

Explanatory Statement

AASB 2005-3 Amendments to Australian Accounting Standards

June 2005



Australian Government

**Australian Accounting
Standards Board**

EXPLANATORY STATEMENT

Adoption of Australian equivalents to IFRSs

The Australian Accounting Standards Board (AASB) is implementing the directive of the Financial Reporting Council (FRC) to adopt the Standards of the International Accounting Standards Board (IASB), for application to reporting periods beginning on or after 1 January 2005.

The IASB defines International Financial Reporting Standards (IFRSs) as comprising:

- (a) International Financial Reporting Standards;
- (b) International Accounting Standards (IAS); and
- (c) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).

The Australian equivalents to IFRSs are:

- (a) Accounting Standards issued by the AASB that are equivalent to Standards issued by the IASB, being AASBs 1 – 99 corresponding to the IFRS series and AASBs 101 – 199 corresponding to the IAS series; and
- (b) Urgent Issues Group (UIG) Interpretations issued by the AASB corresponding to the Interpretations adopted by the IASB, as listed in AASB 1048 *Interpretation and Application of Standards*.

In implementing the FRC's directive, the AASB is replacing relevant existing AASB Standards with Australian Standards equivalent to those of the IASB. The AASB has decided it will continue to issue sector-neutral Standards, that is, Standards applicable to both for-profit and not-for-profit entities, including public sector entities. Except for Standards that are specific to the not-for-profit or public sectors or that are of a purely domestic nature, the AASB uses the IASB Standards as the "foundation" Standards to which it adds material detailing the scope and applicability of a Standard in the Australian environment. Additions are made, where necessary, to broaden the content to cover sectors not addressed by an IASB Standard and domestic, regulatory or other issues.

On 15 July 2004, the AASB made the set of Australian Standards equivalent to IFRSs, together with several associated Australian Standards, effective for annual reporting periods beginning on or after 1 January 2005.

AASB 119 *Employee Benefits* was issued at this time and is based on IAS 19 *Employee Benefits*.

The IASB issued “Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures*” in December 2004, and consistent with the policy on adopting the Standards of the IASB, AASB 119 was revised in December 2004 to reflect the IASB amendments.

Reasons for Issuing AASB 2005-3

AASB 2005-3 is an amending standard that makes amendments to AASB 119 (issued in July 2004) and AASB 119 (revised in December 2004). Both versions of AASB 119 contain Australian specific “Aus” paragraphs that require an employer that is the sponsor of a defined benefit plan to take into account any future taxes that are borne by the employer (such as contributions tax and tax on investment income) as part of the defined benefit obligation calculation. Concerns had been raised by constituents regarding:

- whether the “Aus” paragraphs (Aus55.1 and Aus55.2) apply equally to deficits and surpluses of the defined benefit plan;
- consistency of the “Aus” paragraphs with IAS 19; and
- whether the example calculation in paragraph Aus55.2 is too simplistic.

The AASB reconsidered paragraphs Aus55.1 and Aus55.2 and decided to delete them in favour of Australian Guidance to AASB 119, on the basis that the information is more in the nature of guidance.

Main Features of this Standard

This Standard was made by the AASB on 9 June 2005 under section 334 of the *Corporations Act 2001*.

Application Date

The amendments made by AASB 2005-3 in relation to AASB 119 (July 2004) are applicable to annual reporting periods ending on or after 31 December 2005 with early adoption permitted for annual reporting periods beginning on or after 1 January 2005.

The application date of AASB 2005-3 in respect of the amendments made to AASB 119 (December 2004) are linked to the application date of AASB 119 (December 2004). Accordingly, the amendments made by AASB 2005-3 to AASB 119 (December 2004) are applicable to annual reporting periods beginning on or after 1 January 2006. When an entity early adopts

AASB 119 (December 2004) for annual reporting periods beginning on or after 1 January 2005, the amendments made by AASB 2005-3 to AASB 119 (December 2004) are also applied for that earlier period.

Main Changes from AASB 119

The main changes to both versions of AASB 119 are identified below:

- (a) Paragraphs Aus55.1 and Aus55.2 are deleted from AASB 119. These paragraphs commented that an employer that is the sponsor of a defined benefit plan to take into account any future taxes that are borne by the employer such as contributions tax and tax on investment income as part of the defined benefit obligation and provide an example of the calculation.
- (b) Guidance (paragraph G20) replaces the deleted paragraphs and deals with both deficits and surpluses is included as part of the Australian Guidance to AASB 119.

Consultation prior to Issuing this Standard

The amendments made by AASB 2005-3 have been made in response to concerns that had been raised by constituents and brought to the attention of the AASB. Informal consultation was undertaken by the AASB prior to its decision to issue this Standard, amending both versions of AASB 119, particularly with those knowledgeable about the measurement of defined benefit plan deficits and surpluses.

A Regulatory Impact Statement has not been prepared in connection with the revision of this Standard as the amendments it makes do not have a direct, or substantial indirect, effect on business or restrict competition, are of a minor or machinery nature and do not substantially alter existing arrangements.