

This Agenda Paper discusses proposed transition arrangements and application date for the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*

Background

1. At its September 2010 meeting, the Board considered the possible transition arrangements and application date for the replacement Standard for AAS 25 *Financial Reporting by Superannuation Plans*. At this meeting, staff proposed that, consistent with the approach adopted on the transition to IFRSs, superannuation entities should be required to apply the replacement Standard for AAS 25 retrospectively. Accordingly:
 - (a) the comparative information provided for a superannuation plan's or an approved deposit fund's (ADF) first reporting period under the replacement Standard would be prepared and presented as if the replacement Standard had always been applied on the basis that few, if any, plans or ADFs would find the proposals in ED 179 impracticable to apply; and
 - (b) the amount of any resulting adjustment relating to periods before those presented in the financial statements would be made to the opening balance of each affected component of equity (which for superannuation entities would generally be retained earnings).
2. It is relevant to note that ED 179 proposes that early adoption of the replacement Standard be permitted. While the ED did not specifically ask for comment on this proposal, none of responses to ED 179 expressed disagreement with the proposal. In addition, staff are not aware of any concerns among constituents regarding this proposal.
3. In response to staffs' proposals, the Board:
 - (a) tentatively decided that a revised version of ED 179 (including the Basis for Conclusions) should be re-exposed and comments sought from constituents on selected proposals in the document; and
 - (b) expressed support for requiring plans and ADFs to apply the replacement Standard retrospectively, but noted that such an approach might conflict with the transitional provisions in other Australian Accounting Standards. Accordingly, the Board directed staff to review the transitional provisions in other Australian Accounting Standards to determine what impact, if any, they would have on plans and ADFs applying the replacement Standard for AAS 25 retrospectively.

Transitional provisions in other Australian Accounting Standards

4. Subject to the Board's redeliberations in relation to the revised proposals in ED 179, staff anticipate that the replacement Standard for AAS 25 would be completed sometime around June 2011. If the Board were to decide that two years is an appropriate transition period (that is, the replacement Standard would apply to reporting periods beginning on or after 1 July 2012), this timing would permit superannuation entities that early adopt the replacement Standard for AAS 25 to also retrospectively apply the current requirements in:
 - (a) AASB 101 *Presentation of Financial Statements* – which applies to annual reporting periods beginning on or after 1 January 2009; and
 - (b) AASB 123 *Borrowing Costs* – which applies to annual reporting periods beginning on or after 1 January 2009. (However, it is relevant to note that

AASB 123 is unlikely to have a significant impact on the reported results of superannuation entities under the replacement Standard for AAS 25, which will require most assets to be measured at fair value.)

5. Staff have not identified any current Australian Accounting Standards that have transitional provisions that would give rise to explicit conflicts for early adopters of the replacement Standard for AAS 25.
6. If the replacement Standard for AAS 25 were to be completed on or before June 2011, the Board might decide that a superannuation entity could early adopt the replacement Standard for reporting periods beginning on or after 1 July 2011. Table A below provides details of Australian Accounting Standards that have effective application dates after 1 July 2011, and staff views on the potential implications of these Standards for superannuation entities under the proposals in an amended version of ED 179. Table A also provides details of the IASB's proposed Fair Value Measurement and Income Tax Standards, which are arguably the most significant to superannuation entities of all the projects currently being undertaken by the IASB.

Table A - Australian Accounting Standards that will become effective in reporting periods beginning on or after 1 July 2011

New Standard	Effective application date	Summary of key requirements	Staff comments
AASB 9 <i>Financial Instruments</i>	Reporting periods beginning on or after 1 January 2013 (may be applied to reporting periods ending on or after 31 December 2009).	<ul style="list-style-type: none"> • reduces the number of classifications of financial assets to financial assets carried at amortised cost and those carried at fair value • requires financial assets to be classified in a manner consistent with the entity's business model • simplifies the requirements for embedded derivatives • removes the requirement to fair value embedded derivatives in financial assets carried at amortised cost • permits irrevocable election on initial recognition to present gains and losses on investments that are equity instruments not held for trading in other comprehensive income 	<p>AASB 9 will have a limited impact on superannuation entities because the replacement Standard for AAS 25 will require a superannuation entity to:</p> <p>(a) measure all financial assets at fair value through profit or loss; and</p> <p>(b) provide an income statement rather than a statement of comprehensive income or a separate income statement and statement of comprehensive income.</p> <p>In the context of the replacement Standard, the classifications for financial assets in AASB 9 would only be relevant if a superannuation entity considered them necessary to adequately convey the nature of an item that warrants separate disclosure.</p>
AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	Reporting periods beginning on or after 1 January 2013 (may be applied to reporting periods ending on or after 31 December 2009).	Refer to comments above.	Refer to comments above.
AASB 124 <i>Related Party Disclosures</i>	Reporting periods beginning on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January	<ul style="list-style-type: none"> • removes the requirement for government-related entities to disclose details of transactions with the government and other government-related entities 	Superannuation entities currently apply AASB 124 and many already disclose transactions and balances between the entity, its trustee, trustee directors or employer

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	2005).	<ul style="list-style-type: none"> amends the definition of a related party to clarify, among other things, that superannuation plans and employer sponsors of such plans are related parties of each other 	sponsors.
<i>AASB 1053 Application of Tiers of Australian Accounting Standards</i>	Reporting periods beginning on or after 1 July 2013 (may be applied to reporting periods beginning on or after 1 July 2009).	Establishes Tier 1 and Tier 2 financial reporting requirements for reporting entities applying Australian Accounting Standards.	The need for Tier 2 disclosure requirements for superannuation entities is discussed in Agenda paper 7.1 to this Agenda paper.
<i>AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	Reporting periods beginning on or after 1 July 2013 (may be applied to reporting periods beginning on or after 1 July 2009 provided that AASB 1053 is adopted for the same period).	Amends Australian Accounting Standards and Interpretations to give effect to the principles and requirements in AASB 1053 and specifies Tier 2 disclosure requirements.	The need for Tier 2 disclosure requirements for superannuation entities is discussed in Agenda paper 7.1 to this Agenda paper.
<i>AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Reporting periods beginning on or after 1 January 2010 (may be applied to reporting periods beginning on or after 1 January 2005).	<ul style="list-style-type: none"> clarifies where a lease includes land and a building, each component requires separate assessment clarifies the requirements for the current/non-current classification of convertible liabilities clarifies the relationship between the disclosure requirements in AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> and other Standards in respect of non-current assets (or disposal groups) classified as held for sale clarifies that forward contracts 	Due to the: <ol style="list-style-type: none"> nature of the activities of superannuation entities; prohibition against superannuation entities borrowing; measurement requirements under the replacement Standard for AAS 25; and Board's decision not to permit superannuation entities to apply AASB 5 under the replacement Standard for AAS 25; the requirements in AASB 2009-5 are unlikely to have a significant impact on superannuation entities.

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		<p>between an acquirer and a selling shareholder for a subsidiary are outside the scope of AASB 139 <i>Financial Instruments: Recognition and Measurement</i></p> <ul style="list-style-type: none"> clarifies what ‘closely related’ means in the context of a prepayment option embedded in a host debt contract clarifies the boundaries of cash generating units for impairment testing in the context of AASB 8 <i>Operating Segments</i> amends AASB 118 <i>Revenue</i> to provide additional guidance on determining principal/agent relationships 	
<p>AASB 2009-8 <i>Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions</i></p>	<p>Reporting periods beginning on or after 1 January 2010 and amendments must be applied retrospectively (may be applied to reporting periods beginning on or after 1 January 2005).</p>	<ul style="list-style-type: none"> incorporates AASB Interpretation 8 <i>Scope of AASB 2</i> and AASB Interpretation 11 <i>AASB 2 – Group and Treasury Share Transactions</i> into AASB 2 <i>Share-based Payment</i> clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based arrangement to account for the goods or services under the Standard 	<p>Superannuation entities do not employ staff directly. They are also not permitted to issue equity instruments as it would be inconsistent with the ‘sole purpose’ test under the <i>Superannuation Industry (Supervision) Act</i> (1993) (SIS Act). Accordingly, the requirements in AASB 2009-8 are unlikely to have a significant impact on superannuation entities.</p>
<p>AASB 2009-9 <i>Amendments to Australian Accounting Standards – Additional Exemptions for First-time</i></p>	<p>Reporting periods beginning on or after 1 January 2010 (may be applied to reporting periods beginning on or after 1 January).</p>	<ul style="list-style-type: none"> exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with AASB 	<p>Due to the nature of the activities of superannuation entities and the measurement requirements under the replacement Standard for AAS 25, the requirements in</p>

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<i>Adopters</i>		Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i> when the application of their previous accounting policies would have given the same outcome <ul style="list-style-type: none"> requirements for entities using the full cost method in place of retrospective application of Australian Accounting Standards for oil and gas assets 	AASB 2009-9 are unlikely to have a significant impact on superannuation entities.
AASB 2009-10 <i>Amendments to Australian Accounting Standards – Classification of Rights Issues</i>	Reporting periods beginning on or after 1 February 2010 (may be applied to reporting periods beginning on or after 1 January 2005).	<ul style="list-style-type: none"> clarifies that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments 	As noted above, superannuation entities are not permitted to issue equity instruments. Accordingly, the requirements in AASB 2009-10 are unlikely to have a significant impact on superannuation entities.
AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	Reporting periods beginning on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January 2005)	<ul style="list-style-type: none"> consequential amendments to AASBs as a consequence of editorial changes to other AASBs amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of some disclosures under the Standard 	The amendments have no major impact on the requirements of the amended pronouncements. In addition, subject to the Board's decisions in relation to Agenda paper 7.3 to this meeting, the requirement for an entity to disclose information about its customers under AASB 8 may not apply to superannuation entities.
Interpretation 19 <i>Extinguishing Financial</i>	Reporting periods beginning on or after 1 July 2010 applied	Clarifies how a debtor would account for the extinguishment of a liability	Superannuation entities would not be permitted to issue equity instruments as it

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<i>Liabilities with Equity Instruments</i>	retrospectively from the beginning of the earliest comparative period presented (may be applied to reporting periods beginning on or after 1 January 2005).	through the issue of equity instruments.	would be inconsistent with the ‘sole purpose’ test under the SIS Act. Also, superannuation entities are generally prohibited from holding borrowings. Accordingly, Interpretation 19 is unlikely to have a significant impact on superannuation entities.
<i>AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments</i>	Reporting periods beginning on or after 1 July 2010 applied retrospectively from the beginning of the earliest comparative period presented (may be applied to reporting periods beginning on or after 1 January 2005).	Makes amendments to AASB 1 <i>First-time Adoption of Australian Accounting Standards</i> arising from the issue of Interpretation 19.	Refer to comments above.
<i>AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	Reporting periods beginning on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January 2005).	Addresses implications of an entity prepaying contributions in respect of a defined benefit plan and being required to pay minimum contributions in circumstances where the entity has a defined benefit ‘surplus’.	As superannuation entities do not employ staff directly, the requirements in AASB 2009-14 are unlikely to have a significant impact on superannuation entities.
<i>AASB 2010-1 Amendments to Australian Accounting Standards – Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters</i>	Reporting periods beginning on or after 1 July 2010 (may be applied to reporting periods beginning on or after 1 January 2005).	Amends AASB 1 and AASB 7 <i>Financial Instruments: Disclosures</i> to permit first-time adopters to use the same transition provisions permitted for existing preparers.	The requirements in AASB 2010-1 are unlikely to have a significant impact on superannuation entities.
<i>AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Reporting periods beginning on or after 1 July 2010 (may be applied to reporting periods beginning on or after 1 January	<ul style="list-style-type: none"> clarifies how any component of non-controlling interests that entitles the holder to a proportionate share of the entity’s net assets on liquidation is 	Due to the nature of the activities of superannuation entities and the prudential requirements under which they operate, the requirements in AASB 2010-3 are unlikely to

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	2005).	measured at acquisition date <ul style="list-style-type: none"> • requires the recognition and/or adjustment of contingent consideration for acquisitions of subsidiaries prior to 1 July 2009 • clarifies the accounting for share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the acquirer 	have a significant impact on them.
AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Reporting periods beginning on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January 2005).	<ul style="list-style-type: none"> • clarifies the application of AASB 8 prior to an entity's first financial statements • amends AASB 7 to clarify that qualitative disclosures should be made in the context of quantitative disclosures to better enable users to evaluate the risks to which an entity is exposed • amends AASB 101 <i>Presentation of Financial Statements</i> to clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income can be presented in the statement of changes in equity or in the notes • amends AASB 134 <i>Interim Financial Reporting</i> by adding further examples of the types of 	Many of the requirements in AASB 2010-4 are unlikely to have a significant impact on superannuation entities because: <ul style="list-style-type: none"> (a) of the nature of the activities of superannuation entities; and (b) the replacement Standard for AAS 25 will require a superannuation entity to: <ul style="list-style-type: none"> • measure most assets and liabilities at fair value through profit or loss; and • provide an income statement rather than a statement of comprehensive income or a separate income statement and statement of comprehensive income.

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		events or transactions that are subject to disclosures under the Standard <ul style="list-style-type: none"> amends AASB Interpretation 13 <i>Customer Loyalty Programmes</i> 	
<i>AASB 2010-5 Amendments to Australian Accounting Standards</i>	Reporting periods beginning on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January 2005).	Makes editorial amendments to Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.	The amendments have no major impact on the requirements of the amended pronouncements. Accordingly, the requirements in AASB 2010-5 are unlikely to have a significant impact on superannuation entities.
<i>AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	Reporting periods on or after 1 January 2011 (may be applied to reporting periods beginning on or after 1 January 2005).	Adds and amends disclosure requirements about transfers of financial assets, including in respect of the nature of the financial asset involved and risks associated with the transfer.	Some aspects of AASB 2010-6 would be relevant to some superannuation entities, particularly those entities that are involved in securities lending. However, where a transfer of a financial asset gave rise to an obligation, a superannuation entity would not be permitted to enter into the arrangement as it would be contrary to the SIS Act.
<i>Fair Value Measurement</i>	IASB target date for IFRS –first quarter of 2011 Effective date - to be confirmed by the IASB	Fair value measurement and disclosure requirements.	Given the proposed timing of the IFRS, the Standard is unlikely to be applicable to reporting periods ending on or before 30 June 2013.
<i>Income Tax</i>	IASB target date for IFRS – first half of 2011 Effective date – to be confirmed by the IASB	Requirements which have the effect of more closely aligning IAS 12 <i>Income Taxes</i> with US GAAP.	Given the proposed timing of the IFRS, the Standard is unlikely to be applicable to reporting periods ending on or before 30 June 2013.

Staff views

As discussed in paragraphs 4 and 5 of this Agenda paper, staff have not identified any Australian Accounting Standards that have transitional provisions that could conflict with the replacement Standard for AAS 25 being applied:

- (a) to reporting periods beginning on or after 1 July 2012, with early adoption being permitted for reporting periods beginning or after 1 July 2011 (subject to the timing of the completion of the final Standard); and
- (b) retrospectively.

In addition, staff have not identified any Australian Accounting Standards that have effective application dates after 1 July 2011 that are likely to have a significant impact on superannuation entities (see Table A to this Agenda paper). Accordingly, staff do not consider it necessary to link the effective date for the replacement Standard for AAS 25 to any other Australian Accounting Standard (or Standards) that has an effective date sometime during the next three years.

Other issues

7. Board members should note that, if it were to decide that superannuation entities should apply the replacement Standard for AAS 25 retrospectively, under paragraph 38 of AASB 101 *Presentation of Financial Statements* a plan or ADF would be required to present a 'third' statement of financial position (as at the beginning of the earliest comparative period) unless the Board decided that the replacement Standard for AAS 25 should permit or require otherwise.