27 April 2015

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Dear Mr Brennan

Consultation on superannuation data collection for the ABS

Thank you for the opportunity to provide comments on the above consultation material. Our comments are confined to data items relating to defined benefit (DB) liabilities.

Our main concern is that some of the proposed DB liability information would need to be prepared for the sole purpose of APRA reporting, imposing substantial additional costs on DB RSE's and DB sponsoring employers.

In essence, we recommend that the new reporting standards not require DB liability information which is additional to that required under AASB 1056.

Draft SRS 730.0 Item 20

Draft SRS 730.0 Item 20 requires reporting of the following in respect of DB liabilities:

20 Net change in liability for members' benefits

20.1 Current service increase

20.2. Past service increase

20.3. Changes in scheme structure with members' consent

20.4. Changes in actuarial assumptions

20.4.1. Changes in price or indexation assumptions

20.4.2. Changes in other actuarial assumptions

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We understand that the “Liability for members’ benefits” is to be calculated in accordance with AASB 1056 and it would be desirable for the Instructions to state this (in each relevant Reporting Standard). Hence, from the time that a DB RSE adopts AASB 1056, it will be straightforward to calculate the Item 20 “Net change in liability for member benefits” from information used to prepare the fund’s financial statements.

However Items 20.1 to 20.4.2 are not required to be calculated under AASB 1056, or (as far as we are aware) to meet any other requirements. Hence additional actuarial valuation work would need to be undertaken to produce these numbers for SRS 730.0. Note that for DB RSE’s that have sub-funds, this additional work would be needed for each DB sub-fund even though the reporting is at DB RSE level, so the work would be required for hundreds of DB funds and sub-funds, resulting in additional actuarial costs potentially in the order of $1m or more each year across the industry.

We note that the joint APRA/ABS letter of 27 January 2015 stated that ‘the proposed reporting standards have been designed to collect data that RSE licensees have available for existing reporting’.

Clearly Items 20.1 to 20.4.2 do not fall into this category. Given the substantial additional cost burden of producing the data for these items, we recommend that they be removed from SRS 730.0.

We also note that the definitions of Current service increase and Past service increase in the draft Instructions also appear to be new concepts which are different from established measures of components of the change in DB liabilities which are set out in AASB 119 (Employee benefits). If items 20.1 and 20.2 are not removed (as we recommend above), then further explanation will be required of how these items are to be calculated. We also note that the valuation assumptions required under AASB119 are different from those required under AASB 1056. Furthermore, the AASB 119 reporting date will align with the employer’s year of income which will often differ from the fund’s. Hence alignment of the definitions of Current service increase and Past service increase with components required under AASB 119 would not remove the need for additional actuarial valuation work to produce these numbers for SRS 730.0.

DB liability information for SRS 720.0 (and SRS 320.0)

As noted above, we understand that the “Liability for members’ benefits” is to be calculated in accordance with AASB 1056.

However AASB 1056 will require the DB liability to be calculated only once each year (i.e. at the end of the fund’s year of income) whereas SRS 720.0 is required to be completed quarterly. The same issue applies with SRS 320.0.

The Institute has made previous submissions on APRA reporting standards that were responded to in APRA’s letter of 4 August 2014. This letter indicated that the value reported in SRF 320.0 for “defined benefit members’ benefits” should align with the DB liability reported in the fund’s most recent financial statements

We strongly support this approach, as it avoids requiring quarterly actuarial valuations in order to complete these returns, which would clearly impose an unreasonable additional cost burden on funds and employers.

We seek confirmation that the same approach is to apply for SRF 720.0 quarterly reporting of DB liability values (or that the "defined benefit members' benefits" figures from SRF 320.0, based on the DB liability reported in the fund's latest financial statements, will be used by the ABS)**.**

If there are major concerns about the mismatch between the effective dates of the DB asset and the DB liability figures, we would be happy to discuss potential alternative approaches which would also avoid requiring quarterly actuarial valuations

We also note that SRS 720.0 Item 29.1.2 (Differing assumptions between funding and financial statements purposes) is not required under AASB 1056. Completion of this item will require an additional actuarial valuation if the assumptions are different, imposing additional costs on funds. **We recommend this item be removed.**

<u>Reserves information for SRS 720.0</u>

Item 27.6 (Total Reserves) is required to be split between DB and DC liabilities. Our understanding is that it would be unusual for an ORFR to be split between DB and DC liabilities. Is this APRA's intention or should Item 27 be redesigned so that splitting of the ORFR is not required?

<u>Transitional arrangements</u>

Consideration should be given to whether the funds will be required to make SRS 720.0 or 730.0 returns for any periods prior to their adoption of AASB 1056. If so, transitional provisions (along the lines of those in APRA's letter of 4 August 2014) should be included to avoid the need for additional actuarial valuations just to complete SRS 720.0 or 730.0 in the gap period.

The Actuaries Institute

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 4,100 members, including more than 2,200 actuaries. Our members have had significant involvement in the superannuation industry and the development of superannuation regulation, reporting and disclosure, interpreting financial statistics, risk management and related practices in Australia for many years.

Please do not hesitate to contact the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email david.bell@actuaries.asn.au) to discuss any aspect of this submission.

Yours sincerely

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President