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Mr Kevin Stevenson
Chair
Australian Accounting Standards Board
PO Box 204
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8 May 2012

Dear Kevin

ED 223 Superannuation Entities

We are pleased to have the opportunity to comment on Exposure Draft ED 223 *Superannuation Plans and Approved Deposit Funds* ("ED 179") issued by the Australian Accounting Standards Board.

Specific comments

Our comments on the specific matters raised for comment and on other issues are set out below:

Application of AASB 1053 Tier 2 disclosure requirements

We are not aware of 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, who need to prepare general purpose financial statements but do not have 'public accountability'.

The industry practice and our understanding is that the only potential superannuation entities that could fall into this category are small APRA superannuation funds and self managed superannuation funds. Such entities however are normally classified as non-reporting entities due to their size and because their limited number of members can already demand reports tailored to meet their particular information needs. As such, they are not required to prepare general purpose financial statements, and thus are outside the scope of AASB 1053.

Practical difficulties with disclosing information about defined contribution and defined benefit members' accrued benefits in accordance with AASB 7

The application of AASB 7 to an actuarially determined estimate of defined benefits liability may be difficult in practice. We note specifically that the application of sensitivity analysis requirements to defined benefit accrued benefits would most likely extend the need for assistance from the actuary to include assistance with preparing the AASB 7 note. This may be overcome by being more specific on what needs to be disclosed. Example disclosures in this area may be helpful. In addition, the Application Guidance should be enhanced to clarify the exact expectations in this area (e.g. liquidity risk, maturity analysis and solvency disclosures) rather than using general statements of areas that don't apply. It is not clear at AG28 and AG 29

on what is exempt and what's included in relation to AASB 7 disclosures, particularly in relation to the application of fair value hierarchy disclosures.

Practical difficulties with disclosing information about non-performance risk and economic dependency risk for defined benefit employer sponsors

The expectations for this disclosure must be clarified. Is it the AASB's intention that superannuation entities comment on how financially sound the employer is, or just that they make it clear to users that there is a risk generally associated with funding from the employer? Superannuation entities may not have direct access to employer sponsor financial statements or other financial information and for this reason we believe that superannuation entities are not in a position to disclose a view on the solvency of an employer. Detailed risk disclosures relating to each employer sponsor may not be practical, particularly in the case of multi-employer sponsored funds.

We believe the existing disclosure requirements within AASB 7 are sufficient to cover off on this area.

Practical difficulties with disclosing information about liquidity risks relating to any non-financial liabilities other than tax liabilities held by the entity

It is unlikely that any non-financial liabilities for a superannuation entity would be material. Consequently it is unnecessary to be prescriptive and depart from standard accounting standard requirements in this area.

Practical difficulties with disclosing disaggregated financial information

Funds may be reporting to CODM's on a total defined contribution and defined benefit basis, which would require a defined contribution segment and a defined benefit segment to be reported in accordance with the principles of AASB 8. In these circumstances, disaggregation by defined benefit and defined contribution segments may be misleading to users if disaggregating in this way conceals that some sub-plans are underfunded. This may be overcome by requiring that preparers disclose this fact where relevant.

Retrospective application of the replacement standard beginning two years from the date of issue

We agree that as with any change in accounting policy, retrospective treatment should be applied to the comparatives in the financial statements in the first set of financial statements that apply the revised superannuation standard. Superannuation entities should be in a position to present a third balance sheet, given that they will already need to prepare an opening balance sheet at the beginning of the comparative period in order to restate prior year comparatives.

However the wording in the ED request "*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?*" is unclear and could be interpreted to mean that Funds will need to go back three years (rather than two years) from application date to converge from the opening balance sheet.

If this is what was meant in the ED, then in practice this would require in addition to preparation of two sets of comparatives for the balance sheet, two years comparatives of income statement and other disclosures. This is excessive when compared to the requirements of AASB 101.

If the ED meant that there will be a two year effective date from the date of finalisation of the standard, we agree that this is a reasonable time frame for implementation.

Other matters

Measurement and recognition of defined benefit accrued benefits

We acknowledge the benefit of simplicity that would be obtained from using vested benefits to measure defined benefit accrued benefits rather than an actuarially determined estimate determined in accordance with AASB 119. However, we do also recognise there are technical arguments against the use of vested benefits, including:

- Whilst defined contribution member benefits are payable on demand due to portability legislation, this is not the case where the payment of defined benefit member benefits is conditional on the member leaving employment. This differentiates the two benefits from an accounting treatment perspective. AIFRS requires liabilities that are payable on demand to be fair valued, whereas liabilities that are not unconditional are typically measured at the present value of the obligation.
- On a going concern basis, whilst superannuation entities do not control the funding liability of the employer, this does not remove the overall obligation of the superannuation entity to pay benefits. If the superannuation entity does not have enough funds to pay benefits, this does not remove the existence of a liability.
- Two different entities are effectively recognising the same liability, however this is because they are related parties as defined under AASB 124. The Fund still has the end liability even though it is being funded by the employer.

Given the level of discussion held on adopting vested benefits for defined benefit liabilities at the recent AASB Roundtable, should the AASB continue with its current proposals we recommend that the AASB clarify in the Basis for Conclusions more clearly why vested benefits are not viewed as a suitable basis of measurement for defined benefit liabilities.

Consolidation of investment entities

Superannuation entities experience the same issues that other investment entities experience in having to consolidate investment entities due to the level of unit holdings and / or kick out rights in the trust deed. If an exemption is granted to other entities from consolidating investments that are measured at fair value, superannuation entities should be entitled to the same exemption.

Prescribed disclosure for expenses

The requirement in paragraph 31 of the ED to disclose specific expenses appears excessive when compared to the requirements for other entities that are required to disclose expenses by nature and aggregate them on a materiality basis.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on 03 9288 6948.

Yours sincerely



Sean Hill
Partner