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4 August 2010

The Chairman
Australian Accounting Standards Board
PO Box 204
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PROPOSED AMENDMENTS TO AASB 119 - Exposure Draft 195

Australia Post is a wholly owned subsidiary of the Australian Government and provides postal and other services. It has over 35,000 employees for whom it provides defined benefit superannuation through the Australia Post Superannuation Scheme, and reports its benefit obligations under AASB 119.

We welcome the opportunity to submit our response to the AASB's Exposure Draft 195.

Our comments are provided in the attachment and relate specifically to the definition and presentation of a finance cost component (addressing Questions 5 and 6 in IAS 19 Exposure Draft ED/2010/3). As outlined in the attachment, we strongly object to the proposal to apply the discount rate to asset returns and submit that the superannuation cost must reflect the full expected return on plan assets, not just the interest component of the return. It is our view that this would be achieved by maintaining the existing accounting framework.

In addition we have provided our view in regards to the change in classification of "other long term employee benefits" and the consequent accounting implication. We intend to also submit our attached comments to the IASB.

We would be happy to discuss the matters raised in this letter.

Yours sincerely

Peter J Meehan

Peter Meehan

ATTACHMENT

IASB Exposure Draft ED/2010/3
Defined Benefit Plans – Proposed amendments to IAS 19

Question 5 - Defining the finance cost component

The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.

Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost component and why? (Paragraphs 7, 119B, 19C and BC23-BC32)

Question 6 – Presentation

Should entities present:
- *(a) service cost in profit or loss?*
- *(b) Net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?*
- *(c) Remeasurements in other comprehensive income? (Paragraphs 119A and BC35-BC45) Why or why not?*

Response to Questions 5 and 6

Realistic reflection of the actual or expected cost of superannuation in profit or loss

In our view recognising the expected return on any assets in profit or loss is appropriate. It is also appropriate that the difference between the expected return and actual return be recognised in other comprehensive income. This is one of the options that exist under the current standard and in our review it remains appropriate for the future.

In the Exposure Draft, the proposed changes stipulate that the actual return on plan assets be recognised in two parts:
- Finance costs - comprising interest income on plan assets at the discount rate, representing the unwinding of time value of money on the value of assets; and
- Remeasurements - excess/shortfall of returns compared to the interest income

where finance costs are recognised in profit or loss, and remeasurements are separately recognised in other comprehensive income (OCI).

We agree that it is helpful to users of financial statements to access the likely amount and timing of future cash flows. Our concern with the proposed change is that this is not achieved because the economic benefit expected to be achieved on the assets is not realistically reflected in profit or loss. In the common situation where the expected return on assets is higher than the discount rate, the profit or loss contains a bias towards overstating the cost of superannuation because the return on plan assets to meet the cost of superannuation is not fully recognised. Only interest income is recognised, whilst actual/expected changes in asset value are excluded from profit and loss.
A consequence of this approach is that the actual contributions expected to be required to be made to a superannuation fund will be lower than the superannuation expense recognised in profit and loss. This is not helpful to users of financial statements because the economic benefit expected to be achieved on the assets is being excluded from profit and loss so that profit and loss is not able to be used to predict the likely amount and timing of future cash flows.

We submit that the cost of superannuation stated in profit or loss should be a realistic reflection of the expected cost of superannuation to an employer. This is why the standard requires other assumptions to be best estimates. This would mean presenting the full expected return on plan assets in profit or loss as currently occurs.

For Australia Post the proposal would significantly reduce profit with the superannuation expense included in profit and loss overstating the expected economic cost of providing superannuation by in excess of $AUS100m per year.

Actual / expected return on plan assets

In the above discussion we have suggested that the expected return on plan assets be recognised in profit and loss and any difference between actual and expected returns be recognised in other comprehensive income to ensure the cost of superannuation is realistically reflected in profit and loss.

We understand one of the main concerns of the IASB in using an expected return on plan assets is the objectivity of the assumption setting process, and that this process could be open to manipulation by companies wishing to manage profit or loss.

We submit that expected return on assets is only one of various assumptions used for reporting purposes. Other assumptions (such as wage inflation, price inflation, etc) are determined using a similar process, and are subject to the same criticisms. We also understand that this has become less of an issue over time.

We strongly believe that a degree of subjectivity in an otherwise robust assumption setting process does not dismiss the use of all assumptions. Equally, the use of an expected return on plan assets should not be eliminated for this reason alone, especially when it is necessary to calculate an unbiased estimate of the long term superannuation cost to employers and also eliminate short term volatility swings.

Currently the standard requires the expected return on plan assets to be calculated based on market expectations, at the beginning of the period, for returns over the entire life of the obligation. There is no reason why the standard could not set out in more detail the principles to be used in calculating the expected return on plan assets. All assumptions used are already subject to audit.

In summary, in order to achieve a realistic representation of the cost of superannuation in profit or loss, we submit that the superannuation cost must reflect the full expected return on plan assets, not just the interest component of the return. It is our view that this be achieved by maintaining the status quo.

Further comments relating to Question 6 - Presentation

In addition to the measurement considerations outlined above, it is our view that service cost and net interest should not be separately disclosed within the income statement.. Separately disclosing these items increases complexity and can distort financing costs for those entities with defined benefit funds, doing little to enhance information for the users. Both service cost and net interest represent the cost of the services received and therefore are relevant for assessing an entity's ongoing financial performance. Excluding the complete superannuation costs from operational costs (and from the calculation of EBIT) may make EBIT a less useful measure of financial performance .

Information relating to the interest charge within the superannuation expense can already be obtained in the financial statement disclosures and consequently it is our view that no changes are required to existing practice to enhance the existing usefulness of the financial statements.

Question 17 – Further comments

As a result of the proposal to group all long term employee benefits as a single category, the treatment of Long Service Leave will change to mirror the way defined benefit plans are accounted for. This would mean that any changes to actuarial and economic assumptions within LSL provisions would be recognised in OCI.

We support this aspect of the proposal as it enables consistency between the accounting for defined benefit plans and LSL provisions and also reduces volatility in the profit and loss statement, assisting users of the financial statements to interpret the underlying performance of the entity.

AUSTRALIA POST

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Chairman

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9 September 2010

Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins St West
MELBOURNE VIC 8007

Mr Stevenson,

I am writing – on behalf of the Board of Australia Post – in relation to the proposed amendments to AASB 119.

While our Chief Finance Officer, Mr Peter Meehan, has already written at length to the AASB outlining the concerns of Australia Post (his letter is provided as an Attachment) it is beholden on me to reinforce the Board's deep concern with the proposed amendment to AASB 119 and the significant impact it will have on Australia Post's profit and loss result.

As Mr Meehan indicated in his letter to you on 4 August, Australia Post has over 35,000 employees for whom we provided a defined benefit superannuation scheme – and we report this benefit obligation in accordance with AASB 119.

The Board's concern relates specifically to the definition and presentation of a finance cost component (addressing Questions 5 and 6 in the IAS 19 Exposure Draft ED/2010/3). The Board strongly objects to the proposal to apply the discount rate to asset returns and we submit that the superannuation cost **must** reflect the full expected return on plan assets (as opposed to just the interest component of the return).

The proposed approach would significantly and materially reduce our reported profit. If we applied this treatment to our 2009/10 financial accounts, for example, it would have the affect of overstating our superannuation expense by approximately AUD$100m. As you can appreciate, this would have had significant negative flow on effects to our reported result and to our shareholder, the Australian Government.

Australia Post believes that the cost of superannuation stated in the profit or loss statement should be a realistic reflection of the expected cost of superannuation to an employer. This is why the standard requires other assumptions to be best estimates. This would mean presenting the full expected return on plan assets in the profit and loss as currently occurs. As such, Australia Post believes that the treatment under the current standard is appropriate, and remains appropriate for the future.

I urge you to consider very carefully the impact that any proposed change to AASB 119 would have on the financial results of many Australian corporations. As you can see, and as explained in Mr Meehan's letter, the implications for Australia Post are material and deeply concerning.

My officers at Australia Post would be prepared to discuss this matter further, with you or any of your colleagues, at a time that is convenient for you. Please feel free to contact our CFO Peter Meehan directly on (03) 9106 6889.

Regards,

David Mortimer, AO
Chairman