TIER 2 DISCLOSURE PRINCIPLES

The 'user need' and 'cost-benefit' principles that underlie the determination of disclosure requirements in the IASB's *IFRS for SMEs* are applied in determining disclosures under Tier 2 (Reduced Disclosure Requirements). The following operational guidance is intended to facilitate the application of those principles:

General guidance

1 The disclosures proposed under Tier 2 are determined by:

(a) benchmarking to the *IFRS for SMEs* disclosures when Tier 2 recognition and measurement accounting policies are the same (or substantively the same) as those under the *IFRS for SMEs* unless the relevant full IFRS disclosure is a new or revised disclosure that did not exist when the *IFRS for SMEs* was published or last updated. In such cases the 'user need' and 'cost-benefit' principles (used by the IASB in developing its *IFRS for SMEs)* are applied to new or revised disclosures; and

(b) applying the 'user need' and 'cost-benefit' principles when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

IFRS for SMEs excludes some full IFRS disclosures; that is when they are only pertinent to the information needs of users of financial statements of publicly accountable entities. Instead it focuses on information that is of particular interest to users of financial statements of non-publicly accountable private sector entities. Consistent with this approach, paragraph 6 below provides guidance on the specific information needs of these users. Moreover, as Tier 2 Disclosure Principles are also applied in determining the disclosure requirements of not-for-profit and public sector entities, paragraph 10 clarifies the information needs of users of the financial statements of such entities.

Specific guidance

Approach when Recognition and Measurement Requirements are the Same or Substantively the Same

Identical or similar disclosures

2 Where the disclosure requirements under a full IFRS as adopted in Australia and the *IFRS for SMEs* are the same or similar (that is, result in the same disclosures), those disclosure requirements are retained as part of Tier 2 requirements, using the wording of the relevant full IFRS as adopted in Australia.

Dissimilar disclosures

3 Where the disclosure requirements under a full IFRS and the *IFRS for SMEs* are dissimilar, the following procedure is followed:

(a) Where the *IFRS for SMEs* does not require a disclosure that is required in the relevant full IFRS, Tier 2 does not retain that disclosure unless the relevant full IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost-benefit principles warrants otherwise.

(b) Where the *IFRS for SMEs* disclosure requirement is less onerous than the relevant full IFRS disclosure requirement, the less onerous disclosure requirement is adopted unless the relevant full IFRS disclosure requirement is a new or revised disclosure requirement and the application of user need and cost benefit principles warrants otherwise.

Benchmarking to the *IFRS for SMEs* in cases where a new or revised disclosure requirement is not involved is on the basis that, in developing the *IFRS for SMEs*, the IASB has already applied the user needs and cost benefit principles and concluded that an exemption or reduced disclosure is appropriate.

In most cases, the structure of the words in the relevant full IFRS enables the use of shading to show that a relevant disclosure requirement is excluded or reduced so as to match the *IFRS for SMEs* disclosure outcome. In the few cases where this is not feasible, the wording in the *IFRS for SMEs* is used as the basis for an RDR paragraph as a substitute for the relevant full IFRS wording.

4 In the few cases where the *IFRS for SMEs* has an additional disclosure requirement that is not included in the full IFRS, that disclosure requirement is not included in Tier 2 requirements.

Approach when Recognition and Measurement Requirements are not the Same or Substantively the Same

5 The disclosure requirements under Tier 2 are determined by drawing on the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement accounting policies are not the same (or substantively the same) as those under the *IFRS for SMEs*.

6 The principles applied by the IASB in developing its *IFRS for SMEs* are grounded in the view that users of financial information of non-publicly accountable for-profit private sector entities are particularly interested in information about:

(a) short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

(b) liquidity and solvency;

(c) measurement uncertainties;

(d) the entity's accounting policy choices;

(e) disaggregations of amounts presented in the financial statements; and

(f) transactions and other events and conditions encountered by such entities.

Guidance

7 Guidance relating to a disclosure that is retained in Tier 2 requirements is also retained in Tier 2 requirements on the grounds that it assists entities in making that disclosure and would not add to the disclosure burden. Guidance that relates to a disclosure that is not retained in Tier 2 requirements is also not retained in Tier 2 requirements. Text in the nature of contextual material is not treated as guidance. Such text is retained in Tier 2 on the basis that its retention does not add to the disclosure burden.

Disclosure Encouraged

8 Where a disclosure is encouraged, whether under the full IFRSs as adopted in Australia or the *IFRS for SMEs*, it is not included.

Presentation vs Disclosure

9 Tier 2 does not involve amending the presentation (sometimes used interchangeably with classification) requirements of Tier 1 and is concerned only with reducing the disclosure burden. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. The following guidance is used to distinguish between presentation and disclosure:

Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relating to subclassifications or line items to be shown on the face of financial statements, or in the notes, are treated as matters of disclosure.

Clarification in relation to Not-For-Profit and Public Sector Entities

10 Although the *IFRS for SMEs* has been developed to apply to for-profit private sector entities, broadly it is considered reasonable to rely on the judgements made in developing the *IFRS for SMEs* in respect of both for-profit and not-for-profit (including public sector) entities in Australia given that IFRSs are generally applied to all types of Australian entities. Accordingly, paragraphs 3 and 6 are relevant to all types of entities. The AASB uses its *Process for Modifying IFRSs for PBE/NFP* in assessing the need for specific requirements relating to not-for-profit entities.

For the limited number of disclosure requirements in full IFRSs as adopted in Australia that are specific to the circumstances of not-for-profit and public sector entities the Tier 2 disclosures are determined by applying the user need and cost-benefit principles in the context of the specific needs of users of not-for-profit and public sector entity financial statements.

Consistency of application

11 Tier 2 Disclosure Principles and related operational guidance are applied consistently so that disclosures relating to similar or analogous circumstances are not significantly different. ‘Analogising’, with a view to achieving consistency of application, is not a substitute for making independent decisions in the circumstances of each case, rather it provides corroborative evidence based on similar previous decisions.

‘Analogising’ also encompasses reliance on the IASB decisions in relation to similar disclosures under the *IFRS for SMEs*, albeit those disclosures are included in a section of the *IFRS for SMEs* that does not correspond to the topic covered by the full IFRS.