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Pat Brennan
General Manager, Policy Development
Policy, Statistics, and International Division
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Via email: **superannuation.policy@apra.gov.au**

Dear Mr Brennan

Superannuation data to be collected for use by the ABS:

Thank you for the opportunity to comment on the following draft reporting standards:

- Draft Reporting Standard SRS 720.0 ABS Statement of Financial Position;
- Draft Reporting Standard SRS 721.0 ABS Securities Subject to Repurchase and Resale and Stock Lending and Borrowing;
- Draft Reporting Standard SRS 722.0 ABS Derivatives Schedule; and
- Draft Reporting Standard SRS 730.0 ABS Income and Expenditure

In making these comments we have taken into account the changes proposed in the ABS's letter of 1 April 2015. Whilst generally supporting the changes proposed in that letter, we continue to have serious concerns as set out below. These mainly relate to some of the requirements of draft SRS 720.0 and SRS 730.0 in regard to defined benefit (DB) liabilities. However our recommendations on the requirements for quarterly reporting of DB liabilities apply to all relevant APRA reporting standards.

We have also set out, at the end of this letter, our comments on the questions raised in the ABS's letter of 1 April 2015.

1. Liability for members' benefits

The definition of "Liability for members' benefits" (see below) refers to "Australian Accounting Standards". We believe it should refer specifically to AASB 1056 (Superannuation Entities) to avoid potential confusion as to whether AASB 1056 or AASB 119 (Employee Benefits) is applicable. (This comment also applies to a number of other reporting standards that require reporting of a DB Liability for members' benefits.)

Liability for members' benefits	Represents the present obligation to members and beneficiaries for benefits they are entitled to receive in the future as a result of membership of the RSE. Excludes: reserves. Reference: Australian Accounting Standards.

2. SRS 730.0 Item 20 requirements

Item 20 of draft SRF 730.0 requires funds to provide the following components of the net change in the “Liability for member 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

We note that none of these components is required to be calculated by AASB 1056, neither are they amounts that we would expect funds to routinely calculate for their own information or to meet any other reporting or disclosure requirements. Hence they would need to be calculated for the sole purpose of completing SRS 730.0.

Preparation of this additional information would require significant additional actuarial valuation work. For DB RSE’s that contain a number of DB employer sub-plans (as many do), this work would be required for each employer sub-plan. For DB RSE’s like the Mercer Super Trust that have a substantial number of DB employer sub-plans, the cost of preparing this additional information is likely to run into hundreds of thousands of dollars for each DB RSE each year.

Given the very significant additional costs that this would impose on funds, we believe the need for this information should be reviewed. We query the value that would be obtained from this information, given that:

- The vast majority of DB funds are closed to new DB members and are declining
- As noted above, many DB RSE’s contain a significant number of DB employer sub-plans, so that the information would be an aggregation of results arising from myriad sets of valuation assumptions, scheme structures, benefit design arrangements and experience.

We submit that the substantial additional cost of providing these items would be disproportionate to any benefits that would be obtained Therefore, assuming that Australia is not compelled to comply with the System of National Accounts in respect of these items, **we strongly recommend that SRS 730.0 Items 20.1 to 20.4.2 be removed.** Alternatively a materiality threshold should be applied so that these items are not required for employers with less than, say 500 DB employees.

3. Alignment with RSE year of income

Draft SRF 730.0 requires reporting for years ending 30 June. So, for example, a fund with a 31 December year end would need to have actuarial valuations to determine the DB “Liability for member benefits” both at 31 December (to meet AASB 1056) and at 30 June (for SRS 730.0).

We welcome the change in stance communicated in the ABS’s letter of 1 April 2015 that the reporting period will be changed to apply to the RSE’s year of income for accounting purposes.

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4. SRS 720.0 Quarterly reporting of DB liabilities

Draft SRS 720.0 requires quarterly reporting of Liability for members' benefits (Item 28). Quarterly reporting of this item is already required under SRS 320.0 (Item 23), however as a transitional arrangement pending the implementation of AASB 1056, APRA has advised that the DB liability value should be taken from the fund's financial statements (which will generally be calculated at some date prior to the reporting date and may remain unchanged for a considerable number of quarters if the fund only has triennial valuations). This means additional actuarial calculations are not currently required.

We submit that similar transitional arrangements should be provided under SRS 720.0 and SRS 730.0, which are proposed to apply for reporting periods ending on or after 1 January 2016. (AASB 1056 applies to reporting periods beginning on or after 1 January 2016, unless early adopted.)

Also, some clarification is needed of APRA's requirements regarding quarterly reporting of the DB Liability for members' benefits after the transitional period ends. We assume that APRA does not expect funds to go the expense of carrying out quarterly DB valuations, with the assumptions reviewed and possibly modified each quarter. The cost of doing this would run into many millions of dollars across the industry each year.

We strongly recommend that, for all APRA quarterly reporting, funds should continue to be able to report the DB liability value from the fund's most recent financial statements, which will be 12 months old at most after AASB 1056 is implemented.

We also query the need for SRS 720.0 Item 29.1.2 (Differing assumptions between funding and financial statements purposes). Whilst at this stage we generally expect the assumptions to be the same and therefore that this item will be nil, if the assumptions are different then this would appear to require an additional valuation to be carried out i.e. on the funding assumptions as well as the AASB 1056 assumptions. Is this APRA/ABS's intention, noting the significant additional costs that would be involved (potentially thousands of dollars per fund or sub-fund each year)?

5. Conclusion

More generally, we support the changes proposed in the ABS's letter of 1 April 2015. We have set out below our responses to the questions raised at the end of that letter:

- *Do the proposals outlined in this letter address (at least in part) some of the concerns already raised by industry?*
  - Yes, they do in part address some of the concerns. However we would note the concerns raised in this letter relating to the very significant costs to be incurred by DB funds.
- *Will the proposals reduce compliance costs associated with the proposed standards?*
  - There would be some reduction in the compliance costs as a result of the proposed changes, particularly in relation to Proposal #1.

- *Would other minor changes to the proposed standards further significantly reduce these compliance costs?*
  - Yes, SRS 720.0 Item 29.1.2 and SRS 730.0 Items 20.1 to 20.4.2 should be removed
  - For all quarterly reporting forms, funds should be able to report the DB liability value from the fund's most recent financial statements.
  - We also support the ABS proposal to review the level of granularity in SRS 720.0 and review the potential for 330.1 to provide the information requested in SRS 730.0.

Please contact me (or Paul Shallue on 03 9623 5061) if you have any queries on this submission.

Yours sincerely

Dr David Knox
Senior Partner

Appendix: Who is Mercer?

Mercer is a global consulting leader in talent, health, retirement and investments. We help advance the health, wealth and careers of millions of Australians and more than 100 million people globally.

We also provide customised administration, technology and total benefits outsourcing solutions to a large number of employers and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have $55 billion in funds under administration locally and provide services to over 1.3 million super members and 15,000 private clients. Our own master trust, the Mercer Super Trust, has over 240 participating employers, 226,000 members and more than $19 billion in assets under management.

Our trustee company, Mercer Superannuation Australia Limited, is the trustee of three superannuation funds.