

This Agenda Paper considers whether the Board should re-expose for public comment some or all of its revisions to the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds*

Background

1. It is anticipated that the Board will substantively complete its redeliberations on the proposals in ED 179 *Superannuation Plans and Approved Deposit Funds* at its September 2010 meeting.
2. The purpose of this Agenda paper is to:
 - (a) identify a set of criteria the Board could use to assess whether it should re-expose some or all of its revisions to ED 179 proposals; and
 - (b) consider whether the Board should re-expose for public comment some or all of its revisions to ED 179 proposals by evaluating the outcomes from its redeliberations against the identified set of criteria.

Criteria for re-exposing the revised ED 179 proposals

3. The AASB's draft *Policies and Procedures* document does not currently deal with re-exposure of revised financial reporting proposals. Accordingly, staff consider that, as a guide, the Board can consider the IASB's policies in relation to re-exposure as a framework for determining whether to re-expose its revisions to the ED 179 proposals.
4. Paragraphs 46 to 48 of the IASB's *Due Process Handbook* (October 2008) state that:
 - 46 After resolving issues arising from the exposure draft, the IASB considers whether it should expose its revised proposals for public comment, for example by publishing a second exposure draft.
 - 47 In considering the need for re-exposure, the IASB
 - identifies substantial issues that emerged during the comment period on the exposure draft that it had not previously considered
 - assesses the evidence that it has considered
 - evaluates whether it sufficiently understood the issues and actively sought the views of constituents
 - considers whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.
 - 48 The IASB's decision on whether to publish its revised proposals for another round of comment is made in an IASB meeting. If the IASB decides that re-exposure is necessary, the due process to be followed is the same as for the first exposure draft...
5. In respect to the criteria in paragraph 47 of the IASB's *Due Process Handbook* and their relevance to the Board's redeliberations on ED 179, staff note that:
 - (a) no substantial issues emerged during the comment period or in the responses to ED 179 that the AASB had not previously considered in its deliberations on the proposals in the ED and documented in the Basis for Conclusions to ED 179. Accordingly, during its deliberations it was not necessary for the Board to:

- (i) assess the evidence that it had considered during its original deliberations; or
 - (ii) evaluate whether it sufficiently understood the issues or actively seek the views of constituents; and
 - (b) while the Board decided that, in light of some constituents' comments, some of the reasoning in relation to the proposals that the Board decided to retain should be clarified, none of the respondents identified any 'fatal flaws' in the reasons supporting the ED 179 proposals documented in the Basis for Conclusions to the ED. In most cases, respondents expressed disagreement with proposals in ED 179 on cost-benefit grounds.
6. In addition, staff consider that, in assessing whether it should re-expose some or all of its revisions to the ED 179 proposals, the Board should explicitly consider the extent to which the revised proposals differ from the proposals in ED 179, and the reasons for these differences.
7. Staff have reviewed each of the Board's decisions in the context of its redeliberations on ED 179 that have substantively changed the proposals in the ED and note that each of these decisions can be characterised in one of the following three ways.
- (a) The Board decided that, contrary to the proposals in ED 179, a plan or ADF should apply the principles and requirements in other Australian Accounting Standards.
 - (b) The Board decided that a plan or ADF should apply the principles and requirements in applicable Australian Accounting Standards and should provide additional superannuation-specific information that is consistent with the types of information disclosed under other Australian Accounting Standards.
 - (c) The Board decided that, in light of respondents' comments, the replacement Standard for AAS 25 should either:
 - (i) not include the proposals; or
 - (ii) require a plan or ADF to account for items in accordance with principles and requirements in Australian Accounting Standards that might not otherwise apply to such items);on cost-benefit grounds.
8. Table 1 below provides:
- (a) a summary of the main proposals in ED 179 that the Board has decided to date should be substantively changed;
 - (b) a summary of respondents' written comments in relation to the proposals;
 - (c) a summary of the Board's decisions in relation to the proposals;
 - (d) the nature of the change (using the characterisations described in paragraph 7 above); and
 - (e) the proportions of written responses expressing support for the revised proposals as an alternative approach to that proposed in ED 179.

9. It is relevant to note that Table 1 does not include Board's decisions in relation to:

- (a) the clarification of proposals, including definitions;
- (b) drafting or presentation matters; or
- (c) the example financial statements;

on the basis that staff do not consider these decisions substantively change the main proposals in ED 179. It is also relevant to note that the summary of respondents' written comments was sourced from Agenda paper 6.2 to the Board's December 2009 meeting.

10. It is also relevant to note that some of the written responses identified a number of alternative approaches to some of the proposals the Board ultimately revised, and that the Board's revised proposal might not have been all of the respondents' preferred approach from those identified by the respondents. In addition, in some circumstances (such as the Board's decisions in relation to liquidity risk disclosures), the Board's revised proposal was not identified by any of the respondents as an alternative approach.

Table 1 – Summary of the substantive changes the Board has decided in relation to the proposals in ED 179

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Transaction costs				
<p>All recognised assets and liabilities except for:</p> <p>(a) tax assets and tax liabilities;</p> <p>(b) obligations for members' benefits;</p> <p>(c) liabilities and assets arising from insurance contracts issued by the entity; and</p> <p>(d) goodwill acquired in a business combination;</p> <p>shall be measured at fair value adjusted for transaction costs. (paragraphs 11, 12 and AG10)</p>	<ul style="list-style-type: none"> • four respondents agreed with the proposals • one respondent agreed with the proposals, subject to defined benefit members' benefits not being measured on an accrued basis • two respondents agreed with the proposal to measure assets and liabilities at fair value but disagreed with adjusting fair value amounts for transaction costs because (i) the treatment is inconsistent with the approach required under most Australian Accounting Standards; and/or (ii) transaction costs are generally an immaterial amount relative to a plan's or ADF's net assets amount • one respondent recommended that the Standard provide more clarification regarding how transaction costs incurred upon the purchase of an investment should be treated 	<p>In contrast to the proposal in ED 179, the replacement Standard for AAS 25 should not permit the carrying amounts of assets and liabilities measured at fair value to be adjusted for transaction (anticipated selling) costs. The Board also tentatively decided that, consistent with ED 179, a plan or ADF should account for costs attributable to the acquisition or issue of an asset or liability in accordance with the relevant Australian Accounting Standard (December 2009).</p>	<p>Apply the principles and requirements in other Australian Accounting Standards</p>	<p>33% (3 of 9)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Preparation of consolidated financial statements				
<p>Prepare and present consolidated financial statements in accordance with AASB 3 and AASB 127, except that the parent shall:</p> <p>(a) measure all recognised assets and liabilities (except for tax balances) at their fair values adjusted for transaction costs. Tax balances shall be measured in accordance with AASB 112;</p> <p>(b) recognise any difference between the: (a) sum of the parent's interest and the non-controlling interests in the subsidiary; and (b) the amount of the net assets of the subsidiary; as goodwill or a remeasurement gain; and</p> <p>(c) present any goodwill or remeasurement gain. (paragraph 30)</p>	<ul style="list-style-type: none"> • ten identified practical difficulties that would inhibit the preparation of consolidated financial statements in accordance with the proposals • six expressed in-principle support for the presentation of consolidated financial statements and recommended specific guidance for superannuation entities • seven expressed disagreement, particularly the proposal to consolidate investment vehicles that they do not actively control • two expressed outright support for consolidated financial reporting • one expressed disagreement with the proposals in ED 179 because they are inconsistent with the approach under AAS. 	<p>In contrast to the proposal in ED 179, the consolidated financial statements should be prepared in accordance with AASB 3 <i>Business Combinations</i> and AASB 127 <i>Consolidated and Separate Financial Statements</i>, although the Board affirmed that all recognised assets and liabilities except for:</p> <p>(a) tax assets and tax liabilities;</p> <p>(b) obligations for defined contribution members' benefits;</p> <p>(c) assets and liabilities arising from insurance contracts issued by a plan or fund; and</p> <p>(d) goodwill,</p> <p>should be measured at their fair values at the end of each reporting period. (December 2009)</p>	<p>Apply the principles and requirements in other Australian Accounting Standards</p>	<p>64% (9 of 14)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Measurement of obligations for defined benefit members' accrued benefits				
<p>Obligations for defined benefit members' accrued benefits shall:</p> <p>(a) be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method. Members' benefits are to be attributed to reporting periods on a basis appropriate to the plan's circumstances;</p> <p>(b) be discounted for the time value of money using risk-free discount rates;</p> <p>(c) exclude expected administration costs;</p> <p>(d) be determined on the basis of actuarial assumptions that not imprudent or conservative (paragraphs 15, 17, 19, AG16, AG17, AG23, AG31 and AG32)</p>	<ul style="list-style-type: none"> • eleven respondents expressed a preference for vested benefits, although: (i) two respondents noted that they would accept the approach for measuring defined benefit obligations under AASB 119; and (ii) one respondent noted that they would accept the method applied by the plan's actuary for the purpose of the plan's actuarial review • two respondents expressed a preference for the AASB 119 approach • one respondent expressed a preference for the AASB 119 approach or the approach applied by the plan's actuary until such time as the IASB has made progress in relevant projects • one respondent expressed a preference for the AAS 25 approach 	<p>The replacement Standard for AAS 25 should require defined benefit members' accrued benefits to be measured in accordance with the approach under AASB 119 <i>Employee Benefits</i> for defined benefit obligations. Accordingly, an obligation for defined benefit members' accrued benefits would be measured at the present value of the expected future benefit payments using the Projected Unit Credit Method and discounted at a rate determined by reference to market yields at the end of the reporting period on high quality corporate bonds or, in the absence of such bonds, market yields on government bonds. (February 2010)</p>	<p>Apply the principles and requirements in other Australian Accounting Standards</p>	<p>33% (5 of 15)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Related party disclosures				
<p>A plan or ADF shall disclose information that provides users with a basis for understanding:</p> <ul style="list-style-type: none"> (a) the nature of any related party relationships during the reporting period; and (b) the nature and amount of any (i) related party transactions during the reporting period; and (ii) outstanding balances between the entity and a related party at the end of the reporting period. (paragraph 48) <p>To comply with ED 179, a plan or ADF applies AASB 124 and discloses information needed to understand the nature of the entity's relationships with its employer sponsors and trustee or trustees during the reporting period and any transaction or balance that would not be considered 'normal' in a superannuation context. (paragraph AG97)</p>	<p>Four of the respondents expressed concerns with the manner in which related party disclosures are dealt with in the ED, including:</p> <ul style="list-style-type: none"> (a) the proposals do not appear to include the materiality threshold that applies in relation to AASB 124 <i>Related Party Disclosures</i>; and (b) the term 'normal' may be difficult to apply in some circumstances to determine whether a transaction and/or balance between a plan, its trustee or an employer sponsor should be subject to disclosure. 	<p>The replacement Standard should require a plan or ADF to apply, when appropriate, the principles and requirements in AASB 124 <i>Related Party Disclosures</i>.</p>	<p>Apply the principles and requirements in other Australian Accounting Standards</p>	<p>100% (4 of 4)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Nature of a plan or ADF and the benefits it provides to its members				
<p>A plan or ADF shall disclose information that provides users with a basis for understanding:</p> <p>(a) the nature of the entity and the nature of the benefits it provides to its members... [paragraph 32(a)]</p> <p>Information that would provide users with a basis for understanding the nature of the plan or ADF, and the nature of the benefits it provides to its members, would include a description of the nature of the entity's members and beneficiaries, including: (i) the numbers of members and beneficiaries holding each type of benefit; (ii) the numbers of members and beneficiaries classified as active, deferred or pensioner by type of benefit. (paragraph AG52)</p>	<p>Four respondents recommended that the proposal that a plan or ADF disclose the number of members and beneficiaries by benefit type and the number of members that are active, deferred or pensioner by benefit type should be deleted as this information is available from the plan's or ADF's annual report to members.</p>	<p>In contrast to the proposals in ED 179, the replacement Standard for AAS 25 should only require the disclosure of the number of members and beneficiaries at the reporting date.</p>	<p>Not include the proposals in the replacement Standard on cost-benefit grounds</p>	<p>100% (4 of 4)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Application of the principles and requirements in AASB 7 <i>Financial Instruments: Disclosures</i>				
<p>A plan or ADF shall disclose information on: (a) the nature and extent of the financial risks to which the entity is exposed during the reporting period and at the end of the reporting period; and (b) how the entity manages those risks. (paragraph 34)</p> <p>A plan or ADF shall disclose qualitative and quantitative information in relation to the financial risks to which the entity is exposed. These risks typically include, but are not limited to, liquidity risk, market risk and credit risk. (paragraph AG61)</p> <p>A plan or ADF shall provide disclosures that are consistent with, but not limited to, the types of information required by paragraphs 36-42 of AASB 7 for financial derivatives, to the extent that the requirements are appropriate in a superannuation context. (paragraph AG71)</p>	<ul style="list-style-type: none"> • two respondents recommended that, where applicable, the resultant Standard should refer to the disclosure principles and requirements in other Standards by cross reference • two respondents expressed disagreement with the proposal that credit risk includes the risk that an employer sponsor will encounter difficulty in making contributions to a plan; • two respondents argued the proposed disclosure principles and associated guidance should be further tailored for superannuation entities, particularly in relation to investment management fees, asset concentrations, sensitivity analysis, liquidity risks, operational risks and emerging risks. 	<p>Contrary to the approach proposed in ED 179, a plan or ADF should apply the principles and requirements in AASB 7, as appropriate.</p> <p>A plan or ADF should provide disclosures that are consistent with the types of information disclosed under AASB 7 in relation to the liquidity risk to which the entity is exposed arising from all of its assets and liabilities (April 2010)</p> <p>A plan with defined benefit members should provide qualitative disclosures in respect of the non-performance risk and/or economic dependency risk that the entity is exposed to arising from the employer sponsors of such members. In addition, such disclosures should be consistent with the types of information disclosed in accordance with the qualitative disclosure requirements in paragraph 33 of AASB 7. (July 2010)</p>	<p>Apply the principles and requirements in applicable AAS and provide additional superannuation-specific information that is consistent with the types of information disclosed under other AAS</p>	<p>33% (2 of 6)</p>

ED 179 Proposals	Constituent Written Comments	Board Decisions	Nature of the Change	Proportion of Written Responses Expressing Support for the Revised Proposal as an Alternative Approach
Obligations arising from insurance arrangements				
<p>Obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund shall be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038. (paragraph 21)</p>	<p>All of the respondents noted significant practical difficulties of applying the principles and requirements in AASB 1038 in a superannuation context could potentially undermine the provision of useful information to users. Ten of these respondents argued the proposals were not justified on cost-benefit grounds. In addition, nine respondents recommended that a plan or ADF:</p> <ul style="list-style-type: none"> • should not be required to recognise or measure obligations or assets arising from insurance contracts issued by the entity; and/or • include all obligations in respect of defined benefit entitlements, including obligations that have an insurance element or nature, in the calculation of members' accrued benefits. 	<p>(a) any obligations to defined benefit members should be recognised and measured as a part of the plan's obligation for such members' accrued benefits in accordance with the approach in AASB 119;</p> <p>(b) any obligations to defined contribution members should be measured in accordance with the approach in AASB 119;</p> <p>(d) material obligations to defined contribution members should be presented separately from r such members' vested benefits;</p> <p>(e) disclose information in accordance with paragraphs 36 and 38 of IFRS 4, including the key actuarial assumptions used to measure its obligations and any uncertainties surrounding the assumptions.</p>	<p>Require items to be accounted for in accordance with principles and requirements in AAS that might not otherwise apply to such items</p>	<p>56% (9 of 16)</p>

Staff views

Bearing in mind the IASB's criteria for re-exposure identified in paragraph 4 of this Agenda paper, staff do not consider that the revised proposals in ED 179 should be re-exposed for public comment because:

- (a) consistent with the objective of a replacement Standard for AAS 25, most of the Board's revised proposals require a plan or ADF to either:
 - (i) apply the reporting principles and requirements that they are currently required to apply under AAS 25; or
 - (ii) provide superannuation-specific information that is consistent with the types of information disclosed under other Australian Accounting Standards in addition to any information required to be disclosed under Australian Accounting Standards; and
- (b) the balance of the Board's revised proposals are consistent with comments of the majority of respondents that expressed views on the proposals.