Reporting Update
16 June 2015, 15RU-008

What's new in financial reporting for superannuation entities?

What's changed for June 2015 year-ends?

- Superannuation entities that qualify as investment entities no longer consolidate their controlled subsidiaries (with minor exceptions), but reflect these investments at net market value* (*this is not a change for those entities that early adopted the amendment in June 2014)*
- Superannuation entities that have offsetting arrangements with financial institutions may need to consider additional guidance as to whether the balances are offset in the statement of financial position.

The impacts of these changes are discussed further below.

What future changes should you start preparing for?

AASB 1056 *Superannuation Entities* (AASB 1056) will have a significant impact on financial statements. While not effective until the June 2017 financial year, 2016 comparatives are required which means that the closing 2015 position must be stated correctly. We have included a suggested implementation plan as part of this update.

* The investment entity exception refers to fair value however AAS 25 requires net market value measurement of all assets

KEY POINTS

- **Entities that qualify as investment entities no longer consolidate controlled subsidiaries (with minor exceptions)**
- **Entities with offsetting arrangements may need to consider new guidance on presentation in the statement of financial position**
- **Entities should start considering the impact of AASB 1056 *Superannuation Entities***

What's changed for June 2015 year-ends?

Since 30 June 2014 a number of standards, amendments to or interpretations of standards have become effective. The following table highlights the new standards or amendments relevant to superannuation entities effective for financial years ending 30 June 2015 (both amendments are effective for annual periods beginning 1 January 2014).

Given the low level of change from our *Example Superannuation Series 30 June 2014* publication, we will not be releasing an update for 30 June 2015. Accordingly we have also provided comments to changes that should be considered with reference to our 30 June 2014 publication.

New standards or amendments	Accounting impact	Relevant section in Example Superannuation Series 30 June 2014 or other KPMG publications
Investment Entities Amendments to AASB 10, AASB 12, and AASB 127	Investment entities no longer consolidate controlled subsidiaries (with limited exceptions), instead recognise these investments at fair value.	Notes to the financial statements, Note 2(e)(i) and Note 15 for Defined Contributions Fund and Note 2(e)(i) and Note 14 for Defined Benefits Fund. References to early adoption should be removed as the standard is effective from 1 January 2014. For more information, refer: Example Superannuation Series - June 2014 First impressions-Consolidation relief for Investment Funds
Offsetting Financial Assets and Financial Liabilities (Amendments to AASB 132)	Where offsetting arrangement, exists, clarification of presentation in statement of financial position.	Not illustrated in Example Superannuation Series. For more information, refer: First impressions - Offsetting Financial assets and Financial Liabilities

What's the impact of AASB 1056 *Superannuation Entities*?

The Australian Accounting Standards Board approved the new standard covering the general purpose financial statements of superannuation entities in June 2014, AASB 1056 *Superannuation Entities*. The standard does not include Pooled Superannuation Trusts and as such Pooled Superannuation Trusts should apply Australian Accounting Standards in the same manner as Managed Investment Schemes.

AASB 1056 replaces AAS 25 *Financial Reporting by Superannuation Plans* with the intention to provide greater transparency and consistency in financial reporting for superannuation entities for financial years ending 30 June 2017, and is available for early adoption. The following table highlights the key changes from AAS 25 to AASB 1056 and impact on superannuation entities:

Key changes and requirements	Impact on superannuation entities
An expanded set of financial statements Superannuation entities must present: - Statement of financial position; - Income statement - Statement of changes in equity/reserves for the period - Statement of cash flows for the period - Statement of changes in member benefits for the period	• Financial statements will be reformatted to remove member transactions (contributions, transfers in, benefit payments and member taxes) from the income statement to the statement of changes in member benefits. • Defined benefit funds are required to prepare a statement of cash flows for the period. • Additional effort and planning will be required to prepare the expanded set of financial statements.
Fair value measurements Assets and liabilities are measured at fair value through profit or loss with specific exceptions including member liabilities and tax balances.	• Whilst superannuation entities may have been applying AASB 13 principles by analogy, it is now an explicit requirement to use an exit price that is not adjusted for transactions. • Expected limited impact as disposal costs required to be accounted for previously under AAS 25 are generally immaterial.
Recognition of member liabilities Defined contribution and defined benefit member liabilities to be recognised and measured as the amount of accrued benefits.	• Member liabilities are recognised in the statement of financial position.
Measurement of member liabilities Defined benefit member liability is to be measured at each reporting date as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.	• Increase in the frequency of actuarial valuation from triennial to annual valuation.

Key changes and requirements	Impact on superannuation entities
Employer sponsor receivable Employer sponsor receivable with respect to defined benefit fund is to be recognised as an asset measured at intrinsic value which is the amount of the difference between a defined benefit member liability and the fair value of assets available.	• Recognition of receivable in the statement of financial position, including performing an assessment of existence and recoverability of the asset.
Increase in disclosure requirements Additional disclosures required: - Information that provides users with a basis for understanding the nature of the entity, the benefits provided to members and the expenses it incurs; - Information about changes in key components of defined benefit member liabilities; - Deeming defined contribution member liabilities to be within the scope of AASB 7 *Financial Instruments: Disclosure* in respect of credit risk, market risk and liquidity (excludes fair value disclosure); - For accrued defined benefit member liabilities: o Basis for the assumptions used in measurement, including the manner in which they are determined, the impact of changes to demographics assumptions compared with changes in financial assumptions; o the sensitivity of the liabilities to reasonably possible changes in key assumptions; and o when net assets attributable to defined benefit members differs from defined benefit member liabilities, information explaining the policies for managing the difference. - Disaggregated financial information where that would help to explain the risks to which different categories of members are exposed.	• Notes to the financial statements will need to be reformatted to include additional disclosures. • Additional reconciliations to support the note disclosure will be required.

Key changes and requirements	Impact on superannuation entities
Insurance arrangements - For superannuation entities acting in the capacity of an insurer and has an obligation under insurance arrangement provided to the members, any insurance contract liabilities and assets are measured in a manner consistent with the way in which defined benefit member liabilities are measured. - For defined contribution members, any insurance liabilities, assets, insurance premiums, claim expenses, reinsurance expenses and reinsurance recoveries are required to be shown separately. Insurance liabilities and assets arising from insurance arrangements provided by the superannuation entity to a defined benefit member need to be presented separately from the entity's liabilities for such members' benefits.	• Analysis of whether the superannuation fund meets the definition of "acting in the capacity of an insurer" will be required. • Minimum impact for superannuation entity that does not act in the capacity of an insurer or has an obligation under insurance arrangement. • Measurement for insurance contract liabilities and assets must be consistent with the measurement for defined benefit member liabilities. • Actuarial valuation required to measure insurance liabilities and assets. • Increase disclosure requirements for insurance arrangements to defined contributions members.
Consolidated Financial Statements AASB 1056 does not explicitly address the requirements to prepare consolidated financial statements. AASB 10 *Consolidated Financial Statements* would apply.	• Assess the eligibility of the adoption of the investment entity exemption on an ongoing basis.

The first full audited set of financial statements prepared under AASB 1056 will be for the financial year ended 30 June 2017. This set of financial statements will require the 2016 comparative figures to be restated to comply with the new standard.

As such, once the 30 June 2016 financial statements have been audited and signed, a draft set should be prepared and reviewed in accordance with AASB 1056. This will ensure that the comparative figures for the 30 June 2017 financial statements are produced in a timely manner and are in accordance with the new standard.

A suggested timeline for implementation is as follows:

Implementation Task	Timing
Impact analysis of AASB 1056 conversion and determining action items	March 2015 to December 2015
Detailed gap analysis (once action items from impact analysis implemented)	October 2015 to October 2016
Restatement of comparatives and review of pro-forma financial statements	October 2016 to February 2017
Preparation of AASB 1056 compliant financial statements for the year ending 30 June 2017	July 2017 to September 2017

For assistance on implementation, please contact your KPMG Team or Sean Hill at seanhill@kpmg.com.au or 03 9288 6948.