



To:	AASB Members	Date:	20 August 2008
From:	Dean Ardern	Agenda Item:	3.6
Subject:	Superannuation plans and approved deposit funds	File:	P19

Action

1. Consider the issues discussed in Agenda Paper 3.3.1 in light of the findings in Agenda Paper 3.3;
2. review Agenda Papers 3.7 – 3.9 and agree on:
 - (a) the appropriate treatment of insurance liabilities;
 - (b) the appropriate treatment of past benefit costs; and
 - (c) the appropriate treatments to address the ‘sweep issues’ identified;for the purpose of a replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*; and
3. consider draft ED 16X *Superannuation Plans and Approved Deposit Funds*.

Background

Working title of draft ED 16X

While the working title of draft ED 16X is longer and arguably more cumbersome than staff would prefer, staff’s preferred term – ‘superannuation entity’ – has a specific meaning in the superannuation industry. Section 10 of the *Superannuation Industry (Supervision) Act 1993* defines a superannuation entity as a regulated superannuation fund, an approved deposit fund (ADF) or a pooled superannuation trust. During its September 2007 meeting, the Board agreed that the replacement Standard for AAS 25 would not apply to pooled superannuation trusts. Accordingly, staff have avoided using the term ‘superannuation entity’ in the context of the draft ED.

Layout of ED 16X

ED 16X has been prepared using a recently revised Word document template. While preparing the document, staff identified a number of limitations in relation to the Word template. For instance, the paragraph numbers in the Application Guidance (Appendix B) do not have the usual ‘AG’ prefix. Staff plan to resolve these issues prior to the document being published.

Paragraphs 15 – 40 of ED 16X and paragraphs 5 – 13 of the Appendix B

Paragraphs 15 to 40 of ED 16X detail the main proposals in relation to the measurement of defined benefit members' accrued benefits. Most of the text of these paragraphs is from AASB 119 *Employee Benefits*. As an aid to the Board, the corresponding paragraph number in AASB 119 is identified in bold type at or near the end of each paragraph. The paragraphs that are not from AASB 119 (i.e., additional paragraphs developed by staff) are presented in the ED without a source reference.

Staff consider this approach (explicitly detailing the requirements in relation to the measurement of defined benefit members' accrued benefits in the ED) to be more appropriate than using cross-references to paragraphs in AASB 119 to detail and explain the specific proposals in the ED. AASB 119 was drafted with an employer sponsor rather than a superannuation entity in mind. As is evident from the draft ED, many of the principles and requirements in AASB 119 need to be amended to make them meaningful in a superannuation context.

Some of the 'grey letter' material in AASB 119 in relation to the measurement of defined benefit obligations has not been reproduced in ED 16X for a number of reasons, including:

- (a) the material is inconsistent with the Board's decisions to date or irrelevant in the context of measuring defined benefit members' accrued benefits. For instance, paragraphs 54 – 60 (recognition of the net liability, frequency of measurement and recognition of a defined benefit 'asset') and 78 – 81 (actuarial assumptions) of AASB 119;
- (b) the material is not relevant. For instance, paragraphs 48 – 53 (introductory comments, overview of accounting for defined benefit obligations, accounting for legal and constructive obligations) and paragraph 63 (introductory comments regarding the measurement of a defined benefit obligation) of AASB 119; or
- (c) the material requires treatments that staff do not consider consistent with the provision of useful information in a superannuation context. For instance, paragraphs 92 – 93D (the 'corridor' requirements in relation to actuarial gains and losses) of AASB 119.

It is also relevant to note that the order in which the paragraphs appear in ED 16X is not identical to the order in which the corresponding paragraphs appear in AASB 119. Staff have changed the order of some paragraphs and moved parts of paragraphs to improve the flow of the discussion in the document.

As noted above, many of the principles in AASB 119 need to be amended to make them meaningful in superannuation context. The marked-up text in paragraphs 15 – 40 of the ED and paragraphs 5 – 13 of the Application Guidance reflect the amendments staff consider necessary to make the material imported from AASB 119 meaningful in a superannuation context. The amendments generally involve:

- (a) substituting 'entity' with 'superannuation plan', 'employee' with 'member' and 'obligation' or 'post-employment' with 'accrued benefits';
- (b) deleting the word 'service' from the phrase service cost and replacing it with 'benefit';
- (c) clarifying that defined benefits accrue to a member as a consequence of their service to a sponsoring employer of a superannuation plan; and

- (d) deleting references to ‘plan assets’ and ‘returns on plan assets’. Under AASB 119, a defined benefit liability is recognised net of any plan assets. In addition, an entity is required to recognise the expected return on any plan assets and actuarial gains or losses in relation to any difference between the expected and actual return on plan assets in profit or loss. In contrast, the ED requires a superannuation plan to recognise actual changes in the carrying amounts of its assets in profit or loss. Accordingly, actuarial gains or losses in relation to expected returns on plan assets are not applicable in the context of a superannuation plan’s obligation for defined benefit members’ accrued benefits.

Other issues

ED 16X reflects the cumulative views of the Board to date. In addition ED 16X reflects staff views in relation to:

- (a) the application of AASB 112 *Income Taxes* to a superannuation plan or ADF (Staff views 1 and 2 in Agenda Paper 3.4). Refer to paragraphs 6, 7, 11, 45, 47 and 50 of ED 16X and paragraph BC44 of the Basis for Conclusions;
- (b) Sweep Issue 1 – benefits resulting from a constructive obligation that go beyond the formal terms of a plan (Agenda Paper 3.8, Staff view 1). Refer to paragraphs 33(b), 35, 36, 40(b) and (c), 60(a) and (b) of ED 16X and paragraph 44(d) of the Application Guidance (Appendix B); and
- (c) Sweep Issue 2 – the definitions of defined benefit and defined contribution entitlements (Agenda Paper 3.8, Staff view 2). Refer to Appendix A of ED 16X.

Attachments

Agenda Paper 3.3.1	Board Memorandum – Contributions and a statement of member benefits.
Agenda Paper 3.7	An issues paper discussing the treatment of superannuation plan insurance arrangements under a replacement Standard for AAS 25.
Agenda Paper 3.8	An issues paper discussing the treatment of past service cost under a replacement Standard for AAS 25.
Agenda Paper 3.9	An issues paper discussing a number of ‘sweep’ issues identified by staff in preparing draft ED 16X.
Agenda Paper 3.10	Draft ED 16X <i>Superannuation Plans and Approved Deposit Funds</i> .