



Project:	Reduced Disclosure Requirements (Tier 2) Principles	Meeting	AASB December 2016 (M155)
Topic:	Cover Memo	Agenda Item:	4.0 Addendum
Contact(s):	Mark Shying mshying@asb.gov.au (03) 9617 7645 Nikole Gyles ngyles@asb.gov.au (03) 9617 7639	Project Priority:	High
		Decision-Making:	High
		Project Status:	Draft ED

Note to the Board: This paper should be read in conjunction with paragraphs 15-19 of Agenda Paper 4.0

Introduction, objective and recommendation of this paper

- 1 The Board has been working on a joint project with the NZASB to identify the disclosures required of Tier 2 entities.
- 2 The objective of the addendum is to help the Board to make decisions in relation to Agenda Paper 4.0 *Cover Memo*. In that paper, staff proposed that, once approved, the effective date for the amended Tier 2 disclosures be annual periods beginning on or after 1 January 2019. Early application would be permitted, with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as revised by ED 2XX *Revised Disclosures Requirements for Tier 2 Entities* applied at the same time as an entity first applies a Standard that is revised by this ED.
- 3 The staff proposal for early application of the amended Tier 2 disclosures is consistent with Board's October 2015 tentative decision for early application.
- 4 The second question for Board members in Agenda Paper 4.0 is "Do Board members agree with the staff recommendations:
 - (a) of an effective date of annual periods beginning on or after 1 January 2019?;and

- (b) that early application still be permitted, with AASB 101, AASB 107 and AASB 108 as revised by this ED applied at the same time an entity first applies a Standard that is revised by this ED?”
- 5 Question 10 of ED 2XX (Agenda Paper 4.1) seeks constituent comments on the same proposal.
- 6 The disclosure requirements in the ED include consequential amendments made to Australian Accounting Standards by AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* (which are both effective for annual periods beginning on or after 1 January 2018), AASB 16 *Leases* (which is effective for annual periods beginning on or after 1 January 2019) and all other amendments made to the disclosure requirements in Australian Accounting Standards which are effective for annual periods beginning on or after 1 January 2018.
- 7 The NZASB is meeting on 15 December 2016 and the staff papers for their meeting were finalised after the AASB staff papers. The NZASB papers contain substantially the same proposals as the AASB papers. NZASB staff propose that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019, with early application permitted for annual periods beginning on or after 1 January 2018. By restricting early application to annual periods beginning on or after 1 January 2018 this avoids any mismatch in disclosure requirements that could arise from an entity early adopting the disclosure concessions before it applies the consequential amendments to those NZ IFRSs that are effective from 1 January 2018.
- 8 In addition to restricting early adoption, the NZASB staff paper proposes that the concessions for NZ IAS 40 *Investment Properties* be available only when an entity applies NZ IFRS 16 *Leases*.
- 9 The NZASB staff propose that constituents are asked “Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019, with early application permitted for annual periods beginning on or after 1 January 2018 (with early adoption of the concessions in NZ IAS 40 permitted only when an entity also applies NZ IFRS 16)?”

Staff analysis and question for the Board

- 10 When the Board discussed early application of the amended Tier disclosures at the October 2015 meeting it did so on the basis that the effective date for the amended Tier 2 disclosures would be annual periods beginning on or after 1 January 2018. The staff proposal in Agenda Paper 4.0 is 1 January 2019.
- 11 The disclosure requirements of a standard are not independent of the recognition and measurement requirements of that standard. Therefore, the amended Tier 2 disclosures proposed in ED 2XX are not adopted independently of the underlying recognition and measurement requirements.
- 12 ED 2XX includes AASB 15 and AASB 16 Tier 2 disclosures. An eligible entity should not be able to adopt those disclosures without applying the standard in accordance with its application paragraph. As AASB 16 makes extensive

consequential amendments to AASB 140, the revised Tier 2 disclosures in AASB 140 reflect that change.

13 Staff have identified three alternative approaches:

- (a) **Approach 1:** to ensure that the amended Tier 2 disclosures are not adopted independently of the related standard is to apply the amended Tier 2 disclosures by a “big bang” step whereby all the standards are applied to annual periods beginning on or after 1 January 2019, with no early application. The advantage of this approach is that the “fresh start” coincides with the effective date of AASB 16 (and the amended AASB 140). The disadvantage of this approach is that entities would not have access to the Tier 2 disclosures for AASB 15 at the time of applying AASB 15 at its effective date.
- (b) **Approach 2:** to allow early application in accordance with the application paragraphs of those standards, without further restriction except that the revised Tier 2 disclosures in AASB 140 would only be available when an entity applies AASB 16. The advantage of this approach is that if an entity chose to early adopt, they would not be required to early apply the requirements for all standards. The disadvantage of this approach is it does not address the mismatch in disclosure requirements that could arise from an entity early adopting the amended Tier 2 disclosures before it applies the consequential amendments to those Australian Accounting Standards that are effective from 1 January 2018.
- (c) **Approach 3:** is to allow early application, with early application permitted for annual periods beginning on or after 1 January 2018. An entity could only apply the revised disclosures in AASB 140 when an entity applies AASB 16. The advantage of this approach is it does address the mismatch in disclosure requirements described in paragraph 13(b). **This is the approach proposed by the NZASB staff.** One disadvantage of this approach is that it does not require a “fresh start”. Another disadvantage is the limit on early adoption. Staff do not think either disadvantage is substantive as the standard to amend Tier 2 disclosures would be unlikely finished before Quarter 4 2017.

Staff recommendation

14 Staff support Approach 3, once approved the amended Tier 2 disclosures:

- (a) have an effective date of annual periods beginning on after 1 January 2019; and
- (b) are permitted to be applied early only for annual periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 permitted only when an entity also applies AASB 16), with AASB 101, AASB 107 and AASB 108 as revised by this ED applied at the same time an entity first applies a Standard that is revised by this ED.

Question for Board members

Q.A1 Do Board members agree with Approach 3 that the amended Tier 2 disclosures:

- (a) have an effective date of annual periods beginning on after 1 January 2019; and
- (b) are permitted to be applied early only for annual periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 permitted only when an entity also applies AASB 16), with AASB 101, AASB 107 and AASB 108 as revised by this ED applied at the same time an entity first applies a Standard that is revised by this ED?

Q.A2 If Board members agree with Question 1, do Board members agree that Question 10 of ED 2XX is modified to ask this question, and include further discussion in the Basis for Conclusions?

- 15 The AASB has tentatively decided to change its approach to identifying the disclosure required of Tier 2 entities by including them in an appendix to the relevant standard. The Standard to amend Tier 2 disclosures will be an amending standard. ED 2XX (Agenda Paper 4.1) does not identify the amendments to the current standards (e.g., effective date paragraphs underlining new text and deleted text struck through). Instead the ED sets out as an appendix to the relevant standard the proposed disclosures required of Tier 2 entities.
- 16 The NZASB tentatively decided to continue its approach of asterisking (*) disclosures that Tier 2 entities are not required to make and, where necessary, including RDR paragraphs for clarification or to establish a disclosure requirement that is not identical to the Tier 1 requirement. Partial concessions are identified by means of an asterisk (*) next to the paragraph and inclusion of an RDR paragraph which explains the disclosure requirements for Tier 2 entities. The NZASB draft ED shows the amendments to NZ IFRS by underlining new text and deleted text is struck through. A removed disclosure concession is identified as x*; an added disclosure concession is identified as +*; and the current concession is being kept is identified as *. The NZASB draft material also includes effective date paragraphs.

Example of new effective date paragraph for standards that are amended – NZ IFRS 1

- 17 NZ 39AB.1 [Draft] Amendments to RDR for Tier 2 For-profit Entities, issued in [date], amended paragraphs RDR 21.1, 22, 23, RDR 23A.1, 24, 27, 27A and 29A, added paragraph RDR 6.1 and deleted paragraphs RDR 23B.1 and RDR 24.1. An entity shall apply those amendments for annual periods beginning on or after [1 January 2019]. Earlier application is permitted for annual periods beginning on or after 1 January 2018.

Wording for new effective date paragraph for NZ IAS 40

- 18 NZ 85F.1 [Draft] Amendments to RDR for Tier 2 For-profit Entities, issued in [date], amended paragraphs 75, 76, 78, 79 and RDR 79.1, added paragraph RDR 78.1 and deleted paragraphs RDR 76.1 and RDR 76.2. An entity shall apply those

amendments for annual periods beginning on or after [1 January 2019]. Earlier application is permitted for annual periods beginning on or after 1 January 2018 provided that an entity also applies NZ IFRS 16.

Wording for effective date paragraph of amending standard

- 19 This Standard is effective for annual periods beginning on or after [1 January 2019]. Earlier application is permitted for annual periods beginning on or after 1 January 2018. An entity shall not early adopt the amendments to NZ IAS 40 unless the entity also applies NZ IFRS 16.**

Staff analysis and question for the Board

- 20 One approach is for ED 2XX to identify the amendments to the existing standards including effective date paragraphs. The advantage of this approach is that the content of the ED would be more like that of an amending standard. The disadvantage of this approach is that it detracts from the fact that the Board is proposing a new way of presenting Tier 2 disclosure which may have a negative effect on feedback received on that proposal.
- 21 The second approach is the approach taken in Agenda Paper 4.1. The advantage and disadvantage are the opposite of the advantage and disadvantage identified for Approach 1, the proposed new way of presenting Tier 2 disclosures has prominence.

Staff analysis and question for the Board

- 22 Staff support Approach 2 which does not require a change to the ED.

Question for Board members

Q.A3 Do Board members agree with Approach 2 which does not require a change to the ED?