Australian Government

Commonwealth Superannuation Corporation

Annual Report 2019–20

CSC

Commonwealth Superannuation Corporation

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Commonwealth Superannuation Corporation (CSC)

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Superannuation schemes

CSS	ABN:	19 415 776 361
	RSE:	R1004649
	USI:	19415776361001
PSS	ABN:	74 172 177 893
	RSE:	R1004595
	USI:	74172177893001
MilitarySuper	ABN:	50 925 523 120
	RSE:	R1000306
	USI:	50925523120001
PSSap	ABN:	65 127 917 725
	RSE:	R1004601
	USI:	65127917725001
ADF Super	ABN:	90 302 247 344
	RSE:	R1077063
ADF Cover	ABN:	64 250 674 722

DFRB

DFRDB

DFSPB

1922 Scheme

PNG Scheme

For information on each scheme visit **csc.gov.au**

To read individual scheme annual reports visit **csc.gov.au/reports-and-information/annual-reports**

Note: All statistics are derived solely from records available to CSC and Mercer Administration as of the time these statistics were compiled. Where statistics for earlier financial years are quoted, they may vary from those previously published due to the application of retrospective adjustments now reflected in this report. For similar reasons, statistical information in this report may also vary from that presented by other agencies.

Letter of Transmittal

Senator the Hon Mathias Cormann
Minister for Finance

Parliament House
Canberra ACT 2600

Dear Minister

I am pleased to provide you with the annual report of the Commonwealth Superannuation Corporation (CSC) for the year ended 30 June 2020.

CSC is a corporate Commonwealth entity established under section 5 of the *Governance of Australian Government Superannuation Schemes Act 2011* (the GAGSS Act) and for the period of this report was subject to the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act).

The Board of CSC is responsible for the preparation and contents of the Annual Report 2019–20. This report was approved by the Board on 23 September 2020 and satisfies Part 3, Division 2 of the GAGSS Act 2011, section 46 of the PGPA Act and the Public Governance, Performance and Accountability Rule 2014.

Section 30(4) of the GAGSS Act requires you to cause a copy of this report to be laid before each House of Parliament within 15 sitting days after receipt of this report.

Yours sincerely,

Patricia Cross

Chair

23 September 2020

Reader's guide

Our activities at CSC are guided by legislative and government requirements, and by our vision, mission statement and strategic objectives.

This annual report describes our activities for the 2019–20 financial year and satisfies the requirements listed in Part 3, Division 2 of the GAGSS Act, section 46 of the PGPA Act and in the Public Governance, Performance and Accountability Rule 2014.

The report is organised as described below.

Introduction

The introduction describes CSC, our superannuation schemes and our customers.

Our performance

The performance section includes our Chair's review of the year's activities, and our Annual Performance Statements as required under the PGPA Act.

Our Board of Directors

This section introduces CSC's Board of Directors for 2019–20. It outlines their responsibilities, remuneration and director indemnity. It also describes how our Board delegates its authority and how its performance is reviewed.

Our governance

The governance section describes our Board's governance framework and CSC's regulatory requirements. It explains our approach to financial and risk management, compliance, fraud control, member outcomes and internal auditing.

Our investments

The investments section details how investment performance affects our customers' superannuation benefits. It also describes CSC's investment approach, strategy, governance, environmental and social practices, and investment options. Our investment performance to 30 June 2020 is shown.

Our superannuation services

This section outlines the superannuation services we provide to customers and employers, and details how satisfied our customers and employers are with those services.

Our superannuation schemes

This section outlines how we managed each super scheme on behalf of our customers in 2019–20, and accounts for our actions against CSC's governing legislation.

Financial statements

This section contains the audited financial statements for each fund and CSC.

Reporting requirements

This section lists CSC's specific reporting requirements.

Index

The index is a quick way to find specific details in the report.

Table of Contents

List of tables

List of figures

Section 01

Introduction

01 Introduction

About CSC

CSC is a corporate Commonwealth entity established on 1 July 2011. We manage 11 government superannuation schemes (outlined on pages 73–100) and we provide superannuation services to current and former Australian Government employees and members of the Australian Defence Force (ADF).

CSC's primary function is to administer the schemes and to manage and invest the funds in the best interests of all our customers in accordance with the provisions of the various legislation and Trust Deeds that govern the schemes.

Our vision

Our vision is to build, support and protect better retirement outcomes for all our customers and their families.

Our legislative objectives and functions

Our objectives and functions, as set out under CSC's governing legislation, are to:

- administer the schemes and manage and invest the funds
- receive payments from employers in accordance with scheme legislation
- pay superannuation benefits to, or in respect of, customers
- provide information about scheme benefits or potential benefits
- provide advice to the Minister for Finance on proposed changes to the scheme legislation or Trust Deeds.

Our performance outcome

We exist to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the ADF, through investment and administration of their superannuation funds and schemes.

This is CSC's performance outcome. Having a performance outcome is a requirement under the PGPA Act. CSC's performance outcome is published in CSC's *2019–20 Corporate Plan* and in the *2019–20 Portfolio Budget Statements*. Go to CSC's Annual Performance Statements on page 16–32 to see how we performed in 2019–20.

Regulated superannuation schemes

Regulated superannuation schemes must comply with the *Superannuation Industry (Supervision) Act 1993* (the SIS Act) and other prescribed regulatory provisions to be entitled to concessional tax treatment. We are the trustee of five regulated public sector and military schemes. They are:

- the Commonwealth Superannuation Scheme (CSS) established on 1 July 1976 by the *Superannuation Act 1976* (the CSS Act)

- the Public Sector Superannuation Scheme (PSS) established on 1 July 1990 by the *Superannuation Act 1990* (the PSS Act)
- the Military Superannuation and Benefits Scheme (MilitarySuper) established on 1 October 1991 by the *Military Superannuation and Benefits Act 1991* (the MilitarySuper Act)
- the Public Sector Superannuation accumulation plan (PSSap) established on 1 July 2005 by the *Superannuation Act 2005* (the PSSap Act); under its Trust Deed the PSSap also offers an account-based pension product called Commonwealth Superannuation Corporation retirement income (CSCri)
- the ADF Super scheme (ADF Super) established on 1 July 2016 by the *Australian Defence Force Superannuation Act 2015* (the ADF Super Act).

Exempt public sector schemes

Exempt public sector schemes are not regulated under the SIS Act. We administer six exempt public sector and military schemes. They are:

- the scheme established under the *Superannuation Act 1922* (the 1922 Act)
- the Defence Forces Retirement Benefits Scheme (DFRB) established in 1948 by the *Defence Forces Retirement Benefits Act 1948* (the DFRB Act)
- the Defence Force Retirement and Death Benefits Scheme (DFRDB) established by the *Defence Force Retirement and Death Benefits Act 1973* (the DFRDB Act)
- the Papua New Guinea Scheme (PNG) constituted under the *Superannuation (Papua New Guinea) Ordinance 1951* and administered in accordance with section 38 of the *Papua New Guinea (Staffing Assistance) Act 1973* (the PNG Act)
- the Defence Force (Superannuation) (Productivity Benefit) Determination (DFSPB), issued under the *Defence Act 1903* (which is a productivity benefit paid by the Department of Defence)
- the ADF Cover scheme (ADF Cover) established on 1 July 2016 by the *Australian Defence Force Cover Act 2015* (the ADF Cover Act).

Our customers

Our customers generally fall into three categories. They are:

- **Those making superannuation contributions** who are either employed by a participating scheme employer (usually an Australian Government entity or the ADF), or customers who were formerly employed by a participating scheme employer, and who elected to continue to contribute to PSSap with their new employer.
- **Those with preserved or deferred benefits** who are no longer able to contribute to their scheme, because they no longer work for a participating employer, or are no longer ADF members. We continue to maintain accounts for these customers and they can generally start making contributions again if they join a participating employer or re-join the ADF.
- **Those receiving a pension** who have retired. Some ex-military customers receiving a pension may start making contributions again, if they re-enter the ADF for a period of more than 12 months.

CSC customers also include former spouses, following a family law split, spouses and eligible children of deceased customers, and customers who have multiple superannuation accounts with us.

Section 02

Our Performance

02 Our Performance

Report from our Chair

Introduction

The 2019–20 year presented exceptional challenges to Australia – from widespread severe drought, destructive bushfires and then COVID-19. In addition, significant global geopolitical events happened including Brexit and the US-China trade war.

All these had a significant impact on the economy, our business and investment markets during 2019–20.

Many legislative and regulatory changes were made or foreshadowed in 2019–20 that have impacted significantly or will impact significantly all superannuation funds – for example, Member Outcomes, Protecting Your Super, the Financial Accountability Regime and data management.

CSC responded to all of these challenges and we have improved the ways we engage with and provide services to our customers.

We continue to operate in an uncertain environment. Infections from the COVID-19 virus continue, our workplaces are forever different and markets still have challenges pricing risk; and none of that will change quickly.

COVID-19

COVID-19 has resulted in change for our customers, our business and our investments. The way we operate CSC – we have done this "remotely" for some considerable time – and "bringing the future forward" with greater digital interaction with our customers are just two examples of how things have changed. The extent of that change is unfinished work.

Our investment strategy has not changed through COVID-19 – it is based on securing adequate retirement outcomes for CSC customers. It retains a capital preservation bias (with a lower weighting to risk assets), and a focus on liquidity management.

Our customers want to understand how their superannuation is impacted by COVID-19. People are seeking information about the performance of their fund and are looking for advice on the steps they might take to minimise the impact on their super balances. Our staff have responded to these and other customer concerns and enquiries, while also prudently managing our investment portfolios in a way that builds and supports better retirement outcomes for our customers and their families.

It is important to note the superannuation sector has played a key role during this crisis. It has supported government policy decisions (such as Early Release of Superannuation) and continues to make major investments into the economy, such as infrastructure.

Investment performance

Investment market returns were robust over the first 8 months of the financial year. This was dramatically upended by the global COVID-19 pandemic which resulted in the shutdown of economies all over the world. Financial markets fell in value as a result of concerns about the impact on household incomes, potential corporate defaults and recession.

We were pro-actively reducing risk in February in response to the initial economic shutdown in China because we were concerned about the impact of that on global supply chains, given its

central role in manufacturing. This helped us avoid 40% of the downside in equity markets through February and March.

Policymakers around the world responded with speed, delivering very material fiscal support to "fill in" income lost by households and businesses in the shutdowns. Monetary policy was also swift to respond and alleviate the loss of liquidity in panicked financial markets. As a result, we determined to reduce our underweight to risk assets and carefully move back to a neutral portfolio setting. This ensured that we captured a large proportion, though not all, of the rebound in markets catalysed by policy responses.

Although short-term one-year results have been negatively impacted by COVID-19, they have been small losses compared to those recorded in equity markets over the period.

And over the medium and long term, investment returns for the 3, 5, 7, 10 and 15 years to 30 June 2020 for the Default, Balanced and MySuper Balanced options of the various schemes have continued to exceed their objectives.

Table 1. Investment returns to 30 June 2020 for CSC's Default, Balanced and MySuper Balanced scheme options

	AUM $billion	1 year %	3 years % p.a.	5 years % p.a.	7 years % p.a.	10 years % p.a.	15 years % p.a.
Inflation		-0.3	1.1	1.3	1.5	1.8	2.2
Investment option							
CSS Default	1.64	-0.8	5.4	5.5	7.3	7.4	6.2
PSS Default	20.31	-1.1	5.2	5.4	7.2	7.3	6.2
MilitarySuper Balanced	9.19	-1.1	5.2	5.4	7.1	6.6	5.5
PSSap MySuper Balanced	12.38	-1.1	5.2	5.3	7.2	7.3	6.3
ADF MySuper Balanced	0.43	-1.3	5.1	–	–	–	–
Target return		3.2	4.6	4.8	5.0	5.3	5.7

Note: Performance is presented net of fees and taxes.

CSC's primary investment objective is to maximise long-term real (that is, above inflation) returns for customers, with a target of 3.5% p.a. over rolling three-year periods for our Default, Balanced and MySuper Balanced options while keeping risk to an acceptable level (defined as a probability of loss in no more than three to four years out of 20). This investment objective is designed to provide adequacy in retirement for our average customer. 'Adequacy' is defined by the Australian Superannuation Fund Association (ASFA) as a 'comfortable standard', which accounts for post-retirement cost-of-living adjustments.

Member Outcomes

Member Outcomes is a new regulatory initiative that came into operation on 1 January 2020. It is a significant change to the way superannuation funds manage their business: how they plan, monitor, assess and report on how fund monies are spent. It is one of the most important changes to superannuation in the past decade.

Superannuation trustees must demonstrate objectively and transparently that the members and business initiatives they pursue and deliver are meeting the best interests of their fund members and groups of members within their funds. This is referred to generally as "Member Outcomes".

For us, Member Outcomes is about holding ourselves to account for our vision, our customer promise and our customer commitments.

We deliver customers outcomes through three core functions:

1. Providing adequate retirement savings.
2. Enabling customers to make informed and engaged decisions.
3. Embedding ease, efficiency and effectiveness into our products and services.

CSC has identified five core business capabilities that support the core functions:

1. Organisational governance.
2. Risk management.
3. People and culture.
4. Data management.
5. Corporate effectiveness and infrastructure.

Fees

There has been increasing focus on fees from regulators, rating houses, superannuation providers and customers over recent years. To date, it has been difficult to accurately compare funds as there have been significant variations in calculation methodologies to report returns and fees. Efforts to standardise how returns and fees are calculated and reported will start to be implemented from the 2020–21 financial year. Importantly, super funds with lower fees don't necessarily offer the best value as the real cost to the customer may not be fully captured. For example, some funds used crediting rate reserves to pay expenses, and disclosure of some market transaction costs varies depending on how much of the fund is invested in unlisted assets.

Even when costs were calculated consistently, what ultimately matters is that CSC customers' retirement savings are not vulnerable to the condition of markets at the time that they choose to retire, and that they are getting value for money – i.e. the costs incurred deliver benefits through more robust and sustainable wealth accumulation – so that they have sufficient income in retirement.

We invest in high-quality assets and strategies that we expect will assist the achievement of retirement goals, but this investment strategy comes at a cost. Examples of such assets include private infrastructure and property assets, where the costs of actively managing the asset are higher than generic exposures to very small shares in such assets through listed markets.

We believe net returns, taking into account risks incurred in investing customers' savings, is the most appropriate measure of success.

FAR (Financial Accountability Regime)

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry made numerous recommendations aimed at increasing transparency and accountability in the banking and superannuation sector.

One of the more significant recommendations was for the existing Banking Executive Accountability Regime (BEAR) to be extended to all APRA-regulated entities, including superannuation funds. The new industry-wide program is called the Financial Accountability Regime (FAR), and whilst CSC is supportive of its intent, it may lead to some unintended consequences. The primary of these is the impact onerous personal accountabilities and severe penalties will have on attracting and retaining executives and non-executive Directors.

CSC is well progressed to implement the future obligations that will most likely be a part of FAR. We have used the BEAR regulations and obligations to start preparing for the implementation of FAR, which we expect will impose the following:

- accountability obligations

- accountability map and accountability statement obligations
- key personnel obligations
- notification obligations
- deferred remuneration obligations.

Protecting Your Super and Putting Members' Interests First

On 1 July 2019 the Government's Protecting Your Super (PYS) package was put into place. The purpose of the PYS legislation is to protect superannuation accounts from unnecessary erosion caused by insurance premiums and particular fees. CSC is supportive of the changes PYS has brought about, including:

- the transfer of inactive superannuation accounts with balances under $6,000 to the Australian Taxation Office (ATO)
- an annual cap of 3% of a customer's account balance on investment and administration fees for all customer accounts with balances less than $6,000
- the banning of exit fees
- customer accounts with insurance and that are inactive for 16 months having their insurance cancelled, unless the customer requests for the insurance to be maintained.

CSC successfully made the necessary administrative and technical changes to ensure all elements of the PYS package were in place and ready by the 1 July 2019 start date.

In the lead-up to the PYS implementation we undertook an extensive communications campaign to all CSC customers that were to be potentially impacted by the changes, either through having their low-balance account transferred to the ATO or by having their insurance cancelled because of an inactive account.

In late 2019 legislation for the Putting Members' Interests First (PMIF) package was passed by the Parliament. PMIF requires all superannuation funds to cease the provision of insurance to customer on an opt-out basis where:

- the customer has an account balance below $6,000 (active low-balance accounts)
- the customer is a new customer who is under the age of 25.

The PMIF reforms build on the PYS package and are intended to protect customers' account balances from erosion from unwanted/not needed insurance cover.

Like we did for the PYS package, CSC successfully implemented the requirements of PMIF and communicated the changes to impacted customers.

ADF Super Choice

To make the process of transition out of the Australian Defence Force (ADF) simpler for our customers, during 2019 we proposed a change to ADF Super to enable those leaving the ADF to retain ADF Super as their superannuation fund of choice, post-service.

In early 2020 the changes were made, with the introduction of 'ADF Super Choice' for customers leaving the ADF, from early July 2020.

Those changes to ADF Super will allow veterans with at least 12 months' continuous service to keep their ADF Super account for life.

Board Director and CEO changes

Sunil Kemppi left the CSC Board in November 2019 and on behalf of the CSC Directors I thank Sunil for his contribution. CSC directors Peggy O'Neal, Winsome Hall and Nadine Flood completed the legislated maximum of nine years continuous service as directors on 30 June 2020. Each has made

a great contribution to CSC and I want to record my thanks for their efforts. Our customers are much the better for their work.

In February the CSC Board welcomed a new non-executive Director, Alistair Waters. Alistair is National President within the PSU Group of the Community and Public Sector Union (CPSU) and has held various governance, taxation and policy positions at the CPSU.

The Board also welcomed Melissa Donnelly as a non-executive Director in July 2020. Melissa is the National Secretary of the CPSU. In her time there she has occupied a range of roles, including leading the national political, industrial, research and legal team prior to joining the national Executive Committee in 2015.

On 1 July 2020 the number of Directors on the CSC Board reduced from eleven to nine.

CSC's CEO, Peter Carrigy-Ryan retired in July 2020 following a long and distinguished career at CSC. CSC's staff, the Board of CSC and I thank Peter for his extraordinary contribution to CSC. Peter's leadership, his values, his command of complexity, and his total customer and member focus will be very much missed, and we wish him all the very best in his retirement.

In June this year, after a comprehensive recruitment process, the Board appointed Damian Hill as CSC's new CEO. Damian took up the position in July this year. Damian has a proven track record, having performed successfully as the CEO of one of Australia's largest superannuation funds, and has been a highly regarded and active participant in the industry over many years.

Thank you

I would like to thank CSC's staff and my fellow Directors for their commitment and effort during a year that has seen our organisation face many significant and unprecedented challenges.

Our commitment is to ensure that everything we do has a customer focus. Despite the challenges we encountered this year, CSC continued to deliver and improve the services our customers need; something of which I am very proud.

On behalf of all the staff at CSC I want to thank the thousands of frontline staff and volunteers – many of them customers of CSC – that stepped forward and supported Australia during the bushfire and COVID-19 crises.

Despite the challenging times we are all facing, we are committed to implementing our significant program of change, improving the way we deliver products and services to our customers.

Patricia Cross

Chair

23 September 2020

CSC's Annual Performance Statements

Statement from CSC's Board

We, the CSC Board, as the accountable authority of CSC, present the 2019–20 Annual Performance Statements of CSC, as required under section 39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). In our opinion, these Annual Performance Statements are based on properly maintained records, accurately reflect the performance of CSC, and comply with section 39(2) of the PGPA Act.

CSC purpose and vision

CSC's purpose and vision is to build, support and protect better retirement outcomes for all our customers (being current and former Australian Government employees and members of the ADF) and their families.

CSC performance outcome

CSC's performance outcome is to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the ADF, through investment and administration of their superannuation funds and schemes.

CSC's performance outcome is stated in CSC's 2019–20 Corporate Plan and in the *2019–20 Portfolio Budget Statements.*

Managing and investing our funds

Table 2. CSC's investment performance: criteria and results

Performance criteria	Results
CSC's investment performance for its default accumulation options over a rolling three-year period. (SOURCE: CSC's *2019–20 Corporate Plan*, p. 5; 2019–20 Portfolio Budget Statements, p. 101)	**Achieved:** CSC's default accumulation option achieved its annual real return target of 3.5% per annum over the rolling three-year period to 30 June 2020
CSC's investment portfolio is maintained within Board-approved risk parameters, such that negative returns are expected in no more than four out of every 20 years for the default accumulation option. (SOURCE: CSC's *2019–20 Corporate Plan*, p. 5; 2019–20 Portfolio Budget Statements, p. 101)	**Achieved:** CSC's portfolio risk for its default accumulation option has been managed such that there have been no more than four years of negative returns over the 20-year period to 30 June 2020.

Our performance helps customers reach a comfortable retirement

By consistently achieving our investment performance criteria, summarised above, CSC increases the probability that the average CSC accumulation customer in retirement will reach the ASFA 'comfortable retirement standard' of income for Australian retirees (see page 23 of this report for definitions). We track five customer cohorts, by gender, to ensure our investment objectives continue to appropriately support this ambition for all of our customers.

Today, our ***average*** defined contribution customer across all cohorts has accumulated savings that are on track to deliver a retirement income equivalent to 121% of the ASFA comfortable standard. Further, the *majority of our full-time working customers* are on track to achieve that standard as well. This ratio will change over time and differs between customers depending on their personal circumstances. However, by ensuring that all our customers can track – via our website – their individual savings against the ASFA standard and their cohort of peers, we can assist every individual to choose wisely their level of investment risk, the contributions they make and their retirement age.

Our investment options cater to individuals

We provide three pre-mixed investment options plus a purely cash option. All are explicitly designed to work together or separately to allow tailored risk-taking appropriate to the different stages of the working life cycle and individual customers' circumstances. The one thing in common for all our investment options is the strength of our investment risk management. It enables us to consistently generate some of the highest net real returns to investment risk-taking in the industry. This means that our customers can choose between our options with confidence.

- Our **income** fund option focuses on generating a sustainable income with continued moderate capital growth and is suitable when the capacity to recover from market volatility is lower. This option is consistently rated in the top quartile of its type in SuperRatings survey (net returns taking into account risk), and was first across all time horizons to 30 June 2020.
- Our **aggressive** fund option focuses on generating high real returns over the long term and is suitable for individuals with a capacity for higher risk investments. This option is consistently rated in the top quartile of the SuperRatings survey across all time periods and was either first or second for all time horizons to 30 June 2020.
- Our **balanced** fund, as its name suggests, balances capital growth with capital protection to deliver greater certainty of outcome. Our balanced option is our default option. It targets net investment returns of 3.5% per annum above inflation. This target is the average annual growth rate in real savings that we estimate is needed to provide the ASFA comfortable

standard in retirement income to our average accumulation customer. It takes into account that customer's age, current superannuation balance, amount of superannuation contributions, cost-of-living adjustments and likely retirement age. Our strategy here is to capture most of the upside in markets and avoid much more of the downside to increase the probability that all of our customers will retire with adequate income. The return generated per unit of risk taken in this option is rated in the top quartile of the SuperRatings survey over long horizons.

- Our **cash** fund aims to preserve capital and is 100% invested in cash assets.

Our customers can factor in their individual characteristics on the retirement income calculator on our website and track their progress towards retirement.

Our investment strategy

CSC's investment strategy is designed to help all of our customers achieve a standard of living in retirement that is 'comfortable', as defined by ASFA, regardless of whether they retire in strong or weak market conditions. We expect every investment risk we take to improve the probability that our customers' balances will meet the ASFA standard by the time they retire at an assumed age of 65.

This means that we focus on the fundamentals of cash-flow generation and its sustainability, rather than on market sentiment. We use market price momentum and reversals as opportunities to buy assets at prices that are low relative to our assessment of long-term fundamental value, or we divest from assets that are no longer expected to deliver sustainable cash flow.

Compared with other superannuation funds, this means that our Default Funds generally suffer fewer or smaller losses when markets are falling, but still capture a large proportion of the gains when markets are rising strongly. This reflects our intentional strategy design to truly balance the need to preserve our customers' capital through downside risk management, while ensuring that they take sufficient risk into opportunities that can grow their savings above inflation through market recoveries.

Over the long-term horizon for customers in our balanced option, we expect to deliver competitive returns with greater certainty of income sufficiency at retirement. Our income-focused and aggressive funds are expected to deliver competitive returns consistently as their risk appetite is more directly comparable to that of other funds.

We actively protect our customers' savings and hunt for robust opportunities to grow their savings without undue risk. We are early adopters of new and innovative investment opportunities including technology infrastructure like data centres which are only now gaining popularity with institutional investors, telecommunication satellites and renewable energy investments.

We continuously assess whether investment returns for assets, net of costs and tax, are sufficient to compensate for any evolving risks to which those assets are exposed and vulnerable. Risks are not just those visible in an asset's short-term earnings; they can also arise long-term in an asset's ecosystem and may reduce potential earnings capacity. Such risks include how an asset or business is governed; how well it understands its competitive environment; the threats and opportunities of technology; how it supports, trains, manages and aligns its employees to its purpose and values; how it considers and manages its impact on the environment; and the community in which it operates. We believe the most robust insights into these factors come from a strong understanding of the governing body and management of an organisation, and by looking for consistency between a business's long-run strategies and short-term performance.

Competitive and consistent returns for our customers

Our investment strategy aims to achieve a cumulative return for our customers which is:

- **Fit for our customers' purpose:** delivering the ASFA comfortable retirement income by the age of 65.
- **Resilient to developments in external market environments:** by proactively managing risk especially as exogenous shocks occur, e.g. pandemic and associated market volatility and buying high-quality assets and strategies, and profitable and sustainable businesses at fair or better prices.
- **Competitive:** compared with other superannuation funds with different strategies, because we aim to consistently generate a robust return for every investment risk we take. By avoiding the risk of capital impairment, but being prepared to take risk when prices are below long-run value, we expect competitive longer-term returns and reliable long-run outcomes.

Our investment performance to 30 June 2020

The COVID-19 pandemic and the methods used by governments to control its spread have had widespread impact on incomes around the world. Record-setting collapses in global economic activity were recorded in unemployment, services and manufacturing statistics. Some of these indicators have recorded levels last seen during the Great Depression in the 1930s.

Between late February and early March 2020, financial markets reflected these consequences in the fastest fall in equity markets ever recorded. Monetary and fiscal policy responses then enabled an equally extraordinary, albeit volatile, recovery in the June quarter (amidst rising daily cases of infection).

As a result, the impact on our one-year results is a relatively small negative return. But over the medium and long term, investment returns for the 3, 5, 7, 10 and 15 years to 30 June 2020 for the Default, Balanced and MySuper Balanced options of the various schemes ***exceeded their objectives.***

The pandemic volatility demonstrated the fine balance between the need to minimise losses from exogenous shocks, against the imperative to grow customer savings above inflation to sustain adequate retirement outcomes. Our approach aims to minimise losses when markets fall, but also capture most of the increases when markets rise strongly. For example, this is why we have historically outperformed many other funds in volatile and troubled market environments, such as in February and March 2020, but can underperform them, by a smaller amount, when markets are driven by sentiment rather than fundamentals. Over timeframes relevant to our customers, we expect this strategy to accumulate very competitive retirement outcomes.

Over the last ten years to 30 June 2020 spanning both bull and bear markets, we have avoided 40% of the losses that peers incurred when markets fell, while capturing most (86%) of the gains in strong markets relative to our Balanced fund peers. Additionally, the balanced fund has historically been in the top quartile of our peers over the long term (7 and 10 years to 30 June 2020) when comparisons take into account the amount of risk that customers are exposed to. Our Income-focused and Aggressive options have been consistently in the Top 2 funds for net risk adjusted returns in their peer groups for all time periods.

The key portfolio activities in 2019–20 that contributed to our performance are highlighted below. Our overarching strategy and investment discipline was to seek investment opportunities on an apples-to-apples comparison – return adjusted for risk – basis, rather than taking on more risk to capture higher returns. This is because the dramatic increase in uncertainty caused by the pandemic has led to significantly higher premia for taking risk:

- **Diversification of our portfolio** by investing in innovative investment opportunities. Examples include:
  - Adding further domestic and offshore infrastructure, including renewable energy

investments.
  - Completed a successful partial sale of Canberra Data Centres (CDC) to lock in some of the "supernormal" returns on this investment over the past three years.
  - Participated in an award-winning telecommunications project refinancing a new satellite in Asia-Pacific.
  - Established and launched a systematic private equity co-investment program with the appointment of a specialist global co-investment adviser to access high-quality, risk-adjusted return opportunities at lower cost.
  - Expanded the public-market seeder program to access high-quality sources of alpha without increasing customer fees proportionally.
  - Developed an additional proprietary alternative strategy that provides another low-cost diversifying source of active returns.
- **Proactive management of portfolio risk** – not only at the individual asset, manager, sector and regional level, but also at the integrated fund level. Prior to the market volatility in late February, we reduced our risk exposures relative to peers to protect customer savings. Subsequently, as unparalleled policy support reassured and stabilised markets, we took that price opportunity to rebalance back into equity markets at lower prices in the June 2020 quarter, and thereby supported our customers' savings to grow.
- **Portfolio resilience through defensive assets**. We have also increased defensive exposure, including a small exposure to gold futures, diversifying into other non-USD safe-haven currencies, and longer-term bonds, as part of building up the portfolio's longer-term resilience to inflation and shorter-term recessionary concerns.
- **Liquidity for investment and customer needs**. Our processes for liquidity management worked seamlessly through this period enabling us to meet all demands on our cash from members, as well as our investment portfolio needs.
- **Customer equity was preserved**. Our valuation policies allow for stress situations and ensure that valuations on our private assets are not stale when public market equivalents are changing materially.

Our investment governance model is unique and designed specifically to support our capacity to take investment decisions in real time, rather than subject to the constraints of the Board meeting cycle; and to proactively identify and manage risks with agility before they can materially impact customers' superannuation savings. We operate with full transparency, clarity of risk appetites and tolerances, and delegated accountability in all investment decisions. This was especially stress-tested when the pandemic shock started in February 2020 – the delegations framework in enabling pro-active decisions to be taken into and through market dislocation, with accretive outcomes for customers.

Our investment governance framework means that CSC implements its investment decisions through:

- **A structured and transparent set of delegations**, ensuring the right decisions are taken at the right time by dedicated professionals best skilled and, therefore, accountable to take them.
- **A robust set of specialised, external agents** who complement CSC's internal resources, who are agile and targeted to be fit for specific CSC investment purposes, and who materially reduce our uncompensated operational risks.
- **A nimble, stable and skilled internal investment team** focused on ensuring CSC's comparative advantages are used to our customers' best interests; are empowered to continuously innovate to maintain our global best-practice credentials; and focused on assessing and managing the implications for risk taking that flow from a continuously evolving, global market.

To learn more about CSC's investment approach and strategy, go to the Investment section of this report on pages 58–66.

The global investment outlook

Portfolio-management agility remains critical as the distribution of plausible economic outcomes is unusually wide. Given the complexity and uncertainty of the policy challenge ahead, we remain cautious on the outlook. However, we are also respectful of the fact that policymakers have stated their intention to do as much as they can to underwrite as robust an economic recovery as possible.

Markets will be responsive to the evolution in this policy path; its attendant political risks including those manifest in US–China relations; and ultimately, the underlying realisation of fundamental employment and business solvency rates.

A rolling 'saw tooth' pattern of virus reoccurrences and localised shutdowns in economic activity, aimed at containment, may persist until a medical solution to the virus or its virulence is found. The OECD predicts that it will take at least two years to return to 2019 GDP growth levels. Others argue that recovery will be much faster than this.

It is likely that the pace of recovery will differ across and within regional economies and industries:

- Recovery depends on the speed, effectiveness and agility of policy responses in balancing population health and economic viability; pre-pandemic government balance sheet and living standards; the interaction between the pace of economy re-openings and health-system capacity and testing coverage; cultural adherence to social distancing rules.
- Continuing material fiscal and monetary policies plus the potential for pent-up demand (including higher investment to re-design away from supply-chain vulnerabilities) have restored some momentum in consumption around the world. The lingering effects of the pandemic on behaviours may result in a slower pace of recovery from here, though that is not certain.

With interest rates anchored at zero in much of the developed world, investors are being forced to take more risk to derive a return. And the nature of traditional defensive assets has changed because it now comes at a real cost (taking into account inflation).

Longer-term, structural influences on cash flows will be important:

- **Supply-chain management:** Supply-chain interruptions that persist for longer than 1 or 2 quarters, and result in material disruption to global earnings represent high operational risk for businesses around the world. This may encourage investment to duplicate supply chains within regions as businesses trade-off some efficiency for greater supply-chain resilience. This would represent higher cost bases for some companies.
- **Industry consolidation and supply destruction:** This is likely to occur in the industries most directly impacted by the pandemic. We remain mindful of this and seek opportunities for capital deployment selectively.
- **Pre-existing structural trends:** The pandemic shock has accelerated trends such as the migration from analogue to digital work practices (uncoupling the physical location from the productivity of resources); technology-for-labour substitution; increased reliance on cloud-based technology; regulatory reform including tax systems; and industry consolidation.
- **Policy responses:** The rapid and extensive responses by many governments, combined with vast expansion of central banks' balance sheets to relieve financial conditions, have allowed the risk markets to look past the economic impacts and assume unlimited government and central banks support. It is likely that while government policies "fill in" lost incomes for a time, they cannot completely erase the impacts of the global recession. Significant economic damage occurred in the June 2020 quarter. The secondary (and probably longer-term) effects of the pandemic depend on consumer and corporate behaviour.
- **Geopolitical events**, including the implications of the US election results, Brexit negotiation and China–US tension, are expected to also remain influential on financial markets.

- **Risks of inflation:** Inflation risk is not a near-term concern in asset markets. However, we are mindful that it may be a growing risk longer term if gradual de-globalisation trends raise corporate costs and policy remains expansionary as economies recover to inflate the debt away.

To robustly navigate this uncertainty, we rely on the diversification characteristics of our portfolio; the quality of its underlying material assets; and the agility of our asset allocation management to lean against (into) the risks (opportunities) as they evolve.

Administration of our schemes

Table 3. CSC's operational performance: criteria and results

Performance criteria	Result
Achievement of operational objectives for contributions processing, and benefits/pensions payments (SOURCE: CSC's *2019–20 Corporate Plan, p. 5; 2019–20 Portfolio Budget Statements*, p. 101).	**Achieved:** 90% or more of each operational objective was met, as shown below. **Benefit payment objectives met:** • 97% of benefit payments to customers in CSC's defined benefit schemes were paid within five business days of CSC receiving all required documents (exceeding our performance criterion of 85.5%). • 99% of benefit payments to customers in CSC's defined contribution schemes were paid within three business days of CSC receiving all required documentation (exceeding our performance criterion of 85.5%). **Pension payment objectives met:** • 100% of fortnightly pension payment files for CSC's defined benefit schemes were lodged with CSC's bank on Wednesday morning prior to pay day (meeting our performance criterion of 90%). • 100% of pension payments for CSCri and ADF Cover were completed by the 21st of each month (meeting our performance criterion of 90%). **Contribution-processing objectives met:** • 99% of contributions to CSC's defined benefit schemes were allocated to customer accounts within four days of CSC validating the contribution (exceeding our performance criterion of 85.5%). • 100% of paper-based contributions for CSC's defined contributions were allocated to customer accounts within three business days of the contribution being validated (exceeding our performance criterion of 85.5%).

How we administer our superannuation schemes

Mercer Administration Services (Australia) Pty Ltd (Mercer Administration) is contracted by CSC to administer our PSSap, CSCri and ADF Super schemes. We administer all our other superannuation schemes.

Good administration helps our customers

Our administrative performance objectives are a set of rigorous standards and deadlines on how we administer all of our superannuation schemes. To meet our objectives in 2019–20, CSC and Mercer Administration:

- calculated and paid over $1.8 billion of superannuation benefits
- made over 6.4 million payments to more than 247,800 CSC pensioners and CSCri customers
- allocated over $3.4 billion of superannuation contributions to customer accounts
- dispatched 484,512 superannuation statements to customers.

By working to these rigorous standards, we give customers the peace of mind that their superannuation is administered accurately and efficiently.

Accurate and efficient administration

We have a well-developed governance framework for managing the administration of our customers' superannuation savings. This framework includes:

- activities to ensure we receive accurate and complete data from our customers' employers
- forecasts of workloads to ensure that staff are deployed most effectively during peak service periods
- continuous technology improvements so that administration is compliant, fast and accurate, and staff spend more time on customer needs.

Our services to customers

We are committed to the future wealth of our customers. Our commitment is embedded in our brand. We aim to be 'the guide' for our customers. In addition to the core administration of our customers' superannuation savings, we provide a range of services to help our customers achieve the retirement outcomes they seek.

These other services include:

- one-on-one and group seminars covering a range of superannuation topics, tailored to each of our superannuation schemes
- financial planning services which are provided on a fee-for-service basis—each of our financial planners is independently certified by our financial planning partner, Guideway
- general support and advice via our customer contact channels (phone, email, social media and in person)
- dedicated service teams to support employers in their management of contributory customers
- a dedicated team to provide service to customers when a customer passes away.

We recognise that our customers' needs and expectations are constantly changing and we must continually change and adapt our service model and how we communicate, to ensure we stay relevant and of value to our customers.

Customer feedback

We are committed to listening to our customers' feedback. We capture and respond to feedback through a Net Promoter System (NPS).

Each month we survey one-twelfth of our customers on their CSC experiences. The first survey question is: How likely would you be to recommend your CSC scheme to a friend or family member? The information gathered in these surveys is used to:

- improve our customer-facing teams' engagement with customers
- prioritise improvement initiatives and investments.

How did we perform?

Table 4. CSC's service performance: criteria and results

Performance criteria	Results
Adequate satisfaction levels of customers, beneficiaries and employers with the service provided. (SOURCE: CSC's *2019–20 Corporate Plan*, p. 5; *2019–20 Portfolio Budget Statements*, p. 101)	**Not Achieved**: Across all customers the NPS score fell 9 points.

Customer satisfaction

Our June 2020 NPS score was -10, a decrease of 9 points from our score in June 2019. However, the change in score is largely attributable to a change in survey design. We baselined our results at the start of the financial year, with a new baseline of -12.

The survey was re-designed to make sure we were making it easier for our customers to tell us the things that were important to them. This increased the quality of response, but also made it easier for our more dissatisfied customers to respond. We saw a higher percentage of responses from our

preserved customers than in previous years, who are typically more dissatisfied with our service due to restrictive scheme legislation.

We have seen our scores impacted by COVID-19 – we see our customers are feeling less confident about their financial futures and the impact of declining investment markets is impacting customer sentiment. Despite this, we have seen drivers related to our service offering increase across the board, with customers particularly responding to our increased communication, ease and prompt service and the manner in which we respond to enquiries.

We have continued to use our insights from customer feedback to make the right changes for customers. The insights inform day-to-day improvements for our customers, as well as help us prioritise projects and initiatives. Some initiatives include:

- re-design of key website features to improve access and content
- digital on-boarding and transition portal for customers on-boarding into our schemes and those leaving the Defence Force in our ADF Super scheme
- continued improvements on our annual statements including a new digital portal for 2019–20 annual statements
- improved communications for our customers moving into pensions phase.

We also surveyed our customers at particular touchpoints and important events. The NPS results for these touchpoints is shown in Table 5.

Table 5. NPS results across CSC in 2019–20

Touchpoint	NPS
On-boarding	-24
Financial advice	+50
Member education (seminars and one on ones)	+61
Early release decisions (invalidity and financial hardship)	+48
Ancillary on-boarding	+15
Retirement	+6
Claims lodgement	-14

These results demonstrate that when we engage with our customers, they are more likely to recommend CSC. Our challenge is to engage all of our customers and continually improve their experience.

Our planned employer relationship survey was delayed due to COVID-19 and the impact of the pandemic on our targeted customers. We are launching a more detailed relationship analytics survey for employers in quarter 1 2020–21, which will complement the employer relationship survey.

We surveyed our employers who attended training, achieving an overall NPS of +77.

More information about customer satisfaction with CSC's individual services can be found on pages 68–71.

Section 03

Our Board of Directors

03 Our Board of Directors

CSC's governing legislation establishes the CSC Board of Directors. The function of the Board is to ensure that CSC performs its functions as outlined in the governing legislation in a proper, efficient and effective manner. The Board has the power to do all things necessary for, or in connection with, the performance of its functions.

This section details the composition and responsibilities of the Board, Board remuneration and director indemnity, as well as explaining how the Board's authority is delegated and how Board performance is reviewed. Directors for 2019–20 are listed below.

Composition

In 2019–20 the Board consisted of an independent Chair and 10 other directors. The Minister for Finance (the Minister) chooses five directors in consultation with the Minister for Defence. Of the remaining directors, three are nominated by the President of the Australian Council of Trade Unions (ACTU) and two are nominated by the Chief of the Defence Force. The Minister appoints all directors. From 1 July 2020, the Board will consist of an independent Chair and 8 other directors.

The Chair is appointed by the Minister after consultation with the Minister for Defence, and after the Board has agreed to the person proposed by the Minister.

All directors must meet the fitness and proprietary standards under the SIS Act.

Responsibilities

The Board is responsible for the sound and prudent management of CSC's superannuation schemes. Directors and CSC employees are required to comply with the Board's governance policy framework.

The framework includes policies such as the Board Charter, Conflicts Management Policy and Framework, Fit and Proper, Board Renewal and Board Performance Evaluation. The Board Governance policy framework is discussed in section 4 'Our Governance' on page 46

Delegated authority

CSC may delegate its powers under scheme legislation. The Board has delegated authority for many activities, corporate and investment matters and scheme administration. Delegations are reviewed regularly to ensure they remain current. CSC employees exercising delegations are accountable to the CEO, who in turn is responsible to the Board. Sensitive or extraordinary matters that arise within delegated powers are usually referred by the CEO to the Board.

Performance review

The Board's performance is formally evaluated annually, including evaluation of the Board as a whole, the Chair, individual directors and Board committees. A range of matters is examined: performance relative to objectives, fulfilment of responsibilities, structure and skills, strategic direction and planning, policy development, and monitoring and supervision. The most recent Board Performance Assessment was undertaken by the Chair of the Board and was concluded in June 2020.

All directors participate in ongoing professional development activities.

Remuneration

The Remuneration Tribunal determines the remuneration of CSC directors (*Remuneration Tribunal Act 1973*), including for members of the Audit Committee and the Reconsideration Committees.

Remuneration is disclosed in this report – see pages 53–54.

Director indemnity

The director or a delegate of the Board, acting in good faith, will not be subject to any action, liability, claim or demand, for anything done (or not done) in the performance of their functions under CSC's governing legislation. CSC, however, may be subject to an action, liability, claim or demand.

As well as legislative indemnity for directors and delegates of the Board, CSC holds trustee liability and comprehensive crime insurance which complies with the *Corporations Act 2001*. CSC has provided all directors with a deed of indemnity, insurance and access.

Diversity

CSC aims to work in a supportive and collaborative way. We support and encourage a diverse and inclusive workforce by fostering a culture and environment of respect, courtesy, honesty and integrity, and treat others as we wish to be treated ourselves. We appreciate difference and respect other perspectives and cultures.

Our commitment to diversity starts at the Board level. CSC believes we will achieve better outcomes for customers, a higher standard of corporate governance, improved financial performance and attract and retain talented staff, if we genuinely embrace the goal of cognitive diversity, which is realised through workforce equality and a spectrum of skills and experience. We have also learned through the COVID-19 disruptions that our teams value and respond positively to more flexibility. We aim to capture these learnings.

CSC's commitment to diversity is detailed in our Diversity Policy, available on our website at csc.gov.au.

In accordance with these commitments, CSC actively encourages our investment managers to engage with investee companies that support these targets.

Our Board members in 2019–20

Mrs Patricia Cross

Appointed 1 July 2014; re-appointed 1 July 2017 to 30 June 2020 and 1 July 2020 to 30 June 2021

- Chair of the Board
- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Director of ARIA Co Pty Ltd

Mrs Cross is a non-executive director of Aviva plc (since 2013), a senior independent director of Aviva Investors Holdings Limited (since January 2017) and an Ambassador of the Australian Indigenous Education Foundation (since 2008).

Having begun her career in public service with the United States Government, Mrs Cross went on to gain extensive international financial services experience living and working in seven countries. She worked with Chase Manhattan Bank and Chase Investment Bank (1981–87), Banque Nationale de Paris (1987–88) and National Australia Bank (1988–96) where she ran Wholesale Banking & Finance and was a Member of the Group Executive Committee.

Since 1996 she has served as a public company director for Suncorp-Metway Limited (1996–2000), AMP Limited (2000–03), Wesfarmers Ltd (2003–10), Qantas Airways Limited (2004–13), National Australia Bank (2005–13), Macquarie Group Limited (2013–18) and Macquarie Bank Limited (2013–18). She was also Chairman of Qantas Superannuation Limited (2002–05), Deputy Chairman of the Transport Accident Commission of Victoria (1997–2001), a founding director of the Grattan Institute (2008–15) and founding Chair of 30% Club Australia (2015–18).

Mrs Cross has held a number of honorary government positions, including with the Financial Sector Advisory Council, Companies and Securities Advisory Committee, Panel of Experts to Australia as a Financial Centre Forum and Sydney APEC Business Advisory Council.

Mrs Cross has previously served on a wide range of not-for-profit boards, including the Murdoch Children's Research Institute (2002–11), and was the Co-Chair of WomenCorporateDirectors (WCD) in Australia (2014–17). In 2001, Mrs Cross received the Australian Centenary Medal for service to Australian society through the finance industry. Mrs Cross has a BSc (Hons) in International Economics from Georgetown University School of Foreign Services. In 2018, she was awarded Life Fellowship with the Australian Institute of Company Directors.

Mrs Ariane Barker

Appointed 13 September 2016 to 12 September 2019; re-appointed 13 September 2019 to 30 June 2022

- Member of the Audit Committee
- Member of the Risk Committee
- Director of ARIA Co Pty Ltd

Mrs Barker is CEO at Scale Investors (since 2018), a Director at IDP Education (since 2015), Chair of the Audit and Risk Committee at IDP Education (since 2015), and a member of the Investment Committee and Development Board at the Murdoch Children's Research Institute (since 2011).

Mrs Barker was previously a Board Director at Taralye, the Oral Language Centre for Deaf Children

(2011–14), and a member of the Community Advisory Committee at the Royal Victorian Eye and Ear Hospital (2013–18). Mrs Barker has over 20 years of experience in international banking and finance, including roles as General Manager, Products and Markets at JBWere (2015–17); Director, Equities Division at HSBC (2005–08); Executive Director, Equities Division at Goldman Sachs (Asia) (2000–02); and Associate – Capital Markets at Merrill Lynch International (1994–99).

Mrs. Barker has a Bachelor of Arts degree in Economics and Mathematics from Boston University and is a Fellow of the Australian Institute of Company Directors.

The Hon. Chris Ellison

Appointed 1 July 2014; re-appointed 1 July 2017 to 30 June 2020; re-appointed 1 July 2020 to 30 June 2023

- Member of the Board Governance Committee
- Chair of the Remuneration and HR Committee
- Director of ARIA Co Pty Ltd

The Hon. Chris Ellison is a director of the University of Notre Dame (since 2015) and Chancellor of the University of Notre Dame in Western Australia (since 2018, having previously been Governor since 2009). He is an advisor to Doric Jaxon Consolidated (since 2018) and Quintis Corporation (formerly TFS Corporation) (since 2009).

The Hon. Chris Ellison is a member of the WA Law Society and Chair of the SAS Regiment Resources Fund fundraising committee (since 2014). He was previously a director of Doric Construction Group (2011–15), Chairman of Australia's North West Tourism Board (2011–15), a member of the Study Group Academic (SGA) Council, and Chair of the Academic Board West for SGA (2014–18).

He was a Cabinet Minister in the Howard Government and in the Ministry for over 10 years (1997–2007). He held a number of portfolios including Justice and Customs and he remains Australia's longest serving Justice Minister. He has also held a legal practising certificate for over 40 years. He has a B.Juris and LLB both from the University of Western Australia.

Ms Nadine Flood

Appointed 1 July 2011; re-appointed 1 July 2014 to 30 June 2017; re-appointed 1 July 2017 to 30 June 2020

- Nominee of the President of the ACTU
- Member of the Audit Committee
- Member of the Risk Committee
- Director of ARIA Co Pty Ltd

Ms Flood is a director of Per Capita (since 2020), the Centre for Policy Development (since 2017, having previously held this position during 2010–15), a director of Shared Advantage Pty Ltd (since 2011) and ACTU Member Connect (since 2011), a member of the ACTU Growth and Campaign Committee (since 2010), a member of ACTU Executive (since 2009) and the Vice President of the Australian Council of Trade Unions (since 2015). In 2020, she was appointed Chair of the ACTU Bushfire Fund Working Group.

Ms Flood was previously the National Secretary of the CPSU (2010–19), a member of the ALP National Policy Forum (2013–16) and the ALP National Executive (2015-18). Ms Flood has a Bachelor of Economics degree from Macquarie University.

Ms Flood's term on the Board of CSC ended on 30 June 2020.

Ms Winsome Hall

Appointed 1 July 2011; re-appointed 1 July 2013 to 30 June 2016; re-appointed 1 July 2016 to 30 June 2019; re-appointed 1 July 2019 to 30 June 2020

- Nominee of the President of the ACTU
- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Member of the APS Reconsideration Advisory Committee
- Chair of ARIA Co Pty Ltd

Ms Hall was a trustee of the predecessor organisations ARIA and the CSS and PSS Boards (1996–2011). She is an independent non-executive director of the Medical Research Commercialisation Fund (since 2007) as a nominee of Australian Super, is Chair of the Women in Super NSW Mother's Day Classic (since 2013) and is a director of the National Breast Cancer Foundation (since 2016).

Ms Hall has previously been a non-executive director of various financial sector companies including Colonial First State Private Capital Limited (2001–08), State Super Financial Services (2006–09) and the Financial Industry Complaints Scheme (2004–08), and was previously a non-executive director of the commercial fund Uniseed (2005-15) and Chair of Zurich Australia Superannuation Pty Ltd (2010-19).

She has also been a member of the Financial Complaints Scheme Panel, best practice advisor to the Association of Superannuation Funds of Australia, Senior Advisor, Prime Minister and Cabinet, and Secretary of the ACT Branch of the CPSU. Ms Hall has a Bachelor of Arts degree from the Australian National University.

Ms Hall's term on the Board of CSC ended on 30 June 2020.

Mr Garry Hounsell

Appointed 1 July 2016 to 30 June 2019; re-appointed 1 July 2019 to 30 June 2022

- Chair of the Audit Committee
- Member of the Risk Committee
- Director of ARIA Co Pty Ltd

Mr Hounsell is the Chairman of Myer Holdings Limited (since 2017; Executive Chairman February 2018 – June 2018), Chairman of Helloworld Travel Limited (since 2016) and non-executive director and Chair of the Audit Committee at Treasury Wine Estates Limited (since 2012). Mr Hounsell is an Advisory Board Member at Charter Keck Cramer (since 2013) and a director at Findex (since 2020).

Mr Hounsell was previously the Chairman and a Non-Executive Director of Spotless Group Holdings Limited (2014–17), the Chairman of Emitch Limited (2006–08) and PanAust Limited (2008–15). He was also previously an Advisory Board Member of PanAust Limited (2015–17), Rothschild Australia Limited (2012–17), and Investec Global Aircraft Fund (2007–19). He was a director at Orica Limited (2004–13), Nufarm Limited (2004–12), Qantas Airways Limited (2005–15), Mitchell Communication Group Limited (2008–10), Integral Diagnostics Limited (2015–17), Dulux Group Limited (2010–17) and Investec Aircraft Syndicate Limited (2012–18).

Mr Hounsell was a Senior Partner at Ernst & Young (2002–04), CEO and Managing Partner of Arthur Andersen (2001–02) and a Partner at Arthur Andersen (1989–2002).

Mr Hounsell has a Bachelor of Business (Accounting) from the Swinburne Institute of Technology (1975) and is a Fellow of Chartered Accountants Australia and New Zealand, and a Fellow of the Australian Institute of Company Directors.

Mr Sunil Kemppi

Appointed 1 July 2016; re-appointed 1 July 2018 to 30 June 2021; resigned 22 November 2019

- Nominee of the President of the ACTU
- Director of ARIA Co Pty Ltd

Mr Kemppi is a Senior Industrial Officer with the Community and Public Sector Union (CPSU), where he provides industrial and legal advice (since 2015). He is the Acting Director, Legal and Industrial Unit, with CPSU (since 2019). Mr Kemppi is an Australian legal practitioner and has worked within the trade union movement since 2009.

Mr Kemppi served as a Board director for the Victorian Contract Cleaning Industry Portable Long Service Leave Fund Pty Ltd (2014–15).

Mr Kemppi has been an Organiser, Industrial Officer and Lead Industrial Officer with United Voice (2009–15), CSO and Trustee Service Consultant with Australian Administrative Services (2006–09), and Market Research Interviewer for the National Australia Bank (2004–06).

Mr Kemppi is a Juris Doctor and has a Graduate Diploma of Legal Practice, a Bachelor of Arts (Pol. Phil.) and a Graduate Diploma of Journalism.

Mr Kemppi resigned from his position as Director of CSC and ARIA Co Pty Ltd effective 22 November 2019. He was replaced by Mr Alistair Waters.

Air Vice-Marshal Tony Needham, AM

Appointed 1 July 2016 to 30 June 2019; re-appointed 1 July 2019 to 30 June 2022

- Nominee of the Chief of the Defence Force
- Deputy Chair of the MilitarySuper Reconsideration Committee
- Deputy Chair of the Defence Force Case Assessment Panel
- Director of ARIA Co Pty Ltd

Air Vice-Marshal Needham is a member of the Royal Australian Air Force Active Reserve (since early 2016), following a distinguished career over three decades in the permanent Air Force (1978–2016). He served as operational aircrew on the P-3C Orion and Royal Air Force Nimrod Mark 2 aircraft; the latter as aircraft captain. His military service included holding the positions of Head People Capability, Department of Defence (2014–15) and Deputy Commander, Joint Task Force 633, Middle East (2013).

Air Vice-Marshal Needham also served as a Commissioner of the Military Rehabilitation and Compensation Commission (2014–15) and Chair of the Defence Force Recruiting Board of Management (2014–15).

Air Vice-Marshal Needham holds a Master of Arts in Strategic Studies, Deakin University, Graduate Diploma in Management Studies and is a Graduate of the Australian Institute of Company Directors. Air Vice-Marshal Needham was appointed as a member in the Order of Australia in 2005 primarily for work in the Personnel area for the RAAF.

Ms Peggy O'Neal, AO

Appointed 1 July 2011; re-appointed 1 July 2014 to 30 June 2017; re-appointed 1 July 2017 to 30 June 2020

- Member of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Chair of the APS Reconsideration Committee
- Director of ARIA Co Pty Ltd

Ms O'Neal was a former partner of law firm Herbert Smith Freehills (1995–2009) and then a consultant (2009–11), specialising in superannuation and financial services law. She continues to act as a consultant to Lander & Rogers, Melbourne (since 2011). Ms O'Neal also serves as a director at Infrastructure Specialist Asset Management Limited (since 2018).

She is a member of the Victorian Ministerial Council on Women's Equality (since August 2017), an independent member of the External Compliance Committee for Vanguard Investments Australia (since 2009), the President of the Richmond Football Club (since 2013, having been a director from 2005), a director of Womens' Housing Limited (since 2013) and a director of VicHealth (since 2020).

Ms O'Neal was previously Chair of the Victorian Government Taskforce on Women in Sport and Recreation (2014–16) and an independent member of the Audit and Compliance Committee of UniSuper Ltd (2009–18). Ms O'Neal also served as a Director of NAB superannuation fund trustee subsidiary NULIS Nominees (2011–20).

Ms O'Neal is a fellow of the Australian Institute of Company Directors and an emeritus member of the Law Council of Australia Superannuation Committee. She has a Bachelor of Arts degree from Virginia Polytechnic Institute and State University, and a Juris Doctor, University of Virginia, having requalified to practice law in Australia at the University of Melbourne. She has also completed the ASFA Diploma in Superannuation Management.

Ms O'Neal's term on the Board of CSC ended on 30 June 2020.

Air Vice-Marshal Margaret Staib, AM, CSC

Appointed 2 May 2014; re-appointed 2 May 2017 to 1 May 2020; re-appointed 2 May 2020 to 1 May 2023

- Nominee of the Chief of the Defence Force
- Chair of the MilitarySuper Reconsideration Committee
- Chair of the Defence Force Case Assessment Panel
- Chair of the Risk Committee
- Member of the Audit Committee
- Director of ARIA Co Pty Ltd

Air Vice-Marshal Staib is a director of QinetiQ Australia (since 2017), a director of the Australian Strategic Policy Institute (since 2015), a member of the industry advisory boards of C|T Group (since 2018) and the Centre for Supply Chain and Logistics at Deakin University (since 2017). She was appointed as the National Government Freight Controller (April 2020). She is a member of the Royal Australian Air Force Active Reserve (since 2012), following a distinguished career over three decades in the permanent Air Force. In December 2019, she was appointed to the National Board of Chief Executive Women (CEW), in her capacity as ACT Chapter Chair.

Air Vice-Marshal Staib is also a Division Councillor of the Royal Aeronautical Society (Australian division) and a Northern Territory Defence and National Security Advocate (since 2017). Her military service included holding the position of Commander Joint Logistics and Commandant of the Australian Defence Force Academy.

Air Vice-Marshal Staib formerly held the position of Chief Executive Officer of Airservices Australia (2012–15). She was also a member of the Industry Advisory Board for the Centre for Aeronautical and Aviation Leadership of Embry-Riddle Aeronautical University (2010–15). She is also a Certified Practicing Logistician and a Fellow of the Chartered Institute of Logistics and Transport.

Air Vice-Marshal Staib holds a Bachelor of Business Studies, Master of Business Logistics and Master of Arts in Strategic Studies. She has received the United States Meritorious Service Medal, the Outstanding Contribution to Supply Chain Management in Australia Award and was appointed in 2009 as a member in the Military Division of the Order of Australia. In 2000, Air Vice-Marshal Staib's contribution and leadership in the field of ADF Aviation Inventory Management was recognised when she was awarded the Conspicuous Service Cross.

Dr Michael John Vertigan, AC

Appointed from 1 July 2017 to 30 June 2020; re-appointed 1 July 2020 to 30 June 2021

- Chair of the Board Governance Committee
- Member of the Remuneration and HR Committee
- Director of ARIA Co Pty Ltd

Dr Vertigan has experience in the public, higher education, philanthropy and business sectors. He is the former Chair of the AGEST Superannuation Fund (2004–08) and former Secretary of the Victorian (1993–98) and Tasmanian (1989–93) Departments of Treasury and Finance. He has held a number of academic appointments and is a former Chancellor of the University of Tasmania.

Dr Vertigan was the Independent Chair of the Gas Market Reform Group established by the COAG Energy Council (from 2016–19). He has previously held appointments on corporate boards and on a wide range of Commonwealth, state and territory government businesses, statutory bodies and advisory panels. He was a Director of CSC (2011–16) and a member of the ComCare Audit and Risk Committee (2016–19). Dr Vertigan has a Bachelor of Economics (Hons) from the University of Tasmania and a PhD from the University of California (Berkeley). Dr Vertigan was made a Companion of the Order of Australia in 2004. He is a fellow of the Australian Institute of Company Directors (since 1998) and the Institute of Public Administration of Australia (since 1994).

Mr Alistair Waters

Appointed 25 February 2020 to 24 February 2023

- Director of ARIA Co Pty Ltd

Mr Waters is National President of the PSU Group of the Community and Public Sector Union (CPSU) (since 2015). He has performed various governance, industrial, organising and policy roles at CPSU (since 1997). Mr Waters has worked with and represented CPSU members working in the ATO, Services Australia, Prime Minister & Cabinet and across the Australian Public Service and broader public sector for many years.

Mr Waters was previously a Board Director at Trades Hall Building Limited (2015–18).

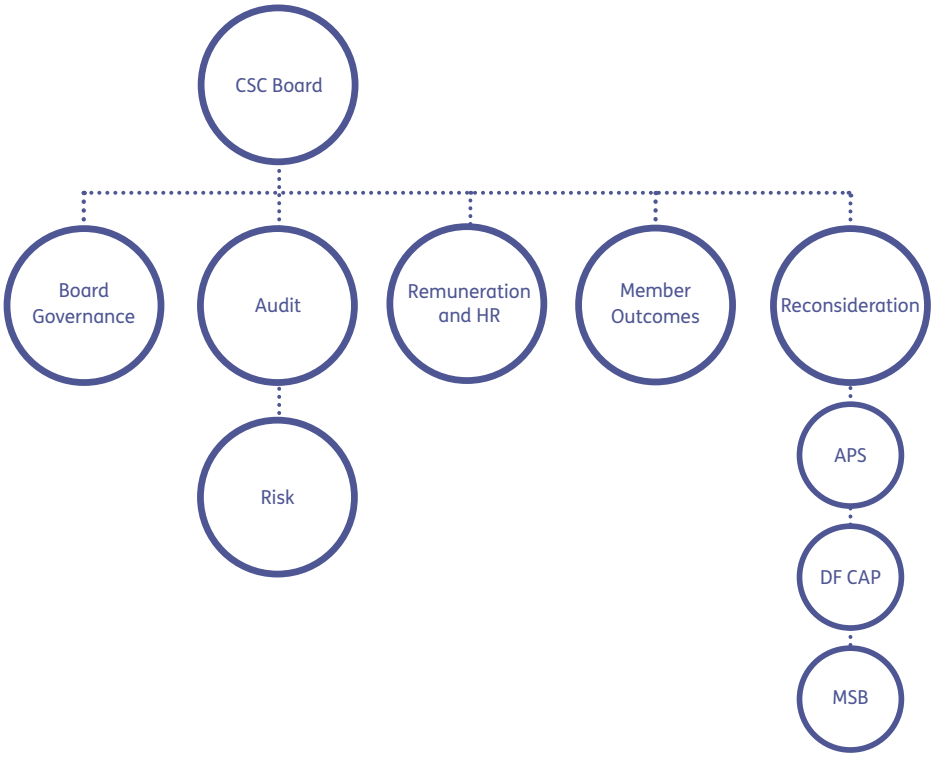
Mr Waters has a Bachelor of Arts degree in Politics, Philosophy and Sociology from Murdoch University.

Board meeting attendance

Table 6. Board and standing Board committee meeting attendance in 2019–20

Board Member	Board meetings (8)	
	Attended	Eligible to attend
Patricia Cross	8	8
Ariane Barker	8	8
The Hon. Chris Ellison	8	8
Nadine Flood	8	8
Winsome Hall	8	8
Garry Hounsell	8	8
Sunil Kemppi[1]	3	3
Air Vice-Marshal Tony Needham, AM	8	8
Peggy O'Neal, AO	7	8
Air Vice-Marshal Margaret Staib, AM, CSC	7	8
Dr Michael Vertigan, AC	7	8
Mr Alistair Waters[2]	3	3

Board committees



1 Resigned as of 22 November 2019.
2 Appointed 25 February 2020

Established committees assist the CSC Board to carry out its responsibilities. Committee members are appointed by the Board and each committee has its own Board-approved terms of reference, which are reviewed from time to time.

The Board has four standing committees: the Audit Committee, the Remuneration and HR Committee, the Board Governance Committee and the Risk Committee.

Table 7. CSC Board committees

Committee	Purpose	Membership
Audit Committee	To assist the Board in discharging its responsibilities by providing an objective non-executive review of CSC's financial reporting, taxation and regulatory compliance. Functions include: • integrity of financial reports • significant financial and accounting issues and policies • regulatory requirements and compliance • assurances on internal control and compliance systems • audit effectiveness, independence, scope and planning.	• Garry Hounsell (Chair) • Ariane Barker • Nadine Flood • Air Vice-Marshal Margaret Staib, AM, CSC
Risk Committee	To assist the Board in discharging its responsibilities by overseeing CSC's risk culture, risk frameworks and management of risk. Functions include: • business operations • technology and cyber security • fraud • insurance • business continuity and recovery • liquidity • investment governance • counterparty risk compliance.	• Air Vice-Marshal Margaret Staib, AM, CSC (Chair) • Ariane Barker • Nadine Flood • Garry Hounsell
Board Governance Committee	To assist the Board by advising and making recommendations on issues relevant to the corporate governance of CSC and the identification, education and evaluation of directors. Functions include: • critical review of corporate governance policies and procedures • review of the skills of the Board and its committees • support the Chair of the Board in respect to succession planning strategies for the Chair, Board and the CEO • reviewing and evaluating induction programs and identifying ongoing professional development requirements for existing directors • developing and implementing performance evaluation and improvements processes for the Board, Committees, and Directors.	• Dr Michael Vertigan, AC (Chair) • Patricia Cross • The Hon. Chris Ellison • Winsome Hall • Peggy O'Neal, AO

Committee	Purpose	Membership
Remuneration and HR Committee	To assist the Board by advising and making recommendations on issues relevant to its Remuneration Policy and human resource obligations. Functions include: • regular review of the Remuneration Policy, including assessment on its effectiveness and compliance with the requirements of APRA Prudential Standard SPS510 – Governance • making recommendations regarding CEO remuneration • making recommendations on the remuneration outcomes for CSC staff, and on the investment pool available for variable remuneration • satisfying the committee that CSC's people policies and practices support the attainment of CSC's strategic goals.	• The Hon. Chris Ellison (Chair) • Patricia Cross • Winsome Hall • Peggy O'Neal, AO • Dr Michael Vertigan, AC

Table 8. Audit and Risk Committee meetings attendance in 2019–20

	Audit Committee meetings (6)		Risk Committee meetings (5)	
	Attended	Eligible to attend	Attended	Eligible to attend
Ariane Barker	4	6	4	5
Nadine Flood	5	6	5	5
Garry Hounsell	6	6	5	5
Air Vice-Marshal Margaret Staib, AM, CSC	6	6	5	5

Table 9. Board Governance and Remuneration Committee and HR Committee meetings attendance in 2019–20

	Board Governance Committee meetings		Remuneration and HR Committee meetings	
	Attended	Eligible to attend	Attended	Eligible to attend
Patricia Cross	8	8	8	8
The Hon. Chris Ellison	8	8	8	8
Winsome Hall	7	8	7	8
Peggy O'Neal, AO	6	8	6	8
Dr Michael Vertigan, AC	7	8	7	8

Other Board committees

The Board has also established three committees which, on application by affected customers, reconsider some decisions made under scheme legislation. These committees are:

- the Australian Public Sector Schemes Reconsideration Committee
- the MilitarySuper Reconsideration Committee
- the Defence Force Case Assessment Panel.

CSC may from time to time establish other ad-hoc committees to meet a specific requirement or change. Currently CSC has one ad-hoc committee, the Member Outcomes Committee, established in August 2019 to help the Board develop and implement practices to ensure that CSC meets the requirements of APRA's *Prudential Standard SPS 515*. The Committee Membership in 2019–20 included Ms Peggy O'Neal (Chair), Mrs Ariane Barker, Ms Winsome Hall, AVM Tony Needham.

Section 04

Our Governance

04 Our Governance

Introduction

The CSC Board aspires to best practice and to be a leader in governance policy and practice. Our Board's governance framework includes the following policies (most of which are also available on our website):

- Board Charter
- Board Performance Evaluation Policy
- Board Renewal Policy
- Business Continuity Management Policy
- Conflicts Management Framework and Policy
- Diversity Policy
- Fit and Proper Policy
- Governance Framework
- Privacy Policy
- Remuneration Policy
- Whistleblower Protection and Public Interest Disclosure Policy

Following are the details of CSC's regulatory requirements, our approach to financial management, risk management, Member Outcomes and our compliance program. Also outlined are the fraud control and internal audit measures CSC has put in place.

Our regulatory requirements

CSC was established under the *Governance of Australian Government Superannuation Schemes Act 2011* (GAGSS Act) and is responsible for the super schemes covered in this report. Our objectives and functions, as set out in CSC's governing legislation, are outlined on pages 12–13. Our governing legislation establishes accountability arrangements for CSC, including annual reporting to Parliament and tabling of audited financial statements.

CSC holds both a Registrable Superannuation Entity (RSE) licence and an Australian Financial Services (AFS) licence, which means we are regulated by the Australian Prudential Regulation Authority under the *Superannuation Industry (Supervision) Act 1993* and the Australian Securities and Investments Commission under the *Corporations Act 2001*. CSC must uphold the conditions of both licences and comply with financial services law.

CSC is also bound by provisions of the various Acts and Deeds that establish and govern our individual schemes. Our regulated schemes must be managed and invested in accordance with the CSS Act, the PSS Act, the MilitarySuper Act, the PSSap Act, and the ADF Super Act, together with any relevant Trust Deeds under these Acts.

Our unregulated schemes are established by and must be administered in accordance with the 1922 Act, the DFRB Act, the DFRDB Act, the PNG Act, and the ADF Cover Act, as relevant.

Our financial management

CSC's finances are managed in accordance with the PGPA Act, our governing legislation and relevant scheme legislation. A Board-approved budget is in place and the Board has delegated its authority to individual staff to make and implement certain financial decisions.

Our risk management

Our Risk Management Strategy sets out CSC's risk management principles, our risk management framework and the underlying components and processes we use to identify, assess and mitigate risks.

Our Risk Appetite Statement describes the level of risk CSC is prepared to take on to achieve our objectives. The Risk Appetite Statement (RAS) and Risk Management Strategy (RMS) meet APRA's requirements under Prudential Standard SPS 220 and both are reviewed at least annually and updated as required. The RAS and RMS were last reviewed in September 2019.

Our compliance program

A detailed compliance program underpins CSC's Risk Management Strategy, satisfying the requirements of our RSE and AFS licences. Staff and certain service providers must regularly certify that they comply with all relevant legislative requirements, contractual provisions, regulatory policy and service standards, as well as any relevant licence conditions. Any instance of non-compliance must be reported.

CSC's Audit Committee oversees compliance reporting, including remediation if a breach has occurred. CSC has a Breach and Compliance Policy that describes how to report such breaches and this policy is distributed to our relevant service providers.

Fraud control

Strategies to manage the risks of fraud and corruption are set out in CSC's Fraud Control and Corruption Plan. The plan is reviewed annually and updated as required. The Fraud Control and Corruption Plan is available on the CSC Website.

Internal audit

Internal audit provides independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

CSC operates an outsourced internal audit model where internal audit functions and services are provided by KPMG under contract. CSC maintains internal oversight of the internal audit function through the Chief Operating Officer portfolio. The internal audit function also has a direct reporting line to the Audit Committee and may raise matters directly with the Committee as necessary.

Internal audit undertakes approximately 10 audits per year spanning financial, operational and regulatory subjects. A plan of audit topics is prepared on an annual basis. However, audits to address changes to business priorities or to CSC's risk profile can be initiated at any time by either the Board or the Audit Committee. The Audit Committee's annual internal audit plan takes into account previously identified risks, the results and recommendations of previous internal and external audits, legislative and regulatory changes and requirements, and anticipated business changes.

Member Outcomes

Member Outcomes is a regulatory initiative that came into operation on 1 January 2020.

CSC must demonstrate objectively and transparently that our customers and the business initiatives we pursue and deliver are meeting the best interests of our fund customers and groups of customers within our funds.

For CSC, Member Outcomes is about holding ourselves to account for our vision, our customer promise and our customer commitments.

We deliver Member Outcomes through three core functions:

1. Providing adequate retirement savings.
2. Enabling customers to make informed and engaged decisions.
3. Embedding ease, efficiency and effectiveness into our products and services.

CSC has identified five core business capabilities that support the core functions:

1. Organisational governance.
2. Risk management.
3. People and culture.
4. Data management.
5. Corporate effectiveness and infrastructure.

CSC is implementing the operational, reporting and accountability processes to ensure that genuinely positive Member Outcomes are realised by our customers, in accordance with the requirements of the Prudential Standard SPS515.

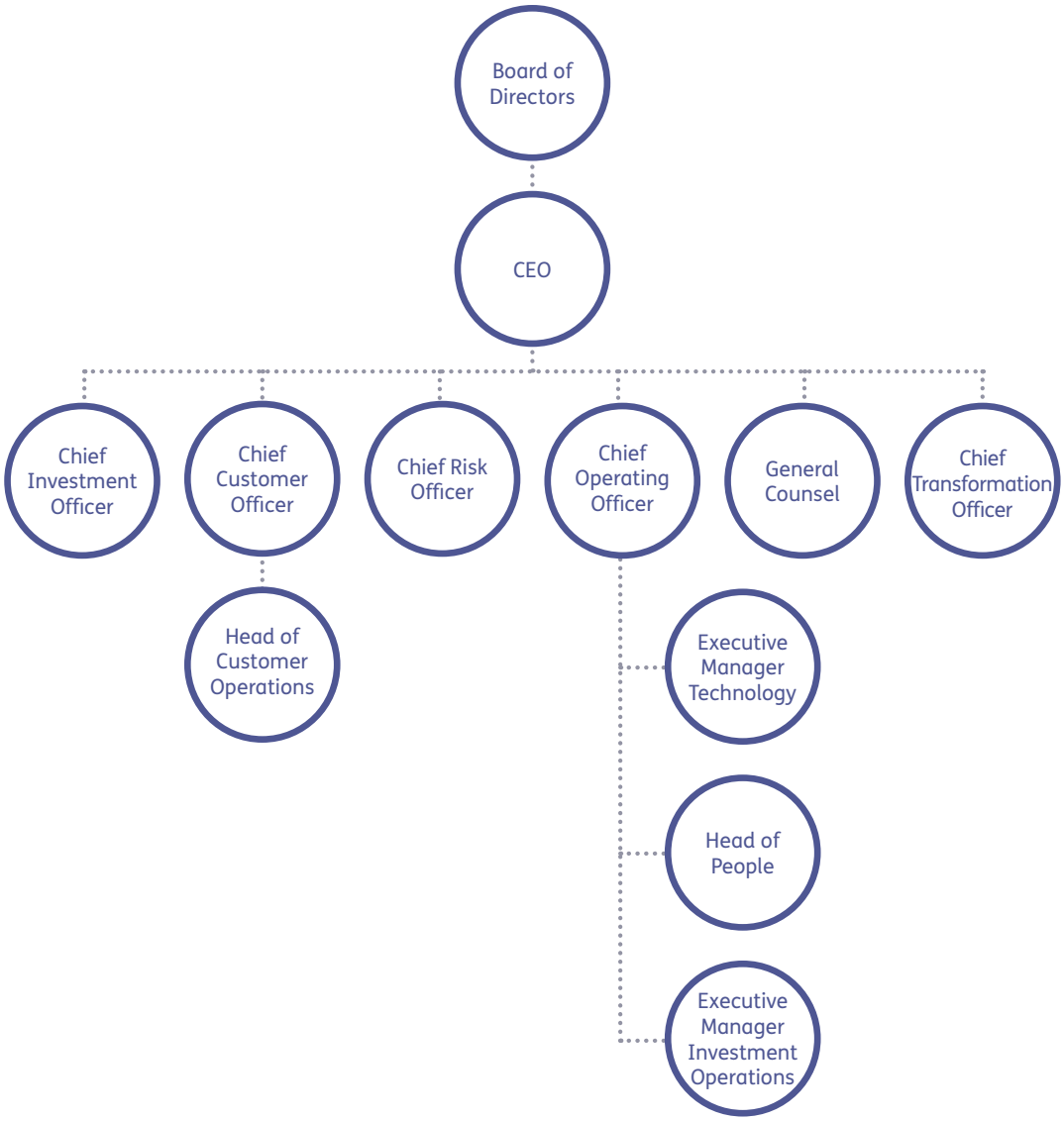
CSC has implemented a structured approach to the ongoing review and delivery of our Member Outcomes initiatives and activities. This is a cyclical annual process that involves five primary steps:

1. Review and refinement of the member and business outcomes that we continuously seek to achieve.
2. The identification and formalisation of strategic objectives to defend, improve or achieve those outcomes over planning periods of three years.
3. Developing a business plan – including key initiatives – that sets out how CSC will deliver on its strategic objectives.
4. Undertaking an annual business performance review that examines performance against outcomes and against the business plan.
5. Flowing from the business performance review, identification of the actions CSC will take through future strategic objectives and initiatives to maintain, adjust or change practices, anchored on a cycle of continuous review and delivery of Member Outcomes.

To 30 June 2020 CSC had undertaken the following activities as part of our Member Outcomes implementation:

- Board approval of 1st phase Member Outcomes (November 2019).
- Board approval of annual strategic planning cycle (November 2019).
- The first formal Annual Business Performance Review completed (June 2020).
- CSC's Strategic Objectives, Key Business Initiatives, and three-year financials developed by CSC's Executive Group (February – June 2020).
- Preparation of the 2020–23 Business Plan, including 2020–23 Strategic Objectives (provided to the August 2020 CSC Board meeting).

Our organisational chart



Our human resources

CSC's workforce of more than 480 full- or part-time staff is organised into three primary functions: Investments, Customer Innovation and Services, and Corporate. We also have stand-alone Risk, General Counsel and Transformation units which report directly to the CEO. Most staff are based in Canberra and Sydney, with a small number of customer educators and financial planners located in Melbourne, Brisbane and Adelaide. We also have one employee based in Singapore.

Table 10. Total ongoing employees in current report period, 2019–20

	Male			Female			Indeterminate			
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	Total
NSW	19	0	19	6	0	6	0	0	0	25
Qld	2	0	2	0	0	0	0	0	0	2
SA	1	0	1	0	0	0	0	0	0	1
Tas	0	0	0	0	0	0	0	0	0	0
Vic	1	1	2	0	0	0	0	0	0	2
WA	0	0	0	0	0	0	0	0	0	0
ACT	202	5	207	188	41	229	0	0	0	436
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**225**	**6**	**231**	**194**	**41**	**235**	**0**	**0**	**0**	**466**

Table 11. Total non-ongoing employees in current report period, 2019–20

	Male			Female			Indeterminate			
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	Total
NSW	2	0	2	0	0	0	0	0	0	2
Qld	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
Tas	0	0	0	0	0	0	0	0	0	0
Vic	0	0	0	0	0	0	0	0	0	0
WA	0	0	0	0	0	0	0	0	0	0
ACT	5	0	5	7	0	7	0	0	0	12
Overseas	1	0	1	0	0	0	0	0	0	1
Total	**8**	**0**	**8**	**7**	**0**	**7**	**0**	**0**	**0**	**15**

Table 12. Total ongoing employees in previous report period, 2018–19

	Male			Female			Indeterminate			
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	Total
NSW	16	0	16	5	0	5	0	0	0	21
Qld	1	0	1	0	0	0	0	0	0	1
SA	1	0	1	0	0	0	0	0	0	1
Tas	0	0	0	0	0	0	0	0	0	0
Vic	1	1	2	0	0	0	0	0	0	2
WA	0	0	0	0	0	0	0	0	0	0
ACT	190	5	195	185	33	218	0	0	0	413
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**209**	**6**	**215**	**190**	**33**	**223**	**0**	**0**	**0**	**438**

Table 13. Total non-ongoing employees in previous report period, 2018–19

	Male			Female			Indeterminate			
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	Total
NSW	1	0	1	0	0	0	0	0	0	1
Qld	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
Tas	0	0	0	0	0	0	0	0	0	0
Vic	0	0	0	0	0	0	0	0	0	0
WA	0	0	0	0	0	0	0	0	0	0
ACT	4	1	5	0	13	13	0	0	0	18
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**5**	**1**	**6**	**0**	**13**	**13**	**0**	**0**	**0**	**19**

Our staff remuneration

Our Remuneration Policy outlines CSC's objectives and the structure of our remuneration agreements, including performance-based remuneration. CSC acknowledges the connection between good risk and customer outcomes and compensation, incentive and remuneration. In this context, customers include current and potential customers and employers. The policy is designed to:

- drive and reward the best possible risk (both financial and non-financial) management practices and customer outcomes
- ensure that poor conduct and poor risk outcomes are recognised and not rewarded.

This policy complies with the requirements of Prudential Standard SPS 510, Governance. It is approved by our Board and forms part of CSC's risk management framework.

Our remuneration arrangements include measures of performance, a mix of forms of remuneration (for example, fixed and variable components, and case- and equity-related benefits) and timing and eligibility with reference to an employee's role within the organisation.

We benchmark salaries against the Financial Institutions Remuneration Group's (FIRG) market surveys. FIRG is a not-for-profit association of more than 120 banking and financial services organisations that shares anonymous remuneration data to establish market levels and trends. FIRG members match each of their staff members to around 1,200 job codes in FIRG's General Remuneration Survey and in the case of senior executives to around 150 positions in the Industry Leaders Survey. FIRG distributes the survey data every six months. We use the data to determine if our staff are paid at market levels or whether a salary adjustment is needed. Our Board determines the remuneration of the CEO and may seek external expert assistance.

As provided by the legislation establishing CSC, the GAGSS Act, the Remuneration Tribunal determines the remuneration of CSC directors, including for members of Board committees and reconsideration committees. Remuneration is shown in the following tables.

Staff are employed under individual contracts or in accordance with an Enterprise Agreement which transferred to CSC upon the merger of ComSuper into CSC on 1 July 2015. Staff set annual performance objectives and personal development plans to enhance skills and professional development and to ensure that professional qualifications are maintained.

Our Performance and Development policy outlines that CSC is committed to building and sustaining a culture of strategically aligned performance and accountability. Actively planning and reviewing the performance of our staff happens throughout the year with a formal review taking place at the end of the financial year. A mandatory risk KPI which is relevant to an employee's work must be successfully met as a prerequisite to being considered eligible for any variable component. The remuneration process is designed to encourage behaviour that aligns with CSC's Values and that supports:

- protecting the interests, and meeting the reasonable expectations, of customers
- the long-term financial soundness of CSC and its subsidiaries
- CSC's risk management framework.

CSC places importance on remuneration objectives that are clear, transparent, equitable and objectively determined.

Table 14. Remuneration of key CSC management personnel, 2019–20

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits	Termination benefits $	Total remuneration $
		Base salary $	Bonuses $	Other benefits and allowances $	Superannuation contributions $	Long-service leave $		
Ariane Barker	Director	$75,508	$ -	$ -	$7,173	$ -	$ -	$82,682
Patricia Cross	Chair	$140,798	$-	$-	$13,376	$ -	$ -	$154,174
Chris Ellison	Director	$67,350	$-	$-	$10,372	$ -	$ -	$77,721
Nadine Flood	Director	$75,508	$-	$-	$11,628	$ -	$ -	$87,137
Winsome Hall	Director	$70,360	$-	$-	$18,733	$ -	$ -	$89,093
Garry Hounsell	Director	$83,667	$-	$-	$7,948	$ -	$ -	$91,615
Sunil Kemppi	Director	$28,488	$-	$-	$4,387	$ -	$ -	$32,875
Tony Needham	Director	$72,768	$-	$-	$11,206	$ -	$ -	$83,974
Peggy O'Neal	Director	$70,690	$-	$-	$6,715	$ -	$ -	$77,405
Margaret Staib	Director	$80,838	$ -	$ -	$12,449	$ -	$ -	$93,288
Michael Vertigan	Director	$67,350	$-	$-	$6,398	$ -	$ -	$73,748
Alistair Waters	Director	$22,540	$-	$-	$3,471	$ -	$ -	$26,011
Paul Abraham	Executive Manager, Investment Operations	$266,223	$76,020	$-	$25,000	-$3,742	$ -	$363,501
Catharine Armitage	Head of People	$228,903	$41,625	$-	$25,000	$5,282	$ -	$300,811
Peter Carrigy-Ryan	Chief Executive Officer	$582,033	$184,516	$-	$102,722	-$35,441	$ -	$833,830
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)	$271,927	$77,048	$-	$25,000	$3,233	$ -	$377,208
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)	$140,873	$-	$-	$508	$5,680	$ -	$147,061

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits	Termination benefits $	Total remuneration $
		Base salary $	Bonuses $	Other benefits and allowances $	Superannuation contributions $	Long-service leave $		
Peter Jamieson	Chief Customer Officer	$386,538	$42,297	$ -	$25,000	$5,753	$ -	$459,587
Adam Nettheim	Head of Scheme Operations	$280,344	$43,090	$ -	$29,507	$4,883	$ -	$357,824
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)	$309,497	$40,311	$ -	$25,000	$15,811	$ -	$390,618
Alison Tarditi	Chief Investment Officer	$615,115	$607,725	$ -	$25,000	-$30,151	$ -	$1,217,689
Andy Young	Chief Operating Officer	$413,955	$114,030	$ -	$25,000	-$1,343	$ -	$551,642

Table 15. Remuneration of other highly paid CSC staff, 2019–20

Total remuneration bands	Number of other highly paid staff	Short-term benefits			Post-employment benefits	Other long-term benefits	Termination benefits	Total remuneration
		Average base salary	Average bonuses	Average other benefits and allowances	Average superannuation contributions	Average long service leave	Average termination benefits	Average total remuneration
$225,001-$245,000	10	$182,885	$26,792	$ -	$23,359	$1,242	$ -	$234,278
$245,001-$270,000	4	$176,428	$28,423	$ -	$26,580	$2,346	$24,797	$258,573
$270,001-$295,000	2	$173,263	$33,850	$ -	$30,110	$3,313	$48,076	$288,613
$295,001-$320,000	1	$216,308	$56,699	$ -	$25,000	$6,930	$ -	$304,938
$320,001-$345,000	2	$259,586	$45,756	$ -	$25,000	$3,048	$ -	$333,390
$345,001-$370,000	2	$280,371	$54,864	$ -	$25,000	$674	$ -	$360,908
$370,001-$395,000	1	$256,624	$72,540	$ -	$44,478	$5,484	$ -	$379,126
$470,001-$495,000	3	$338,055	$115,139	$ -	$24,942	-$1,487	$ -	$476,648
$695,001-$720,000	1	$341,677	$339,500	$ -	$25,000	-$9,326	$ -	$696,851

Section 05

Our Investments

05 Our Investments

Introduction

CSC manages and invests five schemes:

- CSS (Commonwealth Superannuation Scheme)
- PSS (Public Sector Superannuation Scheme)
- MilitarySuper (Military Superannuation & Benefits Scheme)
- PSSap (Public Sector Superannuation accumulation plan, including the CSCri: the Commonwealth Superannuation Corporation retirement income)
- ADF Super (Australian Defence Force Superannuation).

This section details how investment performance of these schemes affects a customer's superannuation benefit.

It also provides CSC investment performance to 30 June 2020, together with information on our investment approach, strategy, internal governance, environmental, social and governance practices as they relate to investments, and investment options.

How investment performance affects a customer's benefit

The impact of investment performance on a customer's benefit differs across our schemes. Investment returns do not affect PSS contributing customers' final benefits. Investment performance has a greater impact on CSS contributing and deferred benefit customers and on PSS preserved benefit customers because in those circumstances performance directly influences a customer's final benefit.

In some circumstances, investment returns also affect the Australian Government's financial outlays on customers' benefits, such as in the case of PSS contributing customers.

For MilitarySuper, investment performance directly affects the final benefit for all customers, together with a small part of the employer benefit for contributing customers.

Benefits in PSSap, ADF Super and CSCri (including transition to retirement income streams) are directly affected by investment performance.

The 1922, DFRB, DFRDB and the PNG schemes are unfunded superannuation schemes. While CSC administers these schemes, CSC does not invest monies for these schemes. Details of each Scheme's structure is found in the Investment Options and Risk Product Disclosure Statement: **https://www.csc.gov.au/Members/Advice-and-resources/Product-Disclosure-Statement/**

Our investment approach

We aim to achieve consistent long-term returns within a structured risk framework. To achieve this, we manage and invest each scheme's investment option to enable its stated investment objective within strictly defined risk limits. Each scheme is managed in a way that allows for payment of monies to meet customer benefit payments, and to achieve equity among all customers, as well as exercising care and diligence to maintain and grow the assets of the schemes.

CSC jointly invests the schemes in one pooled investment trust, providing economy-of-scale benefits to customers of each regulated scheme.

Professional external investment managers are responsible for managing investments, which enables investment options in each scheme to gain exposure to a number of different asset classes.

Target asset allocation and rebalancing ranges are set for each investment option. These allocations and ranges are outlined in Table 17 on page 63.

Our investment strategy

Our investment strategy focuses on providing financial adequacy in retirement for all scheme customers. The level of risk taken focuses on maximising the likelihood of achieving this outcome for all CSC customers.

This means that CSC-managed investment portfolios, relative to those managed by other superannuation fund providers, should preserve more wealth through periods of negative equity market returns and capture a significant proportion, but not all, of the returns available through very strong market conditions. Note, however, that through periods of strong equity market returns, CSC customers' investment returns should comfortably exceed targeted objectives.

Over the full investment horizon (that is, the length of time an investor expects to hold an investment product), as more capital is preserved in weak markets and most of the returns are captured in strong markets, the cumulative return to customers will be very competitive and the volatility of returns will be reduced.

Our investment governance

Our investment governance focuses on managing and pricing investment risks efficiently. CSC's primary objective is to achieve stated investment objectives within strictly defined risk limits.

Our Board has established a comprehensive investment governance framework, which includes a clear statement of both Board and Executive responsibilities.

The CSC Board

Our Board is responsible for the sound and prudent management of the assets of CSC's schemes. It sets, reviews and oversees the investment strategy, mission statement and core investment beliefs. It approves and monitors investment strategies for each investment option, agrees the budget, and determines appropriate delegations.

To approve CSC's investment strategy, factors such as CSC's specific scheme-membership characteristics – including demographics, perceived organisational comparative advantages, scale (as measured by funds under management), and the broader investment environment – are all explicitly considered.

To approve an investment strategy for an individual investment option, the Board considers the objective, in terms of return and risk measures, and the investment horizon, in the context of these factors.

Our Board delegates management of investment activities to relevant members of the Executive. Reports on approved investment policies, investment performance, liquidity, risk, external investment manager and portfolio activity, portfolio structure, capital allocation and the risk budget are submitted and discussed at every Board meeting.

Our Investment team

Our Investment team advises the Board on investments, implements Board-approved strategies and manages all investments that fall within Board-approved delegations. The team is led by the Chief Investment Officer (CIO) and manages investments in a manner consistent with the Board's investment strategy, its decisions on asset allocation, and its detailed investment policies.

Our Investment team performs two major functions:

- It executes investment strategy, option design and risk budget deployment, and monitors the evolving risks and opportunities for each fund as well as for broader financial markets.
- It identifies the most efficient implementation channels for investment strategies, where 'efficient' is defined as the highest prospective, net (of fees), return per unit of risk.

Both functions are fulfilled by specialist senior investment managers, supported by investment analysts, who report directly to the CIO.

Our Investment Operations team

Our Investment Operations team is led by the Executive Manager Investment Operations. This executive position reports to CSC's Chief Operating Officer, who reports to the CEO. Responsibilities of the Investment Operations team include:

- implementation of investment team decisions, in accordance with Board-approved delegations
- management of CSC's custodial relationship and its associated activities
- assurance that CSC's external investment managers comply with all CSC requirements
- conduct of operational due diligence.

Investment managers

Under scheme legislation, CSC is required to invest through external investment managers. On the recommendation of the CIO, the Board approves the appointment of 'investment-grade' managers who may be appointed at any time by CSC.

Investment managers are selected for their specific expertise and invest according to individual mandates set by CSC that address our specific portfolio requirements. These mandates provide direction to the type of investments to be held, the maximum and minimum holdings for each investment type, and target rates of return and risk limits.

External investment managers are paid a fee usually based (in part) on the value of assets managed on behalf of CSC but, importantly, where possible on their performance in both returns and risk taking.

Fees reflect investment costs applicable to each asset class category and the investment style of each manager.

Some managers who exceed predetermined benchmarks within specified risk limits may be paid a performance fee, which is usually a share of the excess performance.

Environmental, social and governance factors

We are proactive asset owners and engage with companies that our customers' savings are most exposed to in order to support areas such as: smooth transitions in the use of energy in the

economy, and robust and accountable management of human resources in the companies' day-to-day operations (for example, pollution and carbon footprint). We concentrate on understanding the robustness of our investee companies' governance frameworks and focus on observing their consequences. We believe that when these are done well, management of environmental, social, human capital and other strategic risks is more likely to also be robust.

Customer savings are proactively invested in the infrastructure, technologies and innovations of the future to both improve the retirement outcomes of customers financially, but also contribute positively to the environmental, social and governance goals of society (e.g. United Nations Social Development Goals – SDGs). Case studies are available online and include renewable energy projects, biotech and pharmaceutical solutions, healthcare services, data centres, telecommunication satellites, affordable and reliable access to water and sanitation, energy and education.

We endeavour to integrate consideration of all relevant risk factors into our investment process, including those that have the potential to impact future franchise values over long horizons. We take this responsibility seriously and we have been recognised globally for our innovation and market-leading approach by the United Nations' PRI innovation awards, the Bretton Woods II most responsible asset allocator initiative, and the Asian Investor Excellence Award in the categories of Governance and Innovation.

We actively pursue the principles of good governance in our operations and seek them in the companies in which we invest. Poor governance, sometimes evident in poor environmental and social practices, can be a sign of poor corporate management and may lead to a decline in the value of our customers' investments. We seek to identify these risks and mitigate them, where they are potentially material to our customers' superannuation savings. To this end, CSC is an active owner of all our investments: our mission is to create and steward enduring wealth for our customers.

Our ownership is prosecuted through several channels, including:

- voting on all shareholder resolutions of our Australian and international investee companies
- voting on all private capital advisory board resolutions, where an advisory board position is held
- publicly communicating our ESG and proxy voting policies and practices, to which our external managers are asked to adhere
- engaging constructively and proactively with our material public-investee companies in Australia, to deepen internal corporate governance and fit-for-purpose strategic execution
- directly influencing governance practices and decision-making in our private capital investments
- committing, firstly, to reflect these practices in our own governance and innovation execution, for example:
  - In 2002, we founded an industry-first research capability after recognising an industry-wide gap in understanding and measuring of the impact of ESG factors on investment portfolios. This allowed us to gain insight and actively engage with Australian public companies that we materially invest in: on their governance practices, environmental footprints and social externalities of their operations.
  - In 2006 we were an early signatory to the United Nations–backed Principles for Responsible Investment (PRI), founded in April 2006 (see more below).
  - In 2009 we were the first Australian fund to have its portfolio carbon footprinted by the Climate Change Institute.
  - In 2015 we were an early signatory to the Montreal Carbon Pledge (see more below).

CSC is currently:

- rated A+ by the PRI global benchmarking exercise on responsible-investment prosecution by asset owners and managers

- in the top 20% of the 2019 global Most Responsible Asset Allocators Initiative (RAAI). This follows on from CSC's position amongst the most responsible asset allocators among Sovereign Wealth Funds and Government Pension Plans around the globe in the inaugural leaders list in 2017.

Principles for Responsible Investment (PRI)

In November 2006, CSC was among the earliest signatories of the United Nations–supported Principles for Responsible Investment (PRI, founded in April 2006). PRI provides a framework for institutional investors to align investment activities with the broader interests of society while maximising long-term returns for their beneficiaries.

The six principles of PRI and its signatories are:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

Montreal Carbon Pledge

We are a signatory to the Montreal Carbon Pledge which is supported by PRI. It aims to increase investor awareness, understanding and management of climate change–related impacts, risks and opportunities. Under the pledge, we commit to measuring and disclosing, on at least an annual basis, the carbon footprint of our public market equities portfolio.

Table 16 shows that our public market equities carbon footprint (as at 30 June 2020) is estimated to be 12% lower than its benchmark by 12 million tonnes of CO_2 emissions per AUD million invested.

Table 16. CSC's public market equities carbon footprint at 30 June 2020

CSC listed equities	CSC	Benchmark	Difference
Carbon footprint*	91	103	-12

* Carbon footprint is measured in million tonnes of $C0_2e$ (Scope 1 + Scope 2) per AUD million invested (as at 30 June 2020).

At present we have over A$771 million invested in high-quality private and public assets including wind farms, waste management infrastructure projects and renewable energy initiatives that add to the net new supply of facilities (as at 30 June 2020) .

These investments reduce our portfolio carbon emissions by over 200,000 tonnes of CO_2 per annum, compared to having this money invested passively to meet a similar level of energy demand (for calendar year 2019).

Further details are available on our Climate Change Factsheet on our website.

Our investment options

Table 17. CSC investment options at 30 June 2020

Investment option (scheme)	Objective	Risk		Minimum suggested time frame	Target asset allocation including CSCri TRIS (ranges)	CSCri standard target asset allocation (ranges)
		Band	Label			
Cash (CSS, PSS, MilitarySuper, PSSap, CSCri and ADF Super)	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	One	Very low	1 year	Cash 100% (100%)	Cash 100% (100%)
Income Focused (MilitarySuper, PSSap, CSCri and ADF Super)	To outperform the CPI by 2% per annum over 10 years	Three	Low to medium	5 years	Cash 21% (10–100%) Fixed interest 26% (10–100%) Equities 16% (0–40%) Property 24% (0–35%) Infrastructure 1% (0–35%) Alternatives 12% (0–70%)	Cash 30% (10–100%) Fixed interest 23% (10–100%) Equities 12% (0–40%) Property 24% (0–35%) Infrastructure 1% (0–35%) Alternatives 10% (0–70%)
Default Fund (CSS/PSS) Balanced (MilitarySuper and CSCri) MySuper Balanced (PSSap and ADF Super)	To outperform the CPI by 3.5% per annum over 10 years	Five	Medium to high	10 years	Cash 4% (0–65%) Fixed interest 18% (0–65%) Equities 47% (15–75%) Property 11% (5–25%) Infrastructure 1% (0–20%) Alternatives 19% (0–30%)	Cash 15% (0–65%) Fixed interest 15% (0–65%) Equities 40% (15–75%) Property 11% (5–25%) Infrastructure 1% (0–20%) Alternatives 18% (0–30%)
Aggressive (MilitarySuper, PSSap, CSCri and ADF Super)	To outperform the CPI by 4.5% per annum over 10 years	Six	High	15 years	Cash 2% (0–35%) Fixed interest 4% (0–35%) Equities 67% (20–95%) Property 16% (0–50%) Infrastructure 1% (0–50%) Alternatives 10% (0–70%)	Cash 2% (0–35%) Fixed interest 6% (0–35%) Equities 60% (20–95%) Property 16% (0–50%) Infrastructure 1% (0–50%) Alternatives 15% (0–70%)

Note: Investment risk bands and labels (used by CSC's standard risk measure) are explained in the Investment Options and Risk booklet, which is part of each scheme's Product Disclosure Statement (PDS).

Our investment performance

Investment performance for each option is calculated after fees and taxes (please note that past performance is no indication of future performance).

Performance is calculated based on the actual value of investment option assets as at the end of the quoted performance period (which is 1 July 2019 to 30 June 2020 for this report) and is indicative only of the returns that a customer achieves on their investment.

Earning rates (for CSS and PSS) and unit prices (for MilitarySuper, PSSap, CSCri and ADF Super) are used for daily customer transactions and will determine the actual performance a customer achieves based on the timing and amount of their individual transactions. The earning rates and unit prices are determined based on the best available information at the time they are declared. Valuations are incorporated into the calculations for earning rates and unit prices as soon as practical after they are received.

Using earning rates or unit prices to calculate investment performance for the 1 July 2019 to 30 June 2020 period will provide similar – but not identical – returns to the investment performance figures published below in tables 18–24.

Analysis of CSC's investment performance is included in our Chair's report on pages 16–19 and in the Annual Performance Statement on page 21.

Table 18. CSS investment performance to 30 June 2020

	Objective	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	15 years % pa
Australian inflation		-0.3	1.1	1.3	1.5	1.8	2.2
Options							
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	-0.8	5.4	5.5	7.3	7.4	6.2
Cash Investment Option	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.9	1.4	1.5	1.7	2.3	3.1

Table 19. PSS investment performance to 30 June 2020

	Objective	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	15 years % pa
Australian inflation		-0.3	1.1	1.3	1.5	1.8	2.2
Options							
Default Fund	To outperform the CPI by 3.5% per annum over 10 years	-1.1	5.2	5.4	7.2	7.3	6.2
Cash Investment Option	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.8	1.3	1.5	1.6	2.2	3.1

Table 20. MilitarySuper investment performance to 30 June 2020

	Objective	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	15 years % pa
Australian inflation		-0.3	1.1	1.3	1.5	1.8	2.2
Options							
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.7	1.3	1.4	1.6	2.2	3.1
Income focused	To outperform the CPI by 2% per annum over 10 years	3.5	5.6	5.8	6.0	5.6	4.9
Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	-1.1	5.2	5.4	7.1	6.6	5.5
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	1.7	7.2	6.9	9.0	8.3	5.9

Table 21. PSSap investment performance to 30 June 2020

	Objective	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	15 years % pa
Australian inflation		-0.3	1.1	1.3	1.5	1.8	2.2
Options							
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.7	1.2	1.4	1.6	2.2	3.1
Income focused	To outperform the CPI by 2% per annum over 10 years	3.6	5.6	5.7	5.9	6.1	5.5
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	-1.1	5.2	5.3	7.2	7.3	6.3
Ancillary Balanced	To outperform the CPI by 3.5% per annum over 10 years	-1.1	5.2	5.3	7.1	7.3	6.3
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	1.9	7.2	6.9	9.0	8.8	7.2

Table 22. CSCri investment performance to 30 June 2020

	1 year %	3 years % pa	5 years % pa	7 years % pa
Australian inflation	-0.3	1.1	1.3	1.5
Options				
Cash	0.9	1.5	1.7	1.9
Income focused (default)	4.4	6.2	6.2	6.5
Balanced	-0.3	5.8	5.9	7.9
Aggressive	2.5	8.2	7.6	10.0

Note: The date of inception of the Cash, Income Focused and Balanced options was 7 May 2013, and 25 June 2013 for the Aggressive Option.

Table 23. CSCri TRIS investment performance to 30 June 2020

	Objective	1 year %	3 years % pa
Australian inflation		-0.3	1.1
Options			
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.7	1.2
Income focused	To outperform the CPI by 2% per annum over 10 years	3.6	5.8
Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	-1.0	5.3
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	2.1	7.4

Table 24. ADF Super investment performance to 30 June 2020

	Objective	1 year %	3 years % pa	4 years % pa
Australian inflation		-0.3	1.1	1.3
Options				
Cash	To preserve capital and earn a pre-tax return in line with that of the Bloomberg AusBond Bank Bill Index by investing 100% in cash assets	0.7	1.3	1.4
Income focused	To outperform the CPI by 2% per annum over 10 years	3.4	5.5	5.6
MySuper Balanced (default)	To outperform the CPI by 3.5% per annum over 10 years	-1.3	5.1	6.2
Aggressive	To outperform the CPI by 4.5% per annum over 10 years	1.8	7.2	8.3

Section 06

Our Superannuation Services

06 Our Superannuation Services

Help for our customers

We strive to provide superannuation services that are relevant, reliable and helpful to our customers. We want our customers to be able to make informed decisions about their superannuation and their future income needs.

We provide to our customers:

- general information delivered over the phone and by email
- secure access to online services (account balances, investment options)
- education and general advice via public and in-house seminars and webinars
- general advice delivered person-to-person (known as 'one-to-one consultations')
- personal financial advice from financial planners who are salaried CSC employees authorised to provide advice by Guideway Financial Services (ABN 46 156 498 538, AFSL 420367).

Our services to customers are described in more detail below.

Help for our employers

In addition to services for our customers, we also help our many employers to meet their superannuation responsibilities.

We provide to our employers:

- a CSC employer relationship manager who provides organisational-level support regarding superannuation
- training for payroll and HR staff, including salary for super, super contributions and choice of fund obligations
- an Employer Service Desk located in our Canberra headquarters to answer general questions about superannuation.

Our customers' and employers' satisfaction with our services

Along with the increase in service drivers seen in the overall NPS results, we have seen a consistently high level of satisfaction across our service delivery – with higher results seen in surveys where we have increased touch points with customers. This demonstrates that when customers engage with CSC they are satisfied and value the service provided.

Our June 2020 NPS score was -10, a decrease of 9 points from our score in June 2019. However, the change in score is largely attributable to a change in survey design. We baselined our results at the start of the financial year, with a new baseline of -12. More detail about CSC's overall customer satisfaction levels and our use of the NPS can be found on pages 30–31.

We continue to expand the number of touchpoints we measure to ensure that we better understand our performance and drive positive change for our customers. Over the 2019–20 financial year, we began measuring the satisfaction of retiring customers, customers who join our PSSap Ancillary product and customers who lodge an insurance claim with CSC. We also conducted more specific research into a range of services.

Employer satisfaction with our training services continues to score highly with an NPS of +77. More information about employer satisfaction can be found on pages 30–31.

Seminars for customers

In 2019–20, the COVID-19 pandemic greatly impacted the way in which we delivered our seminars to customers. Social distancing protocols and restrictions on domestic travel meant that we could no longer deliver face-to-face or group seminars. The change we made from in-person to web-based delivery had a large impact on the number of customers we were able to see during the financial year.

There is ongoing development of web content to ensure this mechanism continues to be an attractive way for customers to receive information which is pertinent to them. From July to February we delivered 320 seminars across the country. From March to July we delivered 31 webinars with an average attendance of 20.

While the number of attendees at live webinars was low, the number of views of the recorded online content was consistent with pre-COVID-19 numbers. This indicated that customers were happy to watch the content at a time that suited them rather than waiting for a scheduled live event.

Our seminars and webinars encouraged customers to ask themselves important questions about their retirement needs, such as:

- How much super will I need?
- Am I on track?
- Should I make extra contributions?
- What is the right investment option for me?
- Do I need extra insurance cover in the unlikely event something goes wrong?
- Is now the right time to get personal advice for my needs and goals?

Customers told us they were generally very satisfied with the seminar or webinar they attended or viewed, giving it an average NPS score of 56.

Customers told us they liked receiving new information about superannuation that only an expert would know and having confusing aspects of superannuation explained in ways they can understand.

Military one-to-one consultations

Our education team provides general advice on superannuation and retirement planning to individual military scheme customers. In 2019–20, we provided over 3,700 one-to-one consultations to customers at ADF establishments around Australia. The COVID-19 pandemic interrupted this service but we were quickly able to move the service to a phone-based consultation so there was no decrease in service to our customers.

Sessions covered general advice including how to contribute to superannuation, how to access superannuation at retirement, benefit options and how superannuation is taxed.

Military customers were usually very satisfied with their one-to-one consultation, on average scoring it an NPS of 68. Customers liked the professional, easy-to-understand explanation of superannuation they received. If customers expressed any dissatisfaction with their one-to-one consultation, it was usually because of waiting times for consultations.

Personal financial advice

In 2019–20, our financial planning team met with more than 1,300 customers and provided fee-for-service personal financial advice to more than 300 customers. Customers received personal advice on their individual objectives, financial situation and needs. Advice was provided on a range of financial matters including how to plan for retirement; how to reduce debt; how to achieve lifestyle goals such as saving to renovate or to holiday; and how to achieve other long-term goals such as saving for retirement or to leave an inheritance.

As a response to the COVID-19 pandemic and uncertainty around Early Release and Investment Markets, the Financial Planning team offered customers 15-minute general advice sessions around these areas and spoke to over 100 customers.

Customers usually told us they were very satisfied with the advice they received, with an NPS score of 50 for the financial year. Customers told us that receiving clear and professional advice that was in their personal best interest was important to them. Many customers liked that their financial planner was a salaried CSC employee who was not paid commissions and did not receive any hidden financial incentives.

Fee-for-service advice for customers

Personal financial advice has been provided to customers on a fee-for-service basis since CSC first offered advice in early 2013. Fee-for-service means customers only pay for the time their financial planner takes to prepare and deliver their financial plan.

Our financial planners are employed by CSC

CSC employs an Authorised Representative model in which our financial planners are employed by CSC and business management is provided by CSC. Under this arrangement, CSC's financial planners are authorised to provide advice by Guideway Financial Services (ABN 46 156 498 538, AFSL 420367). Guideway is a licensed financial services business which supports CSC financial planners to provide customers with specialist advice, education and strategies.

Salaried employees

Our financial planners are salaried employees of CSC. Their performance is assessed on a combination of activity and quality metrics, including the number of customer appointments they conduct, the number of financial plans they deliver, their adherence to CSC's values, and customer satisfaction levels with the service and advice they provide.

Help for our customers by phone, email and self-service

By phone

In 2019–20, we answered more than 269,700 phone calls from our customers.

Customers contacted us for help with many general superannuation matters ranging from superannuation benefits, benefit options and taxation of superannuation, to advising us of changes to their email address, postal address and other personal information.

We experienced an increase in enquiries across all customer contact channels in the final quarter of the year. This was due to the changed economic conditions brought about by the COVID-19 pandemic and the Government allowing up to $10,000 to be accessed by an early release from superannuation accounts.

More than 94% of customers told us they were very satisfied with the experience of speaking with a CSC Customer Information Representative on the phone.

By email

Customers also requested general information about superannuation via email. In 2019–20, we replied to almost 116,800 emails from our customers.

By self-service

Customers also took advantage of a range of self-service functions. In 2019–20, customers completed 14,875 self-service transactions through our phone system and another 1.46m transactions through our secure online sites.

Customer complaints

The total number of complaints received in 2019–20 was 607, compared to 461 in the previous financial year. More information about customer complaints can be found in Section 7 of this report.

Throughout the course of this financial year, we delivered an easier way of gaining feedback from customers. This enabled people to raise complaints and contributed to an overall increase in this engagement.

Section 07

Our Superannuation Schemes

07 Our Superannuation Schemes

Introduction

We manage 11 superannuation schemes for Australian Government employees and members of the Australian Defence Force. Our functions in relation to our superannuation schemes are set out in our governing legislation (outlined on pages 12–13 of this report).

This section details our performance in relation to these functions for each scheme in 2019–20.

Scheme legislation and trust deeds

From time to time, changes are made to scheme legislation and trust deeds. Changes made during 2019–20 are detailed in the individual scheme subsections of this section.

Reviewing decisions and complaints

Decisions that we make are subject to both internal review—called the reconsideration process—and to external review by other bodies.

We have formal procedures to resolve customer complaints. These procedures comply with the *Corporations Act 2001* and the Association of Superannuation Funds of Australia (ASFA) Best Practice Guide, and reflect the guiding principles of Standards of Australia AS ISO 10002–2006: Customer Satisfaction – guidelines for complaints handling in organisations.

The number of complaints received in 2019–20 is shown with each superannuation scheme report on the following pages. We also received two complaints relating to ethical investments, where the complainants were unable to be identified.

Table 25. Complaints received from unidentified sources

2019–20
2

CSS

Commonwealth Superannuation Scheme

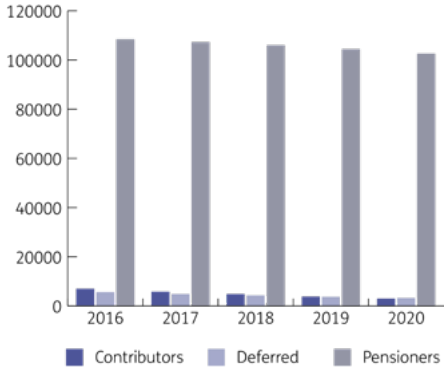
Overview of CSS

CSS is a public sector scheme established on 1 July 1976 by the CSS Act. It closed to new customers on 30 June 1990. CSS is a hybrid scheme (part accumulation, part defined benefit) where benefits derive from customer and employer components.

The accumulation benefit is formed by customer and productivity contributions, and fund earnings. The defined benefit is formed by the unfunded employer component, which in most cases is paid as a lifetime non-commutable indexed pension.

CSS membership

Figure 1. Number of CSS customers and pensioners over five years



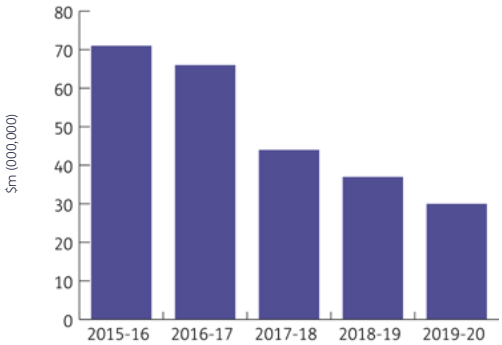
Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

CSS administration

Contributions

Customers can make both basic and supplementary contributions into CSS from their after-tax income. They can also voluntarily contribute into PSSap (see pages 86–90 for more details).

Figure 2. CSS customer contributions

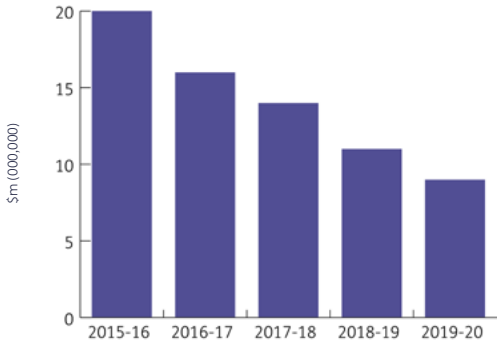


Note: This chart shows basic and supplementary contributions.

Employer productivity contributions

Employers typically pay a fortnightly productivity contribution into CSS. The amount is based on a customer's super salary. Some customers may also have an unfunded productivity component that relates to contributions before 1 July 1990.

Figure 3. CSS employer productivity contributions over five years



Benefit payments

Lump sums and pensions

Generally, benefits cannot be paid until minimum retirement age is reached. However, benefits may become payable if a customer is retrenched, becomes totally and permanently incapacitated, or dies.

Figure 4. CSS pension payments over five years

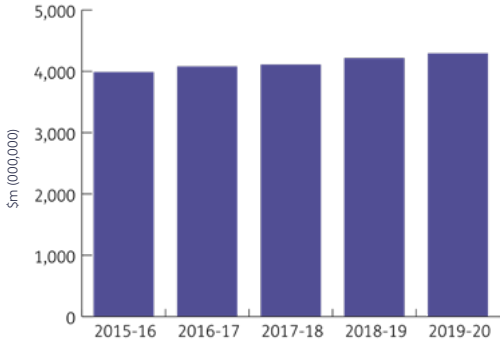
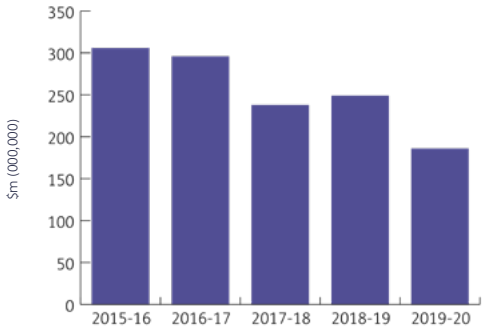


Figure 5. CSS lump sum payments over five years



Note: Lump sums are paid from the CSS fund and by the Australian Government

Invalidity and death benefits

CSS provides invalidity and death benefits.

Benefits are based on the entitlement the customer would have received, had they worked to age 65, subject to any pre-existing medical conditions being assessed. Benefits after age 65 are based on the account balance at the date of retirement or death.

Benefits may also be payable to customers with deferred benefits. However, these will be based on the value of the deferred benefit and do not include prospective service.

Table 26. New full invalidity pensioners in CSS

	2018–19	2019–20
Full invalidity pensioners	16	8

Note: This table shows the number of new invalidity retirement certificates issued in the relevant reporting year (not the total number of invalidity pensioners).

Partial invalidity

A partial invalidity pension – a form of income maintenance – is paid when a customer's salary is permanently reduced for health reasons.

Table 27. Partial invalidity applications in CSS

	2018–19	2019–20
Partial invalidity applications	2	1

Note: This table shows assessed applications including retrospective applications in the relevant reporting year.

Complaints from CSS customers

CSS complaints have risen compared with the last two financial years. The predominant reasons for complaints were investment performance, policy and legislation, communication from the fund and process failure.

Table 28. Complaints received from CSS customers

	2018–19	2019–20
Complaints received	41	54

Changes to CSS's legislation

The CSS Act was amended by the *Public Sector Superannuation Legislation Amendment Act 2018*. The amendments made changes to standardise and modernise the eligibility criteria for child reversionary pensions. The amendments commenced on 1 January 2020.

PSS

Public Sector Superannuation Scheme

Overview of PSS

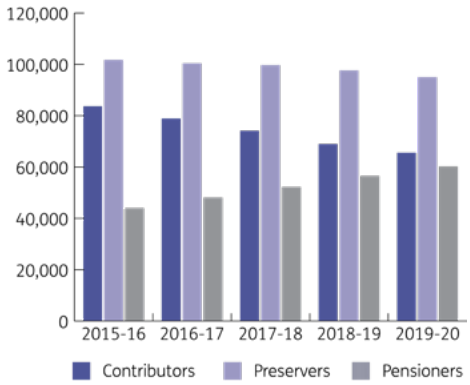
PSS is a public sector scheme established on 1 July 1990 by the PSS Act. It closed to new customers on 30 June 2005. PSS is a defined benefit scheme where benefits derive from customer and employer components.

The customer component consists of customer contributions and fund earnings. The employer component comprises employer productivity contributions (plus fund earnings), and the unfunded 'benefit balance', which is determined when a customer leaves eligible employment.

On retirement, customers can usually convert 50% or more of their final benefit accrual to a lifetime non-commutable indexed pension, paid by the Australian Government. Any remaining balance, as well as any transfer amounts, will be paid as a lump sum.

PSS membership

Figure 6. Number of PSS customers over five years



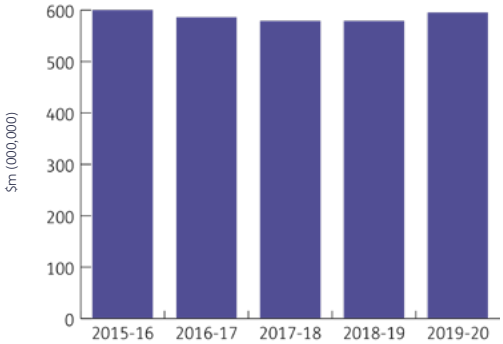
Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

PSS administration

Contributions

Customers can contribute up to 10% of their super salary. Contributions are paid from after-tax income. Customers can also make voluntary contributions into PSSap (see pages 86–90 for more details).

Figure 7. PSS customer contributions over five years

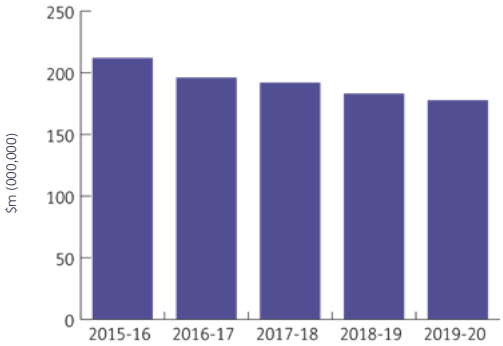


Note: This chart shows contributions to PSS. PSS contributions to ancillary PSSap accounts are not included in this chart.

Employer contributions

Employers pay a fortnightly productivity contribution into PSS. The amount is based on the customer's super salary. The employer component is notional and is determined when a customer ceases contributing to the scheme.

Figure 8. PSS employer productivity contributions over five years



Benefit payments

Pensions and lump sums

In most cases PSS benefits are paid when a customer exits the scheme at retirement. Benefits usually cannot be paid until minimum retirement age is reached and the customer has permanently retired from the workforce. Benefits may also become payable if the customer is retrenched, becomes totally and permanently incapacitated, or dies.

Figure 9. PSS pension payments over five years

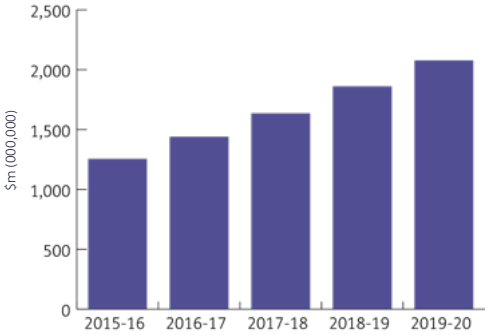
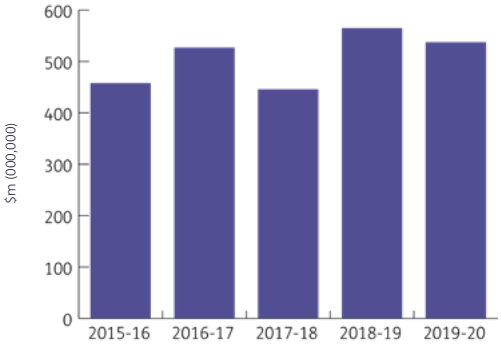


Figure 10. PSS lump sum payments over five years



Note: Lump sums are paid from the PSS fund and by the Australian Government.

Invalidity and death benefits

PSS provides invalidity and death benefits. Customers can purchase additional death and invalidity cover, subject to meeting underwriting requirements.

Benefits are based on the entitlement the customer would have received if they had worked to age 60, subject to any benefit restrictions. Benefits at age 60 or older are based on the account balance at the date of retirement or death. Benefits may also be payable for customers with preserved benefits. However, these will be based on the value of the preserved benefit and do not include prospective service.

Table 29. New invalidity pensioners in PSS

	2018–19	2019–20
Full invalidity pensioners	216	160

Note: This table shows the number of new invalidity retirement certificates issued in the relevant reporting year (not the total number of invalidity pensioners).

Partial invalidity

A partial invalidity pension – a form of income maintenance – is paid when a customer's salary is permanently reduced for health reasons.

Table 30. Partial invalidity pension applications in PSS

	2018–19	2019–20
Partial invalidity applications	72	94

Note: This table shows assessed applications including retrospective applications in the relevant reporting year. The number of partial invalidity applications was incorrectly reported as 10 in the 2017-18 CSC Annual Report.

Complaints from PSS customers

The number of complaints received from PSS customers increased significantly in 2019–20 compared to the previous financial year. Primary reasons for complaints were policy, legislation, communication, investments and process failures. PSS customers also complained about the inability to roll money to other funds and access to online services. A small number of complaints were received from PSS customers related to the release of funds under the Government's COVID-19 Early Release program.

Table 31. Complaints received from PSS customers

	2018–19	2019–20
Complaints received	106	191

Changes to PSS's legislation and Trust Deed

The Public Sector Superannuation Scheme Trust Deed was amended by the *Superannuation Amendment (PSS Trust Deed) Instrument 2019*. The amendments made changes standardise and modernise the eligibility criteria for child reversionary pensions. The amendments commenced on 1 January 2020.

MilitarySuper

Military Superannuation and Benefits Scheme

Overview of MilitarySuper

MilitarySuper was established on 1 October 1991 by the MilitarySuper Act. MilitarySuper closed to new ADF entrants on 30 June 2016. ADF Super is now available to new ADF entrants. ADF re-entrants who have a preserved employer benefit must continue with MilitarySuper. However, contributors may choose to remain in MilitarySuper or opt out.

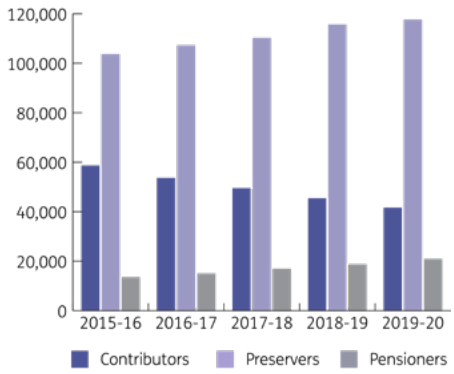
MilitarySuper is a hybrid scheme (part accumulation, part defined benefit). Benefits derive from a customer and employer component. The customer benefit is the accumulation component. It consists of the mandated customer contributions, any amounts notionally brought over from DFRDB, plus fund earnings on those amounts. The employer benefit is the defined benefit component. It is based on a customer's period of ADF service and their final average salary.

The employer benefit is unfunded, except for the portion relating to the employer 3% productivity contributions, paid each fortnight by the Department of Defence, plus fund earnings. Unfunded benefits are paid by the Australian Government.

MilitarySuper also offers an ancillary benefit (which is also available to eligible DFRDB customers) to those who wish to make additional contributions and transfers, such as additional personal, salary sacrifice and spouse contributions.

MilitarySuper customers

Figure 11. Number of MilitarySuper customers over five years



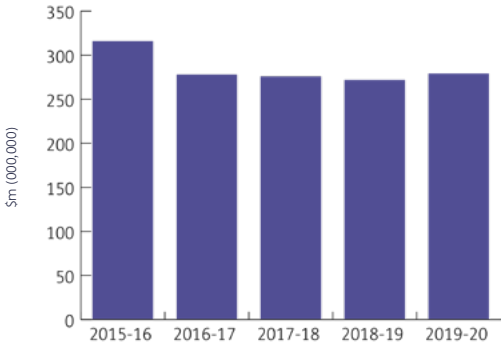
Note: Figures are at 30 June of each year; ancillary customers are not included. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

MilitarySuper administration

Contributions

Customers must usually contribute a minimum of 5% (or elect up to 10%) of their super salary into the fund, from their after-tax income. They can also make voluntary payments into their ancillary benefit.

Figure 12. MilitarySuper customer contributions over five years



Note: This chart shows basic and ancillary contributions.

Ancillary contributions

Contributing MilitarySuper and DFRDB customers can make ancillary contributions to accumulate a separate super interest called an ancillary benefit. This benefit can include both pre- and post-tax contributions such as additional personal, salary sacrifice and spouse contributions, which has fund earnings applied in line with the relevant investment option returns.

Ancillary contributions do not count towards a customer's Maximum Benefit Limit in MilitarySuper, nor impact any DFRDB retirement benefit. The ancillary benefit can only be paid as a cash lump sum, once a customer reaches their preservation age, or it can be rolled over to another super fund at any age.

Benefit payments

Pensions and lump sums

MilitarySuper customers who exit the scheme are entitled to a range of benefits depending on their circumstances.

Employer benefits must generally remain preserved until a customer reaches age 55 and transitions from the ADF. The employer benefit may be paid as a pension before a customer reaches age 55, if the customer transitions under invalidity or redundancy.

Figure 13. MilitarySuper pension payments over five years

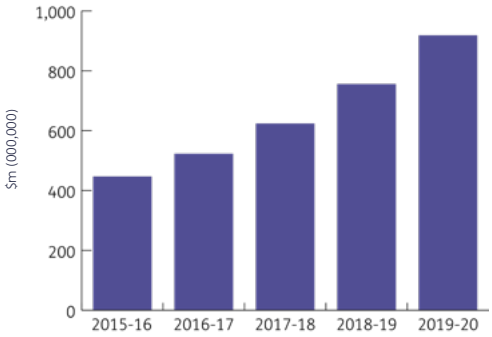
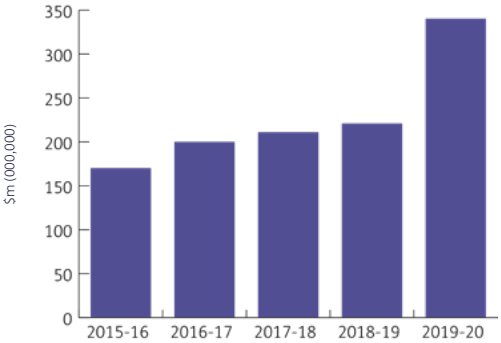


Figure 14. MilitarySuper lump sum payments over five years



Note: Lump sums are paid from the MilitarySuper fund and by the Australian Government.

Invalidity and death benefits

MilitarySuper provides invalidity and death benefits. If a customer is medically transitioned from the ADF, invalidity benefits may help them to resettle into civilian employment.

Invalidity classifications

There are three levels of invalidity classification:

- Class A: Significant incapacity
- Class B: Moderate incapacity
- Class C: Low incapacity (no entitlement to an invalidity pension)

Table 32. New invalidity classifications in MilitarySuper

	2018–19	2019–20
Class A	1,060	1125
Class B	179	180
Class C	108	136

Note: Figures in the table vary slightly to invalidity exits quoted elsewhere due to some cases relating to customers discharged in the previous financial year; these figures do not include customers who were medically discharged under Rule 32 with no invalidity pension payable having been deemed by a delegate of the Board to have been retired on a pre-existing condition within two years of enlistment.

Invalidity classification review

Customers classified Class A or Class B may be subject to review by CSC until age 55. Customers may also initiate a classification level review up to age 65.

Customers classified Class C at retirement are not subject to periodic reviews, but may request the initial classification be reconsidered. A request should be made within 30 days of the initial classification decision.

Complaints from MilitarySuper customers

The number of complaints received from MilitarySuper customers increased considerably in 2019–20 compared to the previous financial year. Primary reasons for complaints included investments (with focus on ethical investments, investment policy and performance), issues related to family law splitting, inability to roll funds to another superannuation provider, access to online services and delays in finalising invalidity claims. Early access to superannuation through the Government's COVID-19 Early Release program also contributed, with six complaints received late in the financial year.

Table 33. Complaints received from MilitarySuper customers

	2018–19	2019–20
Complaints received	40	107

Note: This table shows assessed applications including retrospective applications in the relevant reporting year. The number of partial invalidity applications was incorrectly reported as 10 in the 2017-18 CSC Annual Report.

Changes to MilitarySuper's legislation and Trust Deed

No changes were made to the MilitarySuper Act or the Military Superannuation and Benefits Trust Deed in 2019–20.

PSSap

Public Sector Superannuation accumulation plan

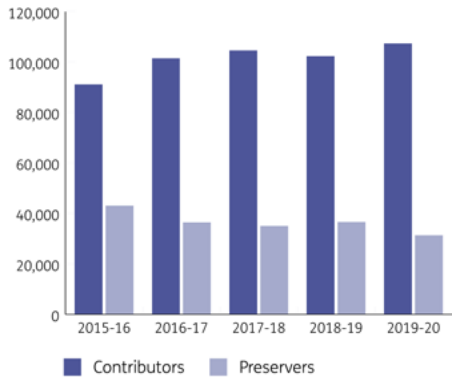
Overview of PSSap

PSSap is a scheme in which customers and employers contribute to the fund, and investment returns are calculated as a compound average rate of return, after fees and taxes have been deducted. It was established on 1 July 2005 by the PSSap Act. PSSap is open to eligible employees of participating employers, who contribute 15.4% per annum on behalf of their employees. Since 4 December 2017, customers who meet qualifying criteria have been able to contribute to the scheme after leaving public sector employment.

PSSap also offers an ancillary membership to eligible CSS and PSS customers who can make additional contributions and transfers, and an account-based pension product known as CSCri (Commonwealth Superannuation Corporation retirement income), to eligible public sector scheme customers.

PSSap customers

Figure 15. Number of PSSap customers over five years



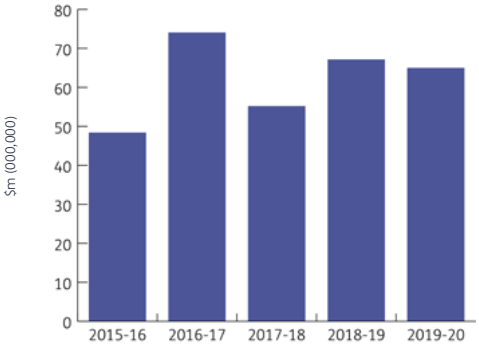
Note: Figures are at 30 June of each year.

PSSap administration

Contributions

PSSap customers can make before-tax and after-tax voluntary contributions.

Figure 16. PSSap customer contributions over five years



Note: Ancillary accounts are excluded. The 2018-19 Annual Report incorrectly reported these amounts. All previous years' data for this figure have been corrected here.

Ancillary contributions

Ancillary contributions can be made by contributing CSS and PSS customers, by creating a PSSap ancillary account. Their PSSap benefit has unit prices applied in line with the investment returns of the scheme and their PSSap benefit does not affect their CSS or PSS benefit in any way.

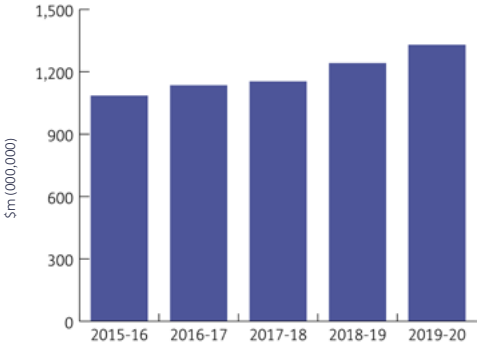
Ancillary accounts have been available since 1 July 2013.

In 2019–20, almost $88.2 million in ancillary contributions (in the form of salary sacrifice, personal (after tax) contributions, spouse contributions, income protection contributions and super transfers) were made, compared to $99.3m in 2018–19.

Employer contributions

PSSap customers employed by a participating PSSap employer receive 15.4% employer superannuation contributions. PSSap customers not employed by a participating PSSap employer receive contributions in line with their employment contract.

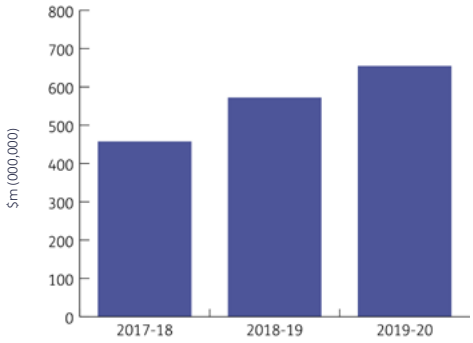
Figure 17. PSSap employer contributions over five years



Benefit payments

The two most common reasons for the pay out of superannuation benefits from the PSSap fund are for retirement and for consolidation of funds into another superannuation fund.

Figure 18. PSSap withdrawals

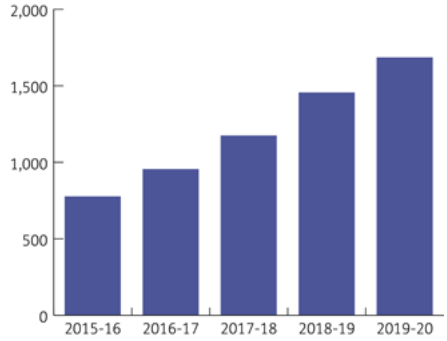


Note: Figures include Ancillary accounts.

CSCri

CSCri is an account-based pension product offered to public sector scheme customers.

Figure 19. Number of CSCri customers over five years



Note: Figures are at 30 June of each year.

Lump sum amounts can be rolled into CSCri, generating regular income payments to customers in retirement, or in their transition to retirement.

Figure 20. Amount rolled into CSCri

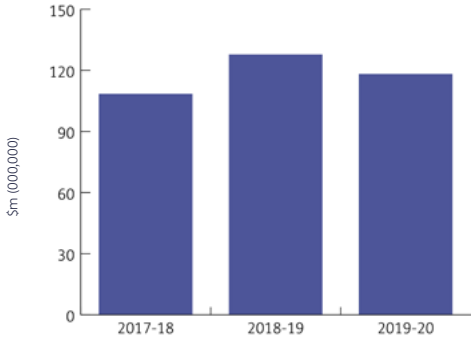
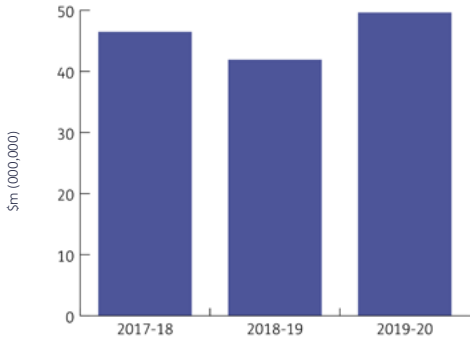


Figure 21. CSCri pension payments and lump sum withdrawals



Insurance benefits

Default Death, Total Permanent Disability (TPD) and Income Protection (group insurance) cover is automatically provided to customers provided they are over 25 years or their account balance is over $6,000; customers may choose to opt out.

From 1 April 2020, group insurance cover is provided to PSSap customers on an opt-in basis if they are under 25 years or their account balance is below $6,000.

This insurance cover offered through PSSap is called lifePLUS. Customers may apply to vary, increase, decrease or cancel their lifePLUS cover at any time.

lifePLUS offers both lifePLUS auto cover and lifePLUS choice cover. lifePLUS and all other insurance cover for PSSap customers detailed in this report is provided by AIA Australia Limited (ABN 79 004 837 861, AFSL 230043).

Death and TPD

lifePLUS provides a lump sum payment in the event of death or TPD. The level of automatic cover varies depending on a customer's age, unless a fixed cover is in place. If a fixed cover is in place, the customer receives that level of cover until the cover ceases or it is cancelled by the customer.

Customers may select insurance cover for both death and TPD, or for death only.

Table 34. TPD claims in PSSap

	2017–18	2018–19	2019–20
TPD claims assessed	84	82	132

Income protection

Income protection insurance provides a monthly income stream, paid in arrears. The income stream provides (by default) 90.4% of an eligible customer's base salary. If a customer is unable to return to work due to a disability caused by sickness or injury, 75% of this amount is paid directly to the customer and 15.4% is paid into the customer's PSSap account, for up to two years; 65.4% of a customer's base annual salary is then paid for a further three years, with 50% paid directly to the customer and 15.4% paid into their PSSap account.

Table 35. Income protection claims in PSSap

	2017–18	2018–19	2019–20
IP claims assessed	373	423	427

Complaints from PSSap customers

There has been a steady reduction in complaints from PSSap customers during the last two financial years. Insurance-related complaints also declined in 2019–20, though they are still the leading topic with 113 complaints received. These were predominantly due to processing delays, insurance policies and cancellation of cover.

Legislative changes affecting insurance policies in the latter half of 2019–20 attributed to a decrease in complaints related to automatic insurance cover.

Other common complaint topics from PSSap customers included benefit payments and superannuation contributions.

Table 36. Complaints received from PSSap customers

	2018–19	2019–20
Complaints received	241	226

CSCri complaints have decreased in the last two financial years. Complaints related to dissatisfaction with a process, such as paying a benefit, consolidating accounts or applying an investment option switch.

Table 37. Complaints received from CSCri customers

	2018–19	2019–20
Complaints received	9	5

Changes to PSSap's legislation and Trust Deed

The *Superannuation Amendment (PSSAP Trust Deed – Superannuation Salary) Instrument 2020 amended* Rule 2.2.3 of the Public Sector Superannuation Accumulation Plan Trust Deed. The amendments enabled determinations made by the Public Service Minister and Agency Heads under section 24 of the *Public Service Act 1999* to preserve a PSSAP customer's superannuation salary as ordinary time earnings (OTE) when they are moved to an APS Agency on or after 1 February 2020, as a result of a machinery of government change, if their superannuation salary was OTE under an enterprise agreement immediately before the move.

ADF Super

Australian Defence Force Superannuation Scheme

Overview of ADF Super

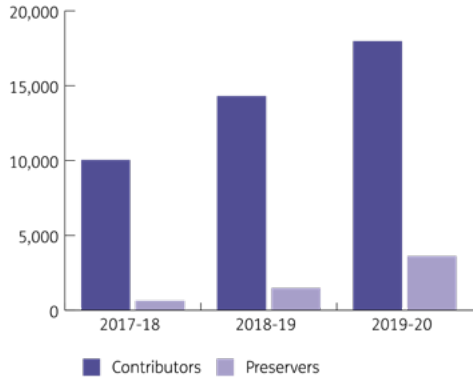
ADF Super is a military superannuation scheme established on 1 July 2016 by the ADF Super Act.

It is an accumulation scheme where customers and the Department of Defence (as the employer) contribute to the scheme, with investment returns calculated as a compound average rate of return after fees and taxes are deducted.

ADF Super is open to new ADF entrants, including reservists who are in full-time continuous service. ADF Super is also open to other eligible ADF members.

ADF Super customers

Figure 22. Number of ADF Super customers over three years



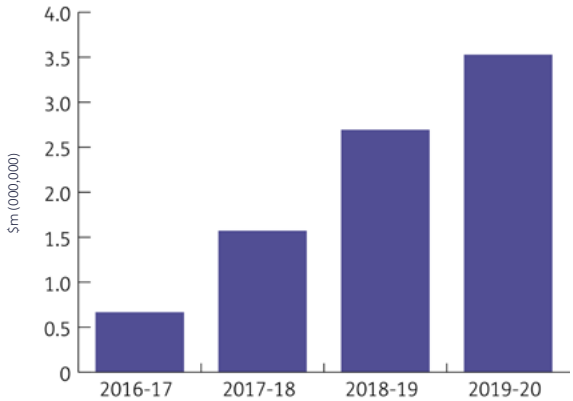
Note: Figures are at 30 June of each year.

ADF Super administration

Contributions

ADF Super customers can make voluntary before-tax and after-tax contributions.

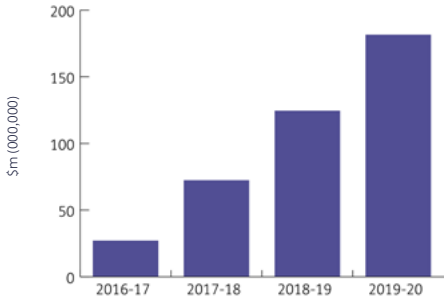
Figure 23. ADF Super customer contributions over four years



Employer contributions

The Department of Defence contributes 16.4% per annum on behalf of ADF Super customers.

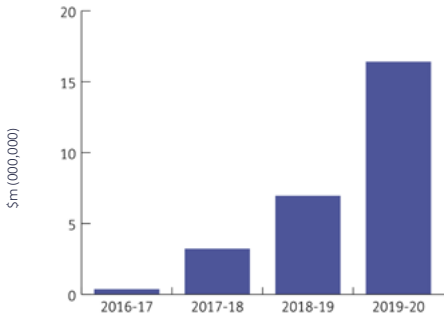
Figure 24. ADF Super employer contributions over four years



Benefit payments

The two most common reasons for the pay out of superannuation benefits from the ADF Super fund were for consolidation of funds into another superannuation fund and for COVID-19 Early Release payments.

Figure 25. ADF Super benefit payments over four years



Insurance benefits

There is no insurance within ADF Super. Eligible customers receive automatic invalidity and death cover via ADF Cover.

Complaints from ADF Super customers

We saw an increase in complaint numbers from ADF Super customers in 2019–20, which were attributable to communication and service-related issues.

Table 38. Complaints received from ADF Super customers

	2018–19	2019–20
Complaints received	1	5

Changes to ADF Super's legislation and Trust Deed

The *Defence Legislation Amendment (Miscellaneous Measures) Act 2020* amended the ADF Super Act to enable former ADF members, who have provided at least 12 months of service, to continue to make contributions to their ADF Super accounts. The amendments were made on 25 May 2020 and took effect on 6 July 2020.

ADF Cover

Australian Defence Force Cover

Overview of ADF Cover

ADF Cover is a benefits scheme established on 1 July 2016 by the ADF Cover Act.

It provides benefits for medical discharge or death of a member of the ADF who is under 60 and either is an ADF Super customer, or would have been had he or she not chosen another superannuation fund.

Eligible individuals are automatically covered under the ADF Cover benefits scheme and are not charged any premiums for this benefit.

ADF Cover customers

Table 39. Number of ADF personnel covered by ADF Cover

	2016–17	2017–18	2018–19	2019–20
ADF Personnel Covered	5,840	10,553	14,080	18,645

Note: Figures are at 30 June of each year.

ADF Cover administration

Invalidity classifications

There are three levels of invalidity classification:

- Class A: Significant incapacity
- Class B: Moderate incapacity
- Class C: Low incapacity (no entitlement to an invalidity pension)

Table 40. Invalidity classifications in ADF Cover

	2017–18	2018–19	2019–20
Class A	34	64	144
Class B	8	16	47
Class C	6	21	20
Not eligible	3	5	4

Table 41. ADF Cover death benefits paid

	2017–18	2018–19	2019–20
Death benefits paid	2	4	4

Complaints from ADF Cover customers

ADF Cover received one formal complaint regarding the financial ramifications of an invalidity re-classification.

Table 42. Complaints received from ADF Cover customers

	2018–19	2019–20
Complaints received	1	1

Changes to ADF Cover's legislation

No changes were made to the *Australian Defence Force Cover Act 2015* in 2019–20.

1922 scheme

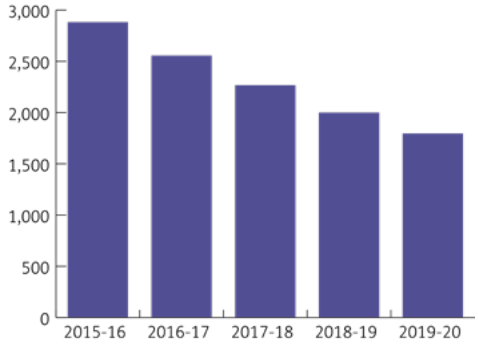
Overview of the 1922 scheme

The 1922 scheme, which was established under the 1922 Act, is a closed public sector scheme with all customers receiving a pension. Customers contributing to the 1922 scheme transferred to CSS, when CSS opened on 1 July 1976.

The 1922 Act continues to provide for pension payments and any reversionary pensions that become payable.

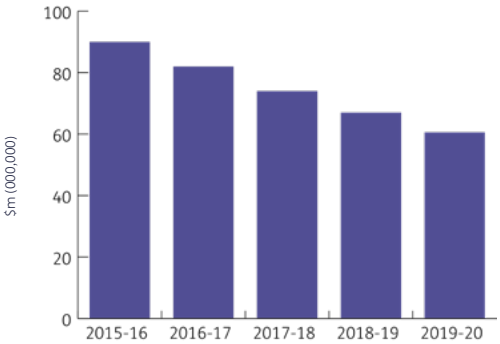
1922 scheme customers

Figure 26. Number of 1922 scheme pensioners over five years



Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

Figure 27. 1922 scheme pension payments over five years



Note: 1922 scheme pensions are paid by the Australian Government.

Changes to 1922 Act Scheme's legislation

The 1922 Act was amended by the *Public Sector Superannuation Legislation Amendment Act 2018*. The amendments made changes to the eligibility criteria for child reversionary pensions. The amendments commenced on 1 January 2020.

DFRB, DFRDB and DFSPB

Defence Forces Retirement Benefits
Defence Force Retirement & Death Benefits
Defence Force (Superannuation) (Productivity Benefit)

Overview of DFRB

DFRB is a closed military scheme with no contributing customers. Established in 1948 by the DFRB Act, this scheme closed to new contributors on 30 September 1972. Contributing customers at that time automatically transferred to DFRDB on 1 October 1972. DFRB continues to provide the benefit entitlements for customers who ceased to be contributors before 1 October 1972, and for reversionary benefits to eligible spouses and children.

Overview of DFRDB

DFRDB is also a closed military defined benefit scheme. Established by the DFRDB Act, the scheme closed to new ADF entrants from 1 October 1991, when MilitarySuper was established. DFRDB provides superannuation for ADF members who became contributors on or after 1 October 1972, and for contributors of DFRB on 30 September 1972, who compulsorily transferred to DFRDB on 1 October 1972.

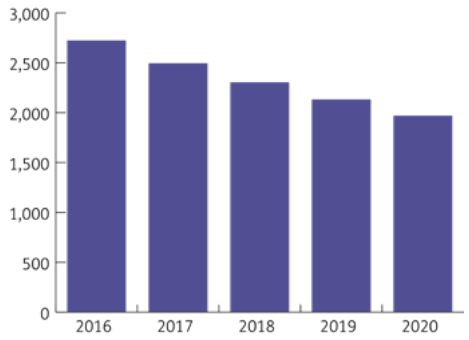
Overview of DFSPB

DFRDB customers are also entitled to a productivity benefit under the *Defence Force (Superannuation) (Productivity Benefit) Determination (DFSPB)*, issued under the *Defence Act 1903*. It is paid by the Department of Defence when a customer's DFRDB benefits are paid.

Customers

DFRB

Figure 28. Number of DFRB pensioners over five years



Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

DFRDB

Figure 29. Number of DFRDB customers over five years

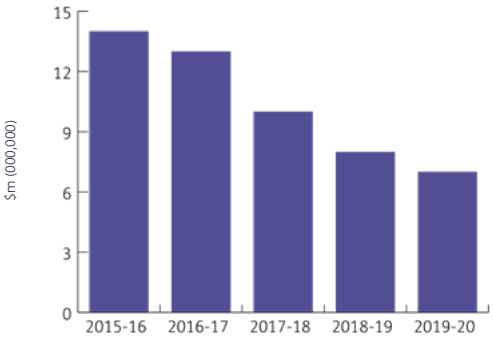
Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account); pensioners who re-enter for less than 12 months do not contribute to DFRDB, continue to receive a pension and are not eligible for invalidity; pensioners who re-enter for more than 12 months become contributors, their pension is suspended and they are eligible for invalidity.

Scheme administration

DFRDB contributions

DFRDB customers must contribute 5.5% of their fortnightly super salary until they reach 40 years of effective service, at which time they can no longer contribute. Contributors can also make voluntary payments into MilitarySuper, known as ancillary contributions (refer to the MilitarySuper section for details).

Figure 30. DFRDB contributions over five years

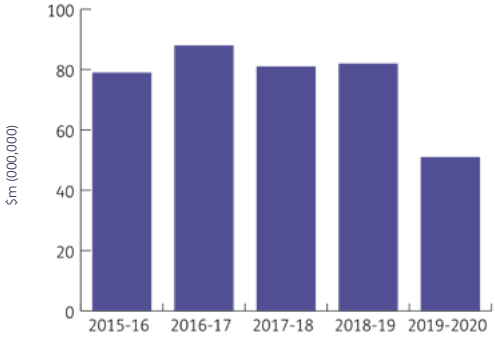


DFRDB benefit payments

Lump sum payments

DFRDB customers ceasing a period of ADF service can commute part of their DFRDB retirement pay to receive an upfront lump sum payment (commutation amount). If a customer chooses to commute, their retirement pay is permanently reduced irrespective of how long they live. Retiring customers can elect to commute up to a maximum of five times the value of their annual pension.

Figure 31. DFRDB lump sum payments over five years



Invalidity benefits

DFRDB provides invalidity and death benefits. If a customer is medically transitioned from the ADF, invalidity benefits may be available.

There are three levels of invalidity benefit classifications:

- Class A: Significant incapacity
- Class B: Moderate incapacity
- Class C: Low incapacity (no entitlement to an invalidity pension)

Table 43. Invalidity classifications in DFRDB

	2018–19	2019–20
Class A	30	33
Class B	15	15
Class C	17	15
Not eligible	0	0

Note: These figures may vary slightly to invalidity exits quoted elsewhere due to some cases relating to customers discharged in the previous financial year.

Table 44. Invalidity pension classifications in DFRDB

	2018–19	2019–20
Class A	6	1
Class B	1	1
Class C	0	1
Not eligible	0	0

Invalidity classification review

Periodic medical reviews of DFRDB invalidity recipients are no longer conducted. However, if an invalidity recipient believes their retiring impairment has deteriorated, they can initiate a review of their invalidity classification level. Recipients originally classified as Class C must make their reconsideration request within 30 days of the initial classification decision.

Complaints from DFRDB customers

There was a slight increase in complaints from DFRDB customers in 2019–20, with the major topics being commutation, family law, benefit payments and beneficiaries.

Table 45. Complaints received in DFRDB

	2018–19	2019–20
Complaints received	14	16

Changes to DFRB, DFRDB and DFSPB's legislation and Trust Deed

No changes were made to the DFRDB Act and the DFRB Act in 2019–20.

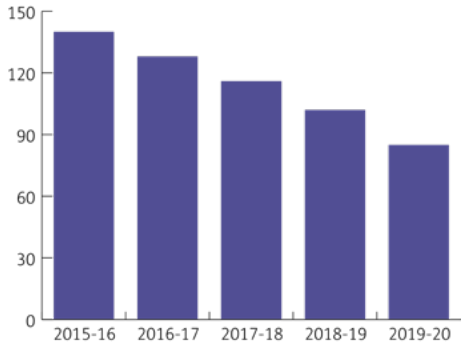
Papua New Guinea (PNG) Superannuation Fund

Overview of PNG

PNG is a closed public sector scheme with no contributing customers. Constituted under the *Superannuation (Papua New Guinea) Ordinance 1951*, PNG provided retirement benefits for employees of the administration of the Territory of Papua and New Guinea. Since 1 July 1976, the scheme has been administered in accordance with section 38 of the PNG Act.

PNG customers

Figure 32. Number of PNG pensioners over five years

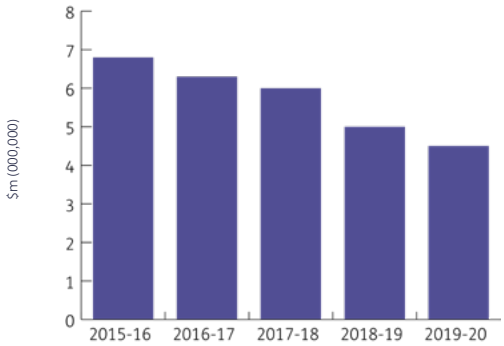


Note: Figures are at 30 June of each year. 'Pensioners' represents the number of pension accounts, not the exact number of pensions (e.g. multiple recipients such as a spouse and orphan children may be paid under one account).

PNG administration

Benefit payments

Figure 33. PNG pension payments over five years



Changes to PNG's legislation

No changes were made to the PNG Act or to the *Papua New Guinea (Staffing Assistance) (Superannuation) Regulations 1973*.

Section 08

CSS Financial Statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of the Commonwealth Superannuation Scheme

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Scheme for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Commonwealth Superannuation Scheme as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

The financial statements of the Commonwealth Superannuation Scheme, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement of the Trustee of the Commonwealth Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commonwealth Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Trustee's responsibility for the financial statements

The Superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the Commonwealth Superannuation Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

GPO Box 707 CANBERRA ACT 2601
38 Sydney Avenue FORREST ACT 2603
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

23 September 2020

Commonwealth Superannuation Scheme (ABN 19 415 776 361)

Statement by the Trustee of the Commonwealth Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) the accompanying financial statements of the Commonwealth Superannuation Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2020 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with subsection 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(d) the financial statements have been prepared based on properly maintained financial records; and

(e) the operations of the CSS Fund were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Superannuation Act 1976* and the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 23rd day of September 2020 in accordance with a resolution of directors of the Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Commonwealth Superannuation Scheme
Statement of Financial Position
As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**50 632**	30 666
Employer sponsor receivable		**61 073 563**	61 715 168
Other receivables	4	**300**	395
Investments in pooled superannuation trust	5	**1 906 143**	2 390 568
Total assets		**63 030 638**	64 136 797
Liabilities			
Benefits payable		**(2 907)**	(9 811)
Income tax payable		**(1 336)**	(1 718)
Deferred tax liabilities	8c	**(1)**	(5)
Total liabilities excluding member benefits		**(4 244)**	(11 534)
Net assets available for member benefits		**63 026 394**	64 125 263
Defined benefit member liabilities	9	**(63 019 675)**	(64 116 409)
Net assets		**6 719**	8 854
Equity			
Operational risk reserve		**(6 719)**	(8 854)
Total equity		**(6 719)**	(8 854)

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Investment revenue			
Interest		**244**	694
Changes in fair value of investments	6c	**(12 655)**	164 680
Total revenue		**(12 411)**	165 374
Total expenses		**-**	-
Operating results		**(12 411)**	165 374
Net change in member benefits from investing activities		**12 511**	(165 115)
Operating result before income tax expense		**100**	259
Income tax expense	8a	**(37)**	(104)
Operating result after income tax		**63**	155

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Opening balance of member benefits at the beginning of the financial year		**64 116 409**	64 981 935
Contributions:			
Member contributions	7a	**30 579**	36 958
Employer contributions	7a	**8 976**	11 094
Government co-contributions	7a	**13**	19
Low income superannuation tax offset	7a	**8**	3
Income tax on contributions	8b	**(1 346)**	(1 666)
Net after tax contributions		**38 230**	46 408
Net appropriation from Consolidated Revenue Fund	7b	**3 997 639**	3 885 305
Benefits to members	7b	**(4 480 685)**	(4 465 915)
Net change in member benefits from investing activities		**(12 511)**	165 115
Net change in member benefits to be funded by employers		**(639 407)**	(496 439)
Closing balance of member benefits at the end of the financial year		**63 019 675**	64 116 409

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2020

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2018	9 987	9 987
Operating result	155	155
Net transfers (from) / to reserves	(1 288)	(1 288)
Closing balance as at 30 June 2019	8 854	8 854
Opening balance as at 1 July 2019	**8 854**	**8 854**
Operating result	**63**	**63**
Net transfers (from) / to reserves	**(2 198)**	**(2 198)**
Closing balance as at 30 June 2020	**6 719**	**6 719**

The attached notes form part of these financial statements.

Commonwealth Superannuation Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2020

		2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		**275**	721
Income tax paid		**(106)**	(95)
Net cash inflows from operating activities	10b	**169**	626
Cash flows from investing activities			
Proceeds from sale of investments		**471 770**	517 117
Net cash inflows from investing activities		**471 770**	517 117
Cash flows from financing activities			
Contributions received			
Employer contributions		**8 976**	11 094
Member contributions		**30 579**	36 958
Government co-contributions		**13**	19
Low income superannuation tax offset		**8**	3
Income tax paid on contributions		**(1 663)**	(2 022)
Superannuation surcharge (paid) / received		**(17)**	(156)
Benefits paid		**(4 487 589)**	(4 463 361)
Net appropriation from Consolidated Revenue Fund		**3 997 720**	3 885 285
Net cash (outflows) from financing activities		**(451 973)**	(532 180)
Net increase / (decrease) in cash held		**19 966**	(14 437)
Cash at the beginning of the financial year		**30 666**	45 103
Cash at the end of the financial year	10a	**50 632**	30 666

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. DESCRIPTION OF THE SCHEME

The Commonwealth Superannuation Scheme ('Scheme') is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Superannuation Act 1976* (as subsequently amended). The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

Monies paid to the Trustee for the purposes of the Scheme are held in the Commonwealth Superannuation Fund (CSS Fund). The CSS Fund comprises contributions made by members and employers, income arising from investments, and unrealised and realised changes in market value of investments held within the CSS Fund. The Trustee pays member benefits and taxes relating to the CSS Fund out of the CSS Fund. The Trustee pays the direct and incidental costs of management of the CSS Fund and the investment of its money from the assets of the ARIA Investments Trust ('the AIT') that are referable to the CSS Fund (Note 7(c)).

CSS has been closed to new entrants since 1 July 1990.

The principal place of business and registered office of the Trustee is 7 London Circuit, Canberra, ACT 2601.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations and the *Superannuation Industry (Supervision) Act 1993* . For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011.*

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 23 September 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 15 'Revenue from Contracts with Customers'**, AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15'**,** and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	beginning on or after 1 January 2019
AASB 1058 'Income of Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	beginning on or after 1 January 2019
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	beginning on or after 1 January 2019
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	beginning on or after 1 January 2019

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia'	1 January 2020	30 June 2021
AASB 2020-1 'Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current'	1 January 2022	30 June 2023
AASB 2020-3 'Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments'	1 January 2022	30 June 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

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

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. In making this assessment, the directors of the Trustee have considered future events and conditions for the period of twelve months following the approval of these financial statements, including the impact of the outbreak of COVID-19 which was declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020. Whilst the situation remains uncertain, the Trustee remains confident that the Scheme will be able to continue as a going concern as the Scheme's assets outweigh its liabilities and it has sufficient liquidity to meet its debts as and when they fall due.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented in these financial statements for the year ended 30 June 2019.

(a) Cash and cash equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. From this date, any gains and losses from changes in fair value are recognised in the Income Statement.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer sponsor receivable

The Commonwealth Government is obliged under the *Superannuation Act 1976* (as amended) to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between the defined benefit member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

Payables (being benefits payable and amounts due to other superannuation schemes) are recognised at their nominal value which is equivalent to fair value.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

(f) Defined benefit member liabilities

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 (Note 9).

The impact of the Scheme's default death and invalidity insurance arrangements have been considered in determining member liabilities. Balances and transactions in respect of these arrangements are presented in aggregate as part of member liabilities and the benefits paid/payable balances presented in the Statement of Financial Position and Statement of Changes in Member Benefits.

(g) Contribution revenue and transfers from other funds

Employer and member contributions, superannuation co-contributions, low income superannuation tax offsets from the Commonwealth Government and transfers from other funds are recognised when control of the contribution or transfer has passed to the Scheme.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the AIT and income earned on these assets is recognised in the reserve.

(i) Derivatives

The Scheme does not enter into derivative financial instruments.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue
Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(k) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(l) Income tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(m) Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

4. OTHER RECEIVABLES

	2020 $'000	2019 $'000
Interest receivable	**5**	36
Surcharge tax	**266**	249
Amount to be appropriated from Consolidated Revenue Fund	**29**	110
Total	**300**	395

There are no receivables that are past due or impaired (2019: nil).

5. INVESTMENTS

	2020 $'000	2019 $'000
Pooled Superannuation Trust - ARIA Investments Trust	**1 906 143**	2 390 568
	1 906 143	2 390 568

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2020 $'000	2019 $'000
(a)	**Investments held at 30 June:**		
	Pooled Superannuation Trust - ARIA Investments Trust	**(15 292)**	158 128
		(15 292)	158 128
(b)	**Investments realised during the year:**		
	Pooled Superannuation Trust - ARIA Investments Trust	**2 637**	6 552
		2 637	6 552
(c)	**Total changes in fair value of investments**	**(12 655)**	164 680

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme at optional rates from 5% of salary, or they may opt to make nil contributions. The contribution rates were the same in the prior year.

Employer Contributions
Employers who do not operate their own productivity schemes contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3% of salaries paid to members. The contribution rates were the same in the prior year.

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be transferred to the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2019 and 30 June 2020, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Tax Offset
The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to $500. LISTO payments are recognised as revenue when received.

(b) Benefits

Where a benefit that becomes payable in respect of a member can be fully met from Scheme assets attributable to that member, the benefit is paid to the beneficiary from the CSS Fund. Where a benefit becomes payable that cannot be fully met from Scheme assets attributable to the member, all moneys held in the CSS Fund in respect of the member are paid to the Consolidated Revenue Fund, and the Commonwealth Government then assumes responsibility for funding the whole benefit.

Of the total benefits payable at 30 June 2020, $0.029 million (2019: $0.110 million) is payable by the Consolidated Revenue Fund. The Commonwealth Government is the corresponding debtor for this amount in accordance with the funding arrangements described above.

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Benefits paid and payable by the CSS Fund and the Consolidated Revenue Fund during the year are as follows:

	2020	2019
	$'000	$'000
Gross appropriation from Consolidated Revenue Fund	**4 478 985**	4 464 905
less: Transfers from CSS Fund to Consolidated Revenue Fund	**(481 346)**	(579 600)
Net appropriation from Consolidated Revenue Fund	**3 997 639**	3 885 305
Consolidated Revenue Fund		
Lump-sum benefits	**184 406**	247 558
Pensions	**4 294 579**	4 217 347
	4 478 985	4 464 905
CSS Fund		
Lump-sum benefits	**1 700**	1 010
Total benefits paid and payable	**4 480 685**	4 465 915

(c) Costs of Managing, Investing and Administering the Scheme

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of the AIT that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of the AIT.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Scheme (continued)

Expenses met by the AIT and referable to the Scheme are as follows:

	2020	2019
	$'000	$'000
Investment		
Investment manager fees	**7 913**	7 325
Custodian fees	**305**	340
Investment consultant and other service provider fees	**618**	382
Other investment expenses	**257**	174
Total direct investment expenses	**9 093**	8 221
Regulatory fees	**195**	220
Other operating expenses	**2 079**	2 253
Total costs	**11 367**	10 694

Costs other than those incurred in managing and investing Scheme assets are met by CSC. Administrative fees are paid to CSC by employing agencies to meet these costs. Sponsoring employers have contributed further administration funding of $13.01 million (2019: $13.18 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

8. INCOME TAX

	2020	2019
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**41**	108
Deferred tax expense relating to the origination and reversal of temporary differences	**(4)**	(4)
Total income tax expense	**37**	104

The prima facie income tax expense on the operating result before income tax reconciles to the income tax expense in the Income Statement as follows:

Operating result before income tax expense	**100**	259
Income tax expense / (benefit) calculated at 15%	**15**	39
Net change in member benefits from investing activities	**(1 876)**	24 767
Investment revenue already taxed	**1 898**	(24 702)
Total income tax expense	**37**	104

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**30 579**	36 958
Employer contributions	**8 976**	11 094
Government co-contributions	**13**	19
Low income superannuation tax offset	**8**	3
Total contributions received	**39 576**	48 074
Contributions tax calculated at 15%	**5 936**	7 211
Member contributions not subject to tax	**(4 587)**	(5 544)
Government co-contributions not subject to tax	**(2)**	(3)
Low income super tax offset not subject to tax	**(1)**	-
Rollovers in subject to tax	**-**	2
Total income tax on contributions	**1 346**	1 666

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

8. INCOME TAX (continued)

	2020	2019
	$'000	$'000
(c) Recognised deferred tax liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**1**	5
	1	5

Taxable and deductible temporary differences arise from the following:

2020	**Opening balance $'000**	**Charged to income $'000**	**Closing balance $'000**
Gross deferred tax liabilities:			
Interest receivable	**5**	**(4)**	**1**
	5	**(4)**	**1**
Net deferred tax liabilities	**5**	**(4)**	**1**

2019	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax liabilities:			
Interest receivable	9	(4)	5
	9	(4)	5
Net deferred tax liabilities	9	(4)	5

9. DEFINED BENEFIT MEMBER LIABILITIES

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The value of the member liabilities will not necessarily be the same as the value presented in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions. The liabilities change from year to year as a result of contributions, benefit payments, interest costs and investment returns relative to the actuarial assumptions adopted. The actuarial assumptions are long term assumptions commensurate with the maturity of the member liabilities and are reviewed in consultation with the actuaries on an annual basis.

The Scheme uses sensitivity analysis to monitor the potential impact of key changes to key variables about which the assumptions need to be made. The Scheme has identified four assumptions (being the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities:

- The current mortality assumptions adopted are scheme specific based on the experience observed. There has been no change to these assumptions from the prior year.

- The assumed discount rate has been determined by reference to the target investment returns expected on the investment portfolio, which reflect the opportunities reasonably available to the Scheme in the investment markets. There has been no change to this assumption from the prior year.

- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor. There has been no change to this assumption from the prior year.

- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target. There has been no change to this assumption from the prior year.

Other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include resignation rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. DEFINED BENEFIT MEMBER LIABILITIES (continued)

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate assumptions for the Scheme:

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in defined benefit member liabilities ($'000)
30 June 2020			
Discount rate / investment returns	6%	+ 1% - 1%	5 534 013 (6 558 356)
Salary adjustment rate	3.5%	+ 1% - 1%	(67 727) 62 485
Inflation rate	2.5%	+ 1% - 1%	(5 841 913) 5 016 268
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	688 661 (722 787)
30 June 2019			
Discount rate / investment returns	6%	+ 1% - 1%	5 693 362 (6 765 565)
Salary adjustment rate	3.5%	+ 1% - 1%	(82 909) 76 520
Inflation rate	2.5%	+ 1% - 1%	(6 050 336) 5 182 118
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	684 172 (717 921)

*For example, if the base probability of death is 3.0%, the higher rate is 3.15% and the lower rate is 2.85%.

9. DEFINED BENEFIT MEMBER LIABILITIES (continued)

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their Scheme membership as at the reporting date.

An actuarial estimate of vested benefits at 30 June 2020 is $63.5 billion (2019: $64.7 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2020 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements as at the reporting date.

10. CASH FLOW INFORMATION

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2020	2019
	$'000	$'000
Cash at bank	**50 632**	30 666

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**63**	155
Net change in member benefits from investing	**(12 511)**	165 115
Changes in fair value of investments	**12 655**	(164 680)
Decrease/(increase) in interest receivable	**31**	27
(Decrease)/increase in income tax payable	**(65)**	13
(Decrease)/increase in deferred tax liabilities	**(4)**	(4)
Net cash inflows from operating activities	**169**	626

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

11. AUDITOR'S REMUNERATION

Amounts paid or payable to the Australian National Audit Office for audit services:

	2020	2019
	$	$
Financial statements	**50 600**	48 600
Regulatory returns and compliance	**34 400**	32 400
Total	**85 000**	81 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the AIT that are referable to the Scheme.

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Scheme (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the AIT. The AIT is a pooled superannuation trust which is also governed by the Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage the risk relating to the investment activities of the AIT. The investments of the AIT are managed on behalf of the Trustee by specialist external investment managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The Registrable Superannuation Entity ('RSE') licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement and the Statement of Changes in Member Benefits.

(e) Financial risk management objectives

The Scheme is exposed to a variety of financial risks as a result of its pooled investment in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Scheme's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. These policies may include the use of financial derivative instruments.

The Trustee is responsible for ensuring that there is an effective risk management control framework in place for the Scheme. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Scheme's investments through the AIT. The overall investment strategy of the Scheme is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Scheme's investments. Derivative Risk Statements set out the strict parameters for the Trustee's external investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Scheme's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Scheme's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within the AIT exceeded 5% of net assets of that trust at 30 June 2020 or 30 June 2019.

The credit risk on the Scheme's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2020	2019
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**1 906 143**	2 390 568
Other financial assets		
Cash and cash equivalents	**50 632**	30 666
Receivables	**300**	395
Total	**1 957 075**	2 421 629

There has been an increase in the Scheme's exposure to credit risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures credit risk since the 2019 period.

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Scheme will always have sufficient liquidity to meet its liabilities and member benefit payments. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Scheme expects to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2020					
Benefits payable	**2 907**	**-**	**-**	**-**	**2 907**
Defined benefit member liabilities	**1 114 766**	**3 344 298**	**15 809 895**	**42 750 716**	**63 019 675**
Total financial liabilities	**1 117 673**	**3 344 298**	**15 809 895**	**42 750 716**	**63 022 582**
30 June 2019					
Benefits payable	9 811	-	-	-	9 811
Defined benefit member liabilities	1 101 986	3 305 956	15 769 127	43 939 340	64 116 409
Total financial liabilities	1 111 797	3 305 956	15 769 127	43 939 340	64 126 220

There has been an increase in the Scheme's exposure to liquidity risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures liquidity risk since the 2019 period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been an increase in the Scheme's exposure to market risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures market risk since the 2019 period.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee’s approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2020 and 30 June 2019 had a maturity profile of less than one month.

The Scheme is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of external investment

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

The following table illustrates the Scheme's sensitivity to a 0.09% p.a. (2019: 0.20%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.09% (2019: 0.20%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2020		**-0.09%**		**+0.09%**	
Cash and cash equivalents	**50 632**	**(46)**	**(46)**	**46**	**46**
2019		-0.20%		+0.20%	
Cash and cash equivalents	30 666	(61)	(61)	61	61

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

The Scheme's investment in the AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in the AIT is carried at fair value through profit or loss, all changes in market conditions will directly affect the Scheme's net investment income.

In its capacity as trustee of the AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in the AIT, based on risk exposures at reporting date. The volatility factor of 5.00% (2019: 3.90%) represents the volatility in the default option unit price of the Schemes Investment in the AIT and is reflective of market conditions as at reporting date. For the Cash option and the investments backing the operational risk reserve a factor of 0.09% (2019: 0.20%) has been applied representing a reasonably possible change in interest rates based on market conditions at reporting date, as a proxy for price risk of the option.

Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2020						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+5.00%	1 630 552	(81 528)	(81 528)	81 528	81 528
Cash option	-/+0.09%	268 872	(242)	(242)	242	242
Operational risk reserve	-/+0.09%	6 719	(6)	(6)	6	6
Total increase / (decrease)		1 906 143	(81 776)	(81 776)	81 776	81 776
2019						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+3.90%	2 169 756	(84 620)	(84 620)	84 620	84 620
Cash option	-/+0.20%	211 958	(424)	(424)	424	424
Operational risk reserve	-/+0.20%	8 854	(18)	(18)	18	18
Total increase / (decrease)		2 390 568	(85 062)	(85 062)	85 062	85 062

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Financial Assets				
Pooled superannuation trust	**-**	**1 906 143**	**-**	**1 906 143**
2019				
Financial Assets				
Pooled superannuation trust	-	2 390 568	-	2 390 568

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 fair value measurements
There were no Level 3 financial assets or liabilities (2019:Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value measurements of the underlying investments

The funded components of the Schemes for which CSC is the Trustee are co-invested in a pooled superannuation trust. The following table provides an analysis of the underlying pooled superannuation trust's investments grouped into levels 1 to 3 of the fair value hierarchy based on the degree to which their fair value is observable. The table has been prepared on a look-through basis and therefore discloses investments held in underlying Trustee-controlled subsidiary trusts as if they are direct investments of the pooled superannuation trust.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2020				
Cash and cash equivalents	**3 166 899**	**-**	**-**	**3 166 899**
Money market investments	**4 740 006**	**-**	**-**	**4 740 006**
Fixed interest investments	**5 302 424**	**6 358**	**311 385**	**5 620 167**
Equity investments	**20 768 429**	**5 369 415**	**4 964 157**	**31 102 001**
Property investments	**-**	**-**	**4 188 290**	**4 188 290**
Derivatives contracts (net)	**(1 035)**	**573 868**	**3 958**	**576 791**
TOTAL	**33 976 723**	**5 949 641**	**9 467 790**	**49 394 154**
2019				
Cash and cash equivalents	2 615 412	-	-	2 615 412
Money market investments	2 691 508	-	-	2 691 508
Fixed interest investments	5 488 013	-	290 904	5 778 917
Equity investments	22 645 916	7 827 387	3 870 952	34 344 255
Property investments	-	-	4 439 489	4 439 489
Derivatives contracts (net)	(22 758)	(25 572)	-	(48 330)
TOTAL	33 418 091	7 801 815	8 601 345	49 821 251

The fair values of the pooled superannuation trust's investments is determined as follows:

I. Cash comprises demand deposits with a bank, financial institution or futures broker. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

II. Money market investments are valued at the market closing price on the last business day of the reporting period and include accrued interest.

III. Fixed interest securities are valued at their market value at close of business on the last business day of the reporting period.

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

IV. Equity securities and listed trusts are valued at the last sale price at close of business on the last business day of the reporting period.

V. Private equity funds are valued according to the most recent valuation obtainable from an independent (third party) valuer or an investment manager, applying valuation and disclosure guidelines consistent with the International Equity & Venture Capital Valuation Guidelines.

VI. Unlisted trusts (including pooled superannuation trusts and hedge funds) are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the external investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations.

VII. Investment properties which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are independently revalued at least annually. Valuations are performed by registered valuers. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate. This is compared against valuations based on capitalised earnings methodologies as well as comparable market transactions.

VIII. Futures contracts are valued at market closing prices quoted on the last business day of the reporting period.

IX. Forward currency contracts and swaps are valued using prices obtained from independent providers as at the last business day of the reporting period (or alternatively from counterparties or the external investment managers where a provider does not supply a price).

X. Exchange traded options are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on the last business day of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The COVID-19 pandemic has impacted global economic activity and, to varying degrees, financial markets around the world. As a result assessing fair value as at reporting date involves increased uncertainties around the underlying assumptions for valuations given the very wide range of potential paths forward for both economies, policy responses and asset fundamentals. Additionally, very low, if any, transaction volumes make evidential valuation difficult. The independent valuations received for some property and infrastructure investments have been reported on the basis of “significant valuation uncertainty”, meaning the valuation is current at the date of valuation only. The value assessed may change significantly over a relatively short period of time. The valuers confirmed inclusion of the “significant valuation uncertainty” declaration does not mean valuations cannot be relied upon. Rather, the phrase is used in order to be clear, transparent and indicate that, in the current extraordinary circumstances, less certainty should be attached to valuations than would otherwise be the case and input assumptions may have to change materially as conditions evolve.

There has been no change to the Trust’s valuation policies for the year ended 30 June 2020.

The Trustee’s Valuation of Investments Policy and Procedures provides that if a price is not at market value (due to illiquidity, suspension, a material event or otherwise), the Trustee may vary the value of the asset in accordance with the internal governance processes for the adjustment as outlined in the Policy. The objective of this special situations process is to preserve equity across member outcomes, regardless of their choices, by mitigating against the risk that in major disruptions, the effect of normal delays in the reporting of private-equity fund valuations is materially amplified.

Given the public-markets evidence; the genuine uncertainties surrounding financial markets asset fundamentals due to the COVID-19 pandemic and associated policy responses; and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the special situation hurdle was triggered within the Valuation Policy and the Trustee executed on that process for private equity funds, in accordance with the Policy.

As at 30 June 2020 an upwards Trustee valuation adjustment based on a public market price adjustment factor was added to the investment manager valuations of unlisted International equity trusts ($193.1m) and unlisted Australian equity trusts ($4.2m), representing 5.0% and 0.3% of the unlisted International and Australian equity trust portfolios respectively. This followed a symmetrically-executed downward adjustment to private-equity valuations immediately following the steep falls in public equity markets in March 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged to the Scheme or its assets by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2020 and to the date of this report were:

Ariane Barker
Patricia Cross (Chair)
Melissa Donnelly (Appointed 1 July 2020)
Christopher Ellison
Nadine Flood (Term ended 30 June 2020)
Winsome Hall (Term ended 30 June 2020)
Garry Hounsell
Sunil Kemppi (Resigned 22 November 2019)
Anthony Needham
Peggy O'Neal (Term ended 30 June 2020)
Margaret Staib
Michael Vertigan
Alistair Waters (Appointed 25 February 2020)

In addition to the Directors, the following Executives of CSC had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2020 were:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

Peter Carrigy-Ryan and Winsome Hall are members of the Scheme. The terms and conditions of their membership, or those of any related parties, are the same as for any other member who is not part of the key management personnel of the the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel is set out below:

	2020	2019
	$	$
Short-term employee benefits	**111 795**	141 480
Post-employment benefits	**8 450**	12 756
Other long-term benefits	**(602)**	3 130
Termination benefits	**-**	6 501
	119 643	163 867

Aggregate compensation in relation to the Scheme is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against assets of the AIT that are referable to the Scheme.

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2020, the Scheme's only investment consisted of units in the AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in the AIT throughout the year were the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Scheme, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (see Note 8(c)). No fees were charged to the Scheme or its assets for acting as Trustee during the year ended 30 June 2020 (2019: $nil).

The Scheme held the following investments in related parties at 30 June:

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income / (Loss) after tax**	**Share of Net Income / (Loss) after tax**
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**1 906 143**	2 390 568	**(12 655)**	164 680
	1 906 143	2 390 568	**(12 655)**	164 680

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2020 (2019: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2020 (2019: $nil).

15. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2020 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

Section 09

PSS Financial Statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of the Public Sector Superannuation Scheme

Opinion

In my opinion, the financial statements of the Public Sector Superannuation Scheme for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Public Sector Superannuation Scheme as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

The financial statements of the Public Sector Superannuation Scheme, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Trustee of the Public Sector Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Sector Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Trustee's responsibility for the financial statements

The Superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the Public Sector Superannuation Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

GPO Box 707 CANBERRA ACT 2601
38 Sydney Avenue FORREST ACT 2603
Phone (02) 6203 7300 Fax (02) 6203 7777

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

23 September 2020

Public Sector Superannuation Scheme (ABN 74 172 177 893)

Statement by the Trustee of the Public Sector Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) the accompanying financial statements of the Public Sector Superannuation Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2020 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(d) the financial statements have been prepared based on properly maintained financial records; and

(e) the operations of the Public Sector Superannuation Fund (PSS Fund) were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Superannuation Act 1990,* the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 23rd day of September 2020 in accordance with a resolution of directors of the Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Public Sector Superannuation Scheme
Statement of Financial Position
As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**78 012**	43 095
Employer sponsor receivable		**66 865 866**	62 006 048
Other receivables	4	**2 226**	3 584
Deferred tax assets	8c	**152**	145
Investments in pooled superannuation trust	5	**20 343 742**	21 206 444
Total assets		**87 289 998**	83 259 316
Liabilities			
Benefits payable		**(14 216)**	(11 857)
Income tax payable		**(26 539)**	(27 709)
Other payables		**(1 234)**	(1 126)
Total liabilities excluding member benefits		**(41 989)**	(40 692)
Net assets available for member benefits		**87 248 009**	83 218 624
Member liabilities	9	**(87 174 070)**	(83 147 407)
Net assets		**73 939**	71 217
Equity			
Operational risk reserve		**(73 939)**	(71 217)
Total equity		**(73 939)**	(71 217)

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Investment revenue			
Interest		**450**	1 149
Changes in fair value of investments	6c	**(200 262)**	1 524 397
Total revenue		**(199 812)**	1 525 546
Total expenses		**-**	-
Operating results		**(199 812)**	1 525 546
Net change in member benefits from investing activities		**200 450**	(1 524 216)
Operating result before income tax expense		**638**	1 330
Income tax expense	8a	**(68)**	(172)
Operating result after income tax		**570**	1 158

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2020

	Note	Defined benefit members	Hybrid benefit members	Total
		$'000	$'000	$'000
Opening balance of member benefits at the beginning of the financial year		**48 328 465**	**34 818 942**	**83 147 407**
Contributions:				
Member contributions	7a	**141 500**	**453 906**	**595 406**
Employer contributions	7a	**42 172**	**135 606**	**177 778**
Government co-contributions	7a	**-**	**787**	**787**
Low income superannuation tax offset	7a	**-**	**304**	**304**
Income tax on contributions	8b	**(6 216)**	**(19 986)**	**(26 202)**
Net after tax contributions		**177 456**	**570 617**	**748 073**
Net appropriation from Consolidated Revenue Fund	7b	**518 008**	**716 199**	**1 234 207**
Benefits to members	7b	**(1 097 770)**	**(1 517 778)**	**(2 615 548)**
Insurance premiums paid to insurer		**(1 448)**	**(2 001)**	**(3 449)**
Insurance premiums charged to members		**1 448**	**2 001**	**3 449**
Insurance claim payments received from insurer		**1 140**	**1 575**	**2 715**
Net change in member benefits from investing activities		**(48 537)**	**(151 913)**	**(200 450)**
Net change in member benefits to be funded by employers		**2 413 506**	**2 444 160**	**4 857 666**
Closing balance of member benefits at the end of the financial year		**50 292 268**	**36 881 802**	**87 174 070**

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2019

	Note	Defined benefit members	Hybrid benefit members	Total
		$'000	$'000	$'000
Opening balance of member benefits at the beginning of the financial year		45 037 269	33 617 686	78 654 955
Contributions:				
Member contributions	7a	164 645	414 131	578 776
Employer contributions	7a	51 898	131 006	182 904
Government co-contributions	7a	-	1 195	1 195
Low income superannuation tax offset	7a	-	285	285
Income tax on contributions	8b	(7 812)	(19 718)	(27 530)
Net after tax contributions		208 731	526 899	735 630
Net appropriation from Consolidated Revenue Fund	7b	364 931	548 578	913 509
Benefits to members	7b	(969 131)	(1 456 834)	(2 425 965)
Insurance premiums paid to insurer		(1 379)	(2 074)	(3 453)
Insurance premiums charged to members		1 379	2 074	3 453
Insurance claim payments received from insurer		1 004	1 509	2 513
Net change in member benefits from investing activities		505 086	1 019 130	1 524 216
Net change in member benefits to be funded by employers		3 180 575	561 974	3 742 549
Closing balance of member benefits at the end of the financial year		48 328 465	34 818 942	83 147 407

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2020

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2018	67 482	67 482
Operating result	1 158	1 158
Net transfers to / (from) reserves	2 577	2 577
Closing balance as at 30 June 2019	71 217	71 217
Opening balance as at 1 July 2019	**71 217**	**71 217**
Operating result	**570**	**570**
Net transfers to / (from) reserves	**2 152**	**2 152**
Closing balance as at 30 June 2020	**73 939**	**73 939**

The attached notes form part of these financial statements.

Public Sector Superannuation Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2020

	Note	2020	2019
		$'000	$'000
Cash flows from operating activities			
Interest received		**489**	1 181
Income tax paid		**(178)**	(138)
Net cash inflows from operating activities	10b	**311**	1 043
Cash flows from investing activities			
Purchase of investments		**(5 000)**	(25 000)
Proceeds from sale of investments		**667 445**	768 966
Net cash inflows from investing activities		**662 445**	743 966
Cash flows from financing activities			
Contributions received			
Employer contributions		**177 778**	182 904
Member contributions		**595 406**	578 776
Government co-contributions		**787**	1 195
Low income superannuation tax offset		**304**	285
Income tax paid on contributions		**(27 269)**	(28 827)
Superannuation surcharge paid		**100**	91
Benefits paid		**(2 613 189)**	(2 425 666)
Net appropriation from Consolidated Revenue Fund		**1 235 521**	911 215
Insurance premiums received from members		**3 449**	3 453
Insurance claim payments received from insurer		**2 715**	2 513
Insurance premiums paid		**(3 441)**	(3 438)
Net cash (outflows) from financing activities		**(627 839)**	(777 499)
Net increase / (decrease) in cash held		**34 917**	(32 490)
Cash at the beginning of the financial year		**43 095**	75 585
Cash at the end of the financial year	10a	**78 012**	43 095

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. DESCRIPTION OF THE SCHEME

The Public Sector Superannuation Scheme ('Scheme') is a defined benefit scheme which provides benefits to its members under the *Superannuation Act 1990* (as amended) and is administered in accordance with a Trust Deed dated 21 June 1990 (as amended). The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

Monies paid to the Trustee for the purposes of the Scheme are held in the Public Sector Superannuation Fund (PSS Fund). The PSS Fund comprises contributions made by members and employers, income arising from investments, and unrealised and realised changes in fair value of investments held within the PSS Fund. The Trustee pays member benefits and taxes relating to the PSS Fund out of the PSS Fund. The Trustee pays the direct and incidental costs of management of the PSS Fund and the investment of its money from the assets of the ARIA Investments Trust ('the AIT') that are referable to the PSS Fund (Note 7(c)).

PSS has been closed to new entrants since 1 July 2005.

The principal place of business and registered office of the Trustee is 7 London Circuit, Canberra, ACT 2601.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* . For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* .

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 23 September 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 15 'Revenue from Contracts with Customers'**, AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15'**,** and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	beginning on or after 1 January 2019
AASB 1058 'Income of Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	beginning on or after 1 January 2019
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	beginning on or after 1 January 2019
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	beginning on or after 1 January 2019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia'	1 January 2020	30 June 2021
AASB 2020-1 'Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current'	1 January 2022	30 June 2023
AASB 2020-3 'Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments'	1 January 2022	30 June 2023

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

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

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. In making this assessment, the directors of the Trustee have considered future events and conditions for the period of twelve months following the approval of these financial statements, including the impact of the outbreak of COVID-19 which was declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020. Whilst the situation remains uncertain, the Trustee remains confident that the Scheme will be able to continue as a going concern as the Scheme's assets outweigh its liabilities and it has sufficient liquidity to meet its debts as and when they fall due.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented in these financial statements for the year ended 30 June 2019.

(a) Cash and cash equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer sponsor receivable

The Commonwealth Government is obliged under the *Superannuation Act 1990* (as amended) to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between the defined benefit member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

Payables (being benefits payable and other payables) are recognised at their nominal value which is equivalent to fair value.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

Other payables
Other payables represent liabilities for services provided during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

(f) Member liabilities

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 (Note 9).

The accumulation component of hybrid benefit member liabilities are measured as the amount of member account balances as at the reporting date (Note 9).

The impact of the Scheme's default death and invalidity insurance arrangements have been considered in determining member liabilities. Balances and transactions in respect of these arrangements are presented in aggregate as part of member liabilities and the benefits paid/payable balances presented in the Statement of Financial Position and Statement of Changes in Member Benefits.

(g) Contribution revenue and transfers from other funds

Employer and member contributions, superannuation co-contributions, low income superannuation tax offsets from the Commonwealth Government and transfers from other funds are recognised when control of the contribution or transfer has passed to the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the AIT and income earned on these assets is recognised in the reserve.

(i) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue
Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(k) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(l) Income tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(m) Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

4. OTHER RECEIVABLES

	2020	2019
	$'000	$'000
Receivable from the ARIA Investments Trust	**24**	29
Interest receivable	**6**	45
Amount to be appropriated from Consolidated Revenue Fund	**2 196**	3 510
	2 226	3 584

There are no receivables that are past due or impaired (2019: nil).

5. INVESTMENTS

	2020	2019
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**20 343 742**	21 206 444
	20 343 742	21 206 444

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2020	2019
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**(211 428)**	1 519 358
	(211 428)	1 519 358
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**11 166**	5 039
	11 166	5 039
(c) Total changes in fair value of investments	**(200 262)**	1 524 397

7. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme at optional rates ranging from 2% - 10% or they may opt to make nil contributions. The contribution rates were the same in the prior year.

Employer Contributions
Employers who do not operate their own productivity schemes contribute employer (productivity) contributions to the Scheme on a sliding scale averaging 3% of salaries paid to members. The contribution rates were the same in the prior year.

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be rolled over to the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2019 and 30 June 2020, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Tax Offset
The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to $500. LISTO payments are recognised as revenue when received.

(b) Benefits

Where a benefit that becomes payable in respect of a member can be fully met from Scheme assets attributable to that member, the benefit is paid to the beneficiary from the PSS Fund. Where a benefit becomes payable that cannot be fully met from Scheme assets attributable to the member, all moneys held in the PSS Fund in respect of the member are paid from the Consolidated Revenue Fund, and the Commonwealth Government then assumes responsibility for funding the benefit.

Of the total benefits payable as at 30 June 2020, $2.20 million (2019: $3.51 million) is payable by the Consolidated Revenue Fund. The Commonwealth Government is the corresponding debtor for this amount in accordance with the funding arrangements described above.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Benefits paid and payable by the PSS Fund and the Consolidated Revenue Fund during the year are as follows:

	2020 $'000	2019 $'000
Gross Appropriation from Consolidated Revenue Fund	**2 552 779**	2 389 271
less: Transfers from PSS Fund to Consolidated Revenue Fund	**(1 318 572)**	(1 475 762)
Net appropriation from Consolidated Revenue Fund	**1 234 207**	913 509
Consolidated Revenue Fund		
Lump-sum benefits	**474 592**	527 934
Pensions	**2 078 187**	1 861 337
	2 552 779	2 389 271
PSS Fund		
Lump-sum benefits	**62 769**	36 694
Total benefits paid and payable	**2 615 548**	2 425 965

(c) Costs of Managing, Investing and Administering the Scheme

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of the AIT that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of the AIT.

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Scheme (continued)

Expenses met by the AIT and referable to the Scheme are as follows:

	2020	2019
	$'000	$'000
Investment		
Investment manager fees	**76 520**	59 405
Custodian fees	**2 949**	2 759
Investment consultant and other service provider fees	**5 981**	3 103
Other investment expenses	**2 484**	1 416
Total direct investment expenses	**87 934**	66 683
Regulatory fees	**1 650**	1 405
Other operating expenses	**20 109**	18 272
Total costs	**109 693**	86 360

Costs other than those incurred in managing and investing Scheme assets are met by CSC. Administrative fees are paid to CSC by employing agencies to meet these costs. Sponsoring employers have contributed further administration funding of $27.95 million (2019: $27.84 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

8. INCOME TAX

	2020	2019
	$'000	$'000
(a) Income tax recognised in the Income Statement		
Income tax expense comprises:		
Current tax expense	**74**	177
Deferred tax expense relating to the origination and reversal of temporary differences	**(6)**	(5)
Total income tax expense	**68**	172

The prima facie income tax expense on the operating result before income tax reconciles to the income tax expense in the Income Statement as follows:

Operating result before income tax expense	**638**	1 330
Income tax expense / (benefit) calculated at 15%	**96**	200
Net change in member benefits from investing activities	**(30 067)**	228 632
Investment revenue already taxed	**30 039**	(228 660)
Total income tax expense	**68**	172

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits

Contributions received:		
Member contributions	**595 405**	578 776
Employer contributions	**177 778**	182 904
Government co-contributions	**787**	1 195
Low income superannuation tax offset	**304**	285
Total contributions received	**774 274**	763 160
Contributions tax calculated at 15%	**116 141**	114 474
Member contributions not subject to tax	**(89 311)**	(86 816)
Government co-contributions not subject to tax	**(118)**	(179)
Low income superannuation tax offset not subject to tax	**(46)**	(43)
Insurance premiums	**(258)**	-
Rollovers in subject to tax	**57**	94
Under/(over) relating to the prior year	**(263)**	-
Total income tax on contributions	**26 202**	27 530

8. INCOME TAX (continued)

	2020	2019
	$'000	$'000
(c) Recognised deferred tax assets		
Deferred tax assets comprise:		
Temporary differences	**152**	145
	152	145

Taxable and deductible temporary differences arise from the following:

2020	**Opening balance $'000**	**Charged to income $'000**	**Closing balance $'000**
Gross deferred tax assets / (liabilities):			
Interest receivable	**(7)**	**6**	**(1)**
Insurance premiums payable	**152**	**1**	**153**
Net deferred tax assets	**145**	**7**	**152**

2019	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(12)	5	(7)
Insurance premiums payable	150	2	152
Net deferred tax assets	138	7	145

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. MEMBER LIABILITIES

The Scheme is a defined benefit scheme; however some members of the Scheme have a hybrid interest as components of a member's benefit are treated as accumulation interests. These components can include transfer amounts from other funds and Government contributions such as co-contributions and low income super contributions. These amounts attract investment earnings based on the performance of the PSS Fund and are payable as a lump sum when eligible for release. The defined benefit component is determined through a set formula based on a member's contribution rate, final average salary and length of membership and is not impacted by fund earnings. As such there are considered to be two categories of members with different risk exposures – those with only a defined benefit interest, and those with a hybrid benefit interest comprising defined benefit and accumulation components.

The breakdown of member liabilities into these two member categories is shown in the table below:

	2020	2019
	$'000	$'000
Defined benefit members	**50 292 268**	48 328 465
Hybrid benefit members	**36 881 802**	34 818 942
Total member liabilities	**87 174 070**	83 147 407

The Statement of Changes in Member Benefits has been disaggregated to show amounts related to these member categories. The disaggregated movements have been attributed on a proportional basis considering the relative contributions and benefits for the hybrid member category compared to the total Scheme.

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The value of the member liabilities will not necessarily be the same as the value presented in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions. The liabilities change from year to year as a result of contributions, benefit payments, interest costs and investment returns relative to the actuarial assumptions adopted. The actuarial assumptions are long term assumptions commensurate with the maturity of the member liabilities and are reviewed in consultation with the actuaries on an annual basis.

9. MEMBER LIABILITIES (continued)

The Scheme uses sensitivity analysis to monitor the potential impact of key changes to key variables about which the assumptions need to be made. The Scheme has identified four assumptions (being the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities:

- The current mortality assumptions adopted are scheme specific based on the experience observed. There has been no change to these assumptions from the prior year.

- The assumed discount rate has been determined by reference to the target investment returns expected on the investment portfolio, which reflect the opportunities reasonably available to the Scheme in the investment markets. There has been no change to this assumption from the prior year.

- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor. There has been no change to this assumption from the prior year.

- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target. There has been no change to this assumption from the prior year.

Other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include resignation rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. MEMBER LIABILITIES (continued)

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate assumptions for the Scheme.

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in member liabilities ($'000)
30 June 2020			
Discount rate / Investment returns	6%	+ 1% - 1%	11 072 105 (13 968 628)
Salary adjustment rate	3.5%	+ 1% - 1%	(2 633 402) 2 358 217
Inflation rate	2.5%	+ 1% - 1%	(10 460 910) 8 684 197
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	596 071 (622 134)
30 June 2019			
Discount rate / investment Returns	6%	+ 1% - 1%	10 707 537 (13 557 599)
Salary adjustment rate	3.5%	+ 1% - 1%	(2 643 864) 2 401 422
Inflation rate	2.5%	+ 1% - 1%	(10 051 151) 8 325 903
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	557 906 (582 192)

*For example, if the base probability of death is 3.0%, the higher rate is 3.15% and the lower rate is 2.85%

9. MEMBER LIABILITIES (continued)

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their Scheme membership as at the reporting date.

The actuarial estimate of vested benefits at 30 June 2020 is $97.4 billion (2019: $93.7 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2020 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements as at the reporting date.

10. CASH FLOW INFORMATION

(a) Reconciliation of Cash	**2020**	2019
	$'000	$'000

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	**78 012**	43 095

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**570**	1 158
Net change in member benefits from investing activities	**(200 450)**	1 524 216
Changes in fair value of investments	**200 262**	(1 524 397)
Decrease/(increase) in interest receivable	**39**	32
(Increase)/decrease in deferred tax assets	**(6)**	(5)
(Decrease)/increase in income tax payable	**(104)**	39
Net cash inflows from operating activities	**311**	1 043

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

11. AUDITOR'S REMUNERATION

Amounts paid or payable to the Australian National Audit Office for audit services:

	2020	2019
	$	$
Financial statements	**50 600**	48 600
Regulatory returns and compliance	**34 400**	32 400
Total	**85 000**	81 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the AIT that are referable to the Scheme.

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Scheme (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the AIT. The AIT is a pooled superannuation trust which is also governed by the Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage the risk relating to the investment activities of the AIT. The investments of the AIT are managed on behalf of the Trustee by specialist external investment managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The Registerable Superannuation Entity ('RSE') licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement and the Statement of Changes in Member Benefits.

(e) Financial risk management objectives

The Scheme is exposed to a variety of financial risks as a result of its pooled investment in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Scheme's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. These policies may include the use of financial derivative instruments.

The Trustee is responsible for ensuring that there is an effective risk management control framework in place for the Scheme. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Scheme's investments through the AIT. The overall investment strategy of the Scheme is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Scheme's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Scheme's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Scheme's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within the AIT exceeded 5% of net assets of that trust at 30 June 2020 or 30 June 2019.

The credit risk on the Scheme's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2020	2019
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**20 343 742**	21 206 444
Other financial assets		
Cash and cash equivalents	**78 012**	43 095
Receivables	**2 226**	3 584
Total	**20 423 980**	21 253 123

There has been an increase in the Scheme's exposure to credit risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures credit risk since the 2019 period.

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

The Trustee's approach to managing liquidity is to ensure that the Scheme will always have sufficient liquidity to meet its liabilities and member benefit payments. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Scheme expects to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2020					
Benefits payable	**14 216**	**-**	**-**	**-**	**14 216**
Other payables	**1 234**	**-**	**-**	**-**	**1 234**
Member liabilities	**693 754**	**2 081 263**	**11 508 393**	**72 890 660**	**87 174 070**
Total financial liabilities	**709 204**	**2 081 263**	**11 508 393**	**72 890 660**	**87 189 520**
30 June 2019					
Benefits payable	11 857	-	-	-	11 857
Other payables	1 126	-	-	-	1 126
Member liabilities	629 410	1 888 228	10 485 642	70 144 127	83 147 407
Total financial liabilities	642 393	1 888 228	10 485 642	70 144 127	83 160 390

There has been an increase in the Scheme's exposure to liquidity risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures liquidity risk since the 2019 period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been an increase in the Scheme's exposure to market risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures market risk since the 2019 period.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee’s approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2020 and 30 June 2019 had a maturity profile of less than one month.

The Scheme is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk (continued)

The following table illustrates the Scheme's sensitivity to a 0.09% p.a. (2019: 0.20%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.09% (2019: 0.20%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2020		**-0.09%**		**+0.09%**	
Cash and cash equivalents	**78 012**	**(70)**	**(70)**	**70**	**70**
2019		-0.20%		+0.20%	
Cash and cash equivalents	43 095	(86)	(86)	86	86

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Scheme's investment in the AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in the AIT is carried at fair value recognised in the Income Statement, all changes in market conditions will directly affect the Scheme's net investment income.

In its capacity as trustee of the AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in the AIT, based on risk exposures at reporting date. The volatility factor of 5.00% (2019: 3.90%) represents the volatility in the default option unit price of the Schemes Investment in the AIT and is reflective of market conditions as at reporting date. For the Cash option and the investments backing the operational risk reserve a factor of 0.09% (2019: 0.20%) has been applied representing a reasonably possible change in interest rates based on market conditions at reporting date, as a proxy for price Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2020						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+5.00%	20 204 854	(1 010 243)	(1 010 243)	1 010 243	1 010 243
Cash option	-/+0.09%	64 973	(58)	(58)	58	58
Operational risk reserve	-/+0.09%	73 915	(67)	(67)	67	67
Total increase / (decrease)		20 343 742	(1010 368)	(1010 368)	1 010 368	1 010 368
2019						
Financial Assets						
ARIA Investments Trust:						
Default option	-/+3.90%	21 084 249	(822 286)	(822 286)	822 286	822 286
Cash option	-/+0.20%	51 007	(102)	(102)	102	102
Operational risk reserve	-/+0.20%	71 188	(142)	(142)	142	142
Total increase / (decrease)		21 206 444	(822 530)	(822 530)	822 530	822 530

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020 **Financial Assets** Pooled superannuation trust	**-**	**20 343 742**	**-**	**20 343 742**
2019 **Financial Assets** Pooled superannuation trust	-	21 206 444	-	21 206 444

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 fair value measurements
There were no Level 3 financial assets or liabilities (2019: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value measurements of the underlying investments

The funded components of the Schemes for which CSC is the Trustee are co-invested in a pooled superannuation trust. The following table provides an analysis of the underlying pooled superannuation trust's investments grouped into levels 1 to 3 of the fair value hierarchy based on the degree to which their fair value is observable. The table has been prepared on a look-through basis and therefore discloses investments held in underlying Trustee-controlled subsidiary trusts as if they are direct investments of the pooled superannuation trust.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2020				
Cash and cash equivalents	**3 166 899**	**-**	**-**	**3 166 899**
Money market investments	**4 740 006**	**-**	**-**	**4 740 006**
Fixed interest investments	**5 302 424**	**6 358**	**311 385**	**5 620 167**
Equity investments	**20 768 429**	**5 369 415**	**4 964 157**	**31 102 001**
Property investments	**-**	**-**	**4 188 290**	**4 188 290**
Derivatives contracts (net)	**(1 035)**	**573 868**	**3 958**	**576 791**
TOTAL	**33 976 723**	**5 949 641**	**9 467 790**	**49 394 154**
2019				
Cash and cash equivalents	2 615 412	-	-	2 615 412
Money market investments	2 691 508	-	-	2 691 508
Fixed interest investments	5 488 013	-	290 904	5 778 917
Equity investments	22 645 916	7 827 387	3 870 952	34 344 255
Property investments	-	-	4 439 489	4 439 489
Derivatives contracts (net)	(22 758)	(25 572)	-	(48 330)
TOTAL	33 418 091	7 801 815	8 601 345	49 821 251

The fair values of the pooled superannuation trust's investments is determined as follows:

I. Cash comprises demand deposits with a bank, financial institution or futures broker. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

II. Money market investments are valued at the market closing price on the last business day of the reporting period and include accrued interest.

III. Fixed interest securities are valued at their market value at close of business on the last business day of the reporting period.

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

IV. Equity securities and listed trusts are valued at the last sale price at close of business on the last business day of the reporting period.

V. Private equity funds are valued according to the most recent valuation obtainable from an independent (third party) valuer or an investment manager, applying valuation and disclosure guidelines consistent with the International Equity & Venture Capital Valuation Guidelines.

VI. Unlisted trusts (including pooled superannuation trusts and hedge funds) are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the external investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations.

VII. Investment properties which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are independently revalued at least annually. Valuations are performed by registered valuers. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate. This is compared against valuations based on capitalised earnings methodologies as well as comparable market transactions.

VIII. Futures contracts are valued at market closing prices quoted on the last business day of the reporting period.

IX. Forward currency contracts and swaps are valued using prices obtained from independent providers as at the last business day of the reporting period (or alternatively from counterparties or the external investment managers where a provider does not supply a price).

X. Exchange traded options are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on the last business day of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The COVID-19 pandemic has impacted global economic activity and, to varying degrees, financial markets around the world. As a result assessing fair value as at reporting date involves increased uncertainties around the underlying assumptions for valuations given the very wide range of potential paths forward for both economies, policy responses and asset fundamentals. Additionally, very low, if any, transaction volumes make evidential valuation difficult. The independent valuations received for some property and infrastructure investments have been reported on the basis of “significant valuation uncertainty”, meaning the valuation is current at the date of valuation only. The value assessed may change significantly over a relatively short period of time. The valuers confirmed inclusion of the “significant valuation uncertainty” declaration does not mean valuations cannot be relied upon. Rather, the phrase is used in order to be clear, transparent and indicate that, in the current extraordinary circumstances, less certainty should be attached to valuations than would otherwise be the case and input assumptions may have to change materially as conditions evolve.

There has been no change to the Trust’s valuation policies for the year ended 30 June 2020.

The Trustee’s Valuation of Investments Policy and Procedures provides that if a price is not at market value (due to illiquidity, suspension, a material event or otherwise), the Trustee may vary the value of the asset in accordance with the internal governance processes for the adjustment as outlined in the Policy. The objective of this special situations process is to preserve equity across member outcomes, regardless of their choices, by mitigating against the risk that in major disruptions, the effect of normal delays in the reporting of private-equity fund valuations is materially amplified.

Given the public-markets evidence; the genuine uncertainties surrounding financial markets asset fundamentals due to the COVID-19 pandemic and associated policy responses; and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the special situation hurdle was triggered within the Valuation Policy and the Trustee executed on that process for private equity funds, in accordance with the Policy.

As at 30 June 2020 an upwards Trustee valuation adjustment based on a public market price adjustment factor was added to the investment manager valuations of unlisted International equity trusts ($193.1m) and unlisted Australian equity trusts ($4.2m), representing 5.0% and 0.3% of the unlisted International and Australian equity trust portfolios respectively. This followed a symmetrically-executed downward adjustment to private-equity valuations immediately following the steep falls in public equity markets in March 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged to the Scheme or its assets by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2020 and to the date of this report were:

Ariane Barker	Sunil Kemppi (Resigned 22 November 2019)
Patricia Cross (Chair)	Anthony Needham
Melissa Donnelly (Appointed 1 July 2020)	Peggy O'Neal (Term ended 30 June 2020)
Christopher Ellison	Margaret Staib
Nadine Flood (Term ended 30 June 2020)	Michael Vertigan
Winsome Hall (Term ended 30 June 2020)	Alistair Waters (Appointed 25 February 2020)
Garry Hounsell	

In addition to the Directors, the following Executives of CSC had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2020 were:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

Winsome Hall is a member of the Scheme. The terms and conditions of their membership, or those of any related parties are the same as for any other member who is not part of the key management personnel of the the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel is set out below:

	2020	2019
	$	$
Short-term employee benefits	**1 065 819**	1 136 235
Post-employment benefits	**80 558**	102 446
Other long-term benefits	**(5 739)**	25 141
Termination benefits	**-**	52 213
	1 140 638	1 316 035

Aggregate compensation in relation to the Scheme is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against assets of the AIT that are referable to the Scheme.

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2020, the Scheme's only investment consisted of units in the AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in the AIT throughout the year were the Commonwealth Superannuation Scheme, the Public Sector Superannuation Accumulation Plan and the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Scheme, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the AIT that are referable to the Scheme (see Note 7(c)). No fees were charged for acting as Trustee during the year ended 30 June 2020 (2019: $nil).

The Scheme held the following investments in related parties at 30 June:

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income / (Loss) after tax**	**Share of Net Income / (Loss) after tax**
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**20 343 742**	21 206 444	**(200 262)**	1 524 397
	20 343 742	21 206 444	**(200 262)**	1 524 397

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2020 (2019: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2020 (2019: $nil).

15. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2020 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

Section 10
MilitarySuper Financial Statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of the Military Superannuation and Benefits Scheme

Opinion

In my opinion, the financial statements of the Military Superannuation and Benefits Scheme for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Military Superannuation and Benefits Scheme as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

The financial statements of the Military Superannuation and Benefits Scheme, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Trustee of the Military Superannuation and Benefits Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows;
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Military Superannuation and Benefits Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Trustee's responsibility for the financial statements

The Superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the Military Superannuation and Benefits Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

23 September 2020

Military Superannuation and Benefits Scheme (ABN 50 925 523 120)

Statement by the Trustee of the Military Superannuation and Benefits Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) the accompanying financial statements of the Military Superannuation and Benefits Scheme are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2020 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with subsection 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(d) the financial statements have been prepared based on properly maintained financial records; and

(e) the operations of the Scheme were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Military Superannuation and Benefits Act 1991,* the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 23rd day of September 2020 in accordance with a resolution of Directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Military Superannuation & Benefits Scheme
Statement of Financial Position
As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**31 763**	52 327
Employer sponsor receivable		**47 506 999**	44 381 999
Other receivables	4	**8 812**	6 410
Investments in pooled superannuation trust	5	**10 329 547**	10 275 549
Total assets		**57 877 121**	54 716 285
Liabilities			
Benefits payable		**(32 489)**	(8 813)
Income tax payable		**(24 454)**	(25 737)
Other payables		**(483)**	(482)
Deferred tax liabilities	8c	**-**	(4)
Total liabilities excluding member benefits		**(57 426)**	(35 036)
Net assets available for member benefits		**57 819 695**	54 681 249
Member liabilities	9	**(57 779 987)**	(54 645 049)
Net assets		**39 708**	36 200
Equity			
Operational risk reserve		**(39 708)**	(36 200)
Total equity		**(39 708)**	(36 200)

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Income Statement
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Investment revenue			
Interest		**165**	420
Changes in fair value of investments	6c	**(90 004)**	740 706
Total revenue		**(89 839)**	741 126
Total expenses		**-**	-
Operating results		**(89 839)**	741 126
Net change in member benefits from investing activities		**90 161**	(740 492)
Operating result before income tax expense		**322**	634
Income tax expense	8a	**(25)**	(63)
Operating result after income tax		**297**	571

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Opening balance of member benefits at the beginning of the financial year		**54 645 049**	50 927 624
Contributions:			
Member contributions	7a	**279 242**	271 519
Employer contributions	7a	**162 720**	171 020
Government co-contributions	7a	**872**	803
Low income superannuation tax offset	7a	**289**	435
Income tax on contributions	8b	**(24 485)**	(25 833)
Net after tax contributions		**418 638**	417 944
Net appropriation from Consolidated Revenue Fund	7b	**943 668**	770 024
Benefits to members	7b	**(1 258 996)**	(977 104)
Net change in member benefits from investing activities		**(90 161)**	740 492
Net change in member benefits to be funded by employers		**3 121 789**	2 766 069
Closing balance of member benefits at the end of the financial year		**57 779 987**	54 645 049

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2020

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2018	32 698	32 698
Operating result	571	571
Net transfers to / (from) reserves	2 931	2 931
Closing balance as at 30 June 2019	36 200	36 200
Opening balance as at 1 July 2019	**36 200**	**36 200**
Operating result	**297**	**297**
Net transfers to / (from) reserves	**3 211**	**3 211**
Closing balance as at 30 June 2020	**39 708**	**39 708**

The attached notes form part of these financial statements.

Military Superannuation & Benefits Scheme
Statement of Cash Flows
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		**189**	426
Superannuation surcharge paid		**(1)**	35
Income tax received/(paid)		**(63)**	(69)
Net cash inflows from operating activities	10b	**125**	392
Cash flows from investing activities			
Purchase of investments		**(438 092)**	(418 767)
Proceeds from sale of investments		**294 099**	207 955
Net cash (outflows) from investing activities		**(143 993)**	(210 812)
Cash flows from financing activities			
Contributions received			
Employer contributions		**162 720**	171 020
Member contributions		**279 242**	271 519
Government co-contributions		**872**	803
Low income superannuation tax offset		**289**	435
Income tax paid on contributions		**(25 732)**	(27 158)
Benefits paid		**(1 235 320)**	(977 163)
Net appropriation from Consolidated Revenue Fund		**941 233**	769 193
Net cash inflows from financing activities		**123 304**	208 649
Net (decrease) in cash held		**(20 564)**	(1 771)
Cash at the beginning of the financial year		**52 327**	54 098
Cash at the end of the financial year	10a	**31 763**	52 327

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. DESCRIPTION OF THE SCHEME AND THE FUND

The Military Superannuation and Benefits Scheme ('Scheme') (ABN 50 925 523 120) is a hybrid accumulation-defined benefits scheme which provides benefits to its members under the *Military Superannuation and Benefits Act 1991* . The Trustee of the Scheme is Commonwealth Superannuation Corporation (CSC) (ABN 48 880 817 243).

The Scheme is operated for the purpose of providing members of the Australian Defence Force (and their dependants or beneficiaries) with lump sum and pension benefits upon retirement, termination of service, death or disablement. For the purposes of the Scheme, the Military Superannuation and Benefits Fund No. 1 (Fund) manages and invests the assets of the Scheme until such time as a benefit is paid. The Fund accepts employer contributions from the Department of Defence, other government contributions, members' contributions, transfers from other superannuation funds, and contributions made by members for the benefit of their spouse.

The principal place of business and registered office of the Trustee is 7 London Circuit, Canberra, ACT 2601.

The Scheme was closed to new members from 30 June 2016 and a new accumulation plan, Australian Defence Force Superannuation Scheme (ADF) was established for new members of the Australian Defence Force from 1 July 2016, together with a new invalidity scheme, Australian Defence Force Cover.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* . For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* .

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 23 September 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 15 'Revenue from Contracts with Customers', **AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15', and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	beginning on or after 1 January 2019
AASB 1058 'Income of Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	beginning on or after 1 January 2019
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	beginning on or after 1 January 2019
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	beginning on or after 1 January 2019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia'	1 January 2020	30 June 2021
AASB 2020-1 'Amendments to Australian Accounting Standards - Classification of Liabilities as Current or Non-current'	1 January 2022	30 June 2023
AASB 2020-3 'Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments'	1 January 2022	30 June 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

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

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. In making this assessment, the directors of the Trustee have considered future events and conditions for the period of twelve months following the approval of these financial statements, including the impact of the outbreak of COVID-19 which was declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020. Whilst the situation remains uncertain, the Trustee remains confident that the Scheme will be able to continue as a going concern as the Scheme's assets significantly outweigh its liabilities and it has sufficient liquidity to meet its debts as and when they fall due.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented in these financial statements for the year ended 30 June 2019.

(a) Cash and cash equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Fund becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Employer sponsor receivable

The Commonwealth Government is obliged under the *Military Superannuation and Benefits Act 1991* to meet any funding shortfall for the defined benefit member liabilities of the Scheme. The asset is measured at its 'intrinsic value' (i.e. the amount of the difference between member liability and the fair value of assets available to meet that liability). The value of the employer sponsor receivable will not necessarily be the same as the value of the corresponding liability in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions from those set out in Note 9.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Foreign currency transactions

The Scheme does not undertake transactions denominated in foreign currencies.

(e) Payables

Payables (being benefits payable and other payables) are recognised at their nominal value which is equivalent to fair value.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received from the employer sponsor, and approved, but payment has not been made by reporting date.

Other payables
Other payables represent liabilities for services provided during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

(f) Member liabilities

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 (Note 9).

The impact of the Scheme's default death and invalidity insurance arrangements have been considered in determining member liabilities. Balances and transactions in respect of these arrangements are presented in aggregate as part of member liabilities and the benefits paid/payable balances presented in the Statement of Financial Position and Statement of Changes in Member Benefits.

(g) Contribution revenue and transfers from other funds

Employer and member contributions, superannuation co-contributions, low income superannuation tax offsets from the Commonwealth Government and transfers from other funds are recognised when control of the contribution or transfer has passed to the Scheme.

(h) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in a separate cash option of the ARIA Investments Trust ('the AIT') and income earned on these assets is recognised in the reserve.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Derivatives

The Scheme does not directly enter into derivative financial instruments.

(j) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue
Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(k) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(l) Income tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

Deferred tax (continued)

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(m) Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

4. OTHER RECEIVABLES

	2020	2019
	$'000	$'000
Receivable from the ARIA Investments Trust	**34**	43
Interest receivable	**3**	27
Amount to be appropriated from Consolidated Revenue Fund	**8 775**	6 340
	8 812	6 410

There are no receivables that are past due or impaired (2019: Nil).

5. INVESTMENTS

	2020	2019
	$'000	$'000
Pooled Superannuation Trust - ARIA Investments Trust	**10 329 547**	10 275 549
	10 329 547	10 275 549

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2020	2019
	$'000	$'000
(a) Investments held at 30 June:		
Pooled Superannuation Trust - ARIA Investments Trust	**(89 502)**	737 852
(b) Investments realised during the year:		
Pooled Superannuation Trust - ARIA Investments Trust	**(502)**	2 854
(c) Total changes in net market values of investments	**(90 004)**	740 706

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS

(a) Contributions

Member Contributions
Members contribute to the Scheme each fortnight at optional rates ranging from a minimum of 5% of salary, to a maximum of 10% of salary. The contribution rates were the same in the prior year.

Employer Contributions
The Department of Defence contributes to the Scheme each fortnight in respect of each member at the rate of 3% of the member's salary. The contribution rates were the same in the prior year. Employers may also make salary sacrifice contributions (before tax) and Ordinary Time Earnings top up contributions to the Scheme on behalf of members.

Transferring Superannuation Benefits From Other Funds
Money invested in other superannuation funds can be rolled over to the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2019 and 30 June 2020, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Scheme up to a maximum of $500 per member.

Low Income Superannuation Tax Offset
The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to $500. LISTO payments are recognised as revenue when received.

(b) Benefits

The benefits payable from the Scheme comprise a lump sum of accumulated member contributions and a defined benefit financed by the employer and calculated on the basis of the member's final average salary and length of service. The defined benefit may be taken as a lump sum or as a pension or as a combination of lump sum and pension. The defined benefit consists of a funded component (the accumulated value of contributions made to the Fund by the Department of Defence) and an unfunded component (the balance of the defined benefit).

In general, when a benefit becomes payable to a member, the accumulated member and employer contributions held in the Fund in respect of the member are transferred to the Consolidated Revenue Fund (CRF) which pays out the total benefit (both funded and unfunded components).

Appropriation refers to the total amount paid from the CRF. The appropriation from CRF shown in the Statement of Changes in Member Benefits is the net amount after taking into account transfers from the Fund to the CRF.

7. FUNDING ARRANGEMENTS (continued)

(b) Benefits (continued)

Of the total benefits payable as at 30 June 2020, $6.42 million (2019: $4.07 million) is payable by the Consolidated Revenue Fund. The Commonwealth is the corresponding debtor for this amount in accordance with the funding arrangements described above.

Benefits paid and payable by the Fund and the Consolidated Revenue Fund during the year are as follows:

	2020	2019
	$'000	$'000
Gross Appropriation from Consolidated Revenue Fund	**1 112 648**	912 717
less: Transfers from Fund to Consolidated Revenue Fund	**(168 980)**	(142 693)
Net Appropriation	**943 668**	770 024
Consolidated Revenue Fund		
Lump-sum benefits	**193 933**	156 569
Pensions	**918 715**	756 148
	1 112 648	912 717
Military Superannuation & Benefits Fund		
Lump-sum benefits	**146 348**	64 387
Total benefits paid and payable	**1 258 996**	977 104

(c) Costs of managing, investing and administering the Fund

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of the AIT that are referable to the Fund. Transactions in respect of these costs have been brought to account in the financial statements of the AIT.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of managing, investing and administering the Fund (continued)

Expenses met by the AIT and referable to the Fund are as follows:

	2020 $'000	2019 $'000
Investment		
Investment manager fees	**37 947**	27 966
Custodian fees	**1 462**	1 299
Investment consultant and other service provider fees	**2 965**	1 460
Other investment expenses	**1 232**	666
Total direct investment expenses	**43 606**	31 391
Regulatory fees	**847**	754
Other operating expenses	**9 972**	8 602
Total costs	**54 425**	40 747

Administrative fees are paid to CSC by the Department of Defence to meet costs other than those incurred in managing and investing Fund assets. The sponsoring employer has contributed further administration funding of $22.26 million (2019: $22.33 million). Transactions in respect of the receipt of these fees and the costs of administration have been brought to account in the financial statements of the Trustee.

8. INCOME TAX

	2020 $'000	2019 $'000
(a) Income tax recognised in the Income Statement		
Tax expense comprises:		
Current tax expense	**29**	64
Deferred tax expense relating to the origination and reversal of temporary differences	**(4)**	(1)
Total tax expense	**25**	63

The prima facie income tax expense on the operating result before income tax reconciles to the income tax expense in the Income Statement as follows:

Operating result before income tax expense	**322**	634
Income tax expense / (benefit) calculated at 15%	**48**	95
Net change in member benefits from investing activities	**(13 524)**	111 074
Investment revenue already taxed	**13 501**	(111 106)
Total tax expense	**25**	63

(b) Income tax on contributions recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**279 242**	271 519
Employer contributions	**162 720**	171 020
Government co-contributions	**872**	803
Low income superannuation tax offset	**289**	435
Total contributions received	**443 123**	443 777
Contributions tax calculated at 15%	**66 468**	66 567
Member contributions not subject to tax	**(41 886)**	(40 728)
Government co-contributions not subject to tax	**(131)**	(121)
Low income superannuation tax offset not subject to tax	**(43)**	(65)
Rollovers in subject to tax	**77**	81
Under/(over) relating to prior year	**-**	99
Total contributions tax expense	**24 485**	25 833

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

8. INCOME TAX (continued)

	2020 $'000	2019 $'000
(c) Recognised deferred tax assets and liabilities		
Deferred tax liabilities comprise:		
Temporary differences	**-**	4
	-	4

Taxable and deductible temporary differences arise from the following:

2020	**Opening balance $'000**	**Charged to income $'000**	**Closing balance $'000**
Gross deferred tax liabilities:			
Interest receivable	**4**	**(4)**	**-**
	4	**(4)**	**-**
Net deferred tax liabilities	**4**	**(4)**	**-**

2019	Opening balance $'000	Charged to income $'000	Closing balance $'000
Gross deferred tax liabilities:			
Interest receivable	5	(1)	4
	5	(1)	4
Net deferred tax liabilities / (assets)	5	(1)	4

9. MEMBER LIABILITIES

The Scheme engages qualified actuaries on an annual basis to measure defined benefit liabilities. The value of the member liabilities will not necessarily be the same as the value presented in the accounts of the employer sponsor and the Australian Government Long Term Cost Report due to the application of different accounting standards which may result in different valuation assumptions. The liabilities change from year to year as a result of contributions, benefit payments, interest costs and investment returns relative to the actuarial assumptions adopted.

The Scheme uses sensitivity analysis to monitor the potential impact of key changes to key variables about which the assumptions need to be made. The Scheme has identified four assumptions (being the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate) for which changes are reasonably possible that would have a material impact on the amount of the defined benefit member liabilities:

- The current mortality assumptions adopted are scheme specific based on the experience observed. There has been no change to these assumptions from the prior year.

- The assumed discount rate has been determined by reference to the target investment returns expected on the investment portfolio, which reflect the opportunities reasonably available to the Scheme in the investment markets. There has been no change to this assumption from the prior year.

- The assumed annual salary adjustment has been determined by historical observations over a long term period and in consultation with the employer sponsor. There has been no change to this assumption from the prior year.

- The assumed inflation rate has been determined based on the mid-point of the Reserve Bank of Australia (RBA) inflation target. There has been no change to this assumption from the prior year.

Other variables about which assumptions have been made in measuring defined benefit member liabilities and for which changes are not considered reasonably possible, or for which reasonably possible changes would not be expected to have a material effect, include resignation rates.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. MEMBER LIABILITIES (continued)

The following are sensitivity calculations on a univariate basis for the mortality rates, the discount rate/investment returns, the rate of salary adjustment and the inflation rate assumptions for the Scheme.

Key assumptions	Assumed at reporting date	Reasonably Possible Change	(Increase) / Decrease in member liabilities ($'000)
30 June 2020			
Discount rate / investment returns	6%	+ 1% - 1%	**(8 453 000)** **11 399 000**
Salary adjustment rate	4%	+ 1% - 1%	**1 578 000** **(1 403 000)**
Inflation rate	2.5%	+ 1% - 1%	**9 422 000** **(7 297 000)**
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	**(275 000)** **284 000**
30 June 2019			
Discount rate / investment returns	6%	+ 1% - 1%	(8 048 000) 10 897 000
Salary adjustment rate	4%	+ 1% - 1%	1 527 000 (1 476 000)
Inflation rate	2.5%	+ 1% - 1%	8 805 000 (7 033 000)
Mortality rates	A scale developed by the Scheme actuary with allowance for mortality improvements	5.0% higher mortality* - 5.0% lower mortality*	(246 000) 247 000

* For example, if the base probability of death of 3.0%, the higher rate is 3.15% and the lower rate is 2.85%.

Vested benefits are benefits which are not conditional upon continued membership of the Scheme (or any other factor other than resignation from the Scheme) and include benefits which members were entitled to receive had they terminated their Scheme membership as at the reporting date.

An actuarial estimate of vested benefits at 30 June 2020 is $53.4 billion (2019: $49.5 billion). The value of vested benefits represents the liability that would have fallen on the Scheme if all members had ceased service on 30 June 2020 and elected the option which maximised their benefit entitlement.

The vested benefits have been calculated on the basis of current legislative arrangements as at the reporting date.

10. CASH FLOW INFORMATION

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2020	2019
	$'000	$'000
Cash at bank	**31 763**	52 327

(b) Reconciliation of operating results after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax	**297**	571
Net change in member benefits from investing activities	**(90 161)**	740 492
Changes in fair value of investments	**90 004**	(740 706)
Decrease/(increase) in interest receivable	**24**	6
(Decrease)/increase in other payables	**1**	35
(Decrease)/increase in income tax payable	**(40)**	(6)
Net cash inflows from operating activities	**125**	392

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

11. AUDITOR'S REMUNERATION

Amounts paid or payable to the Australian National Audit Office for audit services:

	2020	2019
	$	$
Financial statements	**50 600**	48 600
Regulatory returns and compliance	**34 400**	32 400
Total	**85 000**	81 000

The audits were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Fund.

Deloitte Touche Tohmatsu have been contracted by the Australian National Audit Office to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

12. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Fund (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the AIT. The AIT is a pooled superannuation trust which is also governed by the Commonwealth Superannuation Corporation as Trustee. This type of investment has been determined by the Trustee to be appropriate for the Fund and is in accordance with the Fund's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of the AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

12. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The Registerable Superannuation Entity ('RSE') licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement and the Statement of Changes in Member Benefits.

(e) Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its pooled investment in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Fund's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Fund’s financial performance. These policies may include the use of financial derivative instruments.

The Trustee is responsible for ensuring that there is an effective risk management control framework in place for the Fund. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Fund's investments through the AIT. The overall investment strategy of the Fund is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Fund's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Fund's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Fund and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Fund's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within the AIT exceeded 5% of net assets of that trust at 30 June 2020 or 30 June 2019.

The credit risk on the Fund's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2020	2019
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**10 329 547**	10 275 549
Other financial assets		
Cash and cash equivalents	**31 763**	52 327
Other receivables	**8 812**	6 410
	10 370 122	10 334 286

There has been an increase in the Scheme's exposure to credit risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures credit risk since the 2019 period.

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Fund will always have sufficient liquidity to meet its liabilities as they fall due. On resignation the member benefit accrued before 30 June 1999 can be paid as a lump sum but the balance must be preserved until the member’s preservation age, either in the Fund or another complying superannuation fund. The employer benefit, including productivity component, must be preserved in the Fund. The unfunded component of benefit payments is financed by the Commonwealth, from the CRF. As such there is minimal liquidity risk.

The Fund's exposure to liquidity risk is therefore limited to those circumstances in which the Scheme Rules allow members to withdraw benefits.

The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Fund to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements. As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk (continued)

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the discounted cash flows of financial liabilities based on the earliest date on which the Scheme expects to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	3 months to 1 year $'000	1-5 years $'000	Over 5 years $'000	Total $'000
30 June 2020					
Other payables	**483**	**-**	**-**	**-**	**483**
Benefits payable	**32 489**	**-**	**-**	**-**	**32 489**
Member liabilities	**335 000**	**996 000**	**5 502 000**	**50 946 987**	**57 779 987**
Total financial liabilities	**367 972**	**996 000**	**5 502 000**	**50 946 987**	**57 812 959**
30 June 2019					
Other payables	482	-	-	-	482
Benefits payable	8 813	-	-	-	8 813
Member liabilities	258 000	816 000	4 899 000	48 672 049	54 645 049
Total financial liabilities	267 295	816 000	4 899 000	48 672 049	54 654 344

There has been an increase in the Scheme's exposure to liquidity risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures liquidity risk since the 2019 period.

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been an increase in the Scheme's exposure to market risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures market risk since the 2019 period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Fund is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee's approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, remain unhedged due to lack of suitable currency instruments for hedging.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2020 and 30 June 2019 had a maturity profile of less than one month.

The Fund is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

The following table illustrates the Scheme's sensitivity to a 0.09% p.a. (2019: 0.20%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of a reasonably possible change in interest rates. Had interest rates been lower or higher by 0.09% (2019: 0.20%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	**Interest rate risk $' 000**			
		Operating Result Before Tax	**Net Assets Available to Pay Benefits**	**Operating Result Before Tax**	**Net Assets Available to Pay Benefits**
2020		**-0.09%**		**+0.09%**	
Cash and cash equivalents	**31 763**	**(29)**	**(29)**	**29**	**29**
2019		-0.20%		+0.20%	
Cash and cash equivalents	52 327	(105)	(105)	105	105

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Fund's investment in the AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in the AIT is carried at fair value through profit or loss, all changes in market conditions will directly affect the Scheme's net investment income.

In its capacity as trustee of the AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in the AIT, based on risk exposures at reporting date. The volatility factor of 5.00% (2019: 3.90%) represents the volatility in the default option unit price of the Schemes Investment in the AIT and is reflective of market conditions as at reporting date. For the Cash option and the investments backing the operational risk reserve a factor of 0.09% (2019: 0.20%) has been applied representing a reasonably possible change in interest rates based on market conditions at reporting date, as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2020						
Financial Assets						
ARIA Investments Trust :						
Balanced option	-/+5.00%	9 154 273	(457 714)	(457 714)	457 714	457 714
Cash option	-/+0.09%	131 163	(118)	(118)	118	118
Income focused option	-/+2.20%	68 500	(1 507)	(1 507)	1 507	1 507
Aggressive option	-/+5.70%	935 937	(53 348)	(53 348)	53 348	53 348
Operational risk reserve	-/+0.09%	39 674	(36)	(36)	36	36
Total increase / (decrease)		10 329 547	(512 723)	(512 723)	512 723	512 723
2019						
Financial Assets						
ARIA Investment Trust :						
Balanced option	-/+3.90%	9 256 269	(360 994)	(360 994)	360 994	360 994
Cash option	-/+0.20%	70 494	(141)	(141)	141	141
Income focused option	-/+1.80%	55 164	(993)	(993)	993	993
Aggressive option	-/+4.70%	857 465	(40 301)	(40 301)	40 301	40 301
Operational risk reserve	-/+0.20%	36 157	(72)	(72)	72	72
Total increase / (decrease)		10 275 549	(402 501)	(402 501)	402 501	402 501

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurement

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Financial Assets				
Pooled superannuation trust	**-**	**10 329 547**	**-**	**10 329 547**
2019				
Financial Assets				
Pooled superannuation trust	-	10 275 549	-	10 275 549

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 fair value measurements
There were no Level 3 financial assets or liabilities (2019: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurement (continued)

Fair value measurements of the underlying investments

The funded components of the Schemes for which CSC is the Trustee are co-invested in a pooled superannuation trust. The following table provides an analysis of the underlying pooled superannuation trust's investments grouped into levels 1 to 3 of the fair value hierarchy based on the degree to which their fair value is observable. The table has been prepared on a look-through basis and therefore discloses investments held in underlying Trustee-controlled subsidiary trusts as if they are direct investments of the pooled superannuation trust.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2020				
Cash and cash equivalents	**3 166 899**	**-**	**-**	**3 166 899**
Money market investments	**4 740 006**	**-**	**-**	**4 740 006**
Fixed interest investments	**5 302 424**	**6 358**	**311 385**	**5 620 167**
Equity investments	**20 768 429**	**5 369 415**	**4 964 157**	**31 102 001**
Property investments	**-**	**-**	**4 188 290**	**4 188 290**
Derivatives contracts (net)	**(1 035)**	**573 868**	**3 958**	**576 791**
TOTAL	**33 976 723**	**5 949 641**	**9 467 790**	**49 394 154**
2019				
Cash and cash equivalents	2 615 412	-	-	2 615 412
Money market investments	2 691 508	-	-	2 691 508
Fixed interest investments	5 488 013	-	290 904	5 778 917
Equity investments	22 645 916	7 827 387	3 870 952	34 344 255
Property investments	-	-	4 439 489	4 439 489
Derivatives contracts (net)	(22 758)	(25 572)	-	(48 330)
TOTAL	33 418 091	7 801 815	8 601 345	49 821 251

The fair values of the pooled superannuation trust's investments is determined as follows:

I. Cash comprises demand deposits with a bank, financial institution or futures broker. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

II. Money market investments are valued at the market closing price on the last business day of the reporting period and include accrued interest.

III. Fixed interest securities are valued at their market value at close of business on the last business day of the reporting period.

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

IV. Equity securities and listed trusts are valued at the last sale price at close of business on the last business day of the reporting period.

V. Private equity funds are valued according to the most recent valuation obtainable from an independent (third party) valuer or an investment manager, applying valuation and disclosure guidelines consistent with the International Equity & Venture Capital Valuation Guidelines.

VI. Unlisted trusts (including pooled superannuation trusts and hedge funds) are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the external investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations.

VII. Investment properties which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are independently revalued at least annually. Valuations are performed by registered valuers. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate. This is compared against valuations based on capitalised earnings methodologies as well as comparable market transactions.

VIII. Futures contracts are valued at market closing prices quoted on the last business day of the reporting period.

IX. Forward currency contracts and swaps are valued using prices obtained from independent providers as at the last business day of the reporting period (or alternatively from counterparties or the external investment managers where a provider does not supply a price).

X. Exchange traded options are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on the last business day of the reporting period.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value in an inactive or unquoted market (continued)

The COVID-19 pandemic has impacted global economic activity and, to varying degrees, financial markets around the world. As a result assessing fair value as at reporting date involves increased uncertainties around the underlying assumptions for valuations given the very wide range of potential paths forward for both economies, policy responses and asset fundamentals. Additionally, very low, if any, transaction volumes make evidential valuation difficult. The independent valuations received for some property and infrastructure investments have been reported on the basis of "significant valuation uncertainty", meaning the valuation is current at the date of valuation only. The value assessed may change significantly over a relatively short period of time. The valuers confirmed inclusion of the "significant valuation uncertainty" declaration does not mean valuations cannot be relied upon. Rather, the phrase is used in order to be clear, transparent and indicate that, in the current extraordinary circumstances, less certainty should be attached to valuations than would otherwise be the case and input assumptions may have to change materially as conditions evolve.

There has been no change to the Trust's valuation policies for the year ended 30 June 2020.

The Trustee's Valuation of Investments Policy and Procedures provides that if a price is not at market value (due to illiquidity, suspension, a material event or otherwise), the Trustee may vary the value of the asset in accordance with the internal governance processes for the adjustment as outlined in the Policy. The objective of this special situations process is to preserve equity across member outcomes, regardless of their choices, by mitigating against the risk that in major disruptions, the effect of normal delays in the reporting of private-equity fund valuations is materially amplified.

Given the uncertainties surrounding financial markets due to the COVID-19 pandemic and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the Trustee executed a special situation Trustee valuation adjustment for the valuation of private equity funds in accordance with the Policy.

Given the public-markets evidence; the genuine uncertainties surrounding financial markets asset fundamentals due to the COVID-19 pandemic and associated policy responses; and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the special situation hurdle was triggered within the Valuation Policy and the Trustee executed on that process for private equity funds, in accordance with the Policy.

As at 30 June 2020 an upwards Trustee valuation adjustment based on a public market price adjustment factor was added to the investment manager valuations of unlisted International equity trusts ($193.1m) and unlisted Australian equity trusts ($4.2m), representing 5.0% and 0.3% of the unlisted International and Australian equity trust portfolios respectively. This followed a symmetrically-executed downward adjustment to private-equity valuations immediately following the steep falls in public equity markets in March 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. No fees were charged by CSC for acting as Trustee or the Scheme during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2020 and to the date of this report were:

Ariane Barker
Patricia Cross (Chair)
Melissa Donnelly (Appointed 1 July 2020)
Christopher Ellison
Nadine Flood (Term ended 30 June 2020)
Winsome Hall (Term ended 30 June 2020)
Garry Hounsell
Sunil Kemppi (Resigned 22 November 2019)
Anthony Needham
Peggy O'Neal (Term ended 30 June 2020)
Margaret Staib
Michael Vertigan
Alistair Waters (Appointed 25 February 2020)

In addition to the Directors,the following Executives of CSC had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2020 were:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the Executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

Anthony Needham and Alana Scheiffers are members of the Scheme. The terms and conditions of his membership, or those of any related parties, is the same as for any other member who is not part of the key management personnel of the the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel is set out below:

	2020	2019
	$	$
Short-term employee benefits	**528 158**	535 659
Post-employment benefits	**39 920**	48 296
Other long-term benefits	**(2 844)**	11 852
Termination benefits	**-**	24 615
	565 234	620 422

Aggregate compensation in relation to the Fund is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the AIT that are referable to the Fund.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2020, the Fund's only investment has consisted of units in the AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in the AIT throughout the year were the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Fund, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

13. RELATED PARTIES (continued)

(d) Investing entities (continued)

The Trustee pays costs of and incidental to the management of the Fund and the investment of its money from the assets of the AIT that are referable to the Fund (see Note 7(c)). No fees were charged for acting as Trustee during the year ended 30 June 2020 (2019: $nil).

The Fund held the following investments in related parties at 30 June:

	Fair Value of Investment	Fair Value of Investment	Share of Net Income / (Loss) after tax	Share of Net Income / (Loss) after tax
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**10 329 547**	10 275 549	**(90 004)**	740 706
	10 329 547	10 275 549	**(90 004)**	740 706

14. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital or other expenditure commitments at 30 June 2020 (2019: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets for the Scheme at 30 June 2020 (2019: $nil).

15. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2020 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

Section 11
PSSap Financial Statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of the Public Sector Superannuation Accumulation Plan

Opinion

In my opinion, the financial statements of the Public Sector Superannuation Accumulation Plan for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Public Sector Superannuation Accumulation Plan as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

The financial statements of the Public Sector Superannuation Accumulation Plan which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Trustee of the Public Sector Superannuation Accumulation Plan;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Sector Superannuation Accumulation Plan in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. The Auditor-General is mandated to perform the audit of the Public Sector Superannuation Accumulation Plan, pursuant to the *Superannuation Act 2005*. I am the delegate of the Auditor-General responsible for the conduct of this audit and I am a member of the Public Sector Superannuation Accumulation Plan. I have no involvement in any investment or any other decision made by the trustee of Public Sector Superannuation Accumulation Plan. A number of safeguards are in place in respect of my independence, including a quality review by an appropriately skilled auditor who is not a member of the Public Sector Superannuation Accumulation Plan. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Trustee's responsibility for the financial statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). Those Charged with Governance are also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the trustee is responsible for assessing the ability of the Public Sector Superannuation Accumulation Plan to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

23 September 2020

Public Sector Superannuation Accumulation Plan (ABN 65 127 917 725)

Statement by the Trustee of the Public Sector Superannuation Accumulation Plan ('Plan')

The Board of Directors hereby states that in its opinion:

(a) The accompanying financial statements of the Public Sector Superannuation Accumulation Plan are properly drawn up so as to present fairly the financial position of the Plan as at 30 June 2020 and the financial performance, changes in equity, changes in member benefits and cash flows of the Plan for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Plan will be able to pay its debts as and when they fall due;

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(d) the financial statements have been prepared based on properly maintained financial records; and

(e) the operations of the Plan were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Superannuation Act 2005,* the Trust Deed establishing the Plan, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 23rd day of September 2020 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Plan.

Patricia Cross
Chair

Garry Hounsell
Director

Public Sector Superannuation Accumulation Plan
Statement of Financial Position
As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**209 963**	224 427
Deferred tax asset	9c	**1 372**	1 351
Investments in pooled superannuation trust	5	**15 345 249**	14 463 957
Other receivables	4	**363**	493
Total assets		**15 556 947**	14 690 228
Liabilities			
Benefits and pensions payable		**(2 187)**	(953)
Income tax payable		**(186 976)**	(175 129)
Other payables	8	**(9 281)**	(9 237)
Total liabilities excluding member benefits		**(198 444)**	(185 319)
Net assets available for member benefits		**15 358 503**	14 504 909
Defined contribution member liabilities			
Allocated to members	10	**(15 268 949)**	(14 410 596)
Unallocated to members	10	**(30 509)**	(43 393)
Total defined contribution member liabilities		**(15 299 458)**	(14 453 989)
Net assets		**59 045**	50 920
Equity			
Operational risk reserve		**(59 045)**	(50 920)
Total equity		**(59 045)**	(50 920)

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Income Statement
For the Financial Year Ended 30 June 2020

	Note	2020	2019
		$'000	$'000
Investment revenue			
Interest		**926**	2 223
Changes in fair value of investments	6c	**(104 720)**	1 017 433
Other revenue		**206**	488
Total revenue		**(103 588)**	1 020 144
Administration expenses		**(12 218)**	(10 794)
Total expenses		**(12 218)**	(10 794)
Operating results		**(115 806)**	1 009 350
Net benefits allocated to members' accounts		**114 536**	(1 009 862)
Operating result before income tax benefit		**(1 270)**	(512)
Income tax benefit	9a	**1 697**	1 292
Operating result after income tax benefit		**427**	780

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Opening balance of member benefits allocated at the beginning of the financial year		**14 410 596**	12 430 848
Contributions:			
Member contributions	7a	**65 011**	67 177
Employer contributions	7a	**1 330 152**	1 241 953
Transfers from other funds	7a	**522 739**	522 981
Government co-contributions	7a	**242**	215
Low income superannuation tax offset	7a	**2 654**	2 882
Income tax on contributions	9b	**(204 634)**	(185 922)
Net after tax contributions		**1 716 164**	1 649 286
Benefits to members	7b	**(704 317)**	(614 298)
Insurance premiums paid to insurer		**(101 241)**	(98 603)
Insurance claim payments received from insurer		**41 910**	27 621
Tax rebate on insurance premiums paid to insurer	9b	**15 187**	14 791
Net benefits allocated to members' accounts		**(114 536)**	1 009 862
Net transfers to reserves		**(7 698)**	(6 687)
Net increase / (decrease) in amounts not yet allocated to members' accounts		**12 884**	(2 224)
Closing balance of member benefits allocated at the end of the financial year		**15 268 949**	14 410 596

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Changes in Equity
For the Financial Year Ended 30 June 2020

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2018	43 453	43 453
Operating result	780	780
Net transfers to / (from) reserves	6 687	6 687
Closing balance as at 30 June 2019	50 920	50 920
Opening balance as at 1 July 2019	**50 920**	**50 920**
Operating result	**427**	**427**
Net transfers to / (from) reserves	**7 698**	**7 698**
Closing balance as at 30 June 2020	**59 045**	**59 045**

The attached notes form part of these financial statements.

Public Sector Superannuation Accumulation Plan
Statement of Cash Flows
For the Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		**1 081**	2 239
Income tax (paid) / received		**1 168**	1 358
Other revenue received		**193**	566
Administration expenses paid		**(12 267)**	(10 902)
Net cash (outflows) from operating activities	11b	**(9 825)**	(6 739)
Cash flows from investing activities			
Purchase of investments		**(1 137 050)**	(1 102 385)
Proceeds from sale of investments		**151 053**	145 382
Net cash (outflows) from investing activities		**(985 997)**	(957 003)
Cash flows from financing activities			
Contributions received			
Employer		**1 330 170**	1 241 883
Member		**65 011**	67 177
Transfers from other funds		**522 739**	522 981
Government co-contributions		**242**	215
Low income superannuation tax offset		**2 654**	2 882
Income tax paid on contributions		**(191 674)**	(169 876)
Insurance claim payments received from insurer		**41 910**	27 621
Insurance premiums paid to insurer		**(101 236)**	(97 218)
Tax rebate received on insurance premiums		**14 582**	11 867
Benefits and pensions paid		**(703 040)**	(615 588)
Net cash inflows from financing activities		**981 358**	991 944
Net (decrease) / increase in cash held		**(14 464)**	28 202
Cash at the beginning of the financial year		**224 427**	196 225
Cash at the end of the financial year	11a	**209 963**	224 427

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. DESCRIPTION OF THE PLAN

The Public Sector Superannuation Accumulation Plan ('Plan') is a defined contribution scheme constituted by Trust Deed dated 29 June 2005 under the *Superannuation Act 2005* and is domiciled in Australia. The Trustee of the Plan is the Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

The principal place of business and registered office of the Plan is 7 London Circuit, Canberra, ACT 2601.

Contributions of the employers and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Plan.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Plan is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations, the *Superannuation Industry (Supervision) Act 1993* . For the purposes of preparing financial statements, the Plan is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* .

The financial statements of the Plan were authorised for issue by the Directors of the Trustee on 23 September 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. The adoption has not had any significant impact on the amounts or disclosures reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 15 'Revenue from Contracts with Customers'**, AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15'**,** and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	beginning on or after 1 January 2019
AASB 1058 'Income of Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	beginning on or after 1 January 2019
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	beginning on or after 1 January 2019
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	beginning on or after 1 January 2019

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Plan were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Plan.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in	1 January 2020	30 June 2021
AASB 2020-1 'Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current'	1 January 2022	30 June 2023
AASB 2020-3 'Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments'	1 January 2022	30 June 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Plan.

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

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. In making this assessment, the directors of the Trustee have considered future events and conditions for the period of twelve months following the approval of these financial statements, including the impact of the outbreak of COVID-19 which was declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020. Whilst the situation remains uncertain, the Trustee remains confident that the Scheme will be able to continue as a going concern as the Scheme's assets outweigh its liabilities and it has sufficient liquidity to meet its debts as and when they fall due.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented in these financial statements for the year ended 30 June 2019. Where necessary, disclosures of comparative numbers have been restated to be consistent with the current period.

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Plan becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Foreign Currency Transactions

The Plan does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being other payables and benefits and pensions payable) are recognised at their nominal value which is equivalent to fair value.

Other payables
Other payables represent liabilities for services provided to the Plan during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received and approved, but payment has not been made by reporting date.

(e) Defined contribution member liabilities

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

(f) Contributions

Employer and member contributions, superannuation co-contributions, low income superannuation tax offsets from the Commonwealth Government and transfers from other funds are recognised when control of the contribution or transfer has passed to the Plan.

(g) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in separate cash options of the ARIA Investments Trust ('the AIT') and income earned on these assets is recognised in the reserve.

(h) Derivatives

The Plan does not directly enter into derivative financial instruments.

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Revenue (continued)

Investment revenue

Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(j) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(k) Insurance Premiums

Death and total and permanent disability insurance premiums are charged to member accounts on a monthly basis and then remitted to the life insurer in arrears.

(l) Income Tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Income Tax (continued)

Deferred tax (continued)
In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Plan expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Plan intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(m) Goods and Services Tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

4. OTHER RECEIVABLES

	2020	2019
	$'000	$'000
Receivable from the ARIA Investments Trust	**85**	100
Interest receivable	**17**	172
GST receivable	**228**	201
Administrator lag loss receivable	**5**	14
Compensation receivable	**28**	6
	363	493

There are no receivables that are past due or impaired (2019: nil).

5. INVESTMENTS

	2020	2019
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**15 345 249**	14 463 957
	15 345 249	14 463 957

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2020	2019
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**(103 556)**	1 012 910
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**(1 164)**	4 523
(c)	**Total changes in fair value of investments**	**(104 720)**	1 017 433

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
Employers contribute either 15.4% (Australian government employers) or 9.5% (other employers) of employees' superannuation salary to the Plan, subject to superannuation law. These rates are consistent with the prior financial year. Employers may also make salary sacrifice contributions (before tax) to the Plan on behalf of members.

Member Contributions
Members may make voluntary contributions to the Plan in the form of personal contributions (after tax).

Transferring superannuation from other funds
Money invested in other superannuation funds can be rolled over to the Plan.

Spouse Contributions
Additional contributions can be made by a spouse on behalf of a member of the Plan.

Government Co-Contributions
For the financial years ended 30 June 2019 and 30 June 2020, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Plan up to a maximum of $500 per member.

Low income superannuation tax offset
The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to $500. LISTO payments are recognised as revenue when received.

(b) Benefits paid

Where a member meets a condition of release and a valid application is received, the benefit is paid to the beneficiary from the Plan. Benefits to members also include rollovers out of the Plan.

Where members invest in a standard or transition retirement income stream (pension) via the Commonwealth Superannuation Corporation retirement income product (CSCri), regular income payments are made to the member from the Plan. Standard retirement income stream members also have access to ad hoc withdrawals.

Benefits paid by the Plan during the year are as follows:

	2020	2019
	$'000	$'000
Lump sum benefits and rollovers paid and payable	**675 991**	591 757
Pensions paid and payable	**28 326**	22 541
Total	**704 317**	614 298

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Plan

Costs of and incidental to the management of the Plan and the investment of its money are charged against the assets of the AIT that are referable to the Plan. Transactions in respect of these costs have been brought to account in the financial statements of the AIT.

Expenses met by the AIT and referable to the Plan are as follows:

	2020	2019
	$'000	$'000
Investment		
Investment manager fees	**54 898**	38 459
Custodian fees	**2 116**	1 786
Investment consultant and other service provider fees	**4 290**	2 008
Other investment expenses	**1 783**	916
Total direct investment expenses	**63 087**	43 169
Regulatory fees	**1 198**	996
Other operating expenses	**14 427**	11 830
Total costs	**78 712**	55 995

Administration fees are paid by members and used to pay costs other than those incurred in managing and investing Plan assets. Costs funded by these administration fees are disclosed as ‘other administration expenses’ in the Income Statement and include $2,979,677 (2019: 1,301,252) charged to the Plan by CSC for acting as Trustee of the Plan during the reporting period.

8. OTHER PAYABLES

	2020	2019
	$'000	$'000
Insurance premiums payable	**8 364**	8 359
Employer contributions refundable	**43**	25
Withholding tax payable	**76**	33
Accrued expenses	**798**	820
	9 281	9 237

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9.	**INCOME TAX**	**2020**	2019
		$'000	$'000
(a)	**Income tax recognised in operating results**		
	Tax benefit comprises:		
	Current tax benefit	**1 677**	1 167
	Deferred tax income relating to the origination and reversal of temporary differences	**20**	125
	Total tax benefit	**1 697**	1 292

The prima facie income tax benefit on the operating result before income tax reconciles to the income tax benefit in the Income Statement as follows:

Operating result before income tax	**(1 270)**	(512)
Income tax benefit calculated at 15%	**191**	77
Net benefits allocated to members during the year	**17 180**	(151 479)
Investment revenue already taxed	**(15 708)**	152 615
Other revenue not taxable	**31**	73
Investment revenue not taxable	**3**	6
Total tax benefit	**1 697**	1 292

9. INCOME TAX (continued)	**2020**	2019
	$'000	$'000
(b) Income tax recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**65 011**	67 177
Employer contributions	**1 330 152**	1 241 953
Transfers from other funds	**522 739**	522 981
Government co-contributions	**242**	215
Low income superannuation tax offset	**2 654**	2 882
Total Contributions	**1 920 798**	1 835 208
Contributions tax calculated at 15%	**(288 120)**	(275 281)
Member contributions not subject to tax	**9 752**	10 077
Government co-contributions not subject to tax	**36**	32
Low income superannuation tax offset not subject to tax	**398**	432
Transfers from other funds not subject to tax	**78 411**	78 447
Member contributions subject to tax	**(676)**	(478)
Rollovers in subject to tax	**(2 598)**	(3 055)
Anti Detriment deduction	**-**	108
Net tax on contributions for which no TFN was provided	**(9)**	6
Super contribution on income protection payments subject to tax	**(1 034)**	(632)
Under / (over) relating to the prior year	**(794)**	4 422
Total income tax on contributions	**(204 634)**	(185 922)
Tax rebate on insurance premiums paid to insurer		
Current tax rebate on insurance premiums paid to insurer	**15 186**	14 583
Deferred tax rebate on insurance premiums paid to insurer	**1**	208
Total tax rebate on insurance premiums paid to insurer	**15 187**	14 791

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. INCOME TAX (continued)

	2020	2019
	$'000	$'000
(c) Deferred tax balances		
Deferred tax asset:		
Temporary differences	**1 372**	1 351
	1 372	1 351

Taxable and deductible temporary differences arise from the following:

2020	**Opening balance**	**Charged to income**	**Closing balance**
	$'000	**$'000**	**$'000**
Gross deferred tax assets / (liabilities):			
Interest receivable	**(26)**	**23**	**(3)**
Insurance premiums payable	**1 254**	**1**	**1 255**
Accrued expenses	**123**	**(3)**	**120**
	1 351	**21**	**1 372**

2019	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax assets / (liabilities):			
Interest receivable	(28)	2	(26)
Insurance premiums payable	1 046	208	1 254
Accrued expenses	-	123	123
	1 018	333	1 351

10. DEFINED CONTRIBUTION MEMBER LIABILITIES

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on a daily basis for movements in investment markets.

At 30 June 2020 $30,508,627 (2019: $43,392,949) has not been allocated to members' at balance date. The amount not yet allocated to members' accounts relates to timing differences, which includes contributions received by the Plan that have not been able to be allocated to members as at balance date and valuation differences.

The Plan's management of the investment market risks is as disclosed in Note 13.

11. CASH FLOW INFORMATION

	2020	2019
	$'000	$'000

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	**209 963**	224 427

(b) Reconciliation of operating results after income tax to net cash (outflows) from operating activities

Operating result after income tax expense	**427**	780
Net benefits allocated to members' accounts	**(114 536)**	1 009 862
Changes in fair value of investments	**104 720**	(1 017 433)
Decrease/(increase) in other receivables	**115**	81
(Increase)/decrease in deferred tax asset	**(20)**	(125)
(Decrease)/increase in other payables	**(22)**	(95)
(Decrease)/increase in income tax payable	**(509)**	191
Net cash (outflows) from operating activities	**(9 825)**	(6 739)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

12. AUDITOR'S REMUNERATION

	2020	2019
	$	$
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**50 600**	48 600
Regulatory returns and compliance	**34 400**	32 400
Total	**85 000**	81 000

The audits and reviews were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the AIT that are referable to the Plan.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Plan during the reporting period.

13. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Plan (other than cash held for managing contribution receipts, insurance expenses, benefit payments and tax payments) comprise units in the AIT. The AIT is a pooled superannuation trust which is also governed by the Trustee. This type of investment has been determined by the Trustee to be appropriate for the Plan and is in accordance with the Plan's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of the AIT are managed on behalf of the Trustee by specialist external investment managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

13. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The Registerable Superannuation Entity ('RSE') licence of the Trustee of the Plan requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Plan was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Plan are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement.

(e) Financial risk management objectives

The Plan is exposed to a variety of financial risks as a result of its pooled investments in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Plan's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Plan's financial performance. These policies may include the use of financial derivative instruments.

The Trustee ensures that there is an effective risk management control framework in place for the Plan. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Plan and for the Plan's investments through the AIT. The overall investment strategy of the Plan is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Plan's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Plan's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Plan and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Plan. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Plan's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within the AIT exceeded 5% of net assets of that trust at 30 June 2020 or 30 June 2019.

The credit risk on the Plan's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2020	2019
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**15 345 249**	14 463 957
Other financial assets		
Cash and cash equivalents	**209 963**	224 427
Other receivables	**135**	292
Total financial assets	**15 555 347**	14 688 676

There has been an increase in the Plan's exposure to credit risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures credit risk since the 2019 period.

13. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Plan will always have sufficient liquidity to meet its liabilities and member withdrawals. The Plan allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Plan has a high level of net inward cash flows through new contributions which provide capacity to manage liquidity risk. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Plan to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Plan's financial liabilities. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Plan can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2020					
Benefits and pensions payable	**2 187**	**-**	**-**	**-**	**2 187**
Other payables	**9 281**	**-**	**-**	**-**	**9 281**
Member liabilities	**15 299 458**	**-**	**-**	**-**	**15 299 458**
Total financial liabilities	**15 310 926**	**-**	**-**	**-**	**15 310 926**
30 June 2019					
Benefits and pensions payable	953	-	-	-	953
Other payables	9 237	-	-	-	9 237
Member liabilities	14 453 989	-	-	-	14 453 989
Total financial liabilities	14 464 179	-	-	-	14 464 179

There has been no change to the Plan's exposure to liquidity risk or the management and measurement of that risk during the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been an increase in the Plan's exposure to market risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures market risk since the 2019 period.

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Plan does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Plan is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee’s approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Plan is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits, taxation and insurance payments. All holdings at 30 June 2020 and 30 June 2019 had a maturity profile of less than one month.

The Plan is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

The following table illustrates the Plan's sensitivity to a 0.09% p.a. (2019: 0.20%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of the reasonably possible change in interest rates as at that date. Had interest rates been lower or higher by 0.09% (2019: 0.20%) at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2020		-0.09%		+0.09%	
Cash and cash equivalents	209 963	(189)	(189)	189	189
2019		-0.20%		+0.20%	
Cash and cash equivalents	224 427	(449)	(449)	449	449

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Plan during the financial year.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Plan's investment in the AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in the AIT is carried at fair value through profit or loss, all changes in market conditions will directly affect the Plan's net investment income. In its capacity as trustee of the AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Plan's sensitivity to a reasonably possible change in the value of its investment in the AIT, based on risk exposures at reporting date. The volatility factors represent the average annual historical volatility in the investment option unit prices. For the Cash option and the investments backing the operational risk reserve a factor of 0.09% (2019: 0.20%) has been applied representing a reasonably possible change in interest rates as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at the reporting date, and all other variables were held constant, the financial result would have improved/ (deteriorated) as follows:

Financial Assets ARIA Investments Trust:	Change in price	Carrying amount $'000	Price risk $' 000			
			Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
			(Lower price)		Higher price	
2020						
Balanced option	-/+5.00%	153 971	(7 699)	(7 699)	7 699	7 699
Aggressive option	-/+5.70%	1 551 816	(88 454)	(88 454)	88 454	88 454
Cash option	-/+0.09%	481 938	(434)	(434)	434	434
Income focused option	-/+2.20%	363 874	(8 005)	(8 005)	8 005	8 005
MySuper balanced	-/+5.00%	12 315 435	(615 772)	(615 772)	615 772	615 772
CSCri cash option	-/+0.09%	32 374	(29)	(29)	29	29
CSCri aggressive option	-/+5.80%	24 800	(1438)	(1438)	1 438	1 438
CSCri balanced option	-/+4.40%	130 611	(5 747)	(5 747)	5 747	5 747
CSCri income focused option	-/+2.20%	177 297	(3 901)	(3 901)	3 901	3 901
Operational risk reserve	-/+0.09%	58 960	(53)	(53)	53	53
CSCri cash option-TRIS	-/+0.09%	6 015	(5)	(5)	5	5
CSCri aggressive option-TRIS	-/+5.70%	3 882	(221)	(221)	221	221
CSCri balanced option-TRIS	-/+5.00%	21 699	(1 085)	(1 085)	1 085	1 085
CSCri income focused option-TRIS	-/+2.20%	22 577	(497)	(497)	497	497
Total		15 345 249	(733 340)	(733 340)	733 340	733 340

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

Financial Assets ARIA Investments Trust:	**Change in price**	**Carrying amount $'000**	**Price risk $' 000**			
			Operating Result Before Tax	**Net Assets Available to Pay Benefits**	**Operating Result Before Tax**	**Net Assets Available to Pay Benefits**
			(Lower price)		**Higher price**	
2019						
Balanced option	-/+3.90%	155 316	(6 057)	(6 057)	6 057	6 057
Aggressive option	-/+4.70%	1 383 936	(65 045)	(65 045)	65 045	65 045
Cash option	-/+0.20%	192 145	(384)	(384)	384	384
Income focused option	-/+1.80%	307 501	(5 535)	(5 535)	5 535	5 535
MySuper balanced option	-/+3.90%	12 000 062	(468 002)	(468 002)	468 002	468 002
CSCri cash option	-/+0.20%	17 796	(36)	(36)	36	36
CSCri aggressive option	-/+4.90%	19 715	(966)	(966)	966	966
CSCri balanced option	-/+3.90%	121 723	(4 747)	(4 747)	4 747	4 747
CSCri income focused option	-/+1.90%	151 672	(2 882)	(2 882)	2 882	2 882
Operational risk reserve	-/+0.20%	50 820	(102)	(102)	102	102
CSCri cash option-TRIS	-/+0.20%	2 462	(5)	(5)	5	5
CSCri aggressive option-TRIS	-/+4.70%	5 621	(264)	(264)	264	264
CSCri balanced option-TRIS	-/+3.90%	28 955	(1 129)	(1 129)	1 129	1 129
CSCri income focused option-TRIS	-/+1.80%	26 233	(472)	(472)	472	472
Total		14 463 957	(555 626)	(555 626)	555 626	555 626

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Plan's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Plan's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Financial Assets				
Pooled superannuation trust	**-**	**15 345 249**	**-**	**15 345 249**
2019				
Financial Assets				
Pooled superannuation trust	-	14 463 957	-	14 463 957

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and

Reconciliation of Level 3 fair value measurements
There were no Level 3 financial assets or liabilities for the period (2019:Nil).

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value measurements of the underlying investments

The funded components of the Schemes for which CSC is the Trustee are co-invested in a pooled superannuation trust. The following table provides an analysis of the underlying pooled superannuation trust's investments grouped into levels 1 to 3 of the fair value hierarchy based on the degree to which their fair value is observable. The table has been prepared on a look-through basis and therefore discloses investments held in underlying Trustee-controlled subsidiary trusts as if they are direct investments of the pooled superannuation trust.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2020				
Cash and cash equivalents	**3 166 899**	**-**	**-**	**3 166 899**
Money market investments	**4 740 006**	**-**	**-**	**4 740 006**
Fixed interest investments	**5 302 424**	**6 358**	**311 385**	**5 620 167**
Equity investments	**20 768 429**	**5 369 415**	**4 964 157**	**31 102 001**
Property investments	**-**	**-**	**4 188 290**	**4 188 290**
Derivatives contracts (net)	**(1 035)**	**573 868**	**3 958**	**576 791**
TOTAL	**33 976 723**	**5 949 641**	**9 467 790**	**49 394 154**
2019				
Cash and cash equivalents	2 615 412	-	-	2 615 412
Money market investments	2 691 508	-	-	2 691 508
Fixed interest investments	5 488 013	-	290 904	5 778 917
Equity investments	22 645 916	7 827 387	3 870 952	34 344 255
Property investments	-	-	4 439 489	4 439 489
Derivatives contracts (net)	(22 758)	(25 572)	-	(48 330)
TOTAL	33 418 095	7 801 815	8 601 345	49 821 251

The fair values of the pooled superannuation trust's investments is determined as follows:

I. Cash comprises demand deposits with a bank, financial institution or futures broker. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

II. Money market investments are valued at the market closing price on the last business day of the reporting period and include accrued interest.

III. Fixed interest securities are valued at their market value at close of business on the last business day of the reporting period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

IV. Equity securities and listed trusts are valued at the last sale price at close of business on the last business day of the reporting period.

V. Private equity funds are valued according to the most recent valuation obtainable from an independent (third party) valuer or an investment manager, applying valuation and disclosure guidelines consistent with the International Equity & Venture Capital Valuation Guidelines.

VI. Unlisted trusts (including pooled superannuation trusts and hedge funds) are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the external investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations.

VII. Investment properties which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are independently revalued at least annually. Valuations are performed by registered valuers. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate. This is compared against valuations based on capitalised earnings methodologies as well as comparable market transactions.

VIII. Futures contracts are valued at market closing prices quoted on the last business day of the reporting period.

IX. Forward currency contracts and swaps are valued using prices obtained from independent providers as at the last business day of the reporting period (or alternatively from counterparties or the external investment managers where a provider does not supply a price).

X. Exchange traded options are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on the last business day of the reporting period.

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The COVID-19 pandemic has impacted global economic activity and, to varying degrees, financial markets around the world. As a result assessing fair value as at reporting date involves increased uncertainties around the underlying assumptions for valuations given the very wide range of potential paths forward for both economies, policy responses and asset fundamentals. Additionally, very low, if any, transaction volumes make evidential valuation difficult. The independent valuations received for some property and infrastructure investments have been reported on the basis of “significant valuation uncertainty”, meaning the valuation is current at the date of valuation only. The value assessed may change significantly over a relatively short period of time. The valuers confirmed inclusion of the “significant valuation uncertainty” declaration does not mean valuations cannot be relied upon. Rather, the phrase is used in order to be clear, transparent and indicate that, in the current extraordinary circumstances, less certainty should be attached to valuations than would otherwise be the case and input assumptions may have to change materially as conditions evolve.

There has been no change to the Trust’s valuation policies for the year ended 30 June 2020.

The Trustee’s Valuation of Investments Policy and Procedures provides that if a price is not at market value (due to illiquidity, suspension, a material event or otherwise), the Trustee may vary the value of the asset in accordance with the internal governance processes for the adjustment as outlined in the Policy. The objective of this special situations process is to preserve equity across member outcomes, regardless of their choices, by mitigating against the risk that in major disruptions, the effect of normal delays in the reporting of private-equity fund valuations is materially amplified.

Given the public-markets evidence; the genuine uncertainties surrounding financial markets asset fundamentals due to the COVID-19 pandemic and associated policy responses; and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the special situation hurdle was triggered within the Valuation Policy and the Trustee executed on that process for private equity funds, in accordance with the Policy.

As at 30 June 2020 an upwards Trustee valuation adjustment based on a public market price adjustment factor was added to the investment manager valuations of unlisted International equity trusts ($193.1m) and unlisted Australian equity trusts ($4.2m), representing 5.0% and 0.3% of the unlisted International and Australian equity trust portfolios respectively. This followed a symmetrically-executed downward adjustment to private-equity valuations immediately following the steep falls in public equity markets in March 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. Included in 'other administration expenses' is an amount of $2,979,677 (2019: $1,301,252) charged to the Plan by CSC for acting as Trustee of the Plan during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2020 and to the date of this report were:

Ariane Barker	Sunil Kemppi (Resigned 22 November 2019)
Patricia Cross (Chair)	Anthony Needham
Melissa Donnelly (Appointed 1 July 2020)	Peggy O'Neal (Term ended 30 June 2020)
Christopher Ellison	Margaret Staib
Nadine Flood (Term ended 30 June 2020)	Michael Vertigan
Winsome Hall (Term ended 30 June 2020)	Alistair Waters (Appointed 25 February 2020)
Garry Hounsell	

In addition to the Directors, the following Executives of CSC had authority and responsibility for planning, directing and controlling the activities of the Plan throughout the year ended 30 June 2020 were:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (From 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

Paul Abraham, Catharina Armitage, Melissa Donnelly,Christopher Ellison, Robert Firth, Nadine Flood, Philip George, Damian Hill, Sunil Kemppi, Anthony Needham, Adam Nettheim, Alana Scheiffers, Margaret Staib, Alison Tarditi, Alistair Waters and Andy Young are members of the Plan. The terms and conditions of their membership, or those of any related parties, are the same as for any other member who is not part of the key management personnel of the Plan.

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel in relation to the Plan is set out below:

	2020	2019
	$	$
Short-term employee benefits	**765 217**	736 704
Post-employment benefits	**57 837**	66 423
Other long-term benefits	**(4 120)**	16 301
Termination benefits	**-**	33 854
	818 934	853 282

Aggregate compensation in relation to the Plan is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the AIT that are referable to the Plan.

The Plan has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

(d) Investing entities

Throughout the year ended 30 June 2020, the Plan's only investment consisted of units in the AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in the AIT throughout the year were the Public Sector Superannuation Scheme, the Commonwealth Superannuation Scheme, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Plan, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Plan and the investment of its money from the assets of the AIT that are referable to the Plan (Note 7(c)). No fees were charged to the plan or its assets for acting as Trustee during the year ended 30 June 2020 (2019: $nil).

The Plan held the following investments in related parties at 30 June:

	Fair Value of Investment	**Fair Value of Investment**	**Share of Net Income / (Loss) after tax**	**Share of Net Income / (Loss) after tax**
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**15 345 249**	14 463 957	**(104 720)**	1 017 433
	15 345 249	14 463 957	**(104 720)**	1 017 433

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Plan had no capital commitments at 30 June 2020 (2019: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Plan (including insurance benefits) which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Plan.

There were no other contingent liabilities or contingent assets as at the reporting date (2019: $nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2020 that have materially affected, or may materially affect, the operations of the Plan, the results of those operations, or the financial position of the Plan in future financial years.

Section 12

ADF Super Financial Statements

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Members of the Australian Defence Force Superannuation Scheme

Opinion

In my opinion, the financial statements of the Australian Defence Force Superannuation Scheme for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Australian Defence Force Superannuation Scheme as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards.

The financial statements of the Australian Defence Force Superannuation Scheme, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Trustee of the Australian Defence Force Superannuation Scheme;
- Statement of Financial Position;
- Income Statement;
- Statement of Changes in Member Benefits;
- Statement of Changes in Equity;
- Statement of Cash Flows; and
- Notes to the financial statements, comprising a Summary of Principal Accounting Policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Australian Defence Force Superannuation Scheme in accordance with the relevant ethical requirements for financial statement audits conducted by the Auditor-General and his delegates. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Trustee's responsibility for the financial statements

The superannuation entity's trustee is responsible for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards and the form agreed with the Minister for Finance and the requirements of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) and the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations). The trustee is also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the trustee is responsible for assessing the ability of the Australian Defence Force Superannuation Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the trustee either intends to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee;
- conclude on the appropriateness of the trustee's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the trustee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office

Bola Oyetunji

Senior Executive Director

Delegate of the Auditor-General

Canberra

23 September 2020

Australian Defence Force Superannuation Scheme (ABN 90 302 247 344)

Statement by the Trustee of the Australian Defence Force Superannuation Scheme ('Scheme')

The Board of Directors hereby states that in its opinion:

(a) The accompanying financial statements are properly drawn up so as to present fairly the financial position of the Scheme as at 30 June 2020 and the financial performance, changes in equity, changes in member benefits and cash flows of the Scheme for the year ended on that date;

(b) at the date of this statement there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they fall due;

(c) the financial statements are in a form agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011* and have been prepared in accordance with Australian Accounting Standards and other mandatory professional reporting requirements;

(d) the financial statements have been prepared based on properly maintained financial records; and

(e) the operations of the Scheme were conducted in accordance with the *Governance of Australian Government Superannuation Schemes Act 2011,* the *Australian Defence Force Superannuation Act 2015,* the Trust Deed establishing the Scheme, the requirements of the *Superannuation Industry (Supervision) Act 1993* and regulations, and the relevant requirements of the *Corporations Act 2001* and regulations (to the extent applicable).

Signed this 23rd day of September 2020 in accordance with a resolution of directors of Commonwealth Superannuation Corporation (ABN 48 882 817 243) as Trustee of the Scheme.

Patricia Cross
Chair

Garry Hounsell
Director

Australian Defence Force Superannuation Scheme
Statement of Financial Position
As at 30 June 2020

	Note	2020 $'000	2019 $'000
Assets			
Cash and cash equivalents		**28 239**	19 532
Other receivables	4	**31**	41
Investments in pooled superannuation trust	5	**473 674**	282 111
Deferred tax asset	9c	**18**	14
Total assets		**501 962**	301 698
Liabilities			
Benefits payable		**(133)**	-
Income tax payable		**(27 210)**	(18 660)
Other payables	8	**(143)**	(100)
Total liabilities excluding member benefits		**(27 486)**	(18 760)
Net assets available for member benefits		**474 476**	282 938
Defined contribution member liabilities			
Allocated to members	10	**(472 650)**	(281 441)
Unallocated to members	10	**(1 428)**	(1 293)
Total defined contribution member liabilities		**(474 078)**	(282 734)
Net assets		**398**	204
Equity			
Operational risk reserve		**(398)**	(204)
Total equity		**(398)**	(204)

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Income Statement
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Investment revenue			
Interest		**103**	182
Changes in fair value of investments	6c	**(7 399)**	16 991
Other revenue		**2**	-
Total revenue		**(7 294)**	17 173
Administration expenses		**(1 487)**	(873)
Other operating expenses		**-**	(2)
Total expenses		**(1 487)**	(875)
Operating results		**(8 781)**	16 298
Net benefits allocated to members' accounts		**8 576**	(16 401)
Operating result before income tax benefit		**(205)**	(103)
Income tax benefit	9a	**207**	104
Operating result after income tax benefit		**2**	1

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Changes in Member Benefits
For the Financial Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Opening balance of member benefits allocated at the beginning of the financial year		**281 441**	124 555
Contributions:			
Member contributions	7a	**3 529**	2 694
Employer contributions	7a	**181 605**	124 645
Transfers from other funds	7a	**57 861**	38 667
Government co-contributions	7a	**75**	68
Low income superannuation contributions	7a	**892**	880
Income tax on contributions	9b	**(27 440)**	(18 770)
Net after tax contributions		**216 522**	148 184
Benefits to members	7b	**(16 410)**	(6 960)
Net benefits allocated to members' accounts		**(8 576)**	16 401
Net transfers to reserves		**(192)**	(203)
Net (increase) in amounts not yet allocated to members' accounts		**(135)**	(536)
Closing balance of member benefits allocated at the end of the financial year		**472 650**	281 441

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Changes in Equity
For the Financial Year Ended 30 June 2020

	Operational risk reserve $'000	Total equity $'000
Opening balance as at 1 July 2018	-	-
Operating result	1	1
Net transfers to / (from) reserves	203	203
Closing balance as at 30 June 2019	204	204
Opening balance as at 1 July 2019	**204**	**204**
Operating result	**2**	**2**
Net transfers to / (from) reserves	**192**	**192**
Closing balance as at 30 June 2020	**398**	**398**

The attached notes form part of these financial statements.

Australian Defence Force Superannuation Scheme
Statement of Cash Flows
For the Year Ended 30 June 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Interest received		**118**	177
Other revenue received		**2**	-
Administration expenses paid		**(1 460)**	(858)
Other operating expenses paid		**-**	(2)
Income tax benefit received		**90**	46
Net cash (outflows) from operating activities	11b	**(1 250)**	(637)
Cash flows from investing activities			
Purchase of investments		**(202 064)**	(141 324)
Proceeds from sale of investments		**3 101**	1 014
Net cash (outflows) from investing activities		**(198 963)**	(140 310)
Cash flows from financing activities			
Contributions received			
Employer		**181 613**	124 624
Member		**3 529**	2 694
Transfers from other funds		**57 861**	38 667
Government co-contributions		**75**	68
Low income superannuation tax offset		**892**	880
Income tax paid on contributions		**(18 777)**	(10 965)
Benefits paid		**(16 273)**	(6 967)
Net cash inflows from financing activities		**208 920**	149 001
Net increase in cash held		**8 707**	8 054
Cash at the beginning of the financial year		**19 532**	11 478
Cash at the end of the financial year	11a	**28 239**	19 532

The attached notes form part of these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

1. DESCRIPTION OF THE SCHEME

The Australian Defence Force Scheme ('Scheme') is a defined contribution scheme constituted by Trust Deed dated 17 September 2015 under the *Australian Defence Force Superannuation Act 2015* and is domiciled in Australia. The Trustee of the Scheme is the Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243).

The principal place of business and registered office of the Scheme is 7 London Circuit, Canberra, ACT 2601.

The Scheme was established on 1 July 2016 for members of the Australian Defence Force, together with a new invalidity scheme, the Australian Defence Force Cover Scheme.

Contributions of the employer and the employees are made in accordance with the terms of the Trust Deed. The members' accounts are credited or debited each year with contributions and their proportionate share of the net investment income, expenses and income tax expense of the Scheme.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial report of the Scheme is a general purpose financial report which has been prepared in accordance with Accounting Standards and Interpretations and the *Superannuation Industry (Supervision) Act 1993*. For the purposes of preparing financial statements, the Scheme is a not-for-profit entity.

The form of these financial statements has been agreed by the Minister for Finance and the Trustee in accordance with sub-section 30(1)(d) of the *Governance of Australian Government Superannuation Schemes Act 2011*.

The financial statements of the Scheme were authorised for issue by the Directors of the Trustee on 23 September 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards adopted with no significant impact on the financial statements

The following new and revised Standards and Interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the disclosures or amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Standard / Interpretation	Effective for annual reporting periods
AASB 15 'Revenue from Contracts with Customers', **AASB 2014-5** 'Amendments to Australian Accounting Standards arising from AASB 15', **AASB 2015-8** 'Amendments to Australian Accounting Standards - Effective Date of AASB 15', and **AASB 2016-3** 'Amendments to Australian Accounting Standards - Clarifications to AASB 15'	beginning on or after 1 January 2019
AASB 1058 'Income of Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2016-8 'Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities'	beginning on or after 1 January 2019
AASB 2017-4 'Amendments to Australian Accounting Standards – Uncertainty over Income Tax Treatments'	beginning on or after 1 January 2019
AASB 2014-10 'Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', **AASB 2015-10** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128', **AASB 2017-5** 'Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128 and Editorial Corrections.'	beginning on or after 1 January 2019
AASB 2017-6 'Amendments to Australian Accounting Standards – Prepayment Features with Negative Compensation'	beginning on or after 1 January 2019

2. BASIS OF PREPARATION (continued)

(a) Statement of compliance (continued)

Standards in issue but not yet effective

At the date of authorisation of the financial report, the following Standards which are expected to be relevant to the Scheme were in issue but not yet effective. The directors anticipate the adoption of these Standards will have no material financial impact on the financial report of the Scheme.

Standard / Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2018-7 'Amendments to Australian Accounting Standards – Definition of Material'	1 January 2020	30 June 2021
AASB 2019-1 'Amendments to Australian Accounting Standards – References to the Conceptual Framework'	1 January 2020	30 June 2021
AASB 2019-5 'Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia'	1 January 2020	30 June 2021
AASB 2020-1 'Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current'	1 January 2022	30 June 2023
AASB 2020-3 'Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments'	1 January 2022	30 June 2023

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

2. BASIS OF PREPARATION (continued)

(b) Functional and presentation currency

The financial statements are presented in Australian dollars, which is the functional currency of the Scheme.

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

(c) Use of judgements and estimates

In the application of Accounting Standards, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Accounting Standards that have significant effects on the financial statements, and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

(d) Going Concern

The financial report has been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business. In making this assessment, the directors of the Trustee have considered future events and conditions for the period of twelve months following the approval of these financial statements, including the impact of the outbreak of COVID-19 which was declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020. Whilst the situation remains uncertain, the Trustee remains confident that the Scheme will be able to continue as a going concern as the Scheme's assets outweigh its liabilities and it has sufficient liquidity to meet its debts as and when they fall due.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2020 and the comparative information presented in these financial statements for the year ended 30 June 2019. Where necessary, disclosures of comparative numbers have been restated to be consistent with the current period.

(a) Cash and cash equivalents

Cash and cash equivalents include cash at bank used to transact member and employer contributions, transfers to and from other funds, benefit payments and tax liabilities.

(b) Financial assets

Financial assets (being investments in a pooled superannuation trust, cash at bank and other receivables) are recognised on the date the Scheme becomes a party to the contractual provisions of the asset. Financial assets are recognised using trade date accounting. After initial measurement, any gains and losses from changes in fair value are recognised in the Income Statement.

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, regardless of whether that price is directly observable or estimated using another valuation technique.

Fair values have been determined as follows:

(i) Units in a pooled superannuation trust are valued at the redemption price at close of business on the last business day of the reporting period as notified by the manager of the trust, reflecting the fair value of the underlying investments.

(ii) Other receivables are recognised at nominal amounts due which approximate fair value. All amounts are unsecured and are subject to normal credit terms.

(c) Foreign currency transactions

The Scheme does not undertake transactions denominated in foreign currencies.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Payables

Payables (being other payables and benefits payable) are recognised at their nominal value which is equivalent to fair value.

Other payables
Other payables represent liabilities for services provided to the Scheme during the financial period and which are unpaid at reporting date. All amounts are unsecured. Creditors are subject to normal credit terms.

Benefits payable
Benefits payable to a member are recognised where a valid withdrawal notice has been received, and approved, but payment has not been made by reporting date.

(e) Defined contribution member liabilities

Defined contribution member liabilities are measured as the amount of member account balances as at the reporting date (Note 10).

(f) Contribution revenue and transfers from other funds

Employer and member contributions, superannuation co-contributions, low income superannuation tax offsets from the Commonwealth Government and transfers from other funds are recognised when control of the contribution or transfer has passed to the Scheme.

(g) Operational risk reserve

The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address potential losses arising from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the Fund. The transferred assets underlying the ORR are held in separate cash options of the ARIA Investments Trust ('the AIT') and income earned on these assets is recognised in the reserve. The ORR is also partially held as Trustee Capital in the financial statements of the Trustee.

(h) Derivatives

The Scheme does not directly enter into derivative financial instruments.

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific revenues are recognised as follows:

Investment revenue
Interest revenue is recognised on an accrual basis.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the period).

(j) Expenses

Expenses are recognised on an accruals basis and, if not paid at reporting date, are reflected in the Statement of Financial Position as an accrual or payable depending upon whether or not the expense has been billed.

(k) Income tax

Income tax is recognised in the Income Statement and the Statement of Changes in Member Benefits. As the Scheme invests in the AIT, which is a pooled superannuation trust, tax on this investment revenue is paid by the AIT.

Current tax
Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for the current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax
Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

3. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES (continued)

(k) Income tax (continued)

Deferred tax (continued)
In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Scheme expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Scheme intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax for the period is recognised as an expense or benefit in the Income Statement, except for tax on contributions, which is recognised in the Statement of Changes in Member Benefits.

(l) Goods and services tax ('GST')

Revenues, expenses and assets are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit. Where the amount of GST incurred is not recoverable from the ATO, it is recognised as part of the cost of acquisition of an asset or as an expense item.

Receivables and payables are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

4. OTHER RECEIVABLES

	2020	2019
	$'000	$'000
Receivable from the ARIA Investments Trust	**3**	2
Interest receivable	**2**	17
GST receivable	**26**	22
	31	41

There are no receivables that are past due or impaired. (2019: Nil)

5. INVESTMENTS

	2020	2019
	$'000	$'000
Pooled superannuation trust - ARIA Investments Trust	**473 674**	282 111
	473 674	282 111

6. CHANGES IN FAIR VALUE OF INVESTMENTS

		2020	2019
		$'000	$'000
(a)	**Investments held at 30 June:**		
	Pooled superannuation trust - ARIA Investments Trust	**(7 383)**	16 933
(b)	**Investments realised during the year:**		
	Pooled superannuation trust - ARIA Investments Trust	**(16)**	58
(c)	**Total changes in fair value of investments**	**(7 399)**	16 991

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

7. FUNDING ARRANGEMENTS

(a) Contributions

Employer Contributions
The Department of Defence contributes at least 16.4% (2019: 16.4%) of a member's superannuation salary to the Scheme, subject to superannuation law. The employer may also make salary sacrifice contributions (before tax) to the Scheme on behalf of members.

Member Contributions
Members may make voluntary contributions to the Scheme in the form of personal contributions (after tax).

Transferring Superannuation From Other Funds
Money invested in other superannuation funds can be rolled over to the Scheme.

Spouse Contributions
Additional contributions can be made by a spouse on behalf of a member of the Scheme.

Government Co-Contributions
For the financial years ended 30 June 2019 and 30 June 2020, the Commonwealth Government contributed $0.50 for every $1.00 of eligible personal after-tax member contributions paid to the Plan up to a maximum of $500 per member.

Low Income Superannuation Tax Offset
The low income superannuation tax offset (LISTO) is a Commonwealth Government superannuation payment of up to $500. LISTO payments are recognised as revenue when received.

(b) Benefits paid

Where a member meets a condition of release and a valid application is received, the benefit is paid to the beneficiary from the Scheme. Benefits to members also include rollovers out of the Scheme.

Benefits paid by the Scheme during the year are as follows:

	2020	2019
	$'000	$'000
Lump sum benefits and rollovers paid and payable	**16 410**	6 960
Total	**16 410**	6 960

7. FUNDING ARRANGEMENTS (continued)

(c) Costs of Managing, Investing and Administering the Scheme

Costs of and incidental to the management of the Scheme and the investment of its money are charged against the assets of the AIT that are referable to the Scheme. Transactions in respect of these costs have been brought to account in the financial statements of the AIT.

Expenses met by the AIT and referable to the Scheme are as follows:

	2020	2019
	$'000	$'000
Investment		
Investment manager fees	**1 102**	805
Custodian fees	**42**	37
Investment consultant and other service provider fees	**86**	42
Other investment expenses	**36**	19
Total direct investment expenses	**1 266**	903
Regulatory fees	**23**	14
Other operating expenses	**290**	248
Total costs	**1 579**	1 165

Administration fees are paid by members and used to pay costs other than those incurred in managing and investing Scheme assets. Costs funded by these administration fees are disclosed as 'other administration expenses' in the Income Statement and include $243,867 (2019: $118,356) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period. As the Scheme is yet to reach the sufficient scale required to cover its total administration costs from the administration fees paid by members, the Department of Defence has contributed further administration funding of $1,100,297 (2019: $674,133). Transactions in respect of the receipt of this additional funding and the associated administration costs have been brought to account in the financial statements of the Trustee.

8. OTHER PAYABLES

	2020	2019
	$'000	$'000
Employer contributions refundable	**11**	3
Accrued expenses	**126**	95
Withholding tax payable	**6**	2
	143	100

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

9. INCOME TAX

	2020 $'000	2019 $'000
(a) Income tax recognised in operating results		
Income tax benefit comprises:		
Current tax benefit	**203**	90
Deferred tax expense relating to the origination and reversal of temporary differences	**4**	14
Total tax benefit	**207**	104

The prima facie income tax benefit on the operating result before income tax reconciles to the income tax benefit in the Income Statement as follows:

Operating result before income tax	**(205)**	(103)
Income tax benefit calculated at 15%	**31**	15
Net benefits allocated to members during the year	**1 286**	(2 460)
Investment revenue already taxed	**(1 110)**	2 549
Total tax benefit	**207**	104

(b) Income tax recognised in Statement of Changes in Member Benefits		
Contributions received:		
Member contributions	**3 529**	2 694
Employer contributions	**181 605**	124 645
Government co-contributions	**75**	68
Low income superannuation tax offset	**892**	880
Transfers from other funds	**57 861**	38 667
Total Contributions	**243 962**	166 954
Contributions tax calculated at 15%	**(36 594)**	(25 043)
Member contributions not subject to tax	**529**	404
Government co-contributions not subject to tax	**11**	10
Low income superannuaion tax offset not subject to tax	**134**	132
Transfers from other funds not subject to tax	**8 679**	5 800
Member contributions subject to tax	**(11)**	(6)
Rollover in subject to tax	**(170)**	(79)
Net No-TFN-quoted contributions subject to additional tax	**1**	20
Under/(over) relating to prior year	**(19)**	(8)
Total income tax on contributions	**(27 440)**	(18 770)

9. INCOME TAX (continued)

	2020	2019
	$'000	$'000
(c) Deferred tax balances		
Deferred tax asset:		
Temporary differences	**18**	14
	18	14

Taxable and deductible temporary differences arise from the following:

2020	**Opening balance**	**Charged to income**	**Closing balance**
	$'000	**$'000**	**$'000**
Gross deferred tax assets / (liabilities):			
Accrued expenses	**14**	**4**	**18**
	14	**4**	**18**

2019	Opening balance	Charged to income	Closing balance
	$'000	$'000	$'000
Gross deferred tax assets / (liabilities):			
Accrued expenses	-	14	14
	-	14	14

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

10. DEFINED CONTRIBUTION MEMBER LIABILITIES

Defined contribution members bear the investment risk relating to the underlying assets and unit prices used to measure defined contribution member liabilities. Unit prices are updated on a daily basis for movements in investment markets.

At 30 June 2020 $1,427,814 (2019: $1,292,504) has not been allocated to members' at balance date. The amount not yet allocated to members' accounts relates to timing differences, which includes contributions received by the Scheme that have not been able to be allocated to members as at balance date and valuation differences.

The Scheme's management of the investment market risks is as disclosed in Note 13.

11. CASH FLOW INFORMATION

	2020	2019
	$'000	$'000

(a) Reconciliation of cash

For the purposes of the Statement of Cash Flows, cash represents cash at bank. Cash at the end of the reporting period as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

Cash at bank	**28 239**	19 532

(b) Reconciliation of operating result after income tax to net cash inflows / (outflows) from operating activities

Operating result after income tax expense	**2**	1
Net benefits allocated to members' accounts	**(8 576)**	16 401
Changes in fair value of investments	**7 399**	(16 991)
(Increase)/decrease in other receivables	**11**	(15)
(Increase)/decrease in deferred tax asset	**(4)**	(14)
Increase/(decrease) in other payables	**31**	25
(Decrease)/increase in income tax payable	**(113)**	(44)
Net cash (outflows) from operating activities	**(1 250)**	(637)

12. AUDITOR'S REMUNERATION

	2020 $	2019 $
Amounts paid or payable to the Australian National Audit Office for audit services:		
Financial statements	**50 600**	48 600
Regulatory returns and compliance	**34 400**	32 400
Total	**85 000**	81 000

The audits and reviews were provided by the Australian National Audit Office. The audit fees will be charged against the assets of the ARIA Investments Trust that are referable to the Scheme.

Deloitte Touche Tohmatsu are contracted by the ANAO to provide audit services on its behalf. Fees for those services are included above.

No other services were provided by the Australian National Audit Office or Deloitte Touche Tohmatsu to the Scheme during the reporting period.

13. FINANCIAL INSTRUMENTS

(a) Financial instruments management

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

The investments of the Scheme (other than cash held for managing contribution receipts, benefit payments and tax payments) comprise units in the AIT. The AIT is a pooled superannuation trust which is also governed by the Trustee. This type of investment has been determined by the Trustee to be appropriate for the Scheme and is in accordance with the Scheme's published investment strategy. The Trustee applies strategies to manage risk relating to the investment activities of the AIT. The investments of the AIT are managed on behalf of the Trustee by specialist sector fund managers who are required to invest the assets in accordance with contractual investment mandates.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised in respect of each class of financial asset and financial liability are disclosed in Note 3 to the financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(c) Capital risk management

The Registerable Superannuation Entity ('RSE') licence of the Trustee of the Scheme requires the Trustee to maintain adequate financial resources to address losses arising from operational risks that may affect registrable superannuation entities within its business operations in the form of operational risk reserve(s), operational risk trustee capital or a combination thereof to meet the target amount of financial resources that the RSE licensee determines is necessary to respond to these losses. The Trustee of the Scheme was in compliance with this requirement throughout the reporting period.

(d) Categories of financial instruments

The financial assets and liabilities of the Scheme are recognised at fair value as at the reporting date. Changes in fair value are recognised in the Income Statement.

(e) Financial risk management objectives

The Scheme is exposed to a variety of financial risks as a result of its pooled investments in the AIT. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Scheme's risk management and investment policies, approved by the Trustee, seek to minimise the potential adverse effects of these risks on the Scheme's financial performance. These policies may include the use of financial derivative instruments.

The Trustee ensures that there is an effective risk management control framework in place for the Scheme. Consistent with regulatory requirements, the Trustee has developed, implemented and maintains a Risk Management Framework to identify the policies, procedures, processes and controls that comprise its risk management and control systems for the Scheme and for the Scheme's investments through the AIT. The overall investment strategy of the Scheme is set out in the Trustee's approved investment policies which address the investment strategy and objectives and risk mitigation strategies including risk mitigation relating to the use of derivatives.

The Trustee's internal investment team monitors and manages the financial risks relating to the Scheme's investments. Derivative Risk Statements set out the strict parameters for the Trustee's investment managers authorised to use derivatives. In essence, derivatives cannot be used to raise the level of risk above the level it would otherwise have been, and derivatives cannot be used to leverage the investments.

13. FINANCIAL INSTRUMENTS (continued)

(e) Financial risk management objectives (continued)

The Scheme's investments are managed on behalf of the Trustee by specialist external investment managers who invest their respective fund allocation in accordance with the terms of a written investment mandate or disclosure document. The Trustee has determined that the appointment of these managers is appropriate for the Scheme and is in accordance with its investment strategy.

(f) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Scheme. In its capacity as trustee of the AIT, the Trustee has adopted a policy of spreading the aggregate value of transactions across approved creditworthy counterparties as a means of mitigating the risk of financial loss. The Scheme's exposure to its counterparties are continuously monitored by the Trustee.

The largest exposure to a single counterparty is to cash held by the investment master custodian Northern Trust. Credit risk relating to the master custodian is mitigated through contract indemnity provisions. Other than the master custodian, no individual exposure within the AIT exceeded 5% of net assets of that trust at 30 June 2020 or 30 June 2019.

The credit risk on the Scheme's directly held cash and cash equivalents and interest receivable is limited because the counterparty is the Reserve Bank of Australia.

The table below shows the maximum exposure of financial assets to credit risk at the reporting date:

	2020	2019
	$'000	$'000
Investments		
Pooled Superannuation Trust - ARIA Investments Trust	**473 674**	282 111
Other financial assets		
Cash and cash equivalents	**28 239**	19 532
Receivables	**5**	19
Total financial assets	**501 918**	301 662

There has been an increase in the Scheme's exposure to credit risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures credit risk since the 2019 period.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk

Liquidity risk is the risk that the Scheme will encounter difficulty in either realising assets or otherwise raising sufficient funds to meet its financial liabilities and/or member benefit payments or tax liabilities.

The Trustee's approach to managing liquidity is to ensure that the Scheme will always have sufficient liquidity to meet its liabilities and member withdrawals. The Scheme allows members to withdraw benefits, and it is therefore exposed to the liquidity risk of meeting member withdrawals at any time. The Scheme has a high level of net inward cash flows through new contributions which provide capacity to manage liquidity risk. The Trustee undertakes forecasting and scenario testing of the cashflow requirements of the Scheme to ensure timely access to sufficient cash and holds actively-traded, highly-liquid investments to meet anticipated funding requirements.

As a further risk mitigation strategy, it is the Trustee's policy that the target asset allocation to illiquid assets is limited to around 25% of the investments of the AIT (with a plus or minus 10 percentage point rebalancing range around that target). Regular scenario testing is performed to confirm the validity of the strategy.

The following tables summarise the maturity profile of the Scheme's financial liabilities. The tables have been drawn up based on the contractual undiscounted cash flows of financial liabilities based on the earliest date on which the Scheme can be required to pay. The tables include both interest and principal cash flows.

Financial Liabilities maturity profile:

	Less than 3 months $'000	**3 months to 1 year $'000**	**1-5 years $'000**	**Over 5 years $'000**	**Total $'000**
30 June 2020					
Benefits payable	**133**	**-**	**-**	**-**	**133**
Other payables	**143**	**-**	**-**	**-**	**143**
Member liabilities	**474 078**	**-**	**-**	**-**	**474 078**
Total financial liabilities	**474 354**	**-**	**-**	**-**	**474 354**
30 June 2019					
Benefits payable	-	-	-	-	-
Other payables	100	-	-	-	100
Member liabilities	282 734	-	-	-	282 734
Total financial liabilities	282 834	-	-	-	282 834

There has been an increase in the Scheme's exposure to liquidity risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures liquidity risk since the 2019 period.

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, interest rate risk and other market price risk. The policies and procedures put in place to mitigate the exposure to market risk are detailed in the Trustee's investment policies and the Risk Management Framework.

There has been an increase in the Scheme's exposure to market risk during the period arising from increased volatility in the market. The Trustee's existing policies and procedures were appropriate to manage this increase in exposure and therefore there has been no change to the manner in which the Trustee manages and measures market risk since the 2019 period.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme does not undertake any transactions in foreign currency and is therefore not directly exposed to foreign currency risk. However, the Scheme is indirectly exposed to foreign currency risk from the international assets held in the AIT, and it is managed in accordance with the Trustee’s approved investment strategy. The AIT enters into forward foreign exchange contracts to hedge into Australian dollars some of the currency exposure arising from its investments denominated in developed markets foreign currencies. These contracts neutralise some of the gains and losses from currency fluctuation. A small part of the investments of the AIT, relating to emerging markets, may remain unhedged due to lack of suitable currency instruments for hedging.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is directly exposed to interest rate risk on cash and cash equivalents held with the Reserve Bank of Australia to meet benefits and taxation payments. All holdings at 30 June 2020 and 30 June 2019 had a maturity profile of less than one month.

The Scheme is indirectly exposed to interest rate risk through its investments in the AIT. The Trustee manages interest rate risk through its investment strategy including diversification of asset allocation and the use of a diversity of specialist investment sector managers.

The following table illustrates the Scheme's sensitivity to a 0.09% p.a. (2019: 0.20%) increase or decrease in interest rates, based on cash balances directly held at reporting date. This represents an assessment of the reasonably possible change in interest rates as at that date. Had interest rates been lower or higher by 0.09% (2019: 0.20%) at reporting date, and all other variables were held constant, the financial result would have improved / (deteriorated) as demonstrated:

	Carrying amount $'000	Interest rate risk $' 000			
		Operating Result Before Tax	Net Assets Available to Pay Benefits	Operating Result Before Tax	Net Assets Available to Pay Benefits
2020		-0.09%		+0.09%	
Cash and cash equivalents	28 239	(25)	(25)	25	25
2019		-0.20%		+0.20%	
Cash and cash equivalents	19 532	(39)	(39)	39	39

In the Trustee's opinion, the sensitivity analysis at reporting date approximates the direct interest rate exposures of the Scheme during the financial year.

Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all similar financial instruments traded in the market.

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

The Scheme's investment in the AIT is exposed to market price risk in respect of the latter's holdings of equity securities and unit trusts. As the investment in the AIT is carried at fair value through profit or loss, all changes in market conditions will directly affect the Scheme's net investment income. In its capacity as trustee of the AIT, the Trustee manages the market price risk arising from these investments by diversifying the portfolio in accordance with its investment strategy.

The following table illustrates the Scheme's sensitivity to a reasonably possible change in the value of its investment in the AIT, based on risk exposures at reporting date. The volatility factor of 5.00% (2019: 3.90%) represents the volatility in the default option unit price of the Schemes Investment in the AIT and is reflective of market conditions as at reporting date. For the Cash option and the investments backing the operational risk reserve a factor of 0.09% (2019: 0.20%) has been applied representing a reasonably possible change in interest rates based on market conditions at reporting date, as a proxy for price risk of the option. Had the unit price been higher or lower by the volatility factor at reporting date, and all other variables were held constant, the financial result would have improved/(deteriorated) as follows:

Financial Assets ARIA Investments Trust:	**Change in price**	**Carrying amount $'000**	**Price risk $' 000**			
			Operating Result Before Tax	**Net Assets Available to Pay Benefits**	**Operating Result Before Tax**	**Net Assets Available to Pay Benefits**
			(Lower price)		**Higher price**	
2020						
Cash option	-/+0.09%	3 566	(3)	(3)	3	3
Income focused option	-/+2.20%	2 610	(57)	(57)	57	57
MySuper balanced option	-/+5.00%	433 593	(21 680)	(21 680)	21 680	21 680
Aggressive option	-/+5.70%	33 510	(1 910)	(1 910)	1 910	1 910
Operational risk reserve	-/+0.09%	395	-	-	-	-
Total		473 674	(23 650)	(23 650)	23 650	23 650

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(h) Market risk (continued)

Other price risk (continued)

Financial Assets ARIA Investments Trust:	**Change in price**	**Carrying amount $'000**	**Price risk $' 000**			
			Operating Result Before Tax	**Net Assets Available to Pay Benefits**	**Operating Result Before Tax**	**Net Assets Available to Pay Benefits**
			(Lower price)		**Higher price**	
2019						
Cash option	-/+0.20%	1 234	(2)	(2)	2	2
Income focused option	-/+1.80%	1 316	(24)	(24)	24	24
MySuper balanced option	-/+3.90%	262 743	(10 247)	(10 247)	10 247	10 247
Aggressive option	-/+4.70%	16 616	(781)	(781)	781	781
Operational risk reserve	-/+0.20%	202	-	-	-	-
Total		282 111	(11 054)	(11 054)	11 054	11 054

In the Trustee's opinion, the sensitivity analysis at reporting date is representative of the other market price exposures during the financial year.

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements

The Scheme's financial instruments are included in the Statement of Financial Position at fair value. The fair value is determined per the accounting policies in Note 3.

Fair value measurements recognised in the Statement of Financial Position
The following table provides an analysis of the Scheme's financial instruments whereby the assets and liabilities are each grouped into one of three categories based on the degree to which their method of valuation is observable.

Level 1: fair value measurements are those derived from quoted prices in active markets.

Level 2: fair value measurements are those derived from inputs (other than quoted prices included within Level 1) that are observable such as prices or derived from prices.

Level 3: fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2020				
Financial Assets				
Pooled superannuation trust	**-**	**473 674**	**-**	**473 674**
2019				
Financial Assets				
Pooled superannuation trust	-	282 111	-	282 111

There were no transfers between Level 1 and 2 in the period.

Units in the pooled superannuation trust are valued daily based on the latest listed and unlisted market prices and values of the underlying investments, less any tax and expenses.

Reconciliation of Level 3 fair value measurements
There were no Level 3 financial assets or liabilities (2019: Nil).

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value measurements of the underlying investments

The funded components of the Schemes for which CSC is the Trustee are co-invested in a pooled superannuation trust. The following table provides an analysis of the underlying pooled superannuation trust's investments grouped into levels 1 to 3 of the fair value hierarchy based on the degree to which their fair value is observable. The table has been prepared on a look-through basis and therefore discloses investments held in underlying Trustee-controlled subsidiary trusts as if they are direct investments of the pooled superannuation trust.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
2020				
Cash and cash equivalents	**3 166 899**	**-**	**-**	**3 166 899**
Money market investments	**4 740 006**	**-**	**-**	**4 740 006**
Fixed interest investments	**5 302 424**	**6 358**	**311 385**	**5 620 167**
Equity investments	**20 768 429**	**5 369 415**	**4 964 157**	**31 102 001**
Property investments	**-**	**-**	**4 188 290**	**4 188 290**
Derivatives contracts (net)	**(1 035)**	**573 868**	**3 958**	**576 791**
TOTAL	**33 976 723**	**5 949 641**	**9 467 790**	**49 394 154**

2019				
Cash and cash equivalents	2 615 412	-	-	2 615 412
Money market investments	2 691 508	-	-	2 691 508
Fixed interest investments	5 488 013	-	290 904	5 778 917
Equity investments	22 645 916	7 827 387	3 870 952	34 344 255
Property investments	-	-	4 439 489	4 439 489
Derivatives contracts (net)	(22 758)	(25 572)	-	(48 330)
TOTAL	33 418 091	7 801 815	8 601 345	49 821 251

The fair values of the pooled superannuation trust's investments is determined as follows:

I. Cash comprises demand deposits with a bank, financial institution or futures broker. Cash equivalents are short-term, highly-liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

II. Money market investments are valued at the market closing price on the last business day of the reporting period and include accrued interest.

III. Fixed interest securities are valued at their market value at close of business on the last business day of the reporting period.

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

IV. Equity securities and listed trusts are valued at the last sale price at close of business on the last business day of the reporting period.

V. Private equity funds are valued according to the most recent valuation obtainable from an independent (third party) valuer or an investment manager, applying valuation and disclosure guidelines consistent with the International Equity & Venture Capital Valuation Guidelines.

VI. Unlisted trusts (including pooled superannuation trusts and hedge funds) are valued at their most recent redemption price as determined by the manager of the relevant trust. Unlisted trusts controlled by the Trustee are valued at least annually in accordance with valuation guidelines agreed by the Trustee. Valuations may be completed by an independent valuer, the external investment manager or the Trustee. In determining the valuation, reference is made to guidelines set by relevant associations.

VII. Investment properties which comprise land and buildings for the purpose of letting to produce rental income, are initially measured at cost. Cost includes capital expenditure subsequent to acquisition. Investment properties are not depreciated. Subsequent to initial recognition, investment properties are measured at fair value. Investment properties are independently revalued at least annually. Valuations are performed by registered valuers. In determining the fair value, the expected net cash flows are discounted to their present value using a market determined risk adjusted rate. This is compared against valuations based on capitalised earnings methodologies as well as comparable market transactions.

VIII. Futures contracts are valued at market closing prices quoted on the last business day of the reporting period.

IX. Forward currency contracts and swaps are valued using prices obtained from independent providers as at the last business day of the reporting period (or alternatively from counterparties or the external investment managers where a provider does not supply a price).

X. Exchange traded options are valued as the premium payable or receivable to close out the contracts at the last buy price at close of business on the last business day of the reporting period.

Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

13. FINANCIAL INSTRUMENTS (continued)

(i) Fair value measurements (continued)

Fair value in an inactive or unquoted market (continued)

The COVID-19 pandemic has impacted global economic activity and, to varying degrees, financial markets around the world. As a result assessing fair value as at reporting date involves increased uncertainties around the underlying assumptions for valuations given the very wide range of potential paths forward for both economies, policy responses and asset fundamentals. Additionally, very low, if any, transaction volumes make evidential valuation difficult. The independent valuations received for some property and infrastructure investments have been reported on the basis of "significant valuation uncertainty", meaning the valuation is current at the date of valuation only. The value assessed may change significantly over a relatively short period of time. The valuers confirmed inclusion of the "significant valuation uncertainty" declaration does not mean valuations cannot be relied upon. Rather, the phrase is used in order to be clear, transparent and indicate that, in the current extraordinary circumstances, less certainty should be attached to valuations than would otherwise be the case and input assumptions may have to change materially as conditions evolve.

There has been no change to the Trust's valuation policies for the year ended 30 June 2020.

The Trustee's Valuation of Investments Policy and Procedures provides that if a price is not at market value (due to illiquidity, suspension, a material event or otherwise), the Trustee may vary the value of the asset in accordance with the internal governance processes for the adjustment as outlined in the Policy. The objective of this special situations process is to preserve equity across member outcomes, regardless of their choices, by mitigating against the risk that in major disruptions, the effect of normal delays in the reporting of private-equity fund valuations is materially amplified.

Given the uncertainties surrounding financial markets due to the COVID-19 pandemic and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the Trustee executed a special situation Trustee valuation adjustment for the valuation of private equity funds in accordance with the Policy.

Given the public-markets evidence; the genuine uncertainties surrounding financial markets asset fundamentals due to the COVID-19 pandemic and associated policy responses; and the expectation that these uncertainties will not reverse or be resolved within a single valuation cycle, the special situation hurdle was triggered within the Valuation Policy and the Trustee executed on that process for private equity funds, in accordance with the Policy.

As at 30 June 2020 an upwards Trustee valuation adjustment based on a public market price adjustment factor was added to the investment manager valuations of unlisted International equity trusts ($193.1m) and unlisted Australian equity trusts ($4.2m), representing 5.0% and 0.3% of the unlisted International and Australian equity trust portfolios respectively. This followed a symmetrically-executed downward adjustment to private-equity valuations immediately following the steep falls in public equity markets in March 2020.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

14. RELATED PARTIES

(a) Trustee

Commonwealth Superannuation Corporation (CSC) was the Trustee throughout the reporting period. Included in 'other administration expenses' is an amount of $390,944 (2019: $118,356) charged to the Scheme by CSC for acting as Trustee of the Scheme during the reporting period.

(b) Key Management Personnel

The Directors of CSC throughout the year ended 30 June 2020 and to the date of this report were:

Ariane Barker	Sunil Kemppi (Resigned 22 November 2019)
Patricia Cross (Chair)	Anthony Needham
Melissa Donnelly (Appointed 1 July 2020)	Peggy O'Neal (Term ended 30 June 2020)
Christopher Ellison	Margaret Staib
Nadine Flood (Term ended 30 June 2020)	Michael Vertigan
Winsome Hall (Term ended 30 June 2020)	Alistair Waters (Appointed 25 February 2020)
Garry Hounsell	

In addition to the Directors,the following Executives of CSC had authority and responsibility for planning, directing and controlling the activities of the Scheme throughout the year ended 30 June 2020 were:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previously Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the Executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

The terms and conditions of membership for any related parties are the same as for any other member who are not related parties of the Scheme.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

14. RELATED PARTIES (continued)

(c) Key Management Personnel Compensation

The aggregate compensation of the key management personnel in relation to the Scheme is set out below:

	2020	2019
	$	$
Short-term employee benefits	**19 408**	11 131
Post-employment benefits	**1 467**	1 004
Other long-term benefits	**(105)**	246
Termination benefits	**-**	511
	20 770	12 892

Aggregate compensation in relation to the Scheme is a pro-rata apportionment of the overall compensation paid by the Trustee, based on the net assets of the entities under its trusteeship or actual control.

The compensation of key management personnel (including Directors) related to investment management is charged against the assets of the ARIA Investments Trust that are referable to the Scheme.

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to key management personnel or their personally-related entities at any time during the year.

14. RELATED PARTIES (continued)

(d) Investing entities

Throughout the year ended 30 June 2020, the Scheme's only investment consisted of units in the AIT, which was established to provide a cost-effective means of gaining exposure to a broad range of listed and unlisted securities across various asset classes.

The other investors in the AIT throughout the year were the Public Sector Superannuation Scheme, the Commonwealth Superannuation Scheme, the Military Superannuation and Benefits Scheme and the Public Sector Superannuation Accumulation Plan. All investing transactions are conducted under normal industry terms and conditions.

The Trustee of the Scheme, Commonwealth Superannuation Corporation, is the trustee of the following regulated superannuation schemes: Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme, the Public Sector Superannuation Accumulation Plan, the Military Superannuation and Benefits Scheme and the Australian Defence Force Superannuation Scheme.

The Trustee pays costs of and incidental to the management of the Scheme and the investment of its money from the assets of the ARIA Investments Trust that are referable to the Scheme (Note 7(c)). No fees were charged to the Scheme or its assets for acting as Trustee during the year ended 30 June 2020 (2019: $nil).

The Scheme held the following investments in related parties at 30 June:

	Fair Value of Investment	Fair Value of Investment	**Share of Net Income / (Loss) after tax**	Share of Net Income / (Loss) after tax
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
ARIA Investments Trust	**473 674**	282 111	**(7 399)**	16 991
	473 674	282 111	**(7 399)**	16 991

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
For the year ended 30 June 2020

15. COMMITMENTS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Scheme had no capital commitments at 30 June 2020 (2019: $nil).

In the normal course of business, requests are made by members and former members for the review of decisions relating to benefit entitlements of the Scheme, which could result in additional benefits becoming payable in the future. Each request is considered on its merits prior to any benefit becoming payable. In the opinion of the Trustee, these requests do not represent a material liability on the Scheme.

There were no other contingent liabilities or contingent assets as at the reporting date (2019: $nil).

16. SUBSEQUENT EVENTS

No matters have arisen since 30 June 2020 that have materially affected, or may materially affect, the operations of the Scheme, the results of those operations, or the financial position of the Scheme in future financial years.

Section 13
CSC Financial Statements

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Commonwealth Superannuation Corporation for the year ended 30 June 2020 present fairly, in all material respects, the financial position of the Commonwealth Superannuation Corporation as at 30 June 2020 and its financial performance and cash flows for the year then ended in accordance with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*.

The financial statements of the Commonwealth Superannuation Corporation, which I have audited, comprise the following as at 30 June 2020 and for the year then ended:

- Statement by the Chair, Chief Executive Officer and Chief Operating Officer;
- Statement of Comprehensive Income;
- Statement of Financial Position;
- Statement of Changes in Equity;
- Cash Flow Statement; and
- Notes to the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Commonwealth Superannuation Corporation in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Directors' responsibility for the financial statements

As the Accountable Authority of the Commonwealth Superannuation Corporation, the Directors are responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of financial statements that comply with Australian Accounting Standards. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Commonwealth Superannuation Corporation to continue as a going concern, disclosing, as applicable, matters related to going concern as applicable and using the going concern basis of accounting unless the Directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance

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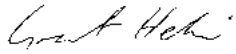
with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- conclude on the appropriateness of the Directors use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Australian National Audit Office



Grant Hehir

Auditor-General

Canberra

24 September 2020

STATEMENT BY THE CHAIR, CHIEF EXECUTIVE OFFICER, AND CHIEF OPERATING OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2020 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that Commonwealth Superannuation Corporation will be able to pay its debts as and when they fall due.

The statement is made in accordance with a resolution of the directors.

Patricia Cross	Damian Hill	Andy Young
Chair	Chief Executive Officer	Chief Operating Officer
23 September 2020	23 September 2020	23 September 2020

CONTENTS

Primary financial statements

Notes to the financial statements:

Statement of Comprehensive Income
for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000	Original 2020 Budget $'000	Notes
NET CONTRIBUTION BY SERVICES					
Expenses					
Employee benefits	2.1	**61,732**	59,791	66,471	a
Suppliers	2.2	**43,825**	44,034	47,436	b
Depreciation and amortisation	5.1	**9,552**	6,184	6,044	c
Finance costs	2.3	**573**	80	12	c
Impairment loss on financial instruments	2.4	**-**	1	-	
Write-down and impairment of assets	2.5	**290**	-	6	
Total expenses		**115,972**	110,090	119,969	
LESS:					
Own-source income					
Own-source revenue					
Revenue from contracts with customers	3.1	**120,568**	114,666	119,837	
Interest	3.2	**79**	145	132	
Total own-source revenue		**120,647**	114,811	119,969	
Gains					
Other gains		**-**	459	-	
Total gains		**-**	459	-	
Total own-source income		**120,647**	115,270	119,969	
Net contribution by services		**4,675**	5,180	-	
Surplus for the year		**4,675**	5,180	-	
OTHER COMPREHENSIVE INCOME					
Items not subject to subsequent reclassification to net contribution by services					
Other comprehensive income		**-**	-	-	
Total other comprehensive income		**-**	-	-	
Total comprehensive income		**4,675**	5,180	-	

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

Budget Variances Commentary

Statement of Comprehensive Income

a. Employee expenses were lower than budget due to lower average staffing levels.

b. Supplier expenses are lower than budget due to the decision to defer several projects and initiatives due to the COVID-19 pandemic. The budget also included rental expense which has been reclassified as described in note c.

c. Depreciation and amortisation and Finance costs are higher than budget mainly due to the transition to the new Accounting Standard *AASB 16 Leases* , effective 1 July 2019. The budget was required to be based on the previous Accounting Standard *AASB 117 Leases.* This has also impacted the budget comparison for Buildings and Lease liabilities in the Statement of Financial Position.

Statement of Financial Position
as at 30 June 2020

	Notes	2020 $'000	2019 $'000	Original 2020 Budget $'000	Notes
ASSETS					
Financial Assets					
Cash and cash equivalents	4.1	**52,806**	54,126	46,996	a
Trade and other receivables	4.2	**5,771**	3,986	5,903	
Total financial assets		**58,577**	58,112	52,899	
Non-Financial Assets[1]					
Buildings	5.1	**17,162**	-	-	b
Leasehold improvements	5.1	**8,218**	9,712	9,015	
Property, plant and equipment	5.1	**2,985**	4,415	5,065	c
Intangibles	5.1	**14,448**	15,505	13,084	d
Other non-financial assets	5.2	**5,096**	4,708	4,116	
Total non-financial assets		**47,909**	34,340	31,280	
Total assets		**106,486**	92,452	84,179	
LIABILITIES					
Payables					
Suppliers	6.1	**4,229**	12,051	10,677	e
Other payables	6.2	**2,396**	9,392	438	f
Total payables		**6,625**	21,443	11,115	
Interest Bearing Liabilities					
Leases	7.1	**24,062**	-	-	b
Total interest bearing liabilities		**24,062**	-	-	
Provisions					
Employee provisions	8.1	**13,580**	14,124	14,048	
Other provisions	8.2	**2,616**	2,270	8,883	g
Total provisions		**16,196**	16,394	22,931	
Total liabilities		**46,883**	37,837	34,046	
Net assets		**59,603**	54,615	50,133	
EQUITY					
Contributed equity		**35,475**	35,475	35,475	
Operational risk reserve		**1,527**	771	1,469	
Asset revaluation reserve		**478**	478	478	
Retained surplus		**22,123**	17,891	12,711	
Total equity		**59,603**	54,615	50,133	

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

[1.] Right-of-use assets (ROU) are included in the following line items - Buildings and Property, plant and equipment.

Budget Variances Commentary

Statement of Financial Position

a. Cash and cash equivalents are higher than budget due to changes in the timing of expenditure on internally funded projects.

b. Refer to Statement of Comprehensive Income note c.

c. Property plant & equipment is lower than budget due to the decision to defer the procurement of infrastructure assets as a result of the COVID-19 pandemic.

d. Intangibles are higher than budget due to upgrades to superannuation administration systems required to implement superannuation legislation changes.

e. Supplier payables are lower than budget due to the timing of invoices received at year-end.

f. Other payables are higher than budget mainly due to a change in project delivery scheduling and the subsequent recognition of revenue associated with externally funded projects.

g. Other provisions are lower than budget due to the surrender of the Belconnen Office lease.

Statement of Changes in Equity
for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000	Original 2020 Budget $'000	Notes
CONTRIBUTED EQUITY					
Opening balance					
Balance carried forward from previous period		**35,475**	35,475	35,475	
Closing balance as at 30 June		**35,475**	35,475	35,475	
RETAINED SURPLUS					
Opening balance					
Balance carried forward from previous period		**17,891**	12,711	12,711	
Adjustment on initial application of AASB 15/AASB 1058		**(62)**	-	-	
Adjustment on initial application of AASB 16		**(381)**	-	-	
Adjusted opening balance		**17,448**	12,711	12,711	
Comprehensive income					
Surplus for the year		**4,675**	5,180	-	
Total comprehensive income		**4,675**	5,180	-	
Closing balance as at 30 June		**22,123**	17,891	12,711	
ASSET REVALUATION RESERVE					
Opening balance					
Balance carried forward from previous period		**478**	478	478	
Other comprehensive income					
Closing balance as at 30 June		**478**	478	478	
OPERATIONAL RISK RESERVE					
Opening balance					
Balance carried forward from previous period		**771**	500	771	
Transfers to reserve					
Transfers from Department of Defence		**756**	271	698	
Closing balance as at 30 June		**1,527**	771	1,469	
Total Equity as at 30 June		**59,603**	54,615	50,133	

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

Accounting Policy

Operational Risk Reserve

The operational risk reserve (ORR) represents trustee capital held for the purposes of meeting the operational risk financial requirement of the ADF Superannuation Scheme. The purpose of the operational risk reserve (ORR) is to provide adequate financial resources to address losses that may arise from an operational risk event. The ORR is operated in accordance with an ORR policy. The level of the reserve is determined by the Trustee Directors and reviewed annually, based on an assessment of the risks faced by the ADF Superannuation Scheme. The assets underlying the trustee capital were funded by the Department of Defence and are held in a segregated bank account as Australian-dollar denominated cash.

Cash Flow Statement
for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000	Original 2020 Budget $'000	Notes
OPERATING ACTIVITIES					
Cash received					
Rendering of services		**118,247**	115,741	123,159	a
Interest		**79**	156	132	
Net GST received		**211**	123	102	
Total cash received		**118,537**	116,020	123,393	
Cash used					
Employee benefits		**(61,788)**	(58,413)	(66,062)	a
Suppliers		**(51,740)**	(52,219)	(55,031)	a
Interest payments on lease liabilities		**(531)**	-	-	
Net GST paid		**-**	-	-	
Total cash used		**(114,059)**	(110,632)	(121,093)	
Net cash from operating activities	9	**4,478**	5,388	2,300	
INVESTING ACTIVITIES					
Cash used					
Purchase of leasehold improvements		**(7)**	(57)	(800)	
Purchase of property, plant and equipment		**(225)**	(759)	(3,007)	a
Purchase and internal development of intangibles		**(2,328)**	(1,257)	(200)	a
Total cash used		**(2,560)**	(2,073)	(4,007)	
Net cash used by investing activities		**(2,560)**	(2,073)	(4,007)	
FINANCING ACTIVITIES					
Cash received					
Transfers to operational risk reserve		**756**	271	698	
Total cash received		**756**	271	698	
Cash used					
Principal payments of lease liabilities		**(3,994)**	-	-	a
Total cash used		**(3,994)**	-	-	
Net cash from/(used by) financing activities		**(3,238)**	271	698	
Net increase/(decrease) in cash held		**(1,320)**	3,586	(1,009)	
Cash and cash equivalents at the beginning of the reporting period		**54,126**	50,540	48,005	
Cash and cash equivalents at the end of the reporting period	4.1	**52,806**	54,126	46,996	

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

Budget Variances Commentary

Cash Flow Statement

a. The explanations of major variances to the budget in the Cash Flow Statement are explained in the Statement of Financial Position and Statement of Comprehensive Income.

Note 1: Overview

Objectives of the Entity

Commonwealth Superannuation Corporation (CSC) (ABN 48 882 817 243) is a corporate Commonwealth entity under the *Public Governance, Performance and Accountability Act 2013* . The objective of CSC is to provide retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the Australian Defence Force, through investment and administration of their superannuation funds and schemes. CSC is a not-for-profit entity. The continued existence of CSC in its present form and with its present programs is dependent on Government policy.

CSC is the Trustee responsible for the Public Sector Superannuation Scheme ('PSS'), the Commonwealth Superannuation Scheme ('CSS'), the Public Sector Superannuation Accumulation Plan ('PSSap'), the Military Superannuation and Benefits Scheme ('MSBS'), Australian Defence Force Superannuation Scheme ('ADF Super'), Australian Defence Force Cover Scheme ('ADF Cover'), the Defence Force Retirement and Death Benefits Scheme ('DFRDB'), the Defence Forces Retirement Benefits Scheme ('DFRB'), the Defence Force (Superannuation) (Productivity Benefit) Scheme ('DFSPB'), the Papua New Guinea Scheme ('PNG') and the 1922 Scheme, collectively referred to as 'the Schemes'.

The Schemes invest solely through the ARIA Investments Trust ('the AIT') - a pooled superannuation trust under CSC's trusteeship - which facilitates access to a broad range of underlying securities across various asset classes on an efficient and cost-effective basis.

CSC's activities are partly funded through the scheme administration charges collected from employers participating in PSS and CSS, and from members of PSSap and ADF Super, and through negotiated administration charges collected from the Department of Defence. Additional funding may be provided by Government to meet specific administration requirements.

The Basis of Preparation

The financial statements are general purpose financial statements and are required by section 42 of the *Public Governance, Performance and Accountability Act 2013.*

The financial statements have been prepared in accordance with:

a) *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015 (FRR)* ; and
b) Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

The financial statements have been prepared on an accrual basis and in accordance with the historical cost convention, except for certain assets and liabilities at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position. The financial statements are presented in Australian dollars and values are rounded to the nearest thousand dollars unless otherwise specified.

New Accounting Standards

Adoption of New Australian Accounting Standard Requirements

No accounting standard has been adopted earlier than the application date as stated in the standard.

The following new and revised standards were issued by the Australian Accounting Standards Board prior to the sign-off date, were applicable to the current reporting period and had a material effect on CSC's financial statements:

Standard/ Interpretation	Application date for CSC	Nature of impending change/s in accounting policy and likely impact on initial application
AASB 16 Leases	1/07/2019	AASB 16 Leases became effective on 1 July 2019. AASB 16 Leases replaces AASB 117 Leases, Interpretation 4 Determining whether an Arrangement contains a Lease, Interpretation 114 Operating Leases - Incentives and Interpretations 127 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. AASB 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. The details of the changes in accounting policies, transitional provisions and adjustments are disclosed below and in the relevant notes to the financial statements.

Note 1: Overview (continued)

Application of AASB 16 Leases

CSC adopted AASB 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under AASB 117 and related interpretations.

CSC elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under AASB 117 were not reassessed. The definition of a lease under AASB 16 was applied only to contracts entered into or changed on or after 1 July 2019.

AASB 16 provides for certain optional practical expedients, including those related to the initial adoption of the Standard. CSC applied the following practical expedients when applying AASB 16 to leases previously classified as operating leases under AASB 117:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Exclude initial direct costs from the measurement of right-of-use assets at the date of initial application for leases where the right-of-use asset was determined as if AASB 16 had been applied since the commencement date;
- Reliance on previous assessments on whether leases are onerous as opposed to preparing an impairment review under AASB 136 Impairment of assets as at the date of initial application; and
- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, CSC previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, CSC recognises right-of-use assets and lease liabilities for most leases. However, CSC has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

On adoption of AASB 16, CSC recognised right-of-use assets and lease liabilities in relation to leases of office space, data centre space and motor vehicles, which had previously been classified as operating leases.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using CSC's incremental borrowing rate as at 1 July 2019. CSC's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The weighted-average rate applied was 2.0%.

The right-of-use assets were measured at an amount equal to the carrying value that would have resulted from AASB 16 being applied from the commencement date of the leases, subject to the practical expedients noted above.

Impact on transition

On transition to AASB 16, CSC recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

		1 July 2019
Increase in Asset	Right-of-use assets	20,439,772
Increase in Liability	Lease liabilities	28,041,343
Decrease in Liability	AASB 117 reversal of lease liabilities as at 30 June 2019	7,220,658
Decrease in Equity	Retained earnings	380,913

The following table reconciles the Departmental minimum lease commitments disclosed in CSC's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019:

	1 July 2019
Minimum operating lease commitment at 30 June 2019	30,468,176
Less: short-term leases not recognised under AASB 16	(199,840)
Undiscounted lease payments	30,268,336
Less: effect of discounting using the incremental borrowing rate as at the date of initial application	(2,226,993)
Lease liabilities recognised at 1 July 2019	28,041,343

Note 1: Overview (continued)

Standard/ Interpretation	Application date for the entity	Nature of impending change/s in accounting policy and likely impact on initial application
AASB 15 Revenue from Contracts with Customers / AASB 2016-8 Amendments to Australian Accounting Standards – Australian Implementation Guidance for Not-for-Profit Entities and AASB 1058 Income of Not-For-Profit Entities	1/07/2019	AASB 15, AASB 2016-8 and AASB 1058 became effective 1 July 2019. AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and Interpretation 13 Customer Loyalty Programmes. The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. AASB 1058 is relevant in circumstances where AASB 15 does not apply. AASB 1058 replaces most of the not-for-profit (NFP) provisions of AASB 1004 Contributions and applies to transactions where the consideration to acquire an asset is significantly less than fair value principally to enable the entity to further its objectives, and where volunteer services are received . The details of the changes in accounting policies, transitional provisions and adjustments are disclosed below and in the relevant notes to the financial statements.

Application of AASB 15 Revenue from Contracts with Customers / AASB 1058 Income of Not-For-Profit Entities
CSC adopted AASB 15 and AASB 1058 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 is not restated, that is, it is presented as previously reported under the various applicable AASBs and related interpretations.

Under the new income recognition model CSC shall first determine whether an enforceable agreement exists and whether the promises to transfer services to the customer are 'sufficiently specific'. If an enforceable agreement exists and the promises are 'sufficiently specific' (to a transaction or part of a transaction), CSC applies the general AASB 15 principles to determine the appropriate revenue recognition. If these criteria are not met, CSC shall consider whether AASB 1058 applies.

Set out below are the amounts by which each financial statement line item is affected as at and for the year ended 30 June 2020 as a result of the adoption of AASB 15 and AASB 1058. The first column shows amounts prepared under AASB 15 and AASB 1058 and the second column shows what the amounts would have been had AASB 15 and AASB 1058 not been adopted:

Impact on transition

Transitional disclosure	**AASB 15 / AASB 1058**	**Previous AAS**	Increase / (decrease)
	$'000	**$'000**	$'000
Own-source revenue			
Other revenue - Australian Government entities (related parties)	**1,656**	**1,656**	-
Total own-source revenue	**1,656**	**1,656**	-
Net contribution by services	**1,656**	**1,656**	-
Liabilities			
Unearned Revenue	**(1,401)**	**(1,339)**	62
Total liabilities	**(1,401)**	**(1,339)**	62
Retained earnings	**(255)**	**(317)**	(62)

Future Australian Accounting Standard Requirements
All new or revised standards and interpretations, that were issued prior to the sign-off date and are applicable to future reporting periods, are not expected to have a material impact on CSC's financial statements.

Note 1: Overview (continued)

Taxation

Under its legislation, the Income Tax Act is applicable to CSC, however in the normal course of its activities CSC does not generate taxable income under that Act. CSC is liable for Goods and Services Tax (GST) and Fringe Benefits Tax (FBT).

Revenues, expenses, assets and liabilities are recognised net of GST except:

a) where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
b) for receivables and payables.

Controlled entities

CSC is the parent and sole shareholder of ARIA Co Pty Ltd. ARIA Co Pty Ltd is the Trustee of the ARIA Alternative Assets Trust and the PSS/CSS Investments Trust. ARIA Co Pty Ltd is not consolidated into CSC's financial statements as it is a shell company and is considered to be immaterial.

Reporting of Administered activities

The FRR requires disclosure where one entity has drawn against a Special Appropriation which is the responsibility of another entity.

Administered assets, liabilities, revenue and expenses are those items which are controlled by the Government and were managed or over sighted by CSC on its behalf including:

- Superannuation benefit payments; and
- Superannuation contributions.

In addition to CSC, the entities responsible for managing the appropriations, Department of Finance (Finance), Department of Defence (Defence) and Department of Foreign Affairs and Trade (DFAT) will make separate disclosures of the contributions and unfunded benefits paid under the 1922, CSS, PSS, PNG, DFRB, DFRDB, MSB and ADF Cover schemes.

1922, CSS and PSS schemes

Finance has responsibility to account for the Commonwealth's activities in relation to the 1922, CSS and PSS schemes.

Finance has responsibility for managing the legislation and has delegated third party access rights to the appropriations under the following Acts:

- *Superannuation Act 1922 ;*
- *Superannuation Act 1976 ;*
- *Superannuation Act 1990 ;*
- *Same Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008* ;
- *Governance of Australian Government Superannuation Schemes Act 2011* - s35(3)(a); and
- *Governance of Australian Government Superannuation Schemes Act 2011* - s35(4).

In addition, CSC was delegated third party access rights by Finance for the funding of legal and incidental costs of superannuation claims, and Act of Grace payments. These were appropriated under *Appropriation Act (No. 1) 2019-2020* and *Appropriation Act (No. 2) 2019-2020* .

The funded components of the CSS and PSS Schemes are reported in their respective financial statements.

DFRB, DFRDB, MSB and ADF Cover Schemes

Defence has responsibility for managing the legislation and has delegated third party access rights to the appropriations under the following Acts:

- *Defence Forces Retirement Benefits Act 1948* ;
- *Defence Force Retirement and Death Benefits Act 1973* ;
- *Military Superannuation Benefits Act 1991;* and
- *Australian Defence Force Cover Act 2015.*

The funded components of MSBS are reported in the MSBS financial statements. The DFRB, DFRDB and ADF Cover are unfunded Schemes.

Note 1: Overview (continued)

PNG Scheme

DFAT delegated third party access rights to CSC in respect of Papua New Guinea Superannuation Schemes which are appropriated in *Appropriation Act (No. 1) 2019-2020*. CSC managed the payment of Pensions under the scheme on behalf of DFAT.

Administered Cash Transfers to and from the Official Public Account

Revenue collected by CSC for use by the Government rather than CSC was Administered Revenue. Collections are transferred to the Official Public Account (OPA) maintained by Finance. Conversely, cash is drawn from the OPA to make payments under Parliamentary appropriations on behalf of Government.

Events After the Reporting Period

On 4 September 2020 CSC signed a new lease agreement for the Sydney office for a period of three years with no further option to extend. There were no other events subsequent to balance date that have the potential to significantly affect the ongoing structure and financial activities of CSC.

Note 2: Expenses

	2020 $'000	2019 $'000
2.1: Employee Benefits		
Wages and salaries	**49,251**	45,273
Superannuation		
Defined contribution plans	**5,148**	4,697
Defined benefit plans	**1,855**	2,544
Leave and other entitlements	**4,977**	5,570
Separation and redundancies	**501**	1,707
Total employee benefits	**61,732**	59,791
2.2: Suppliers		
Goods and services supplied or rendered		
Consultants	**10,260**	9,339
Contractors	**8,716**	6,757
Information technology and communications	**12,093**	11,996
Insurance	**887**	799
Member communication	**1,410**	1,111
Property (other than rent)	**1,616**	1,740
Employee recruitment and support	**1,580**	1,566
Subscriptions and professional memberships	**394**	516
Training and development	**816**	989
Travel	**1,150**	1,751
Other goods and services	**3,990**	2,652
Total goods and services supplied or rendered	**42,912**	39,216
Goods supplied	**1,241**	1,022
Services rendered	**41,671**	38,194
Total goods and services supplied or rendered	**42,912**	39,216
Other supplier expenses		
Operating lease rentals		
Operating lease rentals[1]	**-**	3,372
Short-term leases[2]	**358**	-
Workers compensation expenses	**555**	1,446
Total other suppliers	**913**	4,818
Total suppliers	**43,825**	44,034

1. CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

2. The Melbourne, Adelaide and Brisbane office leases are for fixed terms of twelve months, and are classified as short term leases. CSC has short-term lease commitments of $216,000 as at 30 June 2020.

The above lease disclosures should be read in conjunction with the accompanying notes 2.3, 5.1 and 7.1.

Note 2: Expenses (continued)

Accounting Policy

Short-term leases and leases of low-value assets
CSC has elected not to recognise right-of-use assets and lease liabilities for short-term leases of assets that have a lease term of 12 months or less. CSC recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

	2020	2019
	$'000	$'000
2.3: Finance Costs		
Interest on lease liabilites[1]	**531**	-
Other interest payments	**42**	80
Total finance costs	**573**	80

[1.] CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.
The above lease disclosures should be read in conjunction with the accompanying notes 2.2, 5.1 and 7.1.

Accounting Policy

All borrowing costs are expensed as incurred.

2.4: Impairment Loss on Financial Instruments		
Impairment on trade and other receivables	**-**	1
Total write-down and impairment of financial instruments	**-**	1
2.5: Write-Down and Impairment of Assets		
Impairment of intangible assets	**290**	-
Total write-down and impairment of assets	**290**	-

2.6: Remuneration of Auditors
Financial statement audit services were provided to CSC by the Australian National Audit Office (ANAO) through its contracted service provider Deloitte Touche Tohmatsu (Deloitte). Fees for the ANAO's services are as follows:

Financial statement audit services	**106**	92
Regulatory audit services required by legislation to be provided to the auditor	**9**	9
	115	101

Audit fees are also payable to the ANAO by other entities under CSC's trusteeship. For the 2019-20 financial year the total fees payable for these entities is $652,500 (2019: $626,500).

The following additional services were provided by Deloitte:

Internal controls audit - other assurance engagement required by legislation or contractual arrangements	**115**	116
Consulting Services	**60**	294
	175	410

No other services were provided to CSC by the ANAO or Deloitte.

Note 3: Own-Source Revenue and Gains

	2020 $'000	2019 $'000
Own-Source Revenue		
3.1: Revenue from Contracts with Customers		
Scheme administration fees - Australian Government entities (related parties)	**71,019**	70,755
Services rendered to the ARIA Investments Trust	**44,605**	40,448
Other revenue - Australian Government entities (related parties)	**1,656**	2,078
Trustee Levies	**3,288**	1,385
Total revenue from contracts with customers	**120,568**	114,666

Accounting Policy

Revenue from Contracts with Customers/ Income of Not-For-Profit Entities

Scheme administration fees and trustee levies:

CSC receives scheme administration fees and trustee levies collected from Australian Government entities participating in PSS and CSS, from members of PSSap and ADF, and through negotiated administration charges collected from the Department of Defence. The members of these superannuation schemes receive and consume the benefits as CSC performs the services. CSC has recorded this revenue over time under AASB 15 as the services are performed and the performance obligation is met.

Services rendered to the ARIA Investments Trust:

CSC receives fees from the AIT to recover the cost of managing the investments of the schemes. This cost recovery is performed on the basis of Board approved budget arrangements regarding the management of fund expenses. CSC does not retain any of these investment management services and the AIT simultaneously receives and consumes the benefits as CSC performs the services. CSC will record this revenue over time under AASB 15 as CSC recovers the costs of managing the investments of the schemes.

Other revenue:

Other revenue includes project funding received from Australian Government entities in order to meet specific administration requirements. The project funding received is either accounted for under AASB 1058 or AASB 15, depending on whether the services are retained by CSC or are passed onto the customer. Each project for which specific funding has been received by CSC has been assessed as having an enforceable contract with specific promises and performance obligations. Where funding has been used to construct an asset, the revenue has been assessed under AASB 1058 as CSC retains the control and benefit of the asset built. Where funding has been received for purposes other than constructing an asset, the revenue has been assessed under AASB 15 as the service specified in the contract has been provided to the customer.

Receivables for services, which have 30 day terms, are recognised at the nominal amounts due less any impairment allowance account. Collectability of debts is reviewed at end of the reporting period. Allowances are made when collectability of the debt is no longer probable.

3.2: Interest		
Deposits	**79**	145
Total interest	**79**	145

Accounting Policy

Interest revenue is recognised using the effective interest method.

Note 4: Financial Assets

	2020 $'000	2019 $'000
4.1: Cash and Cash Equivalents		
Cash in special account	**40,077**	35,091
Cash on deposit	**12,729**	19,035
Total cash and cash equivalents	**52,806**	54,126

Accounting Policy

Cash is recognised at its nominal amount. Cash and cash equivalents include:

a) demand deposits in bank accounts with an original maturity of 3 months or less that are readily convertible to known amounts of cash and subject to insignificant risk of changes in value; and

b) cash in special accounts.

4.2: Trade and Other Receivables		
Receivables for services		
Services	**5,698**	3,631
Total receivables for services	**5,698**	3,631
Other receivables:		
GST receivable	**73**	284
Reimbursements	**-**	71
Total other receivables	**73**	355
Total trade and other receivables (gross)	**5,771**	3,986
Less impairment loss allowance	**-**	-
Total trade and other receivables (net)	**5,771**	3,986
Trade and other receivables (net) expected to be recovered in:		
No more than 12 months	**5,771**	3,986
Total trade and other receivables (net)	**5,771**	3,986

Credit terms for services were within 30 days (2019: 30 days).

Accounting Policy

Financial Assets

Trade receivables and other receivables that are held for the purpose of collecting the contractual cash flows, where the cash flows are solely payments of principal and interest that are not provided at below-market interest rates, are subsequently measured at amortised cost using the effective interest method adjusted for any loss allowance.

Note 4: Financial Assets (continued)

Reconciliation of the Impairment Loss Allowance

Movements in relation to 2020

	Services	**Total**
	$'000	**$'000**
As at 1 July 2019	**-**	**-**
Increase/(Decrease) recognised in net contribution by services	**-**	**-**
Amounts written off	**-**	**-**
Total as at 30 June 2020	**-**	**-**

Movements in relation to 2019

	Services	Total
	$'000	$'000
As at 1 July 2018	(10)	(10)
Amounts written off	10	10
Total as at 30 June 2019	-	-

Accounting Policy

AASB 9 impairment requirements for financial assets are based on a forward-looking expected credit loss (ECL) model. The model applies to financial assets measured at amortised cost, contract assets and debt instruments measured at fair value through other comprehensive income. Trade and other receivable assets at amortised cost are assessed for impairment at the end of each reporting period. The simplified approach has been adopted in measuring the impairment loss allowance at an amount equal to lifetime ECL.

Note 5: Non-Financial Assets

5.1: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles

Reconciliation of the opening and closing balances of property, plant and equipment and intangibles for 2020

	Buildings (ROU Asset)	Leasehold Improvements	Property, Plant and Equipment	Intangibles - Computer Software[1]	Total
		$'000	$'000	$'000	$'000
As at 1 July 2019					
Gross book value	-	12,759	8,349	29,564	50,672
Accumulated depreciation, amortisation and impairment	-	(3,047)	(3,934)	(14,059)	(21,040)
Total as at 1 July 2019	-	9,712	4,415	15,505	29,632
Recognition of right of use asset on initial application of AASB 16	20,391	-	63	-	20,454
Adjusted total as at 1 July 2019	20,391	9,712	4,478	15,505	50,086
Additions					
Purchased	-	7	225	911	1,143
Internally developed	-	-	-	1,426	1,426
Impairments recognised in net contribution by services[2]	-	-	-	(290)	(290)
Depreciation and amortisation		(1,501)	(1,685)	(3,104)	(6,290)
Depreciation on right-of-use assets	(3,229)	-	(33)	-	(3,262)
Total as at 30 June 2020	17,162	8,218	2,985	14,448	42,813
Total as at 30 June 2020 represented by:					
Gross book value	20,391	12,766	8,637	31,901	73,695
Accumulated depreciation, amortisation and impairment	(3,229)	(4,548)	(5,652)	(17,453)	(30,882)
Total as at 30 June 2020	17,162	8,218	2,985	14,448	42,813
Carrying amount of right-of-use assets	17,162	-	30	-	17,192

1. The carrying amount of computer software includes $0.285 million of purchased software and $14.163 million of internally generated software.

2. At 30 June 2020, an impairment loss of $0.290 million has been recognised for internally developed software.

Revaluations of non-financial assets

All revaluations were conducted in accordance with the fair value measurement policy stated at Note 16.1. Independent valuers conducted the last fair value assessment of the carrying values of all leasehold improvements and property, plant and equipment assets, excluding right of use assets, as at 30 June 2017. During the 2019-20 financial year, there have been limited acquisitions and minimal change to the underlying asset base. As such, the written down value as at 30 June 2020 for these assets represents fair value.

Contractual commitments for the acquisition of property, plant, equipment and intangible assets

CSC has contractual commitments totalling $0.697 million (2019: $0.379 million) for the acquisition of property, plant and equipment and intangible assets.

Note 5: Non-Financial Assets (continued)

5.1: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles (continued)

Reconciliation of the opening and closing balances of property, plant and equipment for 2019[1]

	Leasehold Improvements	Property, Plant and Equipment	Intangibles - Computer Software[2]	Total
	$'000	$'000	$'000	$'000
As at 1 July 2018				
Gross book value	12,702	7,624	28,307	48,633
Accumulated depreciation, amortisation and impairment	(1,378)	(2,253)	(11,225)	(14,856)
Total as at 1 July 2018	11,324	5,371	17,082	33,777
Additions				
Purchased	57	725	-	782
Internally developed	-	-	1,257	1,257
Depreciation and amortisation	(1,669)	(1,681)	(2,834)	(6,184)
Total as at 30 June 2019	9,712	4,415	15,505	29,632
Total as at 30 June 2019 represented by:				
Gross book value	12,759	8,349	29,564	50,672
Accumulated depreciation, amortisation and impairment	(3,047)	(3,934)	(14,059)	(21,040)
Total as at 30 June 2019 represented by	9,712	4,415	15,505	29,632

1. CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

2. The carrying amount of computer software includes $0.004 million of purchased software and $15.501 million of internally generated software.

Note 5: Non-Financial Assets (continued)

Accounting Policy
Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and income at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor's accounts immediately prior to the restructuring.

Asset Recognition Threshold
Purchases of property, plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than $4,000 (2019: $4,000), which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to 'make good' provisions in Canberra and Sydney lease where there exists an obligation to the lessor. These costs are included in the value of CSC's leasehold improvements with a corresponding provision for the 'make good' recognised.

Lease Right of Use (ROU) Assets
Leased ROU assets are capitalised at the commencement date of the lease and comprise of the initial lease liability amount, initial direct costs incurred when entering into the lease less any lease incentives received. These assets are accounted for by CSC as separate asset classes to corresponding assets owned outright, but included in the same column as where the corresponding underlying assets would be presented if they were owned.

On initial adoption of AASB 16, CSC has adjusted the ROU assets at the date of initial application by the amount of any provision for onerous leases recognised immediately before the date of initial application. Following initial application, an impairment review is undertaken for any right of use lease asset that shows indicators of impairment and an impairment loss is recognised against any right of use lease asset that is impaired. Lease ROU assets continue to be measured at cost after initial recognition in Commonwealth agency, General Government Sector and Whole of Government financial statements.

Revaluations
Following initial recognition at cost, property, plant and equipment and leasehold improvements (excluding ROU assets) are carried at fair value less subsequent accumulated depreciation and accumulated impairment losses. Valuations Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised in the surplus/deficit. Revaluation decrements for a class of assets are recognised directly in the surplus/deficit except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation
Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to CSC using, in all cases, the straight-line method of depreciation.

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

Depreciation rates applying to each class of depreciable asset are based on the following useful lives:

	2020	2019
Leasehold Improvements	Lease term	Lease term
Plant and Equipment	3 to 10 years	3 to 10 years

The depreciation rates for ROU assets are based on the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Impairment
All assets were assessed for indicators of impairment at 30 June 2020. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the entity were deprived of the asset, its value in use is taken to be its depreciated replacement cost.

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Note 5: Non-Financial Assets (continued)

Accounting Policy (continued)

Intangibles

CSC's intangibles comprise internally developed software and purchased software for internal use. These assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Software is amortised on a straight-line basis over its anticipated useful life. The useful lives of CSC's software are 3 to 10 years (2019: 1 to 10 years).

Purchased or internally developed intangibles are recognised initially at cost in the Statement of Financial Position, except for purchased intangibles costing less than $80,000 (2019: $80,000) or internally developed assets costing less than $80,000 (2019: $80,000). These items are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

Software assets under development but not yet available for use have been tested for impairment

Accounting Judgements and Estimates

CSC has also made judgements in relation to the carrying value of internally generated software. The carrying amount is based on the recoverability as assessed by management given the most recent information available, including an impairment assessment as at 30 June 2020.

Note 5: Non-Financial Assets (continued)

	2020 $'000	2019 $'000
5.2: Other Non-Financial Assets		
Prepayments	**5,096**	4,708
Total other non-financial assets	**5,096**	4,708
Other non-financial assets expected to be recovered in:		
No more than 12 months	**4,485**	4,324
More than 12 months	**611**	384
Total other non-financial assets	**5,096**	4,708

No indicators of impairment were found for other non-financial assets (2019: Nil).

Note 6: Payables

	2020 $'000	2019 $'000
6.1: Suppliers		
Trade creditors and accruals	**4,229**	12,051
Total suppliers	**4,229**	12,051
Supplier payables expected to be settled in:		
No more than 12 months	**4,229**	12,051
Total suppliers	**4,229**	12,051

Settlement is usually made within 20 days (2019: 30 days).

6.2: Other Payables		
Wages and salaries	**931**	427
Unearned revenue	**1,401**	1,664
Lease incentive[1]	**-**	7,221
Other	**64**	80
Total other payables	**2,396**	9,392

[1] CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Other payables expected to be settled in:		
No more than 12 months	**1,625**	3,074
More than 12 months	**771**	6,318
Total other payables	**2,396**	9,392

Note 7: Interest Bearing Liabilities

	2020 $'000	2019 $'000
7.1 Leases		
Lease liabilities[1]	**24,062**	-
Total leases	**24,062**	-

[1] CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

Total cash outflow for leases for the year ended 30 June 2020 was $4,525,000.

Maturity analysis - contractual undiscounted cash flows		
Within 1 year	**4,049**	4,742
Between 1 to 5 years	**13,144**	13,692
More than 5 years	**8,738**	12,034
Total leases	**25,931**	30,468

CSC in its capacity as lessee has leases for office accommodation in Canberra, Sydney and a data centre facility at Hume.

Lease payments are subject to annual increases of 3.5% in the Canberra office, 4% fixed annual rate increases in the Hume data centre and 4% fixed rate annual increases in the Sydney office. These lease agreements are non-cancellable in the normal course of business.

The Canberra office lease has a further renewal option for 3 years and under the lease agreement CSC has a one off right to surrender any one of its floors at any time on or after 1 January 2022. The Sydney office and Hume data centre leases have no further option for renewal.

The above lease disclosures should be read in conjunction with the accompanying notes 2.2, 2.3, 5.1 and 7.1
Refer Note 1 for the accounting policy for leases.

Note 8: Provisions

	2020 $'000	2019 $'000
8.1: Employee Provisions		
Leave	**13,424**	13,130
Separations and redundancies	**156**	994
Total employee provisions	**13,580**	14,124
Employee provisions expected to be settled in:		
No more than 12 months	**5,419**	5,597
More than 12 months	**8,161**	8,527
Total employee provisions	**13,580**	14,124

Accounting Policy

Liabilities for short-term employee benefits and termination benefits expected within twelve months of the end of reporting period are measured at their nominal amounts.

Leave

The liability for employee benefits includes provision for annual leave and long service leave.

The leave liabilities are calculated on the basis of employees' remuneration at the estimated salary rates that will be applied at the time the leave is taken, including the employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave has been determined by reference to the Australian Government short hand method. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Separation and Redundancy

CSC recognises a provision for separation and redundancy benefit payments when it has developed a detailed formal plan for the terminations and has informed those employees affected that it will carry out the terminations.

Superannuation

Staff are members of the Commonwealth Superannuation Scheme (CSS), the Public Sector Superannuation Scheme (PSS), or the PSS accumulation plan (PSSap), or other superannuation funds held outside the Australian Government. The CSS and PSS are defined benefit schemes for Australian Government employees. The PSSap is a defined contribution scheme. The liability for defined benefits is recognised in the financial statements of the Australian Government and is settled by the Australian Government in due course. This liability is reported in the Department of Finance's administered schedules and notes.

CSC makes employer contributions to the employees' defined benefit superannuation scheme at rates determined by an actuary to be sufficient to meet the current cost to the Government. CSC accounts for the contributions as if they were contributions to defined contribution plans.

	2020 $'000	2019 $'000
8.2: Other Provisions		
Provision for restoration obligations	**2,616**	2,254
Provision for superannuation lump sum payments	**-**	16
Total other provisions	**2,616**	2,270

	Provision for restoration obligations $'000	Provision for superannuation lump sum payments $'000	Total other provisions $'000
As at 1 July 2019	**2,254**	**16**	**2,270**
Provisions remeasured	**320**	**-**	**320**
Amounts reversed	**-**	**(16)**	**(16)**
Unwinding of discount or change in discount rate	**42**	**-**	**42**
Total as at 30 June 2020	**2,616**	**-**	**2,616**

Note 8: Provisions (continued)

	2020	2019
	$'000	$'000
8.2 Other Provisions (Continued)		
Other provisions are expected to be settled in:		
No more than 12 months	**247**	16
More than 12 months	**2,369**	2,254
Total other provisions	**2,616**	2,270

CSC currently has 2 (2019: 2) agreements for the leasing of premises which have provisions requiring CSC to restore the premises to their original condition at the conclusion of the lease. CSC has made a provision to reflect the present value of these obligations.

Note 9: Cash Flow Reconciliation

	2020	2019
	$'000	$'000
Reconciliation of cash and cash equivalents as per Statement of Financial Position to Cash Flow Statement		
Cash and cash equivalents as per:		
Cash Flow Statement	**52,806**	54,126
Statement of Financial Position	**52,806**	54,126
Difference	**-**	-
Reconciliation of net contribution by services to net cash from/(used by) operating activities		
Net contribution by services	**4,675**	5,180
Adjustments for non-cash items		
Depreciation and amortisation	**9,552**	6,184
Write down and impairment of assets	**290**	1
Other gains	**-**	459
Movements in assets and liabilities		
Assets		
(Increase) / decrease in trade and other receivables	**(1,785)**	2,130
(Increase) / decrease in other non-financial assets	**(388)**	(595)
Liabilities		
Increase / (decrease) in supplier payables	**(7,831)**	5,222
Increase / (decrease) in other payables	**163**	(1,607)
Increase / (decrease) in employee provisions	**(544)**	1,309
Increase / (decrease) in other provisions	**346**	(12,895)
Net cash from operating activities	**4,478**	5,388

Note 10: Appropriations

10.1: Special Appropriations[1]

Authority	Type	Purpose	Appropriation applied 2020 $'000	2019 $'000
Superannuation Act 1922 , Administered	Unlimited Amount	An Act to provide superannuation benefits for persons employed by the Commonwealth and by certain Commonwealth Authorities and to make provision for the families of those persons.	**(60,570)**	(67,060)
Superannuation Act 1976 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme, known as the Commonwealth Superannuation Scheme, for persons employed by the Commonwealth and for certain other persons.	**(4,487,942)**	(4,465,504)
Superannuation Act 1990 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme for persons employed by the Commonwealth, and for certain other persons.	**(2,565,500)**	(2,398,715)
Same Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008 , Administered	Unlimited Amount	An Act to address discrimination against same-sex couples and their children in Commonwealth laws, and for other purposes.	**(63)**	(62)
Governance of Australian Government Superannuation Schemes Act 2011 - s35(3)(a) in the case of the 1922 Scheme, DFRB, DFRDB, DFSPB or PNG schemes	Unlimited Amount	An Act to make provision for any money becoming payable by CSC in respect of an action, liability, claim or demand that relates to the 1922 Scheme, DFRB, DFRDB, DFSPB or PNG schemes.	**-**	-
Governance of Australian Government Superannuation Schemes Act 2011 - s35(4) to reimburse the superannuation funds administered by CSC	Unlimited Amount	An Act to make provision for any money becoming payable by Commonwealth Superannuation Corporation(CSC) in respect of an action, liability, claim or demand that relates to any other cases not covered in s35(3)(a) of Governance of Australian Government Superannuation Schemes Act 2011.	**(298)**	(138)
Defence Forces Retirement Benefits Act 1948 , Administered	Unlimited Amount	An Act to provide Retirement Benefits for Members of the Defence Force of the Commonwealth, and for other purposes.	**(38,375)**	(40,648)
Defence Force Retirement & Death Benefits Act 1973 , Administered	Unlimited Amount	An Act to make provision for and in relation to a Scheme for Retirement and Death Benefits for Members of the Defence Force.	**(1,608,370)**	(1,601,998)
Military Superannuation and Benefits Act 1991 , Administered	Unlimited Amount	An Act to make provision for and in relation to an occupational superannuation scheme for, and the payment of other benefits to, members of the Defence Force, and for related purposes.	**(1,112,392)**	(911,698)
Public Governance, Performance and Accountability Act 2013 Section 77	Refund	Repayments required or permitted by law (where no other appropriation for repayment exists).	**-**	-
Australian Defence Force Cover Act 2015.	Unlimited Amount	An Act to provide a new statutory death and invalidity scheme.	**(12,508)**	(5,610)
Total			**(9,886,018)**	(9,491,433)

1. Amounts exclude recoverable GST.

Note 10: Appropriations (continued)

10.2: Disclosure by Agent in Relation to Annual and Special Appropriations[1]

2020	DFAT[2] $'000	Department of Finance $'000	Department of Defence $'000
Total receipts	**33**	**3,337,300**	**1,498,429**
Total payments	**(4,525)**	**(7,115,621)**	**(2,771,645)**

2019	DFAT $'000	Department of Finance $'000	Department of Defence $'000
Total receipts	-	3,593,532	1,530,626
Total payments	(5,142)	(6,932,453)	(2,559,954)

1. Amounts exclude recoverable GST.
2. Department of Foreign Affairs and Trade.

Note 10: Appropriations (continued)

10.3: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law.

CSC operates from the CSC Special Account established under the *Public Governance, Performance and Accountability Act 2013* Section 80 in providing superannuation administration for Australian Government sponsored superannuation schemes. CSC, as an Agent, has third party access rights for the following Special Appropriations (refer note 10.1):

Department of Finance (Finance)
1. Superannuation Act 1922;
2. Superannuation Act 1976;
3. Superannuation Act 1990;
4. Superannuation Act 2005;
5. Same-Sex Relationships (Equal Treatment in Commonwealth Laws - Superannuation) Act 2008;
6. Governance of Australian Government Superannuation Schemes Act 2011;
7. Annual Appropriation Act 1 (for Compensation & Legal payments and Act of Grace payments); and
8. Annual Appropriation Act 2 (for Act of Grace payments).

Department of Defence (Defence)
1. Defence Forces Retirement Benefits Act 1948;
2. Defence Forces Retirement and Death Benefits Act 1973;
3. Military Superannuation and Benefits Act 1991; and
4. Australian Defence Force Cover Act 2015.

Department of Foreign Affairs and Trade (DFAT)
1. Annual Appropriation Act 1 (payments are made in accordance with the *Papua New Guinea (Staffing Assistance) Act 1973*).

Note 10: Appropriations (continued)

10.3: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund (Continued)

Both the *Financial Framework Legislation Amendment Act (No.2) 2012* (FFLA Act No.2 (2012)) and the *Financial Framework Legislation Amendment Act (No.1) 2013* (FFLA Act No.1 (2013)) require that CSC and the agency responsible for the special appropriation disclose, refer tables below, the number of recoverable overpayments made during the financial year and the balance recovered to 30 June. The following tables set out, as required by the FFLA Act No.2 and FFLA Act No.1, the number and amount of all payments made beyond legislative pre-conditions for the period 1 July 2019 to 30 June 2020:

	Recoverable death payments[2]					
Legislation / Authority to pay[1]	**2020**			2019		
	No.	**Value $'000**	**Recovered $'000**	No.	Value $'000	Recovered $'000
DFAT – Annual Administered Appropriation						
Papua New Guinea (Staffing Assistance) Act 1973	**13**	**13**	**8**	10	38	13
Defence - Special Appropriations						
Defence Forces Retirement Benefits Act 1948; and Defence Forces Retirement and Death Benefits Act 1973	**693**	**1,301**	**808**	659	857	695
Military Superannuation and Benefits Act 1973	**34**	**61**	**50**	37	42	24
Australian Defence Force Cover Act 2015	**-**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**1,963**	**3,619**	**2,843**	2,459	3,916	3,154
Superannuation Act 1990	**181**	**321**	**252**	184	304	222

	Recoverable payments[3]					
	No.	**Value $'000**	**Recovered $'000**	No.	Value $'000	Recovered $'000
DFAT – Annual Administered Appropriation						
Papua New Guinea (Staffing Assistance) Act 1973	**-**	**-**	**-**	-	-	-
Defence - Special Appropriations						
Defence Forces Retirement Benefits Act 1948; and Defence Forces Retirement and Death Benefits Act 1973	**28**	**522**	**463**	28	129	70
Military Superannuation and Benefits Act 1973	**45**	**234**	**84**	37	213	18
Australian Defence Force Cover Act 2015	**-**	**-**	**-**	-	-	-
Finance - Special Appropriations						
Superannuation Act 1922; and Superannuation Act 1976	**32**	**72**	**67**	19	243	49
Superannuation Act 1990	**130**	**657**	**237**	37	292	72

Note 10: Appropriations (continued)

10.3: Compliance with Statutory Conditions for Payments from the Consolidated Revenue Fund (Continued)

1. Legislation
Amounts paid under each Act are disclosed in Note 10.1 Special Appropriations and Note 11 Special Accounts.

2. Recoverable death payments
Legislative changes made in the FFLA Act No.2 and FFLA Act No.1 provides a mechanism, called a 'recoverable death payment' that provides authority for the inadvertent overpayments of some benefits, and for their recovery in line with the duty to pursue recovery of a debt under rule 11 of the *Public Governance, Performance and Accountability Rule 2015* .

3. Recoverable payments
Legislative changes made in the FFLA Act No.2 and FFLA Act No.1 provides a mechanism, called a 'recoverable payment', to address administrative issues common to CSC, that provides authority for the inadvertent overpayments of some benefits, and for their recovery in line with the duty to pursue recovery of a debt under rule 11 of the *Public Governance, Performance and Accountability Rule 2015.*

Note 11: Special Accounts

	CSC Special Account (Departmental)[1]		Services for Other Entities and Trust Moneys[2]	
	2020	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000
Balance brought forward from previous period	**44,528**	41,370	**4,291**	5,946
Increases				
Other receipts	**118,457**	115,863	**110,414**	121,504
Total increases	**118,457**	115,863	**110,414**	121,504
Available for payments	**162,985**	157,233	**114,705**	127,450
Decreases				
Departmental				
Payments made to suppliers	**(58,825)**	(54,292)	**-**	-
Payments made to employees	**(61,788)**	(58,413)	**-**	-
Total departmental decrease	**(120,613)**	(112,705)	**-**	-
Special Public Money				
Payments made to others	**-**	-	**(110,111)**	(123,159)
Total special public money decrease	**-**	-	**(110,111)**	(123,159)
Total decreases	**(120,613)**	(112,705)	**(110,111)**	(123,159)
Balance represented by:				
Cash held in CSC bank accounts	**2,295**	9,437	**-**	-
Cash held in the Official Public Account	**40,077**	35,091	**4,594**	4,291
Total balance carried to the next period[3]	**42,372**	44,528	**4,594**	4,291

1. Appropriation: *Public Governance, Performance and Accountability Act 2013* section 80.
Establishing Instrument: Section 29E *Governance of Australian Government Superannuation Schemes Legislation Amendment Act 2015.*
Purpose: For the receipt and expenditure of monies in connection with the provision of administration, accounting and other support services.

2. Appropriation: *Public Governance, Performance and Accountability Act 2013* section 78.
Establishing Instrument: *Financial Management and Accountability Determination 2011/06*
Purpose: For the receipt and expenditure of monies in connection with payments made on behalf of CSS, PSS, and MSBS, and for the receipt and expenditure of monies temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth. The Trust monies represent returned benefits which have not yet been subsequently repaid to the member.

3. Amounts differ to Note 4.1 as the balances do not include cash on deposit held outside the Special Account.

Note 12: Key Management Personnel Remuneration

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of CSC. Key management personnel remuneration is reported in the table below:

	2020	2019
	$	$
Short-term employee benefits	**5,577,933**	5,681,588
Post-employment benefits	**421,596**	512,265
Other long-term employee benefits	**(30,065)**	125,715
Termination benefits	**-**	261,086
Total key management personnel remuneration	**5,969,464**	6,580,654

Key management personnel comprise the Directors of CSC and those Executives of CSC that have authority and responsibility for planning, directing and controlling the activities of CSC.

The total number of key management personnel that are included in the above table are 22 individuals (2019: 26 individuals).

The Directors of CSC throughout the year ended 30 June 2020 and to date of this report were:

Ariane Barker
Patricia Cross (Chair)
Melissa Donnelly (Appointed 1 July 2020)
Christopher Ellison
Nadine Flood (Term ended 30 June 2020)
Winsome Hall (Term ended 30 June 2020)
Garry Hounsell
Sunil Kemppi (Resigned 22 November 2019)
Anthony Needham
Peggy O'Neal (Term ended 30 June 2020)
Margaret Staib
Michael Vertigan
Alistair Waters (Appointed 25 February 2020)

In addition to the Directors listed above, the following executives of CSC had authority and responsibility for planning, directing and controlling the activities of CSC throughout the year ended 30 June 2020:

Paul Abraham	Executive Manager, Investment Operations
Catharina Armitage	Head of People
Peter Carrigy-Ryan	Chief Executive Officer
Robert Firth	Chief Risk Officer (Previously Head of Risk until 2 December 2019)
Philip George	Special Advisor, Member Outcomes (Commenced 3 February 2020)
Peter Jamieson	Chief Customer Officer
Adam Nettheim	Head of Customer Operations (Previously Head of Scheme Operations until 4 November 2019)
Alana Scheiffers	General Counsel (Previosuly Head of Legal & Compliance until 6 September 2019)
Alison Tarditi	Chief Investment Officer
Andy Young	Chief Operating Officer

The following changes to the executives of CSC were made subsequent to 30 June 2020:

Peter Carrigy-Ryan	Chief Executive Officer (Retired 12 July 2020)
Philip George	Chief Transformation Officer (Previously Special Advisor, Member Outcomes until 31 July 2020)
Damian Hill	Chief Executive Officer (Commenced 13 July 2020)
Andrew Matuszczak	Executive Manager, Technology (Commenced 31 August 2020)

Note 13: Related Parties Disclosure

Related Party Relationships:
Related parties to this entity are the Directors, the Executive, the Portfolio Minister and other Australian Government entities.

Transactions with Related Parties
Given the breadth of Government activities, related parties may transact with the government sector in the same capacity as ordinary citizens. Such transactions include the payment or refunds of taxes, receipt of Medicare rebates or higher education loans. These transactions have not been disclosed in this note.

The following transactions with related parties occurred during the financial year:

- Commonwealth Superannuation Corporation transacts with other Australian Government controlled entities consistent with the normal day to day business operations under normal terms and conditions, including the payment of workers compensation insurance premiums (note 2.2), and the receipt of superannuation administration fees (note 3.1).

- Refer to Note 8 Employee Provisions for details on superannuation arrangements with the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme (PSS), and the Public Sector Superannuation Accumulation Plan (PSSap).

The following key management personnel are members of the schemes for which CSC is the Trustee:
Christopher Ellison (PSSap)
Nadine Flood (PSSap)
Winsome Hall (CSS & PSS)
Sunil Kemppi (PSSap)
Anthony Needham (MSBS & PSSap)
Margaret Staib (DFRDB & PSSap)
Alistair Waters (PSSap)

Paul Abraham (PSSap)
Catharina Armitage (PSSap)
Peter Carrigy-Ryan (CSS and PSSap)
Robert Firth (PSSap)
Philip George (PSSap)
Damian Hill (PSSap)
Peter Jamieson (PSSap)
Adam Nettheim (PSSap)
Alana Scheiffers (MSBS & PSSap)
Alison Tarditi (PSSap)
Andy Young (PSSap)

During the financial year, Margaret Staib was a member of the Council of the Australian Strategic Policy Institute, which made superannuation contributions to the PSS and PSSap schemes for which CSC is the Trustee. The contributions were made at arm's length as part of a normal employer relationship on terms and conditions no more favourable than if the employer had not been a director-related entity.

Note 14: Contingent Assets and Liabilities

Quantifiable Contingencies

CSC is not aware of any events that require it to report quantifiable contingencies (2019: Nil).

Unquantifiable Contingencies

CSC is not aware of any events that require it to report unquantifiable contingencies (2019: Nil).

Accounting Policy

Contingent liabilities and contingent assets are not recognised in the statement of financial position but are reported in the notes. They may arise from uncertainty as to the existence of a liability or asset or represent an asset or liability in respect of which the amount cannot be reliably measured. Contingent assets are disclosed when settlement is probable but not virtually certain and contingent liabilities are disclosed when settlement is greater than remote.

Note 15: Financial Instruments

	2020 $'000	2019 $'000
15.1: Categories of Financial Instruments		
Financial assets measured at amortised cost		
Cash and cash equivalents	**52,806**	54,126
Trade and other receivables	**5,698**	3,702
Total financial assets at amortised cost	**58,504**	57,828
Financial liabilities measured at amortised cost		
Trade creditors and accruals	**4,229**	12,051
Other payables	**995**	507
Total financial liabilities measured at amortised cost	**5,224**	12,558

Note 15: Financial Instruments (continued)

Accounting Policy

Financial Assets

Under AASB 9 *Financial Instruments*, CSC classifies its financial assets in the following categories:

a) financial assets at fair value through profit or loss;
b) financial assets at fair value through other comprehensive income; and
c) financial assets measured at amortised cost.

The classification depends on both the CSC's business model for managing the financial assets and contractual cash flow characteristics at the time of initial recognition. Financial assets are recognised when CSC becomes a party to the contract and, as a consequence, has a legal right to receive or a legal obligation to pay cash and derecognised when the contractual rights to the cash flows from the financial asset expire or are transferred upon trade date.

Financial Assets at Amortised Cost

Financial assets included in this category need to meet two criteria:

1. the financial asset is held in order to collect the contractual cash flows; and
2. the cash flows are solely payments of principal and interest (SPPI) on the principal outstanding amount.

Amortised cost is determined using the effective interest method.

Effective Interest Method

Income is recognised on an effective interest rate basis for financial assets that are recognised at amortised cost.

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

Financial assets measured at fair value through other comprehensive income are held with the objective of both collecting contractual cash flows and selling the financial assets and the cash flows meet the SPPI test.

Any gains or losses as a result of fair value measurement or the recognition of an impairment loss allowance is recognised in other comprehensive income.

Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets are classified as financial assets at fair value through profit or loss where the financial assets either doesn't meet the criteria of financial assets held at amortised cost or at FVOCI (i.e. mandatorily held at FVTPL) or may be designated.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Impairment of Financial Assets

Financial assets are assessed for impairment at the end of each reporting period based on Expected Credit Losses, using the general approach which measures the loss allowance based on an amount equal to *lifetime expected credit losses* where risk has significantly increased, or an amount equal to *12-month expected credit losses* if risk has not increased.

The simplified approach for trade, contract and lease receivables is used. This approach always measures the loss allowance as the amount equal to the lifetime expected credit losses.

A write-off constitutes a derecognition event where the write-off directly reduces the gross carrying amount of the financial asset.

Financial Liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities. Financial liabilities are recognised and derecognised upon 'trade date'.

Financial Liabilities at Fair Value Through Profit or Loss

Financial liabilities at fair value through profit or loss are initially measured at fair value. Subsequent fair value adjustments are recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Financial Liabilities at Amortised Cost

Financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. These liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective interest basis.

Supplier and other payables are recognised at amortised cost. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).

Note 15: Financial Instruments (continued)

	2020	2019
	$'000	$'000
15.2: Net Gains or Losses on Financial Assets		
Financial assets at amortised cost		
Interest revenue	**79**	145
Impairment loss on financial instruments	**-**	(1)
Net gains on financial assets at amortised cost	**79**	144

15.3: Net Gains or Losses on Financial Liabilities

There is no net interest expense from financial liabilities not at fair value through profit or loss (2019: Nil).

Note 15: Financial Instruments (continued)

15.4: Fair Value of Financial Instruments

The carrying amount for all financial assets and liabilities is equal to their fair value in the years ending 30 June 2020 and 30 June 2019.

15.5: Credit Risk

CSC is exposed to minimal credit risk as loans and receivables are cash and trade receivables. The maximum exposure to credit risk is the risk that arises from potential default of a debtor. This amount is equal to the balance of trade receivables, interest receivable and reimbursements (excluding GST receivable) 2020: $5,698,000 (2019: $3,702,000).

Maximum Exposure to Credit Risk

	2020	2019
Financial assets carried at amount not best representing maximum exposure to credit risk	**$'000**	$'000
Cash and cash equivalents	**52,806**	54,126
Receivables for services	**5,698**	3,631
Reimbursements	**-**	71
Total financial assets carried at amount not best representing maximum exposure to credit risk	**58,504**	57,828

CSC has assessed the risk of the default on payment and has an impairment loss allowance: Nil (2019: Nil). CSC has calculated its impairment loss allowance based on its historical observed default rates, adjusted for forward-looking estimates. As a result of the COVID-19 pandemic credit risk has increased during the reporting period, however, CSC is exposed to low levels of credit risk as majority of its debtors are the ARIA Investment Trust and Commonwealth agencies who have low risk of default. CSC manages credit risk by following up debtors before the due date to ensure payment. In addition, policies and procedures are in place that guide employee debt recovery techniques. CSC holds no collateral to mitigate against credit risk.

Note 15: Financial Instruments (continued)

15.6: Liquidity Risk

CSC's financial liabilities are suppliers and other payables. The exposure to liquidity risk is based on the notion that CSC will encounter difficulty in meeting its obligations associated with financial liabilities. This is highly unlikely due to funding received for specific projects and internal policies and procedures put in place to ensure there are appropriate resources to meet CSC's financial obligations.

Maturities for non-derivative financial liabilities 2020

	On demand $'000	within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Trade creditors and accruals	-	4,229	-	-	-	4,229
Other	-	995	-	-	-	995
Total	-	5,224	-	-	-	5,224

Maturities for non-derivative financial liabilities 2019

	On demand $'000	within 1 year $'000	1 to 2 years $'000	2 to 5 years $'000	> 5 years $'000	Total $'000
Trade creditors and accruals	-	12,051	-	-	-	12,051
Other	-	507	-	-	-	507
Total	-	12,558	-	-	-	12,558

During 2019-20 the majority of CSC's activities were funded through direct charges for scheme administration services and trustee services. CSC manages its budgeted funds to ensure it has adequate funds to meet payments as they fall due. In addition, CSC has procedures in place to ensure timely payments are made when due and has no past experience of default.

15.7: Market Risk

CSC holds basic financial instruments that do not materially expose CSC to market risks, including 'interest rate risk', 'currency risk' or 'other price risk'.

Note 16: Fair Value Measurements

The following tables provide an analysis of assets and liabilities that are measured at fair value. The remaining assets and liabilities disclosed in the Statement of Financial Position do not apply the fair value hierarchy.

The different levels of the fair value hierarchy are defined below:
Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities that CSC can access at measurement date.
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly.
Level 3: Unobservable inputs for the asset or liability.

Accounting Policy

Valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not differ materially from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

An independent valuer conducted a fair value assessment of the carrying values of all leasehold improvements and property, plant and equipment at 30 June 2017.

16.1: Fair Value Measurement

	Fair value measurements at the end of the reporting period			Valuation Technique(s) and Inputs Used		
	2020 $'000	2019 $'000	**Category (Level 1, 2 or 3)[3,4,5]**	**Valuation Technique [1]**	**Inputs used**	**Sensitivity Analysis**
Non-financial assets[2]						
Leasehold improvements	**8,218**	9,712	Level 3	Depreciated replacement cost	Replacement cost new Consumed economic benefit/Obsolescence of asset	Significant movements in any of the inputs in isolation would result in a significantly different fair value measurement. A change in the assumption used for replacement cost is accompanied by a directionally similar change in the fair value of building, leasehold improvements and PP&E. A change in the assumption used for consumed economic benefit/obsolescence of asset is accompanied by a directionally opposite change in the fair value of building, leasehold improvements and PP&E.
Property, plant and equipment (PP&E)[6]	**2,955**	4,415	Level 3	Depreciated replacement cost	Replacement cost new Consumed economic benefit/Obsolescence of asset	
Total non-financial assets	**11,173**	14,127				
Total fair value measurements of assets in the Statement of Financial Position	**11,173**	14,127				

1. There were no changes in valuation technique used from previous years.
2. CSC's assets are held for operational purposes and are not held for the purposes of deriving a profit. The current use of all-non financial assets is considered their highest and best use.
3. The remaining assets and liabilities reported by CSC are not measured at fair value in the Statement of Financial Position.
4. CSC did not measure any non-financial assets at fair value on a non-recurring basis as at 30 June 2020.
5. There have been no transfers between level 1 and level 2 of the hierarchy during the year.
6. Property, plant and equipment does not include right of use asset for motor vehicles.

Note 16: Fair Value Measurements (continued)

16.1: Fair Value Measurement (continued)

Significant level 3 inputs utilised by CSC have been derived and evaluated as follows:

Consumed economic benefit/obsolescence of asset

Assets that do not transact with enough frequency or transparency to develop objective opinions of value from observable market evidence have been measured utilising the cost (depreciated replacement cost (DRC)) approach. Under the DRC approach the estimated cost to replace the asset is calculated and then adjusted to take into account its consumed economic benefit/asset obsolescence (accumulated depreciation). Consumed economic benefit/asset obsolescence has been determined based on professional judgement regarding physical, economic and external obsolescence factors relevant to the asset under consideration.

16.2: Reconciliation for Recurring Level 3 Fair Value Measurements

	Leasehold Improvements		Property, Plant and Equipment[3]		Total	
	2020	2019	**2020**	2019	**2020**	2019
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
As at 1 July	**9,712**	11,324	**4,415**	5,371	**14,127**	16,695
Total gains/(losses) recognised in net contribution by service[2]	**(1,501)**	(1,669)	**(1,685)**	(1,681)	**(3,186)**	(3,350)
Purchases	**7**	57	**225**	725	**232**	782
Total as at 30 June	**8,218**	9,712	**2,955**	4,415	**11,173**	14,127

1. CSC has applied AASB 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under AASB 117.

2. These gains/(losses) are presented in the Statement of Comprehensive income under depreciation and amortisation expense and write-down and impairment of assets.

No assets were transferred into or out of level 3 during the year.

3. Property, plant and equipment does not include right of use asset for motor vehicles.

Note 17: Aggregate Assets and Liabilites

	2020	2019
	$'000	$'000
Assets expected to be recovered in:		
No more than 12 months	**63,062**	62,436
More than 12 months	**43,424**	30,016
Total Assets	**106,486**	92,452
Liabilities expected to be settled in:		
No more than 12 months	**15,080**	20,738
More than 12 months	**31,803**	17,099
Total Liabilities	**46,883**	37,837

Note 18: Assets Held in Trust

Monetary assets

Shown below are the values of gross assets held in Trust by CSC in its capacity as Trustee of the CSS, PSS, PSSap, MSBS and ADF Super. The assets comprise units in the AIT, for which CSC is also Trustee, plus cash and cash equivalents and sundry debtors.

	2020	2019
	$'000	$'000
CSS		
Opening balance	**2,421,629**	2,788,354
Closing balance	**1,957,075**	2,421,629
PSS		
Opening balance	**21,253,268**	20,503,057
Closing balance	**20,424,132**	21,253,268
PSSap		
Opening balance	**14,690,228**	12,687,338
Closing balance	**15,556,947**	14,690,228
MSBS		
Opening balance	**10,334,286**	9,383,714
Closing balance	**10,370,122**	10,334,286
ADF Super		
Opening balance	**301,698**	136,314
Closing balance	**501,962**	301,698

Note 19: Reporting of Outcomes

	Outcome 1[1]	
	2020	2019
	$'000	$'000
Expenses		
Employees	**61,732**	59,791
Suppliers	**43,825**	44,034
Depreciation and amortisation	**9,552**	6,184
Finance costs	**573**	80
Impairment loss allowance on financial instruments	**-**	1
Write-down and impairment of assets	**290**	-
Total expenses	**115,972**	110,090
Own-source revenue		
Revenue from contracts with customers	**120,568**	114,666
Interest	**79**	145
Gains		
Other gains	**-**	459
Total own-source income	**120,647**	115,270
Assets		
Cash and cash equivalents	**52,806**	54,126
Trade and other receivables	**5,771**	3,986
Buildings	**17,162**	-
Leasehold improvements	**8,218**	9,712
Property, plant and equipment	**2,985**	4,415
Intangibles	**14,448**	15,505
Other non-financial assets	**5,096**	4,708
Total assets	**106,486**	92,452
Liabilities		
Supplier payables	**4,229**	12,051
Other payables	**2,396**	9,392
Leases	**24,062**	-
Employee provisions	**13,580**	14,124
Other provisions	**2,616**	2,270
Total liabilities	**46,883**	37,837

[1.] CSC has one outcome: Retirement and insurance benefits for scheme members and beneficiaries, including past, present and future employees of the Australian Government and other eligible employers and members of the Australian Defence Force, through investment and administration of their superannuation funds and schemes. Net costs shown included intra-government costs that were eliminated in calculating the actual Budget Outcome.

Section 14

Appendix

14 Appendix

Scheme customers and transactions

Scheme customer numbers at 30 June 2020		Scheme transactions 2019–20	$'000
CSS (excluding 1922 and PNG schemes)			
Contributors	2,986	Contributions	39,576
Deferred	3,249	**Benefits paid**	
Pensioners*	102,589	Lump sum****	186,106
Total	**108,824**	Pensions	4,294,579
PSS			
Contributors	65,565	Contributions	774,275
Preserved	95,031	**Benefits paid**	
Pensioners*	60,262	Lump sum****	537,361
Total	**220,858**	Pensions	2,078,187
PSSap			
Contributors	107,397	Contributions***	1,920,798
Preserved	31,356	**Benefits paid**	
Pensioners*	1,686	Lump sum****	675,991
Total	**140,439**	Pensions	28,326
MilitarySuper			
Contributors	41,628	Contributions***	443,123
Preserved	117,680	**Benefits paid**	
Pensioners*	20,895	Lump sum****	340,281
Total	**180,203**	Pensions	918,715
ADF Super			
Contributors	17,979	Contributions	243,962
Preserved	3,609	**Benefits paid**	16,410
Total	**21,588**		
DFRDB (excluding DFRB)			
Contributors	1,029	Customer contributions**	7,104
Preserved	-	**Benefits paid**	
Pensioners*	51,560	Lump sum****	51,137
Total	**52,589**	Pensions	1,556,926

* Pensioners figures indicate the number of pension accounts, not the number of individuals who get a pension (e.g. one account can have multiple children or spouses paid from it).

** DFRDB Contributions figures indicates customer contributions only.

*** Ancillary members are not included in either PSSap or MilitarySuper contributor figures.

**** Lump sum figures indicate lump sum amounts paid from the respective scheme Fund and from the Consolidated Revenue Fund (by the Australian Government).
1922 Scheme had 1796 pensioner accounts at 30 June 2020; pension payments in 2019–20 totalled $60.57m; PNG Scheme had 85 pensioner accounts at 30 June 2020; pension payments in 2019–20 totalled $4.53m; DFRB had 1970 pensioner accounts at 30 June 2020; pension payments in 2019–20 totalled $38.38m.

Section 15
Glossary

15 Glossary

ABN	Australian Business Number
ADF Cover Act	*Australian Defence Force Cover Act 2015*
ACTU	Australian Council of Trade Unions
ADF	Australian Defence Force
AFS licence	Australian Financial Services licence
APRA	Australian Prudential Regulation Authority
APS	Australian Public Sector
ARIA	Australian Reward Investment Alliance
ASFA	Association of Superannuation Funds of Australia
AUM	Assets under management, sometimes called funds under management (FUM), measures the total market value of all financial assets which a financial institution, such as a mutual fund, venture capital firm, or brokerage house, manages on behalf of its client and themselves
CEO	Chief Executive Officer
CIO	Chief Investment Officer
CPI	Consumer Price Index
CPSU	Community and Public Sector Union
CSC	Commonwealth Superannuation Corporation
CSCri	Commonwealth Superannuation Corporation retirement income
CSS	Commonwealth Superannuation Scheme
CSS Act	*Superannuation Act 1976*
DFRB	Defence Forces Retirement Benefits Scheme
DFRB Act	*Defence Forces Retirement Benefits Act 1948*
DFRDB	Defence Force Retirement and Death Benefits
DFRDB Act	*Defence Force Retirement and Death Benefits Act 1973*
DFSPB	*Defence Force (Superannuation) (Productivity Benefit) Determination 1988*
ESG	Environmental, social and governance
GAGSS Act	*Governance of Australian Government Superannuation Scheme Act 2011*
IFS	Industry Fund Services
IP	Income protection
MilitarySuper	Military Superannuation and Benefits Scheme, *Military Superannuation and Benefits Scheme Act 1991*
NPS	Net Promoter Score
PDS	Product Disclosure Statement

PGPA Act	*Public Governance, Performance and Accountability Act 2013*
PNG Act	*Papua New Guinea (Staffing Assistance) Act 1973*
PNG Scheme	Papua New Guinea Scheme
PRI	Principles for Responsible Investment
PSS	Public Sector Superannuation Scheme
PSS Act	*Superannuation Act 1990*
PSSap	Public Sector Superannuation accumulation plan
PSSap Act	*Superannuation Act 2005*
RSE	Registrable Superannuation Entity
RSEL	Registered Superannuation Entity licence
SIS Act	*Superannuation Industry (Supervision) Act 1993*
TPD	Total and permanent disability
1922 Act	*Superannuation Act 1922*

Section 16

Reporting Requirements

16 Reporting Requirements

Table 46. Index of CSC's annual reporting requirements

Requirements under *Governance of Australian Government Superannuation Schemes Act 2011*	
Information on the performance of CSC's functions in relation to each superannuation scheme and each superannuation fund administered by CSC (other than the 1922 Scheme, DFRB, DFRDB, DFSPB, ADF Cover and PNG) during 2019–20 as set out in GAGSS Act.	Available on pages 73–100.
Information on the general administration of the DFRDB Act, the DFRB Act, the ADF Cover Act, the PNG Act and the 1922 Scheme Act during 2019–20 as set out in GAGSS Act.	Available on pages 93–100.
Information on the performance of CSC functions in relation to the DFSPB during 2019–20.	Available on page 96.
Financial statements in respect of the management of each superannuation fund administered by CSC in a form agreed between the Minister and the CSC Board.	Available on pages 101–302

Requirements under *Public Governance Performance and Accountability Rule 2014*	
Details of the legislation establishing CSC.	Available on page 12.
A summary of the objectives and functions of CSC as set out in the establishing legislation.	Available on page 12.
A summary of the purposes of CSC as included in CSC's corporate plan for the period.	Available on pages 12–13.
The names and titles of persons holding the position of responsible Minister or Ministers during 2019–20.	Responsible Ministers during 2019–20 were: • Senator the Hon Mathias Cormann, Minister for Finance • Senator the Hon Linda Reynolds, Minister for Defence
Any directions given to CSC by a Minister under an Act/instrument during 2019–20.	N/A – no directions were given during the year.
Any government policy orders that applied in relation to CSC under section 22 of the PGPA Act.	N/A – no government policy orders applied during the year.
Explanation of non-compliance with a direction or Government policy order (this requirement is intended to assist readers understand why a corporate Commonwealth entity has acted in a particular way).	N/A – no government policy orders applied during the year.

Requirements under *Public Governance Performance and Accountability Rule 2014*	
Annual performance statements for CSC for the period in accordance with section 39(1)(b) of the PGPA Act and section 16F of the PGPA Rule 2014.	Available on page 21.
A statement of any significant issue reported to the responsible Minister under section 19(1)(e) of the PGPA Act that relates to non- compliance with the finance law in relation to CSC (an outline of the action taken to remedy the non-compliance is also required).	N/A – no significant issue was reported to the responsible Minister during the year under this section.
Information on the accountable authority, or each member of the accountable authority, of CSC in 2019–20, which include the accountable authority/member's name/s, qualifications, experience, the number of meetings attended and if a non- executive or executive member.	Available on pages 36–44.
An outline of the organisational structure of CSC (including any subsidiaries of CSC)	CSC organisational chart, page 49.
Statistics on CSC's employees including statistics on full-time employees, part-time employees, gender and staff location.	Available on pages 49–51.
An outline of the location (whether or not in Australia) of major activities or facilities of CSC.	CSC has two major office locations: Canberra and Sydney.
Information in relation to the main corporate governance practices used by CSC in 2019–20.	Available on pages 46–48.
CSC's decision-making process if: • the decision is to approve CSC paying for a good/ service from another Commonwealth entity/ company; or providing a grant to another Commonwealth entity/company; and • CSC and the other Commonwealth entity/company are related entities; and • the value of the transaction (or if there is more than one transaction, the aggregate value of the transactions) is more than $10,000 (inclusive of GST). If there is only one transaction, the value of that transaction must be included. If there is more than one transaction, the number of transactions and the aggregate value of those transactions is also required. (Two Commonwealth entities are related if an individual is a member/director of the board of both entities.)	N/A – these circumstances did not apply to CSC during the year.

Requirements under *Public Governance Performance and Accountability Rule 2014*	
Any significant activities and changes that affected the operations or structure of CSC during 2019–20. Significant activities or changes may include: • significant events such as forming or participating in the formation of a company • operational and financial results of the entity • key changes to the entity's state of affairs or principal activities; and • amendments to the entity's enabling legislation and to any other legislation directly relevant to its operation.	N/A – no significant activities during the year.

Requirements under Public Governance Performance and Accountability Rule 2014	
Particulars of judicial decisions/administrative tribunals made during the period that have had, or may have, a significant impact on the operations of CSC.	No judicial or administrative tribunal decisions had a significant effect on CSC operations.
Particulars of any report on CSC given in 2019–20 by the Auditor-General (other than a report under section 43 of the PGPA Act which deals with the Auditor-General's audit of annual financial statements); or a Committee of either House, or both Houses, of Parliament; or the Commonwealth Ombudsman; or the Office of the Australian Information Commissioner.	N/A
If the accountable authority has been unable to obtain information from a subsidiary of the entity required to be included in the annual report – an explanation of the information that was not obtained and the effect of not having this information on the report.	N/A
Information about executive remuneration.	Available on pages 52–54. See page 52 for information on CSC's remuneration policies and practices.
Details of any indemnity that applied in 2019–20 to the accountable authority, any member of the accountable authority or officer of CSC against a liability (including premiums paid, or agreed to be paid, for insurance against the authority, member or officer's liability for legal costs).	N/A – no indemnity was applied.
An index of where CSC's mandatory annual reporting requirements can be found within this annual report.	This report's requirements table, see pages 366.
Details of how CSC's Annual Report (i.e. this report) was approved and when approval was given. This report must be approved by the CSC Board or a member of the Board and must be signed by a member of the Board). A statement that the CSC Board is responsible for preparing and giving the annual report to the responsible Minister in accordance with section 46 of the PGPA Act is also required.	CSC's Board approved the report on 23 September 2020. Other details are shown on page 3.

Requirements under Public Governance Performance and Accountability Rule 2014	
CSC's Annual Report must comply with the presentation and printing standards required for documents which are to be presented to Parliament.	This requirement is met throughout the report.
CSC's Annual Report must be presented in plain English and clear design to accommodate the needs and interests of both Parliament and other persons potentially interested in CSC's report (which in specific terms means this report must be constructed in an accessible manner, with the information presented in relevant, reliable, concise, understandable and balanced way, using appropriate headings and adequate spacing, a glossary to define acronyms and technical terms, and tables, graphs, charts and diagrams instead of text wherever possible.	This requirement is met throughout the report (a HTML report version will also be available on the CSC website in late 2020 so the report content is accessible to people with a disability who are interested in CSC's report).

Index