



Australian Government

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Mr Jason McNamara
Executive Director
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1 National Circuit
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Email: helpdesk@obpr.gov.au

Dear Mr McNamara

Regulation Impact Statement – final assessment second pass

Further to our letter dated 17 November 2014, I am writing in relation to the attached Regulation Impact Statement (RIS) prepared for Draft AASB 9 *Financial Instruments*. This is the completed version of AASB 9 and incorporates the requirements of the completed version of international accounting standard IFRS 9 *Financial Instruments*, which was issued by the International Accounting Standards Board (IASB) earlier this year. The regulatory burden to business has been quantified and offsets have been identified and quantified using the Regulatory Burden Measurement framework. These have been agreed with your office.

I am satisfied that the RIS addresses the concerns raised in your letter of 24 November 2014 and in other correspondence and discussions with your staff. Specifically, the attached RIS addresses the OBPR's stated concerns as noted on pages 2 to 5 below.

I also note that OBPR staff and AASB staff have made progress towards streamlining the form and content of a RIS in cases relating to Australia's adoption of International Financial Reporting Standards (IFRS), and some of the changes from the first-pass RIS are due to that effort. Those changes include, for example, sections on: 'Why Accounting Standards Exist'; and 'Why Australia adopted international standards'.

I am most grateful for the assistance provided so far on streamlining the form and content of RISs relating to Australia's adoption of IFRS and note that we would be happy to use the finalised AASB 9 RIS as a starting point for further 'offline' work between OBPR and AASB staff.

OBPR comment – *the clarity of the problem identification would be improved by bringing all of the relevant information together into the one section of the RIS. At present, the whole RIS needs to be read to get an appreciation of the nature and extent of the problem. In any case, further explanation of the impacts is also needed.*

In the section ‘What this RIS is about’, the problem is now explained from two perspectives ‘The international problem’ and ‘The problem in Australia’; and information about the problem has been drawn into these sections from other parts of the RIS.

OBPR comment – *in its current form, the RIS defines the problem by reference to current accounting requirements resulting in the recognition of impairments occurring ‘too late’. (a) Why does this occur; (b) The problem section should provide an analysis of the broader economic consequences associated with the current accounting requirements. For example, what are the economic consequences of impairments being recognised ‘too late’; how is ‘too late’ defined; what are the economic benefits of the current recognition of impairments?*

The notion of ‘too late’, and more fulsome discussion of why the recognition of loan loss impairment ‘too late’ is a problem, has been included in the opening paragraphs of the section: ‘What this RIS is about’, under the sub-heading ‘The international problem’.

Noting the problem section also refers to issues that could occur should the Australian standard become inconsistent with the IFRS, the problem / need for regulatory action section should also identify the costs of inconsistency and the extent to which entities are affected. Some of this is addressed in the analysis of the status quo, but not the significance of the impacts, including, to what extent IFRS compliance is a benefit for raising capital in non-IFRS countries.

The section: ‘Keeping Australia IFRS compliant’ addresses the costs that would flow from being non-IFRS compliant and the breadth of the impact of those costs.

Paragraph 159 [which is part of a new section: ‘Functions of then AASB’ that’s emerged from the work so far on ‘streamlining’] notes that IFRS are widely-accepted, even in the few developed countries that have not wholly adopted IFRS. The examples of Japan and the USA are highlighted.

It seems that one way to structure the problem identification might be to assess the problem that arose internationally that prompted the development of the new IFRS 9 and then assess whether this problem also applies in Australia, whether the main driver for action is to maintain consistency due to the problems that arise from inconsistency or if both problems arise.

The problem is now structured in two parts: 'The international problem' and 'The problem in Australia'. In addition, the section 'The problem in Australia' and the section: 'Keeping Australia IFRS compliant' explain that both problems (the international problem and the inconsistency problem) are an issue for Australia.

Although the RIS provides a fairly thorough analysis of the potential compliance, or direct, costs to industry from the proposed changes (some areas where additional detail would be desirable are identified below), the RIS should provide greater analysis of the potential broader economic costs of the preferred option.

As part of this the analysis of additional costs included in paragraphs 137 and 138 should be included in the body of the impact analysis. It is also not clear that these costs could not be estimated, at least in an indicative way.

The structure of the RIS has changed since the 'first pass' stage based on your comments in your letter dated 24 November 2014 and subsequent comments received via your staff. Greater detail about the potential broader economic costs of both the preferred option (Option 1) and the 'domestic' option (Option 2) are included in the sections: 'Keeping Australia IFRS compliant' and 'Qualitative assessment of compliance costs of adopting the completed version of AASB 9 (Option 1)'.

The RIS tends to assume that the impacts of the more technical matters canvassed are readily understood, such as the costs of having two different impairment models for financial assets measured at amortised cost or FVTOCI. To make the RIS more accessible to a non-expert readership, further explanation is warranted.

The section on: 'The international problem' includes a more 'layman's' explanation of the technical aspects of impairment [including a simple example] and the section: 'The Australian problem' includes a more 'layman's' explanation of why having two impairment models is a concern [under the heading: 'The need for simplification'].

Paragraph 62 refers to AASB 15. As that appears to be the only reference to AASB 15, what is its relevance?

Thank you for identifying this reference, which has now been corrected to refer to AASB 9.

Paragraph 67 makes no mention of the benefits of the alternative model, despite the overview of Option 2 suggesting there were some. The significance of the benefits should be analysed.

The benefits of Option 2 are now more fully explained in the section: ‘Qualitative assessment of benefits of adopting an Australian version of an expected loss model (Option 2)’.

The table under paragraph 86 mentions that external advice would be higher for Option 2, but then identifies a lower level of labour hours than Option 1. Should this be read as hours in addition to those for Option 1 or is there a mistake?

Thank you identifying this error, which has now been corrected.

Do the costs for the initial audit take into account costs for the audit firms in learning the new rules, as this is not clear from the description?

It is now clarified in the table that this effort includes the training of audit firm staff about new requirements.

Additional explanation of the estimates of labour hours is needed, either to explain in more detail what activities are included or identify the source of the estimates. Alternatively, have the estimates been tested with affected groups?

The RIS now better explains that the estimates of hours were made on the basis of consultation with affected constituents. Please see the sections: ‘Qualitative assessment of compliance costs of adopting the completed version of AASB 9 (Option 1)’, particularly paragraph 52; ‘Qualitative assessment of costs of an Australian version of an expected loss model (Option 2)’, particularly paragraph 69.

For the OBPR to agree to the estimates, a completed Regulatory Burden Measure file (or equivalent spreadsheet) should be provided to the OBPR by email along with any further explanatory material that may be needed to understand the assumptions and estimates.

A completed Regulatory Burden Measure file has been provided to the OBPR.

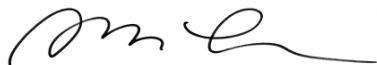
In its current form the RIS focuses on the process by which consultation has been conducted, rather than the issues raised by stakeholders. It would be best practice for the RIS to outline stakeholders' views on each option. For example, what were the main issues raised during consultation, how have these been addressed, and were any alternative options raised during the consultation process?

The RIS now has a section: 'Key issues raised by constituents and addressed by the IASB over the course of consultation process' that identifies both the main conceptual and practical concerns of constituents and broadly how they were overcome.

Based on the changes that have been incorporated in the RIS as a result of the comments received in your letter dated 24 November 2014 and further subsequent comments from your Office, I am satisfied that it now meets best practice consistent with the *Australian Government Guide to Regulation*.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Angus Thomson', with a long horizontal flourish extending to the right.

Angus Thomson
Deputy CEO