

24 November 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
Level 20, 500 Collins Street
Melbourne, VIC 3000
Australia

Via email: standard@aab.gov.au

Dear Keith,

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

Deloitte is pleased to respond to Australian Accounting Standards Board ('AASB' or 'Board') Invitation to Comment: ITC 54 Post-implementation Review of AASB 1056 *Superannuation Entities* and Interpretation 1019 *The Superannuation Contributions Surcharge* ("ITC 54").

We appreciate the opportunity to comment on the Board's post-implementation review (PIR) of its pronouncements relating to superannuation entities.

We acknowledge the Board's efforts in assessing the overall effectiveness and efficiency of AASB 1056 in meeting its original objectives, including whether AASB 1056 remains appropriate and the relevance of Interpretation 1019 and would like to note the following comments around certain topics:

- **Level of reporting and sub-fund reporting** – The proposal that superannuation entities should include additional reporting and disclosures in the general-purpose financial statements at a sub-fund level is one that we do not support. The additional benefit to members is in our view outweighed by the significant and incremental costs and effort that would be required by industry participants including, trustees, service providers and audit firms. Members receive more timely and up-to-date information on the sub-funds via dashboard reporting available on superannuation entity websites. Therefore, the inclusion of such information in the financial statements would be outdated by the time it is reported to members.
- **Fair value asset measurement** – The current requirements contained within AASB 1056 in relation to fair value measurement of all assets and liabilities (with specific exceptions) provides the most useful information to members. AASB 13 *Fair Value Measurement* (AASB 13) provides appropriate guidance in relation to the fair value measurement of assets. It is appropriate for AASB 1056 to require all assets to be recognised at fair value because this is the amount at which assets can be bought and sold in an active market at the reporting date. We do however, recommend that additional guidance is provided in relation to the application of fair value basis of accounting for level 2 and level 3 illiquid assets, and the associated disclosures, considering these assets increasingly make up large proportions of superannuation entities' investment portfolios. We recognise the work

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that the Australian Prudential Regulation Authority (APRA) has done and continues to do in providing industry wide best practice guidance in relation to illiquid assets.

- **Subsidiaries** – The current approach in relation to the consolidation of subsidiaries of superannuation entities could be enhanced. Whilst AASB 10 *Consolidated Financial Statements* (AASB 10) requires subsidiaries of investment entities (except those that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities) to be measured at fair value rather than consolidated, in practice there is still a perceived need for other immaterial operating entities (such as service companies for e.g. financial planning, investment administration) to be consolidated in accordance with AASB 10. This increases the compliance burden on superannuation industry participants and provides little benefit to members. We recommend further guidance be included in AASB 1056 on the circumstances in which controlled entities might be considered not to have a material impact on the financial position, performance and cashflows of the superannuation entity.
- **Other- Successor fund transfers (SFTs)** – There is currently a need for additional guidance on how to account for SFTs as AASB 1056 does not provide any guidance in relation to this. AASB 3 *Business Combinations* also does not have any specific guidance that covers SFTs in superannuation entities. For example, there is no purchase consideration for SFTs in superannuation entities as it is a transition of member liabilities and investment assets.

Our detailed comments on the specific matters and general matters for comments are attached in Appendix A and Appendix B respectively.

Please contact Fiona O'Keefe at +61 3 9671 7317 or Vimbai Mhlanga at +61 7 3308 1250 if you wish to discuss any of our comments.

Yours sincerely



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APPENDIX A – RESPONSES TO REQUESTS FOR SPECIFIC MATTERS FOR COMMENT

Topic 1: Level of reporting and sub-fund reporting

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.

We note that including specified sub-fund reporting under AASB 1056 may provide increased transparency with a comprehensive view of the financial operations of superannuation entities, and be particularly valuable for certain members and other stakeholders to understand how individual sub-funds contribute to the overall performance. However, the benefits of this do not outweigh the increased compliance cost of preparing these disclosures.

Members receive more timely and up-to-date information on the sub-funds via dashboard reporting available on superannuation entity websites. Therefore, the inclusion of such information in the financial statements would be outdated by the time it is reported to members.

Sub-fund reporting can be a complex area especially for superannuation entities with a large number of sub-funds. 'Sub-fund' would need to be clearly defined in the AASB 1056, as a lack of clarity in this definition could cause significant differences in the disclosures across funds. Whether sub-fund is defined by product (individual defined benefit and defined contribution sub-funds) or on an option level, there would be additional compliance costs for the larger funds with multiple options and products.

We note to be able to audit the option level reporting would require significant additional effort and costs from an audit perspective. We consider a more appropriate alternative would be the inclusion of the MySuper option performance in the annual report, which, following the amendments to the *Corporations Act 2001*, is now considered as Other Information in the Directors' report.

Topic 2: Statement of changes in member benefits

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.

The statement of changes in member benefits should be retained as it provides a clear breakdown of the changes that affect member benefits, ensuring transparency and enabling members to understand how their benefits have moved through the year on a fund-level basis. The AASB could consider updating the standard to require narrative disclosures that explain the net change in member benefits. This could provide further clarity and understandability of the investment income and expenses allocated to member accounts. We further note that additional guidance could be provided in AASB 1056 on the level of breakdown required with regards to 'Paragraph 11(e) - benefits to members or their beneficiaries'. For example, showing this amount further disaggregated as transfers out and other benefit payments

Topic 3: Classification/disclosure of revenue and expenses

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.

Due to the enhanced granularity in APRA reporting (e.g. APRA Reporting Standard SRF 331 *Services* and APRA Reporting Standard SRF 332 *Expenses* (SRF332)), along with the financial disclosures integrated into the annual member meetings, it is debatable whether there is benefit in requiring additional supplementary disclosure as outlined in paragraph AG29 of AASB 1056, which covers disclosure (by nature) of revenues and expenses.

There are, however, differences in the reporting in the financial statements and various other industry reporting requirements. Additional clarity could be useful to highlight to industry participants where the requirements of AASB 1056 differ to other reporting requirements. Some examples include:

- Reporting for the purposes of the Annual Member Meeting is on a cash basis (defined as payment) whereas financial statements are prepared on accruals basis which aligns to APRA Form SRF 332.
- Reporting for the purposes of the Annual Member Meeting requires the disclosure of marketing expenses, whilst AASB 1056 requires disclosure of sponsorship and advertising. Further guidance and alignment of Annual Member Meetings and AASB 1056 is required to ensure the reporting is consistent and comparable.
- Member transactions included in APRA Reporting Standard SRF330 *Statement of Financial Performance* do not align to the definition of income per AASB 1056.

Topic 4: Fair value asset measurement

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.

AASB 13 provides appropriate guidance in relation to the fair value measurement of assets. It is appropriate for AASB 1056 to require all assets to be measured at fair value because this is the amount at which assets can be bought and sold in an active market at the reporting date.

We believe that the AASB should consider expanding its current guidance to provide additional industry-specific guidance for more complex and judgemental valuations involving level 2 and level 3 illiquid asset inputs as defined in AASB 13.

From our perspective, there is a need for the disclosure requirements in respect of the level 2 and level 3 inputs that drive the complex and judgemental valuations of illiquid assets to be further enhanced (in the Australian Accounting Standards) to align with the requirements of the new Prudential Standard SPS 530 *Investment Governance in Superannuation* (SPS 530).

Topic 5: Insurance arrangements

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 not identified a need for further guidance in this area in practice.

Topic 6: Subsidiaries

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.

AASB 10 provides guidance on consolidation which forms the basis of how superannuation entities currently prepare financial statements. It is noted that subsidiaries (of an investment entity) that are not investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities are required to be consolidated.

The current requirements are for all controlled entities that may have a material impact on the financial position, performance, and cash flows of the superannuation entity to be consolidated (where the subsidiary is not an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities are required to be consolidated).

We believe that the AASB should consider expanding its current guidance on the circumstances in which controlled entities might be considered not to have a material impact on the financial position, performance and cashflows of the superannuation entity. As an example, unless a subsidiary is delivering substantial and material services to external parties, there would be limited material additional information arising from consolidating such an entity, when compared to recognising the costs of the associated services directly in the books of the superannuation entity itself. Accordingly, in our view the costs associated with the full consolidation of these entities are not justified by the provision of additional material information to users in respect of factors impacting the performance of the superannuation entity.

Topic 7: Trends affecting superannuation entity reporting

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.

With regards to trends impacting superannuation entity reporting, we do not believe it is necessary for general-purpose financial statements to encompass product-related issues. The current trends in the industry are already comprehensively covered in other disclosures related to the product outside of the financial statements, and further disclosure within the audited financial statements will not provide added value to members.

However with the introduction of the IFRS Sustainability Disclosure Standards issued by the International Sustainability Standards Board (ISSB) and the imminent move to mandatory sustainability reporting in Australia, we recommend that the AASB assess how to implement sustainability reporting for superannuation entities. This is especially pertinent given that superannuation entities generally hold significant investment portfolios across a range of asset classes.

Topic 8: Interpretation 1019

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.

There would be no impact from an audit perspective whether Interpretation 1019 is retained or removed.

Topic 9: Any other matters affecting AASB 1056 or Interpretation 1019

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.

There is currently a need for additional guidance on how to account for successor fund transfers (SFTs) as AASB 1056 does not provide any guidance in relation to this. AASB 3 *Business Combination* also does not have any specific guidance that covers SFTs in superannuation entities. For example, there is no purchase consideration for SFTs in superannuation entities as it is a transition of member liabilities and investment assets.

APPENDIX B – RESPONSE TO REQUESTS FOR 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?**

There is currently no clear linkage between AASB 1056 and the regulatory requirements of the *Superannuation Industry (Supervision) Act 1993* and other relevant legislation. For example, SPS 530 *Investment Governance in Superannuation*, should be linked back to the changes applied to AASB 13 and AASB 1056 as noted on Topic 4 above.

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

At this stage there is no major auditing or assurance challenges. However if sub-fund reporting is introduced, it would add significant costs to the audit process depending on the size scale of sub-funds per fund.

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 requirements in AASB 1056 are useful from a governance and operational lens.

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?

Yes, the benefits of applying the requirements in AASB 1056 and Interpretation 1019 exceed the implementation and ongoing application costs for superannuation entities.