



Australian Government

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Mr Jason McNamara
Executive Director
Office of Best Practice Regulation
Department of the Prime Minister and Cabinet
1 National Circuit
BARTON ACT 2600

Email: helpdesk@obpr.gov.au

Dear Mr McNamara

**AASB 105X Superannuation Entities
Regulation Impact Statement – final assessment second pass**

I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for AASB 105X *Superannuation Entities*, which is intended to replace the existing AAS 25 *Financial Reporting by Superannuation Plans*. (The document is not allocated a final number until the AASB makes the Standard – it is expected to be AASB 1056). The regulatory burden to business, community organisations and/or individuals has been quantified and offsets have been identified and quantified using the Regulatory Burden Measurement framework. These have been agreed with your office.

I am satisfied that the RIS addresses the concerns raised in your letter of 16 April 2014. Specifically, the attached RIS addresses the OBPR's stated concerns as noted below – the references to OBPR comments are to those numbered in Attachment A of your letter.

OBPR comment 1

In order to improve clarity, the RIS now explains in more depth what AAS 25 requires superannuation entities to do – in particular, please see new section 1.2.

OBPR comment 2

In order to provide greater depth to the discussion, the RIS now better articulates the difficulties faced by reporting entities in applying AAS 25 – in particular, please see new section 1.2.

Similarly, the RIS now better articulates the difficulties faced by users in understanding superannuation entity financial statements prepared on the basis of AAS 25 – in particular, please see new section 1.2 and new paragraphs 4.6.3 and 4.6.4.

OBPR comment 3 on Options

In order to better explain the differences between the requirements under the status quo (Option 2) and Options 1 and 3, a table comparing all three options has now been included in the RIS – please see new section 3.2.

OBPR comment 4 on Impact Analysis

In order to show an analysis of the costs and benefits of the status quo (Option 2), a table providing a qualitative assessment has now been included in the RIS – please see new section 3.2.

OBPR comment 5 on Impact Analysis

In order to provide further analysis of why it is expected that users of financial information will gain a better understanding of the performance and financial position of superannuation entities under Option 1, additional explanations have now been included in the RIS – in particular, please see new paragraphs 4.6.3 and 4.6.4 and additions to the table “Option 1: Benefits and costs relative to base case”. I also believe that other parts of this table already included a number of explanations about why Option 1 would result in users being able gain a better understanding of the performance and financial position of superannuation entities.

OBPR comment 6 on Impact Analysis

In order to better explain how, under Option 1, the quality of information will be improved; and how users will change their behaviour in response to this information, the RIS now includes additional material – in particular, please see new paragraph 4.6.4 and additions to the table “Option 1: Benefits and costs relative to base case”. I also believe that other parts of this table already included a number of explanations of how Option 1 would improve the quality of reported information and the beneficial changes to the behaviour of users.

OBPR comment 7 on Impact Analysis

In order to better explain why, under Option 3, the costs would be higher than for Option 1, the RIS now includes additional explanation and emphasis – in particular, please see additions to the table “Option 3: Benefits and costs relative to base case”. I also believe that other parts of this table already included a number of explanations of why Option 3 would be more costly than Option 1, particularly in relation to defined benefit member liability measurement (page 28) and asset measurement (page 29).

OBPR comment 8 on Impact Analysis

In order to address your comment about costs and benefits associated with impacts on amounts recognised in the financial statements, the RIS now includes explanation of how the AASB views such impacts – please see new section 4.13. In particular, I note that the relevant focus is not the impacts themselves of a particular option on the actual amounts shown in the financial statements, but the extent to which those impacts result in a better depiction (in the financial statements) of the underlying economic realities facing superannuation entities.

In order to address your comment about whether there are implications of Option 1 for the reserve funding level required in relation to defined benefit member liabilities, the RIS now states that there are no such implications and explains why that is the case – please see new

section 4.14 and additional text in the table “Option 1: Benefits and costs relative to base case” dealing with defined benefit member liability measurement (page 20).

In order to address your comment about the difference between fair value and net market value, the RIS now includes additional explanation about the difference – please see additional text in the table “Option 1: Benefits and costs relative to base case” dealing with measurement of investment assets (page 21).

OBPR comment 9 on Impact Analysis

In order to address your comment about the nature of transitional costs, ongoing costs and whether new information will need to be gathered under Options 1 and 3, the RIS now includes additional explanations – please see paragraphs 4.9.2, 4.9.3 and 4.11.2 to 4.11.4.

OBPR comment 10 on Impact Analysis

Consistent with the best practice regulation requirements under the *Australian Government Guide to Regulation*, a regulatory cost offset has been identified and agreed with the OBPR via the Treasury Deregulation unit for the small increase in the regulatory burden on business that is estimated to arise from pursuing Option 1.

Please note that, consistent with international best practice among accounting standard setters, the AASB has applied a cost-benefit analysis in developing a replacement Standard for AAS 25 that is different from the Regulatory Burden Measurement framework.

The AASB’s analysis took into account a wider range of factors, including opportunity cost savings and benefits to users of financial statements of superannuation entities. The AASB believes that, based on its analysis, the benefits of replacing AAS 25 (as per Option 1) clearly outweigh the costs of keeping AAS 25, and that Option 1 is clearly superior to Option 3.

OBPR comment 11 on Impact Analysis

The Regulatory Burden and Cost Offset (RBCO) table has been completed and included in the RIS (page 50).

OBPR comment 12 on Consultation

In order to address your comment about explaining if there are any outstanding issues or points of contention with stakeholders, the RIS now makes it clear that there are no material outstanding issues – please see paragraph 5.10.2.

OBPR comment 13 on Consultation

In order to address your comment about explaining if, on balance, the main stakeholders support the proposed changes, the RIS now explains that the majority of stakeholders involved in providing feedback to the AASB supported proceeding with Option 1 – please see paragraph 5.10.3.

In addition, in the process of agreeing the regulatory burden to business using the Regulatory Burden Measurement framework with your office, the assumptions underpinning the Business Cost Calculations for Option 1 compared with the status quo have been explicitly identified. These have been included in section 8 of the RIS (in particular, paragraphs 8.5 to 8.20).

Accordingly, I am satisfied that the RIS now meets best practice consistent with the *Australian Government Guide to Regulation*.

I submit the RIS to the Office of Best Practice Regulation for formal final assessment.

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson". The signature is written in a cursive style with a large, sweeping initial "K" and "M".

Kevin M Stevenson
Chairman and CEO