

First State Superannuation Scheme

ABN 53 226 460 365
Financial Report
For the year ended 30 June 2019

A large, abstract graphic in the bottom left corner consisting of a dark red semi-circle and a bright red circle, resembling a stylized 'Q' or a magnifying glass.

Feel future ready

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For a Reporting Entity

First State Superannuation Scheme (ABN: 53 226 460 365)

Report by the RSE Auditor to the trustee

Opinion

We have audited the financial statements of First State Superannuation Scheme for the year ended 30 June 2019 comprising the Income Statement, Statement of Financial Position, Statement of Changes in Members Benefits, Statement of Changes in Equity/Reserves, Statement of Cash Flows and notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements present fairly, in all material aspects, in accordance with Australian Accounting Standards the financial position of First State Superannuation Scheme as at 30 June 2019 and the results of its operations, cash flows, changes in equity/reserves and changes in members' benefits for the year ended 30 June 2019.

Basis for opinion

We conducted the audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibility* section of our report. We are independent of the RSE in accordance with the auditor independence requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (The code) that are relevant to our audit of the financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the trustee for the Financial Statements

The RSE's trustee is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards 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 the trustee determines is necessary to enable the preparation and fair presentation of financial statements 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 RSE to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the trustee either intends to liquidate the RSE or cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian 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 these financial statements.

As part of an audit in accordance with the Australian Auditing Standards, we exercised professional judgement and maintained professional scepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our 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.
- Obtained 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 RSE's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the trustee.
- Concluded 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 RSE's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify our audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the RSE to cease to continue as a going concern.
- Evaluated 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.
- Communicated 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 we identified during our audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

JGorton

Joanne Gorton
Partner
Chartered Accountants
Sydney, 25 September 2019

Trustee's Statement for the year ended 30 June 2019

In the opinion of the Directors of FSS Trustee Corporation ("the Trustee") of the First State Superannuation Scheme ("the Fund"):

1. The accompanying financial statements of the First State Superannuation Scheme are properly drawn up so as to present fairly the statement of financial position of the Fund as at 30 June 2019, the income statement for the year ended 30 June 2019 and the statements of changes in member benefits, changes in equity/reserves and cash flows for the year ended on that date; and
2. The accompanying financial statements have been drawn up in accordance with Accounting Standards in Australia.

Signed in accordance with a resolution of the Board of Directors of FSS Trustee Corporation (ABN 11 118 202 672).

Signed at Melbourne this 25th day of September 2019.



Director
FSS Trustee Corporation



Director
FSS Trustee Corporation

Statement of Financial Position as at 30 June 2019

	Note	2019 \$'m	2018 \$'m
Assets			
Cash and cash equivalents		489	442
Receivables		1,098	595
Financial assets	5	101,312	73,932
Plant and equipment		1	4
Deferred tax assets	11(c)	237	230
Total assets		103,137	75,203
Liabilities			
Benefits payable		76	67
Accounts payable		1,245	342
Financial liabilities	5	3,090	1,774
Income tax payable	11(b)	-	81
Deferred tax liabilities	11(c)	1,776	1,468
Total liabilities excluding member benefits		6,187	3,732
Net assets available for members benefits		96,950	71,471
Defined contribution member liabilities	9	95,158	69,956
Defined benefit member liabilities	10	1,066	1,082
Total member liabilities		96,224	71,038
Net assets		726	433
Equity			
Reserves		635	363
Defined benefit surplus	10	91	70
Total equity		726	433

Income Statement for the year ended 30 June 2019

	Note	2019 \$'m	2018 \$'m
Investment revenue			
Interest - investments carried at fair value		533	461
Interest - bank deposits		6	5
Dividends		1,662	1,005
Distributions from unit trusts		987	842
Securities lending income		25	21
Other income		12	18
Changes in fair value of investments	7	2,792	4,510
Total revenue		<u>6,017</u>	<u>6,862</u>
Investment expenses		(323)	(268)
Administration expenses		(154)	(163)
Total expenses		<u>(477)</u>	<u>(431)</u>
Operating result before income tax expense		<u>5,540</u>	<u>6,431</u>
Income tax benefit/(expense)	11(a)	(160)	(477)
Operating result after income tax expense		<u>5,380</u>	<u>5,954</u>
Net benefits allocated to defined contribution member accounts		(5,090)	(5,876)
Net change in defined benefit member accounts		(80)	(102)
Operating result		<u>210</u>	<u>(24)</u>

Statement of Changes in Member Benefits

	Defined Contribution Member Benefits \$'m	Defined Benefit Member Benefits \$'m	Total \$'m
Opening balances as at 1 July 2017	62,291	1,097	63,388
Employer contributions	3,946	19	3,965
Member contributions	1,006	-	1,006
Transfers from other superannuation funds	1,278	-	1,278
Superannuation co-contributions	24	-	24
Income tax on contributions	(546)	(2)	(548)
Net after tax contributions	5,708	17	5,725
Benefits to members	(3,598)	(108)	(3,706)
Insurance premiums charged to members' accounts	(321)	-	(321)
Transfer (to)/from reserves	-	-	-
Net benefits allocated to members	5,876	102	5,978
Net change in member Defined Benefits	-	(26)	(26)
Closing balances as at 30 June 2018	69,956	1,082	71,038
Opening balances as at 1 July 2018	69,956	1,082	71,038
Employer contributions	4,146	16	4,162
Member contributions	996	-	996
Transfer from StatePlus Retirement Fund (Note 2)	18,653	-	18,653
Transfers from other superannuation funds	1,583	-	1,583
Superannuation co-contributions	25	-	25
Income tax on contributions	(583)	(1)	(584)
Net after tax contributions	24,820	15	24,835
Benefits to members	(4,384)	(90)	(4,474)
Insurance premiums charged to members' accounts	(324)	-	(324)
Transfer (to)/from reserves	-	-	-
Net benefits allocated to members	5,090	80	5,170
Net change in member Defined Benefits	-	(21)	(21)
Closing balances as at 30 June 2019	95,158	1,066	96,224

Statement of Changes in Equity/Reserves

	Unallocated income	Operational risk financial requirement reserve	Insurance reserve	Administration reserve	Total
	\$'m	\$'m	\$'m	\$'m	\$'m
Opening balances as at 1 July 2017	112	160	-	115	387
Operating result	(88)	18	10	36	(24)
Transfer to defined contribution member accounts	-	-	-	-	-
Transfer to defined benefit member accounts	-	-	-	-	-
Closing balances as at 30 June 2018	24	178	10	151	363
Opening balances as at 1 July 2018	24	178	10	151	363
Operating result	142	16	-	52	210
Transfer to defined contribution member accounts	-	-	-	-	-
Transfer to defined benefit member accounts	-	-	-	-	-
Transfer from StatePlus Retirement Fund (Note 2)	-	46	-	16	62
Closing balances as at 30 June 2019	166	240	10	219	635

1 The Operational Risk Financial Requirement Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the requirements of Superannuation Prudential Standard 114 Operational Risk Financial Requirement and the Fund's Operational Risk Financial Requirement Reserving Policy.

2 The Insurance Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Insurance Reserve Policy.

3 The Administration Reserve is an unallocated reserve which is maintained separately to the unitised assets of the Fund for use by the Trustee in accordance with the Trust Deed.

Statement of Cash Flows for the year ended 30 June 2019

	Note	2019 \$'m	2018 \$'m
Cash flows from operating activities			
Investment income		3,220	2,333
Investment expenses		(321)	(268)
Administration expenses		(136)	(120)
Income tax paid		(38)	(301)
Net inflows from operating activities	15	<u>2,727</u>	<u>1,644</u>
Cash flows from investing activities			
Purchase of investments		(97,388)	(67,140)
Proceeds from sale of investments		93,337	63,629
Net outflows from investing activities		<u>(4,051)</u>	<u>(3,511)</u>
Cash flows from financing activities			
Contributions received		6,160	5,897
Benefits paid		(4,465)	(3,692)
Insurance premiums paid		(324)	(322)
Net inflows from financing activities		<u>1,371</u>	<u>1,883</u>
Net increase/(decrease) in cash held		<u>47</u>	<u>16</u>
Cash at the beginning of the financial year		<u>442</u>	<u>426</u>
Cash at the end of the financial year		<u>489</u>	<u>442</u>

Notes to the Financial Statements for the year ended 30 June 2019

1. Description of the Fund

The First State Superannuation Scheme (ABN 53 226 460 365) (the Fund) is both a defined contribution and a defined benefit superannuation fund constituted by the Trust Deed dated 19 February 1999 (as amended). FSS Trustee Corporation (ABN 11 118 202 672) (the Trustee) is the trustee of the Fund. The Fund provides superannuation benefits (including income streams), and insurance benefits (where applicable) to members and their dependants or beneficiaries.

Administration of the Fund during the year was conducted by Mercer Administration Services (Australia) Pty Limited (Mercer).

State Street Australia Limited (State Street) is the Fund's custodian for investments and related cash. Mercer is the custodian for the Fund's bank accounts that process contributions and benefits. Until 28 October 2018, Mercer was the custodian of the Fund's day to day bank accounts. From that date the Fund took over operation of those bank accounts until 22 October 2018. From that date FSS Holdings Limited and its controlled entities took over operation of those bank accounts.

The principal place of business of the Fund is Level 21, 83 Clarence Street, Sydney, NSW, 2000.

2. Successor Fund Transfer - StatePlus Retirement Fund

On 30 June 2019, the Fund undertook a Successor Fund Transfer with the StatePlus Retirement Fund. StatePlus Retirement Fund provides accumulation and pension benefits with operations in Australia.

The net amount transferred \$18,653,000,000 is described as Transfer from StatePlus Retirement Fund in the Statement of Changes in Member Benefits. The assets and liabilities transferred were:

Title	\$'m
Assets	
Financial assets	20,144
Receivables	77
Liabilities	
Financial liabilities	(1,469)
Accounts payable	(14)
Deferred tax liabilities	(23)
Defined contribution member liabilities	(18,653)
	<hr/>
Net assets	62
Equity	
Reserves	62
Total equity	<hr/>

3. Basis of Preparation

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (Accounting Standards), Interpretations, the Superannuation Industry (Supervision) Act 1993 and provisions of the Trust Deed.

The financial statements were authorised for issue by the Directors on 25 September 2019. For the purpose of preparing the financial statements, the Fund is a profit for members (i.e. not-for-profit) entity.

Use of Judgements and Estimates

In the application of Accounting Standards, management is required to make judgments, estimates and assumptions about the fair market values of assets of 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.

New Standards and Interpretations adopted during the year

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

AASB 9 Financial Instruments and related amending Standards

In the current year, the Fund has applied AASB 9 *Financial Instruments* (as amended) and the related consequential amendments to other Accounting Standards that are effective for an annual period that begins on or after 1 January 2018. The Fund has not restated comparatives in accordance with the transition provisions of AASB 9. The Fund's financial assets as at 1 July 2018 have been assessed based on the facts and circumstances that existed at that date and based on that assessment the initial application of AASB 9 has not had a significant impact on the financial position and/or financial performance of the Fund.

AASB 15 Revenue from Contracts with Customers and related amending Standards

In the current year, the Fund has applied AASB 15 *Revenue from Contracts with Customers* (as amended) which is effective for an annual period that begins on or after 1 January 2018. The Fund has applied AASB 15 in accordance with the fully retrospective transitional approach using the expedient in AASB 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognise that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 July 2018. The application of AASB 15 has not had a significant impact on the financial position of the Fund and/or the amounts reported as Investment revenue in determining the financial performance of the Fund.

3. Basis of Preparation continued

Accounting Standards and interpretations issued, but not yet effective

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) is set out below:

New or revised requirement	Title	Effective Date (annual periods beginning on or after)
AASB 16	Leases	1 January 2019
<p>Effective from 1 July 2019, the Fund will adopt AASB 16 Leases. This standard removes the current distinction between operating and financing leases and requires the recognition of an asset (the right to use the lease item) and a financial liability to pay rental expenses for the lease contracts.</p> <p>The Fund has elected to use the modified retrospective approach (Option B) whereby the standard is applied from the date of application, with no requirement to restate comparative information. This approach recognises a right of use asset and a corresponding lease liability on 1 July 2019 at equal value with no adjustment to opening retained earnings required. The nature of the expenses related to the Fund's leases will also change because AASB 16 replaces the straight-line lease expense with a depreciation charge for right of use assets and an interest expense on lease liabilities.</p> <p>The impact of applying this approach on the financial statements has been assessed as follows:</p> <ul style="list-style-type: none"> • Lease liabilities (equal to the present value of lease payments) of \$23,000,000 to be recognised on the Statement of Financial Position on 1 July 2019 • Right of use lease assets of \$23,000,000 to be recognised on the Statement of Financial Position on 1 July 2019 • Additional lease related expenses of \$700,000 for year ended 30 June 2020 in the Statement of Profit and Loss and Other Comprehensive Income Statement 		

A number of additional Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. The reported results and position of the Fund will not change on adoption of these pronouncements as they do not result in any changes to the Fund's existing accounting policies. Adoption will, however, result in changes to information currently disclosed in the financial statements. The Fund does not intend to adopt any of these pronouncements before their effective dates.

4. Significant Accounting Policies

The Fund's accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2019 and the comparative information presented in these financial statements for the year ended 30 June 2018.

(a) Cash and cash equivalents

Cash and cash equivalents include deposits held at call with a bank or financial institution and highly liquid investments with short periods to maturity which are readily convertible to cash and which are subject to insignificant risk of changes in value.

(b) Consolidation

Entities that meet the definition of an investment entity within AASB 10 Consolidated Financial Statements are required to measure their controlled entities at fair value through profit or loss rather than consolidate them. The Fund meets the definition of an investment entity and accounts for controlled entities in this way.

(c) Financial assets

The Fund's investments are described as Financial assets and are classified as at fair value through profit or loss (FVTPL).

A financial asset is designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract and the entire combined contract (asset or liability) is designated as at FVTPL.

4. Significant Accounting Policies continued

Fair values of financial assets are determined as follows:

- Listed securities, foreign securities quoted on a recognised stock exchange, derivative financial instruments and government and other fixed interest securities are stated at market quotations as at the reporting date;
- Unit trust, and managed fund investments are stated at the redemption price quoted by the trust managers as at the reporting date;
- Unlisted securities are stated at a valuation based on the latest available advice of the Fund's investment managers as at the reporting date.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement being recognised in the Income Statement.

(d) Financial liabilities

The Fund's Financial liabilities are classified as at FVTPL.

A financial liability is designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Fund's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract and the entire combined contract (asset or liability) is designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the Income Statement.

(e) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the Income Statement in the period in which they arise.

4. Significant Accounting Policies continued

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- Where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- For receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

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 as operating cash flows.

(g) Benefits paid and payable

The Fund recognises a benefit to be payable when a member's valid withdrawal notice is received, and it has been approved by the Trustee in accordance with the Fund's Trust Deed. Benefits paid and payable are measured at their nominal values as prescribed by the Fund's Trust Deed.

Benefits payable represent amounts which have not been paid where a valid withdrawal notice has been received.

(h) Payables

Accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services and are recognised at their nominal value which is equivalent to fair value.

4. Significant Accounting Policies continued

(i) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax 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 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 arising from 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 Fund 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 Fund intends to settle its tax assets and liabilities when due on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or benefit in the Income Statement.

Some aspects of tax legislation and rulings require interpretation and necessitate reasonable assumptions or allocations to be made in determining the provision for income taxes. There are some tax calculations made during the ordinary course of business which may be uncertain if assumptions or allocations are subsequently challenged. Because of its size and the amount of tax paid, the fund is subject to regular reviews by the Australian Taxation Office. The fund actively monitors and assesses the impacts of those reviews, including making appropriate tax provisions for potential tax exposures. Where the final outcome of a tax authority review is different from the amounts that were initially recorded, such differences may impact the current and deferred tax provisions in the period in which such determination is made.

4. Significant Accounting Policies continued

(j) Revenue recognition and measurement

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised to the extent to which it is probable that economic benefits will flow to the Fund and the amount of revenue can be reliably measured.

The following recognition criteria relates to the different items of revenues the Fund receives:

Investment Revenue

Interest revenue

Revenue on money market and fixed interest securities is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount. If interest is not received at balance sheet date, the balance is reflected in the Statement of Financial Position as a receivable.

Dividend revenue

Revenue from dividends is recognised on the date the shares are quoted ex-dividend. If the dividend is not received at balance sheet date, the balance is reflected in the Statement of Financial Position as a receivable.

Changes in fair value of investments

Changes in the fair value of investments are recognised as revenue 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).

Changes in fair value of liabilities

Changes in the fair value of financial liabilities are recognised as revenue (or expense) and are determined as the difference between the fair value at year end or consideration paid (if settled during the year) and the fair value as at the prior year end or amount originally incurred (if the financial liabilities were incurred during the period).

Distributions from unit trusts

Distribution income is recognised on a receivable basis on the date the unit value is quoted ex-distribution. Where the distribution is not received at reporting date, the balance is reflected in the Statement of Financial Position.

(k) Superannuation contributions (surcharge) tax

The Trustee recognises amounts paid or payable in respect of the surcharge tax as an expense of the Fund. The expense (and any corresponding liability) is brought to account in the period in which the assessments are received by the Trustee and are properly payable by the Fund. All amounts paid are allocated back against the member accounts to which the surcharge relates.

5. Financial Instruments

(a) Financial instruments management

The investments of the Fund are predominantly managed by specialist sector fund managers who are required to invest the assets allocated for management in accordance with the terms of a written investment management agreement. The appointment of these managers is appropriate for the Fund and is in accordance with the Fund’s investment strategy. Some of the investments of the Fund are managed by the internal investment staff.

(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 revenues and expenses are recognised, in respect of each class of financial asset are disclosed in Note 3 to the financial statements.

(c) Fair value measurements recognised in the statement of financial position

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

5. Financial Instruments continued

30 June 2019	Level 1	Level 2	Level 3	Total
	\$'m	\$'m	\$'m	\$'m
Financial assets				
Cash	1,560	-	-	1,560
Discounted securities	4,440	3,259	-	7,699
Fixed interest	6,323	6,879	471	13,673
Equities	34,879	25	1,696	36,600
Unit trusts	3,239	21,297	16,512	41,048
Derivatives	52	680	-	732
Total Financial Assets	50,493	32,140	18,679	101,312
Financial liabilities				
Fixed interest securities subject to repurchase agreements	927	-	-	927
Derivatives	28	2,135	-	2,163
Total Financial Liabilities	955	2,135	-	3,090

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended 30 June 2019.

30 June 2018	Level 1	Level 2	Level 3	Total
	\$'m	\$'m	\$'m	\$'m
Financial assets				
Cash	2,228	-	-	2,228
Discounted securities	3,601	4,474	-	8,075
Fixed interest	4,969	6,690	414	12,073
Equities	32,789	-	1,590	34,379
Unit trusts	3,324	1,727	11,695	16,746
Derivatives	24	407	-	431
Total Financial Assets	46,935	13,298	13,699	73,932
Financial liabilities				
Fixed interest securities subject to repurchase agreements	1,040	-	-	1,040
Derivatives	25	709	-	734
Total Financial Liabilities	1,065	709	-	1,774

5. Financial Instruments continued

The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/financial liabilities	Fair value as at 30 June 2019 \$'m	Fair value as at 30 June 2018 \$'m	Fair Value Hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Equities	36,600	34,739	1,2,3	Quoted bid prices in an active market, X% classified as Level 1	N/A	N/A
Unit trusts	41,048	16,746	1,2,3	Level 1 - Quoted bid prices in an active market Level 2 - Derived from inputs other than quoted prices Level 3 - Valuation based on advice of the Fund's investment managers as at the reporting date.	Level 3 generally based on economic and business assumptions in the valuation models	N/A
Fixed interest	13,673	12,073	1,2,3	Quoted bid prices in an active market.	N/A	N/A
Discounted securities	7,699	8,075	1,2	Quoted bid prices in an active market.	N/A	N/A
Futures and options (net)	75	13	1,2	Exchange traded futures or options are stated at the last quoted bid or sale price relevant to close out the contract as at the reporting date less any transactional costs, over-the-counter options are stated using the quotations of an independent broker or where unavailable by the responsible entity using an option pricing model using independent market data less any transactional costs.	N/A	N/A
Foreign exchange (net)	(42)	(286)	2	Foreign exchange contracts are stated at the exchange rate current at reporting date less any transaction costs	N/A	N/A
Swaps & warrants (net)	5	(30)	2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of the counterparties.	N/A	N/A

5. Financial Instruments continued

Reconciliation of Level 3 fair value measurements of financial assets

Level 3 Fair Value Reconciliation	Fixed Interest \$'m	Equities \$'m	Unit Trusts \$'m	Total \$'m
Balanced at 1 July 2018	414	1,590	11,695	13,699
Purchases	-	246	4,495	4,741
Redemptions/disposals	-	(9)	(868)	(877)
Transfers into Level 3	-	-	-	-
Transfer out of Level 3 ¹	-	(14)	-	(14)
Total gains/(losses) in Income Statement	57	(117)	1,190	1,130
Balance at 30 June 2019	471	1,696	16,512	18,679
Balanced at 1 July 2017	559	1,584	10,167	12,310
Purchases	-	104	2,632	2,736
Redemptions/disposals	(168)	(12)	(2,063)	(2,243)
Transfers into Level 3 ¹	-	1	-	1
Transfer out of Level 3 ²	-	-	-	-
Total gains/(losses) in Income Statement	23	(87)	959	895
Balance at 30 June 2018	414	1,590	11,695	13,699

Note 1: The transfer of Equities out of level 3 is due to increased frequency of valuations.

The following table shows the sensitivity of the fair values of the Level 3 assets. The expected volatility forecasts are derived primarily from the last several years of realised values with adjustments based on an independent consultant's judgement and experience.

Level 3 Asset Sensitivity	Volatility of investment sector returns %		Effect on changes in net assets and net assets available to pay benefits	
	2019	2018	2019 \$'m	2018 \$'m
Fixed Interest	6%	4%	26	18
Equities	16%	15%	265	240
Unit Trusts	10%	8%	1,585	982

6. Financial Risk Management

Financial risk management objectives

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

An enterprise-wide Risk Management Framework (RMF) is in place to manage material risks and ensure appropriate levels of oversight are in place.

The RMF identifies the Trustee's policies and procedures, processes and controls that comprise its risk management and control systems. These systems address all material risks, financial and non-financial, likely to be faced by the Fund. Annually, the Trustee certifies to the Australian Prudential Regulatory Authority (APRA) that adequate strategies have been put in place to monitor those risks, that the Trustee has systems in place to ensure compliance with legislative and prudential requirements and the Trustee has satisfied itself as to compliance with the RMF.

The Fund has an Investment Governance Framework (IGF) established by the Trustee. The IGF sets out the Trustee's policies for the selection, management and monitoring of investments for the Fund. For each investment option offered by the Fund, the Trustee seeks to maximise the returns derived for the level of risk to which the Fund is exposed.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Fund's policies and procedures put in place to mitigate the Fund's exposure to market risk are detailed in the Fund's investment policies and the RMF. There has been no change in the Fund's exposure to market risks or manner in which it manages and measures the risk.

Foreign currency risk management

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

The Fund undertakes certain investment transactions denominated in foreign currencies, hence it is exposed to the effects of exchange rate fluctuations. Exchange rate exposures are managed within approved policy parameters. This exchange rate exposure is managed in line with the Fund's investment policies. The Fund's overall policy in foreign currency risk management remains unchanged from the previous reporting period.

6. Financial Risk Management continued

The Fund's total exposure (in Australian dollars) to fluctuations in foreign currency exchange at the reporting date was as follows:

Year ended	USD	EUR	GBP	Others
30 June 2019	\$'m	\$'m	\$'m	\$'m
Assets	25,883	4,200	3,602	4,524
Liabilities	(6,054)	(99)	(385)	(123)
	19,830	4,101	3,216	4,401
Forward exchange contracts	(13,438)	(2,894)	(2,642)	(1,713)
Net exposure	6,392	1,207	575	2,688

Year ended	USD	EUR	GBP	Others
30 June 2018	\$'m	\$'m	\$'m	\$'m
Assets	21,809	4,090	3,326	4,814
Liabilities	(3,289)	(302)	(363)	(670)
	18,520	3,788	2,963	4,144
Forward exchange contracts	(12,259)	(2,615)	(2,670)	(1,551)
Net exposure	6,260	1,174	293	2,593

Foreign currency risk management

The following table details the Fund's sensitivity to a 18% (2018: 17%) increase or decrease in the Australian dollar against the relevant foreign currencies. 18% represents the assessment of the possible change in foreign exchange rates. The expected volatility forecasts are derived primarily from the last several years of actual foreign currency movements combined with adjustments based on an independent consultant's judgement and experience.

The sensitivity analysis includes only outstanding foreign currency denominated items and adjusts their translation at the period end for a 18% (2018: 17%) change in foreign currency rates. The analysis assumes all currencies fluctuate in the same direction at the same time. The number is positive when the Australian dollar weakens against the respective currency, causing assets available to pay benefits to increase. Conversely the number is negative when the Australian dollar strengthens causing assets in foreign currencies to fall in value.

Currency Risk	% change in A\$		Effect on net assets and net assets available to pay benefits	
	2019	2018	2019 \$'m	2018 \$'m
	18%	17%	1,914	1,728

6. Financial Risk Management continued

Interest rate risk management

The Fund's activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the Fund to cash flow risk, whereas fixed interest rate instruments expose the Fund to fair value interest rate risk. Exposures to interest rate risk are monitored.

Year ended 30 June 2019	Floating interest rate \$'m	Fixed interest rate \$'m	Non-interest bearing \$'m	Total \$'m
Assets				
Cash and cash equivalents	2,049	-	-	2,049
Receivables	-	-	1,098	1,098
Plant & equipment	-	-	1	1
Unit trusts	-	-	41,048	41,048
Fixed interest	5,029	8,643	1	13,673
Equities	-	-	36,600	36,600
Discounted securities	1,894	5,805	-	7,699
Derivative financial instruments	13	200	519	732
Total financial assets	8,985	14,648	79,267	102,900
Liabilities				
Payables	-	-	1,321	1,321
Derivative financial instruments	179	1,484	500	2,163
Fixed interest securities subject to repurchase agreements	-	927	-	927
Total financial liabilities	179	2,411	1,821	4,411
Net financial assets	8,806	12,237	77,446	98,489

6. Financial Risk Management continued

Interest rate risk management continued

Year ended 30 June 2018	Floating interest rate \$'m	Fixed interest rate \$'m	Non-interest bearing \$'m	Total \$'m
Assets				
Cash and cash equivalents	2,670	-	-	2,670
Receivables	-	-	595	595
Plant & equipment	-	-	4	4
Unit trusts	-	-	16,746	16,746
Fixed interest	4,321	7,752	-	12,073
Equities	-	-	34,379	34,379
Discounted securities	7,969	106	-	8,075
Derivative financial instruments	12	55	364	431
Total financial assets	14,972	7,913	52,088	74,973
Liabilities				
Payables	-	-	409	409
Derivative financial instruments	65	24	645	734
Fixed interest securities subject to repurchase agreements	-	1,040	-	1,040
Total financial liabilities	65	1,064	1,054	2,183
Net financial assets	14,907	6,849	51,034	72,790

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. It is assumed that the basis point change occurs as at the reporting date. The interest rate risk sensitivity analysis calculates the impact on the market value of the fixed interest portfolio of a 100 basis points term structure increase in every market in which the fund holds fixed interest securities, based on the duration of the Fund's fixed interest portfolio as at the reporting date. The possible increase or decrease in fixed interest rates of 100 basis points (2018: 100 basis points) are estimated to result in the following impact on the fixed interest portfolio's contribution to the consolidated operating result as illustrated in the following table:

6. Financial Risk Management continued

Interest Rate Risk	Change in variable		Effect on change in net assets and net assets available to pay benefits	
	2019 bps	2018 bps	2019 \$'m	2018 \$'m
Interest rate risk	+100	+100	(690)	(351)
	-100	-100	690	351

Other market risks (Price risk)

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund has investments in unit trusts which expose it to price risk. In addition, the Fund holds equity instruments which expose it to equity price risk.

As the majority of the Fund's financial instruments are carried at fair value with changes in fair value recognised in the Income Statement, all changes in market conditions will directly affect net investment income.

Price risk is mitigated by constructing a diversified portfolio of instruments traded on various markets in accordance with the Fund's investment strategy.

The following table illustrates the effect on changes in net assets and net assets available to pay benefits from possible changes in market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date. For a negative change in the variable there would be an equal and opposite impact on the increase in net assets and on net assets available to pay benefits and the balances below would be negative.

The expected volatility estimates are derived primarily from the last several years of realised values with adjustments based on an independent consultant's judgement and experience.

6. Financial Risk Management continued

Market Price Risk	Volatility of investment sector returns %		Effect on change in net assets and net assets available to pay benefits	
	2019	2018	2019 \$'m	2018 \$'m
Discounted securities	6%	4%	423	347
Fixed interest	6%	4%	749	519
Equities	16%	15%	5,710	5,191
Unit trusts	10%	8%	3,941	1,407

(b) Credit Risk

Credit risk is the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Fund. The Fund has counterparty credit procedures in place and the exposure to credit risk is monitored on an ongoing basis in accordance with the Statement of Investment Objectives and Policy.

Substantially all of the cash held by the Fund is held by State Street and Commonwealth Bank of Australia (CBA). The Fund monitors its credit risk by monitoring the credit quality and financial positions of the banks through regular analysis of their financial reports.

Unsettled investment sales are transactions with investment managers that are awaiting settlement and are included in receivables. The credit risk relating to unsettled transactions is considered small due to the short settlement period involved and the high credit quality of the brokers used. The ageing of unsettled trades is monitored.

6. Financial Risk Management continued

(b) Credit Risk continued

State Street is the custodian of all the Fund's investment assets and associated liquid assets. State Street provides services including physical custody and safekeeping of assets, settlement of trades, collection of dividends and accounting for investment transactions. Mercer is the custodian for the Fund's CBA accounts and performs transactional and accounting services. Mercer is also the Fund's administrator of member services. The credit quality and financial positions of the custodians is monitored through regular analysis of their financial reports.

The Fund participates in securities lending via the agency securities lending programme of its custodian, State Street, whereby the Fund has a principal relationship with the borrower. All loans of securities are subject to collateral backing. The market value of securities on loan at 30 June 2019 was \$5,375m (2018: \$5,078m).

The Fund does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Except for security lending arrangements and OTC derivatives, the Fund holds no collateral security and has no credit enhancement arrangements for any financial assets held. No financial assets are considered past due as all payments are considered recoverable when contractually due. The table below shows the maximum exposure to credit risk at the reporting date. The carrying amounts of these financial assets represent the maximum credit risk exposure at the reporting date.

The Fund's maximum aggregate exposure to credit risk is as follows:

Aggregate Credit Risk Exposure	2019 \$'m	2018 \$'m
Cash and cash equivalents	2,049	2,670
Discounted securities	7,699	8,075
Fixed interest securities	13,673	12,073
Derivatives	732	431
Receivables	1,098	595
	<u>25,251</u>	<u>23,844</u>

(c) Liquidity risk

The Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. The Fund allows members to withdraw benefits in accordance with the appropriate requirements and it is therefore exposed to the liquidity risk of meeting members' legitimate withdrawal requests at any time. The majority of the Fund's listed securities and unit trust investments are considered to be readily realisable. The Fund's financial instruments include investments in unlisted investments and private equity which are not traded in an organised market and that generally may be illiquid. As a result, in extraordinary circumstances, there is a risk that the Fund may not be able to liquidate all of these investments at their net market value in order to meet all of its liquidity requirements.

The Fund's framework for managing liquidity risk considers the following key elements:

1. understanding the drivers behind liquidity needs;
2. setting liquidity parameters;
3. implementing effective investment structures;
4. monitoring liquidity;
5. regularly conducting liquidity stress testing; and
6. maintaining a Liquidity Management Plan.

6. Financial Risk Management continued

(c) Liquidity risk continued

The strategic asset allocation of each investment option is the main determinant of its overall risk and return characteristics, including its liquidity profile. Hence, FTC explicitly considers the liquidity characteristics of each asset class before setting the strategic asset allocations and ranges for the individual investment options offered to members. In setting the liquidity classification for each asset class, FTC tailors the liquidity classification to the characteristics of the underlying assets themselves, rather than applying a standardised approach.

It is expected that each investment option would be able to meet its cashflow requirements on a stand-alone basis. Hence, the proportion of illiquid assets held at an investment option level is a key parameter considered in relation to liquidity risk; an increasing proportion of illiquid assets will, by definition, reduce the overall level of liquidity. Overall, the following principles apply:

- a majority of assets are held in highly liquid securities, many exchange-traded, which can be fully liquidated at short notice if necessary;
- all investment options have a strategic allocation to cash, which is highly liquid, and could be drawn upon to manage cash flow requirements; and
- unlisted securities are regularly reviewed for valuation accuracy.

The Fund has capital commitments in relation to property, private equity and infrastructure investment activities. Note 12 sets out the commitments contracted for at the reporting date but not recognised as liabilities in the tables below.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows.

6. Financial Risk Management continued

(c) Liquidity risk continued

Year ended 30 June 2019	Less than one month \$'m	One to twelve months \$'m	Over one year \$'m	Total \$'m
Liability Defined contribution member liabilities ¹	95,158	-	-	95,158
Liability Defined benefit member liabilities ¹	1,066	-	-	1,066
Benefits payable	76	-	-	76
Accounts payable	1,236	9	-	1,245
Financial liabilities	1,027	155	1,908	3,090
Current tax liabilities	-	-	-	-
Total Financial Liabilities	98,563	164	1,908	100,635

1. Amount is considered less than one month as it is based on the earliest period when a beneficiary may claim their benefit.

Year ended 30 June 2018	Less than one month \$'m	One to twelve months \$'m	Over one year \$'m	Total \$'m
Liability Defined contribution member liabilities ¹	69,956	-	-	69,956
Liability Defined benefit member liabilities ¹	1,082	-	-	1,082
Benefits payable	67	-	-	67
Accounts payable	342	-	-	342
Financial liabilities	1,266	339	169	1,774
Current tax liabilities	81	-	-	81
Total Financial Liabilities	72,794	339	169	73,702

Capital risk management

The Operating Risk Financial Requirement Reserve has been established in accordance with SPS 114 Operational Risk Financial Requirement - refer Statement of Changes in Equity/reserves. The purpose of this operational risk reserve is to provide funding for incidents where material losses may arise from operational risk (as opposed to investment risk) relating to the Fund. The level of reserve is determined by the Trustee based on an assessment of the risks faced by the Fund.

7. Changes in Net Market Value of Investments

	2019 \$'m	2018 \$'m
Investments held at reporting date:		
Cash	(14)	-
Discounted securities	-	4
Fixed interest	489	147
Equities	1,015	2,356
Unit trusts	1,087	828
Derivatives	309	(505)
Total unrealised changes in fair value	2,886	2,831
Investments realised during the reporting period:		
Cash	10	8
Discounted securities	71	64
Fixed interest	118	(47)
Equities	699	1,649
Unit trusts	(63)	243
Derivatives	(929)	(249)
Total realised changes in fair value	(94)	1,679
Total changes in fair value of Investments	2,792	4,510

8. Insurance arrangements

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

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

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

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

9. 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 daily basis for movements in investment markets. The Fund's management of the investment market risks is as disclosed within note 5.

Defined contribution members' liabilities are fully vested as at 30 June 2019 and 30 June 2018.

10. Defined benefit member liabilities

The Fund engages qualified actuaries annually to measure defined benefit member liabilities. The Fund has no information that would lead it to adjust the factors or assumptions used by the actuary for discount rate, salary adjustment rate, resignations and mortality.

The Trustee manages liquidity risk by having sufficient liquid funds to meet member pension payments and redemptions within the time frames established by the Trustee and communicated to members.

The summary financial position of the Health Super DB Fund, a sub-fund of the First State Superannuation Scheme, is per the table below:

Accrued Benefits	2019 \$'m	2018 \$'m
Net assets available to pay Defined benefits as at 30 June	1,157	1,152
Accrued benefits - Defined benefits as at 30 June	1,066	1,082
Defined benefits surplus	91	70

Vested Benefits	2019 \$'m	2018 \$'m
Net assets available to pay Defined benefits as at 30 June	1,157	1,152
Vested benefits - Defined benefits as at 30 June	1,071	1,088
Defined benefits surplus	86	64
Vested Benefits Index at 30 June	108.0%	105.9%

10. Defined benefit member liabilities continued

As at 30 June 2019, the net assets of the DB Fund exceed the vested benefits; the DB Fund is therefore in a satisfactory financial position as at the reporting date.

Mercer Consulting (Australia) Pty Ltd is the Independent Actuary for the DB Fund. The Independent Actuary has reviewed and considered the rate of contributions for active defined benefit members and expects the DB Fund to maintain a satisfactory financial position over the next three years. The employers are contributing at the amount recommended by the actuary.

11. Income Tax

Income tax recognised in profit or loss	2019 \$'m	2018 \$'m
Tax expense comprises:		
Current tax expense	153	(201)
Over/(Under) provision in prior year	(35)	50
Deferred tax liability relating to the origination and reversal of temporary differences	(278)	(326)
Total tax (expense)/benefit	(160)	(477)

The prime facie income tax expense on pre-tax changes in net assets reconciles to the income tax expense in the financial statements as follows:

(a) Income Tax Expense Reconciliation	2019 \$'m	2018 \$'m
Operating result before income tax	5,540	6,431
Income tax expense calculated at 15% (2018: 15%)	(831)	(965)
Non-assessable investment income	711	429
Non-deductible expenses	(44)	(37)
Exempt pension income	39	46
Over/(Under) provision in prior year	(35)	50
Total tax (expense)/benefit	(160)	(477)

The tax rate used in the above reconciliation is the superannuation tax rate of 15% payable by Australian superannuation funds on taxable profits under Australian taxation law.

(b) Current Tax Liabilities	2019 \$'m	2018 \$'m
Current tax liabilities are attributable to the following		
Current tax payable - income tax payable	-	81

11. Income Tax continued

(c) Deferred tax balances Recognised deferred tax assets and liabilities					
	2017	Charged to income	2018	Charged to income	2019
	\$'m	\$'m	\$'m	\$'m	\$'m
Deferred tax assets and liabilities are attributable to the following:					
Deferred tax assets					
Unrealised capital losses	164	(3)	161	41	202
Unrealised forward foreign exchange and other losses	3	28	31	(26)	5
Administration expenses accrued but not incurred	8	-	8	-	8
Realised capital losses	-	-	-	-	-
Accrued franking credits	34	(4)	30	(8)	22
Total Deferred Tax Assets	209	21	230	7	237
Deferred tax liabilities					
Unrealised capital gains	1,064	358	1,422	239	1,684
Unrealised forward foreign exchange gains	41	(10)	31	49	80
Accrued income	16	(1)	15	(3)	12
Total Deferred Tax Liabilities	1,121	347	1,468	285	1,776

12. Operating Leases

Commitments in relation to non-cancellable operating leases contracted for at balance date but not provided for in the financial statements (excluding GST).

Operating Lease Commitments	2019 \$'m	2018 \$'m
Payable not later than one year	7	8
Payable later than one year but not later than five years	60	20
Payable later than five years	100	1
	<u>167</u>	<u>29</u>

13. Commitments for Expenditure

The Fund has capital commitments in relation to property, private equity and infrastructure investment activities. Commitments contracted for at the reporting date but not recognised as liabilities are as follows:

Capital Expenditure Commitments	2019 \$'m	2018 \$'m
Investment commitments		
Property, private equity and infrastructure	<u>4,192</u>	<u>3,577</u>

14. Contingent Liabilities

The Fund has contingent liabilities under subscription agreements with controlled entities as follows:

Contingent Liabilities	2019 \$'m	2018 \$'m
Property, private equity and infrastructure	<u>2,176</u>	<u>155</u>

The agreements are only activated in the event a controlled entity is unable to repay its borrowings and allows the controlled entity to compel the Fund to subscribe for sufficient equity to repay its borrowings.

15. Notes to the Cash Flow Statement

Reconciliation of net inflows from operating activities to operating result after income tax.

	2019 \$'m	2018 \$'m
Operating result after income tax	5,379	5,954
Changes in fair value of investments	(2,792)	(4,510)
Decrease in receivables	(1)	12
Decrease/(increase) in deferred tax asset	(7)	(21)
Increase in accounts payable	18	10
Increase/(decrease) in provision for deferred tax	285	347
Increase/(decrease) in provision for tax	(757)	(148)
Net inflows of cash from operating activities	2,125	1,644

16. Related Parties

The Trustee of the First State Superannuation Scheme is FSS Trustee Corporation (ABN 11 118 202 672).

Key Management Personnel

The following were key management personnel of the Fund. No Executive is a Director of the Trustee.

Non-Executive Directors of the Trustee	
Mr N Cochrane	Independent Director
Mr G Bunney	Employer representative, Leading Age Services Australia
Ms P Carew	Member representative, Australian Nursing and Midwifery Federation (VIC branch)
Ms S Carter	Employer representative ¹
Ms J Furlan	Employer representative ¹
Mr R Harty	Member representative, Unions NSW
Dr R Kelly	Member representative, Health Services Union
Mr R Kelly	Employer representative ¹
Mr B Lipscombe	Member representative, Unions NSW
Mr M Morey	Member representative, Unions NSW (appointed 22 May 2019)
Ms R Ramwell	Employer representative ¹ (appointed 6 May 2019)
Ms N Steer	Member representative, Unions NSW
Mr T Symondson	Employer representative, Victorian Healthcare Association
Mr M Lennon	Member representative, Unions NSW (resigned 31 January 2019)
Ms P Smith	Employer representative ¹ (resigned 9 April 2019)
	¹ Jointly appointed by the Secretary, NSW Department of Premier and Cabinet and the Secretary of the Treasury, NSW.

Executives	
Ms D Stewart	Chief Executive Officer (appointed 1 December 2018)
Ms J Brennan	Chief Operating Officer (appointed 8 April 2019)
Mr R Elliott	Group Executive, Finance Strategy & Transformation
Mr D Graham	Chief Investment Officer
Ms S Holden	Group Executive, Member Growth (acting) (appointed 4 April 2019)
Ms S Thurman	Group Executive, Risk & Compliance
Mr M Dwyer	Chief Executive Officer (retired 30 November 2018)
Mr G McAliece	Chief Operating Officer (retired 8 April 2019)

16. Related Parties continued

The key management personnel compensation in relation to services to the Fund is as follows:

KMP Compensation	2019 \$	2018 \$
Short term employee benefits, non-executive Directors' and Executives' salaries	6,096,864	4,832,199
Post-employment benefits, superannuation contributions made on behalf of non-executive Directors and Executives	219,421	247,781
Other long-term employee benefits, long service leave expenses for Executives	441,437	484,762
Total Compensation	6,757,722	5,564,742

The fees or salaries provided to Directors include superannuation fund contributions and fees received for acting as a Director or a member of a committee.

The membership terms and conditions for those Directors and Executives who are members of the Fund are the same as those available to other members of the Fund.

Where any of the Trustee's Directors are Directors, Consultants or Executive Officers of, or otherwise related to, an entity with which the Fund transacts, those transactions are conducted on an arms-length basis, under normal commercial terms and conditions. The Trustee regularly updates its Conflicts Registers and ensures any conflicting interest is appropriately managed by, for example, the conflicted Director declaring their interest to the meeting, the Director being requested not to participate in the discussion, or the Director absenting himself or herself from the discussion.

The Trustee is reimbursed by the Fund, on a cost recovery basis, for the remuneration paid to Directors. Details of transactions between the Fund and its Trustee are set out below:

FSS Trustee Corporation	2019 \$'000	2018 \$'000
Reimbursement to the Trustee for the remuneration paid to Directors	1,959	2,218
Amounts owed to the Trustee	(55)	(64)

Details of transactions between the Fund and its controlled entities are set out below:

First State Super Financial Services Pty Ltd	2019 \$'000	2018 \$'000
Recovery of the cost of resources used in the provision of advice	1,794	15,072
Provision of general and limited advice to members	17	2,029
Amounts received by the Fund for GST payable	111	1,508
Amounts paid by the Fund for GST receivable	(4)	(3)

Member financial planning services are provided on an arm's-length basis.

Effective from 1 January 2014, the Company entered into a tax funding agreement and a tax sharing agreement with the Fund for GST. The Fund is the representative member of the GST group. The Company reimburses the Fund for any GST paid and is reimbursed by the Fund for GST refunded.

16. Related Parties continued

State Super Financial Services Australia Limited	2019	2018
	\$'000	\$'000
Recovery of costs	8,476	6,103

The Fund is reimbursed by State Super Financial Services Australia Limited for the cost of services provided to that entity.

Details of amounts owed by/to controlled entities at balance date are set out below:

	2019	2018
	\$'000	\$'000
Owed by:		
First State Super Financial Services Pty Ltd	-	1,530
State Super Financial Services Australia Limited	1,557	666
Owed to:		
First State Super Financial Services Pty Ltd	(2)	(3,824)
State Super Financial Services Australia Limited	(3,143)	-

The amounts outstanding are unsecured and will be settled in cash. No expense has been recognised in the current or prior periods for bad or doubtful debts owed by related parties.

17. Controlled Entities

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2019 %	2018 %	2019 \$'m	2018 \$'m
Adamantem Cap Fund I Trust 1B	Australia	100	79	52	97
Adamantem Cap Fund I Trust 1D	Australia	67	100	17	32
AE-GJC Funding LP	United States of America	100	100	-	5
AE-GJC Funding Blocker One, Inc	United States of America	100	100	-	-
Allegro Fund II Trust A	Australia	59	59	6	13
Allegro Experience Australia Co-Investment Trust	Australia	83	83	-	-
Allegro Fund III Trust C	Australia	100	100	50	58
Allegro Fund III (FSS) Side Car	Australia	100	100	18	-
Altis Real Estate Trust	Australia	100	100	-	-
ALTRAC Light Rail Holdings 2 Pty Ltd	Australia	100	100	-	-
Bain Capital Credit Managed Account (FSS) LP	United States of America	100	100	-	-
Blackbird Ventures Follow-On Fund Trust	Australia	71	71	4	4
Blackbird FSS Co-investment Trust	Australia	100	100	-	-
Cape Bailey Trust	Australia	100	100	-	-
Continuity Capital Private Equity Fund No. 1	Australia	100	100	-	-
Crescent V Co Investor Trust 1	Australia	74	74	-	-
Crescent V Co Investor Trust 2	Australia	82	82	-	-
Derby Servtec Energia LP	United States of America	100	100	198	197

17. Controlled Entities continued

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2019 %	2018 %	2019 \$'m	2018 \$'m
Equis Evergreen LP	Cayman Islands	100	100	54	183
First State Super Financial Services Pty Ltd	Australia	100	100	-	-
FSS Agriculture 1 Pty Limited	Australia	100	-	-	-
FSS BAC Airports 1 Pty Ltd	Australia	100	100	-	-
FSS Darling Square Trust	Australia	100	100	-	-
FSS Emerging Market Equity Trust	Australia	100	100	-	-
FSS Energy Credit Trust	Australia	100	100	-	-
FSS "Go Australia" Impact Investment Trust	Australia	99	99	273	326
FSS Infrastructure Trust	Australia	100	100	170	-
FSS Liberty Trust	Australia	100	-	-	-
FSS Multi Family Residential Trust	Australia	100	100	399	-
FSS NSW Almond Orchards Trust	Australia	100	100	22	35
FSS Private Equity Trust	Australia	100	100	325	516
FSSSP Financial Services Pty Limited*	Australia	100	100	-	-
First State Super FT Real Estate Trust	Australia	100	100	-	-
FSS Real Estate Trust	Australia	100	100	88	99
FSS Retirement Villages Trust	Australia	100	100	-	179

*: Parent entity of State Super Financial Services Australia Limited

17. Controlled Entities continued

Consolidated financial statements have not been prepared as the Fund is an investment entity.

Name	Country of incorporation	Equity holding		Commitments for expenditure	
		2019 %	2018 %	2019 \$'m	2018 \$'m
FSS Holdings Limited	Australia	100	-	-	-
FSS Two Melbourne Quarter Trust	Australia	100	100	224	166
FSS SA Almond Orchards Trust	Australia	100	100	21	24
FSS Vic Almond Orchards Trust	Australia	100	100	5	8
GO NSW VCLP	Australia	67	67	86	-
Harding Loevner Frontier Markets Equity Fund	Australia	-	71	-	-
Lend Lease Public Infrastructure Investment Company Pty Ltd	Australia	90	90	-	-
North Haven Infrastructure Trust	Australia	100	100	31	30
Oak Tree Debt Trust	Australia	100	100	117	-
Odyssey Fund 8 LP	Australia	72	72	2	144
FSS Product Services Trust	Australia	100	-	-	-
Searchlight PTP Co-Invest LP	United States of America	50	50	-	-
St Hilliers Hybrid Property Trust	Australia	-	98	-	-
Quadrant First State Super Trust	Australia	100	100	-	-
Watch Co-invest LP	Cayman Islands	72	72	-	-

18. Remuneration of External Auditors

External Auditors' Remuneration	2019 \$	2018 \$
External audit report in relation to:		
Financial statements and compliance		
FSS Trustee Corporation	21,642	22,281
First State Superannuation Scheme	498,285	521,372
	<u>519,927</u>	<u>543,653</u>
Other services		
Digital transformation and delivery consulting services	2,977,632	5,592,454
Risk consulting services	52,085	4,620
Information technology consulting services	16,979	73,571
Investment custody and operations consulting services	65,463	348,367
Modelling	-	119,900
Remuneration review	7,574	7,462
	<u>3,119,733</u>	<u>6,690,027</u>

Unless otherwise noted, audit services for the years ended 30 June 2019 and 30 June 2018 were provided by Deloitte Touche Tohmatsu.

Deloitte Touche Tohmatsu has confirmed that it is compliant with its independence requirements in respect of both the quantum and nature of the fees for Other services.

19. Subsequent Events

On 1 September 2019, FSS Holdings Limited and its controlled entities undertook the delivery of member retirement outcomes through the provision of administration, financial planning and investment management services to the Fund.

The Fund has entered into a binding merger Heads of Agreement with VicSuper, subject to due diligence.

Apart from the matters noted above, no significant events have occurred since the end of the reporting period which would impact on the net assets of the Fund as at 30 June 2019 or the Statement of Changes in Net Assets of the Fund for the year ended on that date.

End of audited financial report