



## Heads Up

# AASB issues new standard for Superannuation Entities

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### “In summary”

- AASB 1056 *Superannuation Entities* has been issued by the AASB which replaces AAS 25 *Financial Reporting by Superannuation Plans*. The new standard is more integrated with other Australian Accounting Standards than the predecessor standard, although specific measurement, recognition and disclosure exemptions continue to exist. AASB 1056 is to be applied retrospectively, therefore superannuation entities will be required to restate comparatives and present comparatives under the new presentation requirements.
- Comparability has been improved between defined contribution and defined benefit funds as well as the introduction of a new primary statement, the Statement of Changes in Member Benefits.
- New requirements have been introduced for accounting for actuarial estimated member liabilities, employer-sponsor receivables and insurance arrangements which were not previously addressed by AAS 25. Extensive additional disclosure requirements have also been incorporated into the new standard.
- The new standard also aligns superannuation entities with the requirements of AASB 13 *Fair Value Measurement* with respect to determining fair value and the requirements of AASB 10 *Consolidated Financial Statements* including recent amendments related to investment entities such that if a superannuation entity meets the definition of an investment entity it is not required to prepare consolidated financial statements.

### New guidance

On 5 June 2014, the Australian Accounting Standards Board (AASB) issued a new Standard applying to superannuation entities. AASB 1056 *Superannuation Entities* (AASB 1056) replaces AAS 25 *Financial Reporting by Superannuation Plans* (AAS 25).

The new standard introduces a number of significant changes from AAS 25, including more integration with other standards, new definitions, revised composition of the primary financial statements, use of 'fair value' instead of 'net market value', the recognition and measurement of member liabilities and disclosures.

## Effective date

The revised standard applies to annual reporting periods beginning on or after 1 July 2016, with early adoption permitted. AASB 1056 is required to be applied retrospectively, as such, comparative information (e.g. year ending 30 June 2016) is required to be restated and presented in the new format.

## Who is affected?

AASB 1056 applies to Australian superannuation entities that are 'reporting entities' (as defined), or which prepare financial statements that are held out to be general purpose financial statements. Superannuation entities comprise superannuation plans and approved deposit funds, which include entities regulated under the *Australian Superannuation Industry (Supervision) Act 1993* and other entities established and maintained to receive superannuation contributions for the primary purpose of providing benefits to members upon their retirement, death, disablement or other event that qualifies as a condition of release for member benefits.

Superannuation entities that previously applied AAS 25 paragraph 66 in preparing their financial statements are not provided a similar exemption in AASB 1056.

The AASB concluded pooled superannuation trusts are more in the nature of investment trusts, such as managed investment schemes, because they have unitholders rather than members. Accordingly, the AASB concluded pooled superannuation trusts should apply Australian Accounting Standards in the same manner as managed investment schemes and therefore AASB 1056 does not apply<sup>1</sup>.

## Key changes and actions

Section	AASB 1056 requirements	Key changes and actions
<b>Application of Australian Accounting Standards</b>	<p>AASB 1056 is far more integrated with other Australian Accounting Standards (and therefore with International Financial Reporting Standards).</p> <p>The recognition, measurement and disclosure principles and other requirements of AASB 1056 effectively override the requirements of other Australian Accounting Standards, and accordingly, superannuation entities are not required to apply those other standards in preparing financial reports. However, where the requirements of other standards are applied, the disclosure principles and other requirements of those standards are applicable.</p>	<p>Superannuation entities historically applied, where appropriate, Australian Accounting Standards, but with significantly more exceptions (both recognition and measurement).</p> <p><b>Action:</b></p> <ul style="list-style-type: none"><li>• Obtain an understanding of the changes and ensure appropriate resources are available to facilitate the change.</li><li>• Consider timing of system changes required to allow timely gathering of information for comparative disclosures under new standard.</li><li>• Consider impact on the financial statements in advance of the new standard being adopted.</li></ul>
<b>Presentation of Financial Statements</b>	<p>Requires that superannuation entities present:</p> <ol style="list-style-type: none"><li>a) a statement of financial position;</li><li>b) an income statement;</li><li>c) a statement of changes in equity/reserves;</li><li>d) a statement of cash flows;</li><li>e) a statement of changes in member benefits</li></ol>	<p>AAS 25 required a defined contribution plan, and permitted a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows.</p> <p>Alternatively, defined benefit plans could present a statement of net assets and a statement of changes in net assets.</p> <p>AASB 1056 has a common format for both types of funds which will improve comparability.</p>

<sup>1</sup> Pooled Superannuation Trusts will still need to consider application of AASB 10 *Consolidated Financial Statements* and the investment entity amendments

Section	AASB 1056 requirements	Key changes and actions
		<p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Financial statement templates to be updated for new format.</li> <li>• Consider what additional information is required to enable comparative financial information for prior periods to be presented and how to obtain this information.</li> <li>• Prepare restated comparative information for new and changed statements/notes.</li> <li>• Ensure systems are adequate for extraction of new information required (e.g. movements in reserves, movements in member benefits).</li> <li>• Consider what additional accounting reconciliations are required and implement appropriate procedures.</li> </ul>
<p><b>Statement of Financial Position</b></p>	<p>The difference between total assets and total liabilities (which includes member liabilities discussed below) is recognised as equity in the statement of financial position.</p> <p>Where the amount of net assets attributable to defined benefit members differs from defined benefit member liabilities, information is required to be disclosed to provide users with a basis for understanding the nature, cause and any strategies for addressing the difference between the two amounts.</p>	<p>AASB 1056 is more closely aligned with AASB 101, therefore the presentation has changed as there is no longer a requirement to present separately investments and other assets by class of asset.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider impact to presentation including: <ul style="list-style-type: none"> <li>○ member balances presented as a liability; and</li> <li>○ employer-sponsor receivables (see below).</li> </ul> </li> <li>• Annual measurement of member balances required for Defined Benefit funds.</li> <li>• Determine disclosure requirements for difference (if any) between net assets attributable to defined benefit members and the associated liabilities.</li> </ul>
<p><b>Income Statement</b></p>	<p>The items presented in the income statement include: revenues; expenses; gains and losses arising from the re-measurement of assets and liabilities measured at fair value; net benefits allocated to member accounts; net change in defined benefit member liabilities; and income tax expense/benefit.</p> <p>Contributions from employers and members and benefits to members are regarded as affecting member liabilities, not as income and expenses and are therefore presented in the statement of changes in member benefits.</p>	<p>AAS 25 required changes in the net market value of assets and financial liabilities is now included as a component of revenue.</p> <p>Contributions from employers and members and benefit payments to members were previously accounted for as income and expenses, but are now presented in the statement of changes in member benefits.</p> <p>Changes in member liabilities (discussed below) were previously unaccounted for and are now recognised in the income statement.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider impact to presentation including: <ul style="list-style-type: none"> <li>○ Contributions and benefits no longer considered revenue/ expense; and</li> <li>○ Insurance arrangements (see below).</li> </ul> </li> </ul>

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<b>Statement of Changes in Equity/ Reserves</b>	<p>The interests of members of superannuation entities are classified as liabilities as they are not regarded as meeting the definition of an 'equity instrument' in AASB 132 <i>Financial Instruments: Presentation</i> (AASB 132).</p> <p>Whilst superannuation entities have no equity holders, they often have equity in the form of reserves and therefore shall present movements in such reserves in the statement of changes in equity in accordance with AASB 101 <i>Presentation of Financial Statements</i> (AASB 101).</p> <p>Consistent with the guidance in AASB 101, entities can use their judgment for the title of the statement, such as 'Statement of Changes in Reserves'.</p>	<p>AAS 25 required presentation of changes in equity and reserves for defined contribution funds but not defined benefit funds.</p> <p>AASB 1056 has a common format for both types of funds which will improve comparability and is consistent with the definition of liabilities and equity in AASB 132.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider reserves held by the fund and the accounting for movements.</li> <li>• Ensure defined benefit funds present changes in reserves.</li> </ul>
<b>Statement of Changes in Member Benefits</b>	<p>A statement of changes in member benefits is required to be presented that includes:</p> <ol style="list-style-type: none"> <li>a) contributions, rollovers and transfers from employers and members;</li> <li>b) income tax on contributions;</li> <li>c) benefits to members;</li> <li>d) net investment income allocated to members; and</li> <li>e) administration expenses charged to members.</li> </ol> <p>Current and deferred tax are required to be charged directly to member liabilities and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member liabilities.</p>	<p>AAS 25 did not require presentation of a statement of changes in member benefits. Therefore a new primary statement is now required.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Preparation of a statement of changes in member benefits required which includes contributions and transfers in, income tax, benefits paid, net investment income, administration expenses charged to members, and current and deferred tax charged to member liabilities.</li> <li>• Consider requirement to involve tax specialists for presentation of taxes charged to member liabilities.</li> </ul>
<b>Assets and Liabilities Measured at Fair Value</b>	<p>Requires the measurement approach of 'fair value through profit or loss' with specific exceptions. The exceptions include member liabilities and tax balances.</p> <p>AASB 1056 specifically requires a superannuation entity to use 'fair value' which is defined in AASB 13 <i>Fair Value Measurement</i> including accounting for transaction costs incurred.</p>	<p>AAS 25 required assets and financial liabilities to be measured at 'net market value' with exceptions similar to those applying under AASB 1056.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider changes required to exclude transaction costs when measuring assets and liabilities at fair value.</li> <li>• Consider impact of disclosure requirements of AASB 13.</li> </ul>
<b>Member Liabilities</b>	<p>Requires both defined contribution and defined benefit member liabilities to be recognised and measured as the amount of accrued benefits. Defined contribution member liabilities are measured as the amount of member account balances as at reporting date. The measurement principle for a defined benefit member liability is the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would meet accrued</p>	<p>AAS 25 required defined benefit member liabilities to be determined as the present value of expected future payments (remeasured at least once each three years).</p> <p>AASB 1056 requires member liabilities to be measured at each reporting date.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Recognise and measure defined contribution and defined benefit member liabilities as the amount</li> </ul>

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	<p>benefits when they are expected to fall due.</p> <p>AASB 1056 requires defined benefit member liabilities to be measured at each reporting date. However, it does not identify any particular methodologies that might be employed in measuring defined benefit member liabilities, for example, when an actuary is not engaged to conduct a full actuarial valuation, and superannuation entities may use estimates, averages and computational shortcuts provided that any shortcut techniques used yield a reliable approximation of the defined benefit member liabilities.</p>	<p>of accrued benefits.</p> <ul style="list-style-type: none"> <li>• Consider early involvement of actuaries for measurement of member liabilities.</li> <li>• Re-measure defined benefit member liabilities at each reporting date.</li> <li>• Determine the methodology to be employed by the actuary to measure defined benefit member liabilities on an annual basis.</li> </ul>
<p><b>Employer-sponsor Receivables</b></p>	<p>Requires an asset to be recognised to the extent there is a receivable from an employer-sponsor in respect of a difference between a defined benefit member liability and the fair value of assets available to meet that liability that meets the definition and recognition criteria for an asset.</p> <p>The asset is required to be measured at its 'intrinsic value' (the amount of the difference, unless capped).</p>	<p>AAS25 did not address employer-sponsor receivables.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Where there is an unsatisfactory defined benefit funding position, recognise differences between the defined benefit member liability and the fair value of assets to meet that liability as an employer-sponsor receivable.</li> <li>• Requirement to disclose the manner in which the receivable is expected to realised. If there is no formal arrangement in place, this should be considered with the employer-sponsor.</li> </ul>
<p><b>Disclosure</b></p>	<p>Includes a number of disclosure 'principles', including the following required disclosures:</p> <p>a) information that provides users with a basis for understanding the nature of the entity, the benefits provided to members and the expenses it incurs;</p> <p>b) information about changes in key components of defined benefit member liabilities that provides users with a basis for understanding the overall change;</p> <p>c) deeming defined contribution member liabilities to be within the scope of AASB 7 in respect of credit risk, market risk and liquidity risk (not the fair value disclosures);</p> <p>d) in relation to accrued defined benefit member liabilities, the basis for the assumptions used in measurement, including the manner in which they are determined, the impact of changes to demographic assumptions compared with changes in financial assumptions, the sensitivity of the liabilities to reasonably possible changes in key assumptions, and an explanation why the actual investment portfolio differs from the portfolio used in</p>	<p>AAS 25 required relatively specific disclosures about classes of assets, liabilities, investment revenue and expenses.</p> <p>Many of these related to member liabilities and will be captured in the statement of changes in member benefits as required by AASB 1056.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Ensure that all disclosure principles are followed.</li> <li>• Consider whether systems will need to be re-configured to enable the extraction of the necessary financial information in an appropriate format so that appropriate disclosures can be made.</li> <li>• Consider what disaggregated information should be presented (i.e. does the superannuation entity have more than one defined benefit plan or is it a hybrid fund?).</li> <li>• Consider what information will need to be sourced from employer-sponsors and actuaries.</li> <li>• Member liabilities should be disclosed in the AASB 7 note.</li> <li>• Disclose the basis for assumptions used in</li> </ul>

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	<p>measuring the liability (if any difference) and;</p> <p>e) when net assets attributable to defined benefit members differs from defined benefit member liabilities, information explaining the policies for managing the difference and any plans or processes in place for employer-sponsors to seek to be paid some or all of a surplus or to reduce the level of their contributions in the future; and</p> <p>f) disaggregated financial information where that would help to explain the risks to which different categories of members are exposed.</p>	<p>measurement for defined benefit member liabilities and perform a sensitivity analysis of the key assumptions.</p>
<b>Insurance Arrangements</b>	<p>Requires that, when a superannuation entity has an obligation under insurance arrangements provided to members (whether defined contribution or defined benefit), any insurance contract liabilities are measured in a manner consistent with the way in which defined benefit member liabilities are measured. Any reinsurance assets are required to be recognised and measured consistent with insurance contract liability recognition and measurement requirements, which includes an asset impairment assessment. Insurance premiums, claim expenses, reinsurance costs and reinsurance recoveries would be presented in the income statement.</p>	<p>AAS 25 did not address insurance arrangements provided to members other than in the context of providing an exemption from some of the requirements of AAS 25 for a plan that purchases insurance policies that match and guarantee benefits to members.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider the nature of any insurance arrangements, including understanding whether the superannuation entity is acting in the capacity of an insurer or as an agent and ensure they are appropriately disclosed and transactions recognised where appropriate.</li> <li>• Consider what level of actuarial involvement may be required to measure insurance liabilities consistently with the way defined benefit member liabilities are measured.</li> </ul>
<b>Consolidated Financial Statements</b>	<p>Consolidated financial statements are not specifically addressed by AASB 1056.</p> <p>The requirements of AASB 10 <i>Consolidated Financial Statements</i>, as amended by AASB 2013-5 <i>Amendments to Australian Accounting Standards – Investment Entities</i>, applies.</p> <p>There is an exception in AASB 1056 from AASB 138 Intangible Assets, which requires intangible assets to be re-measured each period, but it is also acknowledged that this would only be relevant where the superannuation entity is required to prepare consolidated financial statements (i.e. the investment entity exemption does not apply).</p>	<p>Consolidated financial statements were also not specifically addressed in AAS 25.</p> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>• Consider whether the exemption requirements from consolidation as outlined in AASB 2013-5 apply.</li> <li>• Consider impacts of consolidation if required and whether existing systems have the appropriate capabilities.</li> </ul>

#### External links

- [AASB Media Release](#)
- [AASB 1056 Superannuation Entities](#)

## How can Deloitte help?

Deloitte can assist you manage the transition to AASB 1056. Please contact one of the experts below to see how we can help you.

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