Australian Accounting Standards Board (AASB)
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13 November 2023

Dear AASB,

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

We are responding to your invitation to comment on the Post-implementation Review of AASB 1056 on behalf of PwC.

We welcome the Board seeking feedback in relation to the application of AASB 1056 *Superannuation Entities* (AASB 1056) and Interpretation 1019 *The Superannuation Contributions Surcharge* (Interpretation 1019). We worked with many clients during the implementation of AASB 1056 and have been the auditor for many superannuation funds since its inception.

Overall, in our experience AASB 1056 has met the needs of users and largely we accept and agree with the initial comments and feedback that the AASB has received from key stakeholders through the targeted outreach activities.

We note that Treasury Laws Amendment (2022 Measures No. 4) Bill 2022 (Schedule 6) (the Act) received royal assent on 23 June 2023 and amends the *Corporations Act 2001*, *Australian Securities and Investments Commission Act 2001* and *Superannuation Industry (Supervision Act) 1993* to extend obligations relating to financial reporting and audit requirements to Responsible Superannuation Entities (RSEs). The changes to superannuation fund financial reports (now known as 'annual report') and auditing requirements apply from the year ending 30 June 2024 and align to those of public companies.

See our detailed comments in the appendices and please don't hesitate to contact us if you have any questions.

Yours sincerely,

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Appendix A

Topic 1: Level of reporting and sub-fund reporting

AASB 1056 paragraph 32 states that a superannuation entity shall disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members liabilities. In our view, the existing requirements in paragraph 32, and the accompanying application guidance, are adequate and there does not need to be a specific requirement to further disaggregate.

The generally accepted practice is to present (where applicable) two categories of fund members being defined contribution and defined benefit. Differences in the risks and benefit arrangements within these two categories are considered to be inconsequential to the users of the financial statements as a whole. In some instances, such as when a plan is in deficit, further disaggregated information is required to be disclosed in the notes.

Certain prudential requirements already necessitate a detailed breakdown in fund reporting. Sub-fund reporting within AASB 1056, beyond the requirements of paragraph 32, would be unlikely to benefit members and would significantly increase the cost of financial reporting and assurance requirements.

Throughout the superannuation sector, the interpretation of the term ‘sub-fund’ can vary significantly from one fund to another. This discrepancy in interpretation could lead to a wide disparity in the number of identified sub-funds, which, in turn, might result in a burdensome and costly process when it comes to sub-fund reporting. Fund members receive periodic statements (exit and annual statements) that provide tailored and specific information relating to their personal entitlements.

Topic 2: Statement of changes in member benefits

The Statement of changes in member benefits (SoCiMB) is helpful for understanding members’ balance movements.

Within the industry there are some differences in classification of certain member related transactions in the SoCiMB such as the refund of tax on fees and premiums, however, the differences are not material and hence we do not suggest that further guidance is required.

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Topic 3: Classification/ disclosure of revenue and expenses

In our view, AASB 1056 requirements and guidance on classifying and disclosing revenue and expenses are fit for purpose in respect to the objective of financial reporting.

We note that the APRA Superannuation Data Transformation project and the Annual Member Meeting expenditure disclosure requirements (*Superannuation Industry (Supervision) Amendment (Annual Members' Meetings Notices) Regulations 2022*) provide supplementary detailed, disaggregated disclosure of expenses including, on specific items, on a look-through basis.

Additionally, in October 2023 APRA initiated a consultation on proposals that would significantly increase visibility of how superannuation members' money is spent and invested. APRA is proposing to publicly disclose expense and asset allocation data that is provided as part of existing APRA reporting forms. APRA has written to superannuation trustees inviting their feedback on its plans to publish this data by mid-2024. These disclosures go beyond general purpose financial reporting objectives and should adequately address any stakeholder information needs without fundamentally changing the objectives of AASB 1056.

AASB 1056 AG29 states that *'... when relevant, the superannuation entity discloses:*

> *(a) income by class, such as interest, dividends and rentals;*
>
> *(b) net gain or loss arising from the remeasurement of assets and liabilities measured at fair value;*
>
> *(c) net gain or loss attributable to liabilities and assets arising from insurance arrangements the superannuation entity provides to its members;*
>
> *(d) administration expenses;*
>
> *(e) investment expenses, such as investment manager fees, investment consultant fees and custodian fees;*
>
> *(f) actuarial fees;*
>
> *(g) audit fees;*
>
> *(h) commissions paid directly by the superannuation entity;*
>
> *(i) trustee fees and reimbursements; and*
>
> *(j) sponsorship and advertising expenses.'*

Disclosures consistent with the above categories should be sufficient to meet the information needs of members.

Topic 4: Fair value measurement

The basis for measurement of assets and liabilities at fair value in AAAB 1056 is consistent with other reporting entities and there is extensive guidance to assist with the application of the requirements, not least AASB/IFRS 13. In our view, the AASB 1056 fair value measurement requirements, including accompanying and other published guidance, are adequate and there is not a need for further requirements or guidance.

Further, APRA has issued a revised prudential standard and practice guidance in respect to Investment Governance (Superannuation Prudential Standard 530) which include a new requirement for Trustees to develop, maintain and implement an effective valuation governance framework. Separately APRA has conducted thematic reviews of investment valuation practices, particularly in respect to valuation of unlisted investments. The objective of these new requirements and guidance are to improve valuation oversight and practices across the industry.

Topic 5: Insurance arrangements

Regulation 4.07E Superannuation Industry (Supervision) Regulations 1994 expressly restricts the circumstances whereby a superannuation fund may self-insure. As a result, there are very few circumstances where self insurance is currently permitted, on the basis that it is in wind down. In the instances where self-insurance does exist, the liabilities are generally considered to be immaterial.

From a financial statement reporting perspective, we agree that there is diversity in practice in the accounting treatment of premium rebates however such rebates are generally considered to be immaterial and hence we do not suggest that further requirements or guidance is necessary in AASB 1056. We do note however that there is also inconsistency from a member level perspective in how rebates are described in the Product Disclosure Statement, recorded in member accounts and disclosed on member periodic statements which is an issue that requires attention by the industry.

Topic 6: Subsidiaries

Most superannuation funds will meet the investment entity exception permitting subsidiaries to be recognised as investments at fair value rather than consolidated. Subsidiaries that provide services relating to the investment entity's investment activities must be consolidated. However, generally subsidiaries of superannuation funds are immaterial and hence even if the consolidation exemption was not applicable it is unlikely that funds would be compelled to prepare consolidated financial statements. As is noted in feedback already received by AASB, if superannuation entities were to consolidate their service entities (subsidiaries that are not in the nature of investments ie. operating entities) on a line-by-line basis, it is unlikely to produce materially different information from the single-line item presentation that is the main practice today. The related party note and disclosures provide users of the financial statements with sufficient information relating to subsidiaries and their relationship with the Fund.

Topic 7: Trends affecting superannuation entity reporting

Retirement Income Covenant

The 'Retirement Income Covenant' legislated with effect from 1 July 2022 will continue to influence the future landscape of retirement products. We expect to see an increase in the number of annuity type products available to superannuation members. Due to the restrictions on self-insurance discussed above in Topic 5, superannuation funds are expected to act as an agent in providing these products to members and the existing insurance arrangements included within AASB 1056 would apply.

We do not believe there is a current need to change existing accounting requirements in response to this industry development.

We recommend that AASB consider revisiting this aspect in 3-5 years at which time new and amended pension products will be more mature and associated risks and rewards better understood. Further, the existing requirement to disaggregate the Statement of Changes in Member Benefits and notes and disclosures relating to defined benefit products, provide sufficient information to the users of the financial statements regarding the risks and benefits associated with the two main categories of superannuation - i.e. defined contribution and defined benefit.

Climate-related disclosure standards

The impact of climate change on financial statements is a high-profile issue. The International Sustainability Standards Board (ISSB) has developed standards that will result in high quality, globally comparable information on sustainability related risks and opportunities. Although these standards are not yet in force, financial statement preparers should be encouraged to include more disclosure on Environmental, Social and Governance (ESG) matters and their impact on the financial statements.

Fund structure and operations

With the change to financial reporting requirements for RSE's in 2024, and namely the requirement to include a Directors' report, financial statement preparers should be encouraged to include more disclosure on the structure of funds and their operations.

Topic 8: Interpretation 1019

Very few, if any, funds include any disclosures regarding the superannuation contributions surcharge and any amounts are highly immaterial or nil. Hence we do not consider Interpretation 1019 necessary to remain in force and could be withdrawn.

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

There continues to be significant consolidation of superannuation funds achieved through successor fund transfers (SFTs). In our experience there is notable inconsistency in related disclosures included within both the transferring and receiving funds.

At PwC, we have included in our Value Accounts Superannuation Fund template accounts a note in respect to an SFT. The transferring fund would typically include a note that details the balance sheet of the fund immediately prior to the transfer. The receiving fund would typically include a note that explains the terms of the SFT and the value of member balances transferred which is recognised in the Statement of Changes in Member Benefits.

We suggest that AASB consider including disclosure requirements in AASB 1056 relating to Successor Fund Transfers (SFTs).

We have included a suggested example disclosure in the appendix of this letter.

Appendix B

Example successor fund transfer disclosure

Transferring fund

Note X. Successor Fund Transfer

On [SFT Date], the Fund acquired by successor fund transfer ('SFT') all the assets and liabilities of the XYZ Fund. The net amount transferred to the Fund was $X,XXX,XXX. The assets and liabilities received by the Fund:

	$'000
Assets	
Cash and cash equivalents	
Investments in specie transfer out	
Total assets transferred to successor fund	
Liabilities	
Benefits payable	
Accounts payable and accrued expenses	
Current tax liabilities	
Deferred tax liabilities	
Total liabilities transferred to successor fund	
Net assets transferred to successor fund	
Represented by	
Net assets available to pay member benefits	
Operational risk reserve	
Unallocated surplus	

Receiving fund

Note X. Successor Fund Transfer

On [Date] the Trustee boards of [Receiving Fund] and [Transferring Fund] signed a Successor Fund Transfer Deed. The SFT was completed on [Date] and resulted in the non-cash in-species transfer of $[Amount] in member balances.

[Insert/ explain other material terms and conditions associated with the SFT].