

Regulation Impact Statement

Enhancing the Quality of Financial Reporting by Superannuation Plans and Approved Deposit Funds

XX 2010



Australian Government

**Australian Accounting
Standards Board**

Regulation Impact Statement

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Background

Under section 227(1) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), the functions of the Australian Accounting Standards Board (AASB) are to:

- develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards and international standards;
- make accounting standards under section 334 of the *Corporations Act* for the purposes of the corporations legislation;
- formulate accounting standards for other purposes; and
- participate in and contribute to the development of a single set of accounting standards for world-wide use having regard to the interests of Australian corporations that raise or propose to raise capital in major international financial centres.

In general, the AASB issues Australian Accounting Standards that incorporate International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

The AASB issues one series of Standards applicable to both for-profit and not-for-profit entities, including public sector entities.

Accordingly, where appropriate, the AASB uses relevant IFRSs as the 'foundation' Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment, and additions are made, where necessary, broadening the content to cover matters affecting not-for-profit entities that are not addressed by an IASB Standard and domestic, regulatory or other issues. There are a limited number of Australian Accounting Standards that are specific to the not-for-profit private and public sectors or that are purely of a domestic nature.

AASB 10XX *Superannuation Plans and Approved Deposit Funds* is a domestic Australian Accounting Standards, although it must be applied in

conjunction with other Australian Accounting Standards that incorporate IFRSs.

New Accounting Standard

AASB 10XX replaces AAS 25 *Financial Reporting by Superannuation Plans* and AASB Interpretation 1019 *The Superannuation Contributions Surcharge*. AASB 10XX applies to all superannuation plans and approved deposit funds (superannuation entities) that present general purpose financial statements (GPFs) for reporting periods beginning on or after 1 July 201X.

AASB 10XX requires the GPFs of a superannuation entity to be prepared in accordance with other applicable Australian Accounting Standards unless otherwise specified in AASB 10XX. Accordingly, AASB 10XX deals with only those financial reporting issues for which there is a need to:

- depart from Australian Accounting Standards in respect of superannuation entities; and
- limit the accounting treatments available to superannuation entities in other Australian Accounting Standards;

in the interests of facilitating the provision of information that is useful for decision making by users in a superannuation context.

The publication of AASB 10XX is consistent with the AASB's functions under the ASIC Act, in particular the requirement to formulate accounting standards for purposes other than the corporations legislation.

Problem

1.1 AAS 25 applies to all superannuation entities that prepare GPFs and is effective for reporting periods ending on or after 30 June 1993. When promulgated, AAS 25 was formulated to address the financial accounting and reporting issues that superannuation entities were specifically dealing with at the time. AAS 25 was also intended to apply to superannuation entities in place of most other Australian Accounting Standards. Consequently, some of the requirements in AAS 25 are now unsuitable due to:

- (a) changes in the structure of the superannuation industry;
- (b) developments in accounting and reporting requirements, particularly the adoption of IFRSs;

- (c) the increasing demand among members, regulators and other superannuation industry participants for improved financial reporting by superannuation entities; and
- (d) changes in the superannuation legislation and associated prudential requirements.

Reporting by 'hybrid' superannuation plans

- 1.2 AAS 25 differentiates between defined contribution and defined benefit superannuation plans, and imposes different reporting requirements on each type of plan. While consistent with the legislative requirements in place at the time AAS 25 was promulgated, this approach:
 - (a) no longer reflects the nature of the Australian superannuation industry; and
 - (b) does not necessarily facilitate the provision of comparable information that is useful for users making decisions in a superannuation context.
- 1.3 The defined contribution/defined benefit reporting dichotomy in AAS 25 is arguably no longer a relevant basis for determining reporting requirements for superannuation plans because:
 - (a) 'hybrid' superannuation plans (plans consisting of both defined contribution and defined benefit members) now comprise a significant portion of the superannuation industry. For instance, at June 2009 hybrid superannuation plans comprised:
 - (i) one third of all superannuation entities regulated by the Australian Prudential Regulation Authority (APRA);
 - (ii) approximately 39 per cent of all APRA-regulated superannuation member accounts (12.47 million); and
 - (iii) approximately 47 per cent of APRA-regulated superannuation assets (\$329 billion); and

- (b) based on current trends, hybrid plans are likely to become the predominant structure for Australian superannuation entities in the near future.¹

1.4 The defined contribution/defined benefit reporting dichotomy in AAS 25 also arguably does not facilitate the provision of comparable financial information that is useful for users making decisions in a superannuation context. For example, under AAS 25:

- (a) a defined contribution plan presents different types of financial statements compared to a defined benefit plan. This approach, however, is not necessarily reflective of the needs of the users of the different types of entities. Furthermore, it potentially diminishes the comparability of financial statements between superannuation entities and over time;
- (b) a defined benefit plan is not required to present a statement of cash flows. However, users of the financial statements of such plans would regard cash flow information to be as necessary for decision making as users of the financial statements of defined contribution plans; and
- (c) requiring a 'hybrid' plan to adopt the same reporting format as a defined benefit plan could limit the usefulness of the plan's financial statements. For instance, under AAS 25, a hybrid plan with insignificant defined benefit obligations could prepare its financial statements on a different basis from a defined contribution plan that is similar in all significant respects.

Measurement of assets

1.5 AAS 25 requires a superannuation entity to measure its assets at market value less costs that would be expected to be incurred in realising the proceeds from their disposal. At the time AAS 25 was promulgated, this approach was considered appropriate because:

- (a) most assets held by superannuation entities were monetary in nature, quoted on a stock exchange or otherwise capable of being measured by reference to a market price; and
- (b) anticipated disposal costs were potentially significant relative to the total assets of most superannuation entities.

¹ APRA *Annual Superannuation Bulletin* (June 2009).

However, industry developments over the past decade have rendered these assumptions invalid for many, if not most, superannuation entities.

- 1.6 Recent studies suggest that Australian superannuation plans have been gradually increasing their asset allocations to 'alternative' and unlisted investments and now hold somewhere between five and ten per cent of their portfolios in such assets,² although some plans have allocations to alternative asset in excess of this range.³ While some of these alternative and unlisted assets are monetary in nature (such as receivables and loans), many are non-monetary in nature, including private equity and infrastructure. Consequently, preparers and auditors of the financial statements of superannuation plans have been forced to increasingly rely upon related guidance in other Australian Accounting Standards to assist them in measuring this increasingly important category of assets.
- 1.7 In contrast to the approach under AAS 25, other Australian Accounting Standards require entities to measure many of the same types of assets held by superannuation entities at fair value. While conceptually similar to market value, the notion of fair value is dealt with in a more comprehensive manner in other Australian Accounting Standards compared with the manner in which market value measurement is dealt with in AAS 25. For instance, AASB 139 *Financial Instruments: Recognition and Measurement* provides guidance for measuring the fair value of an asset in the absence of an active market for the asset. In addition, an Australian Accounting Standard is to be released soon which incorporates an IFRS that will provide comprehensive guidance on fair value measurement.
- 1.8 With respect to anticipated disposal costs, most superannuation entities are now of a size that ensures that such costs are not significant relative to the entity's total assets. Moreover, if the superannuation industry continues to consolidate, as it is expected to, anticipated disposal costs are likely to become less relevant in a superannuation context.

2 Access Economics, *Asset Allocation and Investment Performance of Industry Superannuation Funds* (February 2005); Evans, J., *Study of Australian Superannuation Fund Attitudes to Private Equity Investing*, University of New South Wales (April 2005); Australian Prudential Regulation Authority (APRA), *Annual Superannuation Bulletin* (June 2006); 'Alternatives have appeal', *Australian Financial Review*, 22 June 2007, p. 82.

3 *Superfunds Magazine* (March 2007).

Recognition and measurement of obligations for defined benefit members' benefits

- 1.9 Under AAS 25, a defined benefit superannuation plan can choose to either disclose its members' accrued benefits in a note or recognise members' accrued benefits as a liability of the plan. Accordingly, under AAS 25 a defined benefit plan is not required to recognise any surplus or shortfall of net assets attributable to defined benefit members.
- 1.10 The existence of a surplus or shortfall of net assets attributable to defined benefit members does not necessarily imply that the superannuation plan would or would not be able to pay such members their benefits when due. Other factors can influence the capacity of a plan to pay its defined benefit members or their beneficiaries their benefits, including the expected earnings rate on the net assets attributable to such members and the expected level of future contributions by defined benefit members and/or their employer sponsors. Nevertheless, as the relationship between the net assets attributable to defined benefit members and such members' accrued benefits is important for an understanding of a plan's financial position and solvency, the information about any surplus or deficiency of net assets attributable to defined benefit members would be a matter of profound interest to defined benefit members and employer sponsors alike.
- 1.11 The relative sizes of surpluses and shortfalls of net assets attributable to defined benefit members vary significantly across Australian superannuation plans. In a recent study of trends in defined benefit and hybrid funds, APRA found that the average vested benefits index (VBI)⁴ for all APRA-regulated non-public sector superannuation plans ranged between 106 per cent and 101 per cent over the period June 2004 to June 2008. However, over this period some of these entities reported VBIs significantly below the cohort average. For instance, as at June 2008, approximately 10 per cent of all APRA-regulated non-public sector superannuation plans had a VBI of between 70 and 100 per cent.⁵ As noted above, none of these plans were required to report their surpluses or shortfalls in net assets attributable to defined benefit members under AAS 25.

4 The vested benefits index (VBI) indicates the capacity of the superannuation plan's assets to meet total benefits payable if all members voluntarily left employment at the date of the actuarial investigation. VBI is determined on the basis of net assets divided by vested benefits. Accordingly, a VBI of 100 per cent or more indicates that the plan's assets are adequate to cover members' vested benefits.

5 APRA *Annual Superannuation Bulletin* (June 2008), pages 18-19.

- 1.12 AAS 25 does not specify the actuarial valuation method required to measure defined benefit members' accrued benefits, and provides relatively little guidance in relation to actuarial assumptions applicable in respect of such benefits. Accordingly, defined benefit plans can potentially measure defined benefit members' accrued benefits at differing amounts under AAS 25, thereby potentially diminishing the usefulness and comparability of defined benefit plan's financial statements.
- 1.13 It is also relevant to note that AAS 25 requires defined benefit members' accrued benefits to be discounted at the rate of return the plan could achieve if, at the end of the reporting period, sufficient funds were available to meet members' accrued benefits as they fall due. Accordingly, a potentially counterintuitive outcome of AAS 25 is that a defined benefit superannuation plan might report a smaller amount for its defined benefit members' accrued benefits than it would otherwise by holding riskier assets with higher expected rates of return.

Reporting of contributions, rollovers, transfers and benefit payments

- 1.14 AAS 25 requires contributions, rollovers and transfers to be treated as revenues, and payments to defined benefit members to be treated as expenses. Accordingly, financial statements prepared by a superannuation entity under AAS 25 do not present separately the entity's operating and investment performance from changes in members' benefits. Such an approach, however, is inconsistent with:
- (a) the increasing demand among members and other superannuation industry participants for improved transparency and comparability between entities with respect to investment returns and operating costs, including administration expenses and taxes; and
 - (b) recent efforts by superannuation entities to meet this increasing demand among members and other industry participants for enhanced disclosures.

Superannuation-specific disclosures

- 1.15 AAS 25 does not require a superannuation entity to provide detailed information regarding, for example:
- (a) any identifiable 'sub-plans';

- (b) any uncertainties surrounding the key actuarial assumptions used to measure any defined benefit members' accrued benefits; or
- (c) the trustee's strategy for addressing any shortfall of net assets in relation to any defined benefit members.

Consistent with the discussion in paragraphs 1.10-1.12 above, the absence of such disclosures by superannuation entities under AAS 25 potentially diminishes the usefulness of the financial statements of many superannuation entities as well as their comparability to the financial statements of other superannuation entities and over time.

Objectives

- 2.1 The objective of introducing AASB 10XX (a replacement Standard for AAS 25 and AASB Interpretation 1019) is to improve the usefulness and comparability of the financial statements of superannuation entities by:
 - (a) requiring such entities to provide general purpose financial information that is useful for decision making by users in a superannuation context; and
 - (b) aligning, to the extent feasible, the reporting requirements applicable to superannuation entities with the reporting requirements applicable to other reporting entities under Australian Accounting Standards.

Options

Option 1

- 3.1 Replace AAS 25 with a domestic Australian Accounting Standard that:
- (a) deals with superannuation-specific reporting issues; and
 - (b) if necessary, clarifies how a superannuation entity should apply the requirements in other applicable Australian Accounting Standards.

Option 2

- 3.2 Replace AAS 25 with an Australian Accounting Standard that incorporates IAS 26 *Accounting and Reporting by Retirement Benefit Plans*.

Option 3

- 3.3 Withdraw AAS 25 and require superannuation entities to apply, where appropriate, Australian Accounting Standards.

Option 4

- 3.4 Status quo (do nothing), in which case superannuation entities that prepare GPFs would continue to apply AAS 25 and other applicable Australian Accounting Standards.

Impact Analysis

- 4.1 In the process of setting Accounting Standards, the AASB issues Invitations to Comment, Consultation Papers and Exposure Drafts to consult with stakeholders. Comments received from constituents are taken into account in setting the Standards. In particular, the AASB specifically seeks comment from constituents on whether the proposals are in the best interests of the Australian economy and on whether there are regulatory or other issues that may affect the implementation of the proposals. In the process of setting Accounting Standards, the AASB also sometimes forms project advisory panels comprising key constituents with relevant

experience to provide the AASB with input and feedback regarding issues over the life of a project.

- 4.2 The AASB assesses from a public interest perspective whether the costs of requiring certain financial information to be provided exceed the benefits to be derived from its provision. There is no universally accepted methodology for quantitatively measuring costs and benefits of information presented in financial statements. However, as described in the impact assessment methodology section below, the following impact analysis converts non-quantifiable factors into a proxy for quantities using a three-point scale (positive, neutral or negative) of impacts.
- 4.3 The costs of providing financial information are incurred, in the main, by preparers of GPFs, but benefits extend in various direct and indirect ways to the users of GPFs. Accordingly, the costs incurred by entities may not ultimately be borne by those who derive the benefits.

Impact assessment methodology

- 4.4 The expected impacts of introducing a replacement Standard for AAS 25 and AASB Interpretation 1019 can be considered as relating to three groups – preparers, users and the accounting profession (including auditors). Typical impacts of introducing a replacement Standard on preparers might be changes in the amount and type of information provided and the consequent costs of adjusting reporting systems to provide the information and costs of auditing that information. Typical impacts of introducing a replacement Standard on users may be improvements in decision making ability by enhancing the quality of information compared with that previously provided. Typical impacts on the accounting profession may be costs of training staff and amending related audit and accounting manuals and processes.
- 4.5 The assessment of impacts in this RIS is based on a three-point scale of positive, neutral or negative impacts. The impacts of each option are compared with the equivalent impact of the status quo option. If an impact on a particular group would, relative to the status quo, benefit the group, the impact is allocated a positive rating. On the other hand, if the impact on the group would result in a cost to the group, the impact is allocated a negative rating. If the impact is assessed to be the same as that imposed under the status quo option, a neutral rating is given.

- 4.6 The ratings for each type of impact compared with the status quo are aggregated to arrive at an overall effect at the option level. If the overall effect at the option level is positive, it indicates that the option is more likely to produce a favourable cost-benefit ratio than the status quo. If the overall effect at the option level is negative, it indicates that the option would be more likely to provide a less favourable cost-benefit ratio than the status quo. If the rating at the option level is neutral, it indicates that there would be no overall benefit or cost from the option relative to the status quo.

Cost and benefit assessment of the different Options

- 4.7 The following tables provide an assessment of impacts of adopting Option 1 (replace AAS 25 with a domestic standard), Option 2 (replace AAS 25 with IAS 26) or Option 3 (withdraw AAS 25 and require other Australian Accounting Standards to apply) relative to the impact of adopting Option 4 (status quo/do nothing) in respect of the overall impact on preparers, users and the accounting profession (including auditors). The assessments provided in each of the following tables are based on the impact assessment methodology described above.

Option 1:

Replace AAS 25 with a domestic Australian Accounting Standard that:

- *deals with superannuation-specific reporting issues; and*
- *if necessary, clarifies how a superannuation entity should apply the requirements in other applicable Australian Accounting Standards*

Preparers

Impact	Assessment	Analysis
Preparation costs relating to recognition and measurement	Negative	<p>AASB 10XX has the potential to increase preparation costs, particularly for plans with defined benefit obligations. In contrast to the approach under AAS 25, AASB 10XX requires a plan to:</p> <ul style="list-style-type: none"> • recognise obligations for defined benefit members' accrued benefits as a liability; • measure obligations for defined benefit members' accrued benefits in accordance with the approach under AASB 119 <i>Employee Benefits</i> for defined benefit obligations at the end of each reporting period; and • measure obligations arising from insurance arrangements in accordance with the approach under AASB 119 for defined benefit obligations <p>AASB 10XX contains a number of requirements that are different from the equivalent requirements in AAS 25, such as fair value measurement of most assets and liabilities other than obligations for members' benefits. However, in most cases these changes would not increase preparation costs significantly because most superannuation entities have adequate systems in place to ensure that impact of transitioning to the new measurement requirements for assets and liabilities other than members' benefits is limited.</p>

Impact	Assessment	Analysis
Preparation costs relating to presentation of financial statements	Neutral	<p>In contrast to the requirements in AAS 25, AASB 10XX requires:</p> <ul style="list-style-type: none"> • a plan with defined benefit members to present a statement of cash flows; • a superannuation entity to present a statement of changes in member benefits; and • a superannuation entity to present, where relevant, a statement of changes in equity (reserves). <p>However, most superannuation entities would have adequate systems in place to capture the information necessary to comply with the presentation requirements in AASB 10XX at little to no additional cost.</p>
Increased preparation costs relating to disclosures	Negative	<p>AASB 10XX requires a superannuation entity to disclose additional information in relation to a number of matters, including:</p> <ul style="list-style-type: none"> • the nature of the entity; • expense items; • fair value measurement techniques; • liquidity risks arising from non-financial items; • ‘sub-plans’; • obligations for members’ benefits; • measurement of defined benefit members’ benefits; • obligations arising from insurance arrangements provided to members; and • any surplus or shortfall of assets attributable to defined benefit members.
Increased audit and assurance costs	Negative or neutral	<p>On the basis that AASB 10XX contains some recognition, measurement and disclosure requirements that are more onerous than the corresponding requirements in AAS 25, the extent of audit and assurance work in connection with GPFs of a superannuation entity might increase with a commensurate increase in costs. However, most superannuation entities would have adequate systems in place to capture the information necessary to comply with the requirements in AASB 10XX at little to no additional cost.</p>

Impact	Assessment	Analysis
A consistent and coherent set of reporting requirements	Positive	Some of the requirements in AAS 25 are not consistent with the corresponding requirements in other Australian Accounting Standards. These inconsistencies can lead to conflicting views on how financial statements of superannuation entities should be prepared and presented, thereby imposing additional costs on such entities. In contrast, AASB 10XX largely aligns the financial reporting practices of superannuation entities with those of other entities currently reporting under Australian Accounting Standards. Accordingly, AASB 10XX would substantially reduce the potential for different interpretations arising, thereby reducing overall preparation, audit and assurance costs for superannuation entities in the future.

Users

Impact	Assessment	Analysis
Significantly enhanced usefulness for users	Positive	Under AASB 10XX, users of the financial statements of superannuation entities would be provided with more detailed and useful information for decision making, particularly in relation to: <ul style="list-style-type: none"> • operating performance, including expenses; • cash flows of plans with defined benefit members; • obligations for member benefits, including changes in such obligations over time; • obligations arising from insurance arrangements provided to members; and • solvency of plans with defined benefit members.

Impact	Assessment	Analysis
Significantly enhanced comparability	Positive	<p>The defined contribution/defined benefit reporting dichotomy in AAS 25 does not facilitate the provision of comparable financial information that is useful for users making decisions in a superannuation context.</p> <p>AASB 10XX facilitates the provision of more comparable financial statements by requiring a superannuation entity to:</p> <ul style="list-style-type: none"> • measure most assets and liabilities other than obligations for member benefits at fair value in accordance with Australian Accounting Standards; • measure any obligations for defined benefit members' accrued benefits on a consistent basis in accordance with the approach under AASB 119 for defined benefit obligations; • measure any obligations arising from insurance arrangements provided to members on a consistent basis in accordance with the approach under AASB 119 for defined benefit obligations; and • present an income statement, a statement of financial position, a statement of cash flows, a statement of changes in member benefits, notes to the financial statements and, where relevant, a statement of changes in equity (reserves).

Accounting profession (including auditors)

Impact	Assessment	Analysis
Costs of education and professional development	Neutral	<p>On the basis that AASB 10XX contains some recognition, measurement and disclosure requirements that are different from the corresponding requirements in AAS 25, some initial costs would be incurred in relation to training professionals to prepare and audit GPFs under AASB 10XX. However, these additional costs are unlikely to be significant, and may be recouped over the longer-term in the form of lower on-going education and professional development costs.</p> <p>Because AASB 10XX largely aligns the financial reporting practices of superannuation entities with those of other entities currently reporting under Australian Accounting</p>

Impact	Assessment	Analysis
		Standards, the accounting profession would be able to draw upon its training programs in respect of other Standards. In addition, as noted above, AASB 10XX would substantially reduce the potential for different interpretations arising. Accordingly, in the longer-term the accounting profession would not be required to consider the implications of changes in other Australian Accounting Standards for superannuation entities separately from other reporting entities.

Option 2:

Replace AAS 25 with an Australian Accounting Standard that incorporates IAS 26 Accounting and Reporting by Retirement Benefit Plans

Preparers

Impact	Assessment	Analysis
Significantly reduced preparation costs relating to recognition and measurement	Positive	IAS 26 contains a number of recognition and measurement requirements that are substantially less onerous than the corresponding requirements in AAS 25, including: <ul style="list-style-type: none"> • investments to be measured at fair value unless an estimate of fair value is not possible; • obligations for defined benefit members' accrued benefits to be disclosed in a note; and • obligations for defined benefit members' accrued benefits to be measured on the basis of either current salary levels or projected salary levels.
Preparation costs relating to presentation of financial statements	Negative or neutral	In contrast to the requirements in AAS 25, IAS 26: <ul style="list-style-type: none"> • requires a defined contribution plan to present a statement of net assets available for benefits, a statement of changes in net assets available for benefits, a statement of cash flows, a statement of changes in equity and notes; • requires a defined benefit plan to present a statement of cash flows, a statement of changes in equity and notes;

Impact	Assessment	Analysis
		<p>and</p> <ul style="list-style-type: none"> • permits a defined benefit plan to present: <ul style="list-style-type: none"> ○ a statement of net assets available for benefits (including the actuarial present value of promised retirement benefits and the resulting surplus or deficit of assets), a statement of changes in net assets available for benefits and changes in the actuarial present value of promised retirement benefits, and the actuary's report; ○ a statement of net assets available for benefits (with an accompanying note disclosing the actuarial present value of promised retirement benefits), a statement of changes in net assets available for benefits, and the actuary's report; or ○ a statement of net assets available for benefits, a statement of changes in net assets available for benefits, and the actuary's report. <p>However, most superannuation entities would have adequate systems in place to capture the information necessary to comply with the presentation requirements in IAS 26 at little to no additional cost.</p>
Preparation costs relating to disclosures	Negative or neutral	<p>IAS 26 requires a superannuation entity to disclose some information not required under AAS 25, including:</p> <ul style="list-style-type: none"> • details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security; • details of any investment in the employer; and • a description of the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement (defined) benefits. <p>However, most superannuation entities would have adequate systems in place to capture the information necessary to comply with the disclosure requirements in IAS 26 at little to no additional cost.</p>
Reduced audit and assurance costs	Positive	<p>On the basis that the requirements in IAS 26 are generally less onerous than the corresponding requirements in AAS 25, the extent of audit and assurance work in connection with GPFs of a superannuation entity is expected to decrease with a commensurate decrease in costs.</p>

Impact	Assessment	Analysis
A consistent and coherent set of reporting requirements	Negative	<p>Some of the requirements in IAS 26 are not consistent with the corresponding requirements in AAS 25 and other Australian Accounting Standards. These inconsistencies would lead to conflicting views on how financial statements of superannuation entities should be prepared and presented, thereby imposing additional costs on such entities.</p> <p>Moreover, it is likely that inconsistencies between the requirements in IAS 26 and other Australian Accounting Standards would become more common in the future as a consequence of the IASB's work program. The IASB does not intend to review IAS 26 in the immediate future although other topics relevant to superannuation entities, such as fair value measurement and defined benefit obligations, are currently the subjects of comprehensive reviews by the IASB.</p>

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Users

Impact	Assessment	Analysis
Overall significantly reduced usefulness for users	Negative	IAS 26 provides a set of generic accounting and reporting requirements for superannuation entities that can be applied to a range of retirement and pension arrangements. However, many of the accounting issues facing Australian superannuation entities are the consequence of the domestic environment. In addition, as noted above, IAS 26 contains a number of requirements that are substantially less onerous than the corresponding requirements in AAS 25. Moreover, if adopted, these requirements would potentially reduce the quality of financial reporting by superannuation entities.
Significantly reduced comparability	Negative	IAS 26 contains a number of requirements that: <ul style="list-style-type: none"> • permit accounting policy choices that are not available under AAS 25; and • are not consistent with the corresponding requirements in AAS 25 and other Australian Accounting Standards. Accordingly, replacing AAS 25 with an Australian equivalent of IAS 26 is unlikely to facilitate superannuation entities preparing GPFs that are comparable between entities and over time.

Accounting profession (including auditors)

Impact	Assessment	Analysis
Increased costs of education and professional development	Negative	Since some of the requirements in IAS 26 differ from the corresponding requirements in AAS 25 and other Australian Accounting Standards, there would be additional costs involved in training professionals to apply and audit the GPFs of a superannuation entity under IAS 26. There are also likely to be significant on-going costs arising from changes in other Australian Accounting Standards that are applicable to superannuation entities. As noted above, the IASB is unlikely to review the requirements in IAS 26 in the immediate term to resolve any inconsistencies between the Standard and other IFRSs. Accordingly, the accounting profession would also incur additional education and professional development costs going forward.

Option 3:

Withdraw AAS 25 and require a superannuation entity to apply, where appropriate, Australian Accounting Standards

Preparers

Impact	Assessment	Analysis
Preparation costs relating to recognition, measurement, presentation and disclosure	Negative	AAS 25 requires a superannuation entity to prepare GPFs in accordance with other Australian Accounting Standards, except to the extent that the requirements in AAS 25 differ from the corresponding requirements in other Standards. Consequently, superannuation entities currently apply most other Australian Accounting Standards. Withdrawing AAS 25 and requiring superannuation entities to apply the general suite of Australian Accounting Standards would therefore relieve preparers from having to resolve any inconsistencies between AAS 25 and other Australian Accounting Standards if and when they arise. Requiring superannuation entities to apply the general suite of Australian Accounting Standards would also enable

Impact	Assessment	Analysis
		<p>preparers to draw on the common knowledge pool revolving around these Standards, thereby enabling them to benefit in the future from any developments in reporting practices under Australian Accounting Standards..</p> <p>However, applying the general suite of Australian Accounting Standards would also mean that some superannuation entities would have to provide information that they had not previously reported under AAS 25, including fair value measurement information, comprehensive income and expense items, information in relation to equity items and cash flow information.</p>
Audit and assurance costs	Negative	On the basis that requiring superannuation entities to apply the general suite of Australian Accounting Standards would have a negative impact on preparation costs, the extent of audit and assurance work in connection with GPFs of a superannuation entity is expected to increase with a commensurate increase in costs.
A consistent and coherent set of reporting requirements	Positive	As noted above, some of the requirements in AAS 25 are not consistent with the corresponding requirements in other Australian Accounting Standards. These inconsistencies can lead to conflicting views on how financial statements of superannuation entities should be prepared and presented. Accordingly, applying the general suite of Australian Accounting Standards would enable superannuation entities to report in accordance with an integrated set of reporting requirements.

Users

Impact	Assessment	Analysis
Significantly reduced usefulness for users	Negative	<p>Requiring the application of the general suite of Australian Accounting Standards would not facilitate the provision of information that is useful for decision making by users in a superannuation context. For instance, AAS 25 requires all assets to be measured at net market value and any remeasurement changes in assets to be recognised in the income statement in the period in which they occur. However, under other Australian Accounting Standards, a superannuation entity could measure some assets at historic cost. Such an approach is arguably inconsistent with the:</p> <ul style="list-style-type: none"> • interests of users in the investment performance of such entities; and • prudential measurement requirements. <p>In addition, applying the general suite of Australian Accounting Standards would not facilitate the disclosure of superannuation-specific information, such as the causes and implications of any surplus or deficiency in net assets attributable to defined benefit members.</p>
Enhanced comparability	Neutral or negative	<p>In most cases, application of the general suite of Australian Accounting Standards would have little or no impact on the comparability of financial statements between superannuation entities and over time. However, in some limited situations the application of other Australian Accounting Standards may give rise to different reporting outcomes in ostensibly similar circumstances. For instance, if the amendments in AASB 2008-2 Amendments to Australian Accounting Standards – <i>Puttable Financial Instruments and Obligations arising on Liquidation</i> were applied to superannuation entities, defined contribution plans offering no investment choice would potentially recognise members’ entitlements as equity whereas defined benefit plans and defined contribution plans offering member investment choice would potentially recognise members’ entitlements as liabilities.</p>

Accounting profession (including auditors)

Impact	Assessment	Analysis
Costs of education and professional development	Positive or neutral	<p>As noted above, superannuation entities currently apply most other Australian Accounting Standards. Consequently, application of the general suite of Australian Accounting Standards would necessitate the accounting profession amending its programs to the extent that the requirements in AAS 25 were not consistent with other Australian Accounting Standards. While this may impose some initial costs on the profession, these costs are unlikely to be significant, and may be recouped over the longer-term in the form of lower on-going education and professional development costs.</p> <p>Application of the general suite of Australian Accounting Standards would facilitate the financial reporting practices of superannuation entities to be aligned with those of other entities currently reporting under Australian Accounting Standards. This would enable the accounting profession to draw upon the training programs it currently has in place in respect of other Standards. In addition, application of the general suite of Australian Accounting Standards would substantially reduce the potential for different interpretations arising. Accordingly, in the longer-term the accounting profession would have less need to consider the implications of changes in other Australian Accounting Standards for superannuation entities separately from other reporting entities.</p>

Option 4:

The status quo

4.8 The analysis above considers the benefits and costs of adopting Options 1, 2 or 3 relative to continuing with Option 4 and, therefore, also reflects the benefits and costs of maintaining the status quo. It demonstrates that overall, relative to Options 2 and 3, Option 4 is more likely to produce a favourable cost-benefit ratio than the status quo. The analysis also demonstrates that Option 1 is likely to yield a similar cost-benefit ratio to that yielded by Option 4. However, Option 4 would deprive users of the positive impacts Option 1

would provide in terms of improved financial reporting by superannuation entities.

Summary of Impact Analysis

Issue	Option 1	Option 2	Option 3
<i>Preparers</i>			
Preparation costs relating to recognition and measurement	Negative	Positive	Negative
Preparation costs relating to presentation	Neutral	Negative or neutral	Negative
Preparation costs relating to disclosures	Negative	Negative or neutral	Negative
Audit and assurance costs	Negative or neutral	Positive	Negative
Consistent and coherent set of reporting requirements	Positive	Negative	Positive
<i>Users</i>			
Usefulness to users	Positive	Negative	Negative
Comparability	Positive	Negative	Neutral or negative
<i>Accounting profession</i>			
Education and professional development	Neutral	Negative	Positive or neutral
OVERALL	POSITIVE	NEGATIVE	NEGATIVE

5. Consultation

- 5.1 Prior to commencing its comprehensive review of AAS 25, the AASB formed a Project Advisory Panel from constituents with relevant experience. The Project Advisory Panel comprises representatives from:
- (a) each of the 'Big 4' chartered accounting firms;
 - (b) APRA;
 - (c) CPA Australia;
 - (d) Investment and Financial Services Association (IFSA);
 - (e) Industry Funds Services (IFS);
 - (f) Institute of Actuaries of Australia (IAA);
 - (g) Association of Superannuation Funds of Australia (ASFA); and
 - (h) academia.
- 5.2 The Panel provided the AASB with input and feedback regarding a number of key issues in relation to financial reporting by superannuation entities, including accounting for subsidiaries, the measurement of obligations for defined benefit members' benefits, the measurement of obligations arising from insurance arrangements provided to members of a superannuation entity and the disclosure of segregated ('sub-plan') information.
- 5.3 The AASB issued the Consultation Paper *Consolidation of Subsidiaries by Superannuation Entities* in September 2007 and sought feedback from constituents on the issues discussed in the Consultation Paper. The purpose of the Consultation Paper was to assist the AASB in its deliberations in relation to the ways in which a parent superannuation entity could account for a subsidiary. The AASB also held roundtable meetings to enable a broad range of constituents to discuss issues in relation to the consolidation of subsidiaries by parent superannuation entities directly with AASB members.

- 5.4 In May 2009, the AASB issued ED 179. ED 179 invited comments from constituents on an exposure draft of AASB 10XX, particularly on whether:
- (a) the proposals would facilitate the provision of reliable and comparable financial information that is useful for users making decisions in a superannuation context;
 - (b) there are any significant practical difficulties that would inhibit a superannuation entity applying the proposals; and
 - (c) the proposals are in the best interest of the Australian economy.
- 5.5 Twenty responses were received in relation to the exposure draft of AASB 10XX. Respondents included constituents from the following:
- (a) superannuation plans;
 - (b) accounting firms, accountants and auditors;
 - (c) industry service providers, including actuaries, administrators, asset custodians and consultants;
 - (d) industry representative bodies;
 - (e) APRA;
 - (f) professional bodies; and
 - (g) academia.
- 5.6 Twelve of the twenty respondents expressed an overall view on exposure draft of AASB 10XX. Of these twelve respondents, eleven indicated that they were broadly supportive of the proposals in the exposure draft, primarily because:
- (a) the proposals will enhance the current financial reporting framework for superannuation entities by:
 - (i) providing greater transparency and consistency in financial reporting; and
 - (ii) substantially aligning the reporting practices of superannuation entities with other entities applying

Australian Accounting Standards, thereby facilitating greater comparability with non-superannuation entities; and

- (b) the principles-based approach will facilitate the provision of more useful information to users.

On the basis of these responses, the AASB concluded that Option 1 is arguably justified on cost-benefit grounds.

6. Conclusion and Recommendation

- 6.1 As demonstrated in section 4 above, compared with the status quo, Option 1 offers a greater level of benefits to users of the financial statements of superannuation entities than Option 4. Accordingly the AASB concluded that Option 1 is the most appropriate course of action with respect to financial reporting by superannuation entities.
- 6.2 The AASB considered the merits of Options 2 and 3. However, based on a consideration of the needs of users of the financial statements of superannuation entities, and the responses received from constituents on ED 179, the AASB concluded that it should retain a domestic Standard that addresses a limited number of reporting issues of critical importance to superannuation entities in Australia.
- 6.3 Option 4, which would keep the status quo, is seen as inappropriate as reflected in constituents' comments on the exposure draft of AASB 10XX.

7. Implementation and Review

- 7.1 AASB 10XX will be subject to review and subsequent revision taking account of the experience of constituents in implementing the Standard and international developments.
- 7.2 The implementation experience will also be used as a basis for providing feedback to the IASB in the event that it decides to review the requirements in IAS 26 or the general purpose financial reporting requirements applicable to superannuation entities more generally.