



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	24 November 2010
<b>From:</b>	<b>Ahmad Hamidi</b>	<b>Agenda Item:</b>	14.1
<b>Subject:</b>	<b>RDR: Australia and NZ Convergence</b>	<b>File:</b>	P 52

## Action

Consider for discussion this memorandum and the attached draft letter from the New Zealand ASRB with a view to clarifying the Board's position in regard to RDR convergence with New Zealand including feedback sought in paragraphs 13 and 14 of the draft letter.

## Background

The issue of convergence between the differential reporting frameworks of Australia and New Zealand was discussed at the October 2009 and March 2010 joint meetings of the AASB and the FRSB (the Boards) in the context of the August 2009 Prime Ministerial Outcome Proposals. Agenda paper 14.2 sets out the decisions made at those meetings.

In June 2010 the AASB established a second tier of reporting requirements for preparing general purpose financial statements in Australia. AASB 1053 *Application of Tiers of Australian Accounting Standards* puts in place a second Tier applicable from 1 July 2013. Eligible entities can early adopt the second tier for reporting periods beginning on or after 1 July 2009 but before 1 July 2013.

A process is now in place for publishing Tier 2 Supplements to Tier 1 Exposure Drafts/Standards either at the same time, or more probably, shortly after each relevant Tier 1 document is published. After dealing with Tier 2 documents that were in the pipeline, staff are making plans to deal with RDR versions of new EDs or new or revised IFRSs that are expected to be published in the period up to June 2011.

## Convergence

In relation to convergence of differential reporting frameworks of the two countries at this time the following matters are notable.

- (a) The RDR convergence would be limited to for-profit sectors of the two countries. In Australia, the RDR is transaction neutral and can be applied by eligible entities in all sectors.
- (b) The two jurisdictions can work together to determine RDR disclosures based on agreed principles and this approach is consistent with our current mode of operation and objectives. However, there would be a RDR backlog for New Zealand to deal with. The size of the backlog depends on a number of factors such as when a New Zealand decision about the application of RDR is made. Presumably such a decision would only be made after the New Zealand Board has conducted relevant due process, including issuing an Exposure Draft seeking comment from New Zealand constituents on the Australian RDR.
- (c) Convergence on RDR would not imply that either Board could not independently decide on certain matters based on jurisdiction-specific circumstances. For example, in relation to for-

profit public sector entities, the New Zealand proposal is to make large entities subject to an expanded public accountability definition while the AASB's decision is to adhere to the IASB's definition of public accountability and allow for-profit public sector entities to apply Tier 2 requirements subject to the agreement of relevant public sector regulators. Similarly, the two Boards may independently deem certain entities as publicly accountable based on jurisdictional circumstances.

- (d) A common approach to the RDR should not affect the independence of the two Boards. While every effort needs to be made for a joint decision on RDR related issues, the Boards' failure to agree on certain issues and making independent decisions based on jurisdiction-specific circumstances should not be translated into a 'veto' right for either Board.
- (e) The RDR is now an established regime in Australia and there is a need to press ahead with providing Tier 2 disclosure requirements in a timely manner as new or revised Standards are issued. Delaying this process for trans-Tasman convergence reasons will nullify a main premise of the RDR, that is, not depriving Tier 2 entities from improvements in Tier 1 requirements. To this end, a Tier 2 Work Program has been put on the AASB website which tracks the IASB program.

## ***Due Process***

For the two jurisdictions to continue to work together in the future, a common set of principles would be needed to facilitate a common RDR approach. Principles would help reduce the chances of disagreement and would help ensure the timely preparation of Tier 2 Supplements to the Tier 1 EDs/Standards.

The process of determining proposed Tier 2 disclosures has evolved, to some extent, over time and staff are learning finer details as they deal with new EDs or new/revised Standards. The application of Tier 2 Disclosure Principles involves judgement and the principles are expected to undergo refinement to deal with new issues and help making consistent judgements.

Currently RDR disclosure proposals relating to Tier 1 EDs/Standards are normally reviewed by the Differential Reporting Subcommittee before being balloted with the Board. Only sweep issues are brought to the meetings. The review process may use more resources when the two Boards are involved. Accordingly, some streamlining of the process may become necessary. For example, it may be helpful to create a joint differential reporting subcommittee to expedite the process of issuing Tier 2 Supplements. New Zealand may need to use a different approval process.

## ***Future consideration of the IFRS for SMEs***

AASB 1053, paragraph BC74, notes that:

*The Board concluded that the IFRS for SMEs is not presently a suitable set of requirements for Tier 2 in Australia. However, the Board decided it will continue to monitor and contribute to further changes in the IFRS for SMEs and that it is open to the possibility of adopting the IFRS for SMEs in future should the changes in that Standard make it practicable in an integrated for-profit/NFP sector reporting environment.*

It has been indicated that in New Zealand the *IFRS for SMEs* may need to be considered as a future option for Tier 2 reporting. The AASB has not ruled out this possibility. The Boards may, at sometime in the future, need to discuss how they address changes in the *IFRS for SMEs* when they occur.

## **Attachments:**

- Agenda paper 4.2 Minutes of previous joint meetings on differential reporting
- Agenda paper 4.3 Draft ASRB letter