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30 November 2005

The Chairman
Australian Accounting Standards Board
PO Box 204
Melbourne Vic 8007

Dear Professor Boymal

Invitation to Comment Superannuation Plans – Financial Liabilities

Thank you for the opportunity to comment on the Invitation to Comment *Superannuation Plans – Financial Liabilities*.

Our comments have been prepared in consultation with members through our Centre of Excellence – Financial Reporting and Governance.

We support the principle of sector neutral standards. We note that the Australian Accounting Standards Board (AASB) justified its strategy not to adopt IAS 26 *Accounting and Reporting by Retirement Benefit Funds* for superannuation plans as part of the International Financial Reporting Standards (IFRS) adoption process on the basis that superannuation plans are regarded as not-for-profit entities that are substantially impacted by domestic regulation ("AASB adoption of IASB standards by 2005"). We do not find merit in the AASB's strategy (and instead retain AAS 25 *Financial Reporting by Superannuation Plans*). The AASB work program for the coming year as at September 2005 indicates that the topic "Superannuation Plans and Managed Investment Schemes" will be progressed by issuing Issues Papers in Quarter 1 of 2006, with an Exposure Draft expected to be issued in Quarter 2 of 2006. We encourage the AASB to adhere to the principle of sector neutral standards in the achievement of those milestones.

The Preface to the ED comments that there is some uncertainty about the application of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* and AAS 25 because "AAS 25 does not contain recognition and measurement requirements for financial liabilities held by superannuation plans, which include hedging instruments and derivatives that have liability balances." We note that this uncertainty:

- arises because AAS 25 requires measurement of derivatives at net market value, whereas, AASB 139 requires measurement of derivatives at fair value; and
- is not present in the IFRS because IAS 26, like IAS 39 *Financial Instruments: Recognition and Measurement*, requires measurement of derivatives at fair value.

We consider that there are three possible approaches to resolving the uncertainty:

1. do nothing, and rely on application of the hierarchy in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* to an analogous transaction;
2. amend AAS 25 to require that assets held by superannuation plans be measured at fair value and any changes in these values be recognised in the profit or loss for the period; or
3. amend AAS 25 to require that financial liabilities held by superannuation plans be measured at net market value, and any changes in these values be recognised in the profit or loss for the period (the AASB's proposal).

Approach 2 aligns the measurement of assets with that required by IAS 26. However, we understand that such a change would have significant systems ramifications. Approach 1 is consistent with principles-based Standards but given evidence of uncertainty might require resolution by the Urgent Issues Group. Accordingly, we support Approach 3.

Should you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser at mark.shying@cpaaustralia.com.au.

Yours sincerely

Peter Lowe CPA
Chief Executive

cc M Shying