Mercer

welcome to brighter

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Australian Accounting Standards Board

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Subject: **Mercer response to ITC 54 - Post-implementation Review of *AASB 1056 Superannuation Entities* and Interpretation 1019 *The Superannuation Contributions Surcharge***

Mercer welcomes the opportunity to respond to ITC 54. Our comments are limited to a number of the specific topics raised in the ITC.

Who is Mercer?

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over $20 billion. Through its market-leading businesses including Marsh, Guy Carpenter, Mercer and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Mercer Australia's business includes providing customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). This includes the Mercer Super Trust, which has over 850,000 members and more than $60 billion in assets under management.

Topic 1: Level of reporting and sub-fund reporting

Mercer considers that AASB 1056 general purpose financial statements (GPFS) reporting requirements should continue to apply at the whole-of-entity level.

In our view, requirements for sub-fund reporting would be likely to add a substantial cost burden, which will ultimately be borne by fund members, and provide limited additional useful information.

The Mercer Super Trust includes corporate arrangements with hundreds of employer sub-plans, a significant portion of which have less than 100 members and some winding-down defined benefit sub-plans have less than 10 members. It would clearly add very substantially to the operating costs of the Mercer Super Trust, and to the complexity of the financial reporting processes and outputs, if it were required to prepare hundreds of additional sets of financial statements each year.

As noted in the ITC, there are other forms of regulatory reporting requirements that provide sub-plan level information. These include requirements for annual sub-plan level reports to members (which will shortly be required to be publicly disclosed) and detailed reporting of sub-plan level data to the Australian Prudential Regulation Authority (APRA).

Funds currently deploy significant resources to comply with these existing reporting requirements. We also note that APRA is in the process of reviewing the sub-fund level data it requires superannuation funds to report and this is likely to increase.

The Mercer Super Trust is not alone in having a large number of employer plans which may be classified as sub-funds, some of which have relatively small numbers of members. We also agree with the further issue, as raised in the ITC, that the types and nature of sub-funds are not homogenous across different superannuation entities, and possibly not within a given superannuation entity. Accordingly, there would be practical barriers to achieving comparability of reporting by sub-fund across entities.

In conclusion, taking into account the size of many sub-funds along with the lack of homogeneity, we submit that the additional costs of requiring GPFS at sub-fund level, which would ultimately be borne by members, would be highly disproportionate to any potential benefits of this reporting, over and above the existing reporting requirements.

Topic 7: Trends affecting superannuation entity reporting

As alluded to in the ITC notes, the increased focus on the retirement phase of superannuation is likely to lead to the development of new and innovative types of retirement income products.

While we would support the AASB maintaining a watching brief, it is important that AASB 1056 does not stifle the innovation of these products by imposing potentially onerous requirements for how they are valued in financial statements.

Topic 8: Interpretation 1019

Interpretation 1019 should be retained for reference, as some funds may still have surcharge balances.

Alternatively, the interpretation could be modified (expanded) to provide specific guidance to the scenario of Division 293 tax, which works in similar fashion with some minor differences.

Naturally, we would be very happy to discuss any of our comments as you carefully consider these matters. Please do not hesitate to contact us.

Yours faithfully

Paul Shallue
Manager, Research and Policy