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NZ ACCOUNTING STANDARDS BOARD

[Draft] Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand

[date]

Approved by the AASB and NZASB for application from [date]

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Preface

The RDR decision-making framework, together with its accompanying operational guidance, is applied to the disclosure requirements in Australian Accounting Standards/NZ IFRS to identify which of those disclosure requirements should be reduced for Tier 2 entities in each jurisdiction.

The framework is based on Key Disclosure Areas which result in information that meets user needs.

The Key Disclosure Areas are:

(a) current liquidity and solvency of the entity; and

(b) transactions and other events significant or material to understanding the entity's operations as represented by the financial statements. This comprises disclosures about:

   (i) the nature of the transaction or event that makes it significant or material to the entity;

   (ii) associated risks specific to a transaction or event;

   (iii) accounting policy on recognition or measurement;

   (iv) significant estimates and judgements specific to a transaction or event;

   (v) commitments and contingencies;

   (vi) impairment;

   (vii) related parties; and

   (viii) subsequent events.

Judgement is required when applying this framework, and the overarching principles of user needs and cost-benefit are considered when determining the disclosures that relevant Tier 2 entities in each jurisdiction should make.

When it is necessary to identify specific aspects of the RDR process and framework particular to the Australian or New Zealand jurisdiction, this document uses "Aus" and "NZ" prefixed paragraphs.

1. Introduction

1. The objective of this Policy Statement is to have accounting requirements for Tier 2 entities[1] in each jurisdiction that result in reduced preparation costs to balance the costs and benefits of financial reporting. This Policy Statement would be the basis of deliberations by AASB and NZASB in determining disclosure requirements for Tier 2 entities in each jurisdiction.

Aus1.1 In accordance with AASB 1053 *Application of Tiers of Accounting Standards*, Tier 2 requirements (otherwise known as Reduced Disclosure Requirements (RDR)) comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position under Tier 1, the presentation requirements under Tier 1 and Tier 2 are the same.

Aus1.2 Tier 2 reporting requirements, as a minimum, apply to the general purpose financial statements of the following types of entities: (a) for-profit private sector entities that do not have public accountability[2]; (b) not-for-profit private sector entities; and (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments. These types of entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements.

NZ 1.1 Tier 2 For-profit Accounting Requirements have the same recognition and measurement requirements as Tier 1 For-profit Accounting Requirements but with disclosure concessions (that is, a reduced disclosure regime (RDR)). The Tier 2 For-profit Accounting Requirements are referred to as the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

NZ 1.2 In accordance with the Accounting Standards Framework[3], for-profit entities that have a statutory obligation to prepare general purpose financial reports and do not have public accountability, as defined for financial reporting purposes, may report in accordance with Tier 2 For-profit Accounting Requirements[4].

2. In 2015 the Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB) undertook a project to jointly review the process for determining disclosure requirements for Tier 2 entities[5] in Australia and New Zealand.

3. The requirements for Tier 2 entities prior to the development of this Policy Statement are based on the disclosure requirements applying to Tier 1 entities.

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1 In New Zealand, the reference to 'Tier 1 entities' and 'Tier 2 entities' in this Policy should be read as 'Tier 1 for-profit entities' and 'Tier 2 for-profit entities' respectively.

2 Public accountability is defined and explained in Appendices A and B of AASB 1053.

3 The Accounting Standards Framework was approved by the Minister of Commerce in April 2012. It comprises different sets of accounting standards for for-profit entities and for public benefit entities, together with a formalised tier structure.

4 A for-profit public sector entity may elect to report in accordance with Tier 2 For-profit Accounting Requirements if it does not have public accountability and it is not large (that is, it has total expenses less than $30m).

5 The AASB's project applies to for-profit and not-for-profit entities in Australia because these sectors are subject to the same accounting standards.

They were reduced by applying the 'user needs' and 'cost-benefit' principles that underlie the disclosure requirements in the International Accounting Standards Board *International Financial Reporting Standard for Small and Medium-sized Entities* (*IFRS for SMEs*). Operational guidance was developed to facilitate the application of those principles.

4. In August 2009, the then Prime Ministers of Australia and New Zealand signed the Joint Statement of Intent: Single Economic Markets Outcome Framework. One of the outcomes of that Statement of Intent was that for-profit entities operating in both countries should be able to use only one set of accounting standards and to prepare one set of financial statements that would be acceptable in both countries.

5. This Policy Statement sets out the RDR decision-making framework that is applied in developing disclosure requirements for Tier 2 entities in Australia and New Zealand.

6. The RDR decision-making framework is accompanied by operational guidance which assists with the application of the framework to accounting standards.

7. This Policy Statement was first issued in [date]. It may be reviewed periodically.

2. Basis for Development of RDR Decision-making Framework

8. The RDR decision-making framework has been developed to provide a consistent basis for determining the minimum disclosure requirements (or the disclosure concessions) for Tier 2 entities.

9. Although judgement is required in applying this framework, it should generally result in similar conclusions when applied by the AASB and the NZASB in determining the disclosure requirements for Tier 2 entities in each jurisdiction.

10. The overarching principles of this framework are that:

    (a) the information provided by the financial statements meets user needs; and

    (b) the benefits of providing the disclosures exceed the costs.

11. AASB 1053 *Application of the Tiers of Australian Accounting Standards/*XRB A1 *Application of the Accounting Standards Framework* sets out the eligibility criteria that entities in each jurisdiction must meet to report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements/NZ IFRS RDR. This RDR Decision-making Framework does not change those criteria.

3. RDR Decision-making Framework

12. Two Key Disclosure Areas have been identified as being essential for meeting user needs. Those Key Disclosure Areas are:

    (a) current liquidity and solvency of the entity; and

    (b) transactions and other events significant or material to understanding the entity's operations as represented by the financial statements. This comprises disclosures about:

        (i) the nature of the transaction or event that makes it significant or material to the entity;

        (ii) associated risks specific to a transaction or event;

        (iii) accounting policy on recognition or measurement;

        (iv) significant estimates and judgements specific to a transaction or event;

        (v) commitments and contingencies;

        (vi) impairment;

        (vii) related parties; and

        (viii) subsequent events.

13. The disclosures about transactions and other events significant or material to understanding the entity's operations as represented by the financial statements are categorised broadly into:

    (a) disclosures of a general nature that apply for all transactions and events (paragraph 12(b)(i)–(iv)); and

    (b) specific disclosures about particular types of transactions and events (paragraph 12(b)(v)–(viii).

14. The RDR decision-making framework is based on a rebuttable presumption that the benefits of providing the disclosure exceed the costs for the types of disclosures listed in paragraph 12 above. Unless that presumption is rebutted, Tier 2 entities are required to make those disclosures.

15. AASB 101/NZ IAS 1 *Presentation of Financial Statements* and AASB 108/NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require disclosures about accounting policies and estimates and judgements.

16. Disclosures about accounting policies are also required in some standards dealing with particular types of transactions or topics, for example, AASB 102/NZ IAS 2 *Inventories* requires disclosure of the accounting policies adopted in measuring inventories, including the cost formula used.

Aus17.1 The AASB has decided to rely on the requirement in AASB 101 and AASB 108 for disclosures about accounting policies. To achieve this, the appendix to each standard that contains the disclosure requirements for Tier 2 entities will include a reminder that the disclosure requirements in AASB 101 and AASB 108 about accounting policies apply where relevant. Likewise, AASB 101 and AAB 108 include similar messages.[6] Therefore, disclosures

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[6] *AASB 101 Presentation of Financial Statements would include the following note upfront:*

about accounting policies, other than those in AASB 101 and AASB 108, are reduced for Tier 2 entities and are not included in the appendix to each relevant standard.

NZ 17.1 The NZASB has decided to not rely solely on the requirements in NZ IAS 1 and NZ IAS 8 for disclosures about accounting policies. The NZASB considered that this avoids any confusion that might arise as a consequence of keeping the general disclosure about accounting policies in NZ IAS 1 while identifying the accounting policy for particular types of transactions or topics as a concession.

17. However, in some cases, the presumption that the benefits of providing the disclosure exceed the costs might be rebutted. For example, a standard might require extensive disclosures about a topic that is (or relates to) a Key Disclosure Area. In this situation, there could be some specific disclosures that provide little incremental benefit to users of the financial statements of Tier 2 entities, such that the benefits of that particular disclosure do not exceed the costs.

18. Where disclosures are not a Key Disclosure Area, there is a rebuttable presumption that the costs of providing those disclosures exceed the benefits. Unless the presumption is rebutted, Tier 2 entities are not required to make those disclosures.

19. However, the presumption that the costs of providing the disclosure exceed the benefits might be rebutted in some cases when a disclosure provides information that meets user needs and the benefits outweigh the costs. For example, some disclosure requirements provide information about the reporting framework under which the financial statements are prepared, or information about the structure of the entity reporting (that is, whether the reporting entity is a group and the composition of that group).

Application of the RDR Decision-making Framework

20. This framework is applied to the disclosure requirements in Australian Accounting Standards/NZ IFRS to determine the disclosures that Tier 2 entities are required to make.

21. Although there are rebuttable presumptions, as discussed above, the overarching principles of user needs and cost-benefit are considered each time this framework is applied for determining the disclosure requirements for Tier 2 entities.

Operational Guidance

22. This operational guidance is used to facilitate the application of the RDR decision-making framework.

In disclosing significant accounting policies relating to transactions and other events accounted for under Australian Accounting Standards, Tier 2 entities should refer to this Standard for relevant disclosure requirements. Should the entity assess that under this Standard disclosure of a significant accounting policy relating to transactions or other events dealt with under another Standard would be required, the entity might refer to disclosure requirements in the main body of that other Standard, if any, for guidance.

AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors would include the following note upfront:

For disclosures requirements relating to changes in accounting policies, Tier 2 entities should refer to this Standard.

Presentation vs Disclosure

23. The RDR Decision-making Framework does not involve amending the presentation (the term presentation is sometimes used interchangeably in the standards with the term classification) requirements for Tier 1 entities. It is concerned only with reducing the disclosure burden for Tier 2 entities. Therefore, there is an expectation that the face of the financial statements of Tier 1 and Tier 2 entities would display the same information. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.

24. The following guidance is used to distinguish between presentation and disclosure.

    (a) Presentation requirements are requirements that specify, for the current and the comparative period, the broad structure of financial statements including the basis of classification of items.

    (b) Requirements addressing additional line items, disaggregation and subclassification of line items on the face of the primary financial statements are considered to be presentation requirements.

    (c) Specifications relating to additional line items and disaggregation to be disclosed in the notes are treated as matters of disclosure.

    (d) Where a standard provides an option for disclosure of information either on the face of the financial statements or in the notes, this is considered a disclosure requirement and is assessed against the RDR decision-making framework to determine which disclosures, if any, Tier 2 entities are required to make.

Disclosure Objective/Principle

25. Some Australian Accounting Standards/NZ IFRSs include a paragraph that identifies the disclosure objective/principle for that standard. Disclosure objective/principle paragraphs are reduced/identified as concessions when all of the related disclosure requirements are reduced/identified as concessions. Judgement is required in determining whether the objective/principle paragraph is reduced/identified as a concession when most, but not all, of the related disclosures are reduced/identified as concessions.

Guidance

26. The disclosure requirements in Australian Accounting Standards/NZ IFRS are often accompanied by guidance which is intended to assist entities in making those disclosures.

27. In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept.

Aus28.1 The AASB has decided to reduce some of the guidance for disclosures that are kept for Tier 2 entities, in particular where the guidance is considered to be unnecessary for Tier 2 entities in meeting the related disclosure requirement.

NZ 28.1 The NZASB has decided to keep all of the guidance that relates to disclosures that Tier 2 entities are required to provide.

Disclosures that are Encouraged

28. Where an Australian Accounting Standard/NZ IFRS encourages, rather than requires, a disclosure Tier 2 entities are not required to provide that information.

Reconciliations

29. A reconciliation required under Australian Accounting Standards/NZ IFRS is not required to be prepared by Tier 2 entities. However, the individual items in that reconciliation are assessed against the RDR Decision-making Framework to determine which items, if any, Tier 2 entities are required to make.

Cross-referencing in Standards

30. Sometimes a disclosure or guidance in an Australian Accounting Standard/NZ IFRS includes a cross-reference to disclosure requirements in another Australian Accounting Standard/NZ IFRS.

31. Where the cross-referencing is specific (for example, a disclosure in AASB 3/NZ IFRS 3 *Business Combinations* includes a reference to paragraph 85 of AASB 137/NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), both paragraphs are either kept or reduced/identified as concessions for Tier 2 entities.

32. Where the cross-referencing is of a general nature (for example, paragraph 96 of AASB 16/NZ IFRS 16 *Leases* includes a general requirement for a lessor to apply the disclosure requirements in specified standards) this can be reduced/identified as a concession for Tier 2 entities.

Australian Accounting Standards/NZ IFRSs that are not Applicable to Tier 2 For-profit Entities

33. AASB 8/NZ IFRS 8 *Operating Segments* and AASB 133/NZ IAS 33 *Earnings per Share* do not apply to Tier 2 for-profit entities. Paragraphs in other Australian Accounting Standards/NZ IFRSs that refer to these two standards without establishing any additional disclosure requirements are, therefore, identified as disclosure concessions for Tier 2 for-profit entities.

4. Identifying RDR

Introduction

34. Although this Policy Statement has been developed jointly by the AASB and the NZASB, the Boards have a different approach to identifying the disclosure requirements for Tier 2 entities. However, the outcome of applying the Policy Statement is expected to generally be the same for Tier 2 entities in Australia and New Zealand.

Approach to Identifying Tier 2 Disclosure Requirements

Australia

35. RDR in Australian Accounting Standards is currently identified by[7]:

(a) shading in the standards the requirements that Tier 2 entities are not required to make; and

(b) including in an appendix to each standard a paragraph which specifies the paragraphs, or part thereof, that do not apply to Tier 2 entities (that is, the paragraphs, or part thereof, that are shaded in the standard).

The AASB is proposing to change its approach to identifying RDR.

36. The disclosure requirements that Tier 2 entities are not required to provide will no longer be shaded in the standards. Instead, the disclosure requirements for Tier 2 entities will be included in an appendix to each relevant standard.

New Zealand

37. The NZASB has made no changes to the approach for identifying RDR in NZ IFRS. The current approach of using an asterisk (*) to identify disclosure concessions and explaining partial concessions by means of RDR paragraphs is retained.

7 Based on Australian Accounting Standards effective for annual periods beginning on or after 1 January 2018.