Reporting superannuation liabilities

The Urgent Issues Group is considering whether companies should provide more current information on the status of super funds as a direct reaction to comments made on the reporting of superannuation liabilities by the Australian Securities and Investments Commission.

An agenda item slated for the UIG meeting held this week is a direct result of concerns raised by the Big Four accounting firms regarding the corporate regulator's comments in a media release issued by the ASIC. A teleconference involving the major accounting firms and staff of the Australian Accounting Standards Board in the past fortnight resulted in the item being placed on the agenda.

This teleconference occurred within 48 hours of a liaison meeting held by the Commission in Sydney with the accounting profession where reservation was expressed with the view expressed by chief accountant, Greg Pound, that where there was a liability on an entity to meet a fund deficit that it should be recognised in the financial statements. Those present from accounting firms argued the recognition issue was scoped out by the Australian Accounting Standards Board when the employee benefits standard, known as AASB 1028, was made for a specific reason and that this scoping out means recognition on the face of the balance sheet, or statement of financial position, is not a mandatory requirement.

Commentators from within the profession point to a September 1998 edition of the now-defunct 'Standard' – the then newsletter of the AASB – where it states 'the current requirements of AAS 30 and AASB 1028 with respect to disclosure about employers' superannuation obligations will be retained until the separate project on superannuation is completed'.

Representatives from the Commission argued the hierarchy of guidance in the Australian accounting policies standard is there to fill gaps in reporting and the carve-out for defined benefit funds merely indicates the fact the board wasn't prescribing a treatment at that time. It did not, the Commission has indicated, mean that non-recognition was in accordance with the accounting framework operating in Australia at the current time because the balance sheet standard requires the recognition of liabilities.

Opposition to the Pound doctrine on liability disclosure on the face of the financial statements has arisen at the current time because the Commission's statement has come at a time when:

- companies were being asked to focus on adoption of International Financial Reporting Standards by 1 January 2005 and this would create a dissonance about the message being sent regarding IFRS in the market place
- the AASB has indicated a wholesale approach to adoption would be taken to prohibit companies from handpicking accounting treatments that suit them in the years leading up to full adoption as a means of 'window dressing' results

- problems will be fixed within the next two years when the relevant international accounting standards is introduced
- firms are concerned that companies might feel penalised for legitimately reading the literature as not requiring recognition in the past because of the statements made by the AASB in non-binding publications, and,
- it would be difficult for companies to generate the required information in time for the June 30 financial statements if the interpretation that recognition was required in Australia at the current time was correct.

The issue paper prepared for the UIG meeting – placed on the AASB web site in the past week – makes no mention of industry concerns regarding the views being expressed by the Commission on recognition. It defines the issue needing consideration the absence of clarity about whether the standards require the disclosures provided to the financial markets to be more contemporaneous.

"The issue is whether, in the context of fluctuations in, and declining, equity markets and their potential impact on the value of plan assets, disclosures made by employers in respect of obligations under defined benefits schemes in accordance with Accounting Standard AASB 1028 "Employee Benefits" are sufficiently timely to provide relevant information to users of general purpose financial reports," the agenda paper states.

It quotes the ASIC media release, which announced a survey on reporting practices in the superannuation area, as stating the Commission wanted to ensure:

- the financial reports of corporate sponsors of defined benefit employee superannuation plans appropriately reflect the employer company's financial relationship with those plans; and
- employee members of such plans are receiving adequate information about the financial status of their plan and the financial relationship of the corporate sponsor to the fund, particularly the funds' ability to meet its commitments.

ASIC chief accountant Greg Pound says in that media release that 'ASIC is of the view that under Australian accounting standards, if a plan is in deficit because accrued benefits exceed plan assets, the corporate sponsor should be reporting the liability'.

'If the company is of the view that no liability to the plan exists, either as a legal or constructive obligation, the plan trustees and employees are entitled to know that the company is not underwriting the obligations of the fund,' Pound asserts in the Commission's 15 April 2003 media release.

This article was supplied by Tom Ravlic. Tom Ravlic is a financial journalist who has spent the past seven years covering the accounting profession, accounting and audit standard setting and corporate governance. His work has appeared in various publications including *Business Review Weekly*, *Personal Investment* (now *Personal Investor*), *The*

Age, *CFO Magazine*, the *Australian CPA*, the *Company Director Journal* and the newsletters of the internationally renowned Lafferty Group. In addition to his freelance commitment to a wide range of publications, Tom has recently accepted an appointment to be editor of *Chartac Accountancy News*, published by Melbourne-based publisher Crown Content.

May 2003
John Wiley & Sons Australia, Ltd