Australian Government
Australian Accounting Standards Board

XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho
NZ ACCOUNTING STANDARDS BOARD

Memorandum

To:	**AASB members**	**Date:**	3 July 2015
From:	**Vanessa Sealy-Fisher (NZASB) and Mark Shying (AASB)**	**Agenda Item:**	6.1 (M146)
Subject:	**Reduced Disclosure Requirements**	**Project Priority**	High
Project Status:	**Continue deliberations**	**Decision-Making:**	High

Action for this meeting

To agree:

(a) disclosure principles ;

(b) the approach to applying the principles and KDAs to produce the disclosures required by Tier 2 entities;

(c) project plan.

Link to project summary

http://www.aasb.gov.au/admin/file/content102/c3/Reduced_Disclosure_Requirements_Project_Summary.pdf

Attachments

Agenda Paper 6.2 –	AASB/NZASB staff issues paper: Reduced Disclosure Requirements – General Principles
Agenda Paper 6.3 –	AASB/NZASB staff issues paper: Comparison of current RDR with RDR under the new proposals
Agenda Paper 6.4 –	The *Joint Statement of Intent: Single Economic Market Outcomes* **for Board information**

Overview

At the May meeting of the AASB and the June meeting of the NZASB, the Boards tentatively decided that there is a need to change the existing reduced disclosure requirements (RDR) principles.[1]

The Boards identified six key disclosure areas (KDAs) that are likely to be relevant to all users of the financial statements of entities reporting under Tier 2 accounting requirements. Further, the Boards tentatively decided that some general principles should be developed to precede the KDAs and that the application of the principles and specified disclosures should be subject to materiality considerations. The Boards directed staff to use the KDAs to progress the project and to also take into account the costs to preparers and the benefits to users of providing the information as well as using the *IFRS for SMEs* as a reference (rather than the first point of reference).

The six KDAs are:

(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;

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

(f) accountability.

The Boards tentatively decided to progress the RDR project as a joint project, noting the policy requirement of the *Joint Statement of Intent: Single Economic Market Outcomes* signed by the Prime Ministers of Australia and New Zealand (refer Agenda Paper 6.4).

Overview of agenda papers

Agenda Paper 6.2 – AASB/NZASB staff issues paper RDR - General Principles

This paper proposes two general principles to be applied when determining RDR. Those general principles are:

(a) the information needs of users of an entity's general purpose financial statements (user needs); and

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[1] Available at http://www.aasb.gov.au/admin/file/content102/c3/M145_Action_Alet_May_2015.pdf http://www.xrb.govt.nz/Site/News/NZASB_Communique/NZASB_Communique_0123_11_9_June_2015.aspx

(b) the costs to preparers of providing the information should not exceed the benefit of that information to users (cost-benefit).

The current approach to determine the disclosures for Tier 2 is to:

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

(b) apply the user needs 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 under *IFRS for SMEs*.

This paper proposes that user needs and cost-benefit should continue to be used as general principles when determining disclosures for Tier 2 entities.

Question for Board members:
Q1 Do Board members agree that the general principles for determining RDR disclosure requirements should continue to be user needs and cost-benefit?

Agenda Paper 6.3 – AASB/NZASB staff issues paper – Comparison of current RDR with RDR under the new proposals

This paper proposes to provide the AASB and the NZASB with a basis for deciding the approach to take to the analysis of Tier 2 disclosures (Approach 1 or 2).

The staff analysis uses two different approaches. The first approach involves identifying all the required disclosures, by shading out the Tier 1 disclosures that are not required of Tier 2 entities (Approach 1). The second approach involves the establishment of the disclosure requirements for Tier 2 entities (Approach 2).

Therefore, the method that staff has used is to analyse AASB 124/NZ IAS 24 *Related Party Disclosures* and AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers* by:

(a) applying Approach 1 and comparing it to the current RDR;

(b) applying Approach 2; and

(c) providing a high-level comparison the outcomes of each approach (Approach 1, current RDR, Approach 2) so that Board members can have a high level understanding of what difference in disclosure requirements would result.

The results of the staff analysis indicates that the application of Approach 1 compared to the current RDR achieves little difference in the Tier 2 disclosures. In contrast, the application of Approach 2 offers more flexibility than Approach 1 in meeting user needs and its potential for clarity of language and its better visual appearance suggest it is more user friendly.

AASB staff recommend that Approach 2 is the most appropriate approach to take to the analysis of Tier 2 disclosures.

NZASB staff do not have a specific recommendation at this stage.

Question for Board members	
Q1	Which approach do Board members prefer? Approach 1, or Approach 2 (recommended by the AASB staff)?

Project plan

Outstanding issues

Staff are targeting the issuance of an Australian Exposure Draft (ED) and New Zealand Invitation to Comment (ITC) for comment in Q3 2015 with a 90 day comment period.

It is proposed that Board deliberations take place across H1 2016 with the revised principles and KDAs applied and issued in Q2-Q3 2016.

Therefore to progress this project, staff plan bring to the Boards at the September Board meetings a paper on sweep issues, including the need for any transitional requirements.

Question for Board members:	
Q1	Do Board members have any comments regarding the proposed project plan for the RDR project?

Agenda Paper 6.4 – The *Joint Statement of Intent: Single Economic Market Outcomes*

This paper is for the information of Board members.

Appendix to the Memorandum – for Board information

Number of entities eligible to report under Tier 2 accounting requirements

Australia

- Entities subject to the Corporations Act (21,860 entities at 30 June 2011):
    - Unlisted public companies other than those limited by guarantee – 5,476;
    - Public companies limited by guarantee, including those registered with the ACNC – 8,360;
    - Large proprietary companies – 5,359;
    - Small proprietary companies controlled by a foreign company and no ASIC class order relief – 1,175; and
    - Grandfathered large proprietary companies (no requirement to lodge) – 1,490.
- Entities subject to the Corporations (Aboriginal and Torres Strait Islander) Act – approximately 2,500.
- Entities subject to incorporated associations laws of some states and territories – number unknown at this time.

New Zealand

- FMC Reporting Entities that file with the Financial Markets Authority (FMA) that do not have higher public accountability as determined by the FMA – approximately 150.
- Overseas companies that file with the Companies Office – 1,100 non-issuer companies with overseas shareholdings in excess of 25% and 470 overseas registered companies that operate in New Zealand.
- For-profit public sector entities – unknown at this time. The Office of the Auditor-General will be collecting this data for annual reporting periods ending on 30 June 2015.
- Large for-profit entities that report under Tier 2 but do not file – unknown because these entities are not required to file their financial statements.