



Project:	Reduced Disclosure Requirements for Tier 2 Entities	Meeting:	AASB August 2017 (M159)
Topic:	Comments on ED 277	Agenda Item:	7.1
Contacts:	Tim Austin taustin@asb.gov.au (03) 9617 7638 Vanessa Sealy-Fisher (NZASB) Clark Anstis canstis@asb.gov.au (03) 96177616 Kala Kandiah kkandiah@asb.gov.au (03) 96177626	Project Priority:	Medium
		Decision-Making:	High
		Project Status:	Redeliberations

Introduction and objective of this paper

- 1 The objective of this paper is to provide the Board with a summary of the feedback received on ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*. The Board is asked to consider the comments received on Specific Matter for Comment (SMC) 1-6 and SMC 8 in this meeting, provide feedback on key matters raised in the submissions and decide on the next steps in relation to these SMCs.
- 2 Staff will bring SMC 7, 9-13 for consideration by Board in a later AASB meeting. Staff note that Board's decisions in relation to SMC 7, 9-13 would be dependent on Board's decisions in relation to the SMCs discussed in this meeting.
- 3 This paper is structured as follows:
 - (a) staff recommendations (paragraph 6)
 - (b) background (paragraphs 10-13);
 - (c) overview of feedback (paragraphs 14-16); and
 - (d) summary of responses by question (paragraphs 17-88).
- 4 This summary is a collation of both Australian and New Zealand feedback, the comments from respondents as shown in this memo have been paraphrased or combined. In order to gain a full understanding of respondents' comments it is necessary to read the complete submissions. Staff have provided the full submissions of Australian constituents in a

supporting materials folder in AASB's board paper dropbox folder. The submissions are also available on AASB's website¹.

- 5 AASB Exposure Draft ED 277 had thirteen specific matters for comment (SMC) for respondents, whilst New Zealand Exposure Draft ED 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* had ten questions. Where applicable, ED 2017-1 questions and responses have been aligned with the ED 277 SMC and responses.

Attachments

- (a) 7.2 – Collation of responses listed by Specific Matters for Comment
- (b) A.1 – Full written responses received for ED 277

Staff recommendations

- 6 The Staff recommend the following:
- (a) the overarching principles remain as proposed in the ED (SMC 1);
 - (b) Further outreach to be undertaken, consulting a wider range of users, in the for-profit and not-for-profit sector, of Tier 2 financial statements. Staff will use the AASB's and the IPSASB's Conceptual Frameworks (Appendix B) as a guide to determine users (Specific Matter for Comment 2-3);
 - (c) Provision of education materials (for example FAQs) by the AASB staff once the ED has progressed to be a Standard to assist preparers with accounting policy disclosure requirements (SMC 4); and
 - (d) the proposed approach to guidance of a general nature for disclosure requirements be retained (SMC 5);
 - (e) the proposed approach to cross-references of a general nature be retained (SMC 6); and
 - (f) further consultation with preparers regarding the choice of presentation method, as preparers would be the ones most affected by the choice of presentation method in Standards for RDR disclosures (SMC 8)

Next Steps

- 7 If the Board agrees to progress this project as recommended, we propose to work with NZASB staff to progress this project as follows:
- (a) Conduct further outreach as recommended by staff to support the Key Disclosure Areas and choice of presentation method; and
 - (b) Once we have Board agreement on the amended Joint Policy Statement, it would be applied to the disclosures in Australian Accounting Standards/NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities in New Zealand and all Tier 2 entities

¹ <http://www.aasb.gov.au/Work-In-Progress/Open-for-comment.aspx>

in Australia. When undertaking this task, feedback received on the detailed proposals would also be taken into account.

- 8 As this is a joint project, Staff have included the Board meetings for the remainder of 2017 to inform the Board that as the remaining NZASB and AASB meetings for the year do not align, any decisions at one Board meeting may not be reflected until the following meeting for the other board. Board meetings are scheduled for the following dates:

Month	AASB	NZASB
August	15 th	2 nd
September	-	13 th
October	10 th -11 th	-
November	-	1 st
December	12 th -13 th	14 th

- 9 During the development of the EDs, we had a joint sub-committee. Staff recommend establishing a new joint sub-committee, as we will need feedback when developing Board detailed papers.

Question for Board members

- 1 Do Board members agree with Staff recommendations (paragraph 6)?
- 2 Do Board members agree with the proposed next steps outlined (paragraph 7-9)?

Background

- 10 The Board issued ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* and the accompanying Staff Analysis document in January 2017. Comments were due by 26 May 2017. The proposals in the ED would result in a Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand and, as a consequence, amendments to the current disclosure requirements for Tier 2 entities.
- 11 In addition to seeking formal feedback through submissions to ED 277, three roundtable sessions in April 2017 were held in Sydney, Canberra and Melbourne and a webinar was hosted by the AASB in May to seek feedback on ED 277.
- 12 The New Zealand Accounting Standards Board (NZASB) issued Exposure Draft ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* and the accompanying Invitation to Comment in January 2017. Comments were due by 29 May 2017.
- 13 In this memo, AASB ED 277 and ED NZASB 2017-1 are referred to as “the EDs” when comments apply to both documents.

Overview of the feedback received

- 14 A total of fourteen comment letters were received by the AASB and eight comment letters were received by the NZASB. A list of respondents has been included in Appendix A of this paper. In providing a summary of feedback from constituents as outlined below, feedback from AASB’s roundtable sessions (summarised in Appendix C) and webinar has also been incorporated, where relevant.
- 15 The responses to the EDs indicate general support for the proposed Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand. However, several respondents provided suggestions for improving the RDR framework and requests have also been made for the Boards to reconsider the outcome of the application of the RDR framework to the disclosures in Australian Accounting Standards/NZ IFRS.
- 16 Some respondents disagreed with the proposed RDR framework, mainly on the basis that there were no significant reductions to the disclosures currently required under RDR and that the outcomes of the project would not be achieved until the Australian Reporting Framework project had been completed.

Summary of responses by Specific Matter for Comment/Question

AASB SMC 1/ NZASB Question 1 – Overarching Principles

Do you agree with the overarching principles on which the proposed RDR decision-making framework identified in the proposed joint Policy Statement is based (that is, user needs and cost-benefit)? If you disagree, please explain why.

- 17 Thirteen of the Australian respondents and six of the NZ respondents answered this question. The responses have been classified in the table below².

	Australia		New Zealand	
Agree	AR2 – AR14	13	NZR1, NZR2, NZR3, NZR4, NZR6 and NZR7	6
No response	AR1	1	NZR5 and NZR8	2

- 18 All Australian constituents who responded expressed their general support for the overarching principles proposed in the EDs. Although some respondents sought further explanation and clarification of the overarching principles.
- 19 Respondents recommended that the framework
- (a) explain the definition of financial statement users used in developing and applying the framework (NZR4);
 - (b) elaborate the overarching principle of “user needs” (including the users of charity financial reports) (NZR6, AR4 and AR9); and

² Judgement has been used by AASB and NZASB Staff to determine the classification of each response.

(c) include requirements for transparency (AR12).

20 One respondent commented that ‘benefits’ needs to be clearly defined, as a benefit to a preparer through reduced cost may be a detriment to a user through reduced information, and vice versa (AR4). Another respondent requested some guidance or examples to illustrate or explain the type of factors that will be considered when assessing ‘cost-benefit’ and ‘user needs’ (NZR7).

Staff recommendations

21 Staff recommend that as all respondents generally agreed with the over-arching principles, that the Board continue with the principles as proposed. In considering the feedback regarding user needs and cost-benefit, Staff draw attention to the Basis for Conclusion to ED 277 (BC23-BC24) which states that user needs and the principle of cost-benefit are derived from the current Conceptual Frameworks in Australia and New Zealand. Therefore, staff do not consider that further explanation or definition of ‘user’ is needed in the RDR framework.

AASB SMC 2 / NZASB Question 2 – Key Disclosure Areas

Do you agree with the two Key Disclosure Areas identified in the proposed joint Policy Statement as being essential for meeting user needs? If you disagree with either Key Disclosure Area (including any of the specific disclosures about transactions and other events significant or material to understanding the entity’s operations as represented by the financial statements), please explain which one(s) you disagree with and why?

22 Thirteen of the Australian respondents and six of the NZ respondents answered this question. We have classified the responses in the table below.

	Australia		New Zealand	
Agree	AR3, AR5, AR9, AR11, AR13 and AR14	6	NZR3 and NZR6	2
Partially agree	AR2, AR4, AR6 and AR7	4	NZR1, NZR2, NZR4 and NZR7	4
Disagree	AR8, AR10 and AR12	3	-	-
No response	AR1	1	NZR5 and NZR8	2

23 Most Australian constituents who responded either **agreed** with the Key Disclosure Areas identified by the Boards or supported with some qualification (shown as ‘**partially agree**’).

24 Respondents who addressed this SMC expressed concern regarding the limited scope of users consulted to identify ‘users’ needs’ resulting in the “Key Disclosure Areas”. The respondents suggested that further outreach to be undertaken (AR4, AR6, AR8, AR10), in particular broadening the range of constituents consulted to a wider spectrum of users representing charities and the not-for-profit sector (AR4). This is also consistent with feedback received from AASB roundtables on the ED.

25 Public sector respondents expressed the view that ‘Liquidity and Solvency’ has limited application to the public sector (AR2 and AR7), (consistent with feedback from AASB roundtables); however it was acknowledged that the application of materiality principles can

be applied to remove any unnecessary disclosures which have not been reduced in the proposed framework (AR7). Three New Zealand respondents encouraged the Board to develop a similar framework for Tier 2 public benefit entities (PBEs) (NZR1, NZR3 and NZR4).

- 26 One respondent would like the AASB to consider whether an additional KDA relating to accountability and transparency is required (AR4), one respondent disagreed with the KDAs on the basis that they have not appropriately considered accountability and transparency (AR12). One of the respondents did have a reservation about whether this would result in an over complication of the framework (AR4).
- 27 Staff note that the Basis for Conclusion to ED 277 (BC 25) states that accountability has not been separately defined as accountability is an objective of General Purpose Financial Statements.
- 28 Several respondents provided suggestions for restructuring the KDAs, which included (i) having three KDAs, comprising the first KDA and splitting the second KDA into general disclosures and specific disclosures, and (ii) removing some of the specified disclosures because they are effectively covered by another disclosure (NZR1, NZR2, and AR8).
- 29 One respondent recommends that subparts (b)(ii) *associated risks specific to a transaction or event* and (b)(iv) *associated significant estimates and judgements specific to a transaction or event*, are removed from the second KDA, as they are covered by (b)(i) *the nature of the transaction or event that makes it significant or material to the entity* (AR6).
- 30 One of the constituents who **disagreed** with the Key Disclosure Areas is of the view the KDAs should be split between for-profit, not-for-profit and a further split between not-for-profit private and public (AR10).
- 31 One respondent had fundamental disagreements with the wording of the second KDA (b) *transactions and other events that are significant or material to an understanding of the entity's operations as represented by the financial statements* (AR8). The concerns related to the terms:
 - (i) Significant – the difference between ‘significant’ and ‘material’ is not defined in the ED;
 - (ii) Transactions – disclosures should be based on material asset balances not just transactions; and
 - (iii) Other events – considered too broad.

Staff recommendations

- 32 Based on the responses received, staff recommend that additional consultation with a broader range of users, in particular not-for-profit users is conducted. The Staff have included extracts of the AASB's the IPSASB's Conceptual Frameworks, as the users identified in the Conceptual Frameworks will be targeted by staff in their consultation.

AASB SMC 3 / NZASB Question 3 – Joint Policy Statement

Do you agree with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities? If you disagree, please explain why (see the [draft] joint Policy Statement to this ED). In relation to the proposed joint Policy Statement, the AASB is particularly seeking to know whether the disclosures required of not-for-profit entities are appropriate relative to the disclosures required of for-profit entities.

33 Thirteen of the Australian respondents and six of the NZ respondents answered this question. We have classified the responses in the table below.

	Australia		New Zealand	
Agree	AR5, AR6, AR7, AR9, AR11, AR13 and AR14	7	NZR1, NZR2 and NZR6	3
Partially agree	AR2 AR4	2	NZR3, NZR4 and NZR7	3
Disagree	AR3, AR8, AR10 and AR12	4	-	-
No response	AR1	1	NZR5 and NZR8	2

34 Subject to their comments on question 2 (NZR3, NZR4, AR2, AR7, AR8 and AR13), most respondents agree or partially agree with the proposed joint Policy Statement as a whole.

35 AR4 acknowledged that profitability and liquidity are important for a not-for-profit entity but not the sole focus because these entities are often mission oriented and the achievement of that mission often comes at the expense of profit. Users have an equal interest in financial as well as non-financial disclosures.

36 Guidance should be added to the framework to reinforce that preparers of financial statements must still exercise judgement in determining whether a disclosure without a concession should be made on materiality grounds (NZR4).

37 AR14 expressed general support for a joint policy but is concerned with its practical application.

38 The respondents who disagreed with the joint policy as a whole did so on the basis that they did not believe RDR is the right approach to differential accounting (AR3 and AR12), or that the RDR framework proposed was not appropriate (AR8 and AR10).

39 AR3 suggested IFRS for SMEs as an alternative, AR12 preferred a more nuanced approach to differential reporting than is proposed.

Staff recommendation

40 As most of the responses to the proposed joint Policy Statement are conditional on how the KDAs are identified (i.e SMC 2) (refer to paragraph 34 above), staff consider that SMC 3 can only be addressed after further outreach with constituents is conducted as recommended in SMC 2.

AASB SMC 4 – Accounting Policies

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus12.1 to this ED).

41 Thirteen of the Australian respondents answered this question. This matter is not relevant for New Zealand respondents, as the NZASB have retained all accounting policy paragraphs in their proposed RDR. Staff note that all New Zealand respondents agreed with the NZASB’s approach. The table below classifies the responses.

	Australia	
Agree	AR2, AR3, AR4, AR5, AR9, AR10, AR11, AR12 and AR14	9
Partially agree	AR7, AR8 and AR13	3
Disagree	AR6	1
No response	AR1	1

- 42 A majority of the constituents **agreed** or **partially agreed** with the AASB approach to accounting policies. Three constituents agreed with the approach but commented that further communication would be required for preparers to ensure they appropriately address accounting policy disclosures (AR4, AR7 and AR10). This was supported by feedback from the roundtable participants.
- 43 One constituent would like the communication to emphasise disclosing accounting policies that are *most significant* to understanding the entity’s financial statements and the key judgements made in applying those policies, to avoid preparers taking a boilerplate approach to accounting policy disclosures (AR13). A constituent had a linked view that some preparers may apply a checklist approach and erroneously omit the accounting policy disclosure if they are not reminded within the standard (AR8).
- 44 One constituent agreed with the approach taken but would like the AASB to reconsider the approach to accounting policy paragraphs which go beyond basic requirements of AASB 101 and AASB 108 (AR7).
- 45 Two constituents commented that the AASB approach to accounting policies should be extended to disclosures of estimation uncertainty and other areas where AASB 101 and AASB 108 largely contain the disclosure requirements (AR8 and AR10). There were mixed views from roundtable participants regarding whether the same approach should be taken to estimates, noting that disclosures of estimates have not been traditionally done appropriately.
- 46 AR6 **disagreed** with the approach to accounting policies. The basis for this was that reducing the paragraphs dealing with a specific type of transaction or event may lead to confusion about whether an accounting policy is required.

Staff recommendations

- 47 Staff recommend that education materials (for example in the form of Frequently Asked Questions (FAQs)) be published when the RDR Standard is issued to assist preparers in determining the appropriate accounting policy disclosures. The feedback from respondents

indicates that they are mostly supportive of the approach as long as there is sufficient communication/education on this to support preparers.

AASB SMC 5 - Guidance

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus25.1 to this ED).

48 Thirteen of the Australian respondents answered this question. This matter is not relevant for New Zealand respondents, as the NZASB have retained all guidance in their proposed RDR. Staff note that all New Zealand respondents with one exception agreed with the NZASB's approach. The table below classifies the responses.

	Australia	
Agree	AR3, AR4, AR5, AR6, AR8, AR10, AR11, and AR12	8
Partially agree	AR14	1
Disagree	AR2, AR7, AR9 and AR13	4
No response	AR1	1

49 Most constituents agreed or partially agreed with the AASB approach to guidance.

50 One constituent agreed with the approach but commented that guidance which is sufficiently specific to a disclosure requirement should be retained (AR4). This was similar to the view from the roundtable participants where guidance which is 'more than obvious' should be retained.

51 One constituent commented that removing guidance which outlines a preferred way of presenting the disclosure will result in preparers choosing how to present the information without requirement to justify why they chose that particular format. Example guidance paragraphs which state that the disclosure 'shall be provided in tabular format unless another format is more appropriate' (AR8). Another constituent commented that the practical implication of the removal of guidance is that education will be required, to help preparers identify where further useful information is located to assist them (AR14).

52 One respondent commented that whilst they are in favour of the AASB approach, they would like a consistent approach between Australia and New Zealand (AR10).

53 All of the respondents who disagreed with the approach were of the view that guidance is useful overall and is designed to help preparers understand key requirements, in particular, less sophisticated preparers and does not create an additional burden (AR7, AR9 and AR13).

54 One constituent recommended further explanation is provided in the Basis for Conclusions (BC) to justify why the guidance should be reduced (AR2).

Staff recommendations

55 AASB Staff acknowledge that some respondents have concerns around the AASB's proposed approach to guidance for disclosure requirements, however as many respondents have agreed

with the proposed approach, AASB staff consider that, on-balance, the AASB's proposed approach should be retained.

AASB SMC 6 – Cross-referencing

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus29.1 to this ED).

56 Thirteen of the Australian respondents answered this question. This matter is not relevant for New Zealand respondents, as the NZASB have retained all cross-references in their proposed RDR. Staff note that all New Zealand respondents with one exception agreed with the NZASB's approach. The table below classifies the responses.

	Australia	
Agree	AR2, AR3, AR5, AR6, AR7, AR 8, AR9, AR10, AR11 AR12 and AR14	11
Partially agree	AR4	1
Disagree	AR13	1
No response	AR1	1

57 Nearly all respondents agreed with the approach to cross-references. There were some reservations. One respondent commented that cross-referencing is useful reminder of other applicable Standards for smaller and less resourced Tier 2 entities (AR2 and AR4).

58 The respondent who disagreed with the approach to cross-references of a general nature, commented that cross-reference paragraphs themselves do not result in any additional disclosures being required and therefore should be retained (AR13).

Staff recommendations

59 Staff recommend that the proposed approach to cross-references of a general nature is retained by the Board as most respondents generally agreed with the proposed approach.

AASB SMC 8 – Method of Presentation

Which approach do you prefer for identifying RDR for Tier 2 entities:

- (a) the approach taken in this ED with the Proposed Tier 2 Disclosures to include an Australian Appendix in each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide; or
- (b) use the approach taken in the New Zealand ED to use an asterisk (*) for disclosures that are not required and explaining partial concessions by means of an RDR paragraph? The approach taken in the New Zealand ED is illustrated in the Appendix A to this ED.

60 Thirteen of the Australian respondents answered this question. This matter is not relevant for New Zealand respondents, as the NZASB have not proposed an alternative presentation method. The table below classifies the responses.

	Australia	
(a) Appendix	AR2, AR5, AR12, AR13	4
(b) Asterisk		-
Appendix (with qualification)	AR4, AR7	2
Appendix and shading	AR14	1
Asterisk (shading if available)	AR6	1
Shading	AR3, AR8, AR9, AR10, AR11	5
No response	AR1	1

- 61 Mixed views were received by respondents to this matter, with some respondents not responding with option (a) or (b). Most respondents expressed their preference for the appendix over the asterisk with some qualifications.
- 62 The qualifying comments were that the appendix results in the duplication of materials, there is also difficulty in differentiating between disclosure and presentation requirements in standards with no headings and there is a breaking of the link between the recognition and measure criteria and disclosure (AR4, and AR7).
- 63 A number of respondents were in favour of the shading approach unless there have been fundamental issues identified and the appendix approach has evidence to support that it will improve the usage of RDR (AR9, AR10 and AR11).
- 64 One respondent would like the AASB to consider both an appendix and shading to potentially cater for different accounting standard user styles (AR14).

Staff recommendations

- 65 As the responses to this SMC is mixed and some have preferred the current shading approach, staff recommend that further outreach be conducted, particularly with preparers, to obtain feedback on a preferred choice of presentation, including the current shading approach. Staff note that a specific question was not asked in ED 277 on whether the current shading approach in Australia for RDR is preferred by constituents. Staff also note that most respondents are not preparers.

The feedback for the following SMCs (excluding SMC 8) have been included for information only, no decisions are to be made on these SMCs at this meeting

AASB SMC 7 / NZASB Question 4 – Application to the Standards

Do you agree with the outcome of the application of the proposed joint Policy Statement to the disclosure requirements in Australian Accounting Standards to determine the disclosures that Tier 2 entities should be required to provide? (see Proposed Tier 2 Disclosures) If you disagree with the outcome, please identify, with reasons:

- (a) which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide; and
- (b) which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide.

66 Fourteen of the Australian respondents and eight of the NZ respondents answered this question. The responses have been classified in the below table.

	Australia		New Zealand	
Agree	AR3	1	NZR6 – general support	1
Partially agree	AR2, AR5, AR8, AR11 and AR13	5	NZR1, NZR3, NZR4, NZR5 and NZR7	5
Disagree	AR6, AR10, AR12 and AR14	4	NZR2	1
No response		-	NZR1	1
Not specified	AR1, AR4, AR7 and AR9	4	-	-

67 Respondents had mixed views on the detailed proposals in the EDs. The concerns raised with the individual requirements and concessions will be tabled at a future meeting for consideration.

68 Comments from respondents included the following.

- (a) Concerns regarding the application of the RDR framework to disclosure paragraphs that contain a disclosure objective (NZR3/AR13, NZR7 and AR7).
- (b) Inconsistencies in the application of the RDR framework, for example, disclosure of depreciation but not amortisation, disclosures about impairment of a CGU (group of units) when recoverable amount is based on value in use but concessions for the same disclosures when recoverable amount is based on fair value less costs of disposal.
- (c) Concerns about:
 - (i) the reintroduction of qualitative and quantitative disclosures about risks arising from financial instruments (NZR1 and AR8) and some of the disclosures about hedging (AR8);
 - (ii) the lack of disclosures for transferred financial assets (NZR1); and
 - (iii) disclosures reinstated that are not KDAs but are required on the basis that the benefits of providing the disclosures exceed the costs (that is, the presumption that costs exceed benefits is rebutted) (AR8).

69 AR4 provided overall comments on the proposed disclosure requirements and concessions in some of the standards rather than providing comments on the specific proposals.

70 The respondents who disagree believe that the proposed policy has not resulted in a significant enough reduction in disclosure requirements for Tier 2 entities (NZR2, AR6, AR10 and AR12).

AASB SMC 9 – Disclosure and Presentation Requirements

Do you agree that when an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements, both presentation and disclosure requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide? If you disagree, please explain why.

71 Thirteen of the Australian respondents answered this question. This matter is not relevant for New Zealand respondents, as the NZASB have not proposed an alternative presentation method. The table below classifies the responses.

	Australia	
Agree	AR2, AR3, AR5, AR7, AR12 and AR14	6
Partially agree	AR4, AR9, AR11 and AR13	4
Disagree	AR6, AR8, AR10	3
No response	AR1	1

72 Most respondents agreed with this approach as a logical conclusion if the appendix method of presentation is chosen by the AASB. The respondents who disagreed with this matter did so on the basis that they disagreed with the appendix approach in the previous matter for comment.

AASB SMC 10 – Effective Date

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? Early application is permitted for periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 *Investment Property* permitted when an entity first applies AASB 16 *Leases*), 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 this [draft] Standard applied at the same time an entity first applies a Standard that is revised by this [draft] Standard.

73 Thirteen of the Australian respondents and six of the NZ respondents answered this question. We have classified the responses as:

	Australia		New Zealand	
Agree	AR2, AR3, AR4, AR5, AR6, AR7, AR8, AR9, AR10, AR11, AR12, AR13 and AR14	13	NZR1, NZR2, NZR3, NZR4, NZR6 and NZR7	6
No response	AR1	1	NZR5 and NZR8	2

74 All respondents were supportive of the proposed application date.

AASB SMC 11 – Transition Requirements

The Exposure Draft does not propose any specific transition requirements. Do any issues warrant transitional provisions and, if so, what transitional provisions do you suggest?

75 Thirteen of the Australian respondents answered this question. We have classified the responses as:

	Australia	
Agree	AR2, AR3, AR4, AR5, AR6, AR7, AR9, AR10, AR11, AR12, AR13, AR14	12
Disagree	AR8	1
No response	AR1	1

76 Two respondents identified in their response that the proposed RDR in some instances may require greater disclosure than the current RDR. One respondent would like the AASB to consider exemptions for comparative disclosures in the first year of adoption (AR8), whilst the other did not believe transition requirements were necessary (AR13).

AASB SMC 12 – Impact on Entities

Do you think that when approved, the amended Tier 2 disclosures would encourage eligible entities that currently:

- (a) prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements; and
- (b) prepare Tier 1 General Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements.

77 Twelve of the Australian respondents answered this question. This matter was not proposed in the New Zealand ED. The responses to this question will be broken up into 12(a) and 12(b). The 12(a) responses have been classified in the table below.

	Australia	
Agree		-
Disagree	AR3, AR4, AR5, AR6, AR7, AR8, AR9, AR10, AR11, AR12, AR13 and AR14	12
No response	AR1 and AR2,	2

78 Most respondents disagreed. Two respondents provided the view that the benefits of transition are not widely understood, and that the not-for-profit private sector may be more willing if there are more supporting materials prepared (AR4 and AR9).

79 Another view provided was RDR is a significantly higher number of disclosures than the minimum already required for these entities under *Corporations Act 2001* (AR8).

80 The 12(b) responses have been classified in the table below.

	Australia	
Agree		-
Disagree	AR2, AR3, AR4, AR5, AR6, AR7, AR8, AR9, AR10, AR11, AR12, AR13 and AR14	13
No response	AR1 and AR2,	1

81 Most respondents were of the view that the Tier 2 disclosures do not provide sufficient additional benefit to encourage eligible entities, in particular public sector entities.

82 One respondent noted that the attractiveness of RDR may depend on whether GPFS (RDR) will be allowed for lodgement with the tax office to meet Significant Global Entity requirements (AR11).

AASB SMC 13 – Other Issues

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?

83 Thirteen of the Australian respondents answered this question. This matter was not proposed in the New Zealand ED. The responses to this question have been split into the relevant parts. The following matters were raised in response to 13(a).

- (a) One respondent commented that public sector reporting requirements are often set in specific public finance or local government legislation which may restrict the ability of public sector entities to adopt Tier 2 (AR2).
- (b) Further to this, entities which report to government departments such as universities, may not adopt Tier 2 for their own reporting requirements as the consolidated financials require Tier 1. Many public sector entities if they prepare Tier 2 will still be required to prepare Tier 1 disclosures to be reported up as a ‘subsidiary’ of the whole-of-government (AR2).

84 No further matters were raised in response to 13 (b) which have not already been discussed in the paper.

85 The following matters were raised in response to 13(c).

- (a) One is of the view that the cost savings of preparing Tier 2 are offset in the public sector by the need to still prepare a supplementary disclosure pack for consolidation and similar entities reporting Tier 1 or Tier 2 depending on jurisdiction based on their preference rather than basis of user needs (AR2).

- (b) AR13 considers that further revision to the Australian financial reporting environment is required to address the issues that arise as a result of the current focus on the reporting entity concept as the basis for differential reporting.

General feedback received

- 86 The following matters were raised by Australian and New Zealand respondents in addition to the specific matters on which comments were sought.

Australia's Financial Reporting Framework

- 87 Some respondents comments that whilst the proposed RDR is an improvement, until the Australian Reporting Framework project has progressed that the outcomes may not be achieved, in particular, making RDR a more attractive option of reporting than Special Purpose Financial Statements (AR6 and AR9).
- 88 One public sector respondent made that comment that they would be open to consideration of revision of the public sector framework and potentially having more than 2 tiers, like New Zealand (AR2).

IFRS for SMEs Standard

- (a) AR9 (and NZR6) notes the reservations stated in the proposals about using the IFRS for SMEs Standard as the basis for RDR going forward. However, the respondent recommends that the Boards reconsider their stance, particularly in light of the adoption and modification of the IFRS for SMEs Standard in developing Financial Reporting Standard FRS 102 in the United Kingdom, which is applicable to qualifying SMEs.

Pilot/field testing the proposals

- (b) AR5 recommended field testing to be undertaken across several types of entities who are likely to adopt RDR to confirm whether the proposed disclosures will result in financial statements that provide the appropriate level of information for intended users whilst reducing the burden for preparers.
- (c) NZR6 suggests that the NZASB undertake pilot testing of the proposed RDR framework to assist the NZASB in assessing whether the project's objectives are likely to be fulfilled.

Additional materials

- (d) The lack of understanding of RDR was identified by a few respondents as a significant hurdle to be overcome (AR4 and AR14). The respondents suggested the preparation of additional supporting materials and an education program are critical to simplifying the application of RDR (AR4, AR7 and AR14).

IASB Principles of Disclosure Discussion Paper

- (e) AR9 (and NZR6) notes that the IASB has recently issued a consultation paper proposing principles for disclosures. The respondent acknowledges that the RDR project is "self-contained" but suggests that the AASB/NZASB consider the IASB's proposed principles of disclosure in finalising its revised RDR framework.

- (f) AR8 questions the necessity of progressing this project at this stage given the IASB's POD Discussion Paper. The respondent would prefer that the RDR project take on board the outcomes of the IASB project, which can then be adapted for Tier 2 entities by developing suitable Key Disclosure Principles.

Departing from a rebuttable presumption when considering Key Disclosure Areas (KDAs)

- (g) NZR6 (and AR9) notes there are a number of instances where there has been a decision to depart from a KDA on the basis that either costs exceed benefits or vice versa. The respondent has been unable to identify any specific evidence that supports these decisions and suggests that, as the AASB/NZASB has an evidence based approach to standard setting, the AASB/NZASB provides the evidence that formed the basis for those decisions.

Appendix A (Respondents to the EDs)

Comment letters to ED 277 were received from:

	Respondent	Sector
AR1	John Church	Not-for-Profit Sector
AR2	Heads of Treasuries Accounting and Reporting Advisory Committee	Public Sector Advisory Committee - Preparers
AR3	Keith Reilly	Not-for-Profit Sector
AR4	Australian Charities and Not-for-profits Commission	Not-for-Profit Private Sector Regulator
AR5	PWC	Professional Services Firm
AR6	CA ANZ	Professional Body
AR7	Australasian Council of Auditors-General	Public Sector Advisory Committee
AR8	BDO Australia	Professional Services Firm
AR9	CPA Australia	Professional Body
AR10	Australian Institute of Company Directors	Professional Body
AR11	Grant Thornton	Professional Services Firm
AR12	The Institute of Public Accountants	Professional Body
AR13	EY	Professional Services Firm
AR14	KPMG	Professional Services Firm

Comment letters to ED NZASB 2017-1 were received from:

	Respondent	Sector
NZR1	BDO New Zealand	Professional Services Firm
NZR2	CA ANZ	Professional Body
NZR3	EY New Zealand	Professional Services Firm
NZR4	Audit New Zealand (in consultation with OAG);	Public Sector Auditor
NZR5	Audit New Zealand – Tax Director	Public Sector Auditor
NZR6	CPA Australia	Professional Body
NZR7	KPMG New Zealand	Professional Services Firm
NZR8	Financial Markets Authority (FMA)	Regulator

Appendix B – Extract of AASB and IPSAB Conceptual Frameworks

AASB Conceptual Framework (Extract)

CHAPTER 1: THE OBJECTIVE OF GENERAL PURPOSE FINANCIAL REPORTING

Introduction

OB1 The objective of general purpose financial reporting forms the foundation of the framework. Other aspects of the Framework—a reporting entity concept, the qualitative characteristics of, and the constraint on, useful financial information, elements of financial statements, recognition, measurement, presentation and disclosure—flow logically from the objective.

Objective, usefulness and limitations of general purpose financial reporting

OB2 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

AUSOB2.1 Among the users of financial information about a not-for-profit reporting entity are existing and potential resource providers (such as investors, lenders and other creditors, donors and taxpayers), recipients of goods and services (such as beneficiaries, for example, members of the community) and parties performing a review or oversight function on behalf of other users (such as advisers and members of parliament). Such users may make resource allocation decisions in relation to not-for-profit entities that differ from those identified in paragraph OB2. For example, parliaments decide, on behalf of constituents, whether to fund particular programmes for delivery by an entity, taxpayers decide who should represent them in government, donors decide whether to donate resources to an entity, and recipients decide whether they can continue to rely on the provision of goods and services from the entity or whether to seek alternative suppliers. In relation to not-for-profit entities, where pertinent, all references in this Framework to ‘existing and potential investors, lenders and other creditors’ (and related terms) should be read as a reference to this broader range of users.

OB3 Decisions by existing and potential investors about buying, selling or holding equity and debt instruments depend on the returns that they expect from an investment in those instruments, for example dividends, principal and interest payments or market price increases. Similarly, decisions by existing and potential lenders and other creditors about providing or settling loans and other forms of credit depend on the principal and interest payments or other returns that they expect. Investors’, lenders’ and other creditors’ expectations about returns depend on their assessment of the amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity. Consequently, existing and potential investors, lenders and other creditors need information to help them assess the prospects for future net cash inflows to an entity.

AUSOB3.1 In respect of not-for-profit entities, users (such as certain existing and potential resource providers) are generally not concerned with obtaining a financial return on an investment in the entity. Rather, they are concerned with the ability of the entity to achieve its objectives (whether financial or nonfinancial), which in turn may depend, at least in part, on the entity’s prospects for future net cash inflows. Users will, for example, be interested in the capability of the entity’s resources to provide goods and services in the future. Accordingly, in relation to not-for-profit entities, where pertinent, references in this Framework to ‘assessing prospects for future net cash inflows’ (and related terms) should be read in the context of the common information needs of users of general purpose financial reports of not-for-profit entities described in this paragraph.

IPSASB Conceptual Framework (Extract)

CHAPTER 2: OBJECTIVES AND USERS OF GENERAL PURPOSE FINANCIAL REPORTING

Objectives of Financial Reporting

- 2.1 The objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users of GPFRs for accountability purposes, and for decision-making purposes (hereafter referred to as “useful for accountability and decision-making purposes”).
- 2.2 Financial reporting is not an end in itself. The purpose is to provide information use to users of GPFRs. The objectives of financial reporting are therefore determined by reference to the users of GPFRs, and their information needs.

Objectives of Financial Reporting

- 2.3 Governments and other public sector entities raise resources from taxpayers, donors, lenders and other resource providers for use in the provision of service to citizens and other service recipients. These entities are accountable for their management and use of resources to those that provide them with resources, and to those that depend on them to use those resources to deliver necessary services. Those that provide the resources and receive, or expect to receive, the services also require information as input for decision-making purposes.
- 2.4 Consequently, GPFRs of public sector entities are developed primarily to respond to the information needs of service recipients and resource providers who do not possess the authority to require a public sector entity to disclose the information they need for accountability and decision-making purposes. The legislature (or similar body) and members of parliament (or a similar representative body) are also primary users of GPFRs, and make extensive and ongoing use of GPFRs when acting in their capacity as representatives of the interests of service recipients and resource providers. Therefore, for the purposes of the Conceptual Framework, the primary users of GPFRs are service recipients and their representative and resource providers and their representatives (hereafter referred to as “service recipients and resource providers”, unless identified otherwise).
- 2.5 Citizens receive services from, and provide resources to, the government and other public sector entities. Therefore, citizens are primary users of GPFRs. Some service recipients and some resource providers that rely on GPFRs for the information they need for accountability and decision-making purposes may not be citizens—for example, residents who pay taxes and/or receive benefits but are not citizens; multilateral or bilateral donor agencies and many lenders and corporations that provide resources to, and transact with, a government; and those that fund, and/benefit from, the services provided by international governmental organizations are dependent on GPFRs of those organizations for information for accountability and decision-making purposes.
- 2.6 GPFRs prepared to respond to the information needs of service recipients and resource providers for accountability and decision-making purposes may also provide information useful to other parties and for other purposes. For example, government statisticians, analysts, the media, financial advisors, public interest and lobby groups and others may find the information provided by GPFRs useful for their own purposes. Organizations that have the authority to require the preparation of financial reports tailored to meet their own specific information needs may also use the information provided by GPFRs for the own purposes—for example, regulatory and oversight bodies, audit institutions, subcommittees of the legislature or other governing body, central agencies and budget controllers, entity management, rating agencies and in some cases, lending institutions and providers of development and other assistance. While these other parties may find the information provided by GPFRs useful, they are not primary users of GPFRs. Therefore, GPFRs are not developed to specifically respond to their particular information needs.

Appendix C – Summary of Reduced Disclosure Requirements roundtable discussions

Overview

1. Three roundtables were held in Sydney 20 April, Canberra 26 April and Melbourne 27 April to obtain feedback from stakeholders on the proposed amendments to Reduced Disclosure Requirements (RDR) in Exposure Draft ED 277 *Reduced Disclosure Requirements for Tier 2 Entities*.
2. The roundtables focused on obtaining feedback on the following:
 - (a) the Overarching Principles and the Key Disclosure Areas;
 - (b) the proposed approach to accounting policies and estimates and judgements;
 - (c) the proposed approach to guidance and cross-references;
 - (d) the application of the proposed Framework to the Standards;
 - (e) the proposed method of presentation;
 - (f) the proposed approach to Standards with no clear distinction between presentation and disclosure paragraphs; and
 - (g) the proposed application date and transition requirements.

Overarching Principles/Key Disclosure Areas (KDAs)

3. Most participants agreed with the KDAs of *a) liquidity and solvency*, and *b) transactions and other events that are significant or material to an understanding of the entity's operations as represented by the financial statements*, are important disclosures for for-profit entities.
4. Some participants suggested that not-for-profit (NFP) private and public entities do not have a focus on liquidity and solvency, but rather on accountability and stewardship and that this might be useful to have as specific criteria for NFPs. This was discussed further at the roundtables, with the AASB making it clear that RDR represents the minimum disclosures required and an entity may choose to make additional disclosures.
5. Most participants requested more discussion of the evidence to support the KDAs, including more details of users consulted, and the application of the rebuttable presumption by the AASB in the application of the RDR Framework to the Standards.
6. Participants were unclear whether the principles and KDAs were for the AASB to use or for preparers and felt that more guidance on how preparers should address RDR disclosures would be particularly helpful. Participants were supportive of using a more top down approach to identifying disclosures, rather than having to look at every standard for disclosures. Participants were also concerned whether the application of the principles resulted in the minimum or maximum disclosures.
7. Participants generally agreed that the balance sheets, P&Ls and other primary financial statements should be consistent for tier 1 and tier 2 entities.

Accounting Policies and Estimates and Judgements

8. Most participants agreed with the proposed Australian approach to accounting policies, which is to direct preparers to AASB 101 and AASB 108. However there was a consensus that guidance for preparers should be considered to assist them with finding the relevant paragraphs.
9. There were mixed views from participants about whether the proposed approach to accounting policies should be applied to disclosures of estimates and judgements. Some participants commented that the disclosure of estimates and judgements have traditionally been done poorly so the specific paragraphs in the standards are required. Others considered that the same principles should apply to accounting policies and estimates and judgements, as they should be determined using a top down approach. Some felt a new approach might assist in moving away from boiler plate processes.

Guidance and Cross-references

10. Consistent view from participants that guidance which doesn't add to the disclosure should be removed, however guidance which is '*more than obvious*' is still useful and should be retained.

Application to Standards

11. Some participants commented that the application of the Framework to AASB 7 *Financial Instruments: Disclosures*, AASB 9 *Financial Instruments* and AASB 12 *Disclosures of Interest in Other Entities* had not resulted in enough of a reduction.
12. Some participants who had reviewed that Staff Analysis document in detail has noted some inconsistency in the application of the framework to the Standards. Most participants had not completed detailed analysis.
13. Some requested comparison to the IFRS for SMEs disclosures, as felt overall too many disclosures were retained in the proposed application.

Presentation method

14. Straw polls were conducted at each of the roundtables, there were mixed views from participants on whether they preferred the appendix approach or shading. Sydney participants had a stronger preference for shading. Canberra and Melbourne participants had a stronger preference for the appendix approach. Auditors appeared to prefer shading, but preparers seemed to prefer the appendix, particularly NFP preparers. No participants preferred the asterix approach. Some noted a new approach maybe more likely to encourage less boilerplate disclosures.
15. A consistent view from participants who preferred the shading approach was that the appendix may result in the loss of some understandability as the disclosures are no longer shown in the context of the recognition and measurement.
16. Some participants were in favour of retaining the shading, but would like more guidance for Tier 2 preparers, the Staff commented that if their preference is for more guidance, the appendix approach provides the most flexibility to facilitate this, as any amendments to the appendix does not impact the Standard for Tier 1 preparers.

Standards with no separately identified disclosure headings

17. Participants agreed that if the appendix approach is taken, there needs to be a clear distinction between presentation and disclosure requirements within the appendix.

Transition and effective date

18. Most participants were in favour of the approach of no proposed transition requirements and the effective date. It was pointed out by participants that a number of other standards are effective at the same time as the proposed amendments. This was seen as beneficial as a number of changes are able to be made at once.

Sydney		
Name	Organisation	Sector
Allison Berry	Anglicare SA	NFP Private
Brandon Dalton	KPMG	Professional Services Firm
Kerry Hicks	AICD	Professional Body
Shirley Huang	Grant Thornton	Professional Services Firm
Anne-Marie Johnson	EY	Professional Services Firm
Sheryl Levine	BDO	Professional Services Firm
Tracey Morris	The Audit Office of NSW	Public
Sarah Samarghandi	EY	Professional Services Firm
James Winter	Grant Thornton	Professional Services Firm
Sue Wright	University of Newcastle	Academic
Karen Handley	Macquarie University	Academic

Canberra		
Name	Organisation	Sector
Richard Buker	Department of Edu and Training	Public
Jasmine Chugh	Department of Edu and Training	Public
Roger Cobcroft	Australian National Audit Office	Public
Alastair Higham	Australian National Audit Office	Public
Eric Huang	The Treasury	Public
Julie Locke	KPMG	Professional Services Firm

Canberra		
Name	Organisation	Sector
Don Siriwardana	RSM Australia	Professional Services Firm
Peter Brown	Dept of Finance	Public
Xiaoxia Liu	Dept of Finance	Public
Vincent Padghan	Dept of Finance	Public

Melbourne		
Name	Organisation	Sector
Matthew Birtles	ACNC	NFP Regulator
Joan Cooney	Annecto	NFP private
Leah Eustace	Auditor General SA	Public
Rukshika Fernando	EY	Professional Services Firm
Jun Jeong	EY	Professional Services Firm
Rosemary King	CAANZ	Professional Body
Maggie Man	ACNC	NFP Regulator
Andrew Marks	William Buck	Professional Services Firm
Paul Martin	Auditor General Vic	Public
Ram Subramanian	CPA	Professional Body
George Tanewski	Deakin University	Academic
Jim Dixon	GAAP Consulting	Professional Services
Susan Fraser	Auditor General Vic	Public