

The Association of Superannuation Funds of Australia Limited
ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 02 9264 8824
w: www.superannuation.asn.au



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The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Email: standard@asb.gov.au

Submission on AASB Exposure Draft ED 179: Superannuation Plans and Approved Deposit Funds – issued in May 2009

Introduction

The Association of Superannuation Funds of Australia Limited (“ASFA” or “we”) is pleased to submit its comments on ED 179 (the “ED”).

ASFA is the peak superannuation industry association representing all sectors of the Australian superannuation industry. We aim to ensure superannuation fund members are engaged with their superannuation and have an understanding of their fund. One of the important documents of information for fund members is the financial statements of their fund. Factors used in assessing the usefulness of financial statements to fund members include *inter alia* relevance, comparability, simplicity and reliability.

Overall comment on the ED

Generally, the ED incorporates significant improvements to existing financial reporting on super funds by bringing it in line with contemporary financial reporting. These improvements cover recognition, measurement, presentation and disclosure aspects and are aimed at minimising omissions or misreporting of key information in financial statements.

There is concern in relation to certain items as outlined in the next section of this submission.

Primarily, these concerns relate to the need for more industry specific guidance to avoid diverging interpretation by the industry in the future.

Comments on the specific matters identified by the AASB

Paragraph 10 – recognition principles

- Members' benefits to be recognised as liabilities

We believe it is appropriate to recognise members' benefits as liabilities. However, we refer to the issues raised by the Joint Accounting Bodies and the Institute of Actuaries of Australia on the proposed measurement model for *defined benefit* superannuation plans. We support their arguments favouring the vested benefits measure as opposed to the proposed accrued benefits measure.

- Insurance contracts – recognition of assets and liabilities under AASB 1038

Our understanding is that the proposed measures would result in significant changes to recognition principles except where the insurance arrangement is simply on an 'agency' basis. Whilst ASFA agrees in principle with the intentions of the ED, there are concerns in relation to any 'non-agency' arrangements i.e. where the fund is purporting to act as the insurer and reinsuring with a licensed insurer. These include the need for clarity around the circumstances identifying agency vs. non-agency and the use of AASB 1038 reporting. ASFA appreciates this is an opportunity for super funds to address any weaknesses in fund insurance arrangements and to address any unwitting self-insurance gaps.

We support the comments made by the Joint Accounting Bodies on this matter.

- Consolidation – recognition of consolidated assets and liabilities

We believe significant clarity is needed to identify instances of 'control' in the context of superannuation funds. Again, we generally support the comments made by the Joint Accounting Bodies on this matter.

Fair value measurement of fund assets and liabilities

- This is consistent with current reporting for managed funds in Australia and is considered to be appropriate.

Defined benefit obligations – measurement and reporting matters

- As most Australian Defined Benefit superannuation plans have now been closed off to new members with the result that membership numbers are continuing to decrease, there is concern at the significant changes that have been proposed by ED 179. In particular, the need for an accrued benefits measure (vs. the current vested benefits measure) and the changes proposed in connection with the 'higher of' benefit option and the use of a risk-free rate. We support the submissions by the Joint Accounting Bodies and the Institute of Actuaries of Australia on this matter.

Insurance assets and obligations – measurement and reporting matters

- As stated in an earlier paragraph above, practical difficulties are anticipated from the proposed measures in the ED. We support the comments made by the Joint Accounting Bodies on this matter.

Consolidated financial statements – preparation matters

- We accept that to be consistent with IFRS and other entities, consolidation principles will need to be adopted by superannuation funds, as long as they are considered to be reporting entities. We generally support the comments made by the Joint Accounting Bodies on this matter.

Disclosure principles in paragraphs 32 – 50

- We support the comments made by the Joint Accounting Bodies on this matter.

Segregated information

- More clarification is needed in the ED to establish the circumstances where segregated reporting may be appropriate in superannuation funds. We support the comments made by the Joint Accounting Bodies on this matter.

Presentation matters

- We support the comments made by the Joint Accounting Bodies on all presentation matters.

Other items

The ED does not appear to have specifically dealt with certain transactions which have traditionally been included in 'reserves' or 'unallocated amounts' in super funds, under AAS 25.

These include:

- Bonus received from insurance companies

Bonus amounts are received from insurance companies based on past claims information.

- Income tax surpluses

Income tax surpluses arise when the tax taken from members based on taxable contributions is greater than the tax liability of the fund due to various reasons, for example where expense credits have not been passed on to members and where the fund has b/f tax losses.

Our understanding of the ED position is to show these amounts as 'other liabilities'.

ASFA believes that more clarification in the ED concerning amounts which have traditionally been treated as 'reserves' will be useful. The clarification could cover the issue of equity vs. liability and also who the liability may be owed to (that is, members or trustee) and the circumstances which would define these.

If you have any questions or comments on this matter, please feel free to contact Melinda Howes, Director of Policy and Industry Practice on 02 9264 9300 or by email mhowes@superannuation.asn.au.

Yours sincerely

A handwritten signature in black ink that reads "Melinda Howes". The signature is written in a cursive, flowing style.

Melinda Howes
Director of Policy and Industry Practice

