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Department of Finance

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Ms Kris Peach
Chair
Australian Accounting Standards Board
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Dear ~~Ms Peach~~ Kris

Reduced Disclosure Requirements (RDR) under Australian Accounting Standard

Further to the recent discussions with Stein Helgeby, Peter Gibson and myself, I am writing with the Department of Finance's (Finance) views on potential improvements to the Reduced Disclosure Requirements (RDR) under Australian Accounting Standards.

Finance supports the AASB review of the principles underlying the RDR. As part of this, we suggest that the RDR principles could better connect the disclosure regime with its intent, and in particular user needs. We recognise that the RDR regime should appropriately remain focussed primarily on small and medium entities in Australia, but consider that improvements are desirable with respect to the RDR:

- being designed to meet general purpose needs of external users of financial statements;
- having a better focus on principles-based disclosures rather than detailed rules where possible; and
- having a focus on cutting clutter and complexity in financial statements.

In this context, we consider that there are number of areas that warrant attention. But I should first to add a couple of broader thoughts. Firstly, some of our suggestions below might also be applied beneficially to Tier 1 disclosures in some cases. Secondly, further work on disclosure requirements and reporting regimes might indicate that, for certain types of entities, reduction in disclosure may be appropriate beyond that reasonably possible through the RDR. For this reason, our view is that other approaches such as a third tier, or reviewing the reporting entity concept, should be options for consideration.

On specific suggestion for the RDR, our "starter list" (with the focus on desired outcomes rather than detailed standard changes, and those standards that most affect us) is:

- Remove most of the accounting policy note, where it only re-iterates the requirements of accounting standards. It would be more important and useful to: focus on key judgements; major changes in accounting policy; selection of policies where standards allow several alternatives or where no accounting standard applies; and high level statements about the basis of accounting and consolidation.
- AASB 7 Financial Instruments – minimise the quantitative disclosures still remaining, and remove the need to disclose by classification of instrument (FVPL, held to maturity etc), except perhaps under exceptional circumstances. These disclosures are not important to assessing financial performance of the vast majority of not-for-profit (NFP) entities.
- AASB 12 Disclosures – remove paragraph 23(b), and replace it with a more general descriptive and principles-based requirement.
- AASB 13 Fair Value –the benefits of all disclosure requirements should be assessed, particularly where fair values are determined by independent, qualified valuers and thus are less influenced by management. In our view a high level statement of the valuation basis and key assumptions would be more relevant and would be principles-based.
- AASB 15 Revenue– remove most of the detailed disclosure requirements about performance obligations, nature of contracts etc, particularly for "simple" arrangements. It would be appropriate to replace these detailed disclosures with principles-based requirements to disclose major risks to revenue.
- AASB 101 – remove the mandatory need for a separate statement of changes in equity. In many NFP entities relevant information can be presented more concisely and equally transparently in other forms of disclosure.
- AASB 119 Employee Benefits – remove the requirement for detailed plan disclosures where there is a net liability position and where those liabilities have been assessed by an independent qualified actuary. It is really only the final liability figure that is important for most users, together with a high level description of what the liability means and the nature of items that represent risks.
- AASB 1004 Contributions – some minor improvements, such as simplifying paragraph 58 requirements (disclosure of restructures) and not implying mandatory detailed disclosures of tax recognition policies in para 30.
- AASB 1039 Concise Financial Reports – allow application to all types of entities that can use the RDR, not just companies. (We understand that New Zealand allows public benefit entities to access concise disclosures).
- AASB 1055 Budgetary Reporting – remove detailed disclosures for each financial statement and replace these with a more general requirement to disclose reasons for major variations in an entity's financial performance/position. In particular, disclosure and explanation of variances in the statement of changes in equity are largely superfluous for most entities.
- More generally, we consider that for many standards the requirements for reconciliations from opening to closing balances can be removed. These could be replaced with a principles-based requirement to disclose "unusual" movements. For example, this could be considered for reconciliations of impairment allowance account, provisions, contingencies, investment properties, employee benefit liabilities, and potentially even property, plant and equipment, and intangibles).

Also, as we have previously discussed, one factor that is preventing greater take-up is the need to consolidate for the whole-of-government. While the RDR results in simplified financial statements of individual entities, this benefit is seen by entities as being offset by the need to compile (and audit) full Tier 1 information as an input to whole-of-government consolidations, as well as the administrative costs of managing two, albeit related, systems of standards. This is something that we would like to discuss further in the context of your review.

We would welcome additional discussion about these suggestions, or other matters relating to reviewing the reporting framework. We are also happy to discuss how we can collaborate further on this work.

I have copied this letter to Stein Helgeby and Peter Gibson.

Yours sincerely

Alan Greenslade
Financial Analysis Reporting Management

15 May 2015