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***VALUE ACCOUNTS***  
***Superannuation***  
***Fund***

*Annual financial reporting*  
*2017*



*AASB 1056 Edition*

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 1 March 2017. Supporting commentary is also provided. For the purposes of this publication, VALUE ACCOUNTS Superannuation Fund is a registered superannuation entity (RSE) with APRA.

### *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)*

VALUE ACCOUNTS Superannuation Fund 2017 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.

# Foreword

Welcome to the 2017 edition of the Superannuation Fund financial reporting publication in our VALUE ACCOUNTS series.

## A new financial reporting standard

After more than two decades since *AAS 25 Financial Reporting by Superannuation Plans* (AAS 25) was introduced in 1993, the superannuation industry is now presented with a new financial reporting standard *AASB 1056 Superannuation Entities* (AASB 1056). AASB 1056 replaces AAS 25 and is effective from 1 July 2016.

AASB 1056 applies to regulated superannuation funds under the *Superannuation Industry (Supervision) Act 1993* (SIS Act), various public sector superannuation schemes, but not pooled superannuation trusts. Where AASB 1056 is silent on the accounting treatment and disclosure, the requirements of other applicable Accounting Standards need to be applied.

## This publication

This publication aims to assist in the preparation of financial statements under AASB 1056. It has been designed to highlight the key requirements of AASB 1056 and therefore does not include detailed commentary or guidance related to the preparation of financial statements more generally. For further information relating to the requirements of other accounting standards which may be relevant to the preparation of fund financial statements please refer to our VALUE ACCOUNTS Investment Funds 2017 publication (“Investment Funds publication”). The Investment Fund publication also includes illustrative disclosures relevant to pooled superannuation trusts.

## Frequently asked questions

A number of key questions relating to the implementation of AASB1056 have arisen including:

- Recognition of member benefits as liabilities and the related implications for the income statement and equity/reserves.
- Assessing whether or not a fund acts in the capacity of an insurer.
- Determining how much disaggregated financial information is appropriate.
- Treatment of transaction costs.
- Classification of investment purchases and sales in the statement of cash flows.
- Advertising and sponsorship cost disclosures.
- Details required for transitional disclosures.

As a result, AASB have release frequently asked questions which can be found at <http://www.aasb.gov.au/>. Where applicable, we have illustrated these throughout the VALUE ACCOUNTS Superannuation Fund publication.

## Streamlining financial reports

There is an increasing trend towards focusing financial reporting on the needs of the user. As the world becomes more complex and regulation of the superannuation industry continues to increase there is a greater need to communicate important information more effectively.

As a result, we have adopted streamlined financial reporting principles in the preparation of the VALUE ACCOUNTS Superannuation Fund.

In particular, this publication provides practical guidance to help make your own financial reports less complex and more user-friendly by illustrating:

- how content can be grouped into logical sections to more clearly tell the story of the fund’s performance and make critical important information more prominent and easier to find; and
- the adoption of plain English principles and cutting down on jargon.

## Feedback

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

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



**Craig Cummins**  
National Superannuation Leader  
PwC  
28 April 2017

# VALUE ACCOUNTS Superannuation Fund

## Annual financial reporting 2017

Annual report		5
<b>Financial statements</b>		<b>6</b>
Statement of financial position		7
Income statement		9
Statement of changes in member benefits		11
Statement of changes in equity		14
Statement of cash flows		15
<b>Notes to the financial statements</b>		<b>16</b>
General information		18
Summary of significant accounting policies		19
<b>Financial instruments</b>		<b>24</b>
Financial risk management		25
Fair value measurement		29
Offsetting financial assets and financial liabilities		32
Net changes in fair value of financial instruments		34
Structure entities		35
<b>Member liabilities and other areas of risks</b>		<b>36</b>
Member liabilities		37
Insurance arrangements		41
Reserves		42
Income tax		43
Other items		45
<b>Cash flow information</b>	<b>46</b>	
Cash and cash equivalents	47	
Reconciliation of profit/(loss) after income tax net of cash inflow/(outflow) from operating activities	47	
<b>Unrecognised items</b>		<b>48</b>
Commitments		49
Contingent liabilities and contingent assets		49
Events occurring after the reporting period		49
<b>Other information</b>	<b>50</b>	
Related party transactions	51	
Remuneration of auditors	52	
<b>Trustee's declaration</b>		<b>53</b>
<b>Independent auditor's report</b>		<b>54</b>
<b>Appendix - Other illustrative scenarios</b>		<b>55</b>
Example A		56
Example B		59

Superannuation contacts	61
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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 1 March 2017 that are operative for periods from 1 July 2016 annual financial statements.

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 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.

### 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 bps of net assets and is fully funded.
- The Fund does not have any investments that are controlled entities.

### Other financial reporting issues

Other topical financial reporting issues which might be relevant to a superannuation fund include fair value measurement, transaction costs, disaggregated reporting and advertising and sponsorship fees. These have been illustrated, and discussed where relevant throughout this publication.

*VALUE ACCOUNTS Superannuation Fund*

ABN 43 251 987 634

*Annual report – 30 June 2017*

AASB1056(8)	Financial statements	5
	Statement of financial position	7
	Income statement	9
	Statement of changes in member benefits	11
	Statement of changes in equity	14
	Statement of cash flows	15
	Notes to the financial statements	16
	Trustee's declaration	53
	Independent auditor's report	54

AASB101(51)(b),(d) These financial statements cover VALUE ACCOUNTS Superannuation Fund as an individual entity. The financial statements are presented in the Australian currency.

AASB101(138)(a) The Trustee of VALUE ACCOUNTS Superannuation Fund is Super Trustee Ltd (ABN 43 251 987 634). The Trustee's registered office is:  
350 Harbour Street  
Sydney NSW 2000.

AASB110(17) The financial statements were authorised for issue by the directors on 16 September 2017. The directors have the power to amend and reissue the financial statements.

## 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.
- AASB1056(6) 2. Where AASB 1056 is silent on the 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(4)(c)  
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(19)(a - g)
- AASB1056(AG1)

### Pooled superannuation trusts (PSTs)

7. Whilst PSTs are required to prepare financial statements in accordance with the *Superannuation Industry (Supervision) ("SIS") Act and SIS Regulations*, AASB 1056 does not apply to PSTs. Refer to illustrative disclosures for PSTs in our VALUE ACCOUNTS Investment Funds publication.

AASB 1056(8a)

## Statement of financial position <sup>1-13</sup>

	Notes	2017 \$'000	2016 \$'000
<b>Assets <sup>1</sup></b>			
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
<b>Total assets</b>		<b>19,838,049</b>	<b>19,258,331</b>
<b>Liabilities <sup>1</sup></b>			
AASB101(54)(k)(55)		1,979,239	1,706,551
AASB101(54)(k)(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)	11	16,333	38,950
<b>Total liabilities excluding member benefits</b>		<b>5,144,671</b>	<b>4,198,398</b>
<b>Net assets available for member benefits</b>		<b>14,693,378</b>	<b>15,059,933</b>
AASB1056(14),(32),(AG10)		13,466,064	13,123,035
AASB1056(14),(32),(AG10)	8	1,338,687	1,785,770
<b>Total net assets (liabilities)</b>		<b>(111,373)</b>	<b>151,128</b>
<b>Equity <sup>10-11</sup></b>			
AASB1056(AG9)		112,506	78,213
AASB1056(28)	8	(239,179)	61,215
AASB1056(AG8)	8	15,300	11,700
<b>Total equity (deficit)</b>		<b>(111,373)</b>	<b>151,128</b>

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

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 35 to 40. Set out below is additional guidance on requirements that are specific to AASB 1056 and superannuation entities.

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



## Statement of financial position

### Assets and liabilities measured at fair value

- AASB1056(13) 2. 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) 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*.

### Member liabilities

- AASB1056(14) 4. Obligations relating to member entitlements shall be recognised as member liabilities.
- AASB1056(15),(Appendix A) 5. 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) 6. 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) 7. 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) 8. 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) 9. 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.

### Equity

- AASB1056(AG8)  
AASB101(55) 10. 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) 11. 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.

### Transition on initial application of AASB 1056

- AASB1056(37) 12. On initial application of AASB 1056, superannuation entities need not present a statement of financial position as at the beginning of the earliest comparative period (1 July 2015 for most superannuation entities).
13. However, it is still necessary to prepare (but not present) a statement of financial position for the purpose of calculating certain opening balances which are used in the determination of comparative period profits or losses. For example, entities need to determine opening defined benefit member liabilities as at the beginning of the comparative period.

Income statement <sup>1-10</sup>

	Notes	2017 \$'000	2016 \$'000
<b>Superannuation activities <sup>3-7</sup></b>			
AASB1056(AG13),(AG29)(a)		<b>186,045</b>	379,652
AASB1056(AG13),(AG29)(a)		<b>379,803</b>	470,476
AASB1056(AG13),(AG29)(a)		<b>125,860</b>	155,688
AASB1056(AG13),(AG29)(b)	6	<b>(489,030)</b>	(741,628)
AASB1056(AG13)		<b>1,015</b>	1,257
AASB1056(9)(a)		<b>203,693</b>	265,445
<b>Investment expenses</b>			
AASB1056(AG13),(AG29)(e)		<b>(80,193)</b>	(119,948)
AASB1056(AG13),(AG29)(d)		<b>(14,917)</b>	(13,768)
AASB1056(AG13)		<b>(5,230)</b>	(5,792)
AASB1056(9)(b)		<b>(100,340)</b>	(139,508)
<b>Results from superannuation activities before income tax expense <sup>3-7</sup></b>			
		<b>103,353</b>	125,937
AASB1056(9)(f)	11	<b>(13,990)</b>	(54,493)
<b>Results from superannuation activities after income tax expense</b>			
		<b>89,363</b>	71,444
AASB1056(9)(c)		<b>(120,435)</b>	(100,296)
AASB1056(9)(d),(AG16)		<b>(195,329)</b>	(89,319)
AASB1056(9)(e)		<b>(226,401)</b>	(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

AASB1056(AG17)

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 Investment Funds publication on pages 30 to 35. 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*.

**Income statement***In the income statement*

- AASB1056(9) 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(AG16) 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
  - (d) transfers between reserves and accrued benefits.
5. Income and expense items are not offset unless the criteria in AASB 101(32) are met. Refer to VALUE ACCOUNTS Investment Funds June 2017 publication page 33 for further information.

*Either in the income statement or in the notes*

- AASB1056(AG13) 6. Revenues and expenses are presented in relevant sub classifications in the income statement or notes to the financial statements.
- AASB101(97) 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.

**Insurance arrangements**

- AASB1056(10) 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.

**Income tax expense (benefit)**

- AASB1056(AG15) 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.

**Transaction costs**

- AASB139(43) 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.

Statement of changes in member benefits <sup>1-11</sup>

	Notes	DC member benefits \$'000	DB member benefits \$'000	Total \$'000
<b>Balance at 1 July 2015</b>		<b>12,780,068</b>	<b>2,855,208</b>	<b>15,635,276</b>
AASB1056(11)(a) Employer contributions <sup>1-2</sup>		288,145	392,749	680,894
AASB1056(11)(b) Member contributions <sup>1</sup>		63,604	74,320	137,924
AASB1056(11)(d) Transfers from other superannuation funds <sup>1</sup>		128,902	-	128,902
AASB1056(11)(c) Income tax on contributions <sup>3</sup>		(43,222)	(58,912)	(102,134)
<b>Net after tax contributions</b>		<b>437,429</b>	<b>408,157</b>	<b>845,586</b>
AASB1056(11)(e) Benefits to members or beneficiaries <sup>1</sup>		(1,499,595)	(665,655)	(2,165,250)
AASB1056(11)(f) Insurance premiums charged to members <sup>1,10</sup>		(14,407)	(33,616)	(48,023)
Death and disability insurance entitlements paid to members or beneficiaries <sup>10</sup>		121,027	282,397	403,424
Transfers of members from DB to DC divisions <sup>4</sup>		1,157,666	(1,157,666)	-
AASB1056(11)(i) Reserve transfers to (from) members <sup>1</sup>		40,551	7,626	48,177
AASB1056(11)(g) Net benefits allocated comprising: <sup>1,5-6</sup>				
AASB1056(AG20) Net investment income	104,065		-	
AASB1056(AG20) Net administration fees	(3,769)		-	
		100,296		100,296
AASB1056(11)(g)(h) Net change in member defined benefits <sup>1,7</sup>		-	89,319	89,319
<b>Balance at 30 June 2016</b>	8	<b>13,123,035</b>	<b>1,785,770</b>	<b>14,908,805</b>
		<b>DC member benefits \$'000</b>	<b>DB member benefits \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 July 2016</b> <sup>8-9</sup>		<b>13,123,035</b>	<b>1,785,770</b>	<b>14,908,805</b>
AASB1056(11)(a) Employer contributions <sup>1-2</sup>		488,760	477,759	966,519
AASB1056(11)(b) Member contributions <sup>1</sup>		58,975	85,628	144,603
AASB1056(11)(d) Transfers from other superannuation funds <sup>1</sup>		113,300	-	113,300
AASB1056(11)(c) Income tax on contributions <sup>3</sup>		(73,314)	(71,304)	(144,618)
<b>Net after tax contributions</b>		<b>587,721</b>	<b>492,083</b>	<b>1,079,804</b>
AASB1056(11)(e) Benefits to members or beneficiaries <sup>1</sup>		(1,331,291)	(564,160)	(1,895,451)
AASB1056(11)(f) Insurance premiums charged to members <sup>1,10</sup>		(15,578)	(34,918)	(50,496)
Death and disability insurance entitlements paid to members or beneficiaries <sup>10</sup>		150,741	259,484	410,225
Transfers of members from DB to DC divisions <sup>4</sup>		802,585	(802,585)	-
AASB1056(11)(i) Reserve transfers to (from) members <sup>1</sup>		28,416	7,684	36,100
AASB1056(11)(g) Net benefits allocated comprising: <sup>1,5-6</sup>				
Net investment income	125,353		-	
Net administration fees	(4,918)		-	
		120,435		120,435
AASB1056(11)(g)(h) Net change in member defined benefits <sup>1,7</sup>		-	195,329	195,329
<b>Balance at 30 June 2017</b>	8	<b>13,466,064</b>	<b>1,338,687</b>	<b>14,804,751</b>

*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.

**Statement of changes in members' benefits****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.

**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 <sup>1-3</sup>

AASB1056(AG8)(AG9)	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
<b>Balance at 1 July 2015</b>	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)
<b>Balance at 30 June 2016</b>	<b>37,500</b>	<b>24,878</b>	<b>15,835</b>	<b>78,213</b>	<b>61,215</b>	<b>11,700</b>	<b>151,128</b>
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)
<b>Balance at 30 June 2017</b>	<b>36,254</b>	<b>46,320</b>	<b>29,932</b>	<b>112,506</b>	<b>(239,179)</b>	<b>15,300</b>	<b>(111,373)</b>

AASB101(113)

The above statement of changes in equity should be read in conjunction with the accompanying notes, in particular note 9 regarding the reserves and note 7 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.

Statement of cash flows <sup>1-3</sup>

	Notes	2017 \$'000	2016 \$'000
AASB107(10)(14)(16)(18)(a)			
<b>Cash flows from operating activities</b> <sup>1</sup>			
Sales of financial instruments <sup>3</sup>		2,068,524	2,372,311
Purchases of financial instruments <sup>3</sup>		(1,868,753)	(2,288,745)
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)
<b>Net cash inflow (outflow) from operating activities</b>	14(a)	<u>906,765</u>	<u>1,207,655</u>
AASB107(10),(17)			
<b>Cash flows from financing activities</b> <sup>1</sup>			
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		(100,465)	(121,258)
<b>Net cash inflow (outflow) from financing activities</b>		<u>(735,465)</u>	<u>(893,640)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>171,300</b>	<b>314,015</b>
Cash and cash equivalents at the beginning of the financial year		<b>2,759,958</b>	<b>2,161,972</b>
AASB107(28)			
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>(34,535)</u>	<u>283,971</u>
<b>Cash and cash equivalents at end of year</b>	13	<u><b>2,896,723</b></u>	<u><b>2,759,958</b></u>
AASB107(43)			
Non-cash financing and investing activities	14(b)		

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(Aus1.1)

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 June 2017 publication pages 42 and 44 for further information.

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

AASB107(15)

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 are arising from the principal revenue-producing activities of the entity. In addition to generating returns from dividends, interest and distributions, VALUE ACCOUNTS Superannuation Fund is generating significant returns from trading investments. Cash flows from buying and selling investments have therefore been presented as cash flows from operating activities.



# Notes to the financial statements

1	General information	18
2	Summary of significant accounting policies	19
	<b>Financial instruments</b>	24
3	Financial risk management	25
4	Fair value measurement	29
5	Offsetting financial assets and financial liabilities	32
6	Net changes in fair value of financial instruments	34
7	Structured entities	35
	<b>Member liabilities and other areas of risk</b>	36
8	Member liabilities	37
9	Insurance arrangements	42
10	Reserves	42
11	Income tax	43
12	Other items	45
	<b>Cash flow information</b>	46
13	Cash and cash equivalents	47
14	Reconciliation of profit/ (loss) after income tax to net cash inflow/ (outflow) from operating activities	47
	<b>Unrecognised items</b>	48
15	Commitments	49
16	Contingent liabilities and contingent assets	49
17	Events occurring after the reporting period	49
	<b>Other information</b>	50
18	Related party transactions	51
19	Remuneration of auditors	52
	<b>Appendix - Other illustrative scenarios</b>	55
	Example A – Insurance arrangements for funds exposed to material insurance risk	56
	Example B – Employer – sponsor receivables	59

## 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 is leading to a significant increase in the required disclosures for some funds which could make financial reports even more inaccessible for the average reader.
2. To demonstrate what superannuation entities could do to make their financial report more relevant, we have 'streamlined' this financial report to reflect some of the best practices that have been emerging over the last few years.
3. In particular, we have presented 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 has been made more prominent and easier to find.
4. The notes relating to individual line items in the financial statements disclose the relevant accounting policies as well as information about significant estimates and judgements in one place. Less significant accounting policies are disclosed in note 2, which also explains the general basis of preparation and changes in the accounting policies from the previous year.
5. 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. However, as the adoption of AASB 1056 will significantly affect the fund's financial statements, we are of the view that these changes and the new accounting policies should be explained upfront, at least in the first year of adoption.
6. It is important to note that the structure used in this publication is not mandatory and is only one possible example of improved readability. 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

### 1 General information<sup>1-2</sup>

AASB101(138)

AASB101(138)(b)

AASB101(138)(b)  
AASB1056(21)

AASB101(138)(a)

AASB110(17)

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.

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.

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') 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).

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 16 September 2017. The directors of the Trustee have the power to amend and re-issue these financial statements.<sup>2</sup>

#### General information

##### General information disclosures

AASB101(38)

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.

AASB101(10)

## 2 Summary of significant accounting policies<sup>1-4</sup>

AASB101(112)(a), (112)(b)

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.

AASB101(119)

### (a) Basis of preparation<sup>1</sup>

AASB1054(7)-(9)

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) Act 1933 and Regulations* ("SIS") and the provisions of the Trust Deed.

AASB101(117)(a)

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

### (b) Adoption of AASB 1056<sup>2,3</sup>

AASB1056(3)

The Fund's reported financial position and results of operations were affected by the adoption of AASB 1056 *Superannuation Entities* on 1 July 2016. This resulted in the following changes:

- the presentation format of the financial statements changed from two primary financial statements to five as follows:
  - statement of financial position
  - income statement
  - statement of changes in member benefits
  - statement of changes in equity
  - statement of cash flows
- the measurement of financial assets and liabilities changed from 'net market value' to 'fair value.' This change in measurement did not materially impact the carrying value of financial assets and liabilities reported by the Fund
- member benefits are recognised as liabilities rather than equity, and
- contributions, rollovers and other inward transfers and benefits paid to members are not income or expenses but are instead presented in the statement of changes in member benefits.

As part of the transition to AASB 1056, the Trustee also had to determine whether the Fund is exposed to material insurance risk in relation to members' insurance benefits. No material risk was identified, therefore insurance premiums are no longer recognised as an expense. Refer to note 9 for further information.

AASB108(19)(b)  
AASB1056(BC240)  
AASB1056(37)

As required by AASB 1056 and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, the Fund applied the new accounting standard retrospectively from the start of the comparative period beginning 1 July 2015.

As a result the Fund has restated amounts previously reported under AAS 25 *Financial Reporting by Superannuation Plans* ('AAS 25') for the year ended 30 June 2016. The amounts reported under AAS 25 for the year ended 30 June 2016 are reconciled to the amounts reported under AASB1056 as set out below:

#### (i) Statement of financial position

AASB1056(37)

The adoption of AASB 1056 requires member liabilities to be recognised and measured as the amount of accrued benefits on the face of the statement of financial position.

	<b>\$000</b>
Net assets available to paid benefits under AAS 25 as at 30 June 2016	15,059,933
Defined contribution member liabilities	(13,123,035)
Defined benefit member liabilities	(1,785,770)
Total net assets (liabilities) under AASB 1056 as at 1 July 2016	<u>151,128</u>

*(ii) Income statement*

The adoption of AASB 1056 requires contributions, rollovers and other inward transfers and benefits paid to members to be recognised separately in the statement of changes in member benefits. This includes (\$102,134,000) of income tax relating to contributions which are now presented separately in the statement of changes in member benefits. The net changes in members benefits are recognised in the income statement. Insurance premiums paid by the Fund are no longer recognised in the income statement.

	<b>Year ended 30 June 2016 \$000</b>
Change in net assets available to pay benefits under AAS 25	(1,040,231)
Net benefits allocated to defined contribution members	(100,296)
Net change in defined benefit member benefits	(89,319)
Employer contributions	(680,894)
Member contributions	(137,924)
Transfers from other superannuation funds	(128,902)
Income tax on contributions	102,134
Benefits to members or beneficiaries	2,125,250
Insurance premiums	28,353
Operating result after income tax under AASB 1056	<b>(118,171)</b>

*(iii) Statement of cash flows*

The adoption of AASB 1056 has required the Fund to prepare a statement of cash flows for the first time.

Contributions received and benefits paid are treated as financing activities. Income tax on contributions is presented separately in the cash flows from financing activities.

**(c) Financial instruments**

*(i) Classification*

The Fund's investments are classified as at fair value through the income statement. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, options and interest rate swaps are included under this classification.

- Financial instruments designated at fair value through income statement upon initial recognition

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted trusts and commercial paper.

These investments are managed and their performance is evaluated on a fair value basis in accordance with the Fund's investment strategy.

*(ii) Recognition/derecognition*

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

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*

At initial recognition, the Fund measures a financial asset or liability at fair value. Transaction costs are expensed in the income statement.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through income statement 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.

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

AASB7(21)

AASB139(9)

AASB7(B5)(a)

AASB139(14)

AASB139(17),(20)

AASB139(9),(43),(45)

AASB7(21)

AASB7(21)

AASB132(42)	<p><b>(iv) Offsetting financial instruments</b></p> <p>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.</p>
AASB101(119) AASB107(6),(8),(46)	<p><b>(d) Cash and cash equivalents</b></p> <p>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, 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.</p> <p>Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.</p>
AASB101(119)	<p><b>(e) Margin accounts</b></p> <p>Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.</p>
AASB118(30) AASB7(20(c)),(B5)(e)	<p><b>(f) Revenue recognition</b></p> <p>Interest revenue is recognised in profit or loss for all financial instruments that are held at fair value through profit or loss using the effective interest method. Income from cash and cash equivalents is presented as interest income. Interest income on assets held at fair value through profit or loss is included in the net changes in fair value of financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(c) to the financial statements.</p> <p>Dividend and trust distribution income is recognised gross of withholding tax in the period in which the Fund's right to receive payment is established.</p>
AASB101(119) AASB121(21),(28),(32)	<p><b>(g) Foreign currency translation</b></p> <p><b>(i) Transactions and balances</b></p> <p>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.</p>
AASB121(23)	<p>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.</p>
AASB101(119) AASB7(21) AASB139(59)	<p><b>(h) Due from/to brokers</b></p> <p>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. A provision for impairment is made when the fund will not be able to collect all amounts due from the relevant broker.</p>
AASB101(119) AASB7(21) AASB139(59)	<p><b>(i) Receivables</b></p> <p>Receivable amounts are generally received within 30 days of being recorded as receivables.</p> <p>Collectability of trade receivables is reviewed regularly. Debts which are known to be uncollectable are written off by reducing the carrying amount.</p>
AASB101(119)	<p><b>(j) Payables</b></p> <p>Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period. These amounts are unsecured and are usually paid within 30 days of recognition.</p>
AASB1056(13)	<p><b>(k) Benefits paid/ payable</b></p> <p>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.</p>
	<p><b>(l) Contributions received and transfers from other funds</b></p> <p>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.</p>

AASB101(119)

**(m) 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.

AASB108(30)

**(n) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) is set out below:

AASB 9 *Financial Instruments* (and applicable amendments), (effective from 1 January 2018)

AASB 9 addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. AASB9 introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption.

The Trustee does not expect this to have a significant impact on the Fund's financial instruments as they are carried at fair value through profit and loss.

The Fund has not yet decided when to adopt AASB 9.

**(o) Rounding of amounts**

AASB101(51)(e)

Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## Summary of significant accounting policies

### Transition on initial application of AASB 1056

1. On initial application of AASB 1056, superannuation entities need not present a statement of financial position as at the beginning of the earliest comparative period (1 July 2015 for most superannuation entities).

It is necessary to prepare (but not present) a statement of financial position for the purpose of calculating certain opening balances which are used in the determination of comparative period profits or losses for example, opening defined benefit member liabilities as at the beginning of the comparative period.

2. However, the relief from presenting a statement of financial position as of 1 July 2015 does not extend to the disclosures that are required under AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Under that standard, when initial application of an Australian Accounting Standard has an effect on the current period or any prior period, an entity discloses:

- a) the title of the Australian Accounting Standard
- b) when applicable, that the change in accounting policy is made in accordance with its transitional provisions
- c) the nature of the change in accounting policy
- d) when applicable, a description of the transitional provisions
- e) when applicable, the transitional provisions that might have an effect on future periods
- f) for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and
- g) the amount of the adjustment relating to periods before those presented, to the extent practicable.

Financial statements of subsequent periods need not repeat these disclosures.

3. For many superannuation funds, the adoption of AASB 1056 will largely only result in financial statement line items being reclassified within the five new primary statements. Where this is the case, we believe that disclosures such as those illustrated in note 2(b) above are adequate. The disclosures focus on the main impacts of the changes by explaining the reclassifications and their impact on reported net assets and operating results, and don't provide unnecessary details that would only distract from the key changes.

However, where the adoption of AASB 1056 also resulted in material remeasurements of assets and/or liabilities and other adjustments, eg in relation to insurance arrangements, a more traditional reconciliation of the affected line items in the financial statements will be required.

### Accounting policies

4. Refer to VALUE ACCOUNTS Investment Funds June 2017 publication pages 53 to 59 for further guidance in relation to the disclosure of accounting policies.

AASB108(28)

AASB1056(37)



# *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
4	Fair value measurement	29
5	Offsetting financial assets and financial liabilities	32
6	Net changes in fair value of financial instruments	34
7	Structured entities	35

### 3 Financial risk management<sup>1</sup>

AASB7(31)(32)(33)

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.

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 securities and derivative price risk. These arises from investments held by the Fund for which prices in the future are uncertain.

The Trustee mitigates price risk through diversification and 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	2017 \$'000	2016 \$'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		(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 operates internationally and has assets and liabilities denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value 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 2017		30 June 2016	
	US Dollars A\$'000	Euro A\$'000	US Dollars A\$'000	Euro 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 assets	3,425,614	2,964,639	2,286,002	1,794,003
Due to brokers - Payables for securities purchased	(41,001)	(23,575)	(38,456)	(20,124)
Financial liabilities	(247,886)	(302,971)	(173,597)	(212,174)
Increase (Decrease) from forward foreign exchange contracts	(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>

AASB7(33)(a)(b)

**(ii) Cash flow and fair value interest rate risk**

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.

	30 June 2017			
	Floating interest rate A\$'000	Fixed interest rate A\$'000	Non-interest bearing A\$'000	Total A\$'000
<b>Financial assets</b>				
Cash and cash equivalents	2,896,723	-	-	2,896,723
Due from brokers - Receivables for securities sold	-	-	1,405,750	1,405,750
Financial assets	-	1,587,639	13,407,536	14,995,175
<b>Financial liabilities</b>				
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	(528,983)	528,983	-	-
Net exposure interest rate risk	2,367,740	2,116,622	10,345,069	14,829,431

	30 June 2016			
	Floating interest rate A\$'000	Fixed interest rate A\$'000	Non-interest bearing A\$'000	Total A\$'000
<b>Financial assets</b>				
Cash and cash equivalents	2,759,958	-	-	2,759,958
Due from brokers - Receivables for securities sold	-	-	936,390	936,390
Financial assets	-	2,817,365	12,402,545	15,219,910
<b>Financial liabilities</b>				
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	(498,321)	498,321	-	-
Net exposure interest rate risk	2,261,637	3,315,686	9,804,144	15,381,467

AASB7(40)

**(b) Summarised sensitivity analysis**

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk, foreign exchange risk and price 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.

	Price risk		Foreign exchange risk				Interest rate risk	
	Impact on operating profit/ Net assets attributable to unitholders							
	-15% MSCI Index	+7.5% MSCI Index	-10% USD	+10% USD	-10% Euro	+5% Euro	-75 bps	+75 bps
30 June	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2017	(1,538,709)	769,355	(32,808)	32,808	(39,277)	39,277	80,316	(80,316)
2016	(1,418,195)	709,097	(39,029)	39,029	(36,748)	36,748	98,548	(98,448)

**(c) Credit risk**

AASB7(34),(36)

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 credit risks, 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.

**(i) Fixed interest securities**

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 2017 \$'000	30 June 2016 \$'000
<b>Australian</b>		
AAA	697,524	1,237,801
AA	124,568	221,053
A	30,773	54,609
BBB	20,336	36,088
	<b>873,201</b>	<b>1,549,551</b>
<b>International</b>		
AAA	456,897	810,792
AA	257,541	457,022
	<b>714,438</b>	<b>1,267,814</b>
Total	<b>1,587,639</b>	<b>2,817,365</b>

**(ii) Derivative financial instruments**

AASB7(36)

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.

**(iii) Settlement of securities transactions**

AASB7(36)

All transactions in listed securities are settled for 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.

**(iv) Cash and cash equivalents**

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.

**(v) Assets in custody**

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 2017 (30 June 2016: AA).

**(vi) Maximum exposure to credit risk**

The Fund's maximum exposure to credit risk is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

**(d) Liquidity risk**

AASB7(33)(39) 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) 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 its assets are held in investments not actively traded on a stock exchange.

**(i) Maturities of financial liabilities**

AASB7(39)(a),(b), (B11B)  
AASB7(B11D) The tables below shows the Fund’s financial liabilities based on their contractual maturities using undiscounted cash flows. Due to brokers and benefits payable are payable on demand. Liabilities to defined contribution members are payable upon request. Liabilities to defined benefit members 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 2017**

	Less than 1 months \$'000	1 – 6 months \$'000	6 – 12 months \$'000	1 – 2 years \$'000	Total \$'000
<b>Non-derivatives</b>					
Due to brokers – payable for securities purchased	1,979,239	-	-	-	1,979,239
Benefits payable	588,251	-	-	-	588,251
Other payables	-	26,205	45,665	-	71,870
AASB1056(24)(a) Defined contribution member liabilities	13,466,064	-	-	-	13,466,064
<b>Derivatives</b>					
Net settled derivatives	1,476,284	724,074	149,339	139,281	2,488,978

**At 30 June 2016**

	Less than 1 months \$'000	1 – 6 months \$'000	6 – 12 months \$'000	1 – 2 years \$'000	Total \$'000
<b>Non-derivatives</b>					
Due to brokers – payable for securities purchased	1,706,551	-	-	-	1,706,551
Benefits payable	570,383	-	-	-	570,383
Other payables	11,270	8,767	34,237	-	54,274
AASB1056(24)(a) Defined contribution member liabilities	13,123,035	-	-	-	13,123,035
<b>Derivatives</b>					
Net settled derivatives	1,062,945	433,390	109,694	222,211	1,828,240

**Financial risk management**

AASB7

- Disclosure requirements relating to financial instrument disclosures are set out in AASB 7. We have provided commentary explaining these requirements in our Investment Funds publication on pages 69 to 75.  
The disclosures above cover the most common scenarios for a superannuation entity, but additional disclosures may be relevant in certain circumstances.

## 4 Fair value measurement <sup>1-4</sup>

### (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(93)(a)

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 unit price provided 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 discount rates and other material unobservable inputs. The Trustee values units in unit trusts classified as level 3 using the unit price provided by the underlying fund manager. These unit trusts hold illiquid investments such as unlisted property and private equity.

### Recognised fair value measurements

The table below sets out the Fund's financial assets and liabilities at fair value according to the fair value hierarchy.

AASB13(93)(a)(b)

At 30 June 2017					
	Note	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>					
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		-	873,201	-	873,201
International		-	714,438	-	714,438
Units in unit trusts	7	-	1,528,627	1,366,450	2,895,077
Derivatives		1,471,440	1,177,575	-	2,649,015
<b>At 30 June 2017</b>		<b>14,151,060</b>	<b>4,293,841</b>	<b>1,366,450</b>	<b>19,811,351</b>
<b>Financial liabilities</b>					
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		1,742,284	746,694	-	2,488,978
<b>At 30 June 2017</b>		<b>4,381,644</b>	<b>746,694</b>	<b>-</b>	<b>5,128,338</b>

At 30 June 2016				
<b>Financial assets</b>				
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		-	1,549,551	- 1,549,551
International		-	1,267,814	- 1,267,814
Units in unit trusts	7	-	2,027,987	1,351,992 3,379,979
Derivatives		1,251,288	1,198,281	- 2,449,569
<b>At 30 June 2016</b>		<b>11,844,013</b>	<b>6,043,634</b>	<b>1,351,992 19,239,638</b>
<b>Financial liabilities</b>				
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		1,462,592	365,648	- 1,828,240
<b>At 30 June 2016</b>		<b>3,793,800</b>	<b>365,648</b>	<b>- 4,159,448</b>

### Movement in level 3 investments

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)

There were no transfers between levels in the fair value hierarchy for the year ended 30 June 2017 and 30 June 2016.

	30 June 2017	30 June 2016
	\$000	\$000
Opening balance	1,351,992	1,243,987
Purchased	547	689
Sales	(398)	(329)
Change in fair value	<u>14,309</u>	<u>107,645</u>
Closing balance	<u>1,366,450</u>	<u>1,351,992</u>

AASB13(93)(d)(99)

### Valuation inputs and relationships to fair value

The Funds, 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
2017 Unlisted unit trusts	1,366,450	Redemption price	Higher (lower) redemption price (+/-10%) would increase/ (decrease) fair value by \$136,645,000.
2016 Unlisted unit trusts	1,351,992	Redemption price	Higher (lower) redemption price (+/-10%) would increase/ (decrease) fair value by \$135,192,200.

### Valuation process

The Trustee reviews valuations of the financial instruments required for financial reporting purposes, including level 3 fair values. Changes in level 2 and 3 fair values are analysed at each reporting date by the Trustee.

## 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 publication on pages 69 to 75.

### 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. property, plant and equipment.

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.



## 5 Offsetting financial assets and financial liabilities<sup>1</sup>

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
<b>2017</b>					
Derivative financial instruments (i)	2,649,015	-	2,649,015	(2,488,978)	160,037
<b>Total</b>	<b>2,649,015</b>	<b>-</b>	<b>2,649,015</b>	<b>(2,488,978)</b>	<b>160,037</b>
<b>2016</b>					
Derivative financial instruments (i)	2,449,569	-	2,449,569	(1,828,240)	621,329
<b>Total</b>	<b>2,449,569</b>	<b>-</b>	<b>2,449,569</b>	<b>(1,828,240)</b>	<b>621,329</b>
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
<b>2017</b>					
Derivative financial instruments (i)	2,488,978	-	2,488,978	(2,488,978)	-
<b>Total</b>	<b>2,488,978</b>	<b>-</b>	<b>2,488,978</b>	<b>(2,488,978)</b>	<b>-</b>
<b>2016</b>					
Derivative financial instruments (i)	1,828,240	-	1,828,240	(1,828,240)	-
<b>Total</b>	<b>1,828,240</b>	<b>-</b>	<b>1,828,240</b>	<b>(1,828,240)</b>	<b>-</b>

AASB7(13E),(B50)

### *Master netting arrangement – not currently enforceable*

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**

1. Refer to Investment Funds publication pages 69 to 75 for further information on offsetting financial assets and liabilities.

AASB7

AASB1056(22),(AG13)

## 6 Net changes in fair value of financial instruments<sup>1-2</sup>

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

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>Designated at fair value through profit or loss</b>		
Equity securities	<b>(295,800)</b>	(1,801,203)
Fixed interest securities	<b>224,373</b>	347,854
Unlisted unit trusts	<b>(450,976)</b>	796,472
	<b>(522,403)</b>	(656,877)
<b>Held for trading</b>		
Derivatives	<b>33,373</b>	(84,751)
<b>Total</b>	<b>(489,030)</b>	(741,628)

### Net changes in assets measured at fair value

AASB7(20)(a)(i)

1. Where applicable, net gains or losses on financial assets and financial liabilities designated as at fair value through profit or loss must be separately disclosed.
2. There is no requirement in the accounting standards to differentiate between realised and unrealised gains or losses. 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.

## 7 Structured entities<sup>1</sup>

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 (funds) to be structured entities. The Fund invests in underlying managed funds for the purpose of capital appreciation and or earning investment income. The investee funds' objectives are to achieve medium to long term capital growth. The investee funds invest in a number of different financial instruments, including equities and debt instruments. The investee funds finance their operations by issuing redeemable shares which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.																								
AASB12(29)	The exposure to investments in investee funds at fair value, by investment strategy, is disclosed below:																								
AASB12(29)(a)	<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 70%;"></th> <th style="text-align: right; border-bottom: 1px solid black;"><b>Fair value of investment</b></th> <th style="text-align: right; border-bottom: 1px solid black;">Fair value of investment</th> </tr> <tr> <th></th> <th style="text-align: right;"><b>2017</b></th> <th style="text-align: right;">2016</th> </tr> <tr> <th></th> <th style="text-align: right;"><b>\$'000</b></th> <th style="text-align: right;">\$'000</th> </tr> </thead> <tbody> <tr> <td>Australian property funds</td> <td style="text-align: right;"><b>723,769</b></td> <td style="text-align: right;">844,995</td> </tr> <tr> <td>Australian equity funds</td> <td style="text-align: right;"><b>1,158,031</b></td> <td style="text-align: right;">1,351,992</td> </tr> <tr> <td>International property funds</td> <td style="text-align: right;"><b>434,262</b></td> <td style="text-align: right;">506,997</td> </tr> <tr> <td>International equity funds</td> <td style="text-align: right;"><b>579,015</b></td> <td style="text-align: right;">675,995</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;"><b>2,895,077</b></td> <td style="text-align: right; border-top: 1px solid black; border-bottom: 3px double black;">3,379,979</td> </tr> </tbody> </table>		<b>Fair value of investment</b>	Fair value of investment		<b>2017</b>	2016		<b>\$'000</b>	\$'000	Australian property funds	<b>723,769</b>	844,995	Australian equity funds	<b>1,158,031</b>	1,351,992	International property funds	<b>434,262</b>	506,997	International equity funds	<b>579,015</b>	675,995		<b>2,895,077</b>	3,379,979
	<b>Fair value of investment</b>	Fair value of investment																							
	<b>2017</b>	2016																							
	<b>\$'000</b>	\$'000																							
Australian property funds	<b>723,769</b>	844,995																							
Australian equity funds	<b>1,158,031</b>	1,351,992																							
International property funds	<b>434,262</b>	506,997																							
International equity funds	<b>579,015</b>	675,995																							
	<b>2,895,077</b>	3,379,979																							
AASB12(29)(b)	The fair value of financial assets (\$2,895,077,000, 2016: \$3,379,979,000) is included in financial assets at in the balance sheet.																								
AASB12(29)(c)(d)	The Fund's maximum exposure to loss from its interests in investee funds is equal to the total fair value of its investments in the investee funds.																								
AASB12B26(b)	During the year ended 30 June 2017, total losses incurred on investments in investee funds were \$550,976,000 (total gain 2016: \$996,472,000).																								
AASB12B26(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 publication on pages 91 to 101.

## *Members liabilities and other areas of risk*

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	Members liabilities	37
9	Insurance arrangements	41
10	Reserves	42
11	Income tax	43
12	Other items	45

## 8 Member liabilities<sup>1-14</sup>

### (a) Recognition and measurement of member liabilities<sup>1-7</sup>

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.

AASB1056(15) *(i) Defined contribution member liabilities*

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 liabilities<sup>8-9</sup>

AASB1056(AG31)(a) 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 2017, 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 liabilities<sup>10-14</sup>

AASB1056(23)(AG25) 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.

AASB101(119),(125)

AASB1056(25)(a)(iii)

#### *Significant estimates*

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% (2016: 5.0%)	+0.5%/-0.5% (2016: +0.5%/-0.5%)	22,280/(22,280) (2016: 27,004/(27,004))
	Salary adjustment rate	4.0% (2016: 4.0%)	+1.0%/-1.0% (2016: +1.0%/-1.0%)	31,368/(31,368) (2016: 34,422/(34,422))
Plan B	Discount rate	5.0% (2016: 5.0%)	+0.5%/-0.5% (2016: +0.5%/-0.5%)	23,549/(23,549) (2016: 29,774/(29,774))
	Salary adjustment rate	3.0% (2016: 3.0%)	+1.0%/-1.0% (2016: +1.0%/-1.0%)	30,529/(30,529) (2016: 35,584/(35,584))

AASB1056(25)(b)

At year end, 86% of defined benefit member liabilities have vested (2016: 78%).

AASB1056(28)(29)

AASB1056(30)

**(d) Defined benefit plans that are over or (under) funded<sup>10-14</sup>**

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:

		2017 \$'000	2016 \$'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)

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.

AASB1056(Appendix A)

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.

AASB1056(16)

6. Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date.

AASB1056(17)

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)

8. A superannuation entity shall disclose information that provides users with a basis for understanding member liabilities.

AASB1056(24)

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.

AASB1056(AG31)

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.

### Defined benefit member liabilities

AASB1056(23)

10. A superannuation entity shall disclose information that provides users with a basis for understanding member liabilities.

AASB1056(AG25)

11. 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.



### Member liabilities

AASB1056(AG25)  
AASB1056(25)

12. 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)

13. 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)

14. 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 <sup>1-2</sup>

AASB1058(AG41-43)

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 <sup>1-2</sup>

AASB101(79)(b)

### (a) Operational risk financial reserve <sup>1-2</sup>

	2017 \$'000	2016 \$'000
AASB1056(32) Defined contribution division	32,976	33,010
Defined benefit division	3,278	4,490
Total	36,254	37,500

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.

AASB101(79)(b)

### (b) Investment reserve <sup>1</sup>

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.

AASB101(79)(b)

### (c) Insurance reserve <sup>1</sup>

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

### Reserves

AASB1056(AG9)

1. Difference 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 tax<sup>1-3</sup>

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.

AASB101(119)

### (i) Accounting policy

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 assets held for less than 12 months are taxed at the Fund's rate of 15%. For financial assets 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.

AASB112(79),(81)(g)(ii)

### (ii) Income tax expense

	2017 \$'000	2016 \$'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>	6,578
<b>Total current tax expense</b>	<b><u>21,995</u></b>	<b><u>50,589</u></b>
<i>Deferred income tax</i>		
AASB112(80)(c) Decrease/(increase) in deferred tax assets	<u>(8,005)</u>	3,904
<b>Income tax expense</b>	<b><u>13,990</u></b>	<b><u>54,493</u></b>

AASB112(81)(d),(85)

### (iii) Numerical reconciliation of income tax expense to prima facie tax payable

	2017 \$'000	2016 \$'000
Operating result before income tax expense	<u>103,353</u>	125,937
Tax at the Australian rate of 15% (2016 – 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>	6,583
<b>Income tax expense</b>	<b><u>13,990</u></b>	<b><u>54,493</u></b>

In addition to the above \$144,618,000 (2016: \$102,134,000) is recognised in the statement of changes in member benefits relating to tax on contributions deducted from member accounts.

AASB112(81)(g)(i)

(iv) Deferred tax balances<sup>2</sup>

The balance comprises temporary differences attributable to:

	2017 \$'000	2016 \$'000
<i>Deferred tax assets</i>		
Financial assets measured at fair value through profit or loss	26,698	18,693
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
<b>At 30 June 2017</b>			
<i>Deferred tax assets</i>			
Net changes in fair value of financial instruments	18,693	8,005	26,698
Net deferred tax assets	<u>18,693</u>	<u>8,005</u>	<u>26,698</u>
<b>At 30 June 2016</b>			
<i>Deferred tax assets</i>			
Net changes in fair value of financial instruments	14,789	3,904	18,693
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**

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**

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.

AASB112(81)(c),(85)

AASB112(81)(g)

## 12 Other items<sup>1-3</sup>

AASB1056(22)(AG13)

### (a) Other operating expenses

	2017 \$'000	2016 \$'000
AASB1056(22)(AG29)(i) Trustee fees and reimbursements	490	390
AASB1056(22)(AG29)(f) Actuarial fees	150	125
AASB1056(22)(AG29)(g) Audit fees	300	275
AASB1056(22)(AG29)(h) Commissions paid directly	278	531
AASB1056(22)(AG29)(j) Sponsorship and advertising	874	996
	<u>2,092</u>	<u>2,317</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:

- 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(AG13)(AG29)(a)

3. Superannuation entities will also need to provide additional information about their income items where these include usual or one-off items.



## 13 Cash and cash equivalents<sup>1</sup>

		2017 \$'000	2016 \$'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>

## AASB1054(18) 14 Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities<sup>1</sup>

	2017 \$'000	2016 \$'000
<b>a) Reconciliation of profit/(loss) after income tax to net cash inflow/(outflow) from operating activities</b>		
Operating result after tax	(226,401)	(118,171)
Adjustments for:		
Sales of financial assets	2,068,524	2,372,311
Purchases of financial assets	(1,868,753)	(2,288,745)
Net changes in fair value of financial instruments	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)
Death and disability proceeds received from insurer	411,089	416,401
Insurance premiums paid	(50,505)	(52,977)
Net cash inflow (outflow) from operating activities	<u>906,765</u>	<u>1,207,655</u>

## AASB107(49) 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  
AASB 1054

1. Cash and cash equivalent requirements are set out in AASB 107. Refer to VALUE ACCOUNTS Investment Funds June 2017 publication page 37, paragraphs 12 – 15 and page 106 for further information.





## 15 Commitments<sup>1</sup>

### (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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
Australian Property Trust	<b>23,450</b>	45,892

## 16 Contingent liabilities and contingent assets <sup>1</sup>

AASB137(86)(89)(91)

There are no outstanding contingent assets or liabilities as at 30 June 2017 and 30 June 2016.

## 17 Events occurring after the reporting period<sup>1</sup>

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 2017 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 June 2017 publication page 120 for further information.

## *Other information*

### **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	51
19	Remuneration of auditors	52

## 18 Related party transactions <sup>1</sup>

### (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. As at 30 June 2017, \$130,000 (30 June 2016 - \$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 2016)
- C Director
- D Director (appointed 20 February 2017)
- 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.

### (c) Key management personnel compensation

AASB124(17)

		2017 \$	2016 \$
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>

### Related party transactions

AASB124

1. Related party requirements are set out in AASB 124. Refer to VALUE ACCOUNTS Investment Funds June 2017 publication pages 115 to 118 for further information.

## 19 Remuneration of auditors <sup>1</sup>

AASB1054(10)	During the year the following fees were paid or payable for services provided by the auditor of the Fund:		
		<b>2017</b>	2016
		<b>\$</b>	<b>\$</b>
	<b>(a) PricewaterhouseCoopers Australia</b>		
	<i>(i) Audit and other assurance services</i>		
AASB1054(10)(a)	Audit and review of financial statements	<b>125,000</b>	118,000
AASB1054(10)(b),(11)	Other assurance services		
	Audit of regulatory returns	<b>35,000</b>	27,000
	Total remuneration for audit and other assurance services	<b>160,000</b>	145,000
AASB1054(10)(b),(11)	<i>(ii) Taxation services</i>		
	Tax compliance services	<b>45,000</b>	40,000
	Total remuneration for taxation services	<b>45,000</b>	40,000
AASB1054(10)(b),(11)	<i>(iii) Other services</i>		
	Remuneration advice	<b>40,000</b>	35,000
	Compliance plan services	<b>55,000</b>	55,000
	Total remuneration for other services	<b>95,000</b>	90,000
	Total remuneration of PricewaterhouseCoopers Australia	<b>300,000</b>	275,000
	<b>Total auditors' remuneration</b>	<b>300,000</b>	275,000

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 VALUE ACCOUNTS Investment Funds June 2017 publication pages 109 to 110 for further information.

## Trustees' declaration<sup>1-3</sup>

### 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 XX to XX are in accordance with:
  - (i) Australian Accounting Standards and other mandatory professional reporting requirements <sup>2</sup>, and
  - (ii) present fairly the Fund's financial position as at 30 June 2017 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 2017, 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  
Director

B Director  
Director

Sydney  
16 September 2017

### 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. The financial statements prepared in accordance with SIS are required to be signed by directors of the trustee company.

## Independent auditor's report to the members of VALUE ACCOUNTS Superannuation Fund<sup>1-3</sup>

### Independent auditor's 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 *Prudential Standard SPS 310 Audit and Related Matters* 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.





## Example A - Insurance arrangements for funds exposed to material insurance risk<sup>1-5</sup>

### Statement of financial position (extract)

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
<b>Assets</b>		
AASB101(55) Reinsurance assets	<b>1,370,780</b>	870,780
<b>Liabilities</b>		
AASB101(55) Insurance liabilities	<b>1,896,238</b>	1,634,738

### Income statement (extract)

AASB1056(AG29)(c) Results from insurance activities	<b>(76,326)</b>	(73,475)
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## 9 Insurance activities

AASB1056(33,35-36,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:

	<b>2017</b>	2016
	<b>\$'000</b>	\$'000
AASB1056(10) <i>Insurance activities</i>		
Insurance contract revenue	<b>874,590</b>	647,550
Less: Outward reinsurance premiums	<b>(874,555)</b>	(647,525)
Net premium revenue	<b>35</b>	25
Reinsurance recoveries revenues	<b>396,344</b>	406,749
Insurance contract claims expenses	<b>(711,205)</b>	(770,316)
Movement in insurance liabilities	<b>(261,500)</b>	(357,291)
Movement in reinsurance assets	<b>500,000</b>	647,358
	<b>(76,326)</b>	(73,475)

#### AASB101(119),(122) (a) Significant 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) Measurement of insurance contract assets and liabilities

AASB101(119),(122) 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.

AASB1056(36)(a)

### 1. Significant estimates made in measuring insurance contract asset and liabilities

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% (2016: 3.15%)
2. salary inflation rates of 2.0% (2016: 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 smokers and non smokers
4. disability rates based on fund's claim experience and different risk profiles such as occupational ratings and smokers and non smokers.

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 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(AG41)(AG42)

1. Superannuation entities must recognise liabilities and assets arising from their insurance and reinsurance arrangements if they are exposed to a material insurance risk.

Indicators that the entity is not exposed to a material insurance risk:

- 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.

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 services 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)(a-c)

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.
  - 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 paragraph AG44 – AG49.

## Example B - Employer-sponsor receivables<sup>1-2</sup>

		<b>2017</b>	2016
		<b>\$'000</b>	\$'000
AASB101(54)(h)	<b>(a) Other receivables</b>		
AASB1056(18)	Employer-sponsor receivables <sup>1-2</sup>	<b>297,073</b>	15,789
	Investment income receivables	<b>512,681</b>	321,830
	Prepayments	<b>583</b>	863
	Sundry debtors	<b>439</b>	687
		<b>810,776</b>	339,169

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)  
AASB1056(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)  
AASB1056(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 I: 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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