

28 February 2014

Mr Kevin Stevenson
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
Australia

Dear Kevin

Fatal Flaw of AASB 105X “*Superannuation Entities*”

Thank you for the opportunity to comment on the Fatal Flaw Review of AASB 105X *Superannuation Entities*. The Institute of Public Accountants (IPA) supports the issue of AASB 105X. While the IPA supports appropriate due process, the IPA is disappointed with the amount of time it has taken to provide a replacement to AAS 25 *Financial Reporting by Superannuation Plans*. We note that the development of the proposed standard has taken over seven years and that AAS 25 dates back to 1993.

While not wishing to delay the issue of the proposed standard, we have a number of fundamental concerns:

1. **Scope extension:** The standard has been designed to be applicable essentially applicable to APRA regulated funds with the exception of Small APRA funds (SAFs). However, we believe members of both SMSF and SAFs are dependent users. They are often not in the position to demand financial information in relation to the funds. Many SMSFs have external administration arrangements. Such external arrangements provide set reporting usually on tiered basis. In such arrangements, there is often a standard annual service which has a set reporting structure including annual financial reporting package. To obtain further information trustees must select a different service option at additional cost. Therefore, the financial report is the primary method for obtaining financial information in relation to the fund and the standard offering by most SMSF administration providers. Furthermore, despite the current AASB 25 being only applicable to reporting entities it is used as a defacto standard for SMSF financial reporting. The SMSF sector has over 500,000 funds with approximately \$506 billion in assets i.e., 31% of all superannuation assets. By adopting the approach in the proposed standard that SMSFs are not subject to the proposed standard the AASB has abrogated its responsibility to a large sector of the superannuation industry.

A similar situation exists in respect of SAFs. However, as there are two main providers who also provide “platform” based services the level of information available to members is more comprehensive. None-the-less these services are of “turn-key” nature and members are not in the position to readily obtain financial information outside that provided under the service.

While a full adoption of this standard may not be appropriate, e.g., AASB 7, AASB 107 and AASB124 may not provide useful information, a “pared back” reporting standard (or reduced disclosure version) would improve consumer information for SMSF trustees.

As a consequence the IPA believes the AASB should undertake a review of the proposed standard within 12 months of it’s to determine its suitability for use by SMSFs and SAFs, make the necessary amendments to standards including comments relating to its applicability to SMSFs and SAFs.

2. **Performance reporting neglected:** The IPA believes that reporting of fund performance and comparability of performance between funds is an integral purpose of the production financial reports. As such, we consider the absence of any guidance in relation to key performance metrics a significant shortcoming of the proposed standard. The IPA would like to see the AASB include in work program a project to include within the scope of the Superannuation Entities standard to provide guidance on the reporting of key performance metrics such as fund return, management

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expense ratios including guidelines on how such metrics are to be formulated. It is recommended this be performed in conjunction with ASIC which oversees consumer reporting.

3. **Disaggregated information vague:** The IPA believes the guidance on disaggregated information is vague and not useful (AASB 105X.AG31-33). The guidance should provide a more thorough basis for the disaggregation of information especially in relation to "drill-down" of investment holdings including such information as type of assets held, fund manager by type (active, passive, total return etc.), liquidity etc. This will become increasingly important should the government implement new legislation aimed at encouraging lifetime pensions to address longevity risk.
4. **Related parties lacks specificity in the superannuation context:** The IPA believes additional guidance in relation to related parties should have been provided rather than a just stating that trustee is related party in accordance with AASB 124 "Related Parties" (AASB 105X.AG47). The guidance should have considered the directors of trustee companies as minimum and the nature of director related entities. The guidance should have provided specific consideration to relationship between trustee entities, their directors and various providers of services to the superannuation entity, including fund and asset managers, custodians, advisors and bankers including the consideration of additional disclosures that may have been applicable to superannuation in addition to those required by AASB 124.
5. **Relationship between "fair value" and "market value":** The IPA believes some consideration should have been given in either the basis of conclusion or application guidance on any potential impact of the use of fair value in accordance with AASB 13 "Fair Value Measurement" and the concept of market value under SIS and the ATO's guidance on market value and, in particular any possible conflicts. Inconsistency in reporting between APRA funds and SMSFs will lead to increasing difficulty in comparing market places by investors and increase the need to adjust for differences by market statisticians.

Despite the above reservations the IPA believes AASB 105X should be issued as soon as possible. If the issues raised by us cannot be addressed without further delaying the implementation of the standard, they be should be addressed through due process with amendments made as soon as practicable.

If you would like to discuss our comments, please contact me or our technical advisers Stephen La Greca (0417 451 315, or stephenlagreca@aol.com) or Susan Orchard (03 9576 5620, or susan@sorchardca.com.au).

Yours sincerely



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