



EXPLANATORY MEMORANDUM TO PRACTICE GUIDELINE 499.04: ACCOUNTING FOR SUPERANNUATION AND LONG SERVICE LEAVE OBLIGATIONS UNDER AASB 119

June 2011

About this Explanatory Memorandum

This Explanatory Memorandum has been prepared by the Superannuation and Employee Benefits Practice Committee ("SEBPC") to assist Members in understanding the new Practice Guideline 499.04 (Accounting for Superannuation and Long Service Obligations under AASB 119) ("PG 499.04"). PG 499.04 applies to Members giving advice in respect of superannuation obligations and long service leave obligations under Australian Accounting Standard AASB 119 – Employee Benefits.

Introduction

In late 2005, the Institute issued an Exposure Draft (in the form of a Guidance Note) to provide assistance to actuaries preparing actuarial advice under AASB 119. Finalisation of the Guidance Note was delayed as the Institute reviewed its Professional Standards / Guidance Note regime. That review has resulted in the material now being issued as a Practice Guideline, instead of a Guidance Note.

AASB 119 encourages the use of an actuary to undertake certain calculations in respect of material post-employment benefit obligations.

PG 499.04 has been developed to provide assistance to actuaries preparing actuarial advice in respect of superannuation and long service leave obligations under AASB 119. The guidance is non-mandatory, primarily because this is an area where actuaries will not have the final say on assumptions and methodology and may carry out calculations based on assumptions provided by others.

In particular, it is noted that the actuary's role is as an adviser and that final decisions on assumptions and methodology remain the responsibility of the Entity. Following the instructions of the Entity may represent reasonable grounds for departure from the Practice Guideline.

Recognising the role of the actuary's advice in reporting for AASB 119, the Practice Guideline covers areas where the actuary may:

- ▶ make recommendations on assumptions or methodology;



- ▶ be asked to undertake actuarial calculations,

as well as deals with the associated requirements for actuarial reports.

It is also noted that there are still some areas of uncertainty around the application of AASB 119, in particular with respect to: (1) superannuation taxes in Australia; (2) hybrid superannuation funds; and (3) the depth of the high quality corporate bond market in Australia. These areas represent matters of interpretation of the accounting standards. The responsibility for issuing guidance on interpretation rests with accounting bodies such as the International Financial Reporting Interpretations Committee of the International Accounting Standards Board. Hence, the Institute cannot issue guidance on interpreting accounting matters.

In relation to tax on future investment income, feedback from some audit firms in Australia indicates that auditors generally object to the use of a net discount rate for the purposes of AASB 119. Therefore, it is suggested that the actuary engages with the Entity's auditors early in the process in relation to the allowance for investment tax, with due consideration of materiality. It is also suggested that the actuary show the gross discount rate in their report, document any allowance for tax and, if a short cut method such as a net discount rate is used, clearly explain that the method is a short cut method and has no material impact on the results.

Members' attention is also drawn to the definition of "multi-employer plans" under AASB 119 and noted that master trusts and industry funds in Australia may not fall within the narrow definition of that term.

Consultation undertaken

In February/March 2011, the SEBPC released an Exposure Draft of the proposed PG 499.04, inviting Members to make comment. Comments were also sought from the Australian Accounting Standards Board.

Two submissions were received. The SEBPC found the submissions very useful in finalising the standard and thanks Members and other interested parties for their consideration and comments. The submissions received resulted in a number of editorial changes being made to the Exposure Draft, but no material changes.

Commencement of PG 499.04

PG 499.04 is effective for advice given to an Entity in relation to balance dates of 1 August 2011 or later.

END OF EXPLANATORY MEMORANDUM