AASB/NZASB Staff Issues Paper
Reduced Disclosure Requirements – Proposed Principles

Purpose

1 The purpose of this paper is to provide the AASB and the NZASB with a basis for deciding:

(a) whether to change the principles for determining reduced disclosure requirements (RDR) and, if so:

(b) the principles to be applied in determining RDR for all entities reporting under Tier 2 accounting requirements in Australia and for for-profit entities reporting under Tier 2 accounting requirements in New Zealand; and

(c) the process for updating RDR.

Introduction

2 The purpose of this paper is to review the set of principles currently used to determine the level of RDR and make recommendations for their improvement. This has arisen as a result of the AASB's decision that the existing principles should be reviewed with a view to further reducing the level of disclosure requirements.

3 The purpose of this paper is not to change the scope of RDR. Entities that are currently able to apply RDR will continue to be able to apply RDR.

4 Further, the NZASB has previously agreed that it would be appropriate to undertake a review of RDR for for-profit entities jointly with the AASB. At this point in time, NZASB staff are unsure of the number of entities that have taken up RDR in New Zealand as very few Tier 2 entities are required to lodge their financial statements.

5 RDR has been available in Australia for annual reporting periods beginning on or after 1 July 2009, and in New Zealand for annual periods beginning on or after 1 December 2012.

Background

Australia

6 At the February 2015 AASB Strategy meeting the Board considered a staff paper that articulated staff plans to help address constituent concerns about the complexity and effectiveness of the current financial reporting framework and bring about some meaningful reforms to the financial reporting framework.

7 The staff paper noted that two tiers of general purpose financial statements (GPFS) with the same recognition and measurement requirements, but different levels of disclosures, is a cornerstone of the existing Australian Financial Reporting Framework.

8 The staff paper noted that the Board's decision to introduce RDR was in response to constituent concerns about the burden on entities preparing GPFS using the Australian

Accounting Standards founded on the International Financial Reporting Standards (IFRSs). The Basis of Conclusions to AASB 1053 *Application of Tiers of Australian Accounting Standards* paragraph BC10 states that prior to the introduction of AASB 1053 "[the] costs of preparing general purpose financial statements for some entities were greater than benefits for the users of those general purpose financial statements, because the framework resulted in requirements for general purpose financial statements that were overly burdensome for many entities."

9 The current process in Australia to determine the disclosures under Tier 2 is to:

(a) draw directly on the *IFRS for SMEs* when Tier 2 recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

(b) use the 'user need' and 'cost-benefit' principles applied by the IASB in developing its *IFRS for SMEs* when Tier 2 recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

10 The Basis for Conclusions to AASB 1053 articulates the then Board's approach to determining disclosure requirements under RDR, specifically, "…that satisfying the objective of general purpose financial statements should be the overriding basis for determining the disclosures under the RDR…" (paragraph BC76). Paragraph BC78 states "…the AASB concluded that users of general purpose financial statements of non-publicly accountable for-profit entities [typically, private companies] 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) disaggregation of amounts presented in the financial statements; and

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

11 Paragraph BC79 of AASB 1053 states "The Board also concluded that, in addition to the particular information needs of users of non-publicly accountable for-profit entities noted in paragraph BC78, the information needs of the users of general purpose financial statements of NFP entities [not-for-profit entities] in both the private and public sectors would be satisfied by adopting a similar approach, having regard to the specific needs of users of NFP, including public sector, entity financial statements."

12 The staff paper also noted:

- the recent consultation by AASB staff which indicates that the level of adoption of Tier 2 disclosure requirements by:
    - companies limited by guarantee (not-for-profit entities) and subsidiaries of Tier 1 entities is reasonably widespread; and

  - other companies, including large private companies, is very low;

- the continuing view that Tier 2 disclosures are still viewed as burdensome; and
- that recent changes to IFRS have sharply increased the volume of Tier 2 disclosures.

13 At the Strategy meeting the Board agreed that it would be appropriate to review the principles used in determining the level of Tier 2 disclosures with a view to further reducing the level of disclosure requirements.

New Zealand

14 RDR for for-profit entities was issued in New Zealand in November 2012 and is substantially the same as the RDR developed by the AASB for application by Tier 2 entities in Australia. Entities were able to adopt the disclosure concessions for annual periods beginning on or after 1 December 2012.

15 At that time, the legislation removing the requirement for most companies to prepare GAAP-compliant financial statements had not been enacted. Many of the companies that would qualify to apply RDR were applying the differential reporting framework, which contained recognition and measurement concessions as well as disclosure concessions. This legislation has now been enacted and the financial reporting standards that contain the differential reporting concessions have been withdrawn for reporting periods beginning on or after 1 April 2015.

16 Undertaking a project to review RDR for for-profit entities jointly with the AASB is identified in the NZ XRB Strategic Action Plan 2014–2019.[1]

Types of entities that are permitted, or choose, to apply RDR

Australia

17 In Australia, the purpose of introducing the 'reporting entity concept' was to relieve those entities that are ***not*** reporting entities from the requirement to report information in their financial statements (i.e., GPFS) that would otherwise have been regarded as necessary for reasons of accountability.[2]

18 Therefore, except for disclosing entities and registered schemes, those charged with governance of an entity need to determine whether the entity, subject to the

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[1] The NZASB will develop a policy that establishes clear principles for determining reduced disclosure concessions for for-profit Tier 2 entities and establishes protocols for the joint establishment of those concessions with the AASB. The Action will comprise developing the RDR policy for for-profit standards in conjunction with the AASB.

[2] The *Corporations Act 2001* does not use the terms reporting entity or GPFS. The legislation's accountability requirement to prepare financial statements is contained in s292, which applies to all disclosing entities, all public companies, all large proprietary companies and all registered schemes. Section 296 requires that the financial report must comply with accounting standards and regulations. As a general statement, the *Corporations Act 2001* relieves small proprietary companies and small public companies limited by guarantee from financial reporting.

Entities not within the scope of the *Corporations Act 2001* may be the subject of other specific legislation which contains its own accountability requirements for financial reporting (e.g., incorporated associations). Like the *Corporations Act 2001* those statutes do not use the terms reporting entity or general purpose financial statements. Trust and unincorporated entities are subject to little or no formal process of accountability in their financial reporting.

Corporations Act 2001 or other specific legislation with financial reporting requirements, prepares GPFS.[3]

19 The types of entities that qualify to apply RDR in Australia are:

- for-profit entities that are reporting entities and prepare GPFS and that do not have public accountability as defined; and
- not-for-profit entities that are reporting entities and prepare GPFS and that do not have public accountability as defined.

20 AASB staff are yet to undertake an analysis of the number of Australian entities that apply RDR. However, as noted above, recent consultation by AASB staff indicates the level of adoption by for-profit entities is very low (except for subsidiaries of Tier 1 entities), whereas among companies limited by guarantee it is reasonably widespread.

New Zealand

21 Differential reporting has been in place in New Zealand since 1994 to provide relief from some financial reporting requirements for non-publicly accountable entities. When IFRSs were adopted in New Zealand, differential reporting was continued until the legislation removing the reporting requirements for smaller companies was enacted. Differential reporting has been withdrawn and is replaced by RDR for non-publicly accountable entities.

22 The types of for-profit entities that make their financial statements publicly available and qualify to apply RDR in New Zealand are:

- FMC reporting entities[4] that the Financial Markets Authority (FMA) has decided do not have ‘higher public accountability’. Examples of entities that do not have higher public accountability are Fund Managers (both financial and other, for example, forestry), Licenced Supervisors and Discretionary Investment Management Services (DIMS). Those entities will be permitted to apply Tier 2 disclosure requirements when preparing and lodging their next financial statements;
- overseas companies (that is, a body corporate that is incorporated outside New Zealand) that are large (that is, at the balance date of the 2 preceding accounting periods, the total assets of the business exceed $20 million or in the 2 preceding accounting periods, the total revenue of the business exceeds $10 million) and do not have public accountability as defined; and
- for-profit public sector entities that are not large (that is, total expenses are less than $30 million).

23 NZASB staff are not sure how many New Zealand for-profit entities apply RDR as the regime is only now becoming mandatorily available for for-profit entities.

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3 AASB 1053 *Application of Tiers of Australian Accounting Standards* deems certain for-profit entities as having public accountability (see paragraph B2).

4 Listed in section 451 of the *Financial Markets Conduct Act 2013*. Examples of FMC reporting entities include issuers of regulated products, registered banks, licensed supervisors, credit unions and licensed insurers. FMC reporting entities are required to prepare GAAP-compliant financial statements (s460) which are audited (s461D) and lodged (s461H).

24 As mentioned earlier, the scope of this project for the NZASB is RDR for only for-profit entities.

Outreach undertaken to identify user information needs for financial statements prepared on an RDR basis

25 Staff consider that redefining the Boards' approach to determining RDR would benefit from an appreciation of the needs of users of a Tier 2 entity's financial statements. Staff note this was the approach adopted by the US Financial Accounting Standards Board (FASB) and its Private Company Council (PCC) in the development of their Private Company Decision-Making Framework, which they use for determining GAAP alternatives for private company financial statements.

26 The FASB-PCC Framework is founded on the proposition that general purpose financial reporting is useful to existing and potential investors, lenders, and other creditors (i.e., the IASB *Conceptual Framework for Financial Reporting* Chapter 1). However, the FASB-PCC Framework acknowledges that private companies often have fewer financial statement users than public companies and, unlike public companies, can share selective financial information.

27 Staff acknowledge that the focus of this work is not identical to the work undertaken by the FASB-PCC with its focus on for-profit entities. The focus of this work includes for-profit and not-for-profit entities reporting in Australia and for-profit entities reporting in New Zealand.

28 Therefore, staff considered it important that they spoke to users of Australian for-profit and not-for-profit entity financial statements and New Zealand for-profit entities in considering the information needs of those users.

29 Staff reflected on the principles articulated in the FASB-PCC Framework and other relevant material published in North America by the US Financial Executives Research Foundation, Financial Executives International and the Canadian Financial Executives Research Foundation, GuideStar Inc and Root Cause[5] to develop a set of questions to guide their discussions with users. Staff also noted the concerns that have been raised in the media where some public financial reports lodged with the Australian Securities and Investments Commission (ASIC) appear to indicate that companies pay less income tax than might be suggested by their reported profits and lack transparency regarding related party transactions.

Outreach undertaken in Australia

30 Feedback has been sought from representatives of users of Tier 2 entities' financial statements. Examples of those users include bankers, specialist practitioners who help businesses to avoid liquidation, business valuers, private equity investors, and funders of not-for-profit entities.

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[5] Financial Executives Research Foundation *What do users of private company financial statements want?* May 2006. Financial Executives International (FEI) and Canadian Financial Executives Research Foundation (CFERF) *Issues in private company reporting* April 2009. FEI and CFERF *The role of disclosures in the financial statements of private business in assessing credit* May 2010. GuideStar Inc *Money for good II What foundations want* 2012. Root Cause *Informed giving Information donors want and how nonprofits can provide it* 2013.

31 In summary (see Appendix A to this memorandum for more detail), the common information needs of those users are those relating to:

- financial performance;
- liquidity and solvency;
- cash balances and cash flows;
- related party transactions and balances;
- accounting policies applied; and
- transactions and events that are significant for the entity.

32 Although some representatives noted that they would find a more detailed breakdown of expenses useful, this was not the majority view.

Outreach undertaken in New Zealand

33 Many of the entities that qualify to apply RDR in New Zealand are not required to lodge their financial statements with a regulator.

34 NZASB staff met with staff from the Financial Markets Authority (FMA), the entity responsible for regulating the capital markets and financial services in New Zealand, and also sought feedback from the banking sector.

35 The information requirements of the FMA and the banking sector are consistent with the information requirements of the Australian constituents that use the financial statements of Tier 2 entities.

Proposed principles for determining RDR

36 On completion of the outreach activities described above, staff reflected on the feedback and their earlier research.

37 Staff formed the view that the matters important to establishing the proposed principles for determining RDR were:

- **Investment strategies of primary users.** Liquidity and solvency metrics are important to equity investors, lenders and grantors. In the context of using private company financial statements, existing or potential equity investors have little or no access to public markets to realise their investments. Therefore, they may have a greater focus on cash that can be realised. Similarly, lenders are interested in repayment of interest and principal. Grantors are interested in sustainability, which also focuses on cash, as without cash the target entity will be unable to perform the services that are the purpose of the grant.

- **Ownership and capital structure.** Entities eligible to use RDR often operate using structures that result in transactions with related parties, as well as guarantees and cross-collateral arrangements with lenders.

- **Number of primary users and access to management.** Entities eligible to use RDR would often have fewer users of their financial statement and these users may have greater influence on financial statement preparers. Users can usually obtain some financial information from such entities throughout the year. Disclosures, therefore, may need to provide only the information necessary to enable users to ask owners/management follow-up questions.

38 Financial reporting in accordance with Tier 1 requirements provides the basis for economic decision making by capital market participants. Tier 2 entities operate outside the capital markets so the drivers for financial reporting by those entities are different, as may be some of the information needs of the users of the financial statements of those entities.

39 Based on the feedback received from the outreach activities, staff propose the following principles for determining RDR:

(a) financial performance, financial position and cash flows [this is achieved by presenting the relevant statements];

(b) liquidity (ability to meet current obligations) and solvency (ability to meet obligations over the long term) [and are achieved by providing information about short-term cash flows and obligations, debt repayment terms, commitments and contingencies, whether or not recognised as liabilities, including tax obligations];

(c) the entity's accounting policy choices and any changes in those policies;

(d) transactions and other events that are significant to the entity in its operations, including significant subsequent events that affect future cash flows; and

(e) risks to which the entity is exposed (for example, related party transactions, assets used as security for debt, impairments and estimates and judgements).

40 The proposed principles are high-level and a process for applying them along with cost-benefit considerations has not yet been considered. This will be undertaken once the Boards have agreed the principles to be applied.

41 However, an initial attempt to apply the proposed principles to the disclosure requirements in AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers* indicates that disclosures would be further reduced in comparison with the existing RDR. Appendix B illustrates this by using the shading approach.

Questions for Board members

Q1 Do Board members agree that the principles for determining RDR should be changed?

Q2 Do Board members agree with the principles proposed by staff in paragraph 39 for determining RDR?

Method of identifying and articulating disclosure concessions

42 This review of RDR provides an opportunity for the Boards to reconsider whether the current method of identifying and articulating the disclosures that Tier 2 entities are required to make is still appropriate.

43 There are three options for identifying and articulating the disclosures required to be made by Tier 2 entities. Those options are:

- *Option 1:* Explain the principles to be applied and leave preparers of financial statements to decide for themselves the disclosures to be made to 'tell their story'.
- *Option 2:* The AASB and NZASB apply the agreed principles to identify all the disclosures required to be made by Tier 2 entities.
- *Option 3:* The AASB and NZASB identify the minimum disclosures required, with preparers applying the agreed principles to determine whether any entity-specific disclosures significant to the entity are required (that is a combination of Options 1 and 2).

Agenda Paper 12.3 discusses the different methods of communicating the RDR.

Option 1 – Explaining the principles

44 The benefit of explaining the principles to be applied and not specifying any disclosures is that it provides a framework for preparers to then tell their own story without being subjected to minimum disclosure requirements as articulated in the accounting standards. Some commentators might see this approach as one where the Boards are shirking their standard-setting responsibilities.

45 The disadvantages of this option are an absence of minimum disclosure requirements and a loss of comparability between financial statements of different entities Feedback from users indicates that, in some circumstances, they use information disclosed in the financial statements to seek further information from owners/management.

46 Staff do not recommend Option 1.

Option 2 – Determining all the disclosures required of Tier 2 entities

47 Option 2 involves identifying all the required disclosures, either by shading or asterisking (*) disclosures that Tier 2 entities are not required to make along with other RDR paragraphs or by issuing a separate standard that contains the disclosures required by entities reporting under Tier 2 (see Agenda Paper 12.3).

48 The advantage of this option is comparable financial statements.

49 The disadvantage of this option is that the focus is more on identifying disclosure requirements to be made by all entities with less attention given to disclosures about transactions and events that are significant for an entity that might provide entity-specific information.

50 Staff do not recommend Option 2.

Option 3 – A combination of parts of Options 1 and 2

51 Option 3 involves the Boards determining the minimum disclosures required and requiring preparers to apply the agreed principles to determine whether any entity-specific disclosures significant to the entity are required.

52 The advantages of this option are:

(a) by specifying minimum disclosures, there is a minimum level of comparability among entities; and

(b) by requiring preparers to apply the agreed principles to decide whether further entity-specific disclosures significant to the entity are required, the entity's story is able to be told. This approach should be helpful to preparers as it provides greater specificity than that currently provided in the overriding requirement in Australian Accounting Standards and NZ IFRS to disclose further information where an entity considers such information would be useful to users.

Staff views

53 Staff recommend Option 3. This option requires some minimum disclosures, which will enable comparability among entities, and provides flexibility for entities to make further disclosures that are relevant to their specific circumstances. Staff note that the approach in Option 3 is closer to the approach that is currently being considered by the IASB in its Disclosure Initiative project than the other two options.

Question for Board members

Q3 Do Board members agree that Option 3, whereby the Boards identify the minimum disclosures and require preparers to apply the principles to determine entity-specific disclosures, is the appropriate option for identifying and articulating Tier 2 disclosures?

The process for determining RDR

54 The current process for determining proposed RDR is to issue a domestic Exposure Draft (ED) as soon as possible after the IASB issues an ED.

55 However, this process is not efficient in circumstances where the IASB substantively changes the disclosures in the ED when finalising the IFRS, which has happened recently with IFRS 15 and expected credit losses in IFRS 9 *Financial Instruments*, and will probably happen in the forthcoming IFRS dealing with leases. In these circumstances, the Boards are required to issue a further domestic ED to meet their due process obligations.

56 For a new IFRS, the IASB generally allows a period of at least 18 months before application of the IFRS becomes mandatory. Staff are of the view that it would be

more efficient (and still timely) to wait until the IASB has published the final IFRS before seeking feedback on RDR proposals from constituents.

57 Because the financial reporting standards for for-profit entities are the same in both countries[6], it is recommended that AASB staff and NZASB staff should work together to determine recommended RDR for new and amending IFRSs. As a consequence, the same papers should be prepared for both AASB and NZASB meetings for consideration by Board members.

Questions for Board members

Q4 Do Board members agree that it would be more efficient to wait until the IASB has finalised and issued a new IFRS before issuing a domestic ED proposing RDR for that IFRS?

Q5 Do Board members agree that:

(a) AASB staff and NZASB staff should work together to determine recommended RDR for new and amending IFRSs; and

(b) the same papers should be prepared for both AASB and NZASB meetings for consideration by Board members?

6 The *Joint Statement of Intent: Single Economic Market Outcomes*, signed by Prime Ministers Rudd (Australia) and Key (New Zealand) in August 2009 identified financial reporting by for-profit entities that operate in both countries as a shared outcome. These entities would be permitted to prepare one set of financial statements that would satisfy requirements in both countries. This was achieved for publicly accountable entities with the harmonisation project in 2011, which harmonised Australian Accounting Standards and NZ IFRSs with IFRSs. The Trans-Tasman Outcomes Implementation Group Report issued in May 2013 includes the following Medium term Outcome that has been achieved:
"For-profit entities (including both groups and individual subsidiaries) are only required to prepare a single set of financial statements to meet the requirements in both countries: for-profit entities that are non-publicly accountable: the Outcome is complete following New Zealand's adoption of Reduced Disclosure Requirements for second tier reporting for financial years commencing on or after 1 December 2012." (page 2)

Appendix A

Outreach with Users of Tier 2 Financial Statements

Outreach undertaken in Australia

1. Bankers have indicated the following.

   (a) Their clients use a range of business vehicles to operate their businesses, with convoluted structures extremely common.

   (b) Where their lending decisions are based on financial statements, more emphasis is placed on receiving quickly turned-around interim management accounts. Annual financial statements are sometimes used for their confirmatory value. General purpose financial statements are rare. Although audited financial statements are useful because they provide an independent opinion, they are not necessarily needed annually.

   (c) Where debt is secured by cash flows, more reliance is placed on projected cash flows provided by management. Where debt is secured by assets, more reliance is placed on the statement of financial position and accompanying notes as they contain more information about assets available for security, debt and debt repayment terms. The latter is more typically the case for 'top end' clients.

   (d) Of particular importance is:

      (i) a breakdown of expenses affecting operating profit (for example, depreciation and interest), in particular the link between the depreciation of non-current assets and the repayment terms of the funding of those assets where they are not the same;

      (ii) information about shareholder transactions and intra-group transactions (that is, related party transactions);

      (iii) repayment terms and conditions of debt; and

      (iv) a more detailed breakdown of the items disclosed in the statement of cash flows.

2. Specialist practitioners noted the following.

   (a) Many clients tend to keep up-to-date records of their bank accounts but rely on their accountants to provide financial statements.

   (b) When trying to help clients there is greater focus on the requirements of the *Corporations Act 2001* regarding the keeping of accounting records rather than the information required under accounting standards.

(c) Information that is of particular importance includes:

(i) related party transactions and balances, for example, leased premises and sub-contracting businesses owned by directors;

(ii) liquidity and solvency. The Australian courts have noted a checklist of possible indicators of insolvency;[7]

(iii) meeting the terms of debt covenants and a maturity analysis of debt;

(iv) security for loans;

(v) tax obligations (helpful because of the personal liability for PAYE and GST); and

(vi) statements of the directors and auditors about the going concern of the entity.

3. <u>Business valuers</u> whose engagement experience includes valuations used (i) in shareholder buyout negotiations, including family court matters, (ii) in granting of shares to senior employees, and (iii) for taxation reasons, indicated the following.

(a) The balance sheet approach to valuation is typically used (as the primary approach or as a secondary approach) as it profiles the business. Therefore, access to financial statements is important. General purpose financial statements are rare, however, Tier 2 reporting has been observed. Audited financial statements are preferred as they provide an independent opinion. Business valuers have access to management reports and tax returns, effectively any type of record including the general ledger, and direct access to owners/management.

(b) In family court matters, detailed information needed may not always be found in the financial report.

(c) Of particular importance is:

(i) related party information;

(ii) the accounting policy notes on expensing including depreciation methods, rates, expensing of small assets, and work-in-progress as this information is used to adjust the balance sheet;

(iii) information that allows an assessment of liquidity and solvency, as this information informs the approach to take to adjusting the balance sheet. This information is also used to test debt covenants;

(iv) information that allows the business valuer to apply a valuation multiple such as a multiple of EBITDA; and

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7 *ASIC v Plymin, Elliot & Harrison (2003) VSC123*. Examples of indicators (14 in total) include (i) continuing losses, (ii) liquidity ratios below 1, (iii) overdue taxes, (iv) inability to produce timely and accurate financial information to display the company's financial performance and financial position and make reliable forecasts, (v) inability to raise further equity capital, and (vi) no access to alternative finance.

(v) information about cash balances and cash flows.

4. Private equity investors focused on large and small proprietary limited companies, with the purpose of taking a majority investment, indicated the following.

(a) Lodged financial statements are used and they form a significant input to the 'pre-approach' when seeking potential targets and preparing further information requests of the target entity as part of the initial offer and due diligence stages. Some are general purpose financial statements and some do follow RDR. Audited financial statements are preferred as they provide an independent opinion. On taking a majority investment private equity investment firms will be represented on the board of directors. Therefore, during investment negotiations and due diligence stages and after taking a majority investment, private equity investment firms have access to information provided by management which is viewed as very important given the financial statements are a snapshot at a point in time.

(b) In a hostile takeover, more information is sourced from the target's financial report.

(c) Of particular importance is:

(i) related party information;

(ii) comparability between entities;

(iii) information that allows the private equity firm to apply a valuation multiple such as a multiple of EBITDA;

(iv) information about segments and intangible assets; and

(v) information about cash balances and cash flows.

5. Funders of not-for-profit entities that make grants to fund charitable organisations indicated the following.

(a) Financial statements are used. Some are general purpose financial statements and some do follow RDR and there is a preference that they are audited. The funders have direct access to management which they consider is very important. Comparability is not important and they do not tend to use the financial instrument note disclosures. They consider reporting of service performance by charities is useful information.

(b) Of particular importance is:

(i) related party information. It is important for funders to be aware when charitable organisations are sending money to related for-profit entities;

(ii) information about entity sustainability/going concern. For example, cash balances and cash flows. Going concern can be a big issue for charities and funders are very interested in information about the funding and sustainability of grantees; and

(iii) revenue breakdown between grants, donations and government funding and expense breakdown, especially for employee compensation and vehicles.

Outreach undertaken in New Zealand

6. The Financial Markets Authority (FMA) has decided that some entities (for example, fund managers of managed investment schemes such as Kiwisavers, fund managers of other managed schemes such as forestry and property syndicates, Licensed Supervisors and Discretionary Investment Management Services (DIMS)) do not have ‘higher public accountability’ and are, therefore, permitted to prepare and lodge financial statements that comply with NZ IFRS RDR. These entities typically derive revenue from management fees and/or commissions.

7. The FMA is interested in the liquidity and solvency of these entities and their long-term sustainability.

8. Banks do not necessarily require general purpose financial statements when making lending decisions, particularly to smaller clients, but rely more on tax accounts.

9. With the removal of the requirement for most companies to prepare GAAP-compliant financial statements, the Tax Administration (Financial Statements) Order 2014 was enacted. This Order specifies the minimum content of company financial statements prepared for income tax purposes and additional information required in support of the information included in the IR10[8]. The additional information required by the Order is used in conjunction with the financial statements for medium-sized and large clients.

10. Banks are interested in information about:

    (a) shareholder loans and transactions with associated persons;

    (b) the split between current and long-term debt; and

    (c) a breakdown of equity (which is requested if necessary).

[8] All businesses are required to complete an IR10 form. This form requires disclosure of certain types of revenue and expenses, including exceptional items (explained as ‘large income and/or expense items that do not arise as a result of normal business operations and are not expected to recur’) but only where those exceptional items are more than 5% of turnover. Examples of exceptional items are (i) results from the sale or disposal of the business or a significant part of it, (ii) major restructuring costs paid or provided for, (iii) major impairments or write-offs, and (iv) reversal of items (ii) and (iii). The IR10 also requires a balance sheet with disclosure of specified assets and liabilities but only one total for equity.

Appendix B

Comparison of current RDR with RDR under proposed principles – AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers*

Current disclosure concessions (shaded)	Disclosure concessions under proposed principles (shaded)	Staff comment
Disclosure **110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:** **(a) its contracts with customers (see paragraphs 113–122);** **(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and** **(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).**	**Disclosure** **110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:** **(a) its contracts with customers (see paragraphs 113–122);** **(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and** **(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).**	The disclosure objective was developed for Tier 1 entities and does not use the proposed principles to be applied by the Boards for determining RDR. Consequently, this paragraph is excluded.
111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.	111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.	This paragraph excluded as it refers to the deleted disclosure objective at paragraph 110. A similar general statement with the RDR principles would be appropriate.
112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.	112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.	

Current disclosure concessions (shaded)	**Disclosure concessions under proposed principles (shaded)**	**Staff comment**
Contracts with customers 113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards: (a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and (b) any impairment losses recognised (in accordance with AASB 9/NZ IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.	**Contracts with customers** 113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards: (a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and (b) any impairment losses recognised (in accordance with AASB 9/NZ IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.	
Disaggregation of revenue 114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.	**Disaggregation of revenue** 114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.	This paragraph is excluded for cost-benefit reasons as paragraph 113(a) requires disclosure of revenue from sources.
115 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies AASB 8/NZ IFRS 8 *Operating Segments*.	115 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies AASB 8/NZ IFRS 8 *Operating Segments*.	AASB 8/NZ IFRS 8 apply to listed entities which do not report under Tier 2.

Current disclosure concessions (shaded)	Disclosure concessions under proposed principles (shaded)	Staff comment
Contract balances 116 An entity shall disclose all of the following: (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed; (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and (c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).	**Contract balances** 116 An entity shall disclose all of the following: (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed; (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and (c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).	Paragraphs 116(b) and (c) excluded on cost-benefit considerations.
117 An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.	117 An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.	The requirements of paragraph 117 do not meet the proposed principles and cost-benefit considerations.
118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following: (a) changes due to business combinations; (b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a	118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following: (a) changes due to business combinations; (b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a	The requirements are deleted for cost-benefit reasons.

Current disclosure concessions (shaded)	Disclosure concessions under proposed principles (shaded)	Staff comment
change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification; (c) impairment of a contract asset; (d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and (e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).	change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification; (c) impairment of a contract asset; (d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and (e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).	
Performance obligations 119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement; (b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); (c) the nature of the goods or services that the entity has	**Performance obligations** 119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement; (b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58); (c) the nature of the goods or services that the entity has	Paragraphs 119(c)-(e) are excluded as they do not meet the proposed principles.

Current disclosure concessions (shaded)	**Disclosure concessions under proposed principles (shaded)**	**Staff comment**
promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent); (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.	promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent); (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.	
Transaction price allocated to the remaining performance obligations 120 An entity shall disclose the following information about its remaining performance obligations: (a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways: (i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or (ii) by using qualitative information.	**Transaction price allocated to the remaining performance obligations** 120 An entity shall disclose the following information about its remaining performance obligations: (a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways: (i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or (ii) by using qualitative information.	Disclosure of information about the transaction price allocated to the remaining performance obligations does not meet the proposed principles. Therefore, paragraphs 120-122 excluded.
121 As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: (a) the performance obligation is part of a contract that has	121 As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: (a) the performance obligation is part of a contract that has	

Current disclosure concessions (shaded)	**Disclosure concessions under proposed principles (shaded)**	**Staff comment**
an original expected duration of one year or less; or (b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.	an original expected duration of one year or less; or (b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.	
122 An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).	122 An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).	
Significant judgements in the application of this Standard 123 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following: (a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and (b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).	**Significant judgements in the application of this Standard** 123 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following: (a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and (b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).	Paragraphs 123(a) and (b) excluded as they do not meet the proposed principles and cost-benefit considerations.

Current disclosure concessions (shaded)	Disclosure concessions under proposed principles (shaded)	Staff comment
Determining the timing of satisfaction of performance obligations 124 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following: (a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and (b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.	**Determining the timing of satisfaction of performance obligations** 124 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following: (a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and (b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.	Paragraph 124(b) excluded as it does not meet the proposed principles and cost-benefit considerations.
125 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.	125 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.	
Determining the transaction price and the amounts allocated to performance obligations 126 An entity shall disclose information about the methods, inputs and assumptions used for all of the following: (a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) assessing whether an estimate of variable consideration is constrained; (c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable	**Determining the transaction price and the amounts allocated to performance obligations** 126 An entity shall disclose information about the methods, inputs and assumptions used for all of the following: (a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) assessing whether an estimate of variable consideration is constrained; (c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable	This paragraph excluded as it does not meet the proposed principles and cost-benefit considerations.

Current disclosure concessions (shaded)	**Disclosure concessions under proposed principles (shaded)**	**Staff comment**
consideration to a specific part of the contract (if applicable); and (d) measuring obligations for returns, refunds and other similar obligations.	consideration to a specific part of the contract (if applicable); and (d) measuring obligations for returns, refunds and other similar obligations.	
Assets recognised from the costs to obtain or fulfil a contract with a customer 127 An entity shall describe both of the following: (a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and (b) the method it uses to determine the amortisation for each reporting period.	**Assets recognised from the costs to obtain or fulfil a contract with a customer** 127 An entity shall describe both of the following: (a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and (b) the method it uses to determine the amortisation for each reporting period.	This paragraph excluded as it does not meet the proposed principles and cost-benefit considerations.
128 An entity shall disclose all of the following: (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and (b) the amount of amortisation and any impairment losses recognised in the reporting period.	128 An entity shall disclose all of the following: (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and (b) the amount of amortisation and any impairment losses recognised in the reporting period.	Information about impairment is retained; other information is excluded for cost-benefit reasons.
Practical expedients 129 If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.	**Practical expedients** 129 If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.	Does not meet the proposed principles.