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Professor David Boymal
Chairman
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PO Box 204
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Via email: standard@aasb.com.au

Dear David

Consultation Paper – Consolidation of Subsidiaries by Superannuation Entities

Thank you for the opportunity to comment on the Consultation Paper - Consolidation of Subsidiaries by Superannuation Entities. CPA Australia's comments are not limited to the questions asked by the Australian Accounting Standards Board (AASB). Firstly, it comments on the AASB's proposal for the consolidation of subsidiaries by superannuation entities in accordance with the Australian Accounting Standards. CPA Australia does not support the consolidation of subsidiaries by superannuation entities. Instead, it supports a no-consolidation approach for reasons of decision usefulness. Secondly, CPA Australia's response to the questions posed by the AASB is to call on the AASB to use an approach that requires inclusion in the notes to the financial statements, information that explains the nature of the superannuation entity's investment, investment strategy and risk practices. CPA Australia's reasons follow.

CPA Australia's comments have been prepared in consultation with our members and industry groups, including the members of our Financial Reporting and Governance Centre of Excellence.

Superannuation entities and consolidation

In principle, CPA Australia supports the application of the requirement to present consolidated reports for all parent entities and their controlled entities, regardless of the industry in which the parent entity operates. However, CPA Australia acknowledges that there may be some limited occasions when adherence to this principle would not be consistent with the reporting of financial information that has the attributes of useful information to users. CPA Australia's response to this apparent tension between requiring consolidation and providing information that is useful for decision making is to support financial reporting that is understandable, relevant, reliable and comparable. CPA Australia's consultation with its membership and industry bodies has led it to conclude that the financial reporting required of superannuation entities is one occasion when relaxation of the principle of consolidation is appropriate – to do otherwise would result in the provision of financial reporting that is not useful to users.

CPA Australia understands the underlying characteristic of the superannuation industry is that of an investment based operation that does not have as its purpose the exercise of control over its investment in an entity. Where that investment is 'controlled' (as articulated in AASB 127 *Consolidated and Separate Financial Statements*), the manner in which the investment is managed is not different from when the investment is an entity that is not controlled. Furthermore, some members have expressed their concern that the reporting of minority interests may convey to superannuation fund member users the message that outside equity interests are available for distribution, which CPA Australia understands is incorrect.

In search of a principle

CPA Australia has spent much time in search of a principle that could be applied to enable the relaxation of the application of the principle of consolidation to the superannuation industry. Treatment of all investments in entities as in substance, 'held for sale' had some appeal. However, CPA Australia struggled to understand how the approach might be rationalised in a meaningful way. For example, some members were of the view that the relaxation of the requirements to consolidate be limited to those occasion when:

- the controlled entity is a listed entity; or
- the controlled entity is a managed fund entity,

as marketable securities with active market prices (equivalent to Fair Value's Level 1 Inputs) are inherently acquired and held for sale. Relevant information would be required to be presented in the notes to the financial statements to provide additional information about these investments.

A pragmatic approach

Other members and industry specialists noted that the extension of the available for sale principle described above might still result in a partial consolidation (e.g., when the 'controlled entity' is not listed). It was their view that application of that principle would not always result in the production of useful information. Those commentators argued for a pragmatic approach to the problem – that the parent superannuation entity not be required to consolidate any of its 'controlled entities'. Some commentators suggested that in place of the consolidated financial information, investment related information be required in note disclosures to explain the nature of the investments, investment strategy and risk profiles.

CPA Australia supports the pragmatic approach – that is no consolidation, with investment related information required to be disclosed by way of note. It believes that the information needs of users of superannuation entities' financial reports would be satisfied by the provision of segment information (by category of investment or by strategy, including the rate of return by segment) and information on joint control investments, in lieu of equity accounting.

Questions

CPA Australia's responses to the AASB's questions are as follows:

1. **Of the four consolidation approaches discussed in this Consultation Paper, which would you most prefer to be applied by parent superannuation entities and why?**

   CPA Australia does not support consolidation. Accordingly, it does not support any of the four consolidation approaches discussed. Instead, CPA Australia advocates an approach whereby the recognised net investment in the 'controlled entity' measured at fair value less cost to sell would be supplemented by note disclosures that provided segment information as described above.

   If the AASB were to proceed with the proposed consolidation of subsidiaries by superannuation entities as outlined in the Consultation Paper, CPA Australia supports Approach A, a full fair value accounting model, and only if the proposed standard:

   - specifically and extensively outlines the approach for fair valuing plan assets and liabilities; and
   - address measurement issues relating to the fair valuation of complex balance sheet items such as defined benefit obligations.

2. **Of the four consolidation approaches discussed in this Consultation Paper, which would you least prefer to be applied by parent superannuation entities and why?**

If the AASB were to proceed with the proposed consolidation of superannuation entities as outlined in the Consultation Paper, CPA Australia does not support approaches B, C and D.

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au or John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser at john.ngiam@cpaaustralia.com.au.

Yours sincerely

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Chief Executive Officer

cc M Shying
D Pratt
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