

VALUE ACCOUNTS Superannuation Funds

Annual financial reporting

2019



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This illustrative publication presents the sample annual financial report of a fictitious superannuation fund, VALUE ACCOUNTS Superannuation Fund. It illustrates the financial reporting requirements that would apply to such funds under Australian Accounting Standards on issue at 31 January 2019. Supporting commentary is also provided. For the purposes of this publication, VALUE ACCOUNTS Superannuation Fund is overseen by the Registerable Superannuation Entity (RSE) Licensee.

Reporting requirements include:

- Australian Accounting Standards
- Interpretations issued by the Australian Accounting Standards Board (AASB) and the Urgent Issues Group (UIG)
- *Superannuation Industry (Supervision) Act 1993 (SIS Act)* and Regulations

VALUE ACCOUNTS Superannuation Fund 2019 is for illustrative purposes and should be used in conjunction with the relevant legislation, standards and other reporting pronouncements.

Disclaimer

This publication has been prepared for general reference only and does not constitute professional advice. It is not intended to be and is not comprehensive in relation to its subject matter. This publication is not intended to cover all aspects of Australian Accounting Standards, or to be used as a substitute for reading any relevant accounting standard, professional pronouncement or guidance, the Superannuation Industry (Supervision) Act 1993 (Cth) or any other relevant material. Specific entity structure, facts and circumstances will have a material impact on the preparation and content of financial reports. No person should undertake or refrain from any action based on this publication or otherwise rely on this publication. This publication should not be used as a substitute for consultation with a professional adviser with knowledge of information relevant to your particular circumstances. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication. To the extent permitted by law PwC, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any use of or reliance on this publication. Any references in this publication to PwC providing, or agreeing to provide, any services to any entity are illustrative only and are not intended to reflect or summarise the terms of actual arrangements in respect of the provision of services. Accordingly, users of this publication should not rely on such references as reflecting or summarising actual terms. Legal advice should be obtained as to whether any such arrangements are required to be disclosed, and as to the form of any disclosure.

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Foreword

Welcome to the 2019 edition of the Superannuation Fund financial reporting publication in our VALUE ACCOUNTS series.

This publication is designed to help you prepare financial statements for superannuation funds in line with Australian Accounting Standards. It illustrates the major elements of the financial statements and provides commentary on important items and required disclosures.

The fictitious circumstances of this scenario have been chosen to illustrate the most common and significant accounting matters and associated disclosures under Australian Accounting Standards, and in particular, the requirements of AASB 1056 *Superannuation Entities* (AASB 1056). The publication should be read in conjunction with the VALUE ACCOUNTS Investment Fund 2019 publication.

We have included a summary of other recent developments including: Royal Commission, APRA Prudential Standards – Recent developments, Prudential Standard CPS 234 – Information Security (CPS 234), Design and Distribution Obligations, ASIC’s Product Intervention Powers, Regulatory Guide 97, Productivity Commission, Operational Due Diligence (ODD) Reporting, Corporate Collective Investment Vehicles and the Asian Region Funds Passport, and ASIC areas of focus. These are summarised in the “Other topical issues” section which begins on page 2.

I trust this publication will help you work through the upcoming reporting season with success.

Craig Cummins
Superannuation, Asset and Wealth Management Leader
PwC

27 May 2019

VALUE ACCOUNTS - Superannuation Fund

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Introduction

This publication presents illustrative general purpose financial statements (GPFS) of a fictitious superannuation fund, VALUE ACCOUNTS Superannuation Fund. The financial statements comply with the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and authoritative pronouncements on issue at 31 January 2019 that are operative for periods commencing from 1 July 2018.

The purpose of this publication is to highlight disclosure requirements and provide sample disclosures required by AASB 1056. The disclosures should be adapted to particular situations as required. Alternative disclosures, wording and forms of presentation may be used as long as they include the specific disclosures prescribed in the accounting and reporting pronouncements.

Please note that the amounts disclosed in this publication are purely for illustrative purposes and may not necessarily be consistent throughout the publication.

These example financial statements are not intended to illustrate all potential situations and related disclosures. For example, the disclosures presented in accordance with AASB 7 *Financial Instruments: Disclosures* reflect the particular circumstances of VALUE ACCOUNTS Superannuation Fund. Accordingly, the disclosures will need to be tailored to suit the particular facts and circumstances of each superannuation fund.

The commentary provided in this publication focuses on the disclosure requirements of AASB 1056. For guidance related to the preparation of financial statements more generally and disclosures required by standards other than AASB 1056, please refer to our Investment Funds publication. The source for each disclosure requirement is given in the reference column.

VALUE ACCOUNTS structure and materiality

The structure used in our VALUE ACCOUNTS Superannuation Funds publication provides practical solutions that will help make financial reports less complex and more accessible. The structure used will provide you with possible ideas, but there's no "one size fits all" approach. We recommend Superannuation Trustees engage with the stakeholders who use your financial reports to determine what's most relevant to them.

Our VALUE ACCOUNTS Superannuation Funds publication is a reference tool, so we've included illustrative disclosures for as many common scenarios as possible rather than removing disclosures based on materiality. However, too much immaterial information can obscure the information that is actually useful to readers. We encourage users of the publication to consider carefully what to include and exclude, based on what is relevant to assisting investors' decision making.

Feedback

We welcome your feedback on the VALUE ACCOUNTS Superannuation Funds format and content. Please contact us at [IFRS Communications](#) or speak to your usual PwC representative to let us know your thoughts.

Assumptions

The following assumptions have been made in preparing the financial statements for the VALUE ACCOUNTS Superannuation Fund (the Fund):

- This is a hybrid fund with both defined contribution and defined benefit members.
- The Fund has two defined benefit sub-plans. One sub-plan is in a satisfactory position and the other sub-plan is in deficit.
- With regards to the insurance arrangements for members, the Fund does not act in the capacity of an insurer. The additional requirements for funds acting as an insurer are illustrated in Appendix A.
- Administration fees are deducted from member accounts.
- In order to help explain the risks to which the different categories of members are exposed, the Trustee has disaggregated financial information in respect of defined contribution and defined benefit member balances.
- For the purposes of meeting the requirements of *Superannuation Prudential Standard (SPS) 114 Operational Risk Financial Requirement*, the ORFR target level is 25 basis points of net assets and is fully funded.
- The Fund does not have any investments that are controlled entities.

As required under Australian Accounting Standards, the impact of standards and interpretations that have not been early adopted and that are expected to have a material effect on the Fund are disclosed within the accounting policy note.

Other topical issues

Royal Commission

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry concluded in February 2019 and it has issued its Final Report comprising 76 recommendations aimed at focusing on the enforcement of existing law, articulation of clear principles and expectations of conduct and empowering the regulators. The Commission sets a high bar around intent and customer outcomes.

For further information please refer to: <https://www.pwc.com.au/financial-services/royal-commission.html> and www.pwc.com.au/financial-services/assets/sawm-royal-commission-snapshot-mar19.pdf.

APRA Prudential Standards – Recent developments

Prudential Standard SPS 515 – Strategic Planning and Member Outcomes (SPS 515)

On 12 December 2018, APRA released new prudential requirements, in the form of Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515). SPS 515 takes effect on 1 January 2020 and reflects a shift in APRA's approach to supervising superannuation trustees.

Under SPS 515, trustees will have to demonstrate their strategic planning processes meet APRA's principles and undertake an annual assessment of outcomes delivered to members. Importantly, these requirements focus on identifying and implementing opportunities for improving outcomes as much as the assessment itself.

For further information please refer to: <https://www.pwc.com.au/asset-management/apra-member-outcomes-prudential-reforms-our-perspectives-dec18.pdf>

Prudential Standard CPS 234 – Information Security (CPS 234)

APRA finalised the Prudential Standard CPS 234 – Information Security (CPS 234) aimed at combating threat of cyber-attacks. The final version of the prudential standard has been released by APRA, focusing on information security management. CPS 234 requires APRA-regulated entities to:

- Define information-security related roles and responsibilities clearly;
- Maintain an information security capability in accordance with the size and extent of threats to their information assets;
- Implement controls to protect information assets and undertake regular systematic testing and assurance of the effectiveness of controls; and
- Promptly notify APRA of material information security incidents.

Design and Distribution Obligations

The Financial Systems Inquiry (FSI) identified two key issues in the distribution of financial products to retail consumers.

- Disclosure alone is an ineffective way to ensure that consumers get into the right products for their circumstances due to disengagement, complexity of documents and low levels of financial literacy, and
- Financial advice is not available to all and might be of poor quality.

In response, the government has passed the bill Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Bill 2019, which aims to address these two issues through creating obligations for issuers and distributors of financial products.

For issuers of financial products, the obligations are:

- to make a target market determination in relation to the product,
- to review the target market determination to ensure it remains appropriate;
- to keep records of the person's decisions in relation to the new regime; and
- to notify ASIC of any significant dealings in a product that are not consistent with the product's target market determination.

For distributors of financial products, the obligations include:

- not to engage in distribution to a retail client unless a target market determination has been made;
- not to engage in distribution to a retail client where a target market determination may no longer be appropriate;
- to take reasonable steps so that retail product distribution conduct is consistent with the target market determination;
- to collect information specified by the issuer and complaints related to the distribution of a product and provide both to the issuer; and
- to notify the issuer of a product of any significant dealings in the product that are not consistent with the products target market determination

In order to comply with the new obligations, organisations should seek to understand their end to end distribution chain, review their product governance processes as well as engage early with those in their distribution network on how the obligations will apply to them.

The products within the scope of the design and distribution obligations are any products regulated by the Corporations Act 2001, the ASIC Act 2001 and the National Consumer Credit Protection Act. These include products within: superannuation (except MySuper), insurance, credit, asset management, banking and derivatives. Exclusions to the legislation include: MySuper, margin lending, securities issued under an employee share scheme and fully paid ordinary shares.

The legislation received royal assent on 5 April 2019 and therefore organisations will need to comply with the obligations from 5 April 2021.

ASIC's Product Intervention Powers

The Financial System Inquiry found that there were instances of significant consumer harm even after ASIC had exhausted its power to intervene. Prior to the product intervention powers, ASIC only had the power to intervene in products when there was a contravention of the law.

The product intervention power applies to all financial products that are made available to retail clients, including credit products. The product intervention powers provide for ASIC to proactively intervene in the issue and distribution of financial and credit products where ASIC forms a view that there is a risk of 'significant consumer detriment'.

Examples of ASIC's increased powers include:

- Banning a product from being issued,
- Requiring a mandated warning statement to be included upon issuing the product, and
- Limiting distribution channels for a product.

ASIC's increased powers become effective the day after the legislation receives royal assent - 6 April 2019.

Regulatory Guide 97 Disclosing fees and costs in Product Disclosure Statements (PDS) and periodic statements

ASIC released its long-awaited Consultation Paper (CP 308) in relation to proposed amendments to the Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements* (RG97) in January 2019. This follows Darren McShane's (the independent expert) review report of the fees and costs disclosure regime of August 2018 issued to ASIC. ASIC has taken comments on CP 308 by industry participants and is expected to release a response to the comments in the second half of 2019 which will take the form of a revised Class Order [CO 14/1242], technical modifications to Schedule 10 of the *Corporations Regulations* and an updated RG97.

ASIC Consultation Paper 308 buckets Darren McShane's recommendations into 3 categories:

- Recommendations from the independent expert report that ASIC proposes to adopt and which will require amendments to Schedule 10 to the Corporations Act.
- Recommendations which ASIC proposes to adopt and which do not require amendments to Schedule 10 of the Corporations Act.
- Recommendations and observations made by the independent expert that ASIC proposes not to adopt at this stage.

While the industry waits for ASIC's updated RG97, ASIC has reminded entities to continue to comply with RG97 on a best endeavours basis.

Productivity Commission

In January 2019 the Productivity Commission (PC) released its final report, *Superannuation: Assessing efficiency and competitiveness*. The report detailed 31 recommendations for significant reform of the superannuation system to improve the experience and outcomes to members.

The implications of the PC's recommendations will reach far beyond the superannuation sector:

- employers (should the process for allocating default members change);
- administrators (because of the system changes needed to support implementation of the recommendations);
- and auditors (with the new key role in undertaking independent audits of member outcome assessments).

For further information please refer to: <https://www.pwc.com.au/superannuation/assessing-efficiency-and-competitiveness-feb19.pdf>.

Operational Due Diligence (ODD) reporting

In 2016 (and updated in 2017 and 2018), the Australian Institute of Superannuation Trustees (AIST) released a Guidance Note as a framework encouraging the industry to develop a consistent approach for Registerable Superannuation Entities (RSE's) to conduct operational due diligence (ODD) over Asset Managers.

APRA has made it clear that it expects RSE's to perform ODD on Asset Managers to understand the ability of each manager to adequately deliver on its representations, and hence to be able to fulfil its intended role in meeting the RSE licensee's investment strategy and achieving its investment objectives.

The AIST Guidance Note describes the relevant considerations in conducting ODD and specifies that an appropriately qualified independent party prepares an ODD assessment of the Asset Manager and provides a report to the Manager.

The AIST's goal with the Guidance Note is to encourage more cost-effective and streamlined ODD processes and for the Asset Managers to be able to disclose the ODD reports they obtain to their current and prospective investors or clients.

RSE's expect the ODD provider to conduct the assessment from the perspective of a prospective investor or client to determine whether there are any notable risks or weaknesses in the Asset Manager's operational capabilities that the investor or client should take into account. RSE's are still required to make their own ODD considerations on top of the report, and some of the larger RSE's prefer to use their own resources to conduct the ODD rather than using an ODD provider.

Corporate Collective Investment Vehicles and the Asian Region Funds Passport

As part of its ten year enterprise tax plan announced in the 2016 Federal Budget, the Federal Government has committed to the introduction of a new tax and regulatory framework for two new types of collective investment vehicles (CIVs) – a corporate CIV and limited partnership CIV. The introduction of these new vehicles brings Australia more closely in line with a number of other jurisdictions where these types of vehicles are a fairly common structure for collective investment.

The introduction of both corporate and limited partnership CIVs, being more common types of investment vehicles that foreign investors generally understand and are more familiar with, removes a natural barrier for foreign investment and increases the attractiveness of inbound investment in Australian managed funds. While this is an obvious motive behind the introduction of the new CIVs, it is intended that they not be limited to attracting capital from only foreign investors.

Introduction of the new CIV regime is intended to align with the commencement of the Asia Region Funds Passport. This facilitates the cross-border offering of eligible collective investment schemes while ensuring investor protection in participating jurisdictions. Once these rules are enacted the Responsible Entity's compliance plans will need to be updated to incorporate controls relevant to the CCIV regime.

ASIC Areas of Focus

In January 2018, ASIC released its areas of focus for December 2018 year ends. Many of the areas of focus are consistent with last year. The key topics are new accounting standards, impairment testing and asset values, revenue recognition, expense deferral, off-balance sheet arrangements, tax accounting, operating and financial review, non-IFRS financial information, and estimates and accounting policy judgements.

ASIC Area of Focus	Nature	Impact
New Accounting Standards	December 2018 is the first time that both full-year and half-year reports will be prepared applying the new reporting requirements in AASB 9 Financial Instruments, and AASB 15 Revenue from contracts with customers. ASIC has indicated that it will review selected full-year and half-year reports, focusing on compliance with the new standards, and take action where required.	For superannuation funds, AASB 9 <i>Financial Instruments</i> will have an impact on the financial statement disclosures. Refer to the 'Summary of significant accounting policy' section in this publication for example disclosures of the impact of AASB 9. AASB 15 Revenue from contracts with customers and AASB 16 Leases are not expected to have an impact on the financial statements of superannuation funds.
Impairment Testing and Asset Values	ASIC will continue to focus on the recoverability of assets, such as by carefully reviewing the ability of poorly performing businesses to carry significant non-impaired assets at their stated carrying values.	As AASB 1056 requires superannuation funds to hold investments at fair value Trustees should already be assessing the carrying values of assets and ensuring appropriate disclosure.
Revenue Recognition	Revenue recognition policies should ensure that revenue is recognised in accordance with the substance of the transaction. This includes ensuring that: a) services to which the revenue relates have been performed; b) control of relevant goods has passed to the buyer; c) where revenue relates to both the sale of goods and the provision of related services, revenue is appropriately allocated to the components and recognised accordingly; d) assets are properly classified as financial or non-financial assets; and revenue is recognised on financial instruments on the basis appropriate for the class of instrument.	For superannuation funds, revenue recognition is not likely to be applicable. For Trustees, policies should be reviewed to ensure that revenue is recognised on an appropriate basis.
Expense Deferral	Expenses should only be deferred when there is an asset, as defined by the accounting standards, and it is probable that future economic benefit will arise.	If funds have deferred expenses, a review should be undertaken to assess future benefits.
Off Balance Sheet Arrangements	Management should carefully review the treatment of off-balance sheet arrangements and investments in joint arrangements.	Any off balance sheet and structured arrangements which exist should be properly disclosed. For details on structured entities and their impact to funds, refer to Appendix D, page 169, of our 2019 VALUE ACCOUNTS Investment Funds publication.
Tax accounting	ASIC expects management to have a thorough understanding of the temporary differences recognised, having taken into account the impact of any recent changes in legislation. Specific focus will be given to the recoverability of deferred tax assets.	Trustees should assess the need to involve tax experts to review the fund's distribution, income taxes and any deferred taxes.

ASIC Area of Focus	Nature	Impact
Operating and Financial Review	Listed companies should provide useful and meaningful information in the OFR about underlying drivers of the results and financial position, as well as business strategies and prospects for future financial years. Risks and other matters that may have a material impact on the future financial position or performance of the entity should be disclosed. This could include, for example, matters relating to digital disruption, new technologies, climate change, Brexit or cyber-security. For more information see ASIC Regulatory Guide 247 <i>Effective disclosure in an operating and financial review</i> .	No impact on unlisted funds. Refer to RG 247 to ensure appropriate disclosures are included in the Financial Statements of listed entities.
Non-IFRS Financial Information	Directors should also consider whether any non-IFRS financial information in the OFR or other documents outside the financial report is potentially misleading and is presented in accordance with ASIC Regulatory Guide RG 230 <i>Disclosing non-IFRS financial information</i> .	Trustees should assess what information, if any, is considered non-IFRS and determine if this is potentially misleading.
Estimates and Accounting Policy Judgements	Disclosures should be made about significant judgements in applying accounting policies, and any sources of estimation uncertainty that have a significant risk of material adjustment to assets and liabilities.	Notes related to estimates and judgements should be specific to the asset, liability, income or expense and not standard or nonspecific disclosures.

New Accounting Standards

December 2018 is the first time that both full-year and half-year reports will be prepared applying the new reporting requirements in AASB 9 *Financial Instruments*, and AASB 15 *Revenue from contracts with customers*. ASIC has indicated that it will review selected full-year and half-year reports, focusing on compliance with the new standards, and take action where required.

For superannuation funds, AASB 9 *Financial Instruments* will have an impact on the financial statement disclosures. Refer to the 'Summary of significant accounting policy' section in this publication for example disclosures of the impact of AASB 9. AASB 15 *Revenue from contracts with customers* and AASB 16 *Leases* are not expected to have an impact on the financial statements of superannuation funds.

For further information on the ASIC areas of focus refer to: <https://www.pwc.com.au/assurance/ifrs/assets/asics-areas-of-focus-dec-2018-financial-reports.pdf>.

AASB101(49),(51)(a)

VALUE ACCOUNTS

Superannuation Fund

ABN 43 251 987 634

AASB101(51)(c)

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Financial statements

Accounting standard for financial statements presentation and disclosures

- AASB1056(2) 1. AASB 1056 *Superannuation Entities* applies to general purpose financial statements of each superannuation entity that is a reporting entity.
- AASB1056(6) 2. Where AASB 1056 is silent on accounting treatment and disclosure, the requirements of other applicable Accounting Standards need to be applied.
- AASB1056(8) 3. According to AASB 1056, a superannuation entity shall present:
- (a) a statement of financial position as at the end of the reporting period
 - (b) an income statement for the period
 - (c) a statement of changes in equity/ reserves for the period
 - (d) a statement of cash flow for the period
 - (e) a statement of changes in member benefits for the period, and
 - (f) notes to the financial statements.
- AASB101(11) 4. The statements must all be presented with equal prominence.
- AASB101(10) 5. The titles of the individual statements are not mandatory and an entity can, for example continue to refer to the statement of financial position as 'balance sheet' and to the income statement as 'profit or loss'. VALUE ACCOUNTS Superannuation Fund has chosen to retain the titles statement of financial position and income statement, as they are in line with AASB 1056.
- AASB10(27)
AASB1056(AG51) 6. VALUE ACCOUNTS Superannuation Fund does not illustrate consolidated financial statements. Most superannuation Funds would qualify as an 'investment entity' and apply the exception under AASB 10 *Consolidated Financial Statements*. However, where that is the case, additional disclosures will be required under AASB 12 *Disclosure of Interests in Other Entities*. The exception does not apply to subsidiaries that provide services relating to the superannuation entity's investment activities. Such subsidiaries would therefore have to be consolidated
- AASB12(19A-G)

Pooled superannuation trusts (PSTs)

- AASB1056(AG1) 7. Whilst PSTs are required to prepare financial statements in accordance with the *SIS Act* and *SIS Regulations*, AASB 1056 does not apply to PSTs. Refer to illustrative disclosures for PSTs in our VALUE ACCOUNTS Investment Funds 2019 publication pages 119 to 136.

AASB 1056(8a)

Statement of financial position ¹⁻¹⁵

	Notes	2019 \$'000	2018 \$'000
Assets ¹⁻⁵			
AASB101(54)(i)	13	2,896,723	2,759,958
AASB101(54)(h)		513,703	323,380
AASB101(55)		1,405,750	936,390
AASB101(54)(d)	4	14,995,175	15,219,910
AASB101(54)(o)	11	26,698	18,693
Total assets		19,838,049	19,258,331
Liabilities ¹⁻⁵			
AASB101(55)		1,979,239	1,706,551
AASB101(55)		588,251	570,383
AASB101(54)(k),(55)		71,870	54,274
AASB101(54)(m)	4	2,488,978	1,828,240
AASB101(54)(n)		16,333	38,950
Total liabilities excluding member benefits		5,144,671	4,198,398
Net assets available for member benefits		14,693,378	15,059,933
AASB1056(14),(32), (AG10)		13,466,064	13,123,035
AASB1056(14),(32), (AG10)	8	1,338,687	1,785,770
Total net assets (liabilities)		(111,373)	151,128
Equity ¹⁴⁻¹⁵			
AASB101(54)(r)		112,506	78,213
AASB1056(28)	8	(239,179)	61,215
AASB1056(AG8)		15,300	11,700
Total equity (deficit)		(111,373)	151,128

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of financial position

Information to be disclosed in the statement of financial position

AASB101(54),(55)
AASB1056(6)

1. Disclosure requirements for the statement of financial position are primarily included in AASB 101 *Presentation of Financial Statements*. We have provided commentary explaining these requirements in our Investment Funds publication on pages 32 to 34. Set out below is additional guidance on requirements that are specific to AASB 1056 and superannuation entities.

AASB101(60)

Current/ non-current vs liquidity presentation

2. An entity presents current and non-current assets and current and non-current liabilities as separate classifications in its statement of financial position except when a presentation based on liquidity provides information that is reliable and is more relevant. When that exception applies, all assets and liabilities are presented broadly in order of liquidity.

Statement of financial position

3. A superannuation fund typically groups assets and liabilities by nature and presents them in decreasing order of liquidity, which may equate broadly to their maturities. This presentation is more relevant than distinguishing between current and non-current items as most assets and liabilities can be realised or settled in the near future.

AASB101(61)

4. Whichever method of presentation is adopted, an entity shall disclose the amount expected to be recovered or settled after more than twelve months for each asset and liability line item that combines amounts expected to be recovered or settled: (a) no more than twelve months after the reporting period, and (b) more than twelve months after the reporting period.

5. VALUE ACCOUNTS Superannuation Fund expects that all asset and liability amounts will be recovered or settled no more than twelve months after the reporting period, except for financial investments, derivatives and net assets available to member benefits.

In the case of financial investments, the Fund will manage the portfolio of assets based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at balance date.

Assets and liabilities measured at fair value

AASB1056(13)

6. All recognised assets and liabilities (except member liabilities, tax assets and liabilities, acquired goodwill, insurance assets and liabilities, and employer-sponsor receivables) must be measured at fair value at each reporting date.

AASB1056(AG24)

7. In determining the fair value measurements and accounting for any transaction costs, a superannuation entity applies the relevant principles and requirements in other applicable Australian Accounting Standards, including in particular AASB 13 Fair Value Measurement.

Member liabilities

AASB1056(14)

8. Obligations relating to member entitlements shall be recognised as member liabilities.

AASB1056(15)

9. Member liabilities are measured as the accrued benefits of members. Accrued benefits are the benefits the superannuation entity is presently obliged to transfer to members or their beneficiaries in the future as a result of membership up to the end of the reporting period.

AASB1056(17)

10. Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

Disaggregated financial information

AASB1056(32)

11. A superannuation entity shall disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members.

AASB1056(AG34)(a)

12. A superannuation entity that has material member liabilities relating to different types of members, such as defined contribution members and defined benefit members, would need to consider separately presenting line items in the statement of financial position for each of the different membership types in respect of member liabilities.

Insurance arrangements

AASB1056(33)

13. A superannuation entity which is exposed to material insurance risk shall:

- (a) recognise liabilities and assets arising from its insurance and reinsurance arrangements
- (b) measure liabilities and assets arising from insurance and reinsurance arrangements using the approach to measuring defined benefit member liabilities, and
- (c) if reinsurance assets are impaired, reduce the carrying amount of those assets and recognise the impairment in the income statement.

For further guidance on insurance accounting and the presentation and disclosure requirements for a superannuation entity exposed to material insurance risk refer to Appendix A.

Statement of financial position

Equity

AASB1056(AG8)
AASB101(55)

14. Where a superannuation entity's total assets differs from its total liabilities (including defined contribution member liabilities, defined benefit member liabilities and any obligations to employer-sponsors), the difference is classified as equity and presented in accordance with applicable Australian Accounting Standards. In this case, the superannuation entity may need to present additional line items, headings and subtotals in the statement of financial position when such presentation is relevant to an understanding of the entity's financial position. VALUE ACCOUNTS Superannuation Fund has chosen to present a breakdown of its reserve balances in the statement of changes in equity.

AASB1056(AG9)

15. Differences between the total assets and total liabilities of a superannuation entity commonly arise in relation to matters such as operational risk reserves and in respect of defined benefit member's liabilities.

AASB 1056(8)(b)

Income statement ¹⁻¹⁰

	Notes	2019 \$'000	2018 \$'000
Superannuation activities ³⁻⁷			
AASB1056(AG13), (AG29)(a)		186,045	379,652
AASB1056(AG13), (AG29)(a)		379,803	470,476
AASB1056(AG13), (AG29)(a)		125,860	155,688
AASB1056(AG13), (AG29)(b)	6	(489,030)	(741,628)
AASB1056(AG13)		1,015	1,257
AASB1056(9)(a)		203,693	265,445
Investment expenses			
AASB1056(AG13), (AG29)(e)		(80,193)	(119,948)
AASB1056(AG13), (AG29)(d)		(14,917)	(13,768)
AASB1056(AG13)	12	(5,230)	(5,792)
AASB1056(9)(b)		(100,340)	(139,508)
Results from superannuation activities before income tax expense ³⁻⁷			
		103,353	125,937
AASB1056(9)(f)	11	(13,990)	(54,493)
Results from superannuation activities after income tax expense			
		89,363	71,444
AASB1056(9)(c)		(120,435)	(100,296)
AASB1056(9)(d), (AG16)		(195,329)	(89,319)
AASB1056(9)(e)		(226,401)	(118,171)

The above income statement should be read in conjunction with the accompanying notes.

Income statement

Requirements for the presentation of an income statement

1. Disclosure requirements for the income statement are primarily included in AASB 101 *Presentation of Financial Statements*. We have provided commentary explaining these requirements in our VALUE ACCOUNTS Investment Funds 2019 publication on pages 25 to 30. Set out below is additional guidance on requirements that are specific to superannuation entities under AASB 1056.
2. The style and format of the illustrative financial statements and note disclosures is not mandatory. Alternative formats and presentations are acceptable as long as they comply with the requirements of AASB 1056 and other applicable standards, including AASB 101 *Presentation of Financial Statements* and AASB 107 *Statement of Cash Flows*.

AASB1056(AG17)

In the income statement

3. The income statement shall include line items that present, when applicable, the following amounts for the period:
 - (a) income, in aggregate or subclassified
 - (b) expenses, in aggregate or subclassified
 - (c) net benefits allocated to defined contribution member accounts
 - (d) the net change in defined benefit member liabilities
 - (e) net result, and
 - (f) income tax expense or benefit attributable to net result.

AASB1056(9)

4. The net change in defined benefit member liabilities for a period is the difference between the opening and closing balances of the defined benefit member liabilities for the period, after adjusting for:
 - (a) contributions
 - (b) tax on contributions
 - (c) benefits to members, and
 - (d) transfers between reserves and accrued benefits.

AASB1056(AG16)

5. Income and expense items are not offset unless the criteria in AASB 101(32) are met. Refer to VALUE ACCOUNTS Investment Funds 2019 publication page 29 for further information.

Either in the income statement or in the notes

6. Revenues and expenses are presented in relevant sub classifications in the income statement or notes to the financial statements.
7. When items of income and expense are material, their nature and amount must be disclosed separately either in the income statement or in the notes.

AASB1056(AG13)

AASB101(97)

Insurance arrangements

8. When a superannuation entity is exposed to material insurance risk, the income statement or notes to the financial statements shall separately present insurance premiums, claim expenses, reinsurance expenses, reinsurance recoveries, and the net result from insurance activities. For further guidance on insurance accounting and the presentation and disclosure requirements for a superannuation entity exposed to material insurance risk refer to Appendix A.

AASB1056(10)

Income tax expense (benefit)

9. The income tax expense or benefit attributable to profit or loss does not include the taxes levied on contributions, which are included in the statement of changes in member benefits and the amount of net benefits allocated to members.

AASB1056(AG15)

Transaction costs

10. The initial measurement of financial instruments held at fair value through profit or loss shall not include directly attributable transaction costs (e.g. fees and commissions paid to agents). Such transaction costs should be expensed as incurred. They should be separately disclosed, if they are material.

AASB9(5.1.1)

AASB1056(8)(e)

Statement of changes in member benefits ¹⁻¹¹

	Notes	DC member benefits \$'000	DB member benefits \$'000	Total \$'000
Balance at 1 July 2017		12,780,068	2,855,208	15,635,276
AASB1056(11)(a)	Employer contributions ¹⁻²	288,145	392,749	680,894
AASB1056(11)(b)	Member contributions ¹	63,604	74,320	137,924
AASB1056(11)(d)	Transfers from other superannuation funds ¹	128,902	-	128,902
AASB1056(11)(c)	Income tax on contributions ^{1,3}	(43,222)	(58,912)	(102,134)
	Net after tax contributions	437,429	408,157	845,586
AASB1056(11)(e)	Benefits to members or beneficiaries ¹	(1,499,595)	(665,655)	(2,165,250)
AASB1056(11)(f)	Insurance premiums charged to members ^{1,10}	(14,407)	(33,616)	(48,023)
	Death and disability insurance entitlements paid to members or beneficiaries ¹⁰	121,027	282,397	403,424
	Transfers of members from DB to DC divisions ⁴	1,157,666	(1,157,666)	-
AASB1056(11)(i)	Reserve transfers to (from) members ¹	40,551	7,626	48,177
AASB1056(11)(g)	Net benefits allocated comprising: ^{1,5-6}			
AASB1056(AG20)	Net investment income	104,065	-	
AASB1056(AG20)	Net administration fees	(3,769)	-	
		100,296		100,296
AASB1056(11)(h)	Net change in member defined benefits ^{1,7}	-	89,319	89,319
	Balance at 30 June 2018	13,123,035	1,785,770	14,908,805

		DC member benefits \$'000	DB member benefits \$'000	Total \$'000
Balance at 1 July 2018 ⁸⁻⁹		13,123,035	1,785,770	14,908,805
AASB1056(11)(a)	Employer contributions ¹⁻²	488,760	477,759	966,519
AASB1056(11)(b)	Member contributions ¹	58,975	85,628	144,603
AASB1056(11)(d)	Transfers from other superannuation funds ¹	113,300	-	113,300
AASB1056(11)(c)	Income tax on contributions ³	(73,314)	(71,304)	(144,618)
	Net after tax contributions	587,721	492,083	1,079,804
AASB1056(11)(e)	Benefits to members or beneficiaries ¹	(1,331,291)	(564,160)	(1,895,451)
AASB1056(11)(f)	Insurance premiums charged to members ^{1,10}	(15,578)	(34,918)	(50,496)
	Death and disability insurance entitlements paid to members or beneficiaries ¹⁰	150,741	259,484	410,225
	Transfers of members from DB to DC divisions ⁴	802,585	(802,585)	-
AASB1056(11)(i)	Reserve transfers to (from) members ¹	28,416	7,684	36,100
AASB1056(11)(g)	Net benefits allocated comprising: ^{1,5-6}			
	Net investment income	125,353	-	
	Net administration fees	(4,918)	-	
		120,435		120,435
AASB1056(11)(g)-(h)	Net change in member defined benefits ^{1,7}	-	195,329	195,329
	Balance at 30 June 2019	13,466,064	1,338,687	14,804,751

The above statement of changes in member benefits should be read in conjunction with the accompanying notes.

Statement of changes in member benefits

Information to be disclosed

- AASB1056(11) 1. A statement of changes in member benefits presents opening and closing balances for member liabilities and, when applicable, include the following line items for the period:
- (a) employer contributions
 - (b) member contributions
 - (c) taxes on contributions
 - (d) benefits transferred into the entity from other superannuation entities
 - (e) benefits to members or their beneficiaries
 - (f) insurance premiums charged to defined contribution member accounts
 - (g) net benefits allocated to defined contribution member accounts
 - (h) net changes to defined benefit member accrued benefits, and
 - (i) amounts allocated to members from reserves.
- AASB1056(AG18)(a) 2. Employer contributions include both routine contributions and 'top-up' contributions made to fund defined benefit member liabilities.
- AASB1056(12) 3. Current tax and deferred tax is charged or credited directly to member liabilities and presented in the statement of changes in member benefits when the tax relates to items that are credited or charged, in the same or a different period, directly to member liabilities.
- AASB1056(AG19) 4. When a surplus in a defined benefit plan is being used to fund employer contributions for defined contribution members within the superannuation entity, the entity determines the most relevant presentation in the statement of changes in member benefits. That might include presenting a transfer from defined benefit member benefits to defined contribution member benefits as separate line items.
- AASB1056(AG18)(b) 5. Net benefits allocated to defined contribution members include the investment returns and fair value movements allocated to these members.
- AASB1056(AG20) 6. In relation to the net amount allocated to defined contribution member accounts, when appropriate, there shall be separate disclosure of net investment income and the administration costs charged to member accounts in the statement of changes in member benefits or in the notes to the financial statements.
- AASB1056(AG18)(c) 7. Net changes to defined benefit members may include a number of components including the service element, actual contributions and the interest cost associated with the liability.

Disaggregated financial information

- AASB1056(32) 8. A superannuation entity discloses disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members.
- AASB1056(AG34)(b) 9. A superannuation entity that has material member liabilities relating to different types of members, such as defined contribution members and defined benefit members, would need to consider separately presenting either a single statement of changes in member benefits with columns or notes showing the amounts relating to different membership types or separate statements of changes in member benefits for each different type of members. VALUE ACCOUNTS Superannuation Fund has presented a single statement of changes in member benefits with columns to show the disaggregated financial information for defined contribution members and defined benefit members.

Insurance arrangements

Superannuation entities not exposed to material insurance risk

- AASB1056(AG43)(b) 10. If the superannuation entity is not exposed to material insurance risk, insurance premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance contract liabilities or reinsurance assets. However, premiums charged to member accounts and insurance benefits paid to members via the superannuation entity will affect the statement of changes in member benefits and should be presented separately, if material. Appendix A illustrates the additional presentation and disclosure requirements for entities exposed to material insurance risk.

Statement of changes in member benefits**Annual reports**

11. Traditionally, the annual report to members includes an extract of the statement of financial position and statement of changes in net assets to provide members with information about the financial position and operating results of a superannuation entity. Following the adoption of AASB 1056, funds may now consider publishing the statement of changes in members' benefits to provide additional information relating to the operation of the fund.

AASB1056(8)(c)

Statement of changes in equity ¹⁻³

AASB1056(AG22)

	Operational risk reserve \$'000	Investment reserves \$'000	Insurance reserve \$'000	Total reserves \$000	DB over or (under) funded \$'000	Unallocated surplus (deficit) \$'000	Total equity \$'000
Balance at 1 July 2017	13,775	46,118	8,968	68,861	238,065	10,550	317,476
Transfers to DC member accounts	(14,678)	(17,300)	(8,573)	(40,551)	-	-	(40,551)
Transfers to DB member accounts	(338)	(3,058)	(4,230)	(7,626)	-	-	(7,626)
Operating result	38,741	(882)	19,670	57,529	(176,850)	1,150	(118,171)
Balance at 30 June 2018	37,500	24,878	15,835	78,213	61,215	11,700	151,128
Transfers to DC member accounts	(14,673)	(2,950)	(10,793)	(28,416)	-	-	(28,416)
Transfers to DB member accounts	(1,643)	(1,468)	(4,573)	(7,684)	-	-	(7,684)
Operating result	15,070	25,860	29,463	70,393	(300,394)	3,600	(226,401)
Balance at 30 June 2019	36,254	46,320	29,932	112,506	(239,179)	15,300	(111,373)

AASB101(113)

The above statement of changes in equity should be read in conjunction with the accompanying notes, in particular note 10 regarding the reserves and note 8 regarding the over/ (under) funding of defined benefit plans and unallocated surplus (deficit) of defined contribution plans.

Statement of changes in equity

Requirements for the presentation of a statement of changes in equity

AASB1056(AG21)

1. Under AASB 1056, the interests of members of superannuation entities are liabilities and are not regarded as meeting the definition of an 'equity instrument' in paragraph 11 of AASB 132 *Financial Instruments: Presentation*.

AASB1056(AG8)

2. However, where a superannuation entity's total assets differs from its total liabilities (including defined contribution member liabilities and defined benefit member liabilities), the difference is classified as equity and presented in accordance with applicable Australian Accounting Standards.

AASB1056(AG9)

3. Differences between the total assets and total liabilities of a superannuation entity commonly arise in relation to matters such as operational risk reserves and a defined benefit plan deficit or surplus. Such items are classified as equity.

AASB1056(8)(d)

Statement of cash flows ¹⁻⁴

	Notes	2019 \$'000	2018 \$'000
AASB107(10),(14), (18)(a)			
Cash flows from operating activities ¹			
Interest income received		139,273	349,807
Dividend income received		269,890	489,806
Distribution income received		90,345	146,563
Other income received		1,258	3,596
Administration expenses paid		(15,698)	(14,934)
Investment expenses paid		(89,319)	(125,674)
Death and disability proceeds received from insurer		411,089	416,401
Insurance premiums paid		(50,505)	(52,977)
Other expenses paid		(5,230)	(5,793)
Income taxes paid		(44,109)	(82,706)
Net cash inflow/ (outflow) from operating activities	14	706,994	1,124,089
AASB107(10),(16)			
Cash flows from investing activities ⁴⁻⁵			
Sales of financial investments		2,068,524	2,372,311
Purchases of financial investments		(1,868,753)	(2,288,745)
Net cash inflow/ (outflow) from investing activities		199,771	83,566
AASB107(10),(17)			
Cash flows from financing activities ¹			
Employer contributions received		969,862	674,894
Member contributions received		144,603	137,924
Transfers from (to) other superannuation entities		113,300	128,902
Benefit payments to members or beneficiaries		(1,862,765)	(1,714,102)
Tax paid on contributions ³		(100,465)	(121,258)
Net cash inflow/ (outflow) from financing activities		(735,465)	(893,640)
Net increase/ (decrease) in cash and cash equivalents		171,300	314,015
Cash and cash equivalents at the beginning of the financial year		2,759,958	2,161,972
AASB107(28)			
Effects of foreign currency exchange rate changes on cash and cash equivalents		(34,535)	283,971
Cash and cash equivalents at end of year	13	2,896,723	2,759,958
AASB107(43)			
Non-cash financing and investing activities		-	-

The above statement of cash flows should be read in conjunction with the accompanying notes.

Statement of cash flows

Requirements for the presentation of a statement of cash flows

AASB107(1)

1. Requirements for the presentation of a statement of cash flows are set out in AASB 107 *Statement of Cash Flows*. Refer to VALUE ACCOUNTS Investment Funds 2019 publication pages 38 to 39 for further information.

2. Appendix A illustrates the additional presentation and disclosure required for entities exposed to material insurance risk.

AASB107(6)

3. AASB 107 (6) defines investment activities as the acquisition and disposal of long-term assets and other investments not included in cash equivalents. In contrast, cash flows from operating activities are those that arising from the principal revenue-producing activities of the entity.

AASB107(15)

4. VALUE ACCOUNTS Superannuation Fund has classified its purchase and sale of investment as investment activities consistent with the illustrative presentation in AASB 1056. It is also arguable that superannuation funds generate significant returns from trading investments therefore these investment activities could be presented as operating activities.

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Contents of the notes to the financial statement

Streamlining financial reports

1. There is a general view that financial reports have become too complex and difficult to read and that financial reporting tends to focus more on compliance than communication. The adoption of AASB 1056 by superannuation funds has led to a significant increase in the required disclosures for some funds which has had the potential to make financial reports even more inaccessible for the average reader.
2. One common alternative presentation option is to group information about specific aspects of the fund's financial position and results of operations together, rather than following the order of the line items in the financial statements. For example, one section provides information about the fund's investments and another discusses member liabilities and other areas of risks. Critical information, such as information about significant estimates or judgements is made more prominent and easier to find. We have adopted this presentation for the VALUE ACCOUNTS Superannuation Fund and highlighted information around critical judgements and significant estimates with shading.
3. Some financial statements also include relevant entity-specific accounting policies within the notes relating to individual line items in the financial statements, together with the information about significant estimates and judgements. Less significant accounting policies can then be disclosed in a separate note, which also explains the general basis. In a streamlined financial report these 'other' policies will often be disclosed at the very end of the notes to the financial statements, since they don't provide any entity-specific information. While this format is used for other VALUE ACCOUNTS publications, it has not been adopted for VALUE ACCOUNTS Superannuation Fund.
4. It is important to note that the structure used in this publication is not mandatory and is only one possible example. In fact, our experience has shown that there is not one structure that is suitable for all entities. Rather, the appropriate structure depends on the Fund's structure and operations and each entity should consider what would be most useful and relevant for their stakeholders based on their individual circumstances.

Notes to the financial statements

AASB101(138)

1 General information ¹⁻²

AASB101(138)(b)

VALUE ACCOUNTS Superannuation Fund (the 'Fund') was created by a Trust Deed dated 1 December 1993. The Fund will terminate on 30 November 2073 unless terminated earlier by the Trustee in accordance with the provisions of the Trustee Deed. The purpose of the Fund is to provide retirement benefits to its members. For the purposes of the financial statements the Fund is a for profit entity.

AASB101(138)(b)

AASB1056(21)

The Fund consists of both a defined benefit division and a defined contribution division. Members of the defined benefit division are employees of Australian-based employers with defined benefit plans for their employees. Members of the defined contribution division are either those employees of Australian-based employers who have selected the Fund as the default fund for their employees or those members who have voluntarily selected the Fund.

AASB101(138)(a)

The defined benefit division of the Fund was closed to new members from 1 July 2002, with all new members since joining the defined contribution division of the Fund.

The Fund is managed by Super Trustee Ltd (the 'Trustee') (ABN 43 251 987 635) which is incorporated in Australia. The registered office of the Trustee is 350 Harbour Street, Sydney, NSW 2000. Both the Trustee and the Fund are domiciled in Australia and registered with the Australian Prudential Regulation Authority (APRA).

AASB101(51)(b)
AASB110(17)

These financial statements cover the Fund as an individual entity. The financial statements of the Fund were authorised for issue by the directors of the Trustee on 14 September 2019. The directors of the Trustee have the power to amend and re-issue these financial statements.

General information

General information disclosures

- AASB101(138)
1. An entity discloses the following, if not disclosed elsewhere in information published with the financial statements:
 - (a) the domicile and legal form of the entity, its country of incorporation and the address of its registered office (or principal place of business, if different from the registered office)
 - (b) a description of the nature of the entity's operations and its principal activities
 - (c) the name of the parent, Trustee and the ultimate parent of the group, and
 - (d) if it is a limited life entity, information regarding the length of its life.

Date of authorisation for issue

- AASB110(17),(18)
2. An entity discloses the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact. It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

2 Summary of significant accounting policies

- AASB101(10)(e)
- AASB101(112)(a)
- Unless covered in other notes to the financial statements, the principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

- AASB101(117),(119)
- AASB1054(7)
- AASB101(51)(d)
- These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board, the *Superannuation Industry (Supervision) ("SIS") Act 1933* and Regulations and the provisions of the Trust Deed. The financial statements are presented in the Australian currency.

- AASB101(60),(61)
- The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial investments, derivative liabilities and net assets available for member benefits.

- AASB101(117)(a)
- AASB1056(13)
- The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

New and amended standards adopted by the Fund

- AASB9(Aus1.2)
- AASB 9 *Financial Instruments* became effective for annual periods beginning on or after 1 January 2018. It addresses the classification, measurement and derecognition of financial assets and liabilities and replaces the multiple classification and measurement models in AASB139.

- AASB9(7.2.1),(7.2.15)
- To the extent that AASB 9 is applicable to the Fund, it has been applied retrospectively without the use of hindsight. The adoption did not result in a change to the classification or measurement of financial instruments, including from the application of the new expected credit loss impairment model, in either the current or comparative period as all financial assets and liabilities, with the exception of member liabilities and tax assets and liabilities, remain at fair value through profit or loss in accordance with AASB 1056.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2018 that have a material impact on the amounts recognised in the prior or current periods or that will affect future periods.

- AASB108(30)
- Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Fund. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

(b) Financial instruments

AASB101(119)
AASB7(21)
AASB1056(13)

(i) Classification

The Fund's investments and derivative liabilities are classified as fair value through profit or loss in accordance with AASB 1056.

(ii) Recognition/ derecognition

AASB7(21)
AASB9(5.1.1)

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

AASB9(3.2.3)

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all of the risks and rewards of ownership.

(iii) Measurement

AASB7(21)
AASB9(5.1.1)

At initial recognition, the Fund measures a financial assets and financial liabilities at fair value. Transaction costs for financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income. Subsequent to initial recognition, all financial assets and financial liabilities are measured at fair value. Gains and losses are presented in the income statement in the period in which they arise as net changes in fair value of financial instruments.

AASB7(21)

For further details on how the fair values of financial instruments are determined refer to note 4.

(iv) Offsetting financial instruments

AASB132(42)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability at the same time.

AASB101(119)

(c) Cash and cash equivalents

AASB107(6),(8),(46)

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

AASB101(119)

(d) Revenue recognition

AASB7(21)
AASB7(B5)(e)

Interest revenue from financial instruments that are held at fair value is determined based on the contractual coupon interest rate and includes interest from cash and cash equivalents.

AASB(5.7.1A)

Dividend and distributions income are recognised gross of withholding tax in the income statement within dividend income and distribution income when the Fund's right to receive payment is established.

Other changes in fair value for financial instruments are recorded in accordance with the policies described in note 2(b) to the financial statements.

AASB101(119)

(e) Foreign currency transactions and balances

AASB121(21),(28)

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses arise from the settlement of such transactions and from the translations at year end exchange rates of monetary items denominated in foreign currencies. Amounts are recognised in the period in which they arise within other income.

AASB121(23)

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at balance date. Translation differences on assets and liabilities carried at fair value are reported in the income statement on a net basis within net changes in fair value of financial instruments.

AASB101(119)

(f) Income tax

AASB112(46)

Under the Income Tax Assessment Act, the Fund is a complying superannuation fund. As such, a concessional tax rate of 15% is applied on net investment earnings with deductions allowable for administrative and operational expenses. Financial investments held for less than 12 months are taxed at the Fund's rate of 15%. For financial investments held for more than 12 months, the Fund is entitled to a further discount on the tax rate leading to an effective tax rate of 10% on any gains/ (losses) arising from the disposal of investments.

AASB112(12),(46)	Current tax is the expected tax payable on the estimated taxable income for the current year based on the applicable tax rate adjusted for instalment payments made to the ATO during the year and by changes in deferred tax assets and liabilities attributable to temporary differences.
AASB112(24),(34)	Deferred tax is recognised in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise temporary differences and losses.
AASB112(71),(74)	Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.
AASB101(119)	(g) Due from/ to brokers
AASB7(21) AASB139(59)	Amounts due from/ to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date. These amounts are recognised initially at fair value and subsequently measured at fair value.
AASB101(119)	(h) Receivables
AASB7(21) AASB1056(13)	Receivables may include amounts for dividends, interest and trust distributions and are measured at fair value. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(d) above. Amounts are generally received within 30 days of being recorded as receivables.
AASB101(119)	(i) Payables
AASB1056(13)	Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period and are measured at fair value. These amounts are unsecured and are usually paid within 30 days of recognition.
AASB101(119)	(j) Benefits paid/ payable
AASB1056(13)	Benefits paid/ payable are valued at the amounts due to members at reporting date. Benefits paid/ payable comprise pensions accrued at balance date and lump sum benefits of members who are due a benefit but had not been paid at balance date.
AASB101(119)	(k) Contributions received and transfers from other superannuation funds
AASB1056(11)	Contributions received and transfers from other funds are recognised in the statement of changes in member benefits when the control of the contribution or transfer has transferred to the Fund. They are recognised gross of any taxes.
AASB101(119)	(l) Use of estimates
AASB101(122)	The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel. Refer to note 4 for details. The Fund also makes estimates and assumptions in relation to the valuation of defined benefit member liabilities, details of which are set out in note 8(c).
AASB108(30)	(m) New accounting standards and interpretations Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Fund. None of these are expected to have a material effect on the financial statements of the Fund.
AASB101(51)(e)	(n) Rounding of amounts Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Financial instruments

Not mandatory

This section provides information regarding the Fund's financial instruments including details of various risks arising from these financial instruments, how they could affect the Funds' financial position and performance and how the Trustee manages these risks.

3. Financial risk management	25
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3 Financial risk management¹

AASB7(31)(32) The Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, and interest rate risk), credit risk and liquidity risk.

AASB7(33) The Fund has an investment governance framework ('IGF') established by the Trustee. The IGF sets out the Trustees policies and procedures for the selection, management and monitoring of investments for the Fund. For each investment option offered by the Fund, the Trustee seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

(a) Market risk

(i) Price risk

AASB7(33)(a)(b) The Fund is exposed to equity security and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain.

The Trustee mitigates price risk through diversification, a careful selection of securities and the use of over the counter ('OTC') option contracts to hedge the Funds exposure to price risk. Compliance with the IGF and supporting investment guidelines are monitored by the Trustee on a regular basis.

AASB7(34) At 30 June, the fair value of equities and related derivatives exposed to price risk were as follows:

	Note	2019 \$'000	2018 \$'000
Equity securities		7,863,444	6,572,997
Unlisted unit trusts	7	2,895,077	3,379,979
Increase/ (decrease) from OTC equity options (notional principal)		(500,458)	(498,345)
Net exposure to price risk		<u>10,258,063</u>	<u>9,454,631</u>

(ii) Foreign exchange risk

AASB7(33)(a)(b)

The Fund holds investments globally and has financial assets and liabilities denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of securities denominated in foreign currencies will fluctuate due to changes in exchange rates.

The Fund's policy is to economically hedge up to 95% of the direct foreign currency exposure on financial assets and liabilities using forward foreign exchange contracts. Compliance with the Fund's hedging policy is monitored by the Trustee on a regular basis.

The table below summarises the Fund's financial assets and liabilities which are denominated in foreign currencies.

	30 June 2019		30 June 2018	
	US Dollars	Euro	US Dollars	Euro
	A\$'000	A\$'000	A\$'000	A\$'000
Cash and cash equivalents	537,895	264,894	463,779	235,478
Due from brokers – receivables for securities sold	12,430	24,658	10,363	29,554
Financial investments				
Equity securities	2,397,930	2,075,247	1,600,201	1,255,802
Fixed interest securities	685,123	592,928	457,201	358,801
Units in unit trusts	308,305	266,818	205,740	161,460
OTC equity options	34,256	29,646	22,860	17,940
Due to brokers – payables for securities purchased	(41,001)	(23,575)	(38,456)	(20,124)
Interest rate swaps	(247,886)	(302,971)	(173,597)	(212,174)
Increase/ (decrease) from forward foreign exchange contracts (notional principal)	(3,358,958)	(2,534,881)	(2,157,801)	(1,459,261)
Net exposure to foreign exchange risk	<u>328,094</u>	<u>392,764</u>	<u>390,290</u>	<u>367,476</u>

(iii) Cash flow and fair value interest rate risk

AASB7(33)(a)(b)

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed interest rates expose the Fund to fair value interest rate risk.

The table below summarises the Fund's direct exposure to interest rate risk including the Fund's use of interest rate swap contracts which are used to manage exposure to interest rate risk. The notional value of interest rate swap contracts.

	30 June 2019			Total A\$'000
	Floating interest rate A\$'000	Fixed interest rate A\$'000	Non- interest bearing A\$'000	
	Financial assets			
Cash and cash equivalents	2,896,723	-	-	2,896,723
Due from brokers – receivables for securities sold	-	-	1,405,750	1,405,750
Financial investments	-	3,587,639	11,407,536	14,995,175
Financial liabilities				
Due to brokers – payables for securities purchased	-	-	(1,979,239)	(1,979,239)
Financial liabilities	-	-	(2,488,978)	(2,488,978)
Increase/ (decrease) from interest rate swap contracts (notional principal)	(528,983)	528,983	-	-
Net exposure interest rate risk	<u>2,367,740</u>	<u>4,116,622</u>	<u>8,345,069</u>	<u>14,829,431</u>

	30 June 2018			Total A\$'000
	Floating interest rate A\$'000	Fixed interest rate A\$'000	Non-interest bearing A\$'000	
	Financial assets			
Cash and cash equivalents	2,759,958	-	-	2,759,958
Due from brokers – receivables for securities sold	-	-	936,390	936,390
Financial investments	-	2,817,365	12,402,545	15,219,910
Financial liabilities				
Due to brokers – payables for securities purchased	-	-	(1,706,551)	(1,706,551)
Financial liabilities	-	-	(1,828,240)	(1,828,240)
Increase (decrease) from interest rate swap contracts (notional principal)	(498,321)	498,321	-	-
Net exposure interest rate risk	<u>2,261,637</u>	<u>3,315,686</u>	<u>9,804,144</u>	<u>15,381,467</u>

AASB7(40)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets available for member benefits to price risk, foreign exchange risk and interest rate risk. The reasonably possible movements in the risk variables have been based on the Trustee's best estimate, having regard to a number of factors, including historical levels of changes in interest rates, foreign exchange rates and market volatility. Actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables. The fund has not changed the methods or assumptions used to determine its sensitivity to these risks compared to the comparative period.

	Price risk		Foreign exchange risk				Interest rate risk	
	-15% MSCI Index	+7.5% MSCI Index	-10% USD	+10% USD	-10% EUR	+10% EUR	-75 bps	+75 bps
30 June	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2019	(1,538,709)	769,355	(32,808)	32,808	(39,277)	39,277	80,316	(80,316)
2018	(1,418,195)	709,097	(39,029)	39,029	(36,748)	36,748	98,548	(98,448)

(c) Credit risk

AASB7(33)(a)(b)

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in interest bearing securities. The Fund is also exposed to credit risk on derivative financial instruments, cash and cash equivalents, amounts due from brokers and other receivables. The Trustee monitors the Fund's credit risk exposure on a regular basis.

AASB7(35B)(a)

The Fund measures credit risk using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information. At 30 June 2019 and 30 June 2018, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of Aa or higher and are either callable on demand or due to be settled within one week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term.

(i) Fixed interest securities

AASB7(35B)(c)

The Fund invests in fixed interest securities which are rated by XYZ Rating Agency Limited. For unrated assets the Trustee assess credit risk using an approach similar to that used by rating agencies. An analysis of debt securities by rating is set out in the following table.

Rating	30 June 2019 \$'000	30 June 2018 \$'000
Australian		
AAA	697,524	1,237,801
AA	124,568	221,053
A	30,773	54,609
BBB	20,336	36,088
	873,201	1,549,551
International		
AAA	456,897	810,792
AA	257,541	457,022
	714,438	1,267,814
Total	1,587,639	2,817,365

AASB7(33)(b)	<i>(ii) Derivative financial instruments</i>
	The Trustee has established limits such that less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty. The Fund also restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements as set out in note 5.
AASB7(33)(b)	<i>(iii) Settlement of securities transactions</i>
	All transactions in listed securities are settled upon delivery using brokers approved by the Trustee. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment.
	<i>(iv) Cash and cash equivalents</i>
AASB7(33)(b)	The Fund's exposure to credit risk for cash and cash equivalents is considered low as all counterparties have a rating of AA (as determined by the XYZ Rating Agency Limited) or higher.
	<i>(v) Assets in custody</i>
AASB7(33)(b)	The clearing and depository for the Fund's security transactions are concentrated with one counterparty, namely Custodian Limited. Custodian Limited had a credit rating of AA at 30 June 2019 (30 June 2018: AA).
	<i>(vi) Maximum exposure to credit risk</i>
AASB7(36)	The Fund's maximum exposure to credit risk before any credit enhancements is the carrying amount of the financial assets. None of the Fund's assets are past due.
	(d) Liquidity risk
AASB7(33)(a)	Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations to members or counterparties in full as they fall due or can only do so on terms that are disadvantageous.
AASB1056(24)(a) AASB7(39)(c)	The Fund is obligated to pay member benefits upon request. The Trustee's policy is therefore to primarily hold investments that are traded in an active market and can be readily disposed. Only a limited proportion of assets are held in investments not actively traded on a stock exchange or able to facilitate daily redemption requests.

(i) *Maturities of financial liabilities*

AASB7(39)(a)(b)

The tables below shows the Fund's financial liabilities based on their contractual maturities using undiscounted cash flows. Due to brokers, benefits payable and defined contribution member liabilities are payable on demand. Defined benefit member liabilities are payable upon the member meeting a vesting condition (such as resignation or retirement) in accordance with the terms of the Fund's Trust Deed. The Fund considers it is highly unlikely that all liabilities to members would fall due at the same time.

At 30 June 2019

	Less than 1 months \$'000	1 – 6 months \$'000	6 – 12 months \$'000	1 – 2 years \$'000	Total \$'000
AASB7(39)(c)	Non-derivatives				
	1,979,239	-	-	-	1,979,239
	Due to brokers – payable for securities purchased				
	588,251	-	-	-	588,251
	Benefits payable				
	-	26,205	45,665	-	71,870
	Other payables				
	13,466,064	-	-	-	13,466,064
	Defined contribution member liabilities				
	1,338,687	-	-	-	1,338,687
	Defined benefit member liabilities				
AASB1056(24)(a) AASB7(B11B),(B11D)	Derivatives				
	1,460,862	735,101	151,613	141,402	2,488,978
	Net settled interest rate swaps				

At 30 June 2018

	Less than 1 months \$'000	1 – 6 months \$'000	6 – 12 months \$'000	1 – 2 years \$'000	Total \$'000
AASB7(39)(a)	Non-derivatives				
	1,706,551	-	-	-	1,706,551
	Due to brokers – payable for securities purchased				
	570,383	-	-	-	570,383
	Benefits payable				
	11,270	8,767	34,237	-	54,274
	Other payables				
AASB1056(24)(a)	13,123,035	-	-	-	13,123,035
	Defined contribution member liabilities				
	1,785,770	-	-	-	1,785,770
	Defined benefit member liabilities				
AASB7(39)(a)	Derivatives				
	1,051,291	439,990	111,364	225,595	1,828,240
	Net settled interest rate swaps				

Financial risk management

AASB7

1. Disclosure requirements relating to financial instrument disclosures are set out in AASB 7. We have provided commentary explaining these requirements in our Investment Funds 2019 publication on pages 65 to 70.
The disclosures above cover the most common scenarios for a superannuation entity, however additional disclosures may be relevant in certain circumstances.

4 Fair value measurement ¹⁻⁵

(a) Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

AASB13(72-90)

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities. These inputs are readily available in the market and are normally obtainable from multiple sources.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly. The Trustee values fixed interest securities held by the Fund using broker quotes, units in unit trusts using the unadjusted redemption price quoted by the underlying fund manager and OTC derivatives using valuation models.
- Level 3: one or more of the significant inputs are not based on observable market data, examples include implied unit prices, capitalisation rates, earnings multiples and recent comparable market transactions. The Trustee generally values units in unit trusts classified as level 3 instruments using the implied unit price provided by the underlying fund manager unless there is a specific verifiable reason to vary from the unit price provided. The level 3 unit trusts held by the Fund may include closed funds which are illiquid investments. The level 3 unit trusts hold assets such as property and private equity.

Recognised fair value measurements

The table below sets out the level of the fair value hierarchy within which the fair value measurements of the Fund are categorised.

AASB13(93)(a)(b),(99)

At 30 June 2019					
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets					
Cash and cash equivalents		2,896,723	-	-	2,896,723
Other receivables		513,703	-	-	513,703
Due from brokers – receivables for securities sold		1,405,750	-	-	1,405,750
Equity securities					
Australian		2,187,629	-	-	2,187,629
International		5,675,815	-	-	5,675,815
Fixed interest securities					
Australian		261,759	610,770	672	873,201
International		214,331	500,107	-	714,438
Units in unit trusts	7				
Australian property trusts		-	-	519,251	519,251
Australian equity trusts		-	917,176	655,896	1,573,072
International property trusts		-	-	13,664	13,664
International equity trusts		-	611,451	177,639	789,090
Derivatives:					
OTC equity options		571,000	277,000	-	848,000
Forward FX contracts		900,440	900,575	-	1,801,015
At 30 June 2019		14,627,150	3,817,079	1,367,122	19,811,351
Financial liabilities					
Due to brokers – payable for securities purchased		1,979,239	-	-	1,979,239
Benefits payable		588,251	-	-	588,251
Other payables		71,870	-	-	71,870
Derivatives:					
Interest rate swaps		1,742,284	746,694	-	2,488,978
At 30 June 2019		4,381,644	746,694	-	5,128,338

At 30 June 2018	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets					
Cash and cash equivalents		2,759,958	-	-	2,759,958
Other receivables		323,380	-	-	323,380
Due from brokers – receivables for securities sold		936,390	-	-	936,390
Equity securities					
Australian		2,760,806	-	-	2,760,806
International		3,812,191	-	-	3,812,191
Fixed interest securities					
Australian		464,865	1,084,686	-	1,549,551
International		380,344	887,470	-	1,267,814
Units in unit trusts	7				
Australian property trusts		-	-	513,757	513,757
Australian equity trusts		-	1,216,792	648,956	1,865,748
International property trusts		-	-	13,520	13,520
International equity trusts		-	811,195	175,759	986,954
Derivatives:					
OTC equity options		365,789	197,376	-	563,165
Forward FX contracts		885,499	1,000,905	-	1,886,404
At 30 June 2018		12,689,222	5,198,424	1,351,992	19,239,638
Financial liabilities					
Due to brokers – payable for securities purchased		1,706,551	-	-	1,706,551
Benefits payable		570,383	-	-	570,383
Other payables		54,274	-	-	54,274
Derivatives:					
Interest rate swaps		1,462,592	365,648	-	1,828,240
At 30 June 2018		3,793,800	365,648	-	4,159,448

Transfers between levels

AASB13(95)

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

AASB13(93)(c),(99)

The following table presents the transfers between levels for the year ended 30 June 2019.

At 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2:			
International debt securities	1,133	(1,133)	-
Transfers between levels 2 and 3:			
Australian debt securities	-	(672)	672
Unlisted Australian equity unit trust	-	477	(477)

The debt securities transferred into level 1 relate to non-US sovereign obligations for which significant trading activity existed on 30 June 2019 but which were only thinly traded on and around 30 June 2018.

AASB13(93)(e)(iv)

The transfer from level 2 to level 3 relates to a single Australian corporate debt security whose issuer experienced significant financial difficulty during the year. This ultimately resulted in a halt in trading activity on all of its issued debt instruments. Accordingly, the valuation inputs for this security were not based on market observable inputs and therefore resulted in the reclassification to level 3.

At 30 June 2018 the level 3 investment (which was transferred to level 2 in the current year) consisted of a single unlisted Australian unit trust (the suspended fund) which was fair valued with reference to its net asset value as reported by the suspended fund's administrator, adjusted to take into account restrictions applicable to redemptions which were introduced prior to 30 June 2018.

Management of the suspended fund lifted their suspension in January 2019 resulting in monthly unit holder activity resuming. This event resulted in a transfer to level 2.

AASB13(93)(h)

The model used to fair value the investment in the suspended fund was based on the investment managers' best estimate of the net asset value of the fund, adjusted for other relevant factors considered appropriate by the responsible entity. For the suspended fund classified under level 3 at 30 June 2018, if the valuation model was increased/ decreased by 1% this would have resulted in an immaterial increase/ decrease in the fair value of the Fund's investment in the suspended fund

At 30 June 2018

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2:			
Debt securities	(1,012)	1,102	-
Transfers between levels 2 and 3:			
Debt securities	-	-	-
Unlisted Australian equity unit trust	-	(426)	426

Movement in level 3 investments

AASB13(93)(e)

The below table set out the movements in fair value of level 3 investments.

At 30 June 2019	Fixed interest securities \$000	Units in unit trusts \$000	Total \$000
Opening balance	-	1,351,992	1,351,992
Purchases	-	547	547
Sales	-	(398)	(398)
Change in fair value*	-	14,786	14,309
Transfers into/ (out) from level 3	672	(477)	192
Closing balance	672	1,366,450	1,367,122
*includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period	-	12,485	12,485

At 30 June 2018	Fixed interest securities \$000	Units in unit trusts \$000	Total \$000
Opening balance	-	1,243,987	1,243,987
Purchases	-	689	689
Sales	-	(329)	(329)
Changes in fair value	-	107,645	107,645
Transfers into/ (out) from level 3	-	426	426
Closing balance	-	1,351,992	1,351,992

*includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period

Valuation process

AASB13(93)(g)

The Trustee reviews the valuation of the financial instruments required for financial reporting purposes, including level 3 fair values, at each reporting date. Discussions of valuation processes and results are held at least once every six months in line with the Fund's half-yearly reporting dates. The Trustee generally values units in unit trusts classified as level 3 instruments using the implied unit price provided by the underlying fund manager unless there is a specific verifiable reason to vary from the unit price provided.

Changes in level 2 and 3 fair values are analysed at each reporting date by the Trustee. As part of this discussion a report is presented that explains the reason for the fair value movements.

Valuation inputs and relationships to fair value

AASB13(93)(d)(h),(99)

The Fund's level 3 investments comprise units in unit trusts which hold illiquid investments such as unlisted property and private equity. The following table summarises the quantitative information about the significant unobservable inputs used by the Trustee in level 3 fair value measurements.

Description	Fair value at 30 June \$000	Unobservable inputs	Relationship of unobservable inputs to fair value
2019 Unlisted unit trusts	1,366,450	Unit price	Higher/ (lower) redemption price (+/-10%) would increase/ (decrease) fair value by \$136,645,000.
2018 Unlisted unit trusts	1,351,992	Unit price	Higher/ (lower) redemption price (+/-10%) would increase/ (decrease) fair value by \$135,192,200.

Fair value measurement

Financial assets or liabilities

AASB1056(AG11)
AASB7(6)

1. Superannuation entities should present the various classes of their investments in a meaningful way, consistent with the requirements of AASB 101 and AASB 7. Financial instruments should be grouped into classes that are appropriate to the nature of the information being disclosed and that take into account the characteristics of the instruments. We have explained these requirements in our Investment Funds 2019 publication on pages 79 to 84.

Fair value measurement

AASB1056(13),(AG23)

2. Assets and liabilities except member liabilities, tax assets and liabilities, acquired goodwill, insurance assets and liabilities and employer-sponsor receivables are measured at fair value at each reporting date. This would include:
 - (a) financial assets and liabilities, including derivatives
 - (b) investment property, and
 - (c) infrastructure assets.

AASB1056(AG24)

3. In determining the fair value measurements and accounting for any transaction costs, a superannuation entity applies the relevant principles and requirements in other applicable Australian Accounting Standards, including in particular AASB 13 Fair Value Measurement. Superannuation entities do not apply AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

AASB13(24),(25)

4. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. The price shall not be adjusted for transaction costs.

Valuation inputs and relationship to fair value

AASB13(93)(d)

5. VALUE ACCOUNTS Superannuation Fund's level 3 investments are valued based on third-party pricing information with adjustment only in rare cases. As the entity is not required to create quantitative information to comply with the disclosure requirement of AASB 13 if quantitative unobservable inputs are not developed by the entity when measuring fair value, no additional disclosures are required. However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

Refer to Appendix B for an example of the required disclosures of valuation inputs and relationships to fair value for other investment types.

5 Offsetting financial assets and financial liabilities¹

AASB132(42)
AASB7(13A),(13B)

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

AASB7(13C)

Financial assets	Effects of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial assets \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial assets presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Net amount \$'000
2019					
Derivative financial instruments (i)	2,649,015	-	2,649,015	(2,488,978)	160,037
Total	2,649,015	-	2,649,015	(2,488,978)	160,037
2018					
Derivative financial instruments (i)	2,449,569	-	2,449,569	(1,828,240)	621,329
Total	2,449,569	-	2,449,569	(1,828,240)	621,329
Financial liabilities	Effects of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial liabilities \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial liabilities presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Net amount \$'000
2019					
Derivative financial instruments (i)	2,488,978	-	2,488,978	(2,488,978)	-
Total	2,488,978	-	2,488,978	(2,488,978)	-
2018					
Derivative financial instruments (i)	1,828,240	-	1,828,240	(1,828,240)	-
Total	1,828,240	-	1,828,240	(1,828,240)	-

Master netting arrangement – not currently enforceable

AASB7(13E),(B50)

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements where certain credit events occur (such as default), the net position owing/ receivable to a single counterparty in the same currency will be taken as owing. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the above table.

Offsetting of financial assets and financial liabilities

Offsetting of financial assets and financial liabilities

AASB7

1. Refer to Investment Funds 2019 publication pages 72 to 73 for further information on offsetting financial assets and liabilities.

6 Net changes in fair value of financial instruments¹⁻²

AASB1056(22),(AG13)

Net changes in financial assets and liabilities measured at fair value:

	2019 \$'000	2018 \$'000
Fair value through profit or loss		
Equity securities	(295,800)	(1,801,203)
Fixed interest securities	224,373	347,854
Unlisted unit trusts	(450,976)	796,472
Derivatives	33,373	(84,751)
Total	(489,030)	(741,628)

AASB7(20)(a)(i)

Net changes in assets measured at fair value

AASB7(20)(a)(i)

1. Where applicable, net gains or net losses on financial assets and financial liabilities at fair value through profit or loss must be separately disclosed, showing separately those designated as such upon initial recognition and those mandatorily measured at fair value through profit or loss in accordance with AASB 9. For financial liabilities at fair value through profit or loss, an entity shall show separately the amount of gain or loss recognised in other comprehensive income and the amount recognised in profit or loss.

AASB13(93)(f)

2. There is no requirement in the accounting standards to differentiate between realised and unrealised gains or losses in the income statement. Where an entity does disclose realised gains/ losses separately, it should explain in a footnote how they have been calculated for example by reference to historical cost. Unrealised gains or losses relating to recurring level 3 investments require disclosure in the notes.

7 Structured entities¹

AASB12(B21) A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements.

AASB12(26) The Fund considers all investments in managed investment schemes ('MIS') to be structured entities. The Fund invests in underlying managed funds for the purpose of capital appreciation and/ or earning investment income.

The objectives of the investee MIS are to achieve medium to long term capital growth. The investee MIS invest in a number of different financial instruments, including equities, debt instruments and non-financial assets, including property. The investee MIS finance their operations by issuing either redeemable units which are puttable at the holder's option or units which are redeemable only at the discretion of the issuer. These units entitle the holder to a proportional stake in the respective MIS's net assets.

The Fund seeks to holds redeemable shares in each of the MIS it invests in wherever possible.

AASB12(29) The exposure to investments in investee MIS at fair value, by investment strategy, is disclosed below:

AASB12(29)(a)	Fair value of investment 2019 \$'000	Fair value of investment 2018 \$'000
Australian property funds	723,769	844,995
Australian equity funds	1,158,031	1,351,992
International property funds	434,262	506,997
International equity funds	579,015	675,995
	<u>2,895,077</u>	<u>3,379,979</u>

AASB12(29)(b) The fair value of financial assets (2019: \$2,895,077,000, 2018: \$3,379,979,000) is included in financial investments in the balance sheet.

AASB12(29)(c)(d) The Fund's maximum exposure to loss from its interests in investee MIS's is equal to the total fair value of its investments in the investee funds.

AASB12(B26)(b) During the year ended 30 June 2019, total losses incurred on investments in investee MIS's were \$450,976,000 (total gain 2018: \$796,472,000).

AASB12(B26)(c) During the year the Fund earned fair value gains and distribution income as a result of its interests in other funds.

Structured entities

AASB12 Structured entities disclosure

1. Disclosure requirements relating to structured entities are illustrated in AASB 12 *Disclosure of Interests in Other Entities*. We have provided commentary explaining these requirements in our Investment Funds 2019 publication on pages 94 to 95.

Members liabilities and other areas of risk

Not mandatory

This section of the notes discusses the member liabilities and other areas of risks and shows how these could affect the Fund's financial position and operating results.

8. Member liabilities	41
9. Insurance arrangements	45
10. Reserves	45
11. Income tax	46
12. Other items	48

8 Member liabilities¹⁻¹⁵

(a) Recognition and measurement of member liabilities¹⁻⁷

AASB1056(14) The entitlements of members to benefit payments are recognised as liabilities. They are measured at the amount of the accrued benefits as at the reporting date, being the benefits that the Fund is presently obliged to transfer to members, or their beneficiaries, in the future as a result of the membership up to the end of the reporting period.

(i) Defined contribution member liabilities

AASB1056(15) Defined contribution member account balances are measured using unit prices determined by the Trustee based on the underlying investment option values selected by members.

(ii) Defined benefit member liabilities

Defined benefit member liabilities are measured as the estimated present value of a portfolio of investments that would be needed as at the reporting date to yield future net cash flows that would be sufficient to meet the accrued benefits on the date when they are expected to fall due.

(b) Defined contribution member liabilities⁸⁻¹⁰

AASB1056(AG31) The defined contribution members bear the investment risk relating to the underlying investment options. Unit prices used to measure defined contribution member liabilities are updated each day for movements in investment values.

AASB1056(24)(b) As at 30 June 2019, the net assets attributable to defined contribution members have been substantially allocated. Unallocated amounts are shown in the statement of financial position as “Unallocated surplus (deficit)” within equity.

(c) Defined benefit member liabilities¹¹⁻¹⁵

AASB1056(23) The Fund has identified two defined benefit sub plans (Plan A and Plan B).

AASB1056(25)(a)(i) The Fund engages qualified actuaries to measure the defined benefit member liabilities in each of its two defined benefit plans. Member liabilities can only be satisfied with assets of the relevant sub plan and are quarantined from the other assets of the Fund. Both plans provide lump sum benefits which are payable to members on retirement.

AASB1056(25)(d) The Fund manages its obligation to pay member liabilities on an expected maturity basis which is based on management’s estimates of when such funds will be drawn down by members.

Significant estimates

AASB101(125)
AASB1056(25)(a)(ii) The Fund has identified two assumptions (discount rate and rate of salary adjustment) for which changes are reasonably possible and would have a material impact on the amount of the liabilities.

(i) Discount rate

The assumed discount rate for the two plans has been determined by reference to the investment returns expected on the investment portfolio which reflects the Fund’s actual investments and investment strategy in respect of defined benefit member liabilities. The assumed discount rate is the same for each of the two defined benefit plans.

(ii) Rate of salary adjustment

Defined member benefits in each of the Fund’s two plans are based on an average of each member’s salary at specified anniversary dates in each of the last three years of their expected membership of their plan. The assumed annual salary adjustments for each of the Fund’s two plans has been determined by reference to the Wage Price Index produced by the Australian Bureau of Statistics and in consultation with the employer-sponsors.

AASB1056(25)(a)(iii) The Trustee considers the potential impact of changes to key variables about which assumptions need to be made. The following are sensitivity calculations for each of the discount rate and rate of salary assumptions used for Plan A and Plan B.

Defined benefit plan	Assumption	Assumed at reporting date	Reasonably possible change	Amount of (increase) decrease in member benefit liability \$'000
Plan A	Discount rate	5.0% (2018: 5.0%)	+0.5%/-0.5% (2018: +0.5%/-0.5%)	22,280/(22,280) (2018: 27,004/(27,004))
	Salary adjustment rate	4.0% (2018: 4.0%)	+1.0%/-1.0% (2018: +1.0%/-1.0%)	31,368/(31,368) (2018: 34,422/(34,422))
Plan B	Discount rate	5.0% (2018: 5.0%)	+0.5%/-0.5% (2018: +0.5%/-0.5%)	23,549/(23,549) (2018: 29,774/(29,774))
	Salary adjustment rate	3.0% (2018: 3.0%)	+1.0%/-1.0% (2018: +1.0%/-1.0%)	30,529/(30,529) (2018: 35,584/(35,584))

AASB1056(25)(b) At year end, 86% of defined benefit member liabilities have vested (2018: 78%).

(d) Defined benefit plans that are over (under) funded¹⁰⁻¹⁴

AASB1056(28-30)

For the two defined benefit superannuation plans, there were no unexpected events that changed defined benefit member liabilities materially. The plan has no information that would lead it to adjust the assumptions around pension index rates, resignations and mortality, which are all unchanged from the previous reporting period.

The appointed actuaries report to the Trustee each quarter on the status of the defined benefit sub plans. Where a sub plan is in, or likely to enter, an unsatisfactory financial position, the report sets out any remedial action and agreed rectification programs in respect of each employer.

The funds two defined benefit sub plans are over (under) funded by the amounts disclosed below:

		2019 \$'000	2018 \$'000
Plan A	(i)	(297,073)	(15,789)
Plan B	(ii)	57,894	77,004
		(239,179)	61,215

AASB1056(29)

(i) Plan A

The deficiency in Plan A arose due to the difference in actual salary rate increases experienced compared with the actuarial assumption used. The employer-sponsors of Plan A intends to increase contributions for a period of three financial years to a level that is projected, based on current assumptions, to result in member liabilities being fully funded by July 2020.

(ii) Plan B

Plan B continues to remain in surplus. The employer-sponsor of Plan B intends to reduce contributions to the minimum amount required to meet its superannuation guarantee obligations, which is projected, based on current assumptions, to eliminate the surplus by July 2020.

AASB1056(25)(c)

The employers of both sub plans are contributing at the rate recommended by the actuaries.

Member liabilities

Recognition

- AASB1056(14)
AASB1056(BC102)
1. Obligations relating to member entitlements are recognised as member liabilities.
 2. Member liabilities should be recognised as liabilities of superannuation entities because:
 - (a) the obligation to fund a member's defined contribution entitlements falls on the member's superannuation entity and the obligation is legally enforceable, and
 - (b) the obligation to fund a member's defined benefit entitlements, as specified in the relevant trust deed, falls primarily on the member's plan and the obligation is contractual and/or constructive in nature.

Measurement

- AASB1056(15)
AASB1056
(Appendix A)
- AASB1056
(Appendix A)
- AASB1056(16)
- AASB1056(17)
3. Member liabilities are measured as the accrued benefits of members.
 4. The value of accrued benefits is defined as the benefits the superannuation entity is presently obliged to transfer to members or their beneficiaries in the future as a result of membership up to the end of the reporting period.
 5. The value of vested benefits is defined as the value of benefits to which members or their beneficiaries would be entitled on voluntary withdrawal from the superannuation entity or on becoming entitled to a pension or deferred benefit as at the end of the reporting period.
 6. Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.
 7. Defined benefit member liabilities are measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits as at that date when they are expected to fall due.

Defined contribution member liabilities

- AASB1056(23)
- AASB1056(24)
- AASB1056(AG31)
8. A superannuation entity shall disclose information that provides users with a basis for understanding member liabilities.
 9. In relation to defined contribution member liabilities, when applicable, an entity:
 - (a) applies the disclosure requirements of AASB 7 Financial Instruments: Disclosures in respect of credit risk, market risk and liquidity risk, as if defined contribution member liabilities were financial liabilities, and
 - (b) discloses the amount of any net assets attributable to defined contribution members but not allocated to those members as at the end of the period.
 10. In applying the principles and requirements of AASB 7 to defined contribution member liabilities, a superannuation fund should consider disclosing the mechanism by which market risk is passed on to members for example through frequent crediting of member accounts, and how it manages the liquidity risk associated with meeting withdrawals or pension payments.

Member liabilities

Defined benefit member liabilities

- AASB1056(23) 11. A superannuation entity shall disclose information that provides users with a basis for understanding member liabilities.
- AASB1056(AG25) 12. The amount of defined benefit member liabilities is a present value based on a portfolio of investments estimated to yield future net cash inflows that would be sufficient to meet accrued benefit payments when they are expected to fall due. That is:
- (a) the amount relates to members' service up to the reporting date
 - (b) it is assumed the accrued benefits will be fulfilled and, accordingly, there is no adjustment for the superannuation entity's own credit risk
 - (c) the expected cash outflows relevant to measuring the liability take into account the timing and probabilities attaching to various factors that reflect the characteristics of the members/beneficiaries and the features of entitlements (including expected rates of member turnover, mortality and disability; salary adjustment; early retirement; member choice of available options such as lump sum and pension options)
 - (d) the investment returns relevant to measuring the liabilities are those expected on a portfolio of investments that reflect the opportunities available in investment markets and not necessarily the actual investments held by the superannuation entity to meet the accrued defined benefit member liabilities
 - (e) the accrued benefit amount might be more or less than the value of vested benefits, and
 - (f) the discount rate would exclude risks incorporated in the expected cash flows.
- AASB1056(25) 13. In relation to defined benefit member liabilities, the disclosures would include:
- (a) information in relation to the key assumptions used in measuring defined benefit member liabilities, including:
 - (i) the basis for the key assumptions, including the manner in which they have been determined
 - (ii) the key assumptions used, as percentages or in other quantitative terms or in qualitative form, and
 - (iii) the sensitivity of the liabilities to reasonably possible changes in the key assumptions.
 - (b) the amount of vested benefits at the end of the period
 - (c) whether the actual level of contributions is consistent with the actuary's recommendations
 - (d) information about the manner in which the entity manages liquidity risk, and
 - (e) where the entity's actual investment portfolio differs from the portfolio used in measuring defined benefit member liabilities, an explanation of why that is the case.
- AASB1056(28)(29) 14. Where the amount of net assets attributable to defined benefit members differs from defined benefit member liabilities, the entity shall disclose information that provides users with a basis for understanding the nature, causes of and any strategies for addressing the difference between the two amounts. The disclosures would include:
- (a) whether the difference has arisen, in whole or in part, as a consequence of applying different assumptions for the purposes of determining funding levels and measuring defined benefit member liabilities and if so, the nature of the differences between the assumptions, and
 - (b) in the case of a difference not wholly explained by (a):
 - (i) the entity's strategy for addressing the difference and the anticipated timeframe over which the difference is expected to be eliminated, and
 - (ii) any plans or processes in place for employer-sponsors to seek to be paid some or all of a surplus or to reduce the level of their contribution in the future.
- AASB1056(30) 15. A superannuation entity shall disclose information that provides users with a basis for understanding the overall change in a defined benefit member liabilities.

9 Insurance arrangements ¹⁻²

AASB1058(AG40-42)

The Fund provides death and disability benefits to its members. The Trustee has a group policy in place with a third party insurance company to insure these death and disability benefits for the members of the Fund.

The Fund collects premiums from members on behalf of the insurance company. Insurance claim amounts are recognised where the insurer has agreed to pay the claim. Therefore insurance premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance contract liabilities or reinsurance assets. Insurance premiums charged to members accounts and reinsurance recoveries allocated are recognised in the statement of changes in members benefits.

AASB101(122)

The Trustee determined that the Fund is not exposed to material insurance risk because:

- members (or their beneficiaries) will only receive insurance benefits if the external insurer pays the claim
- insurance premiums are only paid through the Fund for administrative reasons, and
- insurance premiums are effectively set directly by reference to premiums set by an external insurer.

Insurance arrangements

AASB1056(AG43)

1. When a superannuation entity is not exposed to a material insurance risk, insurance premiums are not revenues or expenses of the superannuation entity and do not give rise to insurance contract liabilities or reinsurance assets.

AASB1056(BC148)

2. A superannuation entity, which offers insurance arrangements to members acting as agent on behalf of an insurer, is unlikely to be exposed to significant insurance risk as members or their beneficiaries would not generally have recourse to the assets of the superannuation entity, even in the event the insurer fails.

10 Reserves ¹⁻²

AASB1056(32)

(a) Operational risk financial reserve ¹⁻²

	2019 \$'000	2018 \$'000
Defined contribution division	32,976	33,010
Defined benefit division	3,278	4,490
Total	36,254	37,500

AASB101(79)(b)

The operational risk financial reserve (ORFR) may be used in certain circumstances to address operational risk events or claims against the Fund arising from operational risk.

The Trustee has assessed an ORFR of 0.25% of funds under management as appropriate for the Fund.

(b) Investment reserve ¹⁻²

AASB101(79)(b)

The investment reserve was established to provide the Fund with access to funds to protect members' interests and mitigate the impact of adverse events. The investment reserve comprises the difference between the cumulative amount of investment income (net of investment expenses) allocated to members' accounts compared with the cumulative investment income (net of investment expenses) earned by the Fund.

(c) Insurance reserve ¹⁻²

AASB101(79)(b)

The insurance reserve was established for insurance related revenue and expenditure of the Fund. It is primarily used to account for timing differences between the premiums the Fund pays the insurer and charges members.

Reserves

- AASB1056(AG9) 1. Differences between the total assets and total liabilities of a superannuation entity commonly arise in relation to matters such as operational risk reserves.
- AASB101(79)(b) 2. An entity shall disclose a description of the nature and purpose of each reserve within equity.

11 Income tax¹⁻³

This note provides an analysis of the Fund's income tax expense and how the tax expense is affected by non-assessable and non-deductible items.

AASB112(79)

(i) Income tax expense

	2019 \$'000	2018 \$'000
<i>Current tax</i>		
AASB112(80)(a) Current tax on profits for the year	28,641	44,011
AASB112(80)(b) Adjustments for current tax of prior periods	<u>(6,646)</u>	<u>6,578</u>
Total current tax expense	<u>21,995</u>	<u>50,589</u>
<i>Deferred income tax</i>		
AASB112(80)(c) Decrease/ (increase) in deferred tax assets	<u>(8,005)</u>	<u>3,904</u>
Income tax expense	<u>13,990</u>	<u>54,493</u>

AASB112(81)(d),(85)

(ii) Numerical reconciliation of income tax expense to prima facie tax payable¹

	2019 \$'000	2018 \$'000
Operating result before income tax expense	<u>103,353</u>	<u>125,937</u>
Tax at the Australian rate of 15% (2018 – 15%)	15,053	18,891
Discount on capital gains	17,261	34,877
Non-deductible expenses	1,041	1,200
Other non-assessable income	(5,246)	(2,469)
Imputation credits	(7,473)	(4,589)
AASB112(80)(b) Adjustments for current tax of prior periods	<u>(6,646)</u>	<u>6,583</u>
Income tax expense	<u>13,990</u>	<u>54,493</u>

In addition to the above \$144,618,000 (2018: \$102,134,000) is recognised in the statement of changes in member benefits relating to tax on contributions deducted from member accounts.

(iii) Deferred tax balances²⁻³

AASB112(81)(g)(i)

The balance comprises temporary differences attributable to:

	2019 \$'000	2018 \$'000
<i>Deferred tax assets</i>		
Financial assets measured at fair value through profit or loss	<u>26,698</u>	<u>18,693</u>
Net deferred tax assets	<u>26,698</u>	<u>18,693</u>

The movements in temporary differences during the year are:

	Beginning of year \$'000	Recognised in income \$'000	End of year \$'000
At 30 June 2019			
<i>Deferred tax assets</i>			
Net changes in financial assets measured at fair value through profit or loss	<u>18,693</u>	<u>8,005</u>	<u>26,698</u>
Net deferred tax assets	<u>18,693</u>	<u>8,005</u>	<u>26,698</u>
At 30 June 2018			
<i>Deferred tax assets</i>			
Net changes in financial assets measured at fair value through profit or loss	<u>14,789</u>	<u>3,904</u>	<u>18,693</u>
Net deferred tax assets	<u>14,789</u>	<u>3,904</u>	<u>18,693</u>

Income tax

Relationship between tax expense and accounting profit

AASB112(81)(c),(85)

1. A superannuation entity can explain the relationship between tax expense (income) and accounting profit by disclosing reconciliations between:
 - (a) tax expense and the product of accounting profit multiplied by the applicable tax rate, or
 - (b) the average effective tax rate and the applicable tax rate.

Deferred tax assets and liabilities

AASB112(81)(g)

2. AASB 112 requires the following disclosures for each type of temporary difference and in respect of each type of unused tax loss and tax credit:
 - (a) the deferred tax balances recognised for each period presented
 - (b) the amounts of deferred tax income or expense recognised in profit or loss, if this is not apparent from the changes in the amounts recognised in the statement of financial position.
3. This information can be presented in various ways. VALUE ACCOUNTS Superannuation Fund has chosen to provide the information in the form of a reconciliation by type of temporary difference. However, other formats are equally acceptable as long as all of the required disclosures are made.

12 Other items ¹⁻³

Other operating expenses

		2019	2018
		\$'000	\$'000
AASB1056(22)(AG13)			
AASB1056(22)(AG29)(i)	Trustee fees and reimbursements	1,035	1,182
AASB1056(22)(AG29)(f)	Actuarial fees	1,000	1,030
AASB1056(22)(AG29)(g)	Audit fees	300	275
AASB1056(22)(AG29)(h)	Commissions paid directly	1,618	1,807
AASB1056(22)(AG29)(j)	Sponsorship and advertising	1,277	1,498
		<u>5,230</u>	<u>5,792</u>

Other operating expenses

AASB1056(22)	1. A superannuation entity discloses information that provides users with a basis for understanding the nature and amounts of income and expenses.
AASB1056(AG29)(f-j)	2. A superannuation entity shall disclose: <ol style="list-style-type: none"> a. actuarial fees b. audit fees c. commissions paid directly by the superannuation entity d. trustee fees and reimbursements, and e. sponsorship and advertising expenses.
AASB1056(AG29)(d)(e)	The Fund has chosen to disclose investment and administration expenses as separate line items within total expenses in the income statement.
AASB1056(AG13)(AG29)(a)	3. Superannuation entities will also need to provide additional information about their income items where these include unusual or one-off items.

Cash flow information

Not mandatory

This section provides further information in relation to the Funds' statement of cash flows.

13. Cash and cash equivalents	50
14. Reconciliation of profit/ (loss) after income tax to net cash inflow/ (outflow) from operating activities	50

13 Cash and cash equivalents ¹

	2019 \$'000	2018 \$'000
AASB107(45) Cash at bank	24,005	69,658
AASB107(45) Money market instruments	<u>2,872,718</u>	<u>2,690,300</u>
	<u>2,896,723</u>	<u>2,759,958</u>

14 Reconciliation of profit/ (loss) after income tax to net cash inflow/ (outflow) from operating activities

	2019 \$'000	2018 \$'000
AASB107(45) Reconciliation of profit/ (loss) after income tax to net cash inflow/ (outflow) from operating activities		
Operating result after tax	(226,401)	(118,171)
Adjustments for:		
Net changes in financial assets measured at fair value through profit or loss	489,030	741,628
Net benefits allocated to defined contribution members	120,435	100,296
Net change in defined benefit member benefits	195,329	89,319
Change in operating assets and liabilities:		
(Increase)/ decrease in receivables	(190,323)	(26,876)
Increase/ (decrease) in payables	(41,660)	(25,531)
AASB1056(AG44) Death and disability proceeds received from insurer	411,089	416,401
Insurance premiums paid	<u>(50,505)</u>	<u>(52,977)</u>
Net cash inflow/ (outflow) from operating activities	<u>706,994</u>	<u>1,124,089</u>
AASB107(43) (b) Non-cash financing and investing activities		
There were no non-cash financing activities during the year.		

Cash flow information**Cash and cash equivalents**

- AASB107 1. The requirements for cash and cash equivalent requirements are set out in AASB 107. Refer to VALUE ACCOUNTS Investment Funds 2019 publication pages 38 to 39, paragraphs 10 to 17 and page 103 for further information.

Unrecognised items

Not mandatory

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

15. Commitments	52
16. Contingent liabilities and contingent assets	52
17. Events occurring after the reporting period	52

15 Commitments

(a) Investment commitments

AASB101(112)(c)

The Fund has made commitments to invest in certain managed investment schemes. Significant investment commitments contracted for at the end of the reporting period but not recognised as assets are as follows:

	2019	2018
	\$'000	\$'000
Australian Property Trust	23,450	45,892

16 Contingent liabilities and contingent assets

AASB137(86),(89),(91)

There are no outstanding contingent assets or liabilities as at 30 June 2019 and 30 June 2018.

17 Events occurring after the reporting period ¹

AASB110(21)

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund as at 30 June 2019 or on the results and cash flows of the Fund for the year ended on that date.

Events occurring after the reporting period

AASB110

1. Refer to VALUE ACCOUNTS Investment Funds 2019 publication page 115 for further information.

Further details

Not mandatory

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

18. Related party transactions	54
19. Remuneration of auditors	55

18 Related party transactions ¹

(a) Trustee

AASB124(18)
AASB1056(AG39)

The Trustee of VALUE ACCOUNTS Superannuation Fund is Super Trustee Ltd. Amounts paid to the trustee in form of fees and reimbursements are disclosed in note 12 and total \$1,035,231 (2018: \$1,182,145. As at 30 June 2019, \$130,000 (2018: \$90,000) was payable to the trustee and is included other payables in the statement of financial position.

(b) Directors

Not mandatory

Key management personnel includes persons who were directors of Super Trustee Ltd at any time during the financial year as follows:

- A Director
- B Director (resigned 28 October 2018)
- C Director
- D Director (appointed 20 February 2019)
- E Director

(c) Other key management personnel

Not mandatory

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(d) Key management personnel compensation

AASB124(17)

	2019 \$	2018 \$
AASB124(17)(a) Short-term employee benefits	869,758	754,824
AASB124(17)(b) Post-employment benefits	642,383	458,629
AASB124(17)(c) Long-term benefits	125,789	84,369
AASB124(17)(d) Termination benefits	-	-
AASB124(17)(e) Share-based payments	-	-
	<u>1,637,930</u>	<u>1,297,822</u>

(e) Related Party Transactions

AASB124(18)

Key management personnel (KMP) are members of the Fund. The membership terms and conditions for KMP are the same as those available to other members of the fund.

Related party transactions

AASB124

1. Related party requirements are set out in AASB 124. Refer to the VALUE ACCOUNTS Investment Funds 2019 publication pages 110 to 113 for further information.

19 Remuneration of auditors¹

AASB1054(10)

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	2019 \$	2018 \$
(a) PricewaterhouseCoopers Australia		
<i>(i) Audit and other assurance services</i>		
AASB1054(10)(a)	125,000	118,000
AASB1054(10)(b),(11)		
Other assurance services		
Audit of regulatory returns	<u>35,000</u>	<u>27,000</u>
Total remuneration for audit and other assurance services	<u>160,000</u>	<u>145,000</u>
<i>(ii) Taxation services</i>		
AASB1054(10)(b),(11)		
Tax compliance services	<u>45,000</u>	<u>40,000</u>
Total remuneration for taxation services	<u>45,000</u>	<u>40,000</u>
<i>(iii) Other services</i>		
AASB1054(10)(b),(11)		
Remuneration advice	40,000	35,000
Regulatory advice	<u>55,000</u>	<u>55,000</u>
Total remuneration for other services	<u>95,000</u>	<u>90,000</u>
Total remuneration of PricewaterhouseCoopers Australia	<u>300,000</u>	<u>275,000</u>
Total auditors' remuneration	<u>300,000</u>	<u>275,000</u>

It is the Fund's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Fund are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Fund's policy to seek competitive tenders for all major consulting projects.

Audit remuneration disclosure requirements

AASB1054

1. AASB 1054 sets out the requirements for audit remuneration disclosure requirements. Refer to the VALUE ACCOUNTS Investment Funds 2019 publication pages 105 to 106 for further information.

Trustees' declaration ¹⁻³

In the opinion of the directors of the Trustee of VALUE ACCOUNTS Superannuation Fund:

- (a) the accompanying financial statements and notes set out on pages 9 to 55 are in accordance with:
 - (i) Australian Accounting Standards and other mandatory professional reporting requirements², and
 - (ii) present fairly the Fund's financial position as at 30 June 2019 and of its performance for the financial year ended on that date,
- (b) the Fund has been conducted in accordance with its constituent Trust Deed and the requirements of the *Superannuation Industry (Supervision) Act 1993* and its accompanying Regulations; the relevant requirements of the *Corporations Act 2001 and Regulations*; the requirements under section 13 of the *Financial Sector (Collection of Data) Act 2001*, during the year ended 30 June 2019, and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of Super Trustee Ltd as Trustee for VALUE ACCOUNTS Superannuation Fund.

A Director ³

Director

B Director ³

Director

Sydney

14 September 2019

Trustees' declaration

Format of trustees' declaration

1. There is no prescribed format for the Trustee's statement unless prescribed by the Fund's governing rules. The Trustee's statement illustrated above is included by way of example.

Reference to other mandatory professional reporting requirements

2. Reference to other mandatory professional reporting requirements is not required, but is recommended.

Dating and signing of declaration

3. It is common practice for the declaration to be signed by two directors of the trustee company.

Independent auditor's report to the members of VALUE ACCOUNTS Superannuation Fund ¹⁻³

Independent audit report

Form and content of audit report

- | | |
|---------------|--|
| SPS310(12-18) | 1. Standards and guidance on the preparation of audit reports for superannuation entities are given in <i>Prudential Standard SPS 310 Audit and Related Matters</i> with the approved form issued by APRA. |
| SPS310(19)(a) | 2. At a minimum, the auditor's report, which must be prepared by the RSE auditor, must provide reasonable assurance addressing annual financial statements of each RSE prepared in accordance with relevant Australian Accounting Standards issued by the Australian Accounting Standards Board. |
| SPS310(20) | 3. If APRA has approved a form (the approved form) for the auditor's report, the auditor's report must be in the approved form. |

Appendices

Not mandatory

This section includes other information that must be disclosed to comply with the specific requirements of AASB 1056 if certain conditions, as set in the standard, are met.

A	Other illustrative scenarios:	
	Example 1 – Insurance arrangements for funds exposed to material insurance risk	59
	Example 2 – Employer-sponsor receivables	62
B	Valuation inputs and relationships to fair value	63
C	Abbreviations	64

Appendix A – Other illustrative scenarios

Example 1 – Insurance arrangements for funds exposed to material insurance risk ¹⁻⁵

Statement of financial position (extract)

		2019 \$'000	2018 \$'000
	Assets		
AASB101(55)	Reinsurance assets	1,370,780	870,780
	Liabilities		
AASB101(55)	Insurance liabilities	1,896,238	1,634,738

Income statement (extract)

AASB1056(AG29)(c)	Results from insurance activities	(76,326)	(73,475)
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2. Summary of significant accounting policies (extract)

AASB101(119) (a) Measurement of insurance contract assets and liabilities

Insurance contract liabilities and reinsurance contract assets are recognised at their fair value which is determined as the estimated amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash flows that would be sufficient to meet the insured benefits on the date when they are expected to fall due.

The carrying amount of the reinsurance assets is adjusted for impairment if there is objective evidence as a result of an event that occurred after their initial recognition that the Fund will not receive amounts due to it under the terms of the contract, and the impact of the event on the amounts receivable from the reinsurer can be reliably measured.

9 Insurance activities

AASB1056(33)
AASB1056(35)(36)
AASB1056(AG44-49)

The Fund provides death and disability benefits to its defined contribution members. The Fund self-insures this risk as the Trustee believes it is appropriate in light of the Fund's present membership and benefit levels. The table below outlines the net results of the Fund's insurance activities during the year:

AASB1056(10)	<i>Insurance activities</i>	2019 \$'000	2018 \$'000
	Insurance contract revenue	874,590	647,550
	Less: Outward reinsurance premiums	(874,555)	(647,525)
	Net premium revenue	35	25
	Reinsurance recoveries revenues	396,344	406,749
	Insurance contract claims expenses	(711,205)	(770,316)
	Movement in insurance liabilities	(261,500)	(357,291)
	Movement in reinsurance assets	500,000	647,358
		(76,326)	(73,475)

AASB101(122)

(a) Critical judgments regarding the recognition of insurance assets and liabilities

The Trustee has assessed whether the Fund is exposed to material insurance risks and has determined that it is appropriate to recognise liabilities associated with the death and disability benefits provided to members and the assets arising from reinsurance contracts. The Trustee considered that material insurance risk arises because there are differences between the terms and conditions associated with insurance benefits provided to members and the reinsurance contract maintained by the Fund. This means that in certain circumstances, members (or their beneficiaries) may be entitled to receive insurance benefits irrespective of whether the external reinsurer accepts the claim.

(b) Significant estimates made in measuring insurance contract asset and liabilities

AASB1056(36)(a)

The Fund uses the services of an actuary to determine its insurance contract assets and liabilities. An actuarial valuation involves making various assumptions about the future. Actual events in the future may differ from these assumptions. Due to the complexity involved in the valuation and its long term nature, insurance assets and liabilities are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The key assumptions used in measuring the insurance contract liabilities are:

1. interest rate of 2.85% (2018: 3.15%)
2. salary inflation rates of 2.0% (2018: 2.4%)
3. mortality rates based on ALT 10-12, uplifted with mortality improvements and scaled to reflect fund's claim experience and different risk profiles such as occupational ratings and smoking, and
4. disability rates based on fund's claim experience and different risk profiles such as occupational ratings and smoking.

AASB1056(36)(b)

The key factors or uncertainties that impact the key assumptions above are:

1. If interest rate decreases, it will result in an increase in insurance liabilities and an increase in the value of the insurance assets. These insurance liabilities are reinsured and it is expected that there will be minimal impact to the Fund's overall result.
2. If salary inflation rates increase, it will result in the increase in insurance liabilities that would result in a decline in the net assets of the Fund.
3. Higher mortality and disability rates will result in an increase in insurance liabilities as a result of higher claims and will lead to a decline in the net assets of the Fund.

AASB1056(36)(c)

A better than expected claims experience will result in lower liabilities and an increase in the net assets of the Fund.

There are minimal uncertainties relating to the recoverability of the reinsurance assets as these have been reinsured with ABC Reinsurance (Australia) Ltd which has a AA credit rating.

Impairment assessment of insurance contract assets

AASB1056(34)

There has been no event during the year that has affected the recoverability of the reinsurance assets of the Fund.

Insurance activities

- AASB1056(AG40) 1. Superannuation entities must recognise liabilities and assets arising from their insurance and reinsurance arrangements if they are exposed to a material insurance risk.
- AASB1056(AG41) Indicators that the entity is not exposed to a material insurance risk include:
- a. members (or their beneficiaries) will only receive insurance benefits if the external insurer/ reinsurer pays the claims
 - b. insurance premiums are only paid through the superannuation entity for administrative reasons, and
 - c. insurance premiums are effectively set directly by reference to premiums set by an external insurer.
- AASB1056(AG42) Further, a superannuation entity has not taken on material insurance risk simply by:
- a. taking out (group) insurance cover in the name of the superannuation entity
 - b. paying claim benefits to members (or their beneficiaries) via the superannuation entity, and
 - c. making occasional ex gratia payments in respect of death and disability benefits.
- Similarly, the following factors alone would not generally be indicative of exposure to material insurance risk:
- a. the entity has oversight over the claims process, reviews declined claims and occasionally agrees to pay a claim out of reserves, or
 - b. the entity is assisting the insurer by administering the claims and is charging an administration fee for these service to the members.
- To assess whether the entity has a legal or constructive obligation in relation to the insurance cover, superannuation entities should consider their trust deeds and review the communications provided to members. For example:
- a. What have the members been told in relation to the insurance arrangements?
 - b. Are they aware that the insurance is provided by a third party, or is it implied that the superannuation entity will be ultimately responsible for providing the benefits?
 - c. Do the documents provided to members refer to the third party insurance policy for the terms and conditions, or do they set out their own terms and conditions under which claims will be paid?
 - d. If the documents repeat the terms and conditions of a third party insurance arrangement, is it clear that these may change if the insurance policy is renewed and are there procedures in place to ensure members are informed of any changes?
- AASB1056(33) 2. A superannuation entity that is exposed to a material insurance risk shall:
- a. recognise liabilities and assets arising from its insurance and reinsurance arrangements
 - b. measure liabilities and assets arising from insurance and reinsurance arrangements using the approach to measuring defined benefit member liabilities, and
 - c. If reinsurance assets are impaired, reduce the carrying amount of those assets and recognise the impairment in the income statement.
- AASB1056(35)(36) 3. A superannuation entity that is exposed to a material insurance risk in respect of defined contribution members that recognises insurance liabilities and assets shall disclose information that provides a basis for understanding the amount, timing and uncertainty of future cash flows relating to those liabilities and assets. The disclosures include quantitative or qualitative information in relation to:
- a. key assumptions used in measuring liabilities arising from insurance arrangements the superannuation entity provides to its members
 - b. any uncertainties surrounding those key assumptions, and
 - c. any uncertainties surrounding reinsurance assets.
- AASB1056(AG46) 4. Liabilities arising from insurance arrangements a superannuation entity provides to defined contribution members shall be presented separately from the entity's liabilities for such members' benefits in the statement of financial position.
5. Insurance accounting is complex and the illustrative disclosures included above are designed to highlight the key requirements applicable to VALUE ACCOUNTS Superannuation Fund. For further guidance refer to AASB 1056, including paragraphs AG44 – AG49.

Example 2 – Employer-sponsor receivables¹⁻²

AASB101(54)(h)

2019	2018
\$'000	\$'000

AASB1056(18)

Employer-sponsor receivables¹⁻²

297,073

15,789

Investment income receivables

512,681

321,830

Prepayments

583

863

Sundry debtors

439

687

810,776	339,169
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AASB1056(26),(27)

The employer sponsor receivable recognised in the financial statements relates to the deficiency in plan A and is measured as the difference between the defined benefit member liabilities relating to plan A and the amount of the other recognised assets held to meet those liabilities. ABC Proprietary Limited is the employer sponsor and has a statutory responsibility under statute XYZ to make additional contributions for a period of 3 years to fully fund the deficit by July 2020.

Other receivables

Employer-sponsor receivables

AASB1056(18),(AG27)

1. An employer-sponsor receivable shall be recognised for the difference between

- a defined benefit member liability, and
- the fair value of the assets available to meet that liability

provided the receivable meets the definition and recognition criteria for an asset. This would be the case, for example where there are specific contractual or statutory arrangements in place between the superannuation entity and the relevant employer-sponsor(s) in relation to the funding of the defined benefit member liabilities.

AASB1056(19),(AG28)

2. The asset should be measured at its intrinsic value, being the difference between the defined benefit member liabilities and the amount of the other recognised assets held to meet those liabilities (measured as required under AASB 1056), unless the amount of the receivable is capped or impaired in any way.

Appendix B – Valuation inputs and relationships to fair value

Below is an alternate valuation input disclosure covering a level 3 debt security valued using the discounted cash flow method.

Valuation inputs and relationships to fair value

AASB13(93)(d) (99)

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See (i) and (ii) above for the valuation techniques adopted.

AASB13(93)(d), (h)
AASB13(93)(i), (ii)

Description	Fair value at 30 June 2019 \$000	Unobservable inputs*	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Debt securities	1,681	Discount Rate	5.5 % - 8% (6.5%)	Increased/ (decreased) cost of capital (+/-50 basis points (bps)) would (decrease)/ increase fair value by \$70,000

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

AASB13(93)(d),(h)

Description	Fair value at 30 June 2018 \$000	Unobservable inputs*	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
Debt securities	1,367	Discount Rate	5.0 % - 8% (6.5%)	Increased/ (decreased) cost of capital (+/-50 basis points (bps)) would (decrease)/ increase fair value by \$75,000

AASB13(93)(h) (i)

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

AASB13(93)(g)

Valuation process

The Responsible Entity has a team that performs detailed monthly valuations of the financial instruments required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held at least once every six months, in line with the Fund's half-yearly reporting dates.

The level 3 debt securities were valued using the discounted cash flow method. The main level 3 input used by the Fund are the discount rates for comparable debt securities with the same credit rating as the investment.

Changes in level 2 and 3 fair values are analysed at each reporting date during the half-yearly valuation discussion between the Chief Financial Officer, Audit Committee and the valuation team. As part of this discussion the team presents a report that explains the reason for the fair value movements.

Appendix C – Abbreviations

Abbreviations used in this publication are set out below.

AASB	Australian Accounting Standards Board
AASB (Number)	Accounting Standards issued by the AASB
AASB (Number)R	Revised accounting standard – not yet operative
AASB-I (Number)	Interpretations issued by the AASB
ABN	Australian Business Number
AFSL	Australian Financial Services Licence
AGS	Auditing Guidance Statements
AIFRS	Australian equivalents to International Financial Reporting Standards
APRA	Australian Prudential Regulation Authority
APES	Standards issued by the Accounting Professional & Ethical Standards Board (APESB)
APS	Miscellaneous Professional Statements
ASA	Auditing Standards issued by the AUASB under the <i>Corporations Act 2001</i>
ASIC	Australian Securities and Investments Commission
AUASB	Auditing and Assurance Standards Board
CA	<i>Corporations Act 2001</i>
CR	Corporations Regulations 2001
DB	Defined benefit
DC	Defined contribution
DP	Discussion Papers
ED	Accounting Exposure Drafts
FRC	Financial Reporting Council
FVTPL	(Financial assets/ liabilities at) fair value through profit or loss
GAAP	Generally Accepted Accounting Principles
GPFS	General Purpose Financial Statements
GS	Guidance Statements issued by the AUASB
IAS	International Accounting Standards
IASB	International Accounting Standards Board
ICAA	The Institute of Chartered Accountants in Australia
IFRIC	Interpretations issued by the IFRS Interpretations Committee of the IASB
IFRS	International Financial Reporting Standards
SIS	Superannuation Industry (Supervision) Act 1993
SPS	Superannuation Prudential Standard
UIG	Urgent Issues Group
UIG (Number)	UIG Interpretations

Superannuation contacts

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