

CORPORATE SUPER ASSOCIATION

ABN 97 799 893 065

Suite 6, Level 6, 470 Collins Street,
Melbourne, VIC 3000
Tel: 03 9620 5155 Fax: 03 9620 5122
Email: corsuper@netspace.net.au
Website: www.corsuper.com.au

30 September, 2009

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

E-mail: standard@asb.gov.au

Dear Sir

AASB EXPOSURE DRAFT ED 179: SUPERANNUATION AND APPROVED DEPOSIT FUNDS

The Corporate Superannuation Association appreciates the opportunity to comment on the above Exposure Draft Standard issued in May 2009.

Background – Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate superannuation funds and their employer-sponsors. The Association represents a total of 43 funds with assets of \$ thirty eight billion. In general, the funds are sponsored by corporate employer sponsors with membership restricted to employees from the same holding company group, but we also include in our membership a few multi-employer funds with similar employer involvement and focus.

Our funds typically are established without shareholder interests in the governing body, and no profit is derived from the operations of our funds. This also means that any cost of compliance increase has a direct impact on members' benefits. The funds are run as mutual entities, where the decisions are the responsibility of a trustee board. The board provides equal representation for employer and employee interests.

Comment on ED 179

Our Association recognises the need to keep the accounting standard for superannuation and approved deposit funds under review, including consideration of consistency of reporting requirements for items addressed under other accounting standards.

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Users of accounts

A primary concern for us is the purpose for which the accounts are prepared. The needs of superannuation stakeholder groups are diverse. These needs are not met through the full financial reports, but through specific tailored reports derived from the systems and sources used to prepare the financial reports:

- Existing members: these are catered for by specific member statements which reflect the movements in their own interest in the fund. Aggregate movements in member accounts would be reflected in the financial reports, but would not normally be of strong interest to a specific member. For collated information, the members have access to the fund's Annual Report which contains abridged financial reports.
- Potential members and potential contributing employers: the needs of these parties are met through product disclosure statements (the contents of which are regulated, and which provide information about investments, performance and fees) and published annual reports, which contain abridged financial reports.
- Contributing employers: these will receive purpose-designed reports on their participation, and have access to the fund's Annual Report which contains abridged financial reports.
- Regulators: these have their own purpose-designed reporting requirements through which their specific needs are met.

We conclude that:

- it is important that full financial reports be prepared, as a matter of proper trustee reporting, and these reports need to be audited;
- however, because the needs of users of the reports are so disparate, special statements have evolved to meet these needs. These reports are derived from the same sources and records as are used to prepare the full financial reports.
- From the above, it appears that few use the full financial reports. The reports are of importance mainly as an output from the reporting systems, as an indicator of their robustness and as a reflection of the integrity of those who manage the fund. The audit will focus on these systems and on the reports derived from them.

Our view is that given the restricted use to which the financial reports are put, what is vital is that they should form a suitable basis for audit, and as a resource from which information can be compiled for communication to members and other users by way of the abridged report in the fund's Annual Report. Hence, we believe that the focus in ED 179 should be on ensuring that the financial reports provide:

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- a satisfactory reflection of the custody of the fund in a format that is, above all, in a suitable format for the auditors to provide assurance on the accounts; and
- a suitable resource from which the abridged version is prepared for the users of the Annual Report. The focus in the Annual Report is on clear and concise communication, and accounts in full AAS25 or ED 179 format simply cannot be reproduced in this context.

The above comments may assist in providing a focus for standards for preparing the full financial reports. Although these full reports provide output from systems from which user reports are prepared, it is our view that they are not in themselves used as the basis for user decision-making. We value the function that the full reports perform in demonstrating trustees' fulfilment of fiduciary duty, but we believe that the detailed reporting and disclosure requirements under the new standard should be framed with this background in mind.

Other technical observations

We have provided specific comment on certain aspects of the proposed reporting requirements.

Valuation of defined benefit liabilities

There is much to be said for consistency in reporting defined benefit obligations. We note that the method of valuation proposed in ED 179 would have the advantage of a major degree of consistency with the method of measurement of employer liabilities in AASB 119. However, the user requirements for a fund accounting standard are not consistent with an AASB 119 approach to valuing employer obligations.

Our members and their actuarial advisers would generally support vested benefits as the primary measure of members' obligations, for reasons as follows.

- The Accrued Benefits approach favoured in ED 179 does not bear a close relation to the method by which actuaries measure benefits for funding and benefit certificate purposes. For benefit certificates for superannuation guarantee purposes and for funding purposes, the actuary is required to take into account the expected long-term cost of funding benefits, which will generally involve assumptions about the differential between long term earning rates and long term rates of salary inflation. This differential does not depend on the assumed risk free rate.
- The ED179 Accrued Benefits measure (which is similar, though not identical to, the AASB119 measure) will be a misleading measure of "benefit security". Because of the discount rates chosen, funds may be satisfactorily funded on a

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Vested Benefit and longer term actuarial funding basis, but still disclose a deficit to members on the proposed measure. This will be confusing and therefore may ultimately mislead defined benefit members (and their financial advisors) to make poor decisions.

- Accrued benefits are not always the most familiar or convenient measure of defined benefit obligations. Vested Benefits will be understood by members, and are consistent with the financial monitoring measure reported to APRA. Vested Benefits will also tend to be close to long term measures of Accrued Benefits used by actuaries for funding purposes. Vested Benefits are also quickly and cost effectively available - and therefore can be calculated within statutory reporting deadlines. Because virtually all of Australia's corporate defined benefit plans are now closed to new members, cost of compliance is a key issue. The adoption of a new valuation basis for benefit obligations would impose an effective requirement for an annual fund review, replacing the current triennial review requirement, thus creating an increase in actuarial costs whilst providing less meaningful information to members.

All in all, the proposed method of valuing liabilities in ED 179 is misleading, giving rise to an impression that defined benefit funds are in a different funding position to that projected by their actuarial advisers. We do not believe that it is appropriate to provide financial information that gives a misleading impression of a fund's financial position.

Consolidation of controlled entities

We take the view that our funds are passive investors and do not generally seek control of investment entities. Although they may sometimes control voting and policy in investment entities, this does not reflect the same situation as that which applies with corporate controlled entities, where commercial and business strategies and assets are controlled. Consolidation would give a misleading and inflated impression of assets controlled, conjoined with the inappropriate intrusion of minority interests (which should have no place in the balance sheet of a superannuation fund). We would prefer to reflect investments in reports at market value as investments without the issues of consolidation and minority interests.

Insurance contracts

We would welcome clarity on the relative position and reporting obligations of:

- funds that carry no external policies in relation to promised benefits, including life cover in the event of death or disability;
- funds that carry group life policies with an external insurer but carry some residual risk in relation to individuals to whom external coverage is refused;

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- funds that effectively act merely as agents for the life insurer by collecting and remitting premium; and
- group life cover where it is fully insured with no residual risk. Some quarters have suggested that group insurance carrying no residual risk to be a form of re-insurance, however we do not believe underwriting practice and contracts reflect such a distinction.

As regards funds that self-insure, we would be gravely concerned by requirements to treat any benefits promised under a superannuation fund deed as insurance contracts. We cannot see the benefit in this proposal. We recognise that to provide for these benefits without outsourcing the risk involves the fund in some additional risks and that these are risks relating to life and/or disability insurance. Nevertheless, in the full context, these risks are part and parcel of the business of providing defined superannuation benefits which in itself is a process which involves a variety of risks over which actuarial advice is provided. In the context of the provision of benefit in general, the provision of cover in relation to premature death is relatively minor and is well monitored and reported on by actuarial advisors. We cannot see enhanced benefit for users in additional reporting on a separate basis. It will simply increase costs which will ultimately fall on either employer-sponsor or members without benefiting either.

Statement of changes in equity

We are concerned about the introduction of this new statement for the following reasons:

- it is not clear, as argued above, that this statement would be used by anyone;
- if presented to users (e.g. via published Annual Report) the statement would highlight certain reserves as if available to members, when generally any reserve is created for a specific purpose and should not be presented as if available for distribution. Indeed some reserves would be a reflex of specific accounting treatment: a case in point would be defined benefit accrual which would be more appropriately classified as a Balance Sheet liability or note disclosure.

Recognition of equity implies entitlement, but in the case of a superannuation fund, this is thorny ground. The legal position regarding entitlement to reserves is often uncertain, with arguments supporting entitlements for current members, past members, employer sponsor or some combination, depending on factors such as the trust deed, employment agreements and evolving trust law.

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Number of Financial Statements

As discussed above we believe that the proposed number of reports is excessive and that the Statement of changes in equity in particular may lead to member confusion. We also believe that rather than requiring both an income statement and a statement of changes in member benefits that there be a single statement of comprehensive income, distinguishing between operational movements and movements in member entitlements.

Segment Reporting

In the context of users, it is questionable whether segment reporting will be of use or relevance in the context of the full financial reports. Typically plan and investment option reporting information is provided in fund annual reports, and regulators also receive fund level reporting. By way of these other reports, the users receive segmented reports appropriate to the context.

Hybrid Funds

In the event that the ED is adopted, we believe that there should be an appendix illustrating example financial statements of a superannuation plan that provides both defined benefit and defined contribution entitlements. The illustration should allow for a consolidation journal to eliminate any double counting where a member is entitled to a greater of Defined Benefit or Defined Contribution payment. Confusion may arise when using different measures of member liability, accrued benefit for defined benefits and vested in respect of defined contribution benefits.

Conclusion

We would favour a simple and concise model for reporting, consistent with SIS Act requirements that can be used as the basis for presentation of brief financial reports in the fund's published Annual Report.

Yours faithfully



Bruce McBain
Chief Executive Officer
Corporate Superannuation Association