ED179 sub 2

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29 September 2009

The Chairman
The Australian Accounting Standards Board
PO Box 204
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By email: standard@aasb.gov.au

Dear Sir

ED 179 Superannuation Plans and Approved Deposit Funds

Further to the release of AASB Exposure Draft 179 Superannuation Plans and Approved Deposit Funds ('the ED') issued in May 2009, we attach our response to the various proposals within the ED. Our submission contains general comments on some of the key areas within the ED where we believe alternative treatment should be considered and specific comments addressing various matters identified by the AASB where comments have been specifically sought.

Overall we are supportive of the proposals, as a whole within the ED. We believe they will provide greater transparency and consistency across the industry and enhance the current financial reporting framework amongst superannuation funds. We also believe the principles based approach adopted allows Trustees to tailor their financial reporting to focus on financial risks specific to the structure of their Fund.

We have raised some matters for your consideration and clarification. In particular, our response comments on the following key areas:

- Consolidation of controlled entities
- Measure of defined benefit liabilities and
- Insurance contracts.

Should you wish to discuss any aspects of our submission, please feel free to contact me on (03) 8650 7637 or David Jewell, Partner on (02) 9248 5803.

Yours faithfully

Denis J Thorn
Partner
Financial Services

General Comments

1. Measurement of defined benefit liabilities

1.1 Commentary on proposals:

Firstly, we concur with the proposals within the ED that classify members benefits (defined benefit and defined contributions) as liabilities on the face of the balance sheet. Similarly, other amounts such as reserves, amounts not allocated to members etc should be treated as liabilities. We also acknowledge that there may be some items that are classified as equity such as amounts held as capital as required under an APRA licence.

We do not believe that the current proposal for measuring defined benefit liabilities is appropriate. We prefer a vested benefit approach to measure the liability, with supplementary note disclosures of accrued benefits.

The ED suggests that defined benefit entitlements of a superannuation fund should be measured and recognised using an approach that is conceptually similar to the requirements of AASB 119. AASB 119 has been drafted for the purposes of measuring and recognizing the liabilities of an entity in providing employee benefits including post retirement benefits through a defined benefit scheme. We do not believe that this is an appropriate basis for measuring the liability of the Trustee of the superannuation fund for the following reasons:

- employers have made a promise to their employees to put in place certain retirement benefits and are, appropriately, required under AASB119 to measure these obligations which they are constructively and/or legally committed to by apportioning the cost over the expected service period. This is designed to ensure that the cost of providing employee benefits is attributed over the periods in which the employee renders the service to the employer.
- In contrast, the trustees of a defined benefit superannuation fund have not made the promise to the employees, have no control over the service period, the value of the benefit provided to the employee and the rendering of the services.
- employers have an obligation to make all practical efforts to fund these contractual obligations, and if necessary, to increase their contributions where a shortfall exists. In contrast, if a Trustee becomes aware of a potential shortfall, they would usually, in conjunction with the Fund actuary work with the employer to put in place a funding plan to rectify the shortfall. The Trustee would strongly encourage the employer to contribute in accordance with the recommended funding plan and request written commitment of the employer to the funding plan. Trustees, in their own right, are not liable for the shortfall as it is the employer's liability. Trustees generally do not have the financial capacity or legal authority to fund these liabilities in any other way, and they certainly cannot use funds that they hold for other members or for defined contribution members as this would amount to subsidizing the defined benefit members at the detriment of other members.
- Depending on the Deed, a Trustee of a superannuation fund may have various powers available to them to force the employer to make contributions. In addition, where an employer fails to contribute, the Trustee usually reserves the right to terminate the arrangement and distribute available net assets to members regardless of what the employer's contractual obligations to the members. Therefore, the Trustee would only be liable for the reduced benefit
- ED 179 should recognize that superannuation funds are legal entities in their own right. They are not subsidiaries of the employer sponsor. Therefore, the accounting needs to recognise their separate and independent status and not just mimic employer accounting.

- Whilst the AASB has attempted to align superannuation fund reporting with AASB 119, the results of an actuarial valuation conducted under AASB 119 and current proposals within ED 179 are likely to yield a different result due to different aims of users, use of a risk-free rate versus high quality corporate bond rate, timing of the review etc.

In our view, the ED does not recognize the existing actuarial valuations currently undertaken under SIS including the statements and certificates issued on the Fund's solvency position measured by the minimum requisite benefit, the recommended funding plan including the amount and timing of employer contributions and the triennial actuarial review which measures the accrued benefits of the Fund whereby the results are currently disclosed in the notes to the financial statements and summary attached to the financial statements. It is worth noting that many defined benefits funds are undertaking such valuations annually and even quarterly, suggesting they are a better financial reference point than an AASB 119 measured liability. Introducing another measurement basis for financial reporting purposes will create greater confusion amongst the industry including members and require further explanation and rationale to the differences arising under each calculation.

We believe that vested benefits is a more appropriate basis for measuring the liability of defined benefit members for the following reasons:

- Vested benefits represents the amount due and payable at balance date and is consistent with the values reported in individual member statements
- Vested benefits represents the amount that the fund is obliged to pay a member should they cease membership at any given point in time. They are not entitled to anything more other than what is 'vested' at that point in time
- Measurement of vested benefits does not require the use of judgment, methodologies and assumptions and therefore is considered a more reliable measure. The benefit is determined by reference to the terms and conditions of the Trust Deed.
- Using vested benefits to measure defined benefit liabilities is consistent with the approach for defined contribution members
- It is the key measure of a plan's financial condition by which the regulators assess the financial position of the fund and whether a fund is in a satisfactory or unsatisfactory financial position. Vested benefits is also used in quarterly and annual APRA returns for the purposes of reporting the value of member benefits.
- Where a defined benefit is in a deficit position and the Trustee has exhausted all efforts to persuade the employer to rectify the shortfall, the Trustee remains liable to meet vested benefits of defined benefit members up until it resolves to invoke discretionary powers that may be in the Deed such as terminating the plan and reducing member benefits on a proportional basis and allocating available net assets. At this point, it is the reduced benefit that vests in the member
- Likewise, some deeds provide that a Trustee may exercise discretion and 'augment' a member's benefit. Assuming that the Trustee has exercised its powers in accordance with the Deed, the 'augmented' or increased benefit becomes the vested benefit.

We note that there are some limitations of using Vested Benefits as the basis for measuring the liability for defined benefit members including:

- it is somewhat akin to a liquidation basis, rather than a going concern basis
- if a fund cannot pay vested benefits, (i.e. if the vested benefit index is less than 100%), then the superannuation funds arguably may not have the liability because , as above, the trustee cannot fund from other sources, except from the employer where a funding plan has been put in place and agreed to by all parties

1.2 Suggestions for consideration:

Based on our comments above, we believe the proposals within the ED should be revised as follows:

- recognise member benefits as liabilities on the balance sheet
- measure defined benefit liabilities using the vested benefit approach
- where an employer has contributed in excess of vested benefits, treat the surplus as a liability called "defined benefit reserve" as it represents an amount held in trust to be used in meeting future funding requirements as and when amounts 'vest' in the member. Under some deeds (although it is rare), an employer may request the return of surplus where certain conditions are met including some legislative requirements. Therefore, we are of the view that surplus amounts meet the criteria for recognizing a liability
- Further disclosures providing transparency and granularity regarding the status of defined benefit arrangements including any sub-plans. We acknowledge that the ED currently requires detailed disclosures regarding sub-plans including the credit risk of the employer sponsor and are supportive of such disclosure. At a minimum, we agree that disclosures should extend to:
  - Existence of a current funding and solvency certificate and when the certificate expires at this certified minimum funding levels
  - For each material sub-plan, the value of the assets, vested benefits and the accrued benefits (as currently measured under SIS)
  - Basis and methods for calculating the above amounts including any assumptions used, material changes in assumptions, demographics etc from the prior year or other factors that may significantly influence the calculation e.g., retrenchments, redundancies subsequent to balance date
  - Detail of the funding plan in place including any remedial action agreed to by the employer e.g., top up contribution, one off contributions etc and timeframe over which shortfall will be rectified
  - Details of employers that have not agreed funding plan in place and/or have reasonably complied with funding arrangements
  - Any contractual or constructive arrangements between employers and the Trustee
  - Trustees policies and risk management practices specific to defined benefit funds

We acknowledge that some of the above disclosures may be quite onerous for funds with numerous sub-plans. A compromise may be to provide disclosures on how the Trustee manages the sub-plans and monitors the financial position including funding plans and an unsatisfactory financial position.

2. Consolidation of controlled entities

2.1 Commentary on proposals:

We acknowledge the extent of industry discussion regarding superannuation funds consolidating controlled entities and the desire of the AASB to apply the IFRS conceptual framework and policy of transaction neutrality across all reporting entities. Whilst we concur with the current proposals, we recommend the ED provide further guidance on the definition and application of control, with particular regard to the investments structure commonly referred to as 'fund of funds'. Superannuation funds often have investments in collective vehicles which are operated by fund managers in order to benefit from the efficiencies of pooling investment monies with other investors and obtaining the relevant expertise from the fund manager.

As observed in superannuation and other like entities such as life offices and managed investment schemes, a prima facie assumption of control, is applied where holding in unitized collective investment vehicles exceed 50% of units on issue. The presumption is only rebuttable when there are exceptional circumstances where it can be 'clearly demonstrated that such ownership does not constitute control'. We would like to see the ED consider the intricacies of the superannuation industry and take a 'substance over form' approach when considering whether control exists and provide some further guidance on instances where '...ownership does not constitute control'.

We agree that there are some limited instances where a superannuation fund clearly satisfies the definition of control and should consolidate controlled entities. In particular, where a fund has established a special purpose entity, owns 100% of the equity, governs the financial and operational policies of the entity and has a majority of representatives on the Board is a clear example of control. An example of this is where a superannuation fund establishes a pooled superannuation trust ('PST') to hold all investments of the fund in exchange for all the units in the PST. Therefore, it is clear that 'active' control exists over the operational and financial policies and we agree that the superannuation funds should consolidate the entity to provide greater transparency over the subsidiaries financial position, financial performance and financial risks.

In our experience superannuation funds invest in collective vehicles operated by fund managers in order to benefit from the efficiencies of pooling investment monies with other investors and obtain the relevant expertise from the fund manager. Such collective vehicles may be retail unit trusts, open to the wider public or a wholesale trust, limited to institutional investors of the fund manager. Typically, such investments are managed by a professional funds manager and the Trustee or Responsible Entity is generally related to the fund manager, not the Trustee of the superannuation fund. Investors, including superannuation funds, will apply for and redeem units based on their target asset allocation (and where applicable, any member investment choice elections) and/or liquidity needs. As the investment strategy (including asset selection and allocation) of the trust is determined by the fund manager, the Trustee of a superannuation fund would consider the appropriateness of the fund manager's strategy when deciding to purchase or redeem units or offer the trust within a member investment choice option.

Where other investors also own units in the collective investment, it is difficult to obtain and monitor the unit holding of collective investments especially retail trusts where there is a relatively high volume of applications and redemptions in unit holdings compared to wholesale trusts. Overall, it is the intention of the Trustee of the superannuation fund to act as a 'passive' investor and not be involved in the day to day operation of the collective investment. If the Trustee is dissatisfied with the performance of the collective investment or the performance of the fund manager, they would generally redeem their unit holding rather than exercise any form of control. In our experience, the Trustee's assess the risks and rewards of such investments in relation to their unit holding, as opposed to assessing and managing the risks on a look through basis.

Furthermore, trustees of superannuation funds do not generally exercise control over such collective investments for the following reasons:

- The governing rules of the collective investment do not generally permit investors to govern the financial and operating policies. In most cases and certainly in recent deeds, such powers are unequivocally delegated to the fund manager
- The trustee of the superannuation fund has little or no control over the level of their ownership interest. It will regularly fluctuate relative to the holdings of other investors
- The overall objective of the Trustee of the superannuation fund is to be a 'passive' investor and benefit from the fund manager's expertise and from the efficiencies of pooling investment monies with other investors.
- The governing rules may provide a legal right to unit holders to change the Trustee, Responsible Entity and/or fund manager but this right is rarely used in practice and is usually a matter of last resort. If the trustee of the superannuation fund was dissatisfied, it would usually redeem its unit holding and exit the fund rather than step in and actively 'control' the trust.
- Generally, there is no process for general meetings and voting on financial and operating policies except for limited emergency powers that may exist and usually requires a special resolution of more than 75% of unit holders before unit holders can step in and control the trust
- The fund manager is not bound to seek approval of the investors on investment selection decisions although it is expected that the fund manager would adhere to a defined mandate or strategy as communicated to investors
- Typically, and based on our experience, the majority of collective investments that superannuation funds invest in are not permitted to borrow. Where borrowing is permitted, gearing is usually low. Therefore, for most trusts consolidating the balance sheet of the subsidiary has little impact on the presentation of financial statements. For example, trusts that are asset class specific e.g., an equities trust which forms part of the equities investment class on the balance sheet of the parent entity is unlikely to materially impact the balance sheet as the assets of the subsidiary will predominantly comprise equities with other assets or liabilities being immaterial. If there are gearing and/or minority interests, it is unlikely to be material when 'grossed up' on consolidation.
- At times, trusts are established and used as the preferred investment structure rather than using a direct mandate with an investment manager or directly holding of the underlying securities for ease and simplicity. For example, a cash management trust ('CMT') is a popular vehicle amongst superannuation funds to hold surplus cash over a bank account so that funds can earn higher returns on surplus cash. Once again, it is unlikely that the trustee will ever actively 'control' the CMT. Instead, they wish to benefit from earning a higher return on surplus cash in highly liquid investments without holding the underlying securities e.g., bank bills. Similarly, an equities trust may be the preferred approach to gain exposure to ASX 200 securities without holding the securities directly. Therefore, understanding the intentions of the Trustee and reason for holding certain investments needs to be considered.
- Our experience has also found that many superannuation funds have large unit holdings in collective investments as a result of member investment choice. Whilst the Trustee may select the collective investments that comprise its investment strategy and provide the various member investment choice options, it is the member of the Fund that selects the appropriate investment option and the underlying collective investments comprising the option. There are instances in the industry where superannuation funds are currently consolidating such unit holdings as a result of the technical interpretation of AASB 127 because they own greater than 50% of the unit holding despite being a 'passive' investor.

Finally, the *Superannuation Industry (Supervision) Act 1993* requires Trustees of superannuation funds to comply with the 'sole purpose test' which requires superannuation funds to be maintained for the purpose of providing benefits to members and their beneficiaries or for a limited number of other ancillary purposes. For example, the establishment of wholly owned entity to provide financial planning services to members or to structure an investment arrangement to generate returns for members would meet the sole purpose test. However, the establishment of a fund for the purposes of providing finance to the employer sponsor was recently deemed not to have complied with the sole purpose test. Similarly, the controlling of an entity such as a manufacturing company, a hospital or a hotel and the governing of the day to day operations of the entity may be in breach of the sole purpose test. Therefore, we recommend that the AASB consider whether the requirements of the sole purpose test would prevent a superannuation fund from controlling an entity and governing the operational and financial policies of an entity.

2.2 Suggestions for consideration:

The standard should include application guidance on the definition of control which will assist superannuation funds in identifying potentially controlled entities. Use of examples would assist in understanding how the definition of control and guidance should be applied and assist in ensuring that instances of 'active' control are clearly identified. Consideration should be given to many of the factors that are evidence that control is not in substance exerted including:

- The existence of a fund manager who exercises unfettered operational control
- The appointment of a Trustee or responsible entity independent of the superannuation fund
- Whether the trust is open to other unrelated investors
- The ability to redeem units upon request

The application guidance will need to clearly identify factors that would constitute control so as not to dilute the requirement for funds to consolidate where control clearly exists such as:

- Establishment of special purpose entities ('SPE') where the board is not independent and governs the financial and operational policies of the SPE
- Controlled PST's
- Entities where the definition and factors supporting 'passive' control no longer exists such as instances where the Trustee's intention has changed as evidenced by the exercise of powers that would constitute 'active' control e.g., terminating the fund manager, Responsible Entity, or Trustee.

3. Insurance contracts

Paragraph 21 of the ED proposes that obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts*.

Paragraph 50 of the ED proposes that a superannuation Plan or approved deposit fund that issues insurance contracts shall disclose information in relation to such contracts in accordance with the disclosure principles and requirements applicable to life insurance contracts under AASB 1038.

3.1 Commentary on proposals:

Paragraph BC 57 of ED 179 identifies three types of insurance arrangement:

1. Plan as Agent: where life insurance cover is offered directly by a third party insurer, with the Plan acting only as an agent;
2. Group Plan: where insurance cover is offered to defined contribution members (usually offered through a group insurance plan); and
3. Self-Insurance: where insurance cover is provided directly to defined benefit members (sometimes this will be reinsured with an insurer).

We agree that the above arrangements are common amongst superannuation funds and note a group plan is usually outsourced to a third party acting as agent for the group plan.

We agree that Trustees that self-insure are exposed to insurance risk. Depending on the extent of self-insurance, we agree that risks to Trustees can be significant especially in closed funds that only offer defined benefits and provide self-insurance. Typically, self-insurance is provided by Trustees of defined benefit funds and an actuarial reserve is estimated to provide for future claims.

In instances where a Trustee enters into an agency relationship and provides insurance through a group plan offered by a third party insurer, insurance risk is substantially transferred to the third party. Whilst there may be remote instances where an element of residual risk may arise, we do not believe that such arrangements should be the subject of accounting for insurance contracts under AASB 1038 or any other standard other than to recognise insurance proceeds as income and insurance premiums as an expense in the statement of changes in members' benefits.

For such arrangements, we note that Trustee of superannuation funds may have undertaken the following to mitigate any residual risk:

- Inclusion of clauses within the Trust Deed to limit any liability to the amount approved and remitted by the insurer under the policy
- Prohibit in the Trust Deed and/or policies any discretionary payments above and beyond amounts approved and remitted by the insurer
- Inclusion of appropriate disclosures within the product disclosure statement and other communication to members which states that insurance is provided through a third party provider
- Maintaining proper records, policies and processes to administer and monitor insurance claims, remittance of premiums, requests for changes in cover and receipt of insurance proceeds etc in accordance with the terms and conditions of the insurance policy for the purposes of mitigating any potential risk of negligence or error that may arise

Provision of insurance is considered an ancillary benefit and is incidental to the primary purpose of providing retirement benefits. Termination of fund membership as a result of resignation, retirement, retrenchment and redundancy does not usually result in an insured component being paid. Insurance claims only arise in the event of death, total or permanent disability or ill-health. Therefore, we believe the accounting treatment and disclosures should reflect this.

Whilst we note that there may be some remote instances where such funds may carry some residual risk eg., in the event the insurer is insolvent, we accept that this risk is so remote and should not be recognised unless there is a high likelihood that the event may occur or has occurred.

However, we also acknowledge that there may be instances where the Trustee does accept insurance risk under group plan arrangements. For example, whilst group life cover might be placed with an external insurer, if the trust deed states that the Plan will pay, or has discretion to consider paying, any insurance claims if the external insurer fails to offer cover, or fails to accept a claim, then the Plan is accepting insurance risk which may or not be significant. Similarly, if the Trustee is in the practice of making ex-gratia payments without regard to the decision of the insurer, it may result in a constructive obligation regardless of any restrictions in the Trust Deed or arrangements with a third party provider.

In virtually all group plan arrangements, all self-insurance arrangements, and possibly in some arrangements where the Plan acts as agent, the Plans will need to consider whether the contracts with their members are insurance contracts or not. There may be many cases where the extent of insurance risk is not significant, however, if the final standard requires assessment at the insurance component level this could have quite a different outcome, effectively requiring a majority of contracts issued by Plans to be unbundled with the insurance component treated under AASB 1038. This would create a significant burden for Plans especially where risk is not significant.

3.2 Suggestions for consideration:

We recommend that the AASB undertake further consultation with the industry to understand the extent of insurance risk borne by the Trustee. The AASB should consider the significance of any risk to the member and Fund overall and consider whether there are other options to measure and disclose any risks arising other than as proposed under AASB 1038.

Given the level of uncertainty and ambiguity that the current proposal has generated within the industry, we believe that further guidance should be provided as to how to apply the proposals in the superannuation context.

We would also recommend that the AASB allows adequate time for implementation. It may be that Plans may want to perform 'housekeeping' to eliminate any inadvertent exposure to insurance risk.

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Specific Matters for Comment

As per page 14 of the ED, the AASB would particularly value comments on the following:

ED ref	ED requirement	EY response	Comments	Reference to further comments
(a)	the recognition principles in paragraph 10 of this Exposure Draft are appropriate for a superannuation plan or approved deposit fund;	Yes with exceptions	We agree that members benefits should be recognized as liabilities as per 10(a) but do not agree with the measurement of defined benefit liabilities.	Refer to comments on measurement of defined benefit liabilities above.
			Re measurement of insurance contracts, we believe there should be further consideration of the application AASB 1038 including the recognition and measurement criteria	Refer to comments on insurance contracts above
			We agree with the recognition of assets and liabilities of a subsidiary as disclosed in paragraph 30.	Refer to comments on consolidation of controlled entities above.
(b)	a superannuation plan or approved deposit fund should be required to measure at fair value adjusted for transaction costs all of its: (i) assets, except for: (A) tax assets; (B) assets arising from insurance contracts issued by the entity; and (C) goodwill; and (ii) liabilities, except for: (A) tax liabilities; (B) obligations for defined contribution members' vested benefits; (C) obligations for defined benefit members' accrued benefits; and (D) obligations arising from insurance contracts issued by the entity;	Yes with exceptions	In principle, we agree with measuring assets and liabilities at fair value on the basis that this aligns the measurement criteria with other entities such as management investment schemes and life insurers. While we understand the logic behind the inclusion of transaction costs, this results in a deviation from IFRS and given that transaction costs are immaterial, we suggest that AASB reconsider whether adjusting for transaction costs is justified.	Refer to comments on consolidation of controlled entities, measurement of defined benefit liabilities and insurance contracts above.
(c)	the guidance in paragraphs AG13-AG32 of Appendix B to this Exposure Draft is sufficient to facilitate reliable measurements of obligations for defined benefit members' accrued benefits and comparable measurements of such obligations between superannuation plans and over time. In particular, whether a superannuation plan with defined benefit members who will accrue	Not applicable	We do not agree with the proposed measurement basis of defined benefit liabilities. If accrued benefits are retained as the measurement basis, then we believe that the guidance is likely to be sufficient to facilitate reliable measurement of obligations. However we believe that for consistency and comparability, the straight line	Refer to comments on measurement of defined benefit liabilities above.

	materially higher levels of benefits as they near retirement age should be: (i) permitted to use a method of its choosing to attribute such members' benefits to reporting periods, provided that the method is appropriate for the plan's circumstances, as proposed in paragraph AG17 of Appendix B to this Exposure Draft; (ii) required to attribute such members' benefits on a straight-line basis in a manner consistent with the approach required under AASB 119 *Employee Benefits* for defined benefit obligations; or (iii) required to attribute such members' benefits to reporting periods on a basis other than a straight-line basis;		approach as per AASB119 should be mandated as part of the standard where materially higher benefits accrue in later years.	
(d)	any superannuation plans in Australia have defined benefit members whose level of benefits could be altered by externally imposed requirements, such as the level of state retirement benefits, as noted in paragraph 18(c) of this Exposure Draft and paragraph AG30 of Appendix B to this Exposure Draft. If so, please describe the nature of these externally imposed requirements and how they are currently incorporated into the measurement of defined benefit members' entitlements;	Not applicable	We do not have any comments on this matter.	No further comments.
(e)	there are any significant practical difficulties that would inhibit the reliable measurement of obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038 *Life Insurance Contracts* as proposed in paragraph 21 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;	Yes	The current proposals will potentially impose a significant burden on funds because of the granularity and complexity in the AASB 1038 requirements. We doubt that many funds would be able to perform the detailed margin analysis required by AASB 1038 without considerable additional expense. We believe that these practical difficulties could be overcome by considering another alternative to recognise measure and disclose insurance arrangements.	Refer to comments on insurance contracts above.
(f)	there are any circumstances in which a difference between a superannuation plan's or approved deposit fund's total assets and its total liabilities (including	No	The treatment of fund reserves and surpluses needs to considered. On the basis that fund reserves are available for the future benefit of	No further comments.

	defined contribution members' vested benefits, defined benefit members' accrued benefits and any obligations to employer sponsors) would not be equity as defined in Australian Accounting Standards;		members, a liability would arise. Similarly, surpluses in defined benefits funds arise where an employer has contributed in excess of member benefits. This should be recognized as a liability as the employer has effectively paid contributions in advance. Assuming the above treatment, the only instance where equity may arise is where capital requirements are imposed on public offer trustees under APRA licences.	
(g)	a superannuation plan that has members who are entitled to the higher of a defined benefit promise and a contributions-based amount upon their retirement or other event that qualifies as a condition for releasing superannuation benefits (refer to paragraphs BC52-BC56 of the Basis for Conclusions to this Exposure Draft) should recognise the 'higher of' benefit option separately from the defined benefit 'host promise'. If you agree that a superannuation plan should separately recognise a 'higher of' benefit option, how might the option be measured?	No	We disagree that separate recognition of the 'higher of' benefit option to the defined benefit 'host promise' is required. The measurement of the members entitlement should be based on the value of the benefit that the member is entitled to receive at the time including any higher of options which may vest in the member. Therefore, if the benefit includes a defined benefit and defined contribution component, this should be reflected in the overall measurement of member benefits and not require separate disclosure.	No further comments.
(h)	there are any significant practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with paragraph 30 of this Exposure Draft. If so, please describe the nature of these difficulties and how they might be overcome;	Yes	Difficulties include: • Identifying controlled entities • Monitoring changes in % holding throughout the year • Obtaining relevant, reliable and timely information to consolidate controlled entities, particularly in fund of fund arrangements Difficulties could be overcome by: • Further clarification on the definition of control	Refer to comments on consolidation of controlled entities above.
(i)	a parent superannuation plan or parent approved deposit fund should be permitted or required to separately 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 plan or parent fund when such items are reliably measurable;	Yes with exceptions	We agree that any material contingent assets or liabilities attributable to a subsidiary should be disclosed in the notes to the financial statements. For internally generated intangible assets that are material such as brand names, patents and licenses, measurement at fair value would need to be considered. We agree that, if material, separate recognition of internally generated intangible assets is required with adequate	Refer to comments on consolidation of controlled entities above.

			disclosure on valuation basis including use of judgement and assumptions.	
(j)	a parent superannuation plan or parent approved deposit fund should be required to recognise and present any excess of the amount of the net assets of a subsidiary that are recognised by the parent over the sum of the parent plan's or parent fund's interest and any non-controlling interests in the subsidiary as a remeasurement gain in the consolidated income statement in the reporting period in which it occurs;	Yes	We concur that this approach is reasonable.	No further comments.
(k)	a parent superannuation plan or parent approved deposit fund should be permitted or required to measure any non-controlling interests at fair value of equity at the end of each reporting period in a manner consistent with the approach illustrated in Illustrative Example D of Appendix C to this Exposure Draft;	Yes	We concur that this approach is reasonable.	No further comments.
(l)	the disclosure principles in paragraphs 32-50 of this Exposure Draft: (i) are appropriate for a superannuation plan or approved deposit fund; (ii) would provide useful information for users of the general purpose financial statements of a superannuation plan or approved deposit fund; and (iii) would be sufficient to facilitate reliable and comparable disclosures between superannuation entities and over time;	Yes with exceptions	Overall, we generally agree with the disclosure requirements in paragraphs 32 to 50 of the ED. However, further guidance is required on the application of paragraph 50 and guidance on the implications for insurance contracts. The current proposals are vague in application and appear to catch all insurance arrangements where the Trustee is exposed to any risk regardless of materiality. Further, the current wording appears to remove any materiality threshold that AASB 124 would permit. It creates a departure from other general purpose reporting entity requirements, without there being a particular reason why superannuation plans are sufficiently different to warrant such different treatment.	Refer to comments on insurance contracts above.
(m)	there are any significant practical difficulties that would inhibit a superannuation plan or approved deposit fund disclosing information in relation to any segregated groups of assets attributable to different groups of members, and the related obligations to those members, in accordance with paragraph 40 of this Exposure Draft and paragraphs AG80-AG88 of Appendix B to this Exposure	Yes	Difficulties include: • Defining segregated groups of members • Mult-employer sponsored plans and identifying segregated groups • Members may belong to more than one group • Pooling of assets across different groups	No further comments.

	Draft. If so, please describe the nature of these difficulties and how they might be overcome;		Difficulties could be overcome by: • Applying materiality thresholds to minimize number of segregated groups	
(n)	the separate disclosure of the components of remeasurement changes in defined benefit members' accrued benefits, particularly benefit cost, interest cost and actuarial gains and losses, would provide useful information for users. If you agree that the proposals in paragraph 46 of this Exposure Draft would not be adequate for users' needs, please explain how this information should be presented;	No	We disagree with the measurement basis for defined benefit liabilities and believe that the vested benefit approach should be adopted. Therefore, such disclosures are not required. In the event the accrued benefits approach is adopted, we believe that the re-measurement changes are not meaningful and difficult for users to interpret. Disclosures regarding methodology and assumptions would be more meaningful.	No further comments.
(o)	it would be more useful if the Standard provided example financial statements for a superannuation plan comprising both defined contribution and defined benefit members rather than explaining how the financial statements of a plan with defined benefit members only would differ from those of a plan with defined contribution members only (as provided in Illustrative Examples A and B in Appendix C to this Exposure Draft);	Yes	We agree that example financial statements which includes a defined benefit component would assist in further understanding financial reporting requirements applicable to defined benefit funds due to the complexity and the significance of changes proposed.	No further comments.
(p)	the approach adopted in drafting this Exposure Draft is helpful for understanding how a superannuation plan or approved deposit fund might apply the proposals in this Exposure Draft, particularly the disclosure principles, in conjunction with the relevant principles and requirements in other Australian Accounting Standards. If you do not consider the approach adopted in this Exposure Draft to be helpful, please describe the type of approach you would prefer;	Yes	Overall, the principles based approach to writing the standard provides Trustees with the flexibility to determine which disclosures are relevant to their individual circumstances. However, there is a risk that some Trustees may not embrace the principles based approach and not comply with the spirit of requirements. Some overriding guidance on material misstatements and/or non-compliance may assist in understanding mandatory application.	No further comments.
(q)	overall, the proposals would result in general purpose financial statements that would be useful to users;	Yes	Overall, we agree that the proposals will assist in greater uniformity across funds, enhance the current reporting framework, provide great transparency over fund structure, financial risks and management of super funds and provide readers with more meaningful information.	No further comments.

(r)	the proposals are in the best interest of the Australian economy.	Yes	Given the size of the industry and estimated growth of the industry, we agree that the proposals to enhance the financial reporting of superannuation plans are in the best interest of the Australian economy.	No further comments.