ED179 sub 16

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Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

1 October 2009

Dear Kevin

ED 179 SUPERANNUATION PLANS AND APPROVED DEPOSIT FUNDS

We attach our comments on the above exposure draft.

We are supportive of the work done by the AASB to develop a new standard for superannuation funds consistent with IFRS subject to our comments and suggestions.

We have addressed the AASB's specific matters for comment in Appendix 1.

Other issues that we would like the AASB to consider with regards to accounting for superannuation funds are addressed in Appendix 2.

Our practice over the past 10 years has annually prepared between 80 and 120 general purpose financial statements for large corporate, industry and government superannuation funds with members and operations throughout Australia. These funds are all subject to audit and comply with accounting standards and legislative requirements.

We believe that our experience and knowledge of the superannuation industry enable us to provide constructive comments and recommendations to the AASB on this exposure draft.

Should you or your staff have any questions please do not hesitate to contact either Graeme Robson or myself.

Yours sincerely

SHARYN LONG
Managing Partner

Encl

APPENDIX 1

Specific Matters for Comment requested by the AASB

(a) Recognition principles in paragraph 10

Obligations for members' benefits to be recognised as liabilities
We agree that members' benefits should be recognised as liabilities under IFRS. However, we have concerns about the measurement of defined benefit members' benefits which are discussed in point (c).

Obligations and assets arising from insurance contracts
We have concerns with the relevance and measurement of insurance contracts discussed in the ED and these are discussed at point (e).

Assets and liabilities of a subsidiary
We disagree with the ED's proposal to consolidate certain investments where the superannuation fund is passively investing in a pooled investment entity and propose a disclosure by way of note.

(b) Measurement of assets and liabilities at fair value less transaction costs

We agree in principle with this proposal.

(c) Measurement of defined benefit members' accrued benefits

We disagree that these benefits should be measured using the requirements of AASB 119 as this is a standard applicable to employers not superannuation funds.

Our preferred position would be to use the vested benefit liabilities as this would be consistent with the measurement of defined contribution member liabilities. Pure defined benefit funds are few in number and in most funds the defined benefit member portion of a fund is relatively minor. Using vested benefits would be easier and less costly and does provide a reasonable estimate of the liability of member balances at each year end.

We suggest that if accrued benefits is an appropriate method to measure defined benefit member liabilities then the same actuarial method be applied that has in the past been used on a tri-annual basis. This method should be applied on an annual basis.

(d) Defined benefit members and externally imposed requirements

We have no comments on this issue.

(e) Any significant practical difficulties that would inhibit the measurement of obligations and assets arising from insurance contracts

We concur that if a fund has any exposure to any material insurance risk then it should be disclosed in the financial statements.

This proposal is particularly relevant to funds which have elected to self-insure the death and disability risk of their members instead of entering into insurance contracts with an insurance entity.

However, we do not believe that there is sufficient guidance and discussion in the ED on the measurement, disclosure and impact of other legislation such as the Corporations Act and Life Insurance Act.

(f) Are there any circumstances where the difference between assets and liabilities be treated as equity

We are not aware of any circumstances where this would be the case.

(g) Recognition of a "higher of" benefit option separately from a defined benefit "host promise"

See above for our comments in (c). If a vested benefit approach is taken this difference would not arise.

(h) Are there any significant difficulties that would inhibit the preparation of consolidated financial statements as per paragraph 30 of the ED

We believe there are significant difficulties and practical issues that require more consideration by the ED.

The main issue is whether a fund as an investor in a particular investment has control when it has more than 50% of the ownership and of that investment.

Typically a fund is a passive investor that does not have any influence on the investment or redemption of investments in the investment entities in which they invest. This is particularly true for pooled investments such as pooled superannuation funds and unit trusts.

A greater than 50% holding can occur without a fund knowing due to investors redeeming their investment which results in a fund having a greater proportion in the investment. In some instances this resulted in the fund holding more than 50% of the investment. We do not believe that the fund should be required to consolidate this investment.

The ED requires more discussion, examples and guidance of when it would be appropriate to consolidate an investment and disclose any minority interest.

A better approach maybe by way of note describing the fund's investment interest and what influence (if any) the fund has over the decision making and operations of the investment.

(i) Recognition of internally generated intangible assets, goodwill, contingent liabilities or assets attributable to a subsidiary and arisen subsequent to the subsidiary's acquisition by the parent fund and when such items are reliably measurable

As discussed above this only has relevance if consolidation is applicable.

We have no comment on the proposed methodology to account for this movement.

(j) Recognition of any excess of the amount of the net assets of a subsidiary over the fund's interest as a measurement gain in the consolidated income statement

If applicable, we agree with this treatment.

(k) A parent fund should be required to measure any non-controlling interest at fair market value of equity at the end of each reporting period

If applicable, we agree that fair value is appropriate.

(l) The disclosure principles in paragraphs 32-50 of the ED are appropriate, provide useful information and sufficient to facilitate reliable and comparable disclosures between superannuation entities over time

We agree with the proposed disclosures subject to our discussion above.

We would recommend that a more comprehensive example be provide in the final standard which would include fund with defined contribution, defined benefit and pension members be included. We would also like to see comprehensive examples of the notes to the accounts including a note 1 covering accounting policies adopted similar to the disclosures in current audited financial statements of superannuation funds.

(m) Are there any significant practical difficulties that would inhibit the disclosure of information in relation to any segregated groups of assets attributable to different groups of members and the related obligations to those members

This could be quite an onerous disclosure requirement without some guidance as to what level the segregation would be required to be disclosed.

We recommend an approach similar to AASB 8 *Operating Segments* which is more focused operating segments rather than on an administered basis. This would make the measurement the assets, performance and risk a relatively easier process. This is because the information would, in all likelihood, already have been prepared for management and the trustees.

(n) Separate disclosures of the components of measurement changes in defined benefit accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses would provide useful information to users

With the number of defined benefit members declining we do not believe this information would provide any useful information to users.

(o) It would be more useful if the standard provided example financial statements for a fund comprising both defined and contribution members

As mentioned above we agree with this proposal. We also would add pension members into the example fund disclosures as more and more fund's are retaining members by offering pension products.

Also mentioned above was the suggestion of example policy notes to reduce the differences in interpretation of preparers and auditors of the funds as to what needs to be disclosed in this note (and what does not need to be disclosed).

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(p) The approach adopted by the ED is helpful for understanding how a plan or fund might apply the proposals in the ED

Whilst the approach is useful, as discussed above there is need for more discussion, guidance and comprehensive examples.

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

Overall the proposals should result in financial statements useful to users subject to the comments in our submission and the following points:

- Greater use of notes to the accounts for the statement of financial position instead of the detail on the statement
- Use of notes to expand some of the income and expense items on the income statement
- In the statement of cash flows rename "cash flows from financing activities" to "cash flow from member activities"
- In the income statement change "profit" to "investment earnings" and after income tax expense add "on investment earnings"

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

The proposed new standard which aligns superannuation fund accounting with IFRS is welcome and subject to our comments above we believe is in the best interests of the Australian economy.

APPENDIX 2

Specific accounting issues to be considered by the AASB

(a) Recognition of contributions receivable

Contributions received after year end but relating to the current year are treated as contributions receivable by some funds but not all funds.

Fund administrators account for contributions in the members' accounts either on a date received basis or on the effective date to which the contributions relate.

Funds that offer member investment choice ("MIC") credit contributions to member accounts on a date received basis.

Funds that do not offer MIC usually credit the members based on effective date (usually the month to which the contributions relate).

We are concerned that there is no consistency within the superannuation fund industry with respect to accounting for contributions receivable. In some cases the amounts are only estimates and are therefore not allocated to member accounts.

We also question the fact that the fund may not have a right or entitlement to receive the contribution from either a member or the employer until such time as the contribution is received. In many cases, the fund does not control when the contributions will be received nor does the fund have any legal rights to enforce the payment of the contributions by the employer or member. This means that contributions receivable may not satisfy the definition of an asset or income.

We request that the AASB address this issue in the new standard.

Our suggestion is that the accounting treatment of contributions received after year end be consistent with administration system for crediting contributions to member accounts which is also used to determine vested benefits.

That is, if members are credited with contributions on the date the contributions are banked then contribution revenue should be accounted for on a cash basis.

The consequence of not adopting a cash basis would result in a fund booking a receivable but the contributions not have being credited to member accounts and/or appearing on member's statement. The vested benefit number would exclude these contributions and therefore a manual adjustment of the receivable would need to be made to the vested benefits when reporting this in the financial statements.

The contribution receivable for funds with MIC does not satisfy the definition of an asset in that the benefit from the contributions for the members is not reflected in their entitlement in the fund until the contribution is received by the fund.

By booking the contributions receivable the fund may be overstating the assets and vested benefits of the fund.

In the case of fund's that credit members on the effective date of the contribution a contribution receivable should be booked as the contribution will be included in the vested benefits at year end. To not book the receivable would understate the assets of the fund whereas the liability for member entitlements would include the amount.

The contribution receivable in this case will meet the definition of an asset in that the benefit of the contribution is included in member entitlements at year end.

Our recommendation is that the accounting for contribution revenue should be consistent with the method the fund uses for crediting members with contributions.

(b) Recognition of benefits payable

Another inconsistency in the superannuation industry is the recognition of benefits payable at year end.

Generally, a benefit payable arises when a member notifies the fund that he or she wishes to withdraw their entitlement from the fund. However, in certain instances members are treated as "inactive members" when they satisfy a condition of release such as resignation or retirement. However, the member has not notified the fund of their intention to either exit the fund or retain their benefit in the fund.

Should a liability be booked for benefits payable at year end where the member has simply retired but fully intends to retain their benefits in that fund?

Paragraph 91 of the AASB publication *Framework for the Preparation and Presentation of Financial Statements* states that "A liability is recognised in the balance sheet when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably".

We believe that in some cases an unpaid benefit at year end does not meet all the requirements to be booked as a benefit payable for the following reasons:

- The amount of the benefit at year end cannot be reliably measured as the member's entitlement continues to accrue earnings until the benefit is paid.
- Most funds are encouraging members to retain their benefit in the fund either as a "retained account" or in a lot of cases as a "pension member" upon retirement. In both cases no benefit is paid out after year end.

We recommend the following with respect to benefits unpaid at year end:

- Members who have provided a notice of their intention to have their benefit paid out of the fund but have not been paid prior to year end, should be booked as a benefit payable subject to reliable measurement.
- Members who satisfy a condition of release but have not provided notice to the fund of their intentions with respect to their benefit should be treated as members of the fund at year end and be included in vested benefits.
- Where the fund has received insurance proceeds for a death or TPD claim and not paid out the benefit to the member or beneficiary a benefit payable should be booked.

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(c) Statement of cash flows

We have made some comments on the pro-forma statement of cash flows in Appendix 1 to rename "cash flows from financing activities" to "cash flow from member activities"

An issue with respect to the cash flow is that with member activities to be recorded in the Statement of Changes in Members' Benefits the reconciliation note will only be with respect to the operating activities in the Income Statement. Previously the member activities were included in operating activities. As such the movements in the asset and liabilities relating to member activities will be excluded.

We request that the AASB provide clarification that the reconciliation only includes operating activities in the Income Statement and excludes any reconciliation with net benefits accrued from member activities.

We also have some concerns whether the Statement of Cash Flows will capture all the cash flows.

This is especially relevant for funds that use a custodian for their investments where the majority of investment and redemptions are transacted through a bank account held by the custodian or are transfers between investments which are processed by the custodian and not through the fund's bank account.

These significant cash flows may be excluded from the cash flow statement and therefore understating investment activities.

Another concern is the inconsistency with respect to disclosure of non-cash items such as dividends, distributions and fee rebates reinvested and investment manager fees paid by the redemption of units and investing activities discussed above.

AASB 107 *Cash Flow Statements* in paragraphs 43 and 44 states that non-cash items should be disclosed elsewhere in the financial reports.

We recommend that the AASB provide guidance on the treatment of non-cash items in the new standard. This would include examples of non cash items and be part of a comprehensive example of superannuation financial statements that would include the note on the reconciliation of net cash provided by operating activities to benefits accrued from investing activities.

Non cash investing activities would be disclosed after the reconciliation note as follows:

Non cash investing activities

During the year the following non cash investing activities occurred:

	2010 $'000	**2009 $'000**
Distributions reinvested	25,020	23,621
Management fee rebates	20	21
Direct investment expenses	330	299