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29 July 2011

Mr John Stanhope
Chairman
FRC Integrated Reporting Taskforce
Financial Reporting Council
C/- The Treasury
Langton Crescent
Canberra ACT 2600

email: Bruce.Donald@treasury.gov.au

Dear Mr Stanhope

Integrated Reporting

Thank you for your letter dated 23 June 2011 regarding the above.

ASFA understands from your letter that the Financial Reporting Council (FRC) is investigating integrated reporting as an issue that may be of strategic importance to the Australian financial reporting community in coming years.

As part of its considerations, the FRC taskforce is:

- In the short term – Collecting information to gain an understanding of who is active in this area and what their positions are
- In the longer term – Developing an understanding of what is meant by “integrated reporting” including its relationship with financial reporting
 - Developing an Australian position on integrated reporting including providing guidance to the relevant Minister
 - Influencing the work of the International Integrated Reporting Committee and the Global Reporting Initiative on this topic.

To assist the FRC Integrated Reporting Taskforce, ASFA provides the following comments.

General comments

ASFA supports any improvements to the reporting requirements under the accounting standards, provided it is relevant to the superannuation industry and it leads to greater transparency, accountability and comparability for key stakeholders. However, ASFA believes that any changes to the reporting requirements must have meaningful benefits for key stakeholders.

Importantly, ASFA believes that before any additional changes are made to the accounting standards, consideration needs to be given to a number of other issues that require finalisation prior to introducing further requirements on the superannuation industry, including:

1. The superannuation industry is currently required to prepare financial statements based on AAS 25 - Financial Reporting by Superannuation Plans which is widely accepted as being outdated.
2. In April 2006, the Australian Accounting Standards Board (AASB) decided to give high priority to a domestic project to comprehensively review the requirements in AAS 25. While Exposure Draft 179 — Superannuation Plans and Approved Deposit Funds (ED 179) is designed to replace AAS 25, it still has not been finalised.
3. There has recently been a comprehensive review of the Australian superannuation system (referred to as the Cooper Review). The Cooper Review developed a number of recommendation packages including one entitled “Outcomes transparency” (Chapter 4 of the Super System Review Final Report).

As part of the review, the Cooper Review considered the deficiencies with the existing financial reporting information. The Cooper Review indicated that financial disclosure should play a critical role as a governance mechanism and in improving transparency and comparability. However, “despite its importance, the current accounting regime relating to the superannuation system leaves a great deal to be desired”.

While the Cooper Review acknowledged the development of ED 179 to replace AAS 25, the Cooper Review does not believe that ED 179 will materially improve the information needed by users, in particular members.

As a result, the Cooper Review has recommended that the Australian Prudential regulation Authority (APRA), in consultation with the Australian Securities and Investments Commission (ASIC) and superannuation industry, should develop outcomes reporting standards as an overlay to the existing accounting standards AAS 25 and ED 179. The purpose of this is to facilitate consistent and comparable reporting by large APRA funds of investment performance and costs at the investment option level, including for MySuper products (Cooper Review recommendation 4.1).

4. In its response to the Cooper Review, the Government released its Stronger Super package. In that package, the Government has indicated that they support in principle the introduction of the outcomes reporting overlay proposed by the Cooper Review. The Government intends to ask APRA to develop approaches to publishing investment performance data that would improve transparency, comparability and accountability in relation to fees, costs and investment returns, including for MySuper products. The Government also intends to ask ASIC to develop standards for disclosure by trustees.
5. In the event of the proposed outcomes reporting overlay being introduced, work will need to be done to clarify the interaction between those requirements and the accounting standard requirements.

From the superannuation industry perspective, there are still significant financial information reporting aspects that need to be finalised before the superannuation industry could consider meaningful disclosure of non-financial information.

Importantly, the above matters need to be settled so that there is increased transparency, clarity and disclosure to members that will result in improved understanding and, consequently, better decision-making by the members. In the event that integrated reporting requirements are introduced, care would need to be taken to ensure that the transparency and clarity that the above is aiming to achieve is not diminished.

Specific comments

In response to the specific questions raised in your letter:

1. List any bodies/association through which you may be discussing integrating reporting

ASFA has not been involved in discussions with any bodies/associations on the specific topic of integrated reporting.

2. List any action you may have taken that may relate to integrated reporting

Currently, ASFA does not intend to take any action in respect of integrated reporting.

3. Note any views or positions of principle that your organisation may have come to regarding the potential merits and/or risks of integrated reporting

ASFA does not have any specific views or any specific positions of principle on the potential merits/risks of integrated reporting.

As part of forming a view on integrated reporting, ASFA would need to consider how integrated reporting would be implemented in practice by the superannuation industry.

Give us an informal view of what you currently understand integrated reporting to mean

Currently, ASFA does not have any specific views on what is meant by “integrated reporting”.

However, the development of an integrated reporting regime should consider what framework is necessary to bring together all the reporting requirements by an entity (eg. financial, governance and any other agreed-upon requirements such as environmental and social information) in a clear, concise, consistent and comparable format.

4. Indicate if you are aware of any Australian or New Zealand entities participating in the International Integrated Reporting Committee's Pilot Programme

ASFA is not aware of any Australian or New Zealand entities participating in the International Integrated Reporting Committee's pilot programme.

ASFA would like to raise the following issues which we believe need proper debate prior to the introduction of any integrated reporting requirement which are important elements for the superannuation industry, including:

1. Short term versus long term reporting

From a reporting perspective, it appears that the superannuation industry is being squeezed down a path of ‘short-termism’ in terms of what information presented and how it is presented.

Therefore, any debate around integrated reporting needs to clear on what integrated reporting is trying to achieve and importantly, from the superannuation industry's perspective, what integrated reporting is trying to present to members and other key stakeholders.

Because of the nature of superannuation, ASFA would advocate a long term focus rather than a short term focus.

2. ‘Financial statement’ framework versus the ‘annual trustee report to members’ framework

The superannuation industry is required to produce both annual financial statements and annual trustee reports to members. While there is a significant framework wrapped around the financial statement disclosures, very few members would read the financial statements of their superannuation funds.

In contrast, the annual trustee report tends to be read by more members. However, in many instances, there is very little rigour applied to the content of the annual trustee reports even though the annual trustee reports include extracts from the financial statements (generally excluding any notes to the accounts) and minimum content requirements as prescribed by the Corporations Act.

If integrated reporting is to be applied, an important consideration will be the framework that it is applied to (eg. the 'financial statement' framework versus the 'annual trustee report to members' framework) and whether all the frameworks can/should be integrated together.

3. Annual member statements

In addition to financial statement reporting and the annual trustee report to members, the superannuation industry is required to provide annual member statements. If integrated reporting is introduced, consideration should be given to how a single report can satisfy all the reporting requirements of a particular entity/industry.

4. Audit requirements

If integrated reporting is to be introduced, there needs to be a clear understanding of the audit requirements relating to non-financial information included in the financial statements.

While it is possible to exclude certain issues/aspects from the scope of an audit, there is a potential for an audit expectation gap to arise – particularly with the stakeholders of an entity/industry that have not been party to setting the scope of a particular audit.

Should you have any questions please contact ASFA's General Manager, Policy & Industry Practice, David Graus, on 02 8079 0858.

Yours sincerely

A handwritten signature in blue ink that reads "Pauline B Vamos". The signature is written in a cursive style.

Pauline Vamos
Chief Executive Officer

cc Noelle Kelleher