



26 February 2014

Mr Angus Thomson
Research Director
Australian Accounting Standards Board
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Email: standard@asb.gov.au

Dear Mr Thomson

Comments on the AASB's Fatal Flaw Draft of AASB 105x - Superannuation Entities

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the superannuation industry and the development of superannuation regulation, reporting and disclosure, interpreting financial statistics, risk management and related practices in Australia for many years.

The attached submission sets out the Actuaries Institute's comments on the AASB's Fatal Flaw Draft of AASB 105x - Superannuation Entities.

Please do not hesitate to contact the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email david.bell@actuaries.asn.au), or the convenor of the Institute's Accounting Sub-committee, Tim Furlan (phone 02 9229 5216 or email tfurlan@russell.com), to discuss any aspect of this paper.

Yours sincerely

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1. Paragraph 11 provides a reconciliation of the change in member benefit liabilities from one year to the next, broken down into the following items:
 - (a) employer contributions;
 - (b) member contributions;
 - (c) taxes on contributions;
 - (d) benefits transferred into the entity from other superannuation entities;
 - (e) benefits to members;
 - (f) insurance premiums charged to defined contribution member accounts;
 - (g) net benefits allocated to defined contribution member accounts;
 - (h) net changes to defined benefit member accrued benefits; and
 - (i) amounts allocated to members from reserves.

It wasn't immediately clear to us what the "net benefits allocated to defined contribution member accounts" is intended to include. We note that paragraph AG18 refers to investment earnings and expenses, which implies that this item represents all other changes in defined contribution member benefits not otherwise covered by items in paragraph 11. Is this correct? Would some further guidance in the application guidance be appropriate?

2. We have a similar comment about the item "net changes to defined benefit member accrued benefits" and the need for some further application guidance.

We also note that we have assumed that item "(a) employer contributions" in the reconciliation includes defined benefit employer contributions. This differs from the approach under AASB 119 where a "current service cost" is used in the equivalent reconciliation (see para 141 of AASB 119 (2011)). The reason that a service cost is used rather than actual employer contributions is that the level of employer contribution may change from year to year with any surplus or deficit. For example if there was a large top up contribution paid in a particular year such that total contributions far exceeded benefit payments, the net amount in "net changes to defined benefit member accrued benefits" may be negative.

3. We note that paragraphs 18 and 19 provide treatment of DB "Employer-sponsor receivables", but there are no similar rules for DC contributions receivable. We also note that defined contribution member liabilities are defined in paragraph 16 as current account balances. Those account balances would typically only include contributions actually received by the fund and would not include contributions receivable. Hence there could be a mismatch if contributions receivable are included in the assets. The AASB may wish to consider whether it specifies that any allowance for contributions receivable is consistent with the measurement of the member liability.
4. We note that one interpretation of paragraph 17 could be that the liability is measured based on the discount rate associated with a matching portfolio (i.e. a fixed interest portfolio with coupon and principal payments that closely match the cash flows associated with the liability). Paragraph AG 23(e) refers to the current portfolio thus suggesting that a matching portfolio is not the AASB's intention, however that could be clarified in paragraph AG23.



5. The definition of accrued benefits may benefit from the addition of the words "the value of", similar to the definition of vested benefits. AG23 mentions a discount rate, but does not explicitly mention that a present value would normally be appropriate.
6. The proposed definition of a defined benefit member is a:

A member whose benefits are specified, or are determined, at least in part, by reference to a formula based on their years of membership and/or salary level.

This contrasts with the SIS definition which is

defined benefit member means a member who is entitled, on retirement or termination of employment, to be paid a benefit defined wholly or in part by reference to:

- (a) the member's salary on retirement, termination of employment or an earlier date; or*
- (b) the member's salary averaged over a period before retirement; or*
- (c) both (a) and (b); or*
- (d) a specified amount.*

The key difference in the definition is the reference to retirement or termination of employment. A defined contribution member with salary based insurance arguably has a benefit, determined as least in part, by reference to salary. Hence, it could be interpreted that they are covered by the definition of a defined benefit member in AASB 105X.

7. Superannuation entity is defined in section 10 of the Superannuation Industry (Supervision) Act 1993 as:

superannuation entity means:

- (a) a regulated superannuation fund; or*
- (b) an approved deposit fund; or*
- (c) a pooled superannuation trust.*

We understand that the AASB definition excludes pooled superannuation trusts, so it may be appropriate to choose a different term to avoid the confusion of a dual meaning for "superannuation entity".

8. We note that paragraph AG 24 suggests that a roll forward estimate of accrued benefits (where data effective prior to the balance date is used for calculations and then the results are updated to provide an estimate effective at the balance date) is acceptable. Is that interpretation correct? Has the AASB considered whether there is a maximum period of roll forward that is acceptable, for example does the data need to be effective within 6 months or 12 months or 3 years of an actuarial investigation cycle? Is there any other guidance that the AASB wishes to give on the level of accuracy required in any roll forward?



9. The Statement of Changes in Member Benefits in Illustrative Example II includes amounts being transferred from Defined Benefit member benefit liabilities to a foregone benefits reserve. Such an arrangement would be highly unusual. To the extent that Defined Benefit members forego any benefits on termination of employment those foregone benefits would typically remain in the pool of assets backing the defined benefit liabilities. Hence we found the reference to transfers to and from a foregone benefits reserve for Defined Benefit members confusing.
10. We note that paragraph BC 134 refers to "higher of benefits". We understand that the conclusion reached is that the AASB does not expect option like valuations. On a related issue we note that actuaries often place a minimum of vested benefits on their calculations of the present value of accrued benefits (either individually or in aggregate). We are not sure whether the AASB has considered whether the standard will require such a minimum, expressly prevent such a minimum, or provide flexibility.
11. We also noted some minor typographical errors in the draft. In Paragraph 20, "AG5" is repeated. In note B on page 44, the last sentence of the 2nd paragraph has a missing word "impact" or "effect" (i.e. "for which changes are reasonably possible that would have a material ... on the amount of the liabilities").