



EXPLANATORY MEMORANDUM TO EXPOSURE DRAFT OF PROFESSIONAL STANDARD 406 UNSEGREGATED SUPERANNUATION LIABILITIES

December 2016

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation Practice Committee (SPC) to assist Members in understanding proposed new Professional Standard 406 (Unsegregated Superannuation Liabilities) (PS 406).

1. Reasons for Change

PS406 is to replace mandatory Guidance Note 451 – Unsegregated Superannuation Liabilities – Certificates by Actuaries under Sub-sections 283(3) and 283(4) of the Income Tax Assessment Act (GN451). The reasons for this are set out below.

1.1 Changed Legislation

As part of the Simpler Super legislative changes which were generally effective from 1 July 2007, Part IX of the Income Tax Assessment Act 1936 (Cth) ("1936 Act") was rewritten and incorporated into Division 295 of the Income Tax Assessment Act 1997 (ITAA 1997). The changes applied with effect from the income tax year ended 30 June 2008.

Whereas under the previous legislation the Australian Taxation Office was empowered to issue IT2617, no power is provided under the present Act. To provide continuity the requirements of IT2617 are now included in PS406.

Further changes to PS 406 may be required as a result of the legislative changes to superannuation that take effect from 1 July 2017. The SPC will be assessing this in the coming months.

1.2 Changed APRA Requirements

APRA Prudential Standard SPS 114 – Operational Risk Financial Requirement establishes requirements for an RSE licensee to maintain adequate financial resources to address operational risk events that may affect its business operations. This requires some APRA regulated superannuation funds to hold reserves in addition to member liabilities.

1.3 Changed PS400 in respect of Defined Benefit Funds

PS406 reflects changes to PS400, such as the treatment of assets held within a fund to meet the Operational Risk Financial Requirement.

1.4 Changed Actuaries Institute Policy

Actuaries Institute Policy now requires mandatory guidance notes to be replaced by professional standards.

1.5 Alignment with Legislation

Under ITAA 1997 section 295-390, in respect of the relevant investment income earned on unsegregated assets, the proportion of taxable income earned on those assets in a year of income that is exempt from tax is:

$$\frac{\text{Average value of current pension liabilities}}{\text{Average value of superannuation liabilities}}$$

PS406 is expressed in these terms to allow for the presence of surplus and reserves that are not part of superannuation liabilities.

2. ATO Input

The SPC has not yet consulted with the Australian Taxation Office (ATO) about the proposed PS406. The SPC will seek input from the ATO after receiving members' feedback on the Exposure Draft.

3. Commencement Date

It is proposed that PS406 will apply to reports in respect of financial years commencing on or after 1 July 2017.

Consultation

The SPC would appreciate Members' views on the proposed PS 406.

Comments should be sent, by the **close of business on Thursday, 16 February 2017**, to:

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END OF EXPLANATORY MEMORANDUM