Regulation Impact Statement

Replacement Australian Accounting Standard – Superannuation Entities

June 2014

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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 (IFRS) 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.

The AASB includes some disclosure requirements that are in addition to the IFRSs, but aims to keep these to a minimum on the basis that the IFRSs represent best international practice for general purpose financial reporting of publicly accountable for-profit entities. The AASB only has domestic Standards to extent they are essential to deal with domestic issues.

The project that has led to AASB 1056 *Superannuation Entities* involved two consultation documents issued by the AASB [ED 179 *Superannuation Plans and Approved Deposit Funds* (May 2009) and ED 223 *Superannuation Entities* (December 2011)[1]] that were each accompanied by a Basis for Conclusions that included an outline of the potential benefits and costs of the respective proposals in qualitative terms. Accordingly, constituents with an interest in superannuation entity financial reporting were provided with ample opportunity to comment on the costs and benefits of the AASB's proposals.

1. Assessing the problem

1.1 Introduction

1.1.1 AAS 25 *Financial Reporting by Superannuation Plans* was issued in 1993. It provided the main recognition, measurement and disclosure requirements applicable to superannuation plans. Accordingly, the Standard applied in the place of other Australian Accounting Standards on financial reporting issues that were considered most significant to superannuation plans in the 1990s.

1.1.2 The problem is that AAS 25 is out of date in the context of:

(a) significant developments in the superannuation industry in the last two decades; and

(b) the adoption in Australia of IFRS, which occurred from 2005.

Accordingly, the financial reporting by superannuation entities under AAS 25 is not as useful to users of general purpose financial statements as it could be.

1.1.3 In relation to (a), for example, when AAS 25 was originally issued, superannuation entities had either defined contribution members or

1 Two Exposure Drafts were required because the Board materially changed its proposals in ED 179 based on feedback received from stakeholders. A draft RIS was prepared in between issuing ED 179 and ED 223 and reviewed by the OBPR. This RIS is different from that earlier draft RIS because: (a) the proposals in ED 179 and the requirements of AASB 1056 are different; and (b) the requirements and guidance in relation to the content and focus of RISs have changed.

defined benefit members and, therefore, it was significant that AAS 25's requirements led to defined contribution and defined benefit superannuation plans preparing their financial statements on different bases. However, superannuation entities with both defined contribution members and defined benefit members (hybrid superannuation entities) are now common and the differential requirements are no longer appropriate and can be difficult to apply.

1.1.4 In relation to (b), for example, AAS 25 requires investments to be measured at net market value, whereas the closest form of this type of measurement in other, more recent, Australian Accounting Standards is measurement at fair value. There is no supporting guidance in Australian Accounting Standards specifically on net market value measurement, but there is considerable guidance on measuring investments at fair value in AASB 13 *Fair Value Measurement*. In general, AAS 25 does not articulate well with other, more recent, Australian Accounting Standards.

1.1.5 AAS 25 being out of date also meant it had significant deficiencies relative to the requirements addressing comparable transactions and events in Australian Accounting Standards applied by other entities. These deficiencies include AAS 25 permitting entities not to recognise liabilities in respect of defined benefit members. Accordingly, the usefulness of general purpose financial reporting by superannuation entities under AAS 25 has steadily diminished over time.

1.2 Overview of what AAS 25 requires and the problems that arise

1.2.1 AAS 25 requires a defined contribution plan, and permits a defined benefit plan, to present a statement of financial position, operating statement, and statement of cash flows. Alternatively, defined benefit plans can present a statement of net assets and a statement of changes in net assets. These requirements catered adequately to the needs of preparers and users at the time when superannuation entities had either defined contribution members or defined benefit members. However, they make little sense in the current environment in which there are 'hybrid' entities with both defined contribution and defined benefit members.

1.2.2 The change in prudential regulation over the last two decades to allow entities to have both types of members came about to enable entities to better take advantage of economies of scale, particularly in respect of assets under management. By June 2013, almost one third of large APRA-regulated superannuation entities were hybrids.

1.2.3 Under AAS 25, a hybrid entity either needs to prepare one set of financial statements for both its defined contribution and defined benefit member interests, or prepare one set of financial statements for the defined contribution and another set for defined benefit member interests. Because different entities make different decisions, there is a lack of comparability in what is being reported by different superannuation entities. Lack of comparability is generally viewed as a major problem for users trying to compare between entities for the purposes of deciding where to allocate their resources, including in making decisions on the accountability of the trustees for the resources for which they have responsibility.

1.2.4 AAS 25 requires contributions from both employers and members, and benefits to members, to be accounted for as income and expenses. However, these items are in the nature of deposits and withdrawals of deposits in the context of all other Australian Accounting Standards. This inconsistency can create confusion among users because it means that the accounting by superannuation entities is different from the accounting for similar items by other entities such as managed investment schemes. This creates a lack of comparability between the information available to users about different investment options.

1.2.5 AAS 25 requires entities to measure assets at net market value. There is only limited guidance on determining net market value in the accounting literature because asset measurement requirements have generally moved on since AAS 25 was issued. The prevailing form of current value measurement in financial reporting is 'fair value' and there is substantial guidance on how fair values should be determined (for example, in AASB 13). Accordingly, the requirements of AAS 25 are potentially costly for preparers to apply because of the lack of definitive guidance and the uncertainty around the difference between net market values and fair values in particular cases.

1.2.6 AAS 25 requires defined benefit member liabilities to be determined as the present value of expected future payments (remeasured at least once each three years). A measure that is up to three years old is generally of little information value to users, and in many cases entities produce more regular valuations for management purposes in any case. Accordingly, requiring remeasurement of defined benefit member liabilities (with shortcuts allowed to minimise the costs) can provide more relevant information for users.

1.2.7 AAS 25 applies in addition to other Australian Accounting Standards, such that a specific AAS 25 requirement alleviates the need to apply a corresponding requirement in other Standards. When there is no AAS 25 requirement, those other Standards apply to relevant transactions. Because the other Australian Accounting Standards have changed so much since the early 1990s, particularly in respect of disclosure requirements, AAS 25 does not articulate well with those other Standards (for example, in relation to AASB 7 *Financial Instruments: Disclosure*). Replacing AAS 25 provides the opportunity to have the specific disclosure requirements updated to blend better with the requirements in other Australian Accounting Standards. This has the potential to facilitate the application of all the Standards by superannuation entities by providing greater clarity around what does, and does not, have to be disclosed.

1.2.8 AAS 25 is silent about when and how superannuation entities should account for any exposures they have in relation to insurance arrangements they provide for their members. Replacing AAS 25 provides the opportunity to remove the current uncertainty about when a superannuation entity has such exposures and, if so, how to account for them.

2. Objectives of government action

2.1 The objectives of issuing AASB 1056 are to bring the requirements relating to superannuation entities up to date in the context of the current industry environment and current Australian Accounting Standards in order to:

(a) facilitate the inclusion of information in superannuation entity financial statements that is relevant to users of those statements; and

(b) enable superannuation entities to report on a basis that is more consistent with other entities and avail themselves more readily of the considerable guidance in current Australian Accounting Standards on applying the relevant requirements.

2.2 In common with AAS 25, AASB 1056 applies to ‘reporting entities’. Reporting entities include ‘large’ superannuation entities. AASB 1056 does not apply to self-managed superannuation funds or small Australian Prudential Regulation Authority (APRA) funds. Nor does AASB 1056 apply to pooled superannuation trusts, which only apply other Australian Accounting Standards.

3. Options that may achieve the objectives

Option 1 – Replacement industry-specific standard (regulatory ‘light handed’ option)

3.1.1 Replace AAS 25 with an up to date Australian Accounting Standard for superannuation entity financial reporting by issuing AASB 1056. This option would mean that superannuation entities would apply AASB 1056 when it addresses an accounting policy of particular relevance to such entities and apply other Australian Accounting Standards in respect of other accounting policies.

Option 2 – Existing industry-specific standard (status quo)

3.1.2 Retain AAS 25. This option would mean that superannuation entities would apply AAS 25 when it addresses an accounting policy choice of particular relevance to such entities and apply other Australian Accounting Standards in respect of other accounting policies.

Option 3 – Non-industry-specific (regulatory option)

3.1.3 Withdraw AAS 25 and not replace it with another industry-specific Australian Accounting Standard for superannuation entity financial reporting. This option would mean that superannuation entities would apply other applicable Australian Accounting Standards without any requirements or guidance to address issues that are specific to superannuation entities.

3.1.4 Both AAS 25 and AASB 1056 operate on the basis that other Australian Accounting Standards apply to superannuation entities only where an accounting policy is not specifically addressed in AAS 25 or AASB 1056.

3.2 Overview of what each option would require

3.2.1 The following tables provide a very high-level overview of what each of the three options would require. In viewing this table, it is crucial to note that the apparent inclusion of more requirements and/or guidance under a particular option does not necessarily mean the option involves more cost than an alternative option. Costs might be reduced by having additional requirements that substitute for more onerous requirements in another Standard and the additional guidance might help preparers reduce costs in applying the requirements of other Standards (because the guidance reduces the time and effort the industry would otherwise need to expend to determine how particular requirements should be applied by superannuation entities).

Financial statement presentation

Option 1	**Option 2**	**Option 3**
Statement of financial position Income statement Statement of changes in reserves Statement of cash flows Statement of changes in member benefits	DC plan: Statement of financial position Operating statement Statement of cash flows DB plan: Statement of financial position Operating statement, including information on changes in member benefits Statement of cash flows OR Statement of net assets Statement of changes in net	Statement of financial position Statement of profit and loss and other comprehensive income Statement of changes in equity Statement of cash flows

Option 1	Option 2	Option 3
	assets, including information on changes in member benefits	

Asset measurement

Option 1	**Option 2**	**Option 3**
Fair value through current income	Net market value through current income	It depends on the type of asset and how it's managed within the entity. The following might apply: Fair value through current income AND/OR Fair value through other comprehensive income AND/OR Cost/Amortised cost with impairment

Defined benefit member liability measurement

Option 1	**Option 2**	**Option 3**
Each year based on present value principle	At least once every three years based on present value principle	Each year based on requirements of AASB 119 *Employee Benefits*, which includes quite onerous requirements that are framed in an employer context, not a superannuation entity context (that is member focussed)

Insurance contracts

Option 1	**Option 2**	**Option 3**
Guidance on when an insurance exposure might exist and requirements on how to account for any exposures	No guidance and no specific requirements. Consequently, an entity would need to determine whether AASB 4 *Insurance Contracts,* AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts* are applicable and, if so, how to apply them to the specific features of insurance arrangements provided to	Would need to determine whether AASB 4, AASB 1023 and AASB 1038 are applicable and, if so, how to apply them

Option 1	Option 2	Option 3
	members	

Disclosures

Option 1	Option 2	Option 3
The following specific disclosure principles and guidance apply: * The nature of the entity, the benefits provided to members and the expenses it incurs * Changes in key components of DB liabilities * Credit risk, market risk and liquidity risk * The basis for key assumptions used in measuring DB and changes in key assumptions * Disaggregated information by type of member An entity also discloses information in accordance with other Australian Accounting Standards within the framework set by the above principles.	The disclosure requirements of Australian Accounting Standards with some exceptions, but little guidance on how they should be applied in the superannuation entity context.	All the disclosure requirements of Australian Accounting Standards. No exceptions from the disclosure requirements of Australian Accounting Standards would be available. Furthermore, no specific guidance would be available to help superannuation entities to determine how to apply those requirements in the superannuation entity context.

4. Impact Analysis – costs, benefits & risks

4.1 Affected parties

4.1.1 In the process of setting accounting standards, the AASB issues for public comment Consultation Papers, Exposure Drafts and other documents. The AASB also conducts roundtable discussions and targeted liaison to elicit comments from key stakeholders. The input received from stakeholders is taken into account in developing the standards.

4.1.2 Parties likely to be most directly affected by Standards impacting on superannuation entities are:

(a) superannuation entities required to prepare general purpose financial statements (superannuation entities' governing bodies help discharge their accountabilities by issuing financial statements); and

(b) users of financial statements identified in (a) such as:

(i) existing and potential resource providers and their advisers, including members, prospective members, employers and financial advisers; and

(ii) parties performing a review or oversight function (including industry analysts and policy-makers).

4.1.3 The costs of providing financial information are incurred, in the main, by reporting entities, but extend in various direct and indirect ways to the users of general purpose financial statements. In the case of 'mutual type' entities such as superannuation entities, where the sole purpose is to provide retirement benefits for members (or their dependents in the event of a member's death),[2] in broad terms, both the costs and benefits accrue to the members. Members are interested in knowing about entity performance and accountability, including information about their superannuation entity having the lowest costs feasible.

4.2 Approach to identifying costs, benefits & risks

4.2.1 The AASB assesses from a public interest perspective whether the costs of requiring the provision of certain financial information would 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 reports. In this context, the AASB is often guided by the feedback received from

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2 Under the *Superannuation Industry (Supervision) Act 1993*, the decisions of trustees of superannuation entities must be directed toward achieving this sole purpose.

stakeholders as to the range and nature of costs that may be involved in implementing new and revised accounting requirements, and the benefits that may accrue from using the information reported in accordance with those requirements.

4.2.2 The AASB specifically invited stakeholders to provide quantitative and/or qualitative information on costs and benefits in their responses to ED 179 and ED 223 and in subsequent discussions. The information received was qualitative in nature. Stakeholders provided limited quantitative information on the likely type, range and mix of costs and benefits of changes proposed in either ED 179 or ED 223 only in direct discussions with the AASB, which is indicative of the nature of those costs and benefits and that fact that they are generally difficult to measure with reliability.

4.2.3 A key reason that quantitative information on costs is generally difficult to measure is that superannuation entities maintain information systems and engage consultants and auditors to serve multiple purposes, including to enable: the effective management and governance of the entity; the provision of information to the APRA; the provision of information to the Australian Taxation Office; and for the purpose of preparing general purpose financial statements. The incremental cost of the requirements in an accounting standard would generally not be able to be isolated. This is particularly the case because the AASB, in developing its replacement requirements, has been mindful of the need to contain costs associated with preparing financial statements and had regard to the manner in which superannuation entities are governed and to the other information requirements that superannuation entities need to meet.

4.2.4 A key reason that quantitative information on benefits is generally not be able to be determined is that it is not feasible to link particular decisions or transactions to particular information provided to users. This is because of the wide information set used by parties in making decisions such as: individuals determining the superannuation entity that will manage their benefits, or employers nominating a default superannuation entity for their employees.

4.2.5 The limited quantitative feedback indicated that any net costs of complying with the replacement Standard are expected to be largely incurred in the implementation phase, and are generally not expected to be ongoing. Implementation phase costs would include any costs of updating information systems on first-time application of the replacement Standard to facilitate the break-down of the information to be presented. It was not generally expected that costs would need to be incurred to collect new information, although particular entities might be in that position.

4.2.6 The qualitative feedback also indicated that the benefits of the replacement Standard are expected to be ongoing.

4.2.7 The potential risks of regulatory change in superannuation entity general purpose financial reporting relate mainly to whether the personnel responsible for implementing any change have the skills to manage that change.

4.2.8 Those key stakeholders who are preparers, auditors and consultants who would be involved in implementing change have been engaged in the consultation processes undertaken by the AASB, either directly or through their professional bodies. They are well aware of the potential for change and capable of its implementation. That is, the existing service providers to the industry are expected to have the requisite skills to implement the replacement Standard.

4.2.9 Based on the above knowledge, the risks associated with regulatory change in superannuation entity general purpose financial reporting are considered to be low.

4.3 How costs and benefits might change in future

4.3.1 In terms of how cost impacts might change in the future; intuitively, the costs faced by superannuation entities are subject to economies of scale,[3] and there is a general trend towards rationalisation in the industry (see tables below). Accordingly, any ongoing costs to superannuation entities of preparing financial statements could be expected to decline over time in relative terms.

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3 Working Paper *Effect of fund size on the performance of Australian superannuation funds*, James Cummings, APRA, March 2012; and *The bigger, the better? The cost benefits of scale in the Australian and international pension landscape*, Stewart Old, J.P. Morgan, 2013

Total assets of large superannuation entities [4]

June 2005	*June 2010*	*June 2011*	*June 2012*	*June 2013*
$587b	$830b	$926b	$959b	$1,111b

Number of large superannuation entities[5]

June 2005	*June 2010*	*June 2011*	*June 2012*	*June 2013*
1,323	426	386	352	325

4.3.2 In general, superannuation has become a more significant part of individuals' wealth and this trend can be expected to continue.[6] In terms of how benefit impacts might change in the future; intuitively, as member balances grow, information in general purpose financial statements about the superannuation entities that have stewardship over that wealth will become more important to users.

4.4 Identifying the costs

4.4.1 In broad terms, the main relevant costs to affected parties of meeting the requirements of the replacement Standard are expected to be those involved in:

(a) start-up costs of preparers and auditors gaining an understanding of the requirements for the purposes of producing the financial statements;

(b) start-up costs of users of the financial statements gaining an understanding of the requirements and information superannuation entities produce for the purposes of analysis and decision making;

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4 Annual Superannuation Bulletin, June 2013, APRA, issued in January 2014. Large superannuation entities include corporate, industry, public sector and retail entities. Large superannuation entities do not include self-managed superannuation funds, small APRA funds or pooled superannuation trusts.

5 APRA, January 2014.

6 Research Report for CPA Australia, *Twenty years of the superannuation guarantee: the Verdict*, August 2013; and *Dynamics of the Australian Superannuation System – The next 20 years: 2013 – 2033*, Deloitte Actuaries & Consultants, September 2013

(c) start-up costs of preparers making any necessary changes to information systems so that they are capable of producing the information needed to prepare financial statements;

(d) for 'paragraph 66 entities'[7] the costs of reporting in accordance with all of the requirements of the replacement Standard (rather than only some of the AAS 25 requirements; and

(e) for entities with defined benefit members, the costs of specialists for (potentially) more frequent actuarial valuations.

4.4.2 Paragraphs (a), (b) and (c) outline costs in the nature of start-up costs – that is, costs that would be incurred in respect of implementing the requirements, but which should not subsequently be a factor. The AASB has sought to mitigate the burden associated with these costs by providing a long period between making the replacement Standard and its mandatory application date,[8] and by explicitly overriding the 'normal' requirement to provide a third balance sheet on transition.[9] Information system upgrades tend to be ongoing; and, by having a long implementation period, there is a good chance that any changes required as a result of the replacement Standard can be undertaken in conjunction with other systems changes that may be necessary. Similarly, education and training about reporting requirements among preparers, auditors and users tend to be ongoing; and the long implementation period provides an opportunity to incorporate information on the replacement Standard in that ongoing education and training.

4.5 Identifying the benefits

4.5.1 In broad terms, the relevant benefits that are expected to emerge from the reporting of information under the replacement Standard are those

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7 Under AAS 25, some entities that meet particular criteria are permitted to apply a subset of the full reporting requirements – that relief is located in paragraph 66 of AAS 25.

8 The replacement Standard was made on 5 June 2014 and its application is first required for annual reporting periods beginning on or after 1 July 2016.

9 Ordinarily, AASB 108 *Accounting Policies, Changes of Accounting Estimates and Errors* requires an opening balance sheet for the earliest comparative period presented when there are material changes in accounting policies. AASB 1056 explicitly provides relief from this requirement on transition.

involved in users of the financial statements being able gain a better understanding of the performance and financial position of superannuation entities. In turn, this is expected to help ensure that users make better-informed decisions about the allocation of their resources to superannuation entities and competing investment opportunities (such as managed investment schemes).

4.5.2 In terms of how benefit impacts are likely to change in the future; intuitively, as superannuation grows as a proportion of the wealth of individuals, it could be expected that they (and their advisers) would obtain more benefit from the information in financial statements for decision-making purposes, including the comfort that they can receive from superannuation entities demonstrating their accountabilities through financial statements.

4.6 Identifying the risks

4.6.1 The risks involved in setting new or amended standards for general purpose financial reporting are that those standards result in, or considerably contribute to:

(a) inadequate, difficult to understand, or wrong information, being made available to users, which results in decision-making that is less than optimal. This includes the risk of removing existing requirements for information that was crucial to users' decision-making; and the risk of adding requirements that result in existing useful information being obscured; or information that misleads users; and

(b) costs of preparation and audit that exceed any benefits.

4.6.2 The risk of doing nothing, particularly when existing standards are acknowledged as being out-of-date, is that users are deprived of information that would otherwise contribute to decisions being made that are as close to optimal as is feasible in the context of general purpose financial reporting. This includes the risk that bad decisions are not averted because new or amended standards were not made.

4.6.3 It is inherently difficult to determine the extent to which those making decisions about the allocation of resources to superannuation entities base those decisions on the financial statements compared with other sources of information. That is because users typically rely on multiple sources of information in making their decisions. Based on the consultation performed in developing AASB 1056, it became evident to the AASB that financial statements of superannuation entities are often an integral part of this decision-making process and can therefore influence users' choices with regard to allocating their resources to superannuation entities.

4.6.4 A key test of the usefulness of financial statements is to ask: "would it be acceptable for superannuation entities not to present financial statements?". The vast majority of those with an interest in financial reporting by superannuation entities are supportive of requiring them to present financial statements. In particular, the financial statements provide a key basis for the trustees to demonstrate, and be judged on, their accountability for the resources for which they have responsibility. By improving and updating the Standard specifically applicable to superannuation entities, users should be better able to make informed decisions about the allocation of their resources and how well trustees have discharged their duties. In turn, that may provide users with a greater level of confidence about allocating resources to superannuation entities, including contributions above those required to meet the Superannuation Guarantee.[10]

4.7 Assessing the Options

4.7.1 Based on the above, the AASB has undertaken an analysis of the options considered by the AASB in solving the problem of AAS 25 being out of date. This includes both qualitative descriptions and a quantitative assessment of the costs and benefits associated with the identified options relative to the 'base case'.

4.7.2 All those constituents providing quantitative information on the costs and benefits involved in implementing AASB 1056 did so on a confidential basis, due to the potentially commercially sensitive nature of the information involved. That is, the AASB would have been unable to collect the information unless it undertook to do so on the basis that the sources and specific detail of the information remain

10 Information about the Superannuation Guarantee (SG) and contributions above the SG is available at: https://www.ato.gov.au/super/.

confidential. The quantitative information presented in this RIS is a blend of information sourced from various key constituents.

4.7.3 The assumed base case is Option 2 – the status quo – which is to retain AAS 25.

4.8 Impact of Option 1 – qualitative analysis of benefits and costs

4.8.1 The AASB regards the regulatory 'light-handed' option to be making an industry-specific Australian Accounting Standard for superannuation entity financial reporting to replace AAS 25.

4.8.2 A description of the benefits and costs of the changes that would be introduced under Option 1 relative to the base case are presented in the following table.

Option 1: Benefits and costs relative to base case

Change	Benefits	Costs
General impact on preparers of addressing particular financial reporting issues facing superannuation entities in a current context	The ongoing application of the requirements should be easier because they will articulate better with requirements in other Australian Accounting Standards, including the guidance in those other Standards on matters such as measuring fair values. Accordingly, less time would need to be spent interpreting how other Australian Accounting Standards apply in light of the Standard applying specifically to superannuation entities.	There will be initial costs for superannuation entities in changing information systems to generate the information needed to meet the changed requirements. **Mitigating factors** These costs are expected to be mitigated by the long period between making the replacement Standard and its mandatory application date.
General impact on users of addressing particular financial reporting issues facing superannuation	The ongoing use of the financial statements should yield more benefits for a given time devoted	There will be initial costs for users in understanding the changed financial statements.

Change	Benefits	Costs
entities in a current context	to examining those statements because they will articulate better with the financial statements prepared by other types of entities applying other Australian Accounting Standards. Accordingly, less time would need to be spent interpreting the impact of requirements of other Australian Accounting Standards light of the impact of the Standard applying specifically to superannuation entities.	**Mitigating factors** These costs are expected to be mitigated by the long period between making the replacement Standard and its mandatory application date.
Specific new requirement to present a statement of changes in member benefits	Users of financial statements should find the new statement useful in understanding the key movements in member benefits that have occurred during the reporting period. This is because, information about changes in member benefits tends to be located in various parts of the financial statements under the current requirements – the statement of changes in member benefits will draw that information together and provide a format that highlights the information for the attention of users.	Superannuation entities will incur additional costs in the preparation and audit of the new statement. **Mitigating factors** The costs are expected to be minimal because the content of the statement is likely to be comprised of verifiable information readily available to superannuation entities.
Specific new requirement to present a statement of changes in equity	Users of financial statements should find the new statement useful in understanding the key	Superannuation entities will incur additional costs in the preparation and

Change	Benefits	Costs
	movements in equity that have occurred during the reporting period, particularly in light of recent APRA changes in respect of maintaining reserves for operational risks. This is because, without the separate statement, this type of information may not be highlighted to users.	audit of the new statement. **Mitigating factors** The costs are expected to be minimal because the content of the statement is likely to be comprised of verifiable information readily available to superannuation entities.
Specific new requirement to recognise defined benefit member liabilities (as opposed to only disclosing the 'funding liabilities' under AAS 25)	The information value of financial statements for users, particularly those concerned with defined benefit member liabilities, would be enhanced. The treatment of defined benefit member liabilities and defined contribution benefit member liabilities would be made consistent, which would generally improve the financial statements of superannuation entities with both defined benefit and defined contribution members. The requirement is expected to be consistent with the reporting to other parties, including the APRA. There are no implications arising from the accounting requirements in terms of the extent to which superannuation entities need to hold	For those superannuation entities with defined benefit members, there may be costs involved in measuring the liabilities more frequently as at each reporting date for the purposes of recognition. **Mitigating factors** The following factors mitigate against these costs: (1) superannuation entities (either voluntarily, or due to APRA requirements) already measure these liabilities each period; (2) in general, the same or a similar basis of measurement would apply for the financial statements; or the existing measurement could readily be used as the basis for the measure required; and (3) the replacement Standard permits shortcut

Change	Benefits	Costs
	capital or be funded, as required by other regulators (such as the APRA).	techniques to be used, provided that application of those shortcut techniques yield a reasonable approximation of the defined benefit member liabilities that would have been determined using the replacement Standard.
Measurement of investment assets at fair value (as opposed to net market value under AAS 25)	There is considerable guidance available in Australian Accounting Standards on measuring fair value and very little on net market value measurement, which should help lower the costs of preparing and auditing financial statements. Financial statement users would generally be more familiar with fair value measurement because that is the main current value measure used by other types of entities. The requirement is expected to be consistent with the reporting to other parties, including the APRA.	There may be initial costs involved in changing to measuring investment assets at fair value. **Mitigating factors** These costs are expected to be minimal or to be completely mitigated because entities providing information/valuation services to the industry would be generally more familiar with fair value measurement than net market value measurement. In addition, in many cases, net market values and fair values would not be materially different, particularly for assets traded on active markets. In other cases, such as with some illiquid assets, there may be a material difference between net market values and fair values due to the potential magnitude of costs associated with conducting a trade.

Change	Benefits	Costs
New requirements and guidance relating to any insurance contracts (as opposed to AAS 25, which does not address insurance contracts)	The new requirements and guidance for financial reporting of insurance contracts clarify when a superannuation entity has insurance contracts and the relevant recognition and measurement requirements. This provides greater certainty about the requirements relating to financial reporting of insurance contracts for both preparers and users.	There may be initial costs involved in understanding the new requirements. **Mitigating factors** These costs are expected to be minimal because the guidance is likely to clearly indicate whether a superannuation entity has, or does not have, insurance contracts that need to be reflected in the financial statements.
Changed disclosure requirements and new disclosure guidance	The new guidance should provide greater certainty about the disclosure requirements for both preparers and users. The new disclosure requirements should be helpful to users in assessing the risks and uncertainties relating to recognised assets and liabilities.	Some of the new disclosure requirements will result in superannuation entities incurring additional costs of preparation and audit. **Mitigating factors** These costs are expected to be minimal given that much of the information should be readily available without the need to develop new information systems.

4.9 Impact of Option 1 – quantitative analysis of costs

4.9.1 As noted earlier in this RIS, only limited quantitative information was able to be obtained on the likely costs associated with the regulatory ‘light-handed’ option of making an industry-specific Australian Accounting Standard for superannuation entity financial reporting to replace AAS 25, relative to the base case.

4.9.2 The transitional costs involved in implementing Option 1 relate almost exclusively to the costs of preparers, auditors, other service providers and users learning the revised requirements. In analysing these costs, the AASB has taken into account that:

(a) superannuation entities would have existing relationships with a range of service providers that collectively provide custodial and valuation services, actuarial services, financial statement compilation services, and financial statement audit services; and

(b) the service providers mentioned in (a) would generally be providing services for multiple superannuation entities and, therefore, enjoy economies of scale.

4.9.3 In general, the AASB has determined that the ongoing costs of implementing Option 1 relate to any additional actuarial calculations that might need to be performed in measuring defined benefit member liabilities annually and the costs to some of the so-called paragraph 66 plans in preparing more comprehensive financial statements. The AASB is not aware that any additional information would need to be collected to implement Option 1 above that which is already collected in complying with AAS 25 or other requirements, such as prudential reporting requirements overseen by the APRA.

4.9.4 The quantitative information in this RIS relating to Option 1 is based on the following general information/assumptions:[11]

(a) most of the costs associated with financial reporting by superannuation entities do not vary significantly with the size of the entity, but are generally higher for entities that have defined benefit members, compared with entities that have only defined contribution members [source: consultation with key constituents];

(b) the total number of reporting entities within the scope of AASB 1056 is estimated to be 325 entities [source: the APRA

11 Additional detail on the assumptions underpinning the quantitative analysis of costs are included in an attachment to this RIS.

Annual Superannuation Bulletin, June 2013, issued in January 2014];

(c) there are estimated to be 131 entities with at least one defined benefit member [source: the APRA Annual Superannuation Bulletin, June 2013, issued in January 2014];

(d) it is estimated that, on average, one in 10 entities with at least one defined benefit member will need to undertake a full actuarial valuation that it would not have needed to undertake under the base case, in each year, which is estimated to be 13 entities [source: consultation with key constituents];

(e) it is estimated that 10 entities are currently taking advantage of reduced reporting requirements under the base case (paragraph 66 of AAS 25) [source: consultation with key constituents and online search for paragraph 66 plan financial statements]; and

(f) it is reasonable to spread the transition (or start-up) costs over 10 years on the assumption that Option 1 would be in force for at least 10 years (AAS 25 has been in force for more than 20 years).

4.9.5 It should be noted that the amounts of the costs expected to be associated with AASB 1056 and identified in the Business Cost Calculator and the tables below are broad approximations. They are based on assumptions and estimates that do not necessarily apply in the case of individual superannuation entities. Furthermore, the costings have been prepared using the methodology prescribed by the Commonwealth Regulatory Burden Measurement Framework, which may differ from other bases for measuring costs of compliance. They are also net costs – that is, the additional costs associated with Option 1 less the cost savings associated with Option 1.

4.9.6 It should also be noted that the AASB's decision to make AASB 1056 is based on a cost-benefit analysis that differs from this quantitative assessment. The AASB's decision-making is reflected in the Basis for Conclusions to AASB 1056 and involved taking into account many factors, including benefits to users.

4.9.7 Based on the expected ongoing rationalisation of the numbers of superannuation entities and the fact that most defined benefit plans are closed to new members and are diminishing in significance, the above assumptions are regarded as being conservative. That is, they may result in an over-statement of the costs associated with AASB 1056, but are unlikely to result in an under-statement of the costs associated with AASB 1056.

4.9.8 The following table sets out the estimated total net costs of Option 1 relative to the base case, which should be read in light of the assumptions and comments noted above and the mitigating factors identified in the qualitative feedback.

Net costs relating to an average for all 325 affected entities[12]

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	2,400	780,000
Defined benefit member liability measurement	800	260,000
Paragraph 66 entities	[13]370	120,000
	3,570	1,160,000

4.9.9 The following tables show a breakdown of the costs in the above table for the different entity circumstances.

Net costs relating to 184 entities that have no defined benefit members and are not paragraph 66 entities

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	2,400	441,600

12 Further detail is included in the Business Cost Calculator for the Replacement Standard. For example, the general ongoing of costs to preparers of financial statements that are offset by general ongoing cost savings to preparers of financial statements are not shown here.

13 Rounded

Net costs relating to 131 entities that have defined benefit members and are not paragraph 66 entities

Description of activity	*$ per entity*	*$ Totals*
Transition costs divided by 10 years	2,400	314,400
Defined benefit member liability measurement	20,000	260,000
	22,400	574,400

Net costs relating to 10 entities currently reporting as paragraph 66 entities

Description of activity	*$ per entity*	*$ Totals*
Transition costs divided by 10 years	2,400	24,000
Paragraph 66 entities	12,000	120,000
	16,400	144,000

4.9.10 The AASB notes, while the above table shows an estimated net quantitative cost of implementing AASB 1056, that overall it is satisfied the benefits of replacing AAS 25 with AASB 1056 will exceed the costs based on the feedback it has received on ED 179 and ED 223 and other liaison with key constituents. The AASB notes that the above estimated quantitative cost ignores the substantial and ongoing benefits that it believes will be forthcoming to users of the information reported under AASB 1056.

4.10 Impact of Option 3 – qualitative analysis of benefits and costs

4.10.1 The AASB regards the regulatory option to be withdrawal of AAS 25 without replacement by another industry-specific Australian Accounting Standard. This option would mean that superannuation entities would apply other Australian Accounting Standards without there being any specific alternative ‘industry-based’ requirements.

4.10.2 A description of the benefits and costs of the changes that would be introduced under Option 3 relative to the base case are presented in the following table.

Option 3: Benefits and costs relative to base case

Change	Benefits	Costs
General impact on preparers of not addressing particular financial reporting issues facing superannuation entities	The ongoing application of the requirements could, in theory, be easier because they would be the same as the requirements in other Australian Accounting Standards applied by other entities.	There will be initial costs for superannuation entities in changing information systems to generate the information needed to meet the changed requirements. These costs would be particularly significant because no specific account is being taken of the manner in which the superannuation industry operates. **Mitigating factors** These costs could be mitigated by having a long period between announcing the repeal of AAS 25 and its actual repeal.
General impact on users of not addressing particular financial reporting issues facing superannuation entities	The ongoing use of the financial statements could, in theory, yield some benefits for a given time devoted to examining those statements because they e they would be prepared using the same requirements in other Australian Accounting Standards applied by other entities.	There will be initial costs for users in understanding the changed financial statements. These costs would be particularly significant because no specific account is being taken of the particular needs or focus of, and current knowledge possessed by, users of superannuation entity financial statements. **Mitigating factors** These costs could be mitigated by having a long period between announcing the repeal of

Change	Benefits	Costs
		AAS 25 and its actual repeal.
A statement of changes in equity would need to be presented, based on the requirements of AASB 101 *Presentation of Financial Statements*	Users of financial statements may find the new statement useful in understanding the key movements that have occurred during the reporting period.	Superannuation entities will incur additional costs in the preparation and audit of the new statement. **Mitigating factors** These costs could be mitigated by having a long period between announcing the repeal of AAS 25 and its actual repeal.
Defined benefit member liabilities must be recognised (as opposed to only disclosing the 'funding liabilities' under AAS 25). Measurement would be done by analogy with the requirements of standards such as AASB 119 *Employee Benefits* or AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*	The information value of financial statements for users, particularly those concerned with defined benefit member liabilities, may be enhanced. In terms of recognition, the treatment of defined benefit member liabilities and defined contribution benefit member liabilities would be made consistent, which would generally improve the financial statements of superannuation entities with both defined benefit and defined contribution members. However, the usefulness of the measure by analogy with other standards, such as AASB 119 or AASB 137 could be limited. Based on feedback received on	For those superannuation entities with defined benefit members, there may be costs involved in measuring the liabilities as at each reporting date for the purposes of recognition. In particular, a measure determined by applying AASB 119 or AASB 137 would be very different from existing measures being used for other purposes (such as reporting to the APRA), so the ability of preparers to save costs by using the information generated for other purposes as a basis for the measure required by AASB 119 or AASB 137 would be limited. **Mitigating factors** Superannuation entities

Change	Benefits	Costs
	ED 223, which proposed the application of AASB 119, the employer focus of AASB 119 makes it difficult for superannuation entities to apply. In addition, superannuation entities generally have no experience of applying AASB 137.	(either voluntarily, or due to APRA requirements) already measure these liabilities each period. If AASB 119 were applied, it permits shortcut techniques to be used, provided that application of those shortcut techniques yield a reasonable approximation of the defined benefit member liabilities that would have been determined using AASB 119.
Measurement of investment assets in accordance with AASB 9 *Financial Instruments*, AASB 138 *Intangible Assets* and AASB 140 *Investment Property* (as opposed to net market value under AAS 25) CONTINUED over the page	There is considerable guidance available in Australian Accounting Standards on measuring fair value, which is: (a) required and/or permitted for some financial instruments; (b) permitted for a narrow range of intangible assets; and (c) permitted for investment property. There is very little guidance on net market value measurement. Accordingly, the access to guidance should help lower the costs of preparing and auditing financial statements where fair values can be applied. Financial statement users would generally be more	AASB 9 requires some financial assets to be measured at fair value through profit or loss, some at fair value through other comprehensive income and others at amortised cost (with impairment). AASB 138 only permits intangible assets to be measured at fair value when there is an active market for those assets. Other intangible assets must be measured at cost less amortisation and impairment. AASB 140 permits either fair value or cost measurement for investment property. There are likely to be significant initial costs and

Change	Benefits	Costs
	familiar with fair value measurement because that is the main current value measure used by other types of entities.	ongoing costs involved in a ‘mixed’ measurement model for investment assets, as superannuation entities would need to create and maintain multiple systems or pay outside suppliers to maintain such systems. Having the capacity to measure financial asset impairment alone may require the development and maintenance of systems that are ordinarily only possessed by banks and similar institutions.
Measurement of investment assets CONTINUED		In addition, a mixed measurement model would result in different asset measures between the financial statements and unit prices/member account balances, which would detract from the usefulness of the financial statements. The requirement would often not be consistent with the reporting to other parties, including the APRA. Therefore, superannuation entities would need to duplicate their efforts when accounting for the same asset (on two different bases).
Any insurance contract assets, liabilities, income	Additional information on insurance contract assets,	There would be initial and ongoing costs involved in

Change	Benefits	Costs
and expenses would be required to be recognised and measured based on the requirements of AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*	liabilities, income and expenses that would be provided by applying AASB 4, AASB 1032 and AASB 1038 may be useful to users.	applying AASB 4, AASB 1023 and AASB 1038. In particular, there may be significant costs involved in preparers and auditors identifying and measuring insurance contract liabilities under the insurance contract standards and meeting the related disclosure requirements.
All the disclosure requirements in Australian Accounting Standards would apply	There may be significant new information disclosed that is helpful to users in assessing the performance and financial position of superannuation entities.	The full set of disclosure requirements in Australian Accounting Standards would result in superannuation entities incurring additional costs of preparation and audit. In addition, without the benefit of industry-specific guidance, considerable costs may be incurred in identifying the requirements that should, or should not, apply, and how to apply them.

4.11 Impact of Option 3 – quantitative analysis of costs

4.11.1 As noted earlier in this RIS, only limited quantitative information was able to be obtained on the likely costs associated with the non-industry-specific ‘regulatory option’ of withdrawing AAS 25 and not replacing it with another industry-specific Australian Accounting Standard for superannuation entity financial reporting, relative to the base case. This is particularly the case since constituents have not had cause to carefully contemplate the impact of the regulatory option because it was not proposed by the AASB as a viable option in any of the due process conducted by the AASB.

4.11.2 The transitional costs involved in implementing Option 3 relate mainly to the costs of preparers, auditors, other service providers and users learning the revised requirements. In analysing these costs, the AASB has taken into account that:

(a) superannuation entities would have existing relationships with a range of service providers that collectively provide custodial and valuation services, actuarial services, financial statement compilation services, and financial statement audit services;

(b) the service providers mentioned in (a) would generally be providing services for multiple superannuation entities; and

(c) the service providers mentioned in (a) would generally be specialists in the superannuation industry and would need to learn much of what the other Australian Accounting Standards require in order to be able to continue to provide services to the industry.

4.11.3 In general, the AASB has determined that the ongoing costs of implementing Option 3 would include additional actuarial calculations that would need to be performed in measuring defined benefit member liabilities each year and costs to some of the so-called paragraph 66 plans in preparing more comprehensive financial statements.

4.11.4 The AASB also considers that Option 3 is likely to require additional information to be collected by superannuation entities because the requirements would not be tailored to the particular circumstances prevailing in the industry. This would generally add to transitional costs in terms of developing new systems to gather additional information.

4.11.5 The quantitative information in this RIS is based on the following information/assumptions:

(a) most of the costs associated with financial reporting by superannuation entities do not vary significantly with the size of the entity, but are generally higher for entities that have defined benefit members, compared with entities that have only defined contribution members [source: consultation with key constituents];

(b) the total number of entities within the scope of AASB 1056 is estimated to be 325 entities [source: the APRA Annual Superannuation Bulletin, June 2013, issued in January 2014];

(c) there are estimated to be 131 entities with at least one defined benefit member [source: the APRA Annual Superannuation Bulletin, June 2013, issued in January 2014];

(d) it is estimated that, on average, every entity with at least one defined benefit member (131 entities) would need to undertake five full actuarial valuations that it would not have needed to undertake under the base case, in each year [source: consultation with key constituents];

(e) it is estimated that 10 entities are currently taking advantage of reduced reporting requirements under the base case (paragraph 66 of AAS 25) [source: consultation with key constituents and online search for paragraph 66 plan financial statements]; and

(f) it is reasonable to spread the transition (or start-up) costs over 10 years on the assumption that Option 3 would be in force for at least 10 years (AAS 25 has been in force for more than 20 years).

4.11.6 It should be noted that the amounts of the costs assumed to be associated with the regulatory option are broad approximations. They are based on assumptions and estimates that would not necessarily apply in the case of individual superannuation entities. Furthermore, the costings have been prepared using the methodology prescribed by the Commonwealth Regulatory Burden Measurement Framework, which may differ from other bases for measuring costs of compliance. They are also net costs – that is, the additional costs associated with Option 3 less any cost savings associated with Option 3.

4.11.7 The costs identified in (c), (e) and (h) above are estimated to be higher than the same costs in respect of Option 1 (the ‘light-handed’ option) due to the following factors:

(a) the general lack of guidance addressing issues that are specific to superannuation entities;

(b) the potential need to create the capacity to measure financial asset impairment (for financial instruments at amortised cost), which may involve developing and maintaining systems that are ordinarily only possessed by banks and similar financial institutions; and

(c) the potential impact, by analogy, of the requirements in AASB 119 *Employee Benefits* on the frequency of full actuarial valuations for defined benefit member liabilities.

4.11.8 The following tables set out the estimated net costs of Option 3 relative to the base case, which should be read in light of the assumptions and comments noted above and the mitigating factors identified in the qualitative feedback.

Net costs relating to an average for all 325 affected entities

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	7,200	2,340,000
Defined benefit member liability measurement	[14]40,300	13,100,000
Paragraph 66 entities	[15]930	300,000
	48,430	15,740,000

4.11.9 The following tables show a breakdown of the costs in the above table for the different entity circumstances.

Net costs relating to 184 entities that have no defined benefit members and are not paragraph 66 entities

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	7,200	1,324,800

14 Rounded
15 Rounded

Net costs relating to 131 entities that have defined benefit members and are not paragraph 66 entities

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	7,200	943,200
Defined benefit member liability measurement	100,000	13,100,000
	107,200	14,043,200

Net costs relating to 10 entities currently reporting as paragraph 66 entities

Description of activity	***$ per entity***	***$ Totals***
Transition costs divided by 10 years	7,200	72,000
Paragraph 66 entities	30,000	300,000
	37,200	372,000

4.11.10 The transition costs are estimated to be much higher than for Option 1 because superannuation entities would need to familiarise themselves with a relatively wider range of Australian Accounting Standards than is the case where there is an industry-specific Standard. Entities would need to spend time making decisions about how to apply the wider range of Standards and to create systems to capture the relevant information.

4.11.11 The most significant example of why the transition costs would be higher is in relation to the recognition and measurement of investments. While Option 1 has a single measurement requirement (fair value through the income statements) for investments, Option 3 would involve considering the wide range of requirements for investment accounting in Australian Accounting Standards more generally. This may, for example, involve entities in creating new information systems to address the measurement of investments in debt instruments at amortised cost less impairments.

4.11.12 Furthermore, it is not clear whether, in the absence of an industry-specific Standard, superannuation entities would make consistent decisions about applying the other Australian Accounting Standards. Accordingly, there is the risk of greater lack of comparability in superannuation entity financial reporting with a resulting loss of usefulness for users of the financial statements.

4.12 Impact of Option 2 – qualitative analysis of benefits and costs

4.12.1 The AASB has identified the status quo as Option 2. This option would mean that superannuation entities would continue to apply AAS 25 in conjunction with other Australian Accounting Standards with no regard to how well it articulates with those other Standards and no regard to the current industry environment.

4.12.2 The main costs of retaining the status quo relate to: (a) AAS 25 not articulating well with the other Australian Accounting Standards on which it relies; and (b) AAS 25 not being suitable for the current industry environment.

4.12.3 A description of the benefits and costs of Option 2 are presented in the following table.

Option 2: Benefits and costs

Issue	**Benefits**	**Costs**
General impact on preparers of not addressing how AAS 25 articulates with financial reporting issues facing superannuation entities that are addressed in other Standards	None identified	AAS 25 needs to be applied in conjunction with other Australian Accounting Standards. It is not a 'one-stop shop' for superannuation entity accounting – it provides a limited number of exceptions from other Standards. When AAS 25 was originally issued, these other Standards were very different from the Standards that prevail today. By comparison with the Standards applying in the 1990s, today's Standards have been made consistent with IFRS and have developed to address

Issue	Benefits	Costs
		transactions that are prevalent in today's economy. Accordingly, preparers would need to make a number of presumptions about how those other Standards impact on superannuation entities in the context of AAS 25. That would involve preparers evaluating each other Standard and its impacts. Different preparers may come to different conclusions about how AAS 25 articulates with other Standards, which could lead to a lack of comparability in reporting by different superannuation entities.
General impact on users of not addressing how AAS 25 articulates with financial reporting issues facing superannuation entities that are addressed in other Standards	None identified	As noted above, AAS 25 needs to be applied in conjunction with other Australian Accounting Standards and is not a 'one-stop shop' for superannuation entity accounting. Also, as noted above, because preparers would need to make a number of presumptions about how those other Standards impact on superannuation entities in the context of AAS 25, different preparers may come to different conclusions about how AAS 25 articulates with other Standards. The resulting potential lack of comparability in reporting by different entities could

Issue	Benefits	Costs
		adversely impact on how well users can utilise financial information in making decisions on resource allocation and in judging the accountability of trustees.
A statement of changes in equity (based on AASB 101 *Presentation of Financial Statements*) is not required	Only ‘opportunity costs’ have been identified – of preparers not needing to take the time to present and have audited a statement of changes in equity/reserves.	Reserves are of increasing importance in the superannuation industry, particularly since the introduction by the APRA of Operational Risk Reserves. Given the significance of these reserves, having movements in them clearly presented in a separate statement will provide useful information to users in resource allocation decisions and provide an opportunity for trustees to demonstrate their compliance with prudential requirements.
Choice of either recognising defined benefit member liabilities OR only disclosing the ‘funding liabilities’ under AAS 25	Preparers are able to choose the basis for reporting defined benefit member liabilities that is least costly to the entity	The fact that entities can choose how to report defined benefit member liabilities leads to a lack of comparability between entities, which in turn detracts from the usefulness of the financial statements. The choice does not function well in the context of ‘hybrid’ entities (that have both defined contribution and defined benefit members), which constitute about one third of all APRA-regulated large superannuation entities. This is because the

Issue	Benefits	Costs
		‘disclosure option’ for presenting defined benefit member liabilities means a ‘proper’ statement of financial position is not presented in respect of defined benefit members, but one is still required in respect of the defined contribution members. This potentially means that the financial statements are not a cohesive whole, and makes it difficult for trustees to adequately demonstrate their accountabilities over the whole entity.
Measurement of investment assets at net market value under AAS 25	There would be no need to change existing systems for determining net market values.	There is very little guidance on determining net market values in the current accounting literature. This contrasts with the considerable guidance available in Australian Accounting Standards on measuring fair value, in particular, AASB 13. As superannuation entities extend the types of assets in which they invest, the guidance on measurement becomes more and more crucial. In particular, many superannuation entities offer exposure to infrastructure assets for which active markets are generally not available. Accordingly, thorough guidance on determining fair values, which can be applied

Issue	Benefits	Costs
		consistently across all entities, is increasingly valuable as a tool for helping to ensure comparable and useful reporting of such assets.
Accounting for insurance contract assets, liabilities, income and expenses – AAS 25 has no guidance or requirements	There may be no need to change existing systems for accounting for any exposures to insurance contracts	The lack of guidance can create costs for preparers that change their insurance arrangements and need to make their own determinations about how to account for the new arrangements in light of the requirements in AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. The lack of guidance may be leading different superannuation entities to account for identical insurance contracts in different ways. The resulting lack of comparability means that information on the impacts of insurance contracts is not consistently conveyed to users of financial statements.
Applying the disclosure requirements in other Australian Accounting Standards	There may be no need to change existing systems for gathering information for disclosure purposes	The lack of guidance can create costs for preparers, for example, in the area of financial instruments disclosure (including under AASB 7). The costs relate to superannuation entities having to make their own

Issue	Benefits	Costs
		determinations about how to apply the disclosures in other Australian Accounting Standards without the benefit of guidance. There is a general lack of consistency in how the disclosure requirements in other Australian Accounting Standards are applied by different superannuation entities. The resulting lack of comparability means that information about assets, liabilities, revenues and expenses is not consistently conveyed to users of financial statements.

4.13 Impacts on the recognition and measurement of items in the financial statements

4.13.1 Each option could have a different impact on the actual outcomes shown in the financial statements. That is, the amounts shown as assets, liabilities, revenues and expenses could be different under each option. The extent to which a particular option changes a recognised amount is only an indication of its benefit in terms of how that amount best depicts the underlying economic realities facing superannuation entities. For example, if a particular option results in a higher 'net income' compared to other options, that in itself is not necessarily a good or bad thing. The relevant factor is whether or not that higher net income better depicts the underlying economics of the situation facing a superannuation entity than the net income determined under the other options.

4.13.2 The AASB is not able to determine whether any particular assets, liabilities, revenues or expenses will be higher or lower under each option compared with the other, except in limited cases. One such case is that both Option 1 and Option 3 would result in a defined benefit member liability being recognised in all relevant circumstances, rather than only when an entity chooses recognition under Option 2 (applying AAS 25).

4.14 Impacts in relation to prudential regulatory reporting

4.14.1 Based on the continuing liaison that has occurred between the AASB and APRA staff during the development of AASB 1056, the AASB believes that AASB 1056 will not have any adverse impacts in relation to prudential reporting. If anything, AASB 1056 should provide a greater level of consistency between general purpose financial reporting and prudential reporting, particularly because some of the AASB 1056 disclosure requirements were crafted by the AASB with the prudential reporting in mind. The clearer position of AASB 1056 on issues such as financial instrument disclosure and identifying and accounting for exposure to insurance risks is also consistent with the manner in which prudential regulation has progressed.

5. Consultation

5.1.1 In the process of developing AASB 1056, the AASB:

(a) issued Exposure Draft ED 179 in May 2009 for a 120-day comment period and conducted roundtable discussions on the proposals in ED 179 in both Melbourne and Sydney;

(b) issued Exposure Draft ED 223 in December 2011 for a 120-day comment period and conducted roundtable discussions on the proposals in ED 223 in both Melbourne and Sydney;

(c) conducted considerable ongoing liaison with a range of stakeholders, including superannuation plan trustees, superannuation industry representative bodies, accounting firms, professional accounting and actuarial bodies, service providers to the superannuation industry and the APRA on both ED 179 and ED 223; and

(d) published a 'fatal flaw' review draft AASB 1056 in December 2013 for a 60-day period.

5.1.2 The AASB received 20 comment letters on ED 179 and 17 comment letters on ED 223 from a wide range of stakeholders, including representative bodies. A total of more than 80 stakeholders attended the four roundtable discussions conducted in connection with ED 179 and ED 223.

5.1.3 The sections below outline some of the more significant aspects of the consultation undertaken and the impact of the feedback received on the eventual requirements in the replacement Standard. More information on the consultation and the impact of the feedback received is included in the Basis for Conclusions that accompanies, and is published with, AASB 1056.

5.2 Consultative documents

5.2.1 The AASB found it necessary to issue two Exposure Drafts (ED 179 and ED 223) in the process of developing AASB 1056. This because a number of the proposals in ED 179 received considerable negative feedback that caused the AASB to re-think its approach to some issues. The key issues on which the AASB re-thought its approach were in relation to measuring defined benefit member liabilities, accounting for insurance contracts, disclosure of disaggregated information, and disclosure of information about risks associated with recognised assets and liabilities.

5.2.2 The AASB has a policy of re-exposure when there is a considerable re-think on key issues to ensure that the relevant stakeholders can have their say on the AASB's changed thinking – hence the issue of ED 223.

5.2.3 Although the AASB further changed its position on a number of issues in AASB 1056 when compared with its second Exposure Draft (ED 223), this was with the benefit of considerable feedback over a long period that provided the AASB with a high level of confidence that all the relevant issues had been covered and all the relevant views heard.

5.3 Presentation of financial statements

5.3.1 Both ED 179 and ED 223 proposed that superannuation entities be required to present five financial statements; namely: a statement of financial position, income statement, statement of cash flows, statement of changes in member benefits, and statement of changes in equity/reserves.

5.3.2 The proposals that attracted the most comment were those for presenting a statement of changes in member benefits and presenting a statement of changes in equity/reserves. The feedback received led to modifications to the requirements pertaining to these two statements to clarify the nature of the content of these statements and the manner in which they should be presented.

5.4 Measurement of assets at fair value

5.4.1 Both ED 179 and ED 223 proposed that superannuation entities be required to measure most assets, including investments, at fair value. Those assets not measured at fair value would be any tax assets, assets associated with reinsurance contracts, acquired goodwill and employer-sponsor receivables.

5.4.2 The proposals attracted largely favourable comment. Some concerns were expressed in response to ED 179 that net market values (required by AAS 25) might still provide a more faithful representation of investment assets than fair values, but those concerns have largely been addressed since the release of AASB 13 in 2011, which provides considerable guidance on fair value measurement.

5.5 Member liabilities

5.5.1 Both ED 179 and ED 223 proposed that defined benefit member liabilities be measured at the present value of the expected future benefit payments to such members using the Projected Unit Credit Method. However, the ED 223 proposal more closely followed the method as it is set out in AASB 119.

5.5.2 The proposals attracted largely unfavourable comment. Major concerns were expressed that the Projected Unit Credit Method in AASB 119 adopted an employer perspective, rather than a superannuation entity perspective. The problem was expressed as being particularly acute when a superannuation entity has multiple employer sponsors, which is often the case.

5.5.3 AASB 1056 requires defined benefit member liabilities to be measured as the amount of a portfolio of investments that would be needed as at the reporting date to yield future net cash inflows that would be sufficient to meet accrued benefits at that date when they are expected to fall due. This requirement involves taking a superannuation entity perspective and is the result of the cumulative effect of the feedback received on ED 179, ED 223, and considerable further consultation that occurred with key stakeholders following the feedback received on ED 223.

5.6 Liabilities and assets arising from insurance contracts

5.6.1 ED 179 proposed that obligations and assets arising from insurance contracts issued by a superannuation plan or approved deposit fund be required to be measured in accordance with the principles and requirements applicable to life insurance contracts under AASB 1038. ED 223 proposed that liabilities arising from insurance arrangements provided to members be recognised and measured in accordance with the approach in AASB 119 for defined benefit obligations, and any reinsurance assets be recognised in accordance with AASB 1038

5.6.2 The ED 179 proposals attracted largely unfavourable comment, particularly in relation to the cost of implementation. That feedback led the AASB to include changed proposals in ED 223, which were largely well-received. However, many of those commenting on the ED 223 proposals sought greater guidance on when a superannuation entity might be considered to have insurance contract assets and liabilities.

5.6.3 The feedback on ED 223 led the AASB to include in AASB 1056 considerably more guidance on the circumstances in which superannuation entities would be expected be acting in the capacity of an insurer and have insurance contract assets and liabilities and on the circumstances in which they would be expected to be acting only as agents and not have insurance contract assets and liabilities.

5.7 Disaggregated disclosures

5.7.1 ED 179 proposed that superannuation entities disclose disaggregated information based on the principles in AASB 8 *Operating Segments*. ED 223 included similar, but more principle-based, proposals.

5.7.2 The proposals attracted largely unfavourable comment, particularly in relation to the cost of implementation. Stakeholders were concerned that the proposals would give rise to 'disclosure overload' and would not result in information that was in any way comparable between superannuation entities.

5.7.3 That feedback led the AASB to consider much narrower disaggregated disclosures that would flow from the existing information systems of superannuation entities, while also providing useful information. AASB 1056 requires a superannuation entity to disclose disaggregated information when it is necessary to explain the risks and benefit arrangements relating to different categories of members.

5.8 Risk disclosures

5.8.1 ED 179 proposed that a superannuation entity disclose information about significant risks to which the entity is exposed using disclosure principles based on paragraphs 31-42 of AASB 7 *Financial Instruments*: *Disclosures*, tailored for a superannuation context. ED 223 proposed that a superannuation entity disclose information about defined contribution or defined benefit member liabilities in accordance with the relevant principles and requirements in AASB 7; and, in relation to defined benefit members, qualitative information about non-performance risk and/or economic dependency risk in respect of employer-sponsors.

5.8.2 The proposals generally attracted mixed comments, with many stakeholders expressing the view that more guidance would be needed to help ensure that the information would be useful and to minimise costs. The proposal in relation to non-performance risk and/or economic dependency risk in respect of employer-sponsors received largely unfavourable feedback, with some stakeholders expressing the view that it would not be feasible to make the disclosures.

5.8.3 That feedback led the AASB to refine its thinking and the requirements of AASB 1056 include considerable guidance and a number of specific requirements that are more readily applicable by a range of different types of superannuation entity. The feedback also led the AASB to not require disclosures about non-performance risk and/or economic dependency risk in respect of employer-sponsors in AASB 1056.

5.9 Consolidation

5.9.1 One of the most contentious issues throughout the development of AASB 1056 was the application of the consolidation requirements in AASB 127 *Separate and Consolidated Financial Statements* and AASB 10 *Consolidated Financial Statements* (which superseded AASB 127 during the period AASB 1056 was being developed).

5.9.2 AAS 25 did not provide an exemption from consolidation and both ED 179 and ED 223 proposed not to have an exemption. A large number of stakeholders were keen to have an exemption from consolidation for two main reasons. (1) They consider that accounting for subsidiaries at fair value through profit or loss provides more useful information than consolidation in a superannuation entity context. (2) There can be difficulties for a superannuation entity in knowing whether and when it has control over some types of entities, such as those with open ownership structures.

5.9.3 The issue was resolved as part of a different project affecting all types of entities, not only superannuation entities. Amendments to AASB 10 were made through AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities* in August 2013.

5.10 Other matters

5.10.1 The above issues are the key matters that arose in developing AASB 1056. Other matters dealt with in AASB 1056 such as: the measurement of defined contribution member liabilities, the measurement of tax assets and liabilities, employer-sponsor receivables, and the classification of expenses, were not particularly controversial and have therefore not been covered in section 5.

5.10.2 There were no material contentious matters left outstanding based on the feedback received by the AASB at each stage of developing AASB 1056. During the development of AASB 1056, a number of issues arose that the AASB considers would be best dealt with as part of other projects because they affect a broad range of entities (not only superannuation entities). These issues include: risk-based disclosures in relation to asset concentrations and sensitivity analyses; presentation of realised and unrealised gains and losses; and presentation of 'netted off' revenue and expense items, particularly in relation to entities conducting their investment arrangements through investment managers and/or custodians.

5.10.3 On balance, the majority of stakeholders involved in providing feedback to the AASB during the development of AASB 1056 supported proceeding with Option 1.

6. Conclusion

6.1 Preferred Option

6.1.1 Option 1, making a replacement industry-specific standard (regulatory 'light handed' option), is the preferred option because the AASB is confident that this option will yield the greatest net benefit to the Australian economy. Based on the consultation conducted in developing AASB 1056 with both preparers and users (including their representative bodies) of financial statements, Option 1 is expected to improve the quality of the financial statements presented by superannuation entities by:

(a) providing information that is comparable across different entities, enabling users to make better choices about the management of their superannuation interests or those superannuation interests of their employees (for example, in relation to identifying a 'default' superannuation scheme); and

(b) providing information that is more representative of the underlying economics of the financial position and performance of superannuation entities.

6.1.2 In light of the evidence gathered in the process of developing AASB 1056, the AASB considers that, from the perspectives of both preparers and users of financial statements, Option 1 achieves an effective balance between:

(a) specific requirements for superannuation entities (that are different from other Standards) on issues that are of particular significance in a superannuation industry context; and

(b) guidance on applying, where relevant, other Australian Accounting Standards that are the same as IFRS.

6.1.3 Option 1 achieves the identified objectives in paragraph 2.1. Option 2, the status quo (base case option) is expected to have a lower net benefit to all the parties involved than Option 1.

6.1.4 The costs of Option 1 (as outlined in sections 4.8 and 4.9) are not expected to be significant and are largely transitional in nature, rather than being ongoing costs. In relation to most of the costs, there are significant mitigating factors (also outlined in section 4.8). The costs are also expected to reduce over time in relative terms (as outlined in section 4.3).

6.1.5 The benefits of Option 1 (as outlined in section 4.8) are expected to exceed the costs, and the benefits are expected to be ongoing. The benefits are also expected to increase over time in relative terms (as outlined in section 4.3).

6.1.6 Given the mutual nature of the superannuation industry, the distribution of the costs and benefits is expected to largely be matched in the sense that superannuation entity members and employer-sponsors who are expected to benefit from the changes are also expected to bear any costs.

6.2 Non-preferred Option

6.2.1 Option 3, withdrawing AAS 25 without making a replacement industry-specific standard (regulatory option), is the non-preferred option because the AASB is confident that it would involve greater costs than Option 1 and yield fewer benefits.

6.2.2 The benefits and costs of Option 3 are outlined in sections 4.10 and 4.11.

6.2.3 Compared with Option 1, Option 3 would:

(a) provide less guidance (and therefore give rise to greater divergence in reporting and less useful information) on presenting a statement of changes in equity, insurance contract accounting and disclosures generally;

(b) not result in the presentation of a statement of changes in member benefits, which (under Option 1) is expected to provide useful information to users and involve minimal preparation costs;

(c) involve applying an employer-oriented model for measuring defined benefit member liabilities that could involve considerable preparation cost and probably a diminution in the utility of the reported information to users; and

(d) involve consideration of a mixed measurement model for investment assets that would be expected to involve considerable preparation costs, including in establishing and maintaining information systems for investment assets not measured at fair value and probably a diminution in the utility of the reported information to users.

7. Implementation and review

7.1 The AASB will monitor the implementation of AASB 1056. Depending on the nature and significance of any implementation issues that might emerge from applying AASB 1056, the AASB may conduct a post-implementation review. If a post-implementation review is needed, it should only be conducted after at least two years of implementation experience is available. AASB 1056 takes effect for periods beginning on or after 1 July 2016 and, accordingly, any such review would not commence until at least 2019.

8. Business Cost Calculator

8.1.1 The table below sets out the estimated compliance costs on business associated with moving from the application of AAS 25 in the preparation of superannuation entities' general purpose financial statements to the application of AASB 1056 (Option 1).

Regulatory Burden and Cost Offset (RBCO) Estimate Table

Average Annual Compliance Costs (from Business as usual)				
Costs	**Business**	**Community Organisations**	**Individuals**	**Total Cost**
Total by Sector	$1,160,000.00	$0	$0	$1,160,000.00

Cost offset	**Business**	**Community Organisations**	**Individuals**	**Total by Source**
Agency	$0	$0	$0	$0
Within portfolio	$1,160,000.00	$0	$0	$1,160,000.00
Outside portfolio	$0	$0	$0	$0
Total by Sector	$1,160,000.00	$0	$0	$1,160,000.00

Proposal is cost neutral?	☑ **yes**	☐ no
Proposal is deregulatory	☐ yes	☑ **no**
Balance of cost offsets	**($138,051,923.08)**	

8.1.2 The regulatory cost offsets noted in the above table have been identified from within the Treasury portfolio. These cost offsets relate to the Future of Financial Advice (FOFA) reforms.

8.1.3 The estimated quantitative compliance costs of Option 1 are discussed and explained in greater detail in section 4.9 above. For the purposes of this section, the key elements discussed and explained in section 4.9 are that:

(a) 325 reporting entities are estimated to be within the scope of AASB 1056 [source: the APRA Annual Superannuation Bulletin, June 2013, issued in January 2014];

(b) most of the costs are expected to relate to transition to AASB 1056 (and not be ongoing costs) [source: consultation with key constituents];

(c) it is reasonable to spread the transition costs over 10 years on the assumption that AASB 1056 would be in force for at least 10 years (AAS 25 has been in force for more than 20 years).

8.1.4 The estimated compliance costs of Option 1 are discussed and explained in qualitative terms in section 4.8.

8.2 Assumptions[16] underpinning Business Cost calculations

Affected entities

8.2.1 Key industry constituents identified that costs associated with financial reporting by superannuation entities do not vary significantly with size of the entity, although entities with defined benefit members tend to have higher costs due to the need for periodic actuarial valuations of defined benefit member liabilities.

8.2.2 325 reporting entities are estimated to be within the scope of AASB 1056, based on APRA *Annual Superannuation Bulletin*, June 2013, issued in January 2014.

8.2.3 131 entities are estimated to have at least one defined benefit member, based on APRA *Annual Superannuation Bulletin*, June 2013.

8.2.4 Based on consultation with key industry constituents, it is estimated that 10 entities are currently taking advantage of reduced reporting requirements under the base case.

16 These assumptions relate to section 4.9 of the Regulation Impact Statement.

Labour cost assumptions

8.2.5 Superannuation entities do not directly employ personnel. Although some service providers may identify closely with a specific entity (particularly the trustees and those providing senior management services), it is external service providers who deliver the services necessary to operate a superannuation entity, including those operating information systems and preparing and auditing financial statements. Many of those service providers operate across the industry – that is, delivering services to many different superannuation entities.

8.2.6 Based on discussions with superannuation industry service providers, a blended labour rate of $150 per hour has been determined that provides a reasonable approximation of the costs in the industry for a wide range of services, which are subject to competitive market pressures.

8.2.7 Based on discussions with superannuation industry service providers, it is assumed that tasks associated with superannuation entity financial statements are conducted by a team of two people.

Transition costs

8.2.8 Based on discussions with industry service providers, most of the costs would be in the year of transition. Transition (or start-up) costs should be spread over 10 years because:

* many of the service providers will probably recoup transition costs in their fees charged to superannuation entities over the longer term; and
* the Replacement Standard is expected to be in force for at least 10 years, based on the fact that the existing Standard has been in force for more than 20 years.

8.2.9 Most of the transition costs will relate to updating information (IT) systems – estimated at two people by 60 hours of work.

8.2.10 Those preparing financial statements will need to be trained – estimated at two people by 10 hours of work.

8.2.11 Those auditing the financial statements will need to be trained – estimated at two people by 10 hours of work.

Ongoing costs

8.2.12 Based on discussions with industry service providers, general ongoing preparer costs of the Replacement Standard will generally be offset by general ongoing preparer efficiencies (cost savings) arising from the requirements of the Replacement Standard being better aligned with the wider financial reporting requirements applying to other types of entities.

8.2.13 The general ongoing preparer costs (related mainly to the additional statements required; namely: a statement of changes in member benefits and a statement of changes in equity) are estimated to be two people by 3 hours of work.

8.2.14 The general ongoing preparer efficiencies (cost savings) are estimated to be two people by 3 hours of work.

8.2.15 Based on discussions with industry service providers, it is estimated that one in ten of the 131 entities (see paragraph 8.2.3, above) with at least one defined benefit member will need to undertake a full actuarial valuation that it would not have needed to undertake under the base case, and the cost will be $20,000 for each valuation.

8..2.16 Based on discussions with industry service providers, 10 entities (see paragraph 8.2.4, above) that currently take advantage of reduced reporting requirements under the base case, will need to undertake additional financial statement preparation costs of two people by 40 hours of work.