



Reporting to Superannuation Schemes by Service Providers

July 1999

Main features of this Guidance Note are:

- **To assist service providers in the presentation of financial and taxation information to Superannuation Scheme Trustees;**
- **To ensure that sufficient information is given to Trustees, so that they may efficiently and effectively perform their duties; and**
- **To specify the minimum Trustee reporting requirements and/or industry best practice.**

IFSA Guidance Notes No. 9.00

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1 Title

- 1.1 This Guidance Note may be cited as IFSA Guidance Note No. 9.00 “Reporting to Superannuation Schemes by Service Providers”

2 Guidance Note and Commentary

- 2.1 The guidelines set out in this Guidance Note are shown in bold print. Commentary is shown in normal print immediately after the guideline to which it relates, as an aid to interpretation of the guideline.

3 Date of Issue

- 3.1 19 July 1999

4 Effective Date

- 4.1 This Guidance Note should be applied in relation to an IFSA Member’s operations on or after 1 August 2000. Earlier application of this Guidance Note is permitted and encouraged.

5 Application

- 5.1 **This Guidance Note is intended to apply to service providers of Superannuation Scheme investment portfolios, life officers (in respect of life insurance policies) and Pooled Superannuation Schemes (“service providers”). Specific reporting guidelines for life offices and Pooled Superannuation Schemes is dealt with separately in Section 12.**

This Guidance Note relates to annual (or more frequent) reports provided to Scheme trustees specifically to enable the production of the scheme’s accounting statements and tax returns. This Guidance Note does not relate to reporting for other purposes.

The information to be provided by the service provider to the Trustee is ultimately a matter for their mutual agreement. This Guidance Note is not intended to provide taxation or accounting advice nor is it mandatory on service providers, but it is intended to encourage industry best practice in reporting to Superannuation Schemes.

- 5.2 **Where there is a conflict between the requirements of this Guidance Note, applicable legislation, and the constitution of a scheme, the requirements of this Guidance Note should, having regard to the purpose of the Guidance Note, be modified appropriately so that, as far as is practicable, the Scheme Operator complies with the requirements of the Guidance Note.**

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6 Statement of Purpose

6.1 The purpose of this Guidance Note is:

To assist service providers, being asset managers (ie. those who manage investments of Superannuation Schemes) and/or custodians (ie. those responsible for the safekeeping settlement and record keeping of either or both the Australian and international assets of Superannuation Schemes) in the presentation of financial and taxation information to Superannuation Scheme trustees.

7 Application of Materiality

7.1 Failure by a Scheme Operator to adopt or implement this Guidance Note is material if such failure has the potential to adversely affect the confidence of investors, prospective investors, other Scheme Operators, and other interested parties involved in the managed investment industry.

8 Definitions

8.1 In this Guidance Note:

- ‘Operator’ has the same meaning as in IFSA Guidance Note No. 5.00 ‘Industry Terms and Definitions’;
- ‘Investment Body’ means life office fund or Pooled Superannuation Trust.
- ‘Scheme’ has the same meaning as in IFSA Guidance Note No. 5.00 ‘Industry Terms and Definitions’;

9 Purpose of Reporting to Trustees

9.1 A primary objective of reporting to Trustees is to provide information in a manner from which Trustees can confidently calculate their scheme’s assets, liabilities (ie. in respect of asset acquisitions and expenses such as overdrafts, payables for asset purchases, management fees, custodian fees and other similar liabilities), accounting income, expenditure and taxable income.

9.2 Annual reports should provide sufficient details to enable the Trustee to understand the underlying taxation and accounting principles, which apply to various categories of income, expenditure and assets. Annual reports should also provide sufficient details to all Trustees to enable them to prepare an income tax return and accounts based on an interpretation of legal or accounting principles other than that adopted by the service provider in its report.

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10 Purpose of the Taxation Report

10.1 The purpose of the taxation report is to provide Trustees with a summary of the transactions entered into by the service provider, on behalf of the scheme. Trustees should be able to prepare the scheme's income tax return by directly incorporating figures from the report. However, Trustees must still seek independent advice from their advisors and should not rely on the investment manager's principles of reporting.

10.2 What should be included in the Taxation Report?

10.2.1 The Taxation Report should include a detailed explanation of the taxation principles applied to each category of income, expenditure and asset under the control of the service provider. The purpose of providing such a statement is to ensure the Trustees are aware of the principles applied in compiling the taxation report.

10.2.2 For example, the service provider should state the basis of the tax/accounting principles adopted in the recognition of taxable income, specifically including:

- whether gains or losses realised on disposal of assets have been treated as being subject to capital gains tax rules or otherwise;
- the method of determining the cost of assets disposed of and the acceptability to the Australia Taxation office (ATO) of the method used; and
- the basis of calculating any foreign exchange gains or losses and whether they have been treated on revenue or capital account.

10.2.3 A statement should be made confirming that the information contained in the report only relates to the assets managed or controlled by the service provider and only for the period over which they managed or controlled the assets. Thus, the report does not necessarily represent the total tax liability of the Superannuation Scheme. It follows that if the Superannuation Scheme has, for example, excess imputation credits and capital losses, they may be offset against income reported by other service providers. In the case of a custodian, where a client has more than one portfolio under its custody, reports should be provided for each portfolio and for the total taxable entity. This will facilitate reconciliation with any reports provided by the asset managers.

10.2.4 The service provider should provide a schedule of assets including (inter alia) purchase date, cost and market value, indexation factor, and number of shares or units.

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- 10.2.5 The service provider should make a representation as to whether the underlying records supporting the taxation statement will be:
- retained for the period of time prescribed by the Income Tax Assessment Act (ITAA);
 - retained for the period of time prescribed by the Superannuation Industry (Supervision) Act (SIS); and
 - provided to Trustees on request.
- 10.2.6 Service providers should state whether, to the best of their knowledge, the taxation report has been completed in accordance with the ITAA and all relevant income tax rulings and/or determinations issued by the Commissioner of Taxation. Where there have been departures from Income Tax Rulings or contentious items have been included in the report, they should be clearly noted and the reasons and implications stated.
- 10.2.7 An example of a contentious item would be basing taxation treatment on a decision in a case, which is on appeal at the time, the report is prepared.

10.3 Report Format

- 10.3.1 In reporting to the Trustees, the following information should be clearly identified:
- the name of the service provider;
 - the name of the Superannuation Scheme;
 - the period covered by the taxation report;
 - the date the taxation report was prepared;
 - the name of a person nominated by the service provider to deal with taxation queries from Trustees;
 - an index that identifies the information contained in the taxation report;
 - a statement of taxation principles applied in calculating the figures in the taxation report; and
 - a calculation of taxable income based on the assets under the control of the service provider, together with detailed supporting schedules.

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- 10.3.2 It is recommended that each report contains a brief summary of the information contained in each of the schedules in the report and its relevance to the preparation of the income tax return. Such a summary could be provided in conjunction with, or in addition to, the index. A sample list of appropriate schedules is set out in Appendix A.
- 10.3.3 The presentation of information should be in a form that enables the Trustees to include it into the scheme's calculation of total taxable income and into the income tax return. That is, all categories of income should be stated in accordance with the categories detailed in the Form F published by the Australian Taxation Office, together with a summary of the type of income that has been included in each category.
- 10.3.4 A broad, global reconciliation of the movement between taxable income (or loss) and the accounting net profit (or loss) should be provided to support the taxable income calculation provided to the Trustees. An explanation of all reconciling items should also be provided.

11 Accounting Report

11.1 Purpose of the Accounting Report

A primary purpose of the accounting report is to allow the Superannuation Scheme Trustee and/or administrator to produce reliable financial statements, ie. Income and Expenditure Statement, Balance Sheet, and Cash Flow Statements.

11.2 What should be reported?

- 11.2.1 The service provider should report in accordance with appropriate Australian Accounting Standards (AAS), specifically AAS 25 "Financial Reporting by Superannuation Plan".
- 11.2.2 A Superannuation Scheme which is not a reporting entity shall, when it prepares a financial report which it proposes to be a general purpose financial report, apply AAS 25 as if it is a reporting entity.
- 11.2.3 Each Superannuation Scheme that is a reporting entity shall have to produce at least annually, a general purpose financial report and shall make it available to its members.
- 11.2.4 Where the financial report has been prepared for more than one reporting period, the corresponding amounts for the corresponding preceding reporting period should be included.
- 11.2.5 The financial report should include a detailed explanation of the nature of the transactions entered into which generated assets and liabilities. The purpose of providing such a statement is to allow the trustees to prepare financial accounts, Australian Bureau of

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Statistics (“ABS”) returns and Australian Prudential Regulatory Authority (“APRA”) returns, and to facilitate their audit process.

11.2.6 For example, the service provider should provide:

- a schedule of foreign income, disclosing the amount (if any) of tax paid;
- a schedule of assets and associated liabilities (ie. payables etc. in respect of purchases, not liabilities to members) indicating market value, AAS25 cost, number of shares/units and estimated costs of disposal. In the case of international assets, market value and cost must be in Australian dollars, with foreign currency amounts shown if available;
- a schedule of disposal costs by country, where AAS25 applies;
- a schedule showing the effective exposure to each asset sector as a result of derivatives;
- if shares relate to a company that is in liquidation, the method of valuation; and
- the method of determining any market values.

11.2.7 A statement should be made confirming that the information contained in the report only relates to the reporting service provider. That is, the report may indicate that it does not represent the total assets, expenditure and income of the scheme.

11.2.8 The service provider should make a representation as to whether or not the underlying records supporting the accounting statement will be:

- retained for the period of time prescribed by the ITAA;
- retained for the period of time prescribed by the Superannuation Industry (Supervision) Act (SIS); and
- provided to Trustees on request.

11.3 Report Format

11.3.1 In reporting to the Trustees, the following information should be clearly identified:

- the name of the service provider;
- the name of the Superannuation Scheme;
- the period covered by the accounting report;
- the name of the person nominated by the service provider capable of dealing with accounting inquiries from Trustees;

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- an index that identifies the information contained in the accounting report;
- a statement of accounting principles applied in preparing the financial statements; and
- a copy of the audit certificate of the Internal Control Systems of the service provider.

11.3.2 A brief summary of the information contained in each of the schedules contained in the report should be provided and its relevance to the preparation of financial statements indicated.

11.3.3 The presentation of information should be in a format that enables trustees to include it directly into the scheme's calculation of assets, liabilities, income and expenditure.

11.3.4 A reconciliation of the transactions applied in generating assets, liabilities, income and expenditure should be provided (Statement of Cash Flows). A reconciliation would be helpful, for example, where there is a provision for tax; the information should allow the Trustee to determine how the provision was calculated.

12 Reporting – Life offices and Pooled Superannuation Trusts

12.1 Objectives

12.1.1 A primary objective of reporting to Trustees is to enable them to prepare accounting and income tax returns. Accordingly, the information provided to Trustees by life offices and Pooled Superannuation Trusts should assist the Trustees to achieve this objective.

12.2 Report to Trustees

12.2.1 The Report to Trustees should:

- identify the Superannuation Scheme to which the information relates;
- identify the period to which it relates;
- contain the name of the Investment Body providing the information and the name and phone number of a contact person who is able to assist trustees with any inquiries concerning information about the report. The policy number or account number by which the Investment Body identifies the investor should also be stated on the report;
- clearly and unambiguously state the nature of the investment reported. It is often unclear whether the investment is a life policy or comprises units held in a Pooled Superannuation Trust; and

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- contain financial details relevant to the preparation of the superannuation fund's financial accounts. For example, the following information should be regarded as the minimum required:
 - the market value of the investment at the beginning and the end of the reporting period;
 - details of purchases/disposals of units during the reporting period;
 - the nature of the underlying investments of the Investment Body;
 - where details of the underlying expenditures of the Investment Body are provided to the Trustees in the investment report, their nature and deductibility to the investor Superannuation Scheme should be fully explained; and
 - a copy of the audit report of the Investment Body.

12.3 Statement by Investment Body

12.3.1 The Investment Body should, where appropriate, provide a clear statement to the Trustees of superannuation statements confirming:

- in relation to the particular year of income, that it complies or expects to comply with SIS or other relevant legislation;
- the market value of the investment of the investor Superannuation Scheme and the method of determining market value; the existence of an audit report held by the Investment Body;
- whether or not details of any underlying income and expenditure of the Investment Body provided to the trustees of the superannuation fund relate to that Superannuation Scheme; and
- any other expense or income which the Superannuation Scheme should include in its return.

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Appendix A

Suggested Taxation

Report Format

ABC Fund Manager's Taxation Report
To the Trustees of XYZ Superannuation Fund
For the Period 1 July 199X to 30 June 199Y

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Schedule

Statement of Taxation Principles
Statement of Taxable Income/(Loss)
Reconciliation to Income & Expenditure Items
Net Capital Gains
Capital Gains Tax Worksheet
Gross Rent
Gross Interest
Gross Dividends
Net Foreign Income
Foreign Tax Credits Worksheet Summary
Other Income
Deductions
Losses
Foreign Exchange Gains/Losses
Fund Manager's Accounting Report
Balance Sheet Items
Income & Expenditure Statement

Date of Report: