Transition and Application Date of replacement standard for AAS 25 – Superannuation Entities

The purpose of this paper is to provide relevant information for the Board to decide on the approach to transition to the replacement standard for AAS 25 *Financial Reporting by Superannuation Plans*, the relevant mandatory application date and whether early application should be permitted.

References in this paper to a two-year transition period means there is a clear two years between the issue date of the replacement standard for AAS 25 and the date of the start of the first period to which the standard would apply; so as to allow at least one year before the beginning of the comparative period. Accordingly, if the replacement standard were issued in Q3 of 2013, providing a two-year transition period would mean the application date is periods beginning on or after 1 July 2016.

Most superannuation entities have 30 June year ends.

1. Background

1.1 ED 223 *Superannuation Entities* (December 2011) proposed:

* no special transition arrangements – accordingly:
    + the requirements of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* would apply; namely: retrospective application, unless impracticable; and
    + the requirements of AASB 101 *Presentation of Financial Statements* would apply; namely: one year of comparative information, plus a statement of financial position as at the beginning of the comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassifies items in its financial statements;
* the application date would be annual reporting periods beginning on or after two years after the issue date of the standard [ED 223, paragraph 4]; and
* early application date would not be permitted [ED 223, paragraph 4] – in the interests of comparability.

1.2 In terms of the significance of moving from AAS 25 to the replacement standard, superannuation entities would be required to present more comprehensive financial statements, in particular:

* a statement of changes in member benefits;
* a statement of changes in equity (where material);
* in the case of defined benefit plans, a statement of financial position (instead of a statement of net assets) and an income statement (instead a statement of changes in net assets);

1.3 In broad terms, the most significant additional measurement work will be for plans with defined benefit members to determine accrued benefits and the related disclosures, in particular, the sensitivity disclosures in respect of the assumptions used in measuring accrued defined benefits (see agenda paper 7.4).

1.4 On the asset side, the measurement should remain largely unchanged, unless the superannuation entity has investments for which the net market values and fair values differ materially.

1.5 In general, the disclosures are expected to be more onerous under the replacement standard for AAS 25, including the disaggregated information disclosures (see agenda paper 7.5).

2. Feedback on ED 223 – written comments and December 2011 roundtables

2.1 In respect of transition and application, constituents made the following comments in response to ED 223.

- A two-year transition period is sufficient.
- A two-year transition period would be reasonable, however, if defined benefit liabilities need to be measured as accrued benefits (rather than vested benefits), a further year should be allowed for system changes.
- There is a trade-off between the requirement for comparative information (including the third statement of changes in financial position) and the transition period – a two-year transition period would be fine if comparative information is not required; otherwise a three-year transition is needed because of the work that will be involved with external service providers such as actuaries and auditors.
- If insurance arrangements need to be accounted for under the insurance contracts standards, a three-year transition period should be provided.
- Internal systems changes will take at least two years – so prefer a three-year transition period.
- From a user's perspective, retrospective application would enhance understanding of the reports against comparative data.
- If comparatives are required they have to be on a consistent basis with the current period (retrospective application), because some plans will be preparing a 'proper' balance sheet for the first time.
- It would be preferable to have a transition period of two years and no comparatives in the first year.

2.2 Most constituents commenting on early adoption argued that it should be permitted, consistent with the AASB's normal policy. One constituent commented that early adoption should be prohibited in the interests of comparability and because service providers to the industry would have difficulty servicing two different sets of clients – those that early adopt and those that do not.

3. Board tentative decisions since ED 223

3.1 At its June 2012 meeting, the Board tentatively decided that:

* there should be at least two years between the issue and application date of the replacement standard for AAS 25, but this period might be lengthened depending on the extent and likely impacts of changes from the existing requirements and the month in which the replacement standard is issued; and
* early adoption of the replacement standard should be permitted.

4. Recent consultation

4.1 During recent targeted consultation with key constituents, a number of constituents reiterated the commentary made in response to ED 223, in particular that a two-year transition period would be fine for most superannuation entities, but those with defined benefit members would be better-placed with a three-year transition period.

4.2 In particular, constituents noted that a three-year transition would enable superannuation entities with defined benefit members to have at least one triennial full actuarial valuation performed between the issue of the replacement standard and the period when it takes effect. When that triennial valuation is performed, relevant information could be accumulated to facilitate the subsequent use of practical expedients for determining accrued benefits and related disclosures in the intervening years in accordance with the replacement standard.

4. Staff comments and recommendations

Retrospective application

5.1 There is general support for retrospective application and the presentation of comparative information and, accordingly, both AASB 101 and AASB 108 should apply on transition to the replacement standard for AAS 25.

Transition period

5.2 As a precedent, the IASB seems to allow at least two years from the date of issue for IFRS and longer when the changes are considered relatively complex. The forthcoming new IFRS on revenue from contracts with customers is expected to be issued in mid-2013 and have an application date of periods beginning on or after 1 January 2017, although some consider that an unnecessarily long transition period. The revised IFRS 9 *Financial Instruments* is presently scheduled to have an application date of 1 January 2015, but the issue date of the final complete standard remains uncertain and IASB members and staff have stated publicly that this date will be deferred.

5.3 The replacement standard for AAS 25 will mean a considerable change in the reporting requirements for some superannuation entities, in particular, those with defined benefit members. Accordingly, two years should be the minimum period between the issue of the replacement standard for AAS 25 and its mandatory application date.

5.4 There are not expected to be many superannuation entities materially affected by the changed reporting requirements for insurance contracts (see agenda paper 7.6).

5.5 If the replacement standard could be issued by June 2013, staff would recommend an application date of periods beginning on or after 1 July 2015. Accordingly, most superannuation entities would present their first general purpose financial statements under the replacement standard for the year ended 30 June 2016; with comparatives for 30 June 2015 and an opening statement of financial position for the beginning of that comparative year – 1 July 2014.

5.6 If the issue date of the replacement standard is after June 2013 (which we think is more likely), staff recommend that the application date be deferred a further year to periods beginning on or after 1 July 2016.

Early adoption

5.7 Staff note that the AASB's normal policy of permitting early adoption is driven by a view that it should not stand in the way of entities wishing to report improved information earlier than required.

5.8 Staff also note that the industry is characterised by the extent to which external service providers are used for accumulating and compiling information.[1] Accordingly, those providers might have difficulty (or, at least, incur additional costs) in maintaining information systems that provide two different streams of information – one for early adopters and one for those clients not early adopting.

5.9 On balance, staff consider that early adoption should be permitted, consistent with the Board's decision at its July 2012 meeting.

Board members are asked to identify their views on the staff comments and recommendations on:

- **retrospective application in paragraph 5.1**
- **transition period in paragraphs 5.2 to 5.6**
- **early adoption in paragraphs 5.7 to 5.9.**

1 APRA Discussion Paper *Prudential standards for superannuation* (Stronger Super) – 28 September 2011 – mentions the extensive use of out-sourcing at page 8.