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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
VIC 8007

Dear Sir

Request for comment on AASB Consultation Paper "Consolidation of Subsidiaries by Superannuation Entities"

We are pleased to submit our comments on the specific questions raised in the AASB's Consultation Paper "Consolidation of Subsidiaries by Superannuation Entities". We also take this opportunity to thank the AASB for the opportunity to discuss our views at the roundtable discussions in Melbourne and Sydney at which representatives of our firm attended.

The Consultation Paper starts from the position that general purpose consolidated accounts are prepared for the superannuation scheme. We acknowledge that many participants in the superannuation industry hold a strong belief that alternative options to full consolidation, such as supplementary disclosures, will provide more useful information to users of superannuation fund accounts. We also concur with observations that for the vast majority of superannuation funds investing in pooled investment vehicles, the application of the accounting standard test of control will result in consolidation of entities in which superannuation funds are 'passive' investees, and hence give rise to consolidated accounts which may add little to users of the financial report.

Ernst & Young however supports the requirement to consolidate which ensures consistency across the accounting framework and gives an overall view of the stewardship of the assets for which the Trustees of the scheme are responsible. Our view is that as more of the larger Superannuation Schemes invest more diversely and directly in areas such as property, infrastructure and commercial operations, either fully or partially owned, there will be an increased need for the fair value of the Scheme's investment exposures, both assets and liabilities, to be visible to the reader of the financial statements of the Superannuation Scheme.

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Preferred Option

Accordingly, of the four consolidation approaches discussed in the Consultation Paper, the most preferred is Option A, subject to the following clarification.

Option A describes a full fair value approach in which the assets and liabilities of controlled entities would be recognised at fair value (net of disposal costs). In addition, any non-financial instrument liabilities of the parent superannuation fund which are not valued at net market value (as allowed under AAS 25) will be restated to fair value (net of disposal costs) on consolidation. The paper suggests this would apply to the value of the parent superannuation fund defined benefit obligations currently disclosed in the current AAS 25 format as a note to the accounts (as both "accrued benefits" and "vested benefits"). We do not support such a proposal on the following grounds:

a) presenting the members benefit obligations, specifically defined benefit obligations, on two different measurement bases in the financial report is likely to confuse readers of the financial statements
b) it is premature to move the valuation of these obligations to a full fair value basis, without further understanding by all participants in the financial reporting process as to what this would entail. We highlight the ongoing discussions in the insurance industry as to difficulties in implementing a fair value model in the measurement of long tail insurance liabilities.

Least Preferred Option

Of the four consolidation approaches discussed in the Consultation Paper, the least preferred is Option D. In our opinion, the measurement basis that is consistent with that adopted at the parent entity level and how all users of the financial report monitor the invested resources the superannuation fund controls is fair value (net of disposal costs). Accordingly the model that is the most distant from measurement basis is the least preferred.

We would be pleased to discuss our comments further with you. Please contact David Jewell on (02) 9248 5803 or James Scott on (02) 8295 6271 if you wish to discuss any of the matters raised in this response.

Yours faithfully

Ernst + Young

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