QSuper
GROWING YOUR SUPER TOGETHER

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

Dear Sir

ED 223 Superannuation Entities

The Board of Trustees of the State Public Sector Superannuation Scheme (QSuper) administers one of Queensland's largest superannuation funds with a membership of over 540,000. The scheme has over $30 billion in funds under management and offers a range of accounts that include Accumulation, Defined Benefit and Allocated Pension. The Superannuation (State Public Sector) Act 1990 contains a Queensland State Government guarantee in relation to payments of defined benefits. QSuper also offers members a fully funded self-insurance arrangement which includes a reinsurance contract that provides catastrophe cover. Those arrangements that QSuper does not self-insure are provided by group life policies.

QSuper would like to submit the following comments in response to AASB Exposure Draft 223 *Superannuation Entities*. From an industry perspective we welcome the increasing focus on capital adequacy, solvency, liquidity and in general funding. We are also broadly supportive of the AASB's initiative to align the reporting by superannuation entities with other entities applying Australian Accounting standards.

We have included some comments on the major issues we have identified in our assessment of ED223, which are as follows:

- Measurement of Defined Benefit Obligations;
- Insurance Arrangements; and
- Preparation and Presentation of Financial Statements.

If you would like to discuss any of these comments further, please do not hesitate to contact me on 07 3239 1608.

Yours sincerely

Michael Cottier
Chief Financial Officer
QSuper

General Comments

1. Measurement of Defined Benefit Obligations

The defined benefit members' accrued benefits are proposed to be measured at the present value of expected future benefit payments in accordance with the approach in AASB 119. Under AASB 119, expected future benefit payments are discounted at the risk-free rate rather than market yields under the current approach. This methodology change is likely to produce a substantially higher accrued member benefits obligation amount on transition, which in turn will reduce the net assets attributable to Defined Benefit members.

The State Actuary will also be required under ED 223 to provide the accrued benefits at each reporting date. Under current arrangements, our engaged actuary, the Queensland State Actuary, prepares actuarial estimates every three years. Preliminary discussions with the State Actuary highlighted concerns relating to the impact the additional requirements will have on the preparation of the financial statements within specified reporting timeframes.

We note that substantially higher resource levels would be allocated to the tasks of data provisioning to the Actuary, and to the internal accounting function, to facilitate completion of the increased reporting requirements. In QSuper's case, we question whether this will provide more meaningful information to members and be in members' best interests.

2. Insurance Arrangements

The Exposure Draft proposes in paragraph 20 that any assets associated with reinsurance arrangements at the end of the reporting period must be presented separately from the insurance liabilities and be measured in accordance with paragraphs 6.1 through to 6.1.2 of AASB 1038 *Life Insurance Contracts*.

These paragraphs in AASB 1038 require all claim recoveries and other inflows not yet received from a reinsurer be recognised as an asset in the Statement of Financial Position. Additionally, the fund will be required to capture an increased level of insurance transactions to facilitate reporting of:

- Relevant premiums in revenue and reinsurance costs in expenses on the income statement;
- Insurance premiums charged to members on the changes in the statement of changes in member benefits;
- Claim recoveries and other inflows not yet received from a reinsurer as an asset;
- Gross amount of life insurance liabilities is recognised as a liability on the statement of financial position.

This level of detail on insurance transactions is not currently required (by AAS 25) and therefore not captured within the Fund's accounting general ledger. Modifications to systems (e.g. account database and associated general ledger processes) would be required which would incur additional costs for members. We note that these disclosures would form a complex component of any potential retrospective application of the replacement standard prior to the implementation of the enhanced insurance transaction data.

We note that the AASB has included a request for comment on the retrospective application of the replacement standard to reporting periods beginning two years from the date of issue. In the event that the comparatives require restatement on the application of the new standard, substantial additional work would be required both internally and with external service providers such as the State Actuary and external Auditors. Also, any refinements or improvements to existing processes made to meet the requirements of ED 223 before the application date may not be in place for the two years prior, and as such it is possible that some level of manual data analysis would be required to restate the relevant information.

3. Preparation and Presentation of Financial Statements

The Exposure Draft proposes in paragraph 11 that in preparing and presenting financial statements, a superannuation entity that is a parent shall present consolidated financial statements. Furthermore, should a parent superannuation entity wish to present separate financial statements, these must be presented together with the consolidated financial statements.

QSuper does not currently present consolidated financial statements on the basis that the value and nature of the underlying assets and liabilities held by QSuper's controlled entities is not material to the overall presentation of QSuper's financial statements.

We note that the ED/2011/4, Consolidation – Investment entities currently being undertaken by the IASB, is scheduled for round table discussion in the first quarter of 2012. It is likely that the IASB will provide further guidance surrounding the application of consolidating investments in entities that are controlled.

Given the discrepancy in the targeted progression of ED 223 and that of IASB ED/2011/4, and its direct relevance to this subject matter, we ask that the AASB takes any future development of IASB ED/2011/4 into consideration in the composition and targeted release date of the final replacement Standard for AAS 25.

Request for Comments

In response to the AASB's request for comments on page 13, the following specific matters have been addressed as follows:

ED Ref	AASB Matter	QSuper Comment
(a)	Are there any superannuation entities that would meet the criteria in AASB 1053 *Application of the Tiers of Australian Accounting Standards* for applying Tier 2 disclosure requirements, that is, they need to prepare general purpose financial statements but do not have 'public accountability' [as defined in AASB 1053]?	No comment.
(b)	Are there any significant practical difficulties that would inhibit a superannuation entity disclosing:	
	(i) Information about defined contribution or defined benefit members' benefits in accordance with the relevant principles and requirements in AASB 7 *Financial Instruments: Disclosures* [as proposed in paragraphs 37, 38 and AG27 – AG28 of this exposure draft]? If so, please describe the nature of these difficulties and how they might be overcome	No comment.
	(ii) In relation to defined benefit members, qualitative information about non-performance risk and/or economic dependency risk to which the plan is exposed in respect of employer sponsors of such members [as proposed in paragraphs 39 and 40 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome	The QSuper defined benefit scheme pertains to employer sponsors in the Queensland State public sector. The qualitative disclosures required for employer sponsors in paragraph 33 of AASB 7 require disclosures for managing the risk and methods used to measure risk. The *Superannuation (State Public Sector) Act 1990* contains a Queensland State Government guarantee that ensures that the payments of defined benefit funds will be met. To this extent the measurement of risk relates only to the State Government's fiscal capabilities.

	(iii) Liquidity risks relating to any non-financial liabilities other than tax liabilities held by the entity [as proposed in paragraphs 41 and 42 of this exposure draft]? If so, please describe the nature of these difficulties and how they might be overcome.	No comment.
	(iv) Disaggregated financial information based on the principles and requirements of AASB 8 *Operating Segments* [as proposed in paragraphs 43, 44 and AG31 of this Exposure Draft]? If so, please describe the nature of these difficulties and how they might be overcome.	Our current line of thinking is that the Operating Segments of QSuper would be the accounts we hold, being; Accumulation, Defined Benefits and Allocation Pension. We note that further attribution to Member Investment Choices or Asset Classes would be a manually intensive process.
(c)	Would it be reasonable to require retrospective application of the replacement Standard for AAS 25 to annual reporting periods beginning two years from the date of issuing that Standard?	Many of the proposed changes would result in different results relative to prior years (e.g. Defined Benefit obligations). From this perspective, retrospective application could provide users with an enhanced understanding of the reports against comparative data. From a financial reporting perspective, many of the proposals are not necessarily within the current design of the accounting software. Whilst this may be possible to modify, it may be prohibitive to source the relevant data for years prior to the implementation of the abovementioned changes.
(d)	Overall, would the proposals result in general purpose financial statements that would be useful to users?	From an industry perspective we welcome the increasing focus on capital adequacy, solvency, liquidity and in general funding. We are also generally supportive of the AASB's initiative to align the reporting by superannuation entities with other entities applying Australian Accounting standards. However, we are mindful that such substantial changes impose additional costs which are ultimately borne by members. To this end, we have concerns whether the financial statements are the best vehicle to demonstrate the discharge of these obligations to members. This is particularly the case in relation to the proposed

		requirements to consolidate investments and the reporting of Defined Benefits surplus/deficit on the balance sheet.
(e)	Are the proposals are in the best interests of the Australian economy	We agree that the proposals that seek to improve the financial reporting framework in the Superannuation industry are in the best interests of the Australian economy.
(f)	In quantative or qualitative terms, unless already provided in response to specific matters for comment in (a) – (e) above, what are the costs and benefits associated with the proposals?	Broadly, we anticipate that compliance with the proposals contained within ED 223 will impose significant additional costs both on initial transition, and on an ongoing basis. We have summarised some high level impacted cost areas as follows: Compliance based costs: - Significantly increased engagement levels with the State Actuary on the basis of frequency and also additional technical dependencies - Additional engagement with internal and external auditors upon transition to the introduced Standard and any potential retrospective applications - Internal accounting resources to prepare additional reporting statements, cash flows, disclosures and data provisioning to the State Actuary. Internal reporting costs: - Refinement of internal data provisioning processes to meet additional annual State Actuary report preparation requirements - Modification of the recording of reinsurance transaction data, including the capturing of contract premiums, associated claim recoveries and those yet is received.