AIST submission

Response to Australian Accounting Standards Board: ED 223 Superannuation Entities

April 2012

Australian Institute of Superannuation Trustees

Background

In May 2009, the Australian Accounting Standards Board (AASB) published Exposure Draft *ED 179 Superannuation Plans and Approved Deposit Funds*, containing proposal for the replacement standard for *AAS 25 Financial Reporting by Superannuation Plans* (AAS 25). AIST made a submission to ED179[1]. *ED 223 Superannuation Entities* (ED 223) includes amendments drawn from feedback on ED 179 and is considered sufficiently different from the original ED as to require further consultation.

AIST attended the AASB *ED 223 Superannuation Entities* Roundtable ("the Roundtable") on the 13th April 2012 as a participant and observer. We welcome the opportunity that the AASB provided industry to present its concerns with ED 223 and believe the constructive feedback provided, if incorporated, will mean the replacement for AAS 25 is a more useful standard for both funds and users of the information.

AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's $450 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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[1] AASB ED179,Superanuation Plans and Approved Deposit Funds, AIST Submission, September 2009, http://www.aist.asn.au/superannuation-policy-research/submissions/2009-collection.aspx

1 Executive Summary

AIST supports the general aim of *ED 223 Superannuation Entities* (ED 223), but with some proposed modifications which are in line with the points raised at the Roundtable, namely:

- The five proposed financial statements be consolidated into four – namely combining the Statement of Changes in Member Benefits into the Statement of Comprehensive Income;
- Advertising and sponsorship expenses should not be on a separate line item;
- Vested benefits should be used with respect to liabilities, rather than accrued benefits;
- Funds should not be required to quantitatively assess their participating employers and AASB should provide greater clarity over any qualitative requirements;
- If a superannuation fund is acting as an insurance agent, then there should be no requirement to report;
- A materiality test be applied to instances where a fund pays over and above an insurance policy;
- Disaggregated information will not produce comparative or useful information;
- Adoption of consolidation provides limited additional decision useful information;
- superannuation entities should be included within the definition of an investment entity within the current *ED 220 Investment Entities*; and
- Tier 2 reporting would not be applicable to superannuation entities.

With regards to timing AIST supports the proposed delay of one (1) year for the introduction of the replacement to AAS 25 if vested benefits are used and believe that early adoption should be allowed.

We also note that impending Stronger Super legislation and APRA Prudential Standards may affect a number of the proposals in ED 223 and we recommend that the AASB work with the respective regulators to ensure that there is no duplication of reporting or worse, separate, incomparable reporting requirements.

2 Comments

As the basis of this submission, AIST will use the agenda of the ED 223 Roundtable held on the 13th April 2012 ("the Roundtable") as the structure of this response. AIST broadly supports the comments and suggestions made at the Roundtable and is in general support of the proposed accounting standard. However this submission will convey some concerns that still remain for superannuation funds and reiterate recommendations already made that we believe will improve the standard.

2.1 Financial Statements

AIST proposes that the five proposed financial statements be consolidated into four – namely combining the Statement of Changes in Member Benefits into the Statement of Comprehensive Income – for greater consistency. This will align the ED with the Statement of Comprehensive Income within *AASB 101 Presentation of Financial Statements* (AASB 101). Funds will find it difficult to split information between the two Statements and a combined Statement will allow for better presentation of flow which may be more understandable and relevant for a member. It will also more closely resemble a member statement. A further benefit will be that it will permit tax to be displayed as one line item.

With regards to presenting advertising and sponsorship expenses on a separate line item, we do not believe that this will provide consistency or comparability between funds, as each fund will expense it in a different way. We do not oppose transparency in disclosure of such expenses; however we are concerned that such disclosures could result in the following:

- Inconsistency in disclosures between the different superannuation sectors;
- Readers (particularly media) of the financial statements drawing the wrong conclusion and failing to understand why advertising and sponsorship fees are paid by funds; and
- Potential to disclose sensitive and commercial in-confidence information.

Pending MySuper legislation and APRA Prudential Standards will most likely incorporate such disclosures.

We also note that requiring specific disclosure of expense type (paragraph 31 of ED 223) is a departure from other accounting standards applying to corporate entities. It is our understanding that an overriding theme in drafting the replacement standard is convergence with other accounting standards.

2.2 Measurement of member benefits and related

Superannuation trustees are not liable for the shortfall in member benefits and furthermore have no further liability until a member meets a "condition of release". Further, any member, including defined benefit members, can roll out their balance on any day to another fund and the amount rolled over will be a vested benefit figure. With respect to a defined benefit scheme, the fund member's relationship sits with the employer rather than the superannuation fund and as such the settlement of this liability rests with the employer. This liability is recorded within the employer's financial statements and recording the liability in a fund's accounts will lead to a "double count" of the same liability. There is also the risk of introducing the term "negative equity" which could lead to poor member decisions.

The fund's obligation is to distribute the assets equitably. That is, on the winding-up of a fund, there is no fund liability beyond the level of the fund assets. The same scenario is applicable to a fund surplus under trust law.

As such, we question whether the proposals to disclose a fund's surplus or deficit on the statement of financial position would provide meaningful information to the members. We believe that it may be more appropriate to continue to disclose such information within the notes to the financial statements, including appropriate disclosures as to how the trustee manages the process over the funding requirements and surplus/deficit positions.

From a credit risk disclosure perspective, we are comfortable with the proposed qualitative disclosure requirements although there is a risk that pro-forma wording could be used. Firstly, trustees are unlikely to have specific information regarding the creditworthiness of employers and secondly, we envisage that trustees would be reticent to actively pursue and make judgement on such information.

The quantitative assessment of the credit ratings of participating employers is not a responsibility of the trustee. Disclosure of this nature would not be representative of their duties. We also note that there is no requirement for the assessment of the credit ratings of debtors within corporate financial reporting. We would suggest that the AASB provide more clarification and explanation over the expected qualitative aspects of any disclosure of individual employer credit ratings.

AIST recommends that vested benefits should be used for both accumulation and defined benefit members as this would provide the most meaningful measure in respect to liabilities. Vested benefits are already determined annually each year, so there would be no further costs to prepare these numbers and the proposed APRA Prudential Standards include a funding requirement based on vested benefits which will be an audited figure. It is very important for this industry to consider synergies between regulators' requirements to reduce costs, which are eventually borne by members.

AASB 119 numbers would require additional costs to be prepared each year, as they will not necessarily be based on the same data and/or assumptions used for employers for their own statements. Also, they do not provide information related to funding levels, which is what we believe the readers of these statements would be interested in.

2.3 Insurance arrangements

AIST supports the premise that if a superannuation fund is acting as an insurance agent, then there should be no requirement to report. Conversely, AIST is supportive of the notion that if a fund does self-insure then AASB 119 should apply. We would suggest that the AASB provide more clarification over the definitions of what constitutes both an agency and self-insurance arrangement.

We also recommend that a materiality test be applied where claims are paid over and above of the coverage of the insurance policy, which effectively results in an element of the insurance risk being borne by the fund.

2.4 Disaggregated information

AIST has concern that providing disaggregated information will not produce comparative or useful information, and may actually create confusion as different funds may choose different segments to report. This is relevant for both defined contribution and defined benefit funds.

Our recommendation would be that segmentation not be used and that AASB 8 should not apply to superannuation entities.

2.5 Consolidation

AIST believes that the adoption of consolidation provides limited decision-useful information. The important information for the main users of the financial statements is the value of the investments held by the fund, currently accounted for at fair value. The consolidation of relevant investments, which in reality are only passive investments by the superannuation funds with no control exerted, would provide no additional value to the users of the financial information. A further question to be answered is who the actual audience is for these statements – members, media, regulators, advisers, researchers. Regardless, all these end-users will be interested in the fair value of the investments.

We note that *ED 220 Investment Entities* (ED 220) exempts investment entities from consolidating and we would recommend that superannuation entities should be included within the definition of an investment entity within the current ED.

2.6 Other Matters

The following are responses to the matters the AASB requested specific comment:

2.6.1 Are there any superannuation entities that would meet the criteria for applying Tier 2 disclosure requirements?

As a general rule, AIST is of the opinion that Tier 2 reporting would not be applicable to APRA-regulated superannuation entities due to the tax concessions that they currently receive.

With respect to the minutes from the AASB Roundtables, we would not agree that superannuation funds that offer IDPS-style services should be excluded from Tier 1 requirements as the trustees are publicly accountable to those members, have arguably the same end users of their financial statements as any 'normal' superannuation fund and are reporting entities presently.

2.6.2 Are there any significant practical difficulties that would inhibit a superannuation entity disclosing information about defined contribution or defined benefit members' benefits in accordance with the relevant principles and requirements in the AASB 7: Financial Instruments: Disclosures

AIST fully supports disclosure and transparency of superannuation entities; however we do note that the current Stronger Super legislation and APRA Prudential Standards will go a long way in promoting greater disclosure. It would our general recommendation that the AASB ensure it aligns with the amendments to the SIS Act and Regulations, and Prudential Standards to make sure there is no duplication of requirements.

The majority of superannuation entities currently disclose their member benefits as a current liability within the AASB 7 note disclosures, deeming them to be transferrable to another entity within the industry at any given time. As such, we do not believe that any practical difficulties exist.

2.6.3 Are there any significant practical difficulties that would inhibit a superannuation entity disclosing information about non-performance risk and/or economic dependency risk in respect to employer sponsors in relation to defined benefit?

This has been answered in Section 2.3.

2.6.4 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?

Considering the current timeframe, AIST supports the proposed delay of one (1) year for the introduction of AAS 25 if vested benefits are used. If accrued benefits are used then a further year would be required to allow for systems changes and retrospective comparability. We do believe however that early adoption should be allowed.

2.6.5 Overall, would the proposals result in general purpose financial statements that would be useful to members?

Realistically, AIST does not believe that the current ED would result in financial statements that would be more useful to members. This is based on the premise that very few members access or analyse the financial statements of their superannuation fund. Superannuation funds are still struggling to engage their members to read their own statements.

AIST recently conducted a poll through Essential Research that found that only 31% of respondents opened their member statement and read it. A further 26% opened it and noted their investment returns, and another 22% opened it and read it thoroughly.