

10 November 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
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Via website: www.aasb.gov.au

Dear Keith

Invitation to Comment 54, Post-implementation Review of AASB 1056 Superannuation Entities and Interpretation 1019 The Superannuation Contributions Surcharge

As the representatives of over 300,000 professional accountants, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia thank you for the opportunity to comment on Invitation to Comment 54 (the ITC). We make this submission on behalf of our members and in the public interest.

We appreciate and welcome the AASB's efforts to conduct a thorough post-implementation review (PIR) of AASB 1056 *Superannuation Entities* (AASB 1056) and Interpretation 1019 *The Superannuation Contributions Surcharge* (Interpretation 1019). Our main observations and recommendations based on feedback received from stakeholder outreach activities undertaken as part of developing this submission are set out below.

Overall, we have heard consistent views from preparers and auditors that AASB 1056 is well written, structured and fit-for-purpose. Feedback indicates that the current level of financial reporting by superannuation entities is optimal, and any additional reporting requirements, including sub-fund reporting, would be resource intensive and unlikely to provide useful information to fund members. Ultimately, it is fund members who bear additional compliance costs incurred by superannuation entities, which would undermine the expectation that superannuation entities remain focused on cost optimisation to improve member outcomes.

Superannuation entities already have significant disclosure (and audit) obligations to the Australian Prudential Regulation Authority (APRA) and their members, under the *Superannuation Industry (Supervision) Act 1993*, the *Superannuation Industry (Supervision) Regulations 1994*, the *Corporations Act 2001*, the *Corporations Regulations 2001* and the *Financial Sector (Collection of Data) Act 2001*. Many investors in superannuation funds rely on information relating to investment fund performance and the corresponding fees reported by superannuation entities, which are not derived from the general purpose financial statements (GPFS). However, we do believe there is a role for GPFS in ensuring continuing market confidence over stewardship of the entities within the sector, particularly given the recent introduction of statutory reporting requirements by Registrable Superannuation Entities.

Feedback from our outreach activities also indicates that superannuation entities have some concerns about the requirement to consolidate certain controlled entities in accordance with AASB 10 *Consolidated Financial Statements*. While there is no requirement to consolidate controlled *investment* entities by exception, this does not extend to controlled entities whose purpose and activities are to provide services to the investment entity for its investment activities. The feedback we have received is that this consolidated financial information does not provide useful or relevant information to fund members. However, we understand that such subsidiaries that provide services to the superannuation entity are unlikely to be material and therefore would not result in consolidation.

We have also been advised that the fair value measurement of unlisted investment assets could benefit from the development of additional Application Guidance which is important as the superannuation funds' assets grow. Specifically, we recommend that the AASB consults with the regulators and practitioners to develop guidance on the valuation processes involving Levels 2 and 3 inputs as defined in AASB 13 *Fair Value Measurement*.

We observe that accounting for contribution taxes provides relevant information. We recommend that Interpretation 1019 be retained but modified to include a broader set of circumstances pertaining to specific taxes. Applying Interpretation 1019 by analogy is inappropriate when accounting for complex tax-related matters.

Our responses to the specific questions raised in the ITC are included in the **Attachment** to this letter. If you have any questions about our submission, please contact either Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

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Attachment

Topic 1: Level of reporting and sub-fund reporting

1. **Do you have any comments about the level at which superannuation entities prepare their GPFS, including whether some form of sub-fund reporting under AASB 1056 might be useful? Please provide reasons for your view.**

If you consider there should be some form of sub-fund reporting, please indicate your suggested basis for identifying sub-funds and your reasoning.

Our outreach activities indicate no support for additional financial reporting requirements, including sub-fund reporting. The length and complexity of financial statements for superannuation entities with many sub-funds is likely to be prohibitively expensive and undermine the objective of providing information that is useful to fund members.

Defined benefit funds are distinct from defined contribution funds and separate reporting of these two types of funds remains appropriate. However, defined benefit funds are reported along with the defined contribution funds in the GPFS for the entire superannuation entity. Feedback indicates that this financial information already adequately meets the needs of fund members.

As a result, the cost of preparing sub-fund reporting, and having them audited, is likely to be an unnecessary compliance cost which will ultimately be borne by the fund members.

Topic 2: Statement of changes in member benefits

2. **Do you have any comments regarding the AASB 1056 requirement to present a statement of changes in member benefits, including whether it should be retained or modified?**

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

Feedback we have received indicates an overall level of satisfaction among stakeholders in relation to the statement of changes in member benefits. We have not been advised of any significant concerns about the statement of changes in member benefits.

Topic 3: Classification/disclosure of revenue and expenses

3. **Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on classifying and disclosing revenue and expenses?**

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

We do not recommend any changes to the classification or disclosure of revenue or expenses. We understand there is sufficient information reported to members of superannuation funds through the prudential reporting to APRA. Many investors in superannuation funds rely on information relating to

investment fund performance and the corresponding fees which are not derived from the superannuation entity's financial reports. We also understand that where useful information is available through other prudential or legislative reporting mechanisms, such information could supplement or operate along with the AASB 1056 reporting requirements.

Topic 4: Fair value asset measurement

4. Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on fair valuing assets and liabilities?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

Feedback we have received indicates that measurement or valuation concerns are mainly caused by processes and operational limitations which are not attributed to AASB 1056 or AASB 13 *Fair Value Measurement* (AASB 13). However, we have also been advised that the valuation conducted by the superannuation industry could benefit from additional industry-specific guidance for more complex and judgemental valuations involving levels 2 and 3 inputs as defined in AASB 13.

We recommend that the AASB consults with the regulators and industry practitioners to develop application guidance to address the valuation of unlisted investments held by superannuation entities.

Topic 5: Insurance arrangements

5. Do you have any comments or suggestions regarding the AASB 1056 requirements or guidance on insurance arrangements?

If you consider there should be changes to the requirements or consider additional guidance is needed, please indicate the nature of those changes or guidance and your reasoning.

We have no comments in relation to insurance arrangements.

Topic 6: Subsidiaries

6. Do you have any comments or suggestions regarding the accounting for subsidiaries under AASB 1056 requirements, including whether any enhancements are required?

If you consider there should be changes to the accounting for subsidiaries, please indicate the nature of those changes and your reasoning.

Feedback we have received indicates that consolidated information that includes subsidiaries that are service entities does not provide useful information to the readers of GPFS. However, we have also heard that many superannuation entities do not consolidate such entities because they are not material.

Topic 7: Trends affecting superannuation entity reporting

7. Do you have any comments or suggestions regarding the accounting that may be needed to address issues that emerge from trends in the superannuation industry, including trends in product development?

If so, please describe the trend(s) you have in mind and the accounting response(s) that you consider necessary and your reasoning.

We note there are changing trends for members approaching the retirement phase and the likely increase in income products offered by various superannuation funds. Feedback we have received indicates that it is also too early to assess the impact at present and therefore we are unable to ascertain what, if any, the accounting and financial reporting implications of these emerging trends may be.

We recommend that this topic be monitored as part of the future AASB work plan.

Topic 8: Interpretation 1019

8. Do you have any comments or suggestions in respect of Interpretation 1019? In particular, do you consider that Interpretation 1019 should be retained, modified or withdrawn?

Please indicate the reasons for your view. If you consider Interpretation 1019 should be modified, please indicate the nature of those modifications and your reasoning.

We have been advised that there are still some remaining surcharge balances in some public, not-for-profit sector, defined benefit funds.

To enact changes announced in the 2023-24 Budget, the [Treasury Laws Amendment \(Better Targeted Superannuation Concessions\) Bill 2023](#) and the [Superannuation \(Better Targeted Superannuation Concessions\) Imposition Bill 2023](#) proposes a new Division 296 of the *Income Tax Assessment Act 1997* (ITAA 97) from 1 July 2025. It confirms that defined benefit schemes will be included in the \$3 million cap, albeit with special rules for modified treatment. The accounting for any excess tax arising from this legislative change may have to be considered by the AASB.

To address this, we recommend that Interpretation 1019 be retained but modified to address accounting for taxes more broadly that are treated in a similar way as the former superannuation surcharge – at present we refer to Division 293 and the putative Division 296 of the ITAA 97.

Applying Interpretation 1019 by analogy is inappropriate when accounting for complex tax-related matters and should therefore be updated to accommodate other transactions as noted above.

Topic 9: Any other matters affecting AASB 1056 or Interpretation 1019**9. Do you have any other matters relating to AASB 1056 or Interpretation 1019, in addition to the matters raised above for Topics 1 to 7, that you wish to raise?**

If so, please explain those matters, what you think should be done and why.

We have no further comments.

AASB General Matters for Comment**10. Does the application of the requirements in AASB 1056 and Interpretation 1019 adversely affect any regulatory requirements for superannuation entities?**

None of the feedback we have received suggests that the application of the requirements in AASB 1056 and Interpretation 1019 adversely impact the regulatory requirements for superannuation entities.

11. Does the application of the requirements in AASB 1056 and Interpretation 1019 result in major auditing or assurance challenges?

Based on our outreach activities, we do not believe the requirements give rise to major auditing or assurance challenges.

12. Overall, do the requirements in AASB 1056 and Interpretation 1019 result in financial statements that are useful to users of superannuation entity financial statements?

The general feedback we have received suggests that the requirements in AASB 1056 and Interpretation 1019 have provided the right balance of effort for preparers/auditors whilst satisfying the information needs of users of the financial statements. However, some feedback also indicates that most members often rely on information relating to investment fund performance and the corresponding fees which is not derived from the financial statements of the superannuation entity.

13. In your view, do the benefits of applying the requirements in AASB 1056 and Interpretation 1019 exceed the implementation and ongoing application costs for Superannuation entities?

Broadly, we believe that the benefits of applying AASB 1056 and Interpretation 1019 exceed the costs.