AASB/NZASB Staff Issues Paper
Reduced Disclosure Requirements – Method of Communicating RDR

Purpose

1 The purpose of this paper is to provide the AASB and the NZASB with a basis for deciding the method to be used to communicate Reduced Disclosure Requirements (RDR).

Introduction

2 Agenda Paper 12.2 proposes principles to be applied for determining RDR and outlines three options for identifying and articulating those disclosure requirements. In that Agenda Paper, staff recommend Option 3. Option 3 proposes that the Boards specify minimum disclosure requirements and then require preparers to apply the agreed principles for determining RDR, to decide whether further disclosures are required about transactions and events that are significant to the entity reporting.

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

4 If the Boards agree that Option 3 is appropriate, the next step is to consider the method of communicating RDR. This paper outlines the methods available for communicating RDR.

Method of communicating disclosure concessions

5 There are two methods that could be used to communicate the disclosures that Tier 2 entities are required to make:

(a) retaining the current method of shading[1] or asterisking (*)[2] disclosures that Tier 2 entities are not required to make and, where necessary, including RDR paragraphs for clarification or to establish a disclosure requirement that is not identical to the Tier 1 requirement; or

(b) issuing a separate standard that contains all the disclosures that Tier 2 entities are required to make and a statement of the principles to be applied for deciding whether further disclosures are needed about transactions and events that are significant for the entity.

6 The discussion below is based on the assumption that the principles for determining RDR would be included in a standards-level document.

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1 Under Australian legislative requirements, a positive statement of the disclosure requirements with which Tier 2 entities are not required to comply is necessary, in addition to the shading technique.

2 NZ IFRSs contain a paragraph which states that a Tier 2 entity is not required to comply with the disclosure requirements in the Standard denoted with an asterisk (*) but where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.

Current method of shading or asterisking (*) the disclosures that are not required

7 The advantages of this method are:

(a) preparers are familiar with this method of communicating the disclosures that are not required;

(b) the disclosures are included in the same standard as the recognition, measurement and presentation requirements for a particular topic/type of transaction. Where a topic/transaction is not relevant for the entity, the disclosures are not required; and

(c) modifications are not made to the wording of the Tier 1 disclosures so the disclosures are not inadvertently changed – RDR paragraphs specify differing disclosure requirements.

8 The disadvantages of this method are:

(a) several standards may need to be updated when a new (or substantially amended) IFRS is issued by the IASB;

(b) modifications to the wording, or requiring only part, of a Tier 1 disclosure requirement may need to be done by means of shading/asterisking a paragraph and adding an RDR paragraph (this is more likely to be an issue in New Zealand because shading can be done where only part of a disclosure is required of Tier 2 entities); and

(c) the principles and an explanation of their application for transactions and events that are significant to the entity would most likely need to be included in a separate standard.

Separate standard communicating the disclosures that are required

9 The advantages of this method are:

(a) the disclosures are all included in one standard;

(b) flexibility in amending RDR:

(i) when a new IFRS is issued, only one standard needs to be amended for the new IFRS (and the consequential amendments to other standards where relevant);

(ii) if it is decided that it would be better to modify the wording of some disclosure requirements, this can be done more easily if the requirements are included in a separate standard; or

(iii) if it is decided to take a greenfields approach to developing RDR this can be done more easily if the requirements are included in a separate standard; and

(c) the removal of shading or asterisking (*) from the Tier 1 disclosure requirements of applicable accounting standards enables the users of those accounting standards to more clearly understand IFRS compliance for Tier 1 entities.

10 The disadvantages of this method are:

(a) preparers of financial statements would need to apply an additional standard for the disclosure requirements. However, this would not be something new as preparers are currently required to apply AASB 1054 *Australian Additional Disclosures* or FRS-44 *New Zealand Additional Disclosures*; and

(b) inclusion of all the disclosures in one standard means that a preparer may need to go through all the disclosures in that standard to identify which ones are relevant for the entity. Currently, a preparer ignores all disclosure requirements of accounting standards that are not applicable to the entity.

Question for Board members

Q1 Do Board members have a preference for:

(a) retaining the current approach of shading or asterisking (*) the disclosures that Tier 2 entities are not required to make across all standards; or

(b) issuing a separate RDR standard which contains the disclosures that Tier 2 entities are required to make?