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AASB Exposure Draft

ED 2XX
XX 2016

Reduced Disclosure Requirements

Comments to the AASB by XX XX 2016

Australian Government

Australian Accounting Standards Board

How to comment on this AASB Exposure Draft

The AASB is seeking comment by XX XX 2016.

Formal submissions

Submissions should be lodged online via the "Work in progress – Open for Comment" page of the AASB website (www.aasb.gov.au/comment) as a PDF document and, if possible, a Word document (for internal use only).

Other feedback

Other feedback is welcomed and may be provided via the following methods:

E-mail: standard@aasb.gov.au
Phone: (03) 9617 7600

All submissions on possible, proposed or existing reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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PREFACE

[DRAFT] ACCOUNTING STANDARD
AASB 2016-X AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS - ***REDUCED DISCLOSURE REQUIREMENTS***

[Draft] Australian Accounting Standard AASB 2016-X *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* is set out in paragraphs 1 – X and Appendices. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) develops, issues and maintains Australian Accounting Standards.

The AASB is an Australian Government agency under the *Australian Securities and Investment Commission Act 2001*. AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of Australian Accounting Standards.

The approach the AASB takes in setting standards, including requirements specific to not-for-profit and public sector entities, is outlined in *AASB Policies and Processes*.

Exposure Drafts

The publication of an Exposure Draft (ED) is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. EDs are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

What we are proposing

This ED proposes new disclosures to apply to Tier 2 entities under the Reduced Disclosure Requirements (RDR) that have been determined after applying a revised approach to the analysis of the disclosures in Australian Accounting Standards. The revised RDR decision-making framework is applied to the disclosures required for Tier 1 entities and reduces them to identify the disclosures that Tier 2 entities are required to make. Operational guidance to facilitate the application of the RDR decision-making framework has also been revised.

The proposals in the ED do not change the scope of RDR. Entities that are currently able to apply RDR (i.e., Tier 2 entities) will continue to be able to apply RDR. These entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements (GPFS).

The ED proposes to present the disclosures applying to Tier 2 entities in an appendix to each Standard and Interpretation that identifies for that Standard or Interpretation, the disclosures that Tier 2 entities are required to comply with. This proposal would replace of the current method of shading the disclosures not required of Tier 2 entities.

Why we are making these proposals

The Board's introduction of Tier 2 disclosures in 2010 was in response to constituent concerns about the burden on entities preparing GPFS[1]:

Notwithstanding this introduction of RDR, in 2010:

(a) recent consultation by AASB staff indicates that the level of adoption of Tier 2 disclosure requirements by large private companies and other companies (except for companies limited by guarantee and subsidiaries of Tier 1 entities), is very low;

(b) there is a view that Tier 2 disclosures are still burdensome; and

(c) that recent changes to IFRS have sharply increased the volume of Tier 2 disclosures.

The current process to determine the disclosures under Tier 2 is to:

(a) draw directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

(b) use the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

The Board in 2010 developed operational guidance to facilitate the application of those principles to the disclosure requirements that apply to Tier 1 entities, to produce the outcome of reduced disclosure requirements that apply to Tier 2 entities.

The Board considered these matters at an AASB Strategy meeting in February 2015. It agreed, that as part of a bigger project to address constituent concerns about the complexity and effectiveness of the current

[1] The Basis of Conclusions to AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph BC10 states that prior to the introduction of AASB 1053 "[the] costs of preparing general purpose financial statements [using the Australian Accounting Standards founded on the International Financial reporting Standards] for some entities were greater than benefits for the users of those general purpose financial statements, because the framework resulted in requirements for general purpose financial statements that were overly burdensome for many entities."

financial reporting framework it would review the principles used in determining the level of Tier 2 disclosures with a view to further reducing the level of disclosure requirements.

This RDR project is an AASB/NZASB joint project to ensure that Tier 2 for-profit entities continue to be able to use only one set of financial reporting standards and prepare only one set of financial statements for both countries. This is the outcome agreed by the then Prime Ministers of Australia and New Zealand in the Joint Statement of Intent: Single Economic Markets Outcome Framework (August 2009).

Benefits that are expected to flow from this [draft] Standard include:

(a) users of Tier 2 financial reporting would be provided with more relevant disclosure information;

(b) increased take up by public sector not-for-profit entities of RDR;

(c) a substantial reduction in the disclosures required of Tier 2 entities, compared with those that would be required under the current approach to determining Tier 2 disclosures.

Who would be affected

It is proposed that the Tier 2 reporting requirements in this ED shall apply to the GPFS of the following types of entities:

- for-profit private sector entities that do not have public accountability;
- not-for-profit private sector entities; and
- public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

These entities may elect to apply Tier 1 reporting requirements in preparing GPFS.

What happens next

The AASB will consider constituents' feedback at a future meeting with a view to determining how to progress the project.

Application Date

It is proposed that this [draft] Standard be applicable to annual reporting periods beginning on or after XX XX 201X. It is proposed that early adoption of this [draft] Standard will be permitted.

We need your feedback

Comments are invited on any of the proposals in this ED by XX XX 2016. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

1 the revised RDR decision-making framework and how that framework has been applied to the disclosures required for Tier 1 entities to reduce them to identify the disclosures that Tier 2 entities are required to make;

2 the extent and nature of the proposed disclosures under the RDR (Tier 2), including whether the RDR would be effective in reducing sufficiently the disclosure burden on entities in preparing their GPFSs;

3 the approach taken in this ED compared with the approach taken in the New Zealand ED as illustrated in the Appendix to this ED and whether any proposed disclosure reductions in this ED should be reversed and therefore kept;

4 any particular Tier 1 disclosure requirements that:

(a) have been kept in the RDR that you consider should be reduced, and your reasons for reduction;

(b) have been reduced from the RDR that you consider should be kept, and your reasons for retention;

5 the proposal to present the disclosures applying to Tier 2 entities in an appendix to each Standard and Interpretation that identifies for that

Standard or Interpretation, the disclosures that Tier 2 entities are required to comply with. This proposal would replace of the current method of shading the disclosures not required of Tier 2 entities.

General Matters for Comment

The AASB would particularly value comments on the following:

6 Whether:

(a) there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?

(b) overall, the proposals would result in reporting that would be useful to users?

(c) the proposals are in the best interests of the Australian economy?

7 Unless already provided in response to the matters for comment 1-5 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

[DRAFT] ACCOUNTING STANDARD AASB 2016-X

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS ARISING FROM REDUCED DISCLOSURE REQUIREMENTS

Objective

1 The objective of this Standard is to XX

Application

2 **Subject to paragraphs 3-6, this Standard applies to:**

   (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

   (b) general purpose financial statements of each other reporting entity; and

   (c) financial statements that are, or are held out to be, general purpose financial statements.

3 **In respect of AASB 8, this Standard applies to:**

   (a) each for-profit entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is a reporting entity;

   (b) general purpose financial statements of each other for-profit reporting entity other than for-profit government departments; and

   (c) financial statements of a for-profit entity other than for-profit government departments that are, or are held out to be, general purpose financial statements;

in respect of:

(d) the separate or individual financial statements of an entity:

(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and

(e) the consolidated financial statements of a group with a parent:

(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

4 **In respect of AASB 101, AASB 107 and AASB 108, this Standard applies to:**

(a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act;

(b) general purpose financial statements of each reporting entity; and

(c) financial statements that are, or are held out to be, general purpose financial statements.

5 **In respect of AASB 133, this Standard applies to each entity that is required to prepare financial reports in accordance with Part 2M.3 of the Corporations Act and that is:**

(a) a reporting entity whose ordinary shares or potential ordinary shares are publicly traded; or

(b) **a reporting entity that is in the process of issuing ordinary shares or potential ordinary shares in public markets; or**

(c) **an entity that discloses earnings per share.**

6 **In respect of AASB 134, this Standard applies to:**

(a) **each disclosing entity required to prepare half-year financial reports in accordance with Part 2M.3 of the Corporations Act;**

(b) **interim financial reports that are general purpose financial statements of each other reporting entity; and**

(c) **interim financial reports that are, or are held out to be, general purpose financial statements.**

Transition

7 [To be completed]

Commencement of the Legislative Instrument

8 For legal purposes, this legislative instrument commences on XX XX 20XX.

APPENDIX

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2016-X.

Background

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's (AASB) considerations in reaching the conclusions in the Exposure Draft (ED). Individual Board members gave greater weight to some factors than to others.

BC2 Two tiers of general purpose financial statements (GPFS) with the same recognition and measurement requirements, but different levels of disclosures, is a cornerstone of the existing Australian Financial Reporting Framework. With the issue of AASB 1053 *Application of Tiers of Australian Accounting Standards*, the reduced disclosure requirements regime (RDR) has been available in Australia for annual reporting periods beginning on or after 1 July 2009.

BC3 The AASB's decision to introduce RDR was in response to constituent concerns about the burden on entities preparing GPFS using the Australian Accounting Standards founded on the International Financial Reporting Standards (IFRSs).

BC4 The current policy to determining disclosures under RDR is based on starting with the disclosure applying to Tier 1 entities and reducing them for Tier 2 entities by applying the 'user need' 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.

BC5 In August 2009 the then Prime Ministers of Australia and New Zealand signed the Joint Statement of Intent: Single Economic Market Outcomes Framework. Under the proposals in that Joint Statement of Intent, for-profit entities were to be able to use only one set of financial reporting standards and prepare only one set of financial statements for both countries.

BC6 RDR for for-profit entities was issued by the New Zealand Accounting Standards Board (NZASB) in November 2012 and is substantially the same as the RDR developed by the AASB. The key difference is that in Australia, the same disclosure requirements for

Tier 2 for-profit entities also apply to Tier 2 not-for-profit entities. Notwithstanding this difference the AASB and the NZASB (the Boards) undertook this project to review RDR jointly.

Outreach undertaken to identify user information needs for financial statements prepared on an RDR basis

BC7 In 2015 the Boards undertook a project to jointly review the approach taken to determining the minimum disclosures required of all Tier 2 entities.

BC8 The Boards considered that redefining the Boards' approach to determining RDR would benefit from an appreciation of the needs of users of a Tier 2 entity's financial statements.

BC9 Therefore, the Boards considered it important that they consult users of Australian for-profit and not-for-profit entity financial statements and New Zealand for-profit entities in considering the information needs of those users. Feedback was sought from representatives of users of a Tier 2 entity's financial statements.

BC10 In summary, the common information needs of those users in both Australia and New Zealand are those relating to:

(a) financial performance;

(b) liquidity and solvency;

(c) cash balances and cash flows;

(d) related party transactions and balances;

(e) accounting policies applied; and

(f) transactions and events that are significant for the entity.

BC11 Based on the feedback received from the Boards' outreach, an RDR decision-making framework has been developed to replace the current RDR policy in Australia.

Revised RDR policy

BC12 The Boards revised their policy to determining disclosures under RDR. The start point remains the disclosures applying to Tier 1 entities. The the minimum disclosures required of Tier 2 entities would be the outcome of applying a revised RDR decision-making framework and operational guidance to facilitate its application.

BC13 Both Boards are concerned that the RDR for for-profit entities be consistent between Australia and New Zealand to the extent possible. The revised RDR decision-making framework and operational guidance is designed to provide a consistent basis for considering the minimum disclosures required of Tier 2 entities.

BC14 It should be noted that an objective of this process is that different people applying it would generally come to similar conclusions about whether a reduction in a Tier 1 disclosure is warranted, although the Boards acknowledge that this may not always be the case.

BC15 The essential features of the RDR decision-making framework are:

(a) the overarching principles of user needs and cost-benefit; and

(b) disclosure of financial performance, financial position and cash flows.

BC16 The Boards identified two Key Disclosure Areas that would meet user needs, which 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 is further broken down into disclosures about:

(i) commitments and contingencies;

(ii) impairment

(iii) related parties

(iv) subsequent events;

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

(vi) accounting policy on recognition or measurement;

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

(viii) other disclosures.

BC17 The Boards determined that there is a rebuttable presumption that the benefits of the disclosure exceed the costs and, therefore, the disclosure is kept in Tier 2 requirements where the disclosure provides information is about:

(a) current liquidity and solvency;

(b) commitments and contingencies;

(c) impairment;

(d) related parties;

(e) subsequent events; and

(f) associated risks specific to a transaction or event.

BC18 Where the disclosure provides information about:

(a) an entity's accounting policy on recognition or measurement; or

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

reliance is often, but not always, placed on the disclosure requirements in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. Where the disclosure requirements in AASB 101 and AASB 108 are deemed to be sufficient, the disclosure requirements in the standards dealing with particular types of transactions or topics are reduced in Tier 2 requirements.

BC19 Sometimes a standard requires disclosure of a specific accounting policy (or part thereof) or the application of judgement in specified circumstances. For example, how under certain circumstances, an entity determines that it controls another entity, or how an entity determines that control of goods or services has passed to a customer for the purposes of recognising revenue. Rather than relying on the general disclosure requirements in AASB 101 and AASB 108, the disclosure requirement in the standard is kept in Tier 2 requirements.

BC20 Some disclosures about transactions and other events significant or material to understanding the entity's operations as represented by the financial statements are other disclosures as they do not provide information about:

(a) commitments and contingencies;

(b) impairment;

(c) related parties;

(d) subsequent events;

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

(f) an entity's accounting policy on recognition or measurement; or

(g) significant estimates and judgements specific to a transaction or event.

BC21 The Boards determined that there is a rebuttable presumption that the benefits of the disclosure do not exceed the costs and, therefore, the disclosure is reduced in Tier 2 requirements where the disclosure provides information about the other disclosures referred to in paragraph BC21.

BC22 Some disclosures are not Key Disclosure Areas because they are not about:

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

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

BC23 However, those disclosures sometimes provide information that meets user needs. 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). In these circumstances, there is also a rebuttable presumption that the benefits of the disclosure exceed the costs and, therefore, the disclosure is kept in Tier 2 requirements.

BC24 Where a disclosure is not a Key Disclosure Area or it does not provide information that meets user needs as outlined in paragraph BC17 above, the rebuttable presumption is that the benefits of the disclosure do not exceed the costs. The disclosure is, therefore, reduced in Tier 2 requirements.

Operational guidance

BC25 The Boards also developed operational guidance to facilitate the application of the RDR decision-making framework.

Presentation Vs Disclosure

BC26 The revised RDR decision-making framework does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1. It is concerned only with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.

BC27 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 revised RDR decision-making framework to determine which disclosures, if any, are kept in Tier 2 requirements.

Disclosure objective/principle

BC28 Some Australian Accounting Standards include a paragraph that identifies the disclosure objective/principle for that standard. The following paragraph then require disclosures about specific matters to meet that objective/principle.

BC29 Disclosure objective/principle paragraphs are generally kept in Tier 2 requirements. However, where most of the specific matters to be disclosed to meet that objective/principle are reduced in Tier 2 requirements, the related objective/principle is also reduced in Tier 2 requirements.

Guidance

BC30 Guidance in Australian Accounting Standards that relates to a disclosure that is kept in Tier 2 requirements is also kept.

BC31 Guidance that relates to a disclosure that is reduced in Tier 2 requirements is also reduced.

BC32 Guidance that includes a cross-reference to disclosure requirements in another standard is also kept in Tier 2 requirements where the disclosure that is referred to in the other standard is kept. Where the guidance includes a cross-reference to disclosure requirements that are reduced in Tier 2 requirements, the paragraph that includes the cross-reference is also reduced in Tier 2 requirements.

Disclosure Encouraged

BC33 Where a disclosure is encouraged in Australian Accounting Standards, it is reduced in Tier 2 requirements.

Reconciliation

BC34 A reconciliation required in Australian Accounting Standards is also reduced in Tier 2 requirements. However, the individual items that together form the reconciliation are assessed against the revised RDR decision-making framework to determine which disclosures, if any, are kept in Tier 2 requirements.

Other Standards

BC35 Sometimes, the disclosure required by one Australian Accounting Standard is covered by the requirements of another Australian Accounting Standard. Some standards also contain cross-references to other standards. In both of these situations, the disclosure requirements are either kept in both standards or reduced in both standards in Tier 2 requirements.

BC36 Two Standards do not apply in Tier 2 requirements – AASB 8/NZ IFRS 8 *Operating Segments* and AASB 133/NZ IAS 33 *Earnings per share*. References to either Standard are reduced in Tier 2 requirements.

Post Implementation Review

BC37 The AASB has commenced an empirical research project designed to determine the extent to which different company types, including large proprietary companies and public companies limited by guarantee, have adopted the RDR. The research is also intended to identify the characteristics of those eligible entities that have chosen to adopt the RDR and those that have not, and ascertain the reasons for their respective decisions. The AASB considers this research will inform its decision-making on the RDR proposals.

RIS Requirements

[To be completed]