
EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 499.06: AUSTRALIAN ACCOUNTING STANDARD AASB 1056 SUPERANNUATION ENTITIES

6 September 2016

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation Practice Committee (“SPC”) to assist Members in understanding new Practice Guideline 499.06 (PG499.06).

Introduction

Australian Accounting Standard AASB 1056 Superannuation Entities (AASB 1056) specifies the requirements for the general purpose financial statements of superannuation entities.

The SPC has drafted Practice Guideline 499.06 in consideration of the actuarial tasks that Members may be requested to undertake when superannuation entities are preparing their financial statements under AASB 1056.

Consultation

In June 2016 an Exposure Draft was distributed for comment. Submissions were received from Members and the Australian Accounting Standards Board. The SPC is appreciative of the feedback received and as a result made the following changes to the Practice Guideline:

- ▶ Section 5.3 was amended to expand on the considerations required when setting the discount rate, consistent with paragraph AG25 of AASB 1056; and
- ▶ Section 5.6 was amended to confirm that, as per paragraph 31 of AASB 1056, quantitative and qualitative information can be used by the superannuation entity when explaining the changes to its defined benefit member liabilities.

About Practice Guideline 499.06

AASB 1056 was developed by the Australian Accounting Standards Board to replace AAS 25 *Financial Reporting by Superannuation Plans* and applies to annual reporting periods beginning on or after 1 July 2016 although early adoption is permitted.

Whilst Members do not have an explicit role under AASB 1056, they are likely to play a prominent role in providing key pieces of information used in the construction of the financial statements. Practice Guideline 499.06 provides guidance on the following elements of AASB 1056:

- (a) Defined benefit member liabilities:
 - (i) Apportionment of benefits between past and future membership;
 - (ii) Assumptions to calculate defined benefit member liabilities;
 - (iii) Calculating the accrued benefits;
 - (iv) Sensitivity of the defined benefit member liabilities to changes in assumptions;
 - (v) Explaining changes in defined benefit member liabilities;
- (b) Insurance arrangements.

Members are likely to be involved in assisting superannuation entities comply with other sections of AASB 1056. However, when considered with its Application Guidance, AASB 1056 is sufficiently detailed to obviate the need for further actuarial guidance beyond the two areas identified above.

AASB 1056 replaces Australian Accounting Standard AAS 25 *Financial Reporting by Superannuation Plans*. Guidance Note 454 AAS 25 - "Accrued Benefits" Under Defined Benefit Superannuation Funds provided guidance for Members who were required to calculate Accrued Benefits for the purposes of AAS 25. GN 454 will be withdrawn once AASB 1056 comes into effect.

Statement of compliance with Institute Policy

Practice Guideline 499.06:

- (c) has been prepared in accordance with the Institute's Policy for Developing Documents to Guide and Regulate Professional Practice; and
- (d) is to be applied in the context of the Actuaries Institute Code of Professional Conduct.

Practice Guideline 499.06 is not mandatory. Even so, if Practice Guideline 499.06 covers the Professional Services a Member provides, then the Member should consider explaining any significant departure from this Practice Guideline to the Principal, and document that explanation.

Commencement date

The commencement date for Practice Guideline 499.06 is 6 September 2016.

END OF EXPLANATORY MEMORANDUM