

**List of Submissions on Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets***

- 1 Grant Thornton
- 2 Deloitte
- 3 KPMG
- 4 PricewaterhouseCoopers
- 5 Representatives of the Australian Accounting Profession  
(CPA Australia, The Institute of Chartered Accountants in Australia and  
the National Institute of Accountants)

**List of Submissions on Tier 2 Supplement to ED 206 *Severe Hyperinflation***

Submissions 2, 3 and 4 listed above also address this Exposure Draft.





Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204,  
Collins Street  
WEST VICTORIA 8007  
By Email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

23 December 2010

Grant Thornton Australia Limited  
ABN 41 127 556 389

Level 17, 383 Kent Street  
Sydney NSW 2000  
Locked Bag Q800  
QVB Post Office  
Sydney NSW 1230

T +61 2 8297 2400  
F +61 2 9299 4445  
E [info.nsw@au.gt.com](mailto:info.nsw@au.gt.com)  
W [www.grantthornton.com.au](http://www.grantthornton.com.au)

Dear Kevin

**TIER 2 SUPPLEMENT TO AASB EXPOSURE DRAFT ED 204 DEFERRED TAX: RECOVERY OF UNDERLYING ASSETS (PROPOSED AMENDMENTS TO AASB 112)**

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on the Tier 2 ED 204 (the ED). We have considered the ED, and set out our comments in the Appendix.

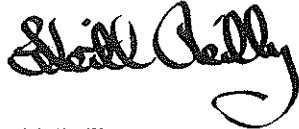
Grant Thornton's response reflects our position as auditors and business advisers both to listed companies and privately held companies, and public and private businesses, and this submission has benefited with some initial input from our clients, Grant Thornton International, and discussions with key constituents.

We note that the IASB has not indicated whether it will amend the proposed requirements in its ED 2010/11 for non-publicly accountable entities, and on that basis we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on the IFRS for SMEs disclosures.

Grant Thornton does not believe that at this time amendments to the existing Income Taxes standard should apply to non-publicly accountable entities. Instead Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

If you require any further information or comment, please contact me.

Yours sincerely  
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly  
National Head of Professional Standards

## Appendix 1: Preliminary comments

### ED questions

- 1 Whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis.**

We do not agree with the AASB disclosure proposals as we believe the AASB should not consider any decisions on RDR disclosures until the IASB has considered this further, given that the RDR is 'loosely' based on IFRS for SMEs disclosures. In particular Grant Thornton does not believe that at this time amendments to the existing Income Taxes standard should apply to non-publicly accountable entities. Instead Grant Thornton believes that the AASB should allow the IFRS for SMEs accounting standard as an option for non-publicly accountable entities. Adoption of IFRS recognition and measurement principles which the AASB believes necessitates an increase in disclosures compared to IFRS for SMEs, does add significant complexity and costs that would not be borne by similar structured overseas entities.

- 2 Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**

- a not-for-profit entities; and**
- b public sector entities;**

Apart from our earlier comments, we are not aware of any regulatory issues that may effect the implementation of the proposals for publicly accountable entities. We believe that there are regulatory and other issues arising in the Australian environment for non-publicly accountable entities as the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities.

**3 Whether, overall, the proposals would result in financial statements that would be useful to users;**

Apart from our earlier comments, we are not aware of any issues that may impact users, for publicly accountable entities. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that would be useful to users.

**4 Whether the proposals are in the best interests of the Australian economy; and**

Apart from our earlier comments, we are not aware of any issues that would impact on the interests of the Australian economy for publicly accountable entities. We also reiterate that for non-publicly accountable entities the proposed requirements would add significant complexity and costs that would not be borne by similar structured overseas entities, and hence would not result in financial statements that are in the best interests of the Australian economy.

**5 Unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative.**

As stated above, we believe that the costs of maintaining an RDR structure without allowing for IFRS for SMEs as an option to full IFRS or the RDR, imposes costs on most non-publicly accountable entities that exceed the benefits.



Deloitte Touche Tohmatsu  
ABN 74 490 121 060

Grosvenor Place  
225 George Street  
Sydney NSW 2000  
PO Box N250 Grosvenor Place  
Sydney NSW 1220 Australia

DX: 10307SSE  
Tel: +61 (0) 2 9322 7000  
Fax: +61 (0) 2 9255 8451  
[www.deloitte.com.au](http://www.deloitte.com.au)

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West Victoria 8007

31 January 2011

Dear Kevin

**Re: Tier 2 Supplements to ED 198, 202R, 204 and 206**

The following submission by Deloitte Australia provides comments on the following Tier 2 Supplements to:

- ED 198 “Revenue from Contracts with Customers”
- ED 202R “Leases”
- ED 204 “Deferred Tax: Recovery of Underlying Assets (proposed amendments to AASB 112)”
- ED 206 “Severe Hyperinflation (proposed amendment to AASB 1)”.

Rather than responding to each exposure draft and commenting on the individual questions raised, below we outlined our concerns with the current process for the evaluation of Tier 2 disclosures for the reduced disclosure regime (RDR). For several reasons, we believe it is too early to be providing comments regarding Tier 2 disclosures on proposed amendments to current standards. Tier 2 disclosures are derived from Tier 1 Australian Accounting Standards and whether they are maintained within RDR is dependent on ‘user need’ and ‘cost-benefit’ principles. We believe it is prudent to wait until such time as proposed recognition and measurement requirements are finalised by the IASB before the AASB develops proposals for Tier 2 disclosures. This will allow the analysis of user needs and cost-benefit analysis to be performed on the final recognition and measurement requirements and prevents the need for re-exposure when the finalisations of a standard sees significant changes in either the recognition, measurement or disclosure requirements.

Of the current exposure drafts on issue, this would have prevented the need for the supplement to ED 204 given AASB 2010-8 “Amendments to Australian Accounting Standard – Deferred Tax Recovery of Underlying Assets” has already been issued following finalisation of ED 204 and none of the proposed disclosures were retained.

We understand however that once new/amending standards are issued that the Tier 2 disclosures under RDR need to be contemplated at that point in time which may be earlier than they are addressed within the *IFRS for SMEs* framework by the IASB. This may lead to periods where the RDR disclosures are different to the *IFRS for SMEs* disclosures (that is, more than already exists due to Australian specific disclosures and recognition and measurement differences) but we believe within the Australian environment the Tier 2 regime needs to be kept up to date with Tier 1 as there are no differences between recognition and measurement requirements. This will differ to the likely 3 yearly updates by the IASB to the *IFRS for SMEs*.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/au/about](http://www.deloitte.com/au/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Touche Tohmatsu Limited

Once the *IFRS for SMEs* is updated we believe it would be appropriate to review disclosure decisions that have been made to ensure a consistent application of the 'user need' and 'cost-benefit' principles applied in determining applicable disclosures.

If you have any questions concerning our comments, please contact Melissa Sim on (02) 9322 7934.

Yours sincerely

A handwritten signature in black ink that reads "Melissa Sim". The signature is written in a cursive, flowing style.

Melissa Sim  
Partner  
Deloitte Touche Tohmatsu



10 Shelley Street  
Sydney NSW 2000

P O Box H67  
Australia Square 1213  
Australia

ABN: 51 194 660 183  
Telephone: +61 2 9335 7000  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

Mr Kevin Stevenson  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Our ref Submission - Tier 2 Supplements  
31 Jan

31 January 2011

Dear Sir

**Submission - Tier 2 Supplement to ED 206, ED 204, ED 202R and ED 198**

We are pleased to have the opportunity to comment on the Tier 2 Supplement to ED 206 *Severe Hyperinflation*, Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets*, Tier 2 Supplement to ED 202R *Leases* and Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers*.

We appreciate the Board's efforts to expedite the process of updating the Tier 2 reporting requirements. However, in the event that the IASB, upon issuing the final standards, makes changes to the underlying exposure drafts to which the Tier 2 supplements relate, we believe that the AASB should consider re-exposing, for comment, the disclosures included in the final standards together with their analysis of whether or not the disclosures should be included in the Tier 2 reporting requirements.

**Executive Summary**

- We agree with the AASB disclosure proposals under the Tier 2 Supplement to ED 206 *Severe Hyperinflation*.
- In relation to the Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets* we note that the amendments to IAS 12 *Income Taxes* issued by the IASB in December 2010 did not include the disclosure required by the Tier 2 Supplement to ED 204 in paragraph 81(l). We would therefore expect that disclosure will not be required for Tier 2 entities.
- We broadly agree with the direction of the proposals on revenue and leases. Our detailed comments with respect to the Tier 2 Supplement to ED 202R *Leases* and the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* have been included in Appendix 1 and Appendix 2, respectively, to this letter.



*Australian Accounting Standards Board  
Submission - Tier 2 Supplement to ED 206, ED 204,  
ED 202R and ED 198  
31 January 2011*

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M McGrath', written in a cursive style.

Martin McGrath  
Partner In Charge, Department of Professional  
Practice

## Appendix 1 – Tier 2 Supplement to ED 202R *Leases*

### *Whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis*

#### *ED generally*

Before addressing the AASB disclosure proposals under Tier 2 we would like to draw your attention to the fact that KPMG globally has provided comment to the IASB on ED/2010/9 *Leases*. In respect of disclosure requirements please refer to question 15 in the attached comment letter.



Comment letter on  
ED-2010-9 - Leases

#### *Tier 2 supplement for disclosures*

On the assumption that the disclosures contained in the exposure draft remain unchanged for the final standard we have the following comments in respect of the AASB disclosure proposals under Tier 2 as set out in the Tier 2 Supplement to ED 202R *Leases*:

- We do not agree with the AASB proposal to exempt entities applying Tier 2 from the following paragraphs:
  - Paragraphs 70 to 72 inclusive - set out the principle objectives for the disclosures. Therefore, we believe these paragraphs would be equally fundamental for entities applying Tier 2.

Furthermore, under the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* we note that the AASB has left unshaded similar principle objectives for the disclosures, i.e. paragraphs 69 to 71 inclusive. In our view, this apparent inconsistency should be addressed with the disclosure principles being retained.

- Paragraph 73(b) – this requires disclosure of “information about the principal terms of any lease that has not yet commenced if the lease creates **significant** rights and obligations for the entity” (emphasis added). In our view this disclosure requirement would be similar to the intent of that required by AASB 110 *Events after the Reporting Period* paragraphs 21 and 22, which is a Tier 2 required disclosure.

Further, we believe that when considering user need and cost/benefit principles that this disclosure would provide useful information where the rights and obligations are significant.

- We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs or parts thereof:
  - The second half of paragraph 75, “*and, for lessees, the amount recognised in the statement of financial position for such short-term leases.*” – the requirement for entities applying Tier 2 to disaggregate this information appears to be inconsistent with the exemptions given in other areas, for example the second half of paragraph 76.
  - Paragraph 77 and 80(a) and 80(c) – requires reconciliations from opening to closing balances in a year. In our view the requirement to disclose opening to closing reconciliations for Tier 2 entities is inconsistent amongst a number of the current AASBs and needs to be addressed. For example AASB 116 *Property, Plant and Equipment* requires the disclosure but the proposals in the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* do not. There are a number of other examples.

Whilst we acknowledge that IFRS for SMEs requires a reconciliation disclosure for various assets and liabilities, from our discussions with a number of preparers and users of financial statements the overwhelming comment is that the cost/benefit principle is not met. In a number of instances the information can be obtained from existing disclosures in the income statement, balance sheet and statement of cash flows.

**Appendix 2 – Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers***  
***Whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis***

*ED generally*

Before addressing the AASB disclosure proposals under Tier 2 we would like to draw your attention to the fact that KPMG globally has provided comment to the IASB on ED/2010/6 *Revenue from Contracts with Customers*. In respect of disclosure requirements please refer to question 10 in the attached comment letter.



Comment Letter on  
ED-2010-6 - Revenue

*Tier 2 supplement for disclosures*

On the assumption that the disclosures contained in the exposure draft remain unchanged for the final standard we have the following comment in respect of the AASB disclosure proposals under Tier 2 as set out in the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers*:

- We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs:
  - Paragraph 78 – in our view the disclosure of transaction price information for contracts with an expected duration of more than one year is onerous for Tier 2 entities. We believe that when considering user need and cost/benefit principles that the qualitative information required by paragraph 77(b), regarding when the entity typically satisfies performance obligations, should be sufficient for entities applying Tier 2.

It should be noted, that if entities applying Tier 2 are exempted from paragraph 78, then, paragraph 73 (c) will need to be edited accordingly by removing the reference to paragraph 78.





Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West VIC 8007

via email: [standard@asb.gov.au](mailto:standard@asb.gov.au)

1 February 2011

Dear Kevin

**Re: Tier 2 Supplements to ED 198, ED 202, ED 204 and ED 206**

We are responding to your request for comment on the Tier 2 Supplements to the following Exposure Drafts (ED):

- ED 198 *Revenue from Contracts with Customers*
- ED 202 *Leases*
- ED 204 *Deferred Tax: Recovery of Underlying Assets (proposed amendments to AASB 112)*
- ED 206 *Severe Hyperinflation (proposed amendment to AASB 1)*

We appreciate the Board's aim to issue complete Australian standards which address the tier 2 requirements as soon as the equivalent international standards are approved. We also understand that to be able to do so, it is necessary to consult with stakeholders as early as possible. However, we question whether this is necessarily the best use of resources for standards such as those on revenue recognition and leases, where it is likely that the final standards will differ from their exposure draft versions. In particular, we are concerned that a second round of consultation may be necessary if the disclosures in the final standards differ significantly from those proposed in the exposure drafts.

In our view, a short delay of three to six months between the issue of a new standard and the finalisation of the reduced disclosures applicable under this new standard would still be acceptable. In our experience, entities reporting under tier 2 of the reduced disclosure regime are less likely to adopt a new standard early and it should therefore be unlikely to be a major issue for those companies should there be a short delay.

---

**PricewaterhouseCoopers, ABN 52 780 433 757**  
Freshwater Place, 2 Southbank Boulevard  
GPO BOX 1331L, Melbourne Victoria 3001 Australia  
T +61 3 8603 1000, F +61 3 8613 2197, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.



Leaving these concerns aside, we have provided specific comments on each of the supplements in Appendix A to this letter.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Margot Le Bars'.

**Margot Le Bars**  
Partner, PricewaterhouseCoopers



## Appendix A – Specific matters for comment

### 1. Do you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis?

#### **ED 198 Revenue from Contracts with Customers**

##### ***Presentation of Items***

We note that the supplement only considers those paragraphs from the ED that are covered under the heading of "Disclosure" (ie paragraphs 69 to 83) and does not discuss any presentation issues such as paragraph 64, which requires separate presentation of contract assets and contract liabilities in the statement of financial position.

Paragraph 9 of the AASB's *Tier 2 Disclosure Principles* acknowledges that sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure. It goes on to say that "Presentation requirements are limited to requirements that specify the broad structure of financial statements including the basis of classification of items. Specifications relation to sub-classifications or line items to be shown on the face of financial statements or in the notes, are treated as matters of disclosure".

For this reason, paragraph 64 should also be considered in the context of tier 2 disclosures. As explained in our submission on ED 202 (see extracts in Appendix B), we believe there is sufficient guidance in AASB 101 *Presentation of Financial Statements* as to what should be disclosed on the face of the primary statements based upon materiality and what should be included in the notes. On that basis, paragraph 64 should be excluded from the tier 2 disclosures.

##### ***Other disclosures that should be excluded***

As discussed in our submission on ED 198, we found that many of the proposed disclosures appear to duplicate information already required under various existing standards. We also queried the usefulness of certain other disclosures. These comments are even more relevant for tier 2 entities and we have included the relevant responses in Appendix C to this submission.

In addition, we do not believe that the disclosures required in paragraph 83 in relation to determining the transaction price and allocating it to performance obligations would satisfy any of the criteria set out in paragraph 6 of the AASB's *Tier 2 Disclosure Principles*. They should also be excluded on that basis.

#### **ED 202 Leases**

##### ***Presentation***

As explained in our comments on the ED 198 supplement above, proposed presentation requirements should also be reviewed for their applicability to tier 2 entities. In the context of the leasing ED, this applies in particular to the following paragraphs:



- Paragraphs 25-27 which require separate presentation of liabilities to make lease payments, rights-of-use assets, amortisation, interest expense and cash payments relating to these items
- Paragraphs 42-45 which prescribe presentations for a lessor applying the performance obligation approach
- Paragraphs 60-63 which prescribe presentations for a lessor applying the derecognition approach

As explained in our submission on ED 202, we believe that the guidance in AASB 101 is sufficient for preparers of financial statements (see the responses to questions 12 to 14 which are reproduced in Appendix B).

***Reconciliations – comparative information***

We are comfortable with the requirements to disclose various reconciliations in paragraphs 77 and 80. However, we remind the Board that other standards such as AASB 116 *Property, Plant and Equipment* provide a specific exemption for tier 2 entities from the requirement to disclose the reconciliation also for the comparative period. A similar exemption should be included in the future leasing standard.

***ED 204 Deferred Tax: Recovery of Underlying Assets (proposed amendments to AASB 112) and ED 206 Severe Hyperinflation (proposed amendment to AASB 1)***

We support the proposals in relation to tier 2 disclosures for these two exposure drafts, which have since been issued as final standards (AASB 2010-8, AASB 2010-9 and AASB 2010-10).

**2. Are there any regulatory issues or other issues arising in the Australian environment, particularly any issues relating to (a) not-for-profit entities, and (b) public sector entities?**

We do not believe that there are any regulatory or other issues that would affect implementation of the proposals in Australia.

**(c) Overall, would the proposals result in financial statements that would be useful to users?**

Subject to our specific comments above, we believe that the proposals would result in financial statements that are useful to users.

**(d) Are the proposals in the best interests of the Australian economy?**

The introduction of the reduced disclosure regime has significantly reduced the regulatory burden for those entities that are eligible to report under tier 2 of the new regime. It is therefore in the best interests of the Australian economy if new standards provide consistent disclosure relief for tier 2 entities on a timely basis. However, as explained on page 1 of this submission, we do question whether tier 2 requirements have to be finalised at the same as a new standard is issued.



## Appendix B – Extract from our comment letter on ED 202 Leases

### Question 12

**(a) Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?**

We agree that an entity should present the obligation to make lease payments separately from other financial liabilities and the right-of-use asset separately from owned property, plant and equipment. In many respects, the right-of-use asset is treated as an intangible asset (for example, guidance with respect to amortisation and impairment), but many users and preparers believe these are more closely akin to property, plant and equipment in most cases. We therefore agree that right-of-use assets should be presented as if they were tangible assets within property, plant and equipment in the statement of financial position.

However, with respect to reflecting the lease liabilities and right-of-use assets separately, we believe for IFRS reporters there is sufficient guidance in IAS 1, 'Presentation of financial statements', as to what should be disclosed on the face of the primary statements based upon materiality and what should be included in the notes. We do not therefore support including any further guidance within the proposed leasing standard. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied, and would naturally be applied in practice if allowed.

**(b) Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

As more fully explained in our response to question 2, we do not support a 'hybrid' approach for lessors.

However, if the boards were to continue with the 'hybrid approach', we would agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability.

In addition, we believe that the boards should also clarify the manner in which the net asset/liability under this approach should be presented in the current or non-current section of a classified statement of financial position.

Similar to our response to question 12(a), we believe there is sufficient guidance in IAS 1 for IFRS preparers. We believe that an entity should decide whether separate presentation is necessary in the primary statements or whether it is adequate to provide the information in the notes based upon materiality. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied.



**(c) Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?**

As explained in our response to question 2, we do not support the 'hybrid' approach for lessors. However, if the boards go ahead with derecognition accounting for lessors then, similar to our response to question 12(a), we believe there is sufficient guidance in IAS 1 for IFRS preparers. We believe that an entity should decide whether the separate presentation is necessary in the primary statements or whether it is adequate to provide the information in the notes based upon materiality. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied.

**(d) Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?**

As explained in our response to question 2, we do not support a 'hybrid' approach for lessors. However, if the boards continue with the proposed lessor accounting guidance provided in the exposure draft, we observe that most sub-leases are likely to be reflected under the performance obligation approach (except where the terms and amounts of the lease in nearly match those of the lease out, in which case the derecognition approach might be appropriate).

With respect to whether the intermediate lessor should separately distinguish assets and liabilities arising from the sub-lease in the statement of financial position, similar to our response to question 12(a), we believe there is sufficient guidance in IAS 1 for IFRS preparers. We believe that an entity should decide whether separate presentation is necessary in the primary statements or whether it is adequate to provide the information in the notes based upon materiality. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied.

### **Question 13**

**Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?**

Similar to our response to question 12(a), we believe there is sufficient guidance in IAS 1 for IFRS preparers. We believe that an entity should decide whether separate presentation is necessary in the primary statements or whether it is adequate to provide the information in the notes based upon materiality. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied.



**Question 14**

**Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?**

Similar to our response to question 12(a), we believe there is sufficient guidance in IAS 1, in conjunction with IAS 7, 'Statement of cash flows', for IFRS preparers. We believe that an entity should decide whether separate presentation is necessary in the primary statements or whether it is adequate to provide the information in the notes based upon materiality. We acknowledge that there is no direct equivalent to IAS 1 in US GAAP, but believe that the same principles as contained in IAS 1 should be applied.

We do not believe that lease cash flows should necessarily be classified entirely as financing. In practice entities enter into leases for many reasons, sometimes as an alternative source of finance and sometimes for operational reasons. There has been recognition of this dichotomy in the boards' deliberations concerning financial statement presentation. There is also some variation in current practice. In the US, lessees typically are required to reflect the 'principal' portions of outflow payments on capital leases as part of financing activities, and lessors would typically be required to reflect the 'principal' portion of inflow payments on capital leases as part of investing activities. Meanwhile, under IFRS, following the 2008 improvements to IAS 7 and IAS 16, 'Property, plant and equipment', cash payments to manufacture or acquire assets held for rental to others and subsequently held for sale are cash flows from operating activities. The cash receipts from rents and subsequent sales of such assets are also cash flows from operating activities.

We believe that the model proposed by the boards approaches leases as purchases of assets financed by a specific debt, which may not be how preparers and users view all leases. This may be an issue for the boards to pick up in their project on financial statement presentation; in the meantime, we are willing to accept presentation as financing cash flow as an interim measure.

However, we also believe the interest component (if identified) should be treated in a manner consistent with other interest cash flows. In this regard, we observe that IAS 7 states that interest cash flows may be classified as operating, investing or financing while ASC 230-10-20 indicates that transactions that enter into the determination of net income should be classified as operating activities.



**Question 15**

**Do you agree that lessees and lessors should disclose quantitative and qualitative information that:**

- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and**
- (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?**

We agree with the disclosure principles outlined in the exposure draft and believe that they could enhance the information provided to users compared to the current requirements of IAS 17/ASC 840. The list of qualitative and quantitative information required in the exposure draft (paragraph 73-86) is extensive. If it was made mandatory, without regard to the significance of the leases to a particular lessee or lessor, it could result in boilerplate disclosure of information that is not relevant or material to a user of the financial statements. Given this concern we welcome the requirement in the exposure draft (paragraph 71) that an entity should consider the level of disclosure appropriate to satisfy the objectives in paragraph 70. We believe it is important that the overarching requirement is consistent with the boards' objective that an entity provides sufficient disclosure to allow a user to understand the amounts, timing and uncertainty of the cash flows arising from its lease portfolio.

We note that the boards have proposed that entities can 'aggregate or disaggregate' disclosures, presumably to ease the burden of providing extensive disclosure and allow a portfolio approach. We welcome this and believe the boards should be more explicit to avoid confusion. We believe the overarching requirement should be for a preparer to provide sufficient granularity about the lease portfolio to enable a user to understand the significance of the lease transactions to an entity's business and the related amount, timing and uncertainty of cash flows.



**Appendix C – Extract from our comment letter on ED 198 *Revenue from Contracts with Customers***

**Question 10**

*The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?*

It is difficult to assess the adequacy of the disclosures required for any item in the financial statements when the disclosure requirements are specified in each standard rather than in accordance with a clear disclosure framework. An overarching framework that specifies the objectives of the disclosures in the financial statements and how these might be achieved would simplify the identification of disclosures in each area. We encourage the boards to develop a disclosure framework as soon as their timetables will allow.

We believe the proposed disclosure requirements will not meet the boards' objectives and will not improve existing disclosures. There is a danger that useful information will be obscured by the volume of detailed information required by the proposed standard.

Many of the proposed disclosures appear to duplicate information already required under various existing standards. For example, the proposed requirement in paragraph 74 to disaggregate revenue might duplicate the entity-wide disclosures required by the segment reporting standards. We suggest that the boards identify and require disclosure of useful information for users that is not provided by existing disclosure requirements.

We do not believe the roll-forward disclosure of contract balances proposed in paragraph 75 is useful and the disclosure objective satisfied by this disclosure is not clear. This will add significantly to the volume of disclosures and may require entities to develop new systems to capture the necessary information. We suggest that the boards reconsider the cost of this proposal compared to its benefit and identify the specific information provided by this reconciliation that is both useful and not required by existing standards.

We suggest that appropriate disclosures might be:

- A description of the principal sources of revenue and the accounting policies applied to each significant revenue stream;
- A description of the significant estimates and judgments made in connection with the recognition and measurement of revenue and the extent to which revenue in the current period is affected by changes to those estimates; and
- A quantitative analysis of the revenue derived from each principal source, disaggregated as we have suggested in our response to Question 12.



**Question 11**

*The boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.*

*Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?*

We recommend that information about performance obligations that will be satisfied in future periods not be required to be presented in the financial statements. This information may not be decision-useful, and it would be impractical to present this information if it is not already prepared and used to manage the business. In that case, entities would be required to develop systems to capture the information solely for the purpose of this disclosure.

2 February 2011

Mr Kevin Stevenson  
Chairman  
Australian Accounting Standards Board  
Level 7  
600 Bourke Street  
Melbourne VIC 3000

Dear Kevin

**Exposure Draft ED 204: proposed amendments related to Tier Two disclosures under the Reduced Disclosure Regime**

CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (NIA) (the Joint Accounting Bodies) are pleased to respond to the request for comments from the Australian Accounting Standards Board (AASB) on the exposure draft related to the establishment of Tier Two disclosures under the Reduced Disclosure Regime (RDR) for the standard on deferred taxation.

The Joint Accounting Bodies represent over 190,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. The exposure draft has been considered by the Joint Accounting Bodies and our remarks follow.

**General Remarks**

The Joint Accounting Bodies have evaluated the exposure draft and its policy intent with reference to the AASB's previously stated position that the RDR disclosures will be based on the standard issued by the International Accounting Standards Board (IASB) known as International Financial Reporting Standards (IFRS) for Small-to-Medium Enterprises (SMEs). We note this policy applies when the recognition and measurement accounting policy options available under the RDR align with those under IFRS for SMEs.

While the Joint Accounting Bodies understand the AASB's objective in issuing ED 204 is to ensure that standards issued by the AASB contain Tier Two requirements we have serious reservations about this approach as it exposes the domestic standard setter to a series of risks and inefficiencies.

These risks and inefficiencies include:

- RDR disclosure decisions based on an IASB Exposure Draft (ED) and not a final standard: Disclosures contained in the final issued standard by the IASB are often different to that contained in the relevant ED. Proposing RDR disclosure decisions based on an ED, will often result in unnecessary additional steps in the due process considerations of constituents, AASB staff and the Board itself. This was evident in the current document which included a disclosure from the ED which was removed from the final issued standard. Therefore, the disclosure proposed in the AASB RDR proposal is now redundant.

Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

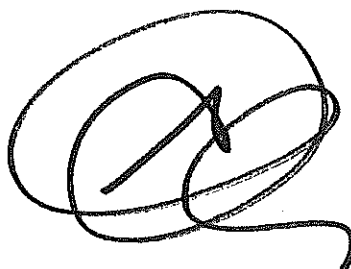
- RDR disclosure different to that required in IFRS for SMEs: There is a risk that the AASB will need further due process once the IFRS for SMEs disclosures are updated every three years. Changing disclosures applicable to non-publicly accountable entities on a frequent basis is likely to cause frustration and confusion amongst constituents.

We recommend the AASB reconsider its due process in regard to introducing RDR disclosures. We have a strong preference to review such disclosures in one due process, rather than possibly reviewing them several times. Where application dates are well into the future, we consider it appropriate that the AASB would provide input into the IASB's review of IFRS for SME disclosures and adopt the IFRS for SME disclosures once they are introduced.

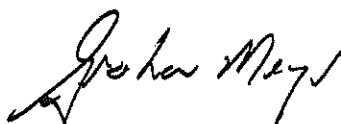
Further, we encourage the AASB to make the case to the IASB of the benefits to all that would flow were the IASB to consider proposed IFRS for SME disclosures in conjunction with the disclosures relevant to the full IFRS standards. This would assist in development of RDR disclosures, especially if the application date for the standard is quite short.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at [mark.shying@cpaaustralia.com.au](mailto:mark.shying@cpaaustralia.com.au), Kerry Hicks (The Institute) at [kerry.hicks@charteredaccountants.com.au](mailto:kerry.hicks@charteredaccountants.com.au) or Tom Ravlic (NIA) at [tom.ravlic@nia.org.au](mailto:tom.ravlic@nia.org.au).

Yours sincerely



Alex Malley  
Chief Executive Officer  
CPA Australia Ltd



Graham Meyer  
Chief Executive Officer  
Institute of Chartered  
Accountants in Australia



Andrew Conway  
Chief Executive Officer  
National Institute of  
Accountants