



**The Institute of
Chartered Accountants
in Australia**

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Professor David Boymal
The Chairman
Australian Accounting Standards Board
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Dear David

Consolidation of Subsidiaries by Superannuation Entities

The Institute of Chartered Accountants (Institute) welcomes the opportunity to make a submission on the consultation paper discussing the Consolidation of Subsidiaries by Superannuation Entities.

We disagree that consolidation is relevant to superannuation entities as the information is not useful for users in making decisions about the allocation of scarce resources. However should the AASB determine that consolidation is required, our preference would be for an amended version of Approach A. Our detailed comments follow in the Attachment.

If you require any further information please contact Kerry Hicks, Head of Reporting, on (02)9290 5703.

Yours sincerely

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Consolidation of Subsidiaries by Superannuation Entities

Views on Consolidation

While we would generally not support different industry application for adoption of accounting standards, we consider the superannuation industry to be unique given the specific information needs of the users of the financial report.

The Institute is of the view that the requirement to consolidate financial information is inappropriate for superannuation funds since the information is not of benefit to the users of the financial report in making decisions about the allocation of scarce resources.

The users of the financial statements are the trustees, regulator and the fund members. The trustees have access to more timely information than the financial statements provide. Therefore they are not considered arms length users who rely on the financial statements to make investment decisions.

The regulator, APRA, requires the fund to prepare a parent entity set of general-purpose financial reports. They specifically request that consolidated reports are not provided to aid the effectiveness of the regulatory role.

Fund members primarily rely on the product disclosure statement and the annual report as their primary sources of investment information for making investment decisions. The information presented in these documents takes the form of abridged financial statements and detailed investment reporting for each available investment option. Superannuation trustees are required by the Corporations Act to ensure that product disclosure statements do not misrepresent the fund's investments. As a result a material change to investments during the period will result in an amendment to the information disclosed in these product disclosure statements.

In our view requiring the underlying financial statements be consolidated could be misleading to the members, as their information needs relate to the proportion of the investment that accrues to them. Following the full consolidation model would be misleading rather than increase decision usefulness.

We therefore are of the view that the use of consolidation by superannuation entities does not improve the quality or understanding of information to fund members.

As the objective of reporting is to provide members with the information to understand the underlying risk associated with investments controlled by the fund, we are of the view that the standard should require the disclosure of the underlying assets and liabilities of material investments in controlled entities by way of a note. This will ensure that information which may influence a member's decision making is available in a cost efficient manner.

Preferred consolidation model

While we do not support consolidation by superannuation funds, if the AASB decides to proceed with these proposals, of the approaches outlined in the consultation paper, we concur with the arguments outlined in the paper and believe that Approach A is the most appropriate.

Approach A requires the defined benefit members' liabilities to be stated at fair value determined on the basis of the cost to transfer the liability. This value is likely to vary from the accrued member benefits thereby confusing members. As a result of this being the basis of valuation of the defined benefit liability the fund could look as though it has an unfunded defined benefit liability and technically insolvent although this is not the case when current valuation methods are applied.

We recommend that the liabilities associated with members' balances are valued at the vested benefit. Any variance between the assets available to meet future benefits and the vested benefits will be treated as a reserve. This reserve may be negative where the fund is in an unfunded position or positive where there is an investment income reserve or surplus assets.

Least preferred consolidation model

Approach D is the least preferred model. While this approach complies with all of the present accounting standards, it is the one which is likely to result in the greatest variance between members' entitlements and the consolidated information. Therefore we believe that this approach will not produce relevant and reliable information for the users of the financial statements.