights deficiencies in AAS 25 requiring defined contribution and defined benefit superannuation plans to prepare their financial statements on different bases.

BC3 Only limited improvements have been made to AAS 25 since its issue in 1993.[1]

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1 In late 2005, as a result of a process involving the issue of Invitation to Comment ITC 9 *Superannuation Plans – Financial Liabilities*, the AASB made two amendments to AAS 25. One was to require a hedging instrument or derivative to be recognised at net market value, whether it has a debit or credit balance, with any changes recognised in profit or loss for the period. A second amendment confirmed that a superannuation plan holding a controlling interest in another entity would apply AASB 3 *Business Combinations* and AASB 127 *Consolidated and Separate Financial Statements*.

## The AASB's Policy of Transaction-neutrality and IFRSs

BC4 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. The AASB concluded that financial statements prepared by Australian superannuation entities under IAS 26 would be unlikely to meet users' information needs, particularly in relation to the capacity of a superannuation entity to meet its obligations for member benefits. 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.

BC5 In contrast to IAS 26, AAS 25 requires all assets held by a superannuation plan to be measured at net market value (consistent with Australian 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.

BC6 Accordingly, the AASB concluded that, if IAS 26 were to be adopted in Australia, it would potentially reduce the quality of financial reporting by superannuation entities.

BC7 The AASB also noted that the requirements of IAS 26 are highly dissimilar from the requirements of most other IFRSs. Accordingly, the AASB concluded that adopting IAS 26 would be inconsistent with its transaction-neutrality policy, under which, to the extent feasible, all entities treat like transactions in a like manner.

BC8 In keeping with its policy of transaction-neutrality, the AASB also considered the implications of withdrawing AAS 25 and requiring superannuation entities to apply, where appropriate, Australian Accounting Standards. The AASB concluded that, while the financial reporting requirements for superannuation entities can, in many respects, be enhanced by being more closely aligned with corresponding requirements of other Standards, there remains a need for a specific Standard to help ensure the general purpose financial statements of superannuation entities cater for the needs of users.

## Users of the General Purpose Financial Statements of Superannuation Entities

BC9 The AASB concluded that the primary users of general purpose financial statements (GPFSs) of superannuation entities are:

(a) members and beneficiaries;

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

(c) employer sponsors.

BC10 This is because the primary responsibility of superannuation entities is to provide retirement benefits to their members, and both employees and employers contribute to those entities.

BC11 The *Superannuation Guarantee* (*Administration*) *Act 2002* provides most superannuation members the right to choose the superannuation entity managing their entitlements, thereby reducing the incentives for employers to provide corporate superannuation arrangements. An employer without a plan of its own is required to identify an appropriate default plan for employees. Consequently, employers are increasingly outsiders with respect to their employees' superannuation arrangements, and the employer might use the financial statements of a plan to gain assurances regarding its financial position and performance.

BC12 Employers that provide defined benefit entitlements, particularly through master trusts and other similar arrangements, are interested in a superannuation entity's financial statements in order to evaluate whether the arrangement is cost-beneficial and the capacity of the assets to fund entitlements as and when they fall due.

BC13 The financial information needs of financial analysts and advisors and some members and beneficiaries have been considered by the AASB in developing other Standards. However, financial advisors are generally advising a wider group in a superannuation context and employer sponsors are normally considered preparers rather than users of financial statements. Accordingly, users of superannuation entity financial statements include groups whose information needs may not have been the focus in promulgating other Standards.

BC14 Therefore, the AASB concluded the reporting requirements that would otherwise apply under Australian Accounting Standards would not necessarily give rise to appropriate financial information for users of superannuation entity financial statements. This is particularly the case in relation to measuring assets, recognising member benefits and disclosing information about the amount of, and the entity's capacity to meet, member benefits. As a consequence, the AASB concluded there is a need to depart to a degree from its policy of transaction-neutrality and adopting IFRSs by:

(a) requiring superannuation entities to depart from Australian Accounting Standards on some topics;

(b) limiting the accounting treatments available to superannuation entities in other Australian Accounting Standards; and

(c) requiring superannuation entities to provide information about items and events specific to them.

## Implications of the Cooper Review findings for financial reporting by superannuation entities

BC15 On 30 June 2010, the report on the *Review of the Governance*, *Efficiency*, *Structure and Operation of Australia's Superannuation System* (Cooper Review) was presented to the Federal Minister for Financial Services, Superannuation and Corporate Law. As a part of its terms of reference, the Cooper Review considered issues in relation to the fees, costs and investment returns of superannuation entities, and improving transparency around these items through reporting to advisers, researchers, analysts, regulators and members.

BC16 The Cooper Review Panel concluded the Australian superannuation system currently lacks transparency, comparability and accountability in relation to costs, fees and investment returns. It also concluded that, while the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* would improve financial reporting by superannuation plans, they would not materially improve the information required by users, particularly members.

BC17 The Panel considered the superannuation industry and members are more concerned about the performance of the investment options in which they are invested than the whole-of-fund information required by AAS 25. The Panel also noted a perceived disconnect between the information provided by superannuation entities in GPFSs and the information needs of users, particularly members, which is unlikely to be rectified under the proposals in ED 179. However, there is an acknowledgement by the Panel that a plan member can be affected by factors impacting on their plan as a whole.[2]

BC18 The AASB considered the Panel's findings and noted, even though the GPFSs of superannuation entities are not targeted at each member's particular interest, the whole-of-fund financial information is useful to members and other users for their decision making.

BC19 In addition, the AASB concluded financial statements play an important role within the current regulatory arrangements by providing a basis for information reported in trustees' annual reports to members and members' individual benefit statements, even though these would not include the same level of disclosure or necessarily have been audited. Consequently, under the current arrangements financial statements are the primary medium through which trustees discharge their fiduciary duties.

## A Replacement Standard for AAS 25

BC20 In May 2009, the AASB published ED 179 containing proposals for a replacement Standard for AAS 25. The AASB received 20 comment letters on ED 179 from a range of constituents, including superannuation plans, superannuation industry representative bodies, accounting firms, professional accounting and actuarial bodies and service providers to the superannuation industry. The AASB also held roundtable discussions on ED 179 with a range of constituents with an interest in the superannuation industry to enable them to discuss the proposals directly with AASB members.

BC21 The majority of respondents and roundtable participants expressed broad support for developing a replacement Standard that:

(a) provides greater transparency and consistency in reporting by superannuation entities; and

(b) substantially aligns the reporting practices of superannuation entities with other entities applying Australian Accounting Standards, thereby facilitating greater comparability.

BC22 However, each of the respondents and roundtable participants expressed concerns with one or more of the proposals in ED 179,

2 As noted in the Cooper Review's Final Report (page 173) "…during the GFC, previously liquid assets held by some superannuation funds became illiquid due to capital freezes in mortgage, cash management and property trusts. In order to meet portability, switching and capital drawdown requests, some trustees were forced to sell equities into a depressed market, while trustees who were unable to meet these requests applied to APRA for a variation or suspension of portability requirements."

particularly on cost-benefit grounds. In light of these concerns, the AASB revised some of the ED 179 proposals, including aspects of those relating to:

(a) presenting consolidated financial statements;

(b) measuring obligations for defined benefit members' accrued benefits;

(c) accounting for obligations and assets arising from insurance arrangements provided to members;

(d) removing specific disclosure proposals that are effectively the same as requirements of other Standards, and instead relying on those other Standards;

(e) disclosing information about the nature, extent and management of financial risks; and

(f) segregated financial disclosures.

# Application of the Replacement Standard for AAS 25

## The Reporting Entity Concept and Superannuation Entities

BC23 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 GPFSs.

BC24 In developing ED 179, 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) F unds (SAFs) and self-managed superannuation funds (SMSFs). The AASB is conducting research into redeliberating the role of its 'reporting entity' concept.

BC25 The AASB concluded ED 179 should propose that the replacement Standard for AAS 25:

(a) retain the reporting entity concept. Accordingly, superannuation entities without general purpose users are not required to prepare GPFSs. For example, a SMSF would not normally be a reporting entity because each member is required to be a trustee and the primary external user is the Australian Taxation Office (ATO), which requires specific information for compliance and regulatory purposes; and

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

BC26 During its deliberations on ED 179, the AASB gave particular consideration to whether the replacement Standard for AAS 25 should apply to pooled superannuation trusts. The AASB noted pooled superannuation trusts and superannuation plans, particularly defined contribution superannuation plans, share a number of characteristics. For example, they are both required to comply with many of the same prudential requirements, are taxed at the same concessional tax rate and pooled superannuation trusts accept monies from other superannuation entities.

BC27 However, the AASB concluded pooled superannuation trusts are more in the nature of investment trusts, such as managed investment schemes because they have unitholders rather than members, and there are no age-based restrictions over when they can distribute funds to a unitholder. Accordingly, to facilitate comparable financial reporting among investment-type trusts, the AASB concluded pooled superannuation trusts should apply Australian Accounting Standards.

BC28 Respondents to ED 179 expressed general agreement with its application proposals and the AASB concluded, subject to its future differential reporting work, the replacement Standard for AAS 25 should 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.

## Tiers of Australian Accounting Standards

BC29 Subsequent to issuing ED 179, the AASB promulgated AASB 1053 *Application of Tiers of Australian Accounting Standards*, which establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing GPFSs:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements (RDR).

BC30 In developing AASB 1053, the AASB issued ED 192 *Differential Reporting Framework* (February 2010), which noted that:

> "AAS 25 *Financial Reporting by Superannuation Plans* has been excluded from the RDR on the grounds that entities applying AAS 25 would be superannuation plans registered with the Australian Prudential Regulation Authority, which are regarded as publicly accountable in this Exposure Draft. Superannuation entities that apply AAS 25 and prepare general purpose financial statements are required, under the *Superannuation Industry* (*Supervision*) *Act 1993*, to hold assets in a fiduciary capacity for their members. In addition, most superannuation entities, particularly public offer superannuation plans and approved deposit funds, have a broad range of members who have no involvement in the day-to-day operations of the entity."

BC31 Some respondents to ED 192 questioned whether all APRA-regulated entities, particularly SAFs, should be considered to have 'public accountability'. They noted that, while SAFs lodge financial statements with APRA, they are not made publicly available, APRA does not mandate that SAFs prepare GPFSs and most, if not all, SAFs are similar in nature and size to SMSFs.

BC32 During its redeliberations on ED 179, the AASB noted SAFs are defined by APRA as superannuation plans with less than five members and have an Extended Public Offer Entity licence. As such, members of a SAF appoint a trustee with a Public Offer Entity licence to manage the plan on their behalf. While SAFs must lodge APRA returns that include information reported in their financial statements, this information is not publicly available for individual SAFs. In addition, the AASB noted SAFs would not be considered publicly accountable or reporting entities because they are small, have few members who have a close relationship with the trustee and SAFs normally prepare special purpose financial statements.

BC33 The AASB concluded superannuation entities are currently divided between Tier 1 entities (including public offer plans, public sector plans, retail plans, eligible rollover funds, corporate plans and approved deposit funds) and non-reporting entities (SAFs and SMSFs). Nevertheless, the AASB also concluded ED 223 should include a question asking constituents whether there are any superannuation entities that would meet the criteria in AASB 1053 for applying Tier 2 disclosure requirements.

## Consolidated Financial Statements

BC34 The AASB issued the Consultation Paper *Consolidation of Subsidiaries by Superannuation Entities* in September 2007 and sought feedback from constituents on a number of ideas for presenting consolidated financial statements. With the benefit of feedback on the Paper, in developing ED 179, the AASB considered a number of different ways in which a parent superannuation entity could treat a subsidiary in its consolidated financial statements, including:

(a) on a full fair value basis that involves all assets and liabilities, whether recognised or unrecognised in the separate financial statements of the parent or a subsidiary, being measured at fair values;

(b) on a basis that involves all assets and liabilities recognised by a subsidiary being measured at fair values when fair value is required or permitted under the relevant Australian Accounting Standards;[3]

(c) as per (b) above with the addition, when applicable, of a balancing item in relation to subsidiaries.[4] That balancing item would comprise:

(i) acquired goodwill remaining at period end;

(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) in accordance with AASB 3 and AASB 127,[5] under which a subsidiary's identifiable assets and liabilities are recognised in the consolidated financial statements at their fair values at the subsidiary's date of acquisition, and subsequent to acquisition, a subsidiary's assets and liabilities are recognised in accordance with relevant Australian Accounting Standards, which treat the fair values of assets or a liabilities acquired in

3 Consistent with the approach currently applied under AASB 1023 and AASB 1038.
4 Similar to the approach in AASB 1038 *Life Insurance Business* (1998).
5 AASB 10 *Consolidated Financial Statements* had not yet been issued.

business combinations as cost for the purposes of subsequent accounting;

(e) a proportionate consolidation model that ensures the net assets amounts reported in the parent's separate and consolidated financial statements are the same; and

(f) recognition of net investments in subsidiaries with detailed note disclosure.

BC35 The AASB concluded that a proportionate consolidation model is not an appropriate approach because it is inconsistent with the concept of control in Australian Accounting Standards and the economic entity notion.

BC36 The AASB also concluded that a 'disclosure only' approach is not an appropriate reporting solution for a number of reasons, including on the basis that the disclosure of items that would otherwise be recognised in the financial statements is inconsistent with other Australian Accounting Standards.

BC37 The AASB concluded that a parent superannuation entity would be best served by 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.

BC38 The AASB noted that, apart from the recognition of transaction costs, this is the same approach a parent would follow in preparing consolidated financial statements in accordance with AASB 3 on a subsidiary's acquisition date. The AASB also noted this approach would ensure the financial statements of a parent entity are prepared in a manner consistent with the way the financial statements of an entity without subsidiaries would be prepared.

BC39 However, the AASB also concluded that requiring a parent superannuation entity to recognise and measure at fair value, at the end of each reporting period, items such as internally generated brands, customer lists, internally generated goodwill and contingent items attributable to a subsidiary may be difficult to apply in practice and impose significant preparation costs.

BC40 The AASB noted the potential benefits derived by users from a parent superannuation entity 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 ED 179 should propose that a parent superannuation entity:

(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 would be measured in accordance with AASB 112.

BC41 The AASB also concluded that ED 179 should ask constituents whether parent superannuation entities should be permitted or required 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 when such items are reliably measurable.

## Recognition and Measurement of Goodwill or Remeasurement Gain on Consolidation

BC42 The AASB considered how any difference between the sum of a parent superannuation entity'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 recognised by the parent at the end of the period should be treated. The AASB concluded:

(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, because the excess would normally be a consequence of the subsidiary holding assets that are not capable of being individually identified and separately recognised under other 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 when it occurs, because this treatment:

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

(ii) highlights the performance of the subsidiary and the economic entity.

BC43 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 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.

BC44 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 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 asset definition in the *Framework for the Preparation and Presentation of Financial Statements* (*Framework*).

BC45 The AASB also noted, if such an excess were treated as a liability or a negative asset, the remeasurement change in respect of the subsidiary's net assets recognised in the consolidated income statement would be less than the equivalent amount recognised by the subsidiary in its separate financial statements under the proposals in ED 179. Accordingly, the AASB concluded it is necessary to propose that such an excess be treated as a remeasurement gain to prevent the investment performances of some subsidiaries being understated in the parent superannuation entity's consolidated income statement.

## Measurement of Non-controlling Interests

BC46 The AASB noted AASB 127 permits parents to measure any non-controlling interests in 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 the AASB 127 consolidation model is essentially a cost-based model, whereas the model underlying ED 179 is predominantly fair value in nature. Accordingly, the AASB concluded, to be consistent with the principles underlying ED 179, to propose a superannuation entity that is a parent measure any non-controlling interests in a subsidiary at fair value at the end of each period and to also seek input from constituents about whether such a fair value treatment should be permitted or required.

## Responses to the ED 179 consolidation proposals and AASB conclusions

BC47 Overall, the majority of ED 179 respondents and roundtable participants expressed support for the proposal that a parent superannuation entity present consolidated financial statements. However, many of them identified practical difficulties, including:

(a) identifying entities controlled and the times when control arises or is lost;

(b) monitoring changes in holdings in collective investment entities, particularly when there is a high turnover of ownership interests in the investee;

(c) obtaining relevant, reliable and timely information to prepare consolidated financial statements, particularly in relation to 'fund of fund' investment vehicles; and

(d) consolidating for only part of a period because the investment in the subsidiary fluctuates around 50% of its outstanding ownership interests.

BC48 Based on these practical difficulties, some constituents recommended the AASB would need to provide application guidance on how the concept of control should be interpreted and applied in a superannuation context. To this end, some suggested a 'substance over form' approach be taken whereby entities that a parent 'actively' controls are consolidated and entities in which there is a 'passive' investment be accounted for as investments.

BC49 Other respondents and roundtable participants suggested that, due to the nature of superannuation arrangements in Australia, in some circumstances the parent may be incapable of controlling an investee that would otherwise meet the definition of a subsidiary in a manner consistent with the notion of control in AASB 127 because:

(a) members exercise investment choice and might collectively acquire a controlling interest in another entity, and the superannuation entity may not be considered to have the power to govern the investee so as to obtain benefits from its activities because the superannuation entity is subject to the independent investment choice decisions of its members; and

(b) the 'sole purpose test' in the *Superannuation Industry* (*Supervision*) *Act 1993* is generally considered to prohibit trustees from being involved in day-to-day operations of the businesses in which their superannuation entities invest.

BC50 The AASB considered the concerns expressed in a superannuation context and noted that most, if not all, the practical difficulties identified are not unique to superannuation entities and are encountered by many other entities, including investment-type entities reporting under Australian Accounting Standards. Accordingly, the AASB concluded it would not be appropriate for the replacement Standard for AAS 25 to include application guidance on control in a superannuation context because it would potentially:

(a) reduce the comparability of consolidated financial statements prepared by superannuation and non-superannuation entities; and

(b) introduce interpretations into Australian Accounting Standards that may not be consistent with interpretations of IFRS principles and requirements in other contexts.

BC51 A number of the respondents and roundtable participants opposed parent superannuation entities being required to present consolidated financial statements on the grounds that users, particularly members, are unlikely to consider consolidated information useful. They noted that, unlike shareholders in a company, members of a superannuation entity do not necessarily have a notional interest in all the net assets. In particular, some members may have no exposure to a subsidiary held by their superannuation entity because that investment is not part of some members' investment options.

BC52 The AASB noted that the type of accounting proposed under the IASB ED/2011/4 *Investment Entities*[6] might address some of the concerns raised by constituents. However, the AASB concluded that it would be premature for the AASB to permit or require parent superannuation entities to apply investment entity accounting before there is an outcome from the IASB's project.

6 ED/2011/4 *Investment Entities* (August 2011) is open for comment by 5 January 2012. ED/2011/4 is incorporated in AASB ED 220 *Investment Entities* for comment by 30 November 2011.

BC53 In light of the comments received from respondents and roundtable participants the AASB concluded, consistent with ED 179, that ED 223 should propose that a parent superannuation entity present consolidated financial statements. However, in contrast to ED 179, the consolidated financial statements would be prepared in accordance with AASB 3 and AASB 10, including in relation to accounting for acquired goodwill. Superannuation entities would also be required to apply the fair value option to measuring non-controlling interests at inception, without subsequently remeasurement, in accordance with AASB 3.

BC54 Consistent with ED 179, there remains the one proposed departure from AASB 3 and AASB 10, which is remeasuring acquired intangible assets at fair value at each reporting period in the consolidated financial statements.

## Separate Financial Statements

BC55 Consistent with AASB 127, a parent superannuation entity 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 superannuation parent 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 superannuation entity prepares separate financial statements for general purpose users, the AASB reasoned the entity presumably considers this information necessary for an understanding of the reported results of the group. Accordingly, the AASB concluded a superannuation parent that prepares separate financial statements for general purpose users should present them together with its consolidated financial statements.

BC56 Some respondents expressed concerns about the apparent inconsistency between the proposals about separate financial statements and the prudential reporting requirements in respect of separate financial statements that apply to APRA-regulated superannuation entities. The AASB acknowledged the concerns but concluded its proposals would not prevent an APRA-regulated superannuation entity from preparing separate financial statements for the specific purpose of fulfilling its prudential reporting obligations.

## Presentation of Financial Statements

BC57 AAS 25 requires a defined contribution plan, and permits a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows. Alternatively, defined benefit plans can present a statement of net assets and a statement of changes in net assets.

BC58 The AASB concluded that the existing AAS 25 approach should not be retained because financial statements may not be comparable between superannuation entities and the approach does not cater for hybrid entities.

BC59 The AASB considered the implications of superannuation entities applying AASB 101 *Presentation of Financial Statements* and concluded they 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 are not consistent with the measurement requirements for superannuation entities or address the same items or events as the disclosure principles for superannuation entities.

### Statement of Financial Position

BC60 The AASB noted a superannuation entity would recognise a difference between total assets and 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 net assets attributable to such members; and

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

BC61 A trustee of a superannuation entity may decide to create a reserve of unallocated assets by charging defined contribution members' accounts a set amount per week for administration. The difference between the actual administration costs and the amounts charged to such members' accounts creates a reserve of unallocated assets, which would be of interest to users.[7]

BC62 The AASB noted the net assets attributable to defined benefit members would not exceed such members' accrued benefits if:

(a) the relevant trust deed terms or legislation required any surplus be applied for the benefit of members, in which case the entity would be presently obliged to such members;

(b) an employer sponsor agreed to apply surplus assets to enhance defined benefit members' benefits in the past, and it is reasonable to assume that this practice would continue, in which case the entity would arguably have a constructive obligation to meet the enhanced benefits; or

(c) the trustee agreed to pay surplus assets to an employer sponsor and this meets the relevant prudential requirements, in which case the entity would be presently obliged to the employer sponsor.

BC63 The AASB also noted that, where trust deeds or the relevant legislation is silent with respect to surplus assets, and there is no established practice, 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.

BC64 Where net assets attributable to defined benefit members is less than defined benefit members' accrued benefits, the AASB noted, unless there is a specific contractual agreement between the entity and employer sponsor, the deficiency would not in itself give rise to a receivable controlled by the entity. This is because, in the absence of a contract, the payment of any future contributions by the employer sponsor to address the deficiency:

7 Members remaining over the longer-term may benefit from the trustee utilising the reserve, but members exiting prior to the reserve being utilised would not benefit.

(a) would not meet the definition of a financial instrument under AASB 132 *Financial Instruments*: *Presentation*; and

(b) would not be virtually certain to be received, as required to recognise a 'reimbursement' under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

BC65 The AASB concluded, where the amount of a superannuation entity'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 in the context of Australian Accounting Standards. Accordingly, to ensure consistency with other entities, a superannuation entity should present any residual interest as equity in accordance with applicable Standards.

BC66 Some respondents and roundtable participants expressed concerns with presenting a difference between total assets and total liabilities in the statement of financial position. They suggested such presentation might be misleading to users where, for example:

(a) an entity has several groups of defined benefit members and the difference is attributable to only one of these groups;

(b) there is no specific contractual agreement between the entity and relevant employer sponsor(s) but it is probable the employer sponsor(s) will make sufficient future contributions to eliminate any deficiency; or

(c) there is an expectation any surplus (reserves) of the entity will be used for the future benefit of members.

BC67 The AASB is concerned by these examples, but concluded they are not sufficient to justify an entity not presenting a difference between assets and liabilities in its financial statements because:

(a) the extent of any surplus or deficiency of net assets is useful information regarding the entity's capacity to pay defined contribution members' benefits and/or financial position (solvency) with respect to defined benefit members' entitlements;

(b) if an entity considers users of its financial statements might misunderstand the implications of any surplus or deficiency, consistent with paragraph 55 of AASB 101, the entity would present additional line items by way of explanation, and/or make further note disclosures; and

(c) unless there is a present obligation (legal or constructive) at reporting date to pay reserves to a member and/or employer sponsor, the reserve is equity in accordance with Australian Accounting Standards.

BC68 Several respondents were also concerned an entity might be permitted or required to present its obligations for defined contribution and defined benefit members' benefits as a single line item under the ED 179 proposals. The AASB noted, because obligations for defined contribution members' benefits are different in nature and would be measured on a different basis from obligations for defined benefit members' benefits, consistent with the approach in paragraph 59 of AASB 101 and, when appropriate, the entity would present separately its obligations for the two types of benefits.

## Income statement

BC69 The AASB considered whether superannuation entities should present single statements of comprehensive income or comprehensive statements of income in accordance with AASB 101 and concluded neither would be appropriate in a superannuation context because:

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

(b) 'comprehensive income' encompasses items that would not be recognised in equity in a superannuation context and, accordingly, requiring a statement of comprehensive income may be misleading.

### Income and expense items

BC70 Under AAS 25, superannuation entities recognise all income and expense items, including remeasurements of assets at net market value, in profit or loss when they occur.

BC71 The AASB considered the merits of retaining this approach and noted that defined contribution members may choose between superannuation entities based on investment returns. In addition, some employer sponsors of defined benefit superannuation members would rely on investment returns to minimise the likelihood of being required to make additional future contributions.

BC72 The AASB also noted that some Australian Accounting Standards require remeasurements of some types of assets to be credited directly to equity. However, the AASB concluded all remeasurements, other than tax items, that are credited or charged directly to member benefits should be recognised in the income statement when they occur to facilitate a clear presentation of a superannuation entity's financial performance. The AASB also noted this treatment is generally consistent with prudential reporting and to require otherwise may increase reporting costs.

**Presentation of contributions, rollovers, transfers and benefit payments**

BC73 Under AAS 25, contributions, rollovers and transfers are treated as revenues, and payments for defined benefit members are treated as expenses.

BC74 The AASB considers this treatment should not be retained because:

(a) for defined contribution members, member contributions, transfers and rollovers and employer contributions fully vest in members and are payable to, or on behalf of, members upon demand and therefore give rise to liabilities; and

(b) employer contributions on behalf of defined benefit members assist in funding the obligations to such members.

BC75 Accordingly, the AASB concluded these flows increase the liabilities of superannuation entities and benefit payments reduce those liabilities, and they are not in the nature of revenues and expenses.

**Net benefits allocated to defined contribution members' accounts**

BC76 Under AAS 25, the difference between a defined contribution superannuation entity's revenues and expenses is presented in the operating statement as benefits accrued for members and their beneficiaries during the period.

BC77 The AASB noted this could be interpreted by some users to mean all revenues and expenses attributable to defined contribution members are allocated to their accounts and vest with them. However, this might not be the case where, for example, a trustee creates a reserve of unallocated assets. The AASB also noted:

(a) other Australian Accounting Standards that permit or require liabilities to be remeasured generally require recognition of remeasurement changes in profit or loss when they occur;[8] and

(b) it had concluded that most of a superannuation entity's assets and other liabilities should be measured at fair value, with remeasurement changes recognised in the income statement when they occur.

BC78 The AASB concluded that a superannuation entity should recognise and present the net benefits allocated to defined contribution members' accounts for a period as a gain or loss in the income statement for that period. This is in the interests of having information that provides users with an understanding of net benefits allocated to defined contribution members' accounts, and is consistent with the treatment of remeasurement changes in liabilities required by some other Australian Accounting Standards and the AASB's conclusions with respect to most other superannuation assets and liabilities.

**Net changes in defined benefit members' accrued benefits**

BC79 Under AAS 25, a defined benefit superannuation entity that measures members' accrued benefits at the end of each period is permitted (but not required) to recognise the remeasurement change for the period as an expense in the operating statement. In contrast, an entity that does not measure those benefits at the end of each period would disclose in the notes the amounts of members' accrued benefits at the most recent measurement date and at the previous measurement date.

BC80 The AASB noted that:

(a) the existing AAS 25 requirements do not facilitate the provision of comparable information useful for users in a superannuation context because defined benefit entities that are similar in all significant respects could prepare their financial statements on different bases;

(b) it had concluded, 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 obligations, 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 period;

8 For example, under AASB 137, changes in provisions are recognised as gains or losses in profit or loss in the period they occur.

(c) other Australian Accounting Standards that permit or require liabilities to be remeasured generally require remeasurement changes to be recognised in profit or loss in the period they occur; and

(d) it had concluded most of a superannuation entity's assets and other liabilities should be measured at fair value, with remeasurement changes recognised in the income statement.

BC81 However, the AASB also noted, unlike many other types of liabilities, defined benefit members' accrued benefits are funded, at least in part, by contributions from members' employers and the members themselves. Consequently, the cost to a superannuation entity of providing defined benefit entitlements for a reporting period is the net rather than gross change in the entity's obligations for defined benefit members' accrued benefits for the period. The net change 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, transfers between reserves and accrued benefits, and any gains and losses on non-routine settlements, curtailments and plan amendments. Accordingly, the AASB concluded a superannuation entity 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

BC82 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 the presentation of member benefits in accordance with paragraph 79(a) of AASB 101 may not facilitate useful information to users in a superannuation context. For example, much of the information described in paragraph 79(a) of AASB 101 does not readily relate to a superannuation context.

BC83 Given the significance of member benefits, the AASB concluded the financial statements of a superannuation entity should clearly present information that provides users with a basis for understanding changes in obligations for member benefits. Accordingly, the AASB concluded that a statement of changes in member benefits is necessary to ensure that contributions, rollovers, transfers and benefit payments are clearly presented in a manner that enables users to evaluate their significance in relation to the entity's obligations.

## Presentation of taxation amounts

BC84 Tax is levied on superannuation entities in respect of concessional contributions received and taxable earnings.[9]

BC85 Under AAS 25, tax attributable to concessional contributions is recognised as a part of income tax expense in the period contributions are received, consistent with the treatment of contributions under AAS 25. However, as noted above, the AASB concluded contributions should no longer be treated as revenues.

BC86 The AASB concluded that tax levied on concessional contributions should be presented separately in the statement of changes in member benefits because:

(a) information about tax on contributions is important for decision making by users;

(b) tax on concessional contributions is effectively paid by a superannuation entity on behalf of members and should be associated with member benefits; and

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

BC87 The AASB also 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 entity. The AASB also noted that, while the surcharge no longer applies to deductible contributions, it 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, accrued interest on a surcharge amount payable is treated as an expense by the entity.

BC88 The AASB considered the nature of the surcharge and concluded the superannuation entity is essentially acting as an agent for its members because the surcharge was determined on the basis of members' personal taxable income. The AASB also considered contribution surcharge amounts are unlikely to be material in the context of obligations for member benefits.

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9 In relation to approved deposit funds, tax is normally only levied on earnings because these entities are not permitted to receive concessional contributions.

BC89 The AASB concluded it will reconsider the status of UIG Interpretation 1019 when its deliberations on the replacement Standard for AAS 25 are completed.

### Statement of changes in equity

BC90 Under AAS 25, a superannuation entity is not required to present a statement of changes in equity.

BC91 The AASB noted that, while superannuation entities have no equityholders as such, they often have equity, particularly in the form of reserves. The AASB also noted that an entity's reserving policy could have implications for the amounts credited to defined contribution members' accounts. Accordingly, ED 179 proposed that, when appropriate, a superannuation entity should present a statement of changes in equity in accordance with AASB 101.

BC92 Several respondents and roundtable participants suggested that a statement of changes in equity would not provide sufficient useful information to users in a superannuation context to justify the cost of preparation and audit. They suggested the information that would otherwise be presented in a statement of changes in equity be included in:

(a) the statement of changes of member benefits because equity in a superannuation context is normally small (if not immaterial) and in most cases would comprise reserves that will ultimately be used for the benefit of members; or

(b) a note to the financial statements.

BC93 However, the AASB also noted there are no legal restrictions prohibiting a superannuation entity from holding a material amount of its net assets as reserves. The AASB concluded it should retain the proposal with the understanding that entities would determine when a statement of changes in equity is appropriate by applying the principles and requirements in AASB 1031 *Materiality*.

## Recognition of assets and liabilities

BC94 Under AAS 25, a superannuation plan recognises assets and liabilities in accordance with other relevant Australian Accounting Standards.

BC95 The AASB considered whether there are any compelling reasons for not retaining this approach and concluded that a superannuation entity 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 arrangements it provides to its members; and

(c) goodwill.

The AASB's reasons for proposing these departures in ED 179, and its reasons for modifying its proposals in relation to (b) and (c), are outlined below.

## Measurement of assets

BC96 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*.

BC97 With respect to approaches (b) and (c), the AASB noted 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 interests of users in the investment performance of superannuation entities, and inconsistent with the prudential measurement requirements.

BC98 The AASB concluded that the AAS 25 approach is an appropriate starting point, and that there are a number of compelling arguments in favour of requiring a superannuation entity to use fair value rather than market value.

BC99 Both market value measurements and fair value measurements provide useful information for users of the financial statements of a superannuation entity about:

(a) the capacity of a superannuation entity with defined contribution members to pay benefits as it reflects the interests of members; and

(b) the financial position (solvency) of a superannuation entity 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 'asking' prices at the end of the each reporting period whilst assets measured at fair value are generally measured at 'bid' prices. In addition, fair value measurement is more comprehensively dealt with in the accounting literature, in particular, AASB 13 *Fair Value Measurement*. Accordingly, the AASB considers requiring fair value measurement would enhance the comparability of the financial statements of superannuation entities with other entities.

BC100 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 superannuation entities measure their assets at fair value, with the exception of tax assets, assets arising from insurance arrangements the entity provides to its members and goodwill.

BC101 Most of the respondents that specifically commented on the ED 179 measurement proposals expressed general agreement with them. One respondent expressed concern that assets be measured at 'bid' prices and liabilities be measured at 'ask' prices, primarily because these proposals represent a change to the measurement requirements under AAS 25. However, the AASB noted that entities reporting under AAS 25 should, in principle, be measuring their assets at bid prices and liabilities other than member benefits at ask prices because AAS 25 is based on an exit value model. The AASB also noted that, while some superannuation entities may be currently measuring assets at their 'mid' prices, this is presumably because any differences between the assets' bid and mid prices are not material.

BC102 In light of respondents' comments, the AASB concluded ED 223 should:

(a) retain the fair value measurement proposals for assets; and

(b) propose a superannuation entity determine the fair value of an asset (or liability) in accordance with AASB 13.

BC103 In coming to these conclusions, the AASB noted:

(a) AASB 13 takes a principles-based approach to determining fair value measurement; and

(b) any implementation issues a superannuation entity might encounter in applying AASB 13 are unlikely to be unique and would potentially arise in the context of other investment-type entities, such as managed investment schemes.

Accordingly, the AASB concluded it should not include fair value measurement guidance in the replacement Standard for AAS 25.

## Transaction costs

BC104 Under AAS 25, a superannuation plan is required to measure its assets net of anticipated disposal costs. In developing ED 179, the AASB considered a number of different treatments, including:

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

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

BC105 The AASB concluded ED 179 should propose transaction costs be treated 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 as it might have a direct bearing on assessing a superannuation entity's capacity to pay benefits;

(b) it would facilitate alignment between financial reporting requirements and member reporting practices; and

(c) it is consistent with the treatment of assets under some Australian Accounting Standards, such as AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* in respect of assets held for immediate sale.

BC106 Several respondents to ED 179 expressed disagreement with the proposal to adjust fair value amounts for transaction costs because:

(a) the treatment is inconsistent with the approach required under most Australian Accounting Standards, including AASB 139 *Financial Instruments*: *Recognition and Measurement*;[10] and

(b) transaction costs are generally an immaterial amount relative to a superannuation entity's net assets.

BC107 During its redeliberations on ED 179, the AASB also noted:

(a) AASB 13 requires that, while transaction costs be considered when determining the most advantageous market, the price used to measure the fair value of an asset (or liability) should, in principle, not be adjusted for such costs. As noted in paragraph 25 of AASB 13:

"… Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability…"; and

(b) defined contribution members and beneficiaries would regard information about assets net of transaction costs as useful because it may help clarify whether all members and beneficiaries are being treated equitably, including different generations of members.[11] However, the AASB rejected the intergenerational equity argument, noting that it would be better facilitated by a superannuation entity determining earnings rates for defined contribution members on a basis that reflects anticipated transaction costs. The AASB also noted that these types of intergenerational equity issues are not as relevant in a defined benefit context because they are determined on the basis of a member's salary.

BC108 In light of respondents' comments, the AASB concluded the replacement Standard for AAS 25 should not permit the carrying amounts of assets measured at fair value to be adjusted for transaction costs. The AASB also concluded that, to facilitate consistency across

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10 AASB 9 *Financial Instruments* had not yet been issued.

11 Intergenerational inequities can arise when exiting members do not 'pay' a share of the transaction costs because the superannuation entity has the capacity to pay departing member benefits out of cash on hand or else out of ongoing contributions and income received. In such circumstances, members who remain in the entity may eventually incur transaction costs that would otherwise have been shared equally amongst all members if they had all exited the entity at the same time. In addition, members with relatively large account balances may incur transaction costs as a consequence of their superannuation plan selling some of its assets whereas other members with relatively smaller balances may incur no transaction costs if their entitlements are paid out of funds from other sources.

superannuation entities in relation to transaction costs, the replacement Standard should prohibit application of AASB 5.

BC109 One respondent to ED 179 recommended providing more clarification on how transaction costs incurred on acquisition of an asset or a liability should be treated. The AASB concluded that, in light of the different requirements regarding transaction costs across Australian Accounting Standards, the superannuation entities should have no special guidance on the matter.

## Measurement of liabilities other than tax liabilities, member benefits and liabilities arising from insurance arrangements provided to members

BC110 AAS 25 requires a superannuation plan to measure its financial liabilities at net market value.

BC111 During its deliberations on the proposals in ED 179, 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.

BC112 The AASB concluded amortised cost is not an appropriate basis in a superannuation context because it would not result in useful information to users. For example, measuring borrowings in a subsidiary at amortised cost is unlikely to provide users with relevant information for an understanding of the financial position of a parent superannuation entity and its subsidiaries. In addition, the AASB noted that measuring liabilities at cost carries with it the concerns expressed above with respect to assets. Accordingly, the AASB concluded a superannuation entity should measure its liabilities at fair value, with the exception of tax liabilities, member benefits and liabilities arising from insurance arrangements the entity provides to its members. In addition, consistent with its conclusions in relation to the treatment of transaction costs in respect of assets, the AASB concluded a superannuation entity should treat transaction costs attributable to each liability measured at fair value as an increase in its carrying amount.

BC113 Consistent with constituent comments on measuring assets, the majority of respondents agreed with the ED 179 measurement proposals for liabilities. The AASB concluded ED 223 should retain the fair value liability measurement proposals and, consistent with its conclusions on transaction costs in relation to assets, should propose:

(a) not adjusting the carrying amount of liabilities measured at fair value for transaction costs; and

(b) costs attributable to issuing a liability be treated in accordance with the relevant Australian Accounting Standards.

## Tax Liabilities and Tax Assets

BC114 Under AAS 25, the recognition and measurement requirements of AASB 112 apply in determining income tax expense.

BC115 The AASB considered the merits of requiring superannuation entities to measure tax liabilities and tax assets at fair value, which would imply a need for discounting in some circumstances, thereby requiring such entities to depart from AASB 112. The AASB noted:

(a) AASB 112 prohibits discounting deferred tax assets and liabilities to their present values on the basis that the detailed scheduling necessary to undertake that discounting is usually impracticable or highly complex;

(b) a significant proportion of many superannuation entity tax balances are attributable to unrealised gains and losses on assets held to fund member benefits and measuring them at fair value helps ensure that any associated tax balances determined under AASB 112 would be recognised at amounts approximating fair value;[12] 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 for tax purposes, and the costs directly attributable to extinguishing or settling a tax liability or tax asset are immaterial.

BC116 The AASB concluded superannuation entities should measure tax balances in accordance with AASB 112 because:

(a) users' needs do not appear to justify a departure from AASB 112 as the difference between a tax balance measured

12 For example, if a superannuation entity sold an asset for its carrying amount at the end of the 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.

at fair value or in accordance with AASB 112 would, in most cases, be immaterial; and

(b) the benefits to users from fair valuing deferred tax assets and liabilities are unlikely to be outweighed by the costs incurred in reliably determining their fair values.

BC117 The majority of the respondents to ED 179 that specifically commented on the recognition and measurement proposals for tax liabilities and tax assets generally agreed with the proposals.

# Member Benefits

## Recognition

BC118 Under AAS 25, a defined contribution superannuation plan must 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 them as a liability.

BC119 During its deliberations on ED 179, the AASB considered the merits of retaining these reporting requirements, particularly the requirements for defined benefit superannuation plans, and noted:

(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) liabilities do not necessarily have to be legal obligations and can be contractual or constructive in nature.

BC120 The AASB considered the respective legal, contractual and constructive obligations of superannuation entities and employer sponsors and concluded that member benefits should be recognised as liabilities of superannuation entities because:

(a) the obligation to fund a member's defined contribution entitlements falls on the member's superannuation entity and the obligation is legally enforceable; and

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

BC121 The AASB also considered the main characteristics of superannuation members' vested and accrued benefits and noted:

(a) member contributions and benefit transfers into a superannuation entity fully vest in the member upon receipt by the entity;

(b) employer contributions on behalf of a defined contribution member fully vest with the member upon their receipt by the superannuation entity whereas employer contributions on behalf of a defined benefit member may only vest with the member progressively in line with the relevant benefit formula. Accordingly, for the vast majority of defined contribution superannuation entities, 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.

BC122 Accordingly, the AASB concluded ED 179 should propose 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 liabilities of superannuation entities; 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 entity.

BC123 Most respondents to ED 179 and roundtable participants agreed with the proposal to recognise obligations for member benefits as a liability. Although, many of them disagreed with the proposal to measure obligations for defined benefit members' entitlements at the amount of members' accrued benefits, the AASB concluded it remains the most relevant measure.

**Puttable financial instruments and obligations arising on liquidation**

BC124 The AASB considered the implications of applying to superannuation entities the 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.[13]

BC125 The AASB noted that applying the puttable instruments exception could give rise to inconsistent reporting outcomes – for example:

(a) defined contribution members' entitlements held by an entity with only defined contribution members would generally meet the criteria necessary to be classified as equity; and

(b) defined contribution members' entitlements held by a hybrid plan and defined benefit members' entitlements would not generally meet the criteria necessary to be classified as equity.

BC126 The AASB considered that having different reporting outcomes depending upon the features of a superannuation entity would be inconsistent with principles-based standard-setting and would diminish the comparability and usefulness of the financial statements of superannuation entities. Accordingly, the AASB concluded that the puttable instruments exception should not apply to superannuation entities.

## Measurement

**Defined contribution members' vested benefits**

BC127 The AASB noted defined contribution members' vested benefits represent the amount that would be payable on demand:

(a) upon the member's retirement, death, disablement or other event that qualifies as a condition for releasing their superannuation benefits; or

(b) to another regulated superannuation entity under the *Superannuation Guarantee (Administration) Act 2002*.

BC128 The AASB noted the net assets attributable to defined contribution members would include items that it proposes be measured at

13 AASB 2008-2 *Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation* amended AASB 132 in February 2008.

amounts other than their fair values, such as tax liabilities and tax assets. However, the AASB concluded that, as most assets and liabilities attributable to defined contribution members would be measured at their fair values, the difference between defined contribution members' vested benefits measured entirely at fair value or in accordance with AASB 119 would in most cases not be material.

**Defined benefit members' accrued benefits**

BC129 In developing ED 179, the AASB considered a number of bases for measuring defined benefit members' accrued benefits, including:

(a) at fair value consistent with the IASB Discussion Paper proposals that have now led to AASB 13;

(b) at current exit value consistent with a model in the IASB's 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 AASB 119 for defined benefit obligations.

BC130 With respect to measuring defined benefit members' accrued benefits, the AASB noted:

(a) a fair value or current exit value 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 (with most assets being measured at fair value);[14]

(b) 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 fair value measurement, the issues that would need to be addressed to

14 Asymmetries sometimes arise under AASB 119 because it requires plan assets to be measured at fair value and defined benefit obligations to be discounted at a rate determined by reference to market yields on high quality corporate bonds. When a plan's assets are invested to achieve higher returns than high quality corporate bonds, the employer sponsor may show a 'structural deficit', despite the plan being fully funded on an actuarial basis.

achieve consistency across superannuation entities would be potentially insurmountable. The issues include estimating risk margins, service margins and costs of capital, and putting a price on the 'moral hazard' implications of an employer sponsor transferring its defined benefit obligations to a third party and potentially avoiding the full consequences of its decisions regarding employees' salaries; and

(c) fair value or current exit value would be inconsistent with:

(i) achieving closer alignment between the treatment of defined benefit obligations recognised by employer sponsors and superannuation entities;

(ii) thinking included in the IASB Exposure Draft of proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*, that the amount an entity would rationally pay to extinguish a liability is the lower of its settlement or transfer amounts; and

(iii) the reasoning behind the proposals in the AASB's ED 201 *Insurance Contracts*, which incorporates the IASB's ED/2010/8 *Insurance Contracts*.

BC131 Due to the relative weight of argument, the AASB concluded against proposing that defined benefit members' accrued benefits be measured at fair value or current exit value.

BC132 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, AAS 25 is 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 benefit cost or actuarial gains and losses; and

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

BC133 The AASB also noted 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.

BC134 The AASB concluded that, to achieve greater consistency across superannuation entities, and facilitate consistency with the measurement of defined benefit and other obligations by other entities, the approach in AASB 119 should be used as a basis for developing a proposed measurement method. Accordingly, in respect of defined benefit members' accrued benefits, the AASB concluded ED 179 should propose superannuation entities:

(a) use actuarial techniques and assumptions to make a reliable estimate of its obligations;

(b) determine the present value of its obligations using the projected unit credit method;

(c) be permitted to apply estimates, averages and computational shortcuts for determining its obligations; and

(d) measure its obligations at the end of each reporting period to help ensure users have useful information on a timely basis.

BC135 However, the AASB also concluded some of the AASB 119 requirements for defined benefit obligations may need to be modified for application in a superannuation entity context. In particular, in measuring defined benefit members' accrued benefits, the AASB concluded ED 179 should propose that:

(a) expected administration costs not be included because, although they may be regarded as a component of the ultimate cost of an employer's defined benefit obligations, 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, the superannuation entity would attribute member benefits to reporting periods on a basis appropriate to its circumstances;[15]

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

(d) expected future 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 future benefit payments. The AASB concluded the AASB 119 requirement to use market yields on high quality corporate bonds is not relevant in a superannuation entity context.[16]

BC136 Many respondents to ED 179 and roundtable participants disagreed with the measurement proposals for defined benefit members' accrued benefits. The reasons they cited include the following.

(a) Superannuation plans must currently calculate at least two, and potentially three, different liability measures:

(i) vested benefits on a quarterly basis for prudential reporting, and sometimes more frequently for trustee monitoring and reporting to employer sponsors;

(ii) accrued benefits (discounted at the entity's estimated earnings rate) at least every three years for funding purposes and to meet prudential and legislative requirements; and

15 When a 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 service. Accordingly, in such circumstances, AASB 119 requires employers to attribute defined benefits to reporting periods on a straight-line basis to more closely reflect the periodic cost of providing such benefits to employees. Unlike employers, superannuation entities do not receive services from members in exchange for 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.

16 In the context of an employer's defined benefit obligation, such rates may be justified because they might reflect the rates at which it could borrow to settle the obligation. However, as superannuation entities are not permitted to borrow directly, there is no similar rationale.

(iii) accrued benefits are potentially required to be calculated every year for the purpose of financial reporting by employer sponsors under AASB 119.

Accordingly, requiring another liability measure would not be justified on cost-benefit grounds.

(b) The amount of defined benefit members' accrued benefits measured under ED 179 would be likely to differ from the amount for the same members measured under AASB 119, which could give rise to confusion among users.

(c) The amount of defined benefit members' accrued benefits measured under ED 179 would be likely to be greater than the amount for the same members measured for the actuarial review because the entity's estimated earnings rate will generally be used to discount future benefits for the purpose of the actuarial review and will generally be greater than a risk-free rate. Accordingly, deficiencies would be more likely to be reported under ED 179. As employers are generally disinclined to make contributions above those needed for funding purposes, members may incorrectly conclude their entitlements are at risk.

BC137 Some respondents and roundtable participants would prefer obligations for defined benefit members' entitlements be measured at the amount of vested benefits for a number of reasons, including:

(a) the amount of vested benefits is easier and less costly to calculate than accrued benefits;

(b) users, particularly members, are more familiar with the concept of vested benefits (as it is reported in individual benefit statements). Also, users arguably have relatively less understanding of accrued benefits and what they mean in the context of a superannuation entity's financial position;

(c) the amount of accrued benefits is relevant to an employer sponsor that promises a future benefit, but arguably less relevant if a plan limits its legal obligation to members to the amount of its assets net of any obligations other than member benefits;

(d) vested benefits can be a reasonable proxy for accrued benefits, particularly when members are close to expected retirement age; and

(e) measuring obligations for defined benefit members at their vested benefits would be consistent with the proposal to measure obligations for defined contribution members' entitlements.

BC138 Other respondents and roundtable participants expressed a preference for obligations for defined benefit members' entitlements being measured in accordance with the approach in AASB 119 for defined benefit obligations, noting that such an approach:

(a) would facilitate greater consistency between employer sponsor and superannuation entity financial statements;

(b) is consistent with the AASB's policy of transaction-neutrality;

(c) would not impose significant additional preparation and audit costs on superannuation entities; and

(d) is likely to yield a figure that is similar to the amount that would be calculated under ED 179 because:

(i) expected administration costs are generally not material and not normally included in calculating defined benefit liabilities under AASB 119;

(ii) Superannuation Guarantee minimum benefits have meant few entities provide defined benefit entitlements that accrue materially higher levels of benefits as members approach retirement age; and

(iii) most defined benefit obligations for employers are discounted using a rate determined on the basis of government bond yields, which would generally be consistent with a risk-free rate.

BC139 The AASB also considered the following drawbacks of requiring superannuation entities to measure obligations for defined benefit members' entitlements at their vested benefits or in accordance with the approach in AASB 119.

(a) A vested benefits approach is inconsistent with the going concern concept because it is somewhat akin to a liquidation value and therefore not consistent with the long-term nature of defined benefit obligations and the approaches required under Australian Accounting Standards for measuring similar liabilities, such as insurance liabilities.

(b) A superannuation plan with an employer sponsor that applies AASB 119 may still incur additional preparation and audit costs in applying the approach in AASB 119 for defined benefit obligations where:

(i) the employer sponsor's reporting date is different from the entity's reporting date; or

(ii) there is a multi-employer plan and the criteria in AASB 119 are met that enable the employer sponsor to account for the plan as if it were a defined contribution plan.

(c) Measuring obligations for defined benefit members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations within the APRA reporting timeframe (within four months of period end) may pose challenges for some superannuation entities. However, the AASB decided not to provide special guidance on materiality in respect of measuring defined benefit obligations to facilitate plans meeting reporting deadlines because it would:

(i) be contrary to the AASB's transaction-neutrality policy; and

(ii) arguably need to be rules-based, which is contrary to the approach in AASB 1031.

The AASB noted AASB 119 does not require use of particular estimates, averages or computational shortcuts in measuring defined benefit obligations. Accordingly, an entity would be permitted to use those it (and its auditor) considers appropriate (including, but not limited to, the short-hand techniques used by employer sponsors of defined benefit members under AASB 119), provided that the amount calculated using the short-hand techniques is not materially different from the amount that would otherwise have been determined using the comprehensive approach in AASB 119.

BC140 In light of the comments and recommendations of respondents and roundtable participants, the AASB concluded that, on cost-benefit grounds, a superannuation plan should be required to measure its obligations for defined benefit members' accrued benefits in accordance with the approach in AASB 119 for defined benefit obligations.

BC141 The AASB noted it would prefer, on conceptual grounds, that defined benefit members' accrued benefits be measured at fair value. In doing so, the AASB acknowledged that the IASB's proposed comprehensive review of post-employment benefit accounting might consider fair value measurement for defined benefit obligations.

## 'Higher of' benefit options

BC142 During its deliberations on measuring member benefits, the AASB noted the issues regarding a 'higher of' benefit that arises as a consequence of members being entitled to the higher of a defined benefit entitlement and a contributions-based amount.

BC143 In its Discussion Paper *Preliminary Views on Amendments to IAS 19 Employee Benefits*, the IASB proposed that an employer sponsor account for a higher of benefit option in a manner consistent with an embedded option under IAS 39 *Financial Instruments*: *Recognition and Measurement* such 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; and

(b) account for the higher of benefit option separately, measured at its fair value assuming the terms of the benefit promise will not change.

BC144 The AASB concluded ED 179 should seek input from constituents on 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), since the IASB's proposals are at an early stage of development and been specifically developed for application by employer sponsors.

BC145 Respondents to ED 179 and roundtable participants confirmed that higher of benefit options are presently measured at their intrinsic values as:

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

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

BC146 In addition, most of the respondents and roundtable participants disagreed with the IASB's proposed approach because:

(a) there are no compelling reasons to depart from current practice under AAS 25 and AASB 119, which ensures accrued benefits are measured on the basis of future benefit payments that members are likely to receive;

(b) in the Australian context, some higher of benefit options can change depending upon various factors, including investment returns, salary increases, and the member's age and service periods and a reliable measurement is not feasible; and

(c) using an option valuation technique is not justified on cost-benefit grounds because, particularly since the separate recognition of a higher of benefit option could potentially confuse some users.

BC147 Based on the feedback received and the lack of progress at the IASB on its post-employment benefits work, the AASB concluded ED 223 should not address higher of benefit options.

## Liabilities and Assets Arising from Insurance Contracts

BC148 During its deliberations on the proposals in ED 179, the AASB noted many superannuation entities offer life insurance cover to their members and some also offer income protection insurance, and that AAS 25 is silent about how to account for such arrangements. The AASB also noted the forms of these insurance arrangements differ across entities, including those where cover is:

(a) offered to members, with the plan only acting as agent;

(b) provided to defined contribution members for a premium; and

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

BC149 The AASB noted that, in the case of (a), a superannuation entity is unlikely to be exposed to significant insurance risk as members or their beneficiaries would not generally have recourse to the assets of the plan, even in the event the insurer fails. In other circumstances the entity may have significant insurance risk, even if it reinsures 100% of the risk with a third-party (re)insurer. The AASB noted that, under the insurance standards, reinsurance does not nullify the direct contract with the policyholder.

BC150 The AASB considered a number of approaches to accounting for insurance arrangements that involve a superannuation entity having significant insurance risk, including applying AASB 137, AASB 4 *Insurance Contracts*, AASB 1023 and AASB 1038.

BC151 The AASB considered that many of the insurance contracts entered into by superannuation plans would meet the 'insurance contract' definition. The AASB concluded ED 179 should propose that superannuation entities account for any liabilities and assets arising from the insurance arrangements they provide to their members by applying the recognition, measurement and disclosure requirements of AASB 1038 on the basis that:

(a) insurance arrangements provided to superannuation members generally have the same characteristics as life insurance contracts and would meet the 'life insurance contract' definition were it not for the fact that it is confined to contracts regulated under the *Life Insurance Act 1995*;

(b) AASB 1038 has comprehensive requirements;

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

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

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

BC152 The AASB noted that applying AASB 1038 would potentially change the way in which many superannuation entities account for insurance arrangements and, where the insurance arrangements give rise to obligations, entities 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) liabilities arising from insurance contracts as liabilities.

BC153 In response to ED 179, a number of respondents and roundtable participants acknowledged that a superannuation entity that:

(a) 'self-insures' members' benefits (that is, does not reinsure all of the members' insurance benefits with a third-party insurer);

(b) pays discretionary insurance benefits in addition to the benefits provided by a third-party insurer; or

(c) is liable for insurance claims under its trust deeds that are not met by a third-party insurer;

is potentially exposed to insurance risk and therefore should arguably provide information regarding these risks.

BC154 However, nearly all of those commenting on the proposed application of AASB 1038 expressed concerns, including:

(a) applying the recognition and measurement principles and requirements in AASB 1038 would be difficult because:

   (i) contributions in respect of self-insured defined benefit members do not include explicit insurance premium components and, while a plan's actuary would normally estimate that component for tax purposes, that may not meet the relevant requirements;

   (ii) for some plans, a member's resignation benefits and death and/or disability benefits are linked and would be included as part of the defined benefit obligation, with the death and/or disability component not being separately calculated; and

   (iii) the amount of any self-insured defined death and/or disability benefit may not be readily identifiable where the benefit is not defined in terms of an accrued (retirement) amount plus an insured component;

(b) the proposals are not justified on cost-benefit grounds because:

   (i) applying AASB 1038 would impose significant additional costs, including the cost of systems for capturing the necessary information; and

   (ii) insurance risks are generally not significant in the context of a superannuation entity's operations as a whole because few superannuation entities are self-insured (APRA actively discourages self-insurance); the provision of insurance arrangements is only an ancillary benefit offered to members; and most plans reinsure all of the relevant risks with third party (re)insurers;

(c) the potential implications of the changes to AASB 1038 that would result from the Phase II Insurance Contracts project in the next few years.

BC155 Respondents and roundtable participants also identified a number of alternative approaches the AASB could adopt, including:

(a) only addressing accounting for insurance arrangements in a superannuation context once Phase II of the Insurance Contracts project is completed;

(b) a disclosure-only approach, for example, requiring disclosure of the insurance arrangements provided, the risk exposures and any reserves established in respect of such exposures; or

(c) requiring any obligations or assets arising from insurance arrangements to be accounted for in a manner consistent with the basis adopted for measuring member benefits.

BC156 While insurance risks may not be significant for many superannuation entities, the AASB noted that some may be exposed to significant insurance risk. For example, reinsuring member benefits with a third-party (re)insurer may not mitigate the insurance risks to which a plan is exposed because:

(a) the superannuation entity remains exposed to credit and other performance risk of the (re)insurer, including the possibility a reinsurer declines a claim but the entity remains obliged to meet the benefit;

(b) the excesses and/or deductibles under a group policy might leave the entity exposed to some or all members' insurance claims; and/or

(c) the (re)insurer is in 'run off' and unwilling or unable to pay claims.

BC157 The AASB also noted that self-insured arrangements may expose an entity to non-performance risk and/or economic dependency risk in relation to the employer sponsor, particularly when there exists a deficit in a defined benefit plan.

BC158 The AASB concluded that it should reconsider the accounting for the insurance arrangements once the Phase II Insurance Contracts project is completed, but that this should not be a barrier to addressing the matter now. In its response to the IASB's ED/2010/8 *Insurance Contracts*, the AASB recommended that the IASB consider the implications of the findings on insurance contracts as a part of its proposed comprehensive review of the accounting for post-employment benefits.

BC159 The AASB concluded a 'disclosure only' approach is not adequate because it would mean assets and liabilities would remain unrecognised.

BC160 The AASB considers the main risks to which most superannuation entities are exposed in relation to insured benefits are credit and operational risks of the (re)insurer, and risks associated with the plan administering policies (such as the risk of higher than expected claims administration expenses). Accordingly, the AASB concluded ED 223 should propose that insurance obligations to members be:

(a) recognised (and derecognised) using the AASB 119 approach for defined benefit obligations;

(b) measured as part of the obligations for defined benefit members' accrued benefits using the measurement approach in AASB 119 for defined benefit obligations;

(c) measured for defined contribution members using the measurement approach in AASB 119 for defined benefit obligations, to facilitate consistency with equivalent obligations to defined benefit members;

(d) presented separately from any obligations for defined contribution members' vested benefits (when material) – separate presentation should not be required in relation to defined benefit members' accrued benefits, consistent with the approach in AASB 119; and

(e) when appropriate, subject to the disclosure requirements in paragraphs 36 and 38 of AASB 4, including those about the key actuarial assumptions used to measure insurance obligations.

BC161 The AASB concluded the above on the basis that:

(a) insurance obligations to defined benefit members are measured as part of members' accrued benefits under AAS 25;

(b) for the purpose of recognising a defined benefit liability under AASB 119, the level of aggregation (unit of account) is the cohort of employees with defined benefit entitlements and any insurance liabilities are calculated as a part of the 'best estimate' cash flows, which contrasts with AASB 1038 which is designed to cater for life insurers and incorporates the notions of experience adjustments as well as adjusting planned margins for the impacts of changes to assumptions;

(c) insurance obligations to defined benefit members are likely to be measured at a similar amount under the accumulation approach in AASB 1038 as they would be under the approach in AASB 119 for defined benefit obligations;

(d) under AASB 119, no distinction is made between retirement benefits and insurance benefits in respect of the measurement or presentation of defined benefit liabilities; and

(e) entities could use estimates, averages or computational shortcuts permitted in AASB 119 in measuring its defined benefit obligations, such as a cash premiums basis to measure the insurance component of its obligations for defined benefit members' accrued benefits, or its liabilities arising from insurance arrangements provided to defined contribution members, if the outcomes are not materially different from those that would otherwise be achieved using an expected present value basis.

## Disclosures

BC162 As outlined in the *Framework*, financial statement disclosures provide information about the risks and uncertainties affecting an entity. In many circumstances, the disclosure requirements of Australian Accounting Standards would provide users of the financial statements of a superannuation entity with useful information for their decision making. However, some disclosure principles and requirements of those Standards may not facilitate the provision of useful information in a superannuation context. For example, AASB 116 *Property*, *Plant and Equipment* requires entities applying the revaluation model to disclose the carrying amount of each revalued class of property, plant and equipment under the cost model. However, there are very few circumstances in which users of superannuation entity financial statements might require historical cost information.

BC163 The AASB concluded that ED 179 should propose the use of the disclosure requirements in many of the existing Australian Accounting Standards, but should also propose some disclosure principles that particularly suit the superannuation environment, in place of some of those other Standards.

BC164 In respect to the disclosure proposals generally, a number of respondents to ED 179 recommended, where necessary and applicable, referring to the disclosure principles and requirements in other relevant Australian Accounting Standards rather than replicating or paraphrasing them. Accordingly, in developing ED 223, the AASB concluded it should:

(a) require a superannuation entity to apply the disclosure principles and requirements in other applicable Australian Accounting Standards unless they:

  (i) are not consistent with the measurement requirements for superannuation entities; or

  (ii) address the same items or events as the principles or requirements in the replacement Standard; and

(b) only provide superannuation-specific guidance in relation to the disclosure principles and requirements in other Australian Accounting Standards where it is necessary to facilitate their reliable and consistent application; and

(c) require a superannuation entity to disclose information that provides users, particularly members and beneficiaries, with a basis for understanding transactions and events specific to superannuation entities that are relevant to the users' decision making needs.

## Expense items

BC165 Most defined contribution members can choose the superannuation entity that manages their retirement benefits. However, to make such decisions, members need to be able to compare plans, particularly with respect to expenses. Defined contribution members bear the costs associated with the management of their retirement benefits and the level of a plan's expenses can help provide a basis for understanding the level of fees that might be charged to members' accounts.

BC166 Employers would also be interested in information about the nature and amount of expenses, for example, in attempting to identify a default defined contribution plan for employees or because they sponsor defined benefit arrangements for their employees (and generally bear the costs of providing such arrangements).

BC167 In line with other Australian Accounting Standards, ED 223 proposes a superannuation entity disclose information about the nature and amount of expenses incurred.

## Management expense ratio

BC168 The AASB considered whether a superannuation entity should be required to disclose a management expense ratio (MER) for the entity as a whole. The AASB concluded it should not propose this because a key focus of Australian Accounting Standards is on facilitating the provision of reliable information from which users can calculate their own ratios for their particular needs. The AASB also noted MERs of superannuation entities are publicly available from other sources; and other investment-type entities are not required to disclose MERs under Australian Accounting Standards.

## Nature, extent and management of risks

BC169 Having considered the types of risks to which a superannuation entity could be exposed, the AASB concluded ED 179 should propose that:

(a) the disclosure requirements in paragraphs 6-30 of AASB 7 *Financial Instruments*: *Disclosures* should not apply; and

(b) disclosure principles based on paragraphs 31-42 of AASB 7 and tailored for a superannuation context would facilitate the disclosure of useful information about significant risks to which an entity is exposed.

BC170 The AASB concluded that paragraphs 6-30 of AASB 7 are generally not relevant in a superannuation context. For example:

(a) superannuation entities are not permitted to issue compound financial instruments with multiple embedded derivatives;

(b) paragraphs 9-11 of AASB 7 are intended to help explain an entity's choice to designate financial instruments at fair value through profit or loss,[17] whereas applying that measurement basis is the subject of specific proposals in ED 179;

(c) paragraphs 25-30 of AASB 7 do not seem relevant because financial assets and any financial liabilities are measured at fair value through the income statement; and for assets and liabilities relating to member benefits, there are the challenges noted elsewhere in this Basis for Conclusions about obtaining fair values; and

(d) superannuation entities generally do not have loans and are prohibited from holding a borrowing directly, and accounting mismatches of related loans and liabilities are generally not relevant.

BC171 In light of constituent feedback, the AASB redeliberated the risk disclosure proposals in ED 179 and noted:

(a) the support for not requiring the application of paragraphs 6-30 of AASB 7 for the reasons noted above;

(b) there may be less need for specific principles for superannuation entities regarding disclosures about the nature and extent of risks than assumed for the purposes of ED 179;

(c) although AASB 7 scopes out obligations arising from employee benefit plans to which AASB 119 applies, obligations for member benefits meet the financial liability definition. This is because meeting members' benefits can be considered a contractual obligation of the superannuation entity (in the sense that defined contribution entitlements must be met and defined benefit entitlements are specified in trust deeds), and members' benefits are normally paid in cash;

(d) information in relation to the risk an employer sponsor of defined benefit members will have difficulty making contributions at a level that would be expected to permit the superannuation entity to meet members' accrued benefits is of critical importance in understanding its overall financial position (solvency), irrespective of whether there is a surplus or deficiency, and such risk is more in the nature of non-performance or economic dependency risk than credit risk; and

17 The Bases for Conclusions to IAS 32, IAS 39 and IFRS 7 suggest that paragraphs 9-11 of IFRS 7 are intended to address concerns about how entities exercise their choice to designate financial instruments at fair value through profit or loss.

(e) additional liquidity risk disclosure about any non-financial liabilities other than tax liabilities of a superannuation entity can be justified on the basis that trustees are required to have an investment strategy that has regard to the entity's overall circumstances, including the liquidity of its investments and its expected cash flow requirements. Accordingly, entities with non-financial liabilities other than tax liabilities (such as provisions) would be expected to have considered the relevant liquidity risks and how they will be managed for prudential purposes.[18]

BC172 The AASB concluded it should modify the ED 179 approach and ED 223 should propose:

(a) a superannuation entity apply the principles and requirements in AASB 7, as appropriate, and should only include guidance considered necessary to facilitate their application in a superannuation entity context;

(b) a superannuation entity make disclosures consistent with the types of information disclosed under AASB 7 in relation to the liquidity risks arising from any non-financial liabilities other than tax liabilities; and

(c) a superannuation entity with defined benefit members provide qualitative disclosures about non-performance risk and/or economic dependency risk relating to the employer sponsor(s).

## Disaggregated financial information

BC173 Information about the way a superannuation entity arranges and manages assets attributable to different groups of members, and the related obligations to members, can help provide users with a basis for understanding the financial performance, financial position and risk exposures of the entity as a whole. The AASB considers this is of particular significance given the potential range of approaches that superannuation entities might take in managing the interests of different types of members and investment types.

BC174 In framing its ED 179 proposals, the AASB concluded the 'through the eyes of management' approach applied to operating segments under AASB 8 is an appropriate approach for superannuation entities to apply in respect of disclosing information about assets attributable

18 Many superannuation entities would not have material non-financial liabilities other than those related to tax.

to different groups of members and the related obligations to members because:

(a) while they generally do not have identifiable operating segments, some superannuation entities segregate their assets into different member groups to facilitate meeting obligations to those different groups. Users would arguably benefit from these entities disclosing information about such asset groups and the related member obligations that corresponds to information provided in management reports;

(b) the approach is sufficiently generic to be applied in disclosing information about assets attributable to different member groups;

(c) the approach should be generally less costly to apply than alternative approaches because it uses information already generated for management's use; and

(d) the approach is consistent with that proposed for other disclosures, such as disclosures about risks and risk management arrangements.

BC175 Some respondents and roundtable participants agreed with the principle of having segment disclosures, particularly if they result in improved disclosures about risks attaching to different member groups. However, many other constituents expressed concerns about requiring segment-type disclosures because they would:

(a) make some entities' note disclosures excessively long and complex, thereby diminishing their overall usefulness; and

(b) not assist users in understanding the overall financial position and performance of an entity that has member groups with different entitlements but 'pools' all its assets for investment purposes.

BC176 Of significance to many constituents were the potential practical implications of applying a segment-type approach in a superannuation context, including identifying segregated groups of assets. While trustees generally manage member benefits on a segregated basis, most pool assets to achieve efficiencies. Some respondents expressed concern that some relatively common situations that arise with pooled assets may nevertheless satisfy the criteria for managing assets on a segregated basis. For example, they were concerned entities that provide investment choices to members may be required to treat each investment choice as a segregated asset group because entities' trustees might often:

(a) adjust actual allocations between asset classes within a particular investment option to match target allocations following movements in investment markets; and

(b) adjust actual allocations of assets between investment options to match obligations to members.

BC177 Others were concerned about applying the proposals to master trusts and multi-employer sponsored plans, some of which have in excess of 100 sub-plans, which comprise members with the same or related employer sponsors. While trustees generally monitor the financial position of sub-plans comprising defined benefit members on a regular basis, they do not monitor the financial performance of each sub-plan because a significant proportion of the plan's expenses are not capable of being reliably attributed to individual sub-plans. Accordingly, it is unlikely the ED 179 segment disclosure proposals would facilitate cost-beneficial disclosures by master trusts and multi-employer sponsored plans.

BC178 Others are keen to avoid duplication, by aligning any segment-type disclosures with prudential reporting requirements.

BC179 Based on constituent feedback, the AASB concluded:

(a) a significant number of superannuation entities are managed by their trustees on a segmented basis, although segmentation will often not be clear from the way the entity's assets are managed;

(b) disaggregated financial disclosures would provide useful information for users, particularly for hybrid entities because they are exposed to different types and levels of risks; and

(c) there is a need to mitigate the practical issues identified by constituents.

BC180 The AASB noted that requiring superannuation entities to provide disaggregated disclosures on the basis of member groups would facilitate a hybrid entity providing risk-based disclosures in respect of its obligations for the different types of member benefits and it would potentially address some of the constituent concerns around investment options and sub-plans being the subject of disaggregated disclosure. However, disaggregated disclosures may, for example, not be useful for showing how a hybrid plan with a small number of defined benefit members arranges and manages its obligations to such members.

BC181 The AASB also noted that requiring the use of the principles and requirements in AASB 8, as appropriate, might have drawbacks, including:

(a) some of the terms used in AASB 8 may be ambiguous or irrelevant in a superannuation context. For example, a characteristic of an operating segment is that its operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resource allocations. However, some could interpret this to mean that investment options are not operating segments because members generally decide how the assets of the plan are allocated; and

(b) some entities may provide only limited segment information under the principles and requirements in AASB 8, even when they have both defined contribution and defined benefit members because the operating results regularly reviewed by the trustees do not distinguish between the two groups of members or their related assets.

BC182 The AASB concluded ED 223 should propose that a superannuation entity provide disaggregated disclosures in accordance with the principles and requirements in AASB 8, except where it is appropriate to modify the requirements for application in a superannuation context. This is to provide trustees with more flexibility and enable them to provide disaggregated information that reflects the manner in which they arrange and manage the assets and liabilities of their entity.

BC183 In coming to these conclusions, the AASB noted paragraph 19 of AASB 8 comments that there may be a practical limit to the number of reportable segments an entity separately discloses beyond which segment information may become too detailed.

## Expected rates of return

BC184 The AASB considered whether a superannuation entity should be required to disclose its expected rates of return. The AASB noted other Australian Accounting Standards do not typically require 'forecast-type' information and that requiring disclosure of expected rates of return in the context of member investment choice would arguably be inconsistent with the economic entity notion that underpins current financial reporting. Accordingly, the AASB concluded that the replacement Standard for AAS 25 should not require expected rates of return disclosure.

## Member benefits

BC185 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 a superannuation entity's obligations for member benefits, the AASB concluded a superannuation entity should disclose information that provides users with a basis for understanding the entity's obligations for member benefits.

BC186 AAS 25 requires disclosure of defined benefit members' vested benefits at the end of the period. The AASB considered the merits of continuing to require this information and concluded that it 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

(b) vested benefits may be regarded as akin to the current portion of obligations for defined benefit members' accrued benefits, and AASB 101 requires separate presentation of current and non-current liabilities.

### AASB 119 requirements

BC187 The AASB considered whether the disclosures required in AASB 119 about member benefits should be required of superannuation entities. This included considering proposals in AASB ED 195, which incorporated the IASB's ED/2010/3 *Defined Benefit Plans – Proposed amendments to IAS 19* (May 2010) as a part of a project to improve accounting for employee benefits. Consistent with ED 195, ED 179 proposed a superannuation entity disclose the main components of any remeasurement changes in obligations for defined benefit members' accrued benefits, including benefit cost, interest cost and actuarial gains and losses.

BC188 However, ED 179 did not incorporate some other ED 195 disclosure proposals, including:

(a) the present value of defined benefit obligations, adjusted to exclude the effect of projected growth in salaries ('accumulated benefit obligation'), because it is inconsistent with the presumption employers will honour their defined benefit obligations in full; and

(b) sensitivity analyses in respect of the effect of a change to each significant assumption.

BC189 The AASB considered whether ED 223 should propose that a superannuation entity disclose information required by AASB 119 (as amended in 2011) and concluded those requirements are generally not relevant in a superannuation entity context.

BC190 Instead, the AASB concluded that more relevant information would result by requiring disclosures that satisfy principles regarding providing users with an understanding of the nature of member benefits and the risks associated with them.

**Net assets attributable to defined benefit members**

BC191 At any particular time, the amount of net assets attributable to defined benefit members may differ from the amount of such members' accrued benefits. However, the existence of a surplus or deficiency does not necessarily mean the superannuation entity will or will not be able to pay these benefits when due. Other factors can influence the capacity to pay defined benefit members, 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, knowledge of 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, including its solvency. The AASB concluded that information about the size, nature, causes of, and any strategies for addressing a surplus or deficiency should be disclosed.

**Remeasurement changes in defined benefit members' accrued benefits**

BC192 During its deliberations on the proposals in ED 179, the AASB considered whether separate disclosures of the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would be useful information. The AASB noted some users might consider the amount of benefit cost for a period to be useful in providing an indication of the recurring cost to the superannuation entity of providing defined benefit entitlements. The AASB also noted some users might consider the amount of any actuarial gains and losses for a period to be useful information as it provides an indication of how accurately the superannuation plan has estimated the key determinants of defined benefit members' accrued benefits. However, the AASB also noted information about the components of remeasurement changes in defined benefit obligations might be regarded as relatively more useful in an employer sponsor context. Accordingly, the AASB decided ED 179 should ask constituents whether the separate disclosure of the components of remeasurement changes would provide useful information for users in a superannuation context and, if so, how it should be presented.

BC193 The majority of respondents to ED 179 agreed with the disclosures being required. Other respondents:

(a) did not agree with the proposal that obligations for defined benefit members' entitlements be measured at the amount of such members' accrued benefits; and/or

(b) did not consider such disclosures would be justified on cost-benefit grounds because the number of defined benefit members is declining.

BC194 The AASB concluded that ED 223 should retain the proposal to separately disclose the components of remeasurement changes in defined benefit members' accrued benefits on the basis that it would provide users with a basis for understanding any such changes.

## Related parties

BC195 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 entity would be involved in, they may not facilitate consistent disclosures across all superannuation entities.

BC196 At the time the AASB deliberated on the proposals in ED 179, the definition of related party in AASB 124 focused predominantly upon relationships premised on control, joint control or significant influence. Nevertheless, the AASB concluded that trustees and employer sponsors are, in essence, related parties of superannuation entities because they can affect their financing and operating policies. ED 179 proposed disclosure about the entity's relationships with its trustee(s) and employer sponsor(s), 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.

BC197 AASB 124 has since been reissued and related parties of post-employment benefit plans include their sponsoring employer(s).

BC198 Some ED 179 respondents expressed concerns with the proposed manner in which related party disclosures would be dealt with under a replacement Standard for AAS 25 and suggested that:

(a) the proposals do not appear to include the materiality threshold that applies in relation to AASB 124; and

(b) the term 'normal' may be difficult to apply in some circumstances to determine whether a transaction and/or balance between a plan, its trustee or an employer sponsor should be disclosed.

BC199 The AASB concluded ED 223 should propose that a superannuation entity apply, when appropriate, the principles and requirements in AASB 124. However, the AASB also concluded that it should propose that a trustee company be specifically identified as a related party of its superannuation entity, primarily because trustees have the ability to affect the financing and operating policies. In addition, the AASB noted:

(a) an individual trustee would meet the definition of key management personnel (KMP) in AASB 124; and

(b) the potential resolution by the IASB of the issue of whether KMP can include entities should clarify the level of remuneration disclosures required under AASB 124 in relation to directors of corporate trustees.

## Definitions

BC200 AAS 25 defines a number of terms and phrases relevant to a superannuation context. However, some of these terms are no longer consistent with the definitions of the same or equivalent terms in Australian Accounting Standards. In addition, some of the terms and phrases defined in AAS 25 are no longer necessary.

BC201 The AASB concluded that a replacement Standard for AAS 25 should:

(a) not define terms and phrases that are defined elsewhere or are similar to terms defined elsewhere in Australian Accounting Standards, such as 'general purpose financial report' and 'reporting date';

(b) have definitions of ‘defined contribution member’ and ‘defined benefit member’ based on the AAS 25 definitions for ‘defined contribution plan’ or ‘defined benefit plan’, which should not be retained because that entity-based dichotomy would no longer be relevant;

(c) have a definition of ‘superannuation entity’; and

(d) include definitions for the terms ‘superannuation plan’ and ‘approved deposit fund’ (to form the basis for the ‘superannuation entity’ definition) that are consistent with the equivalent definitions in the *Superannuation Industry* (*Supervision*) *Act 1993* and accompanying Regulations.

BC202 The AASB also concluded that:

(a) the definition of the term ‘vested benefits’ should be based on the definition of the same term in AASB 119, but amended to reflect the nature of such benefits in a superannuation context; and

(b) the term ‘accrued benefits’ should be defined broadly to cover both defined contribution and defined benefit arrangements.

BC203 Several respondents raised concerns with the applicability of the definition of vested benefits in the context of defined benefit members. The AASB noted, for a superannuation entity with only defined contribution members, the amount of its obligation for member benefits would not change as a consequence of the timing or circumstances of a member’s departure (for example, resignation, retrenchment or retirement). However, depending on the relevant trust deed, different timing or circumstances may give rise to different entitlements for defined benefit members. Accordingly, the AASB concluded the definition of vested benefits in ED 179 should be amended to clarify that:

(a) vested benefits are the benefits a member would be entitled to on voluntary withdrawal from their superannuation entity at the end of the period; and

(b) in the context of defined benefit members’ vested benefits, the term ‘withdrawal’ could be interpreted to mean voluntary withdrawal by the member from either the defined benefit section of the entity or from the entity itself.

BC204 One respondent also noted the ‘defined benefit member’ definition does not identify the employer sponsor’s responsibility for investment risk as a distinguishing feature, and is not adequately distinguished from defined contribution members. The AASB concluded it should continue with the ED 179 definition in ED 223 because investment risk is not a defining characteristic of such arrangements, for example, for employer sponsors of unfunded defined benefit public sector schemes.

## Matters raised by ED 179 respondents that the AASB decided not to address

BC205 While the AASB acknowledges respondents concerns, consistent with its policy of transaction-neutrality the AASB concluded that the issues underlying some of those concerns:

(a) are outside the scope of general purpose financial reporting;

(b) are dealt with in other Australian Accounting Standards; and/or

(c) arise under other Australian Accounting Standards and are dealt with by non-superannuation entities without the benefit of additional guidance.

The AASB also noted that providing superannuation-specific guidance on the application of the principles and requirements in other Australian Accounting Standards would run the risk of establishing interpretations of IFRS principles and requirements that are not consistent with the way they are interpreted in other contexts.

BC206 Having considered respondents' concerns, the AASB concluded the replacement Standard for AAS 25 should not provide:

(a) additional guidance in relation to the preparation and presentation of:

(i) consolidated financial statements under AASB 3 and AASB 10; and

(ii) statements of cash flows and disclosures in relation to non-cash transactions under AASB 107 *Statement of Cash Flows*. In doing so, the AASB noted AASB 107 requires entities to:

(A) disclose a reconciliation of cash flows arising from operating activities to profit or loss;

(B) report cash flows from operating, investing and financing activities on a gross basis; and

(C) disclose non-cash investing and financing transactions in a way that provides all relevant information about such transactions;

(iii) risk-based disclosures in relation to asset concentrations and sensitivity analyses;

(b) additional disclosure requirements in relation to business, non-financial and emerging risks;

(c) additional disclosure requirements and/or guidance in relation to information about reserves;

(d) additional guidance in relation to how a superannuation entity's tax liability for a period might be allocated between the income statement and the statement of changes in member benefits, although some constituents asked for guidance because the *Income Tax Assessment Act 1997* does not distinguish between income tax on investment earnings and tax on contributions The AASB noted that plans would currently need to distinguish between tax on earnings and tax attributable to contributions in order to determine member benefits and that non-superannuation entities are required to perform similar calculations under other Australian Accounting Standards;

(e) additional disclosure requirements that facilitate separate presentation of realised and unrealised gains and losses. The AASB noted that superannuation entities would not be prevented from presenting or disclosing such additional information if it provides useful information to users of its financial statements;

(f) additional application guidance in respect of the:

(i) presentation of 'netted off' revenue and expense items, particularly in relation to entities conducting their investment arrangements through investment managers and/or custodians;

(ii) treatment of tax liabilities and tax assets;

(iii) circumstances in which contributions in respect of defined contribution members should be recognised on an accrual basis or a cash basis, and the circumstances in which a plan would recognise contributions receivable in respect of defined benefit members for which there is a deficiency of net assets. The AASB noted that, to be recognised as an asset, contributions not yet received would need to meet, at a minimum, the asset recognition criteria in the *Framework*; and

(iv) circumstances in which benefits payable would be disclosed as a current liability. The AASB noted that AASB 101 has relevant criteria for distinguishing between current and non-current liabilities.

## Matters raised by some AASB members

BC207 Some members noted that, while they voted in favour of the release of ED 223 because, overall, they believe the adoption of the proposals would improve the quality of financial reporting for superannuation plans, they have concerns with aspects of ED 223. In particular, they disagree with the proposed requirement to remeasure acquired intangible assets at fair value at each reporting period in the consolidated financial statements. They believe imposing different requirements on one type of entity in this case is inconsistent with the Board's policy of transaction neutrality and that:

(a) there is no clear justification as to why superannuation entities and other entities that carry the majority of their assets at fair value should account for similar transactions differently;

(b) the proposed treatment of acquired intangible assets in ED 223 is inconsistent with the treatment of internally generated assets, thus reducing the information value of the requirements; and

(c) the proposals are not justified on cost-benefit grounds.