Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	Post-Implementation Reviews	**Meeting**	AASB May 2023 (M195)
Topic:	PIR of AASB 1056 *Superannuation Entities* – introduction and findings from the planning phase	**Agenda Item:** **Date of this agenda paper:**	6.1 18 April 2023
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Objectives of this agenda item

1 The objectives of this agenda item are:

(a) to **outline** the key reasons for issuing AASB 1056 *Superannuation Entities* and Interpretation 1019 *The Superannuation Contributions Surcharge*;

(b) to **outline** the key requirements of the pronouncements;

(c) for the Board to **consider** preliminary feedback from targeted staff outreach with key stakeholders; and

(d) for the Board to **consider** the form that further consultation on the post-implementation review might take.

Reasons for bringing this agenda item to the Board

2 AASB 1056 has applied to annual reporting periods beginning on or after 1 July 2016 – accordingly, the Standard has been applied to six financial years. The Board decided in September 2021 that a post-implementation review of AASB 1056 should be undertaken as a medium priority, together with Interpretation 1019.

3 There is also likely to be a change to the requirements for lodging financial statements by superannuation entities – please refer to Agenda Paper 7 for this meeting.

Board's rationale for issuing AASB 1056 and Interpretation 1019

4 The AASB issued AAS 25 *Financial Reporting by Superannuation Plans* in 1993. The AASB decided to replace AAS 25 due to developments in the superannuation industry and the adoption of IFRS Accounting Standards. The AASB conducted a lengthy due process which culminated in the issue of AASB 1056 in 2014. AASB 1056 superseded AAS 25 for reporting periods beginning on or after 1 July 2016.

5 The rationale for having a superannuation-industry-specific Standard has been to:

(a) address matters of relevance to superannuation entities, including the focus on member benefits and the measurement of member liabilities and presentation of a statement of changes in member benefits; and

(b) limit the accounting policy choices available, including requiring fair value measurement for most assets.

6 Interpretation 1019 was originally issued in 2004 to address the accounting for the surcharge introduced in the 1996 federal budget on people with incomes above a certain threshold. The surcharge is no longer levied, and the significance of surcharge balances has waned. The AASB has so far retained the Interpretation on the basis that some remaining surcharge balances may still be owed by long-standing members of some superannuation plans and some entities may be applying the Interpretation by analogy in accounting for excess contribution taxes incurred by members of superannuation plans under existing legislation.

Overview of AASB 1056 and Interpretation 1019

7 The table below provides an overview of the scope and requirements of AASB 1056 and Interpretation 1019.

AASB 1056	Requirement/*Comments*
Scope and application	The general purpose financial statements of each superannuation entity that is a reporting entity. *In practice, AASB 1056 applies to each Registerable Superannuation Entity (RSE) that is a 'public offer fund' under the Superannuation Industry (Supervision) Act 1993. These include the industry superannuation funds and retail superannuation funds operated by financial institutions and other service providers.* *RSEs are regulated by APRA. Self-managed superannuation funds are not RSEs and are regulated by the ATO.* *Superannuation entities that are reporting entities also include superannuation schemes for public sector employees and ex-employees that remain administered within the public sector. Many of the former state-based superannuation schemes are now part of an RSE.*
Compliance with Standards	Entities are required to apply the relevant Accounting Standards to the extent their application is not modified by AASB 1056.
Financial statements	• Statement of financial position • Income statement • Statement of changes in equity/reserves • Statement of cash flows • Statement of changes in member benefits *Guidance is provided on various income and expense sub-classifications, and on distinguishing between defined contribution member accounts and defined benefit member liabilities.*
Measurement	Assets and liabilities except member liabilities, tax assets and liabilities, acquired goodwill, insurance assets and liabilities, and employer-sponsor receivables are measured at fair value. Defined contribution liabilities are measured as account balances. Defined benefit liabilities are measured as the amount of an investment portfolio needed to yield cash flows sufficient to meet the accrued benefits as they fall due.
Disclosures	• Nature of member benefits

AASB 1056	Requirement/*Comments*
	• Nature of income and expense items • Information needed to understand member liabilities • Information on employer-sponsor receivables • Information about any net assets attributable to defined benefit members • Explanation of changes in member benefits
Insurance arrangements	Recognition and measurement to apply if the entity acts in the capacity of an insurer – which is not expected to be common.
Interpretation 1019	
Scope and application	Applies to the surcharge introduced in the 1996 federal budget on people with incomes above a certain threshold. The surcharge no longer applies, although there may be legacy amounts owed on superannuation accounts from past years. In addition, the Interpretation may be applied by analogy to the excess contributions tax, which remains part of the existing superannuation tax system.
Recognition and measurement	The surcharge gives rise to a liability and an expense of the superannuation entity when there is a legal or constructive obligation and a reliable estimate can be made.
Disclosure	• Accounting policy • Expense of the period • Liability at reporting date • Whether any unrecognised liability exists at reporting date and reasons for being unrecognised

Targeted outreach

8 Staff have so far conducted five interviews among the following key stakeholder groups:

(a) superannuation entities from each of the main sectors (industry, retail and corporate);

(b) superannuation entity auditors;

(c) regulators; and

(d) representative industry bodies.

Accordingly, the feedback in this Staff Paper is preliminary in nature.

9 Appendix A includes the generic questions raised with stakeholders – this is indicative only – the questions have varied depending on the target audience.

Key preliminary staff observations

10 The following general themes have arisen from the outreach conducted to date.

Compliance with AASB 1056

11 There is a high level of compliance with AASB 1056 despite it not having 'legal backing'. This seems due to a range of factors, including:

(a) the typical involvement of members of the Accounting Bodies, who have professional obligations to apply accounting standards, in the preparation and audit of superannuation entity financial statements;

(b) a general culture of compliance in the industry, which is highly regulated; and

(c) a reasonable level of satisfaction with AASB 1056 among practitioners.

Sub-fund reporting

12 Staff note that an early version of the government's proposals to require superannuation entities to lodge financial statements with the ASIC included proposals for sub-fund reporting.

13 The feedback from staff outreach is that reporting by superannuation entity sub-fund would not be practical or useful to users of the general purpose financial statements for a range of reasons, including the following:

(a) sub-funds are not homogenous within the one superannuation entity, or across entities, and separate reporting would not provide useful comparable information for users;

(b) most superannuation entities have a large number of sub-funds – some superannuation entities have hundreds of sub-funds and consolidation in the industry is likely to add to the number of sub-funds;

(c) general purpose financial statements of a superannuation entity reflect the entity as a whole – being a significant economic entity under the management of a single trustee; and

(d) there are other, more relevant, forms of reporting directed at the various financial and governance interests that members and employers might need, that are available publicly or privately through online portals.

Trends affecting superannuation entity reporting

14 There are a number of significant trends affecting superannuation entities, in particular, the increasing emphasis on members within or entering the retirement phase. In that respect, a range of matters have been raised, including:

(a) impacts on product development of the 'retirement income covenant' which was legislated with effect from 1 July 2022 and requires trustees to develop a retirement income strategy for their members;

(b) impacts on product development of some member preferences for products with an element of income stability; and

(c) it is probably too early to determine whether any of the likely product developments would require an accounting response, such as additional guidance.

Statement of changes in member benefits

15 AASB 1056 introduced a requirement for presentation of a statement of changes in member benefits as one of the primary financial statements. Most large superannuation entities have both defined contribution and defined benefit members and the statement of changes in member benefits shows separate columns for the two types of benefits. The main feedback received has included:

(a) general satisfaction with the statement of changes in member benefits;

(b) for the defined benefit column, the 'Net change in defined benefit' is effectively a balancing amount that comprises a number of things and is, therefore, not necessarily meaningful; and

(c) for the defined benefit column, 'Employer contributions' is not necessarily a useful label given that contributions are mainly a funding issue, to enable defined benefits to be met.

Insurance arrangements

16 AASB 1056 includes requirements in respect of superannuation entities that act in the capacity of an insurer and includes guidance on determining when that might be the case, as opposed to cases when superannuation entities act only as agents for insurance coverage.

17 The main feedback received has included:

(a) most superannuation entities regard themselves as agents, but there is debate within some entities about the Trustee's role in determining when insurance benefits are paid and to whom;

(b) there is diversity in practice in the accounting treatment of premium rebates – some entities classifying them as revenue and others as reducing insurance expenses.

Classification/disclosure of revenues and expenses

18 AASB 1056 provides guidance on likely relevant classes of income and expense. The main feedback received has included:

(a) the broad nature of the requirement for expense classification and disclosure in AASB 1056 is appropriate and the guidance sufficient;

(b) APRA is deeply involved in the expense classification issue through its Superannuation Data Transformation project – this is an evolving area and APRA's requirements have recently become more granular;

(c) many of the classification issues facing superannuation entities relate to the fact that some expenses are incurred directly by the entity, and some are incurred by the Trustee and charged to the entity via fees, and the feasibility of taking a 'look-through' approach to the entity's reporting of expenses incurred by the Trustee.

Consequences of removing SPFS from reporting framework

19 There may be subsidiaries of superannuation entities that are not in the nature of investments, including service entities, which previously may have avoided consolidation based on them being non-reporting entities so they would not previously have needed to present general purpose financial statements. These entities could be companies or other types of structures. To date, no stakeholders have raised concerns over this matter.

Fair value asset measurement

20 AASB 1056 requires superannuation entities to measure investments at fair value through profit or loss. There has been considerable focus in recent years on the timeliness of fair valuations, particularly for unlisted or 'alternative' assets. Most of that focus relates to the amounts attributed to unit prices of funds in which members are invested and the fund entry and fund exit prices incurred by members, rather than being related to fair valuation for financial reporting purposes.

21 The main feedback received has included:

(a) there are issues around obtaining reliable and relevant data for some investments because the custodians do not report on a timely basis;

(b) practices can differ as to whether an entity uses only the information available at the reporting date for valuation purposes or also considers subsequently available information in determining values at the reporting date;

(c) the application of valuation techniques can differ, including the frequency with which assumptions such as discount rates are updated; and

(d) most of the issues around fair value accounting for superannuation entities are the same issues that affect other entities applying AASB 13 *Fair Value Measurement* – they are not specific to AASB 1056.

Review of academic and other literature

22 Staff conducted a search for literature on financial reporting by Australian superannuation entities within the relevant academic databases and in the wider media and found the following:

(a) no directly relevant scholarly articles on general purpose financial reporting by superannuation entities;

(b) a handful of scholarly articles that focus on reporting by superannuation entities for taxation purposes or on tax-related policy matters, which are not directly relevant to the Board's post-implementation review; and

(c) non-academic articles in the popular media focused issues which are not directly relevant to the Board's post-implementation review, including:

(i) merger and restructuring activity in the superannuation sector;

(ii) APRA regulatory activities in the superannuation sector; and

(iii) timeliness of asset valuation for the purposes of determining unit prices for members entering and exiting investment options.

Staff recommendations

23 Staff recommend continuing the existing outreach program as planned in the existing timetable on the basis that:

(a) each interview conducted so far has yielded additional information; and

(b) staff have yet to conduct interviews with the key industry representative bodies.

24 Staff consider it is too early in the outreach process to determine the likely content of the planned consultation document to be issued as a part of the post-implementation review.

Questions for the Board

Q1: Do Board members agree with the staff recommendation to continue the existing outreach program targeting key stakeholders?

Q2: Do Board members have any comments or suggestions for the staff in conducting the post-implementation review at this stage, including any issues staff should be considering that are currently not being considered?

Next steps and project timelines

25 The next step is for the targeted stakeholder outreach to be completed and a draft consultation document to be prepared and tabled at the June 2023 Board meeting for Board comment and approval.

26 The following table outlines a tentative proposed timeline for the remainder of the project, for the Board's consideration. The timeline might need to change depending on the matters highlighted in the consultation document and the responses to that document.

Proposed timeline	Project milestones based on the PIR process
	Planning phase
Q3 2022	Steps 1, 2: Review of original project documentation and collation of identified issues.
Q3 2022	Step 3: Academic research – collate and summarise.
Q1/Q2 2023	Step 4: Seek preliminary feedback from targeted stakeholders
Q2 2023	Step 5: Prioritise issues from the planning phase to determine scope of the consultation process.
Board meeting: 4 May 2023	Steps 6: Discuss steps 1–5 with the Board before developing the consultation document.
	Outreach
21-22 June 2023	Step 7: Draft consultation document. Step 8: Discuss draft consultation document with the Board and approve for issue. Staff intend to ask the Board to approve the consultation document out-of-session either via the full Board or a subcommittee. Staff propose a comment period of approximately 120-days. Comments on the consultation paper are expected to close in November 2023.
Q3 2023	Step 9: Undertake targeted outreach to seek stakeholder feedback on the consultation document.
	Consideration of feedback and next steps
Q4 2023 Q1 2024	Step 10: Consultation comment period closes in November 2023. Step 11: Review and summarise responses received on the consultation document and through outreach. Perform follow-up processes.
Q1 2024	Step 12: Identify possible 'next steps' to respond to findings. Step 13: Discuss feedback and possible next steps with the Board.

Questions for Board members

Q3: Do Board members have any comments on the next steps and project timeline?

Appendix A – generic questions discussed with stakeholders

Please note the below questions are indicative only – the questions have varied depending on the target audience.

1. Do you expect the (likely) introduction of the financial reporting amendments to the *Corporations Act 2001* relating to Registrable Superannuation Entities (RSEs) to have an impact on the way AASB 1056 is applied?
2. Is sub-fund reporting something that the AASB should consider – or should defined contribution versus defined benefit remain the only 'segment' focus?
3. Are there any trends affecting the superannuation industry that might need to be addressed in AASB 1056, for example, possible greater emphasis on capital stable investments for members in the pension phase?
4. Are improvements needed to the existing requirements relating to the presentation of a Statement of Changes in Member Benefits?
5. Are improvements needed to the existing requirements relating to insurance arrangements made by RSEs?
6. Are improvements needed to the existing requirements relating to classification/disclosure of items of income or expense?
7. Are there any flow-on consequences to superannuation entities themselves or their subsidiaries from recent developments in Accounting Standards that might need to be addressed in AASB 1056?
8. Is the existing guidance on measuring fair value of assets sufficient – might further guidance on measuring fair value be warranted, for example in respect of 'alternative' or 'unlisted' assets?
9. Are there other aspects of AASB 1056 that should be considered for improvement, including any significant gaps or any significant areas of over-reach?
10. Any other matters?