

AASB/NZASB Staff Issues Paper

Reduced Disclosure Requirements – General Principles

Purpose

- 1 The purpose of this paper is to propose principles to be applied when determining RDR disclosure requirements.

Background

- 2 At the May AASB meeting and June NZASB meeting the Boards considered a staff paper¹ which proposed some ‘principles’ now referred to as ‘key disclosure areas (KDAs)’, for determining Reduced Disclosure Requirements (RDR).
- 3 The Boards tentatively decided that some general principles should be identified to precede the KDAs.
- 4 The current Tier 2 Disclosure Principles (see Appendix to this memo) used to determine the disclosures under RDR are the user needs and cost-benefit principles that underlie the determination of the disclosure requirements in the IASB’s *IFRS for SMEs*. Additional guidance facilitates the application of the principles.
- 5 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 the *IFRS for SMEs*.

General principles to precede the key disclosure areas

- 6 Both the Australian and New Zealand Conceptual Frameworks include the following in the discussion about user needs and cost-benefit as follows.
 - (a) The objective of general purpose financial reporting is to provide information about the reporting entity that is useful to users of those financial statements for making decisions about providing resources to the entity and for accountability purposes.
 - (b) Users of for-profit entity financial statements include existing and potential investors, lenders and other creditors and users of not-for-profit entity financial statements include service recipients and resource providers (for example, lenders, creditors, donors, taxpayers, beneficiaries and advisers).
 - (c) Application of the cost-benefit principle is subjective and, consequently, different individuals’ assessments of the cost-benefit principle could vary.

¹ Available at
http://www.aasb.gov.au/admin/file/content102/c3/M145_12.2_Issues_Paper_RDR_Proposed_Principles_final.pdf

- (d) Although the benefits of providing information differ across reporting entities, depending primarily on the nature, number and information needs of the users of their financial statements, the costs of providing that information may not differ significantly. Consequently, cost-benefit considerations should be assessed in relation to the information needs of the users of an entity's financial statements.
 - (e) Although costs and benefits are often considered on a standard-by-standard disclosure-by-disclosure basis, it is important that cost-benefit is also considered in relation to the disclosure requirements of the set of standards as a whole.
- 7 Staff recommend that the principles of user needs and cost-benefit should continue to be used as general principles when determining disclosures for Tier 2 entities. These principles are still the most relevant principles to apply because this is the basis of the currently applicable Conceptual Framework.
- 8 The user needs principle under the current approach to determining disclosure requirements for Tier 2 entities is based on the IASB's user needs identified when developing the *IFRS for SMEs* (see paragraph 6 of the existing Tier 2 Disclosure Principles²). The KDAs on which the disclosure requirements are to be developed going forward are not specifically linked to the *IFRS for SMEs*.

Question for Board members

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

² Available at http://www.aasb.gov.au/admin/file/content102/c3/Tier_2_Disclosure_Principles.pdf