PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc com/au
Telephone 61 3 8603 1000
Facsimile 61 3 8603 1999
Direct Phone 61 03 8603 3868
Direct Fax 61 03 8613 2308

Professor David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

30 November 2005

Dear David

Invitation to Comment: *Superannuation Plans – Financial Liabilities*

We write in response to the Australian Accounting Standards Board (AASB) Invitation to Comment on *Superannuation Plans – Financial Liabilities* (ITC).

We support the Board's proposal to amend AAS 25 *Financial Reporting by Superannuation Plans* as an interim measure to remove the uncertainty about the application of AASB 132 *Financial Instruments: Disclosure and Presentation and* AASB 139 *Financial Instruments: Recognition and Measurement* by superannuation plans.

We agree with the Board's preliminary conclusion that superannuation plans should be required to treat the liability balances of hedging instruments and derivatives, as well as other financial liabilities, in a manner consistent with their financial assets. As we have said in our previous comment letters on the international convergence exposure drafts, we strongly support the Financial Reporting Council's (FRC) policy of adopting in Australia the standards of the International Accounting Standards Board (IASB) and believe Australian reporting entities must be permitted to prepare their financial reports in accordance with the IASB's International financial reporting standards (IFRS), as they apply to entities in other IFRS jurisdictions. However, we acknowledge the Board's decision to deal with IAS 26 *Accounting and Reporting by Retirement Benefit Plans* as a separate project relating to AAS 25 and not as a convergence issue.

In view of this decision, we support the Board's proposal to amend AAS 25 to make it clear that financial liabilities of a superannuation plan that could be covered by AASB 132 and AASB 139, must be measured at net market values with any changes in the net market values recognised in the profit or loss, until such time as a full review of AAS 25 is carried out.

We also agree with the manner in which the Board proposes to amend AAS 25 as shown in the Appendix to the ITC, subject to the following observations.

We are concerned that the proposed amendments to paragraph 24 of AAS 25 suggest that liability balances of hedging instruments and derivatives are financial liabilities for the purposes of AAS 25, but accounts payable or borrowings are not because they are referred to as sundry liabilities. Clearly these are financial liabilities as defined in AASB 132 and 139 so the Board needs to clarify whether it intends these standards to be applied in situations where a superannuation plan has sundry liabilities such as accounts payable or borrowings.

As an interim measure, we believe the Board should consider making superannuation plan accounting for accounts payable and borrowings consistent with the treatment proposed for liability balances relating to hedging instruments and derivatives. Accordingly, we suggest all these items be included in the list of financial liabilities for the purposes of AAS 25. The Board could clarify this by amending the proposed changes to paragraph 24 as highlighted in bold text and strikethrough in the following extract from the Appendix to the ITC.

> 24 Liabilities arise when, as a result of past transactions or other past events, an entity has a present obligation to make a disposition of economic benefits to other entities in the future. Liabilities of a superannuation plan may include the liability for accrued benefits, income tax liabilities, **financial liabilities[1] and** sundry liabilities. ~~**and financial liabilities**~~. **Financial liabilities may include the liability balances of hedging instruments[2] and derivatives[2], accounts payable and borrowings**. Sundry liabilities may include ~~**accounts payable, borrowings,**~~ prepaid contributions and, in the case of defined contribution plans, other liabilities arising from benefits which have been forfeited and which have not been designated for the benefit of existing plan members as at the reporting date. For defined contribution plans, benefits which have been forfeited and have not been designated for the benefit of existing plan members may encompass amounts held for the benefit of future members, amounts to be returned to employers and amounts held as an offset to future employer contributions. ~~**Financial liabilities may include the liability balances of hedging instruments[2] and derivatives[2].**~~

We also believe the Board should make it clear that any amendments to AAS 25 are subject to future review and change in a separate project relating to accounting and financial reporting by retirement benefit plans, as the measurement of financial assets and liabilities at net market values is not in accordance with AASB 132 and AASB 139.

PRICEWATERHOUSECOOPERS

Professor David Boymal
30 November 2005

The revised AAS 25 should also make it clear that financial reports for superannuation plans prepared in accordance with AAS 25 cannot be represented to be IFRS compliant.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 or Sue Whitechurch on (02) 8266 7543 if you would like to discuss this further.

Yours sincerely

Jan McCahey

Jan McCahey
Partner
Assurance