

AASB/NZASB Staff Issues Paper

RDR – Process for Determining Tier 2 Disclosures

Purpose

- 1 The purpose of this paper is to outline the process used by staff to apply the Boards' RDR decision-making framework to determine the disclosures to be required by Tier 2 entities.

Background

- 2 At the July AASB and NZASB meetings the Boards considered:
 - (a) a paper that proposed that the general principles to precede the key disclosure areas (KDAs) when determining Reduced Disclosure Requirements (RDR) should be user needs and cost-benefit;¹ and
 - (b) a paper that provided two approaches to identifying Tier 2 disclosures by applying user needs as determined by the KDAs and cost-benefit.²
- 3 The Boards tentatively decided to establish an RDR decision-making framework for use in determining the minimum disclosures required of all Tier 2 entities. The essential features of the RDR decision-making framework are:
 - (a) the overarching principles of user needs and cost-benefit;
 - (b) disclosure of financial performance, financial position and cash flows;
 - (c) to meet user needs, there are two KDAs:
 - (i) current liquidity and solvency and associated key risks; and
 - (ii) transactions and other events significant to understanding the entity's operations as represented by financial performance, financial position and cash flows, including:
 - (A) Core Disclosure Areas: (a) commitments and contingencies, (b) impairment, (c) related parties and (d) subsequent events; and
 - (B) Supporting Disclosure Areas: (a) nature of transaction or event, (b) accounting policy on when to recognise and how to measure, (c) significant estimates and judgements specific to a transaction

¹ Available at:

http://www.aasb.gov.au/admin/file/content102/c3/M146_6.2_Staff_Issues_Paper_RDR_General_Principles.pdf; and http://xrb.govt.nz/Site/Board_Meetings/NZASB_Board_Meetings.aspx

² Available at:

http://www.aasb.gov.au/admin/file/content102/c3/M146_6.3_Comparison_Of_Current_RDR_With_RDR_Under_New_Proposals.pdf; and http://xrb.govt.nz/Site/Board_Meetings/NZASB_Board_Meetings.aspx

or event, and (d) associated key risks specific to a transaction or event;

- (d) some guidance to be developed to complement the RDR decision-making framework to assist Tier 2 entities in applying the disclosure requirements, including consideration of materiality when determining the transactions and other events to disclose; and
 - (e) minimum disclosures that are a subset of Tier 1 disclosures would be established for Tier 2 entities but, as for Tier 1 entities, there may need to be additional disclosures to provide a true and fair view.
- 4 The Boards requested that staff apply the Boards' tentative RDR decision-making framework to analyse three standards³ using an approach that identified disclosures required by Tier 2 entities. The outcomes of this analysis would then enable the Boards to assess whether the RDR decision-making framework is appropriate, prior to proceeding with full analysis of all relevant Standards for the purposes of developing an ED (see Agenda Paper 4.3).
- 5 In the course of undertaking the analysis a process was developed by staff to apply the RDR decision-making framework to each of the three standards to determine Tier 2 disclosures.

Process to apply the RDR decision-making framework to determine Tier 2 Disclosures

- 6 Staff noted that the Boards' RDR decision-making framework expressed in paragraph 3 above identifies two different disclosure areas in its discussion of transactions and other events significant to understanding the entity's operations – Core Disclosure Areas (CDAs) and Supporting Disclosure Areas (SDAs).
- 7 CDAs consist of:
- (a) commitments and contingencies;
 - (b) impairment;
 - (c) related parties; and
 - (d) subsequent events
- 8 SDAs consist of:
- (a) nature of transaction or event;
 - (b) accounting policy on when to recognise and how to measure;
 - (c) significant estimates and judgements specific to a transaction or event; and
 - (d) associated key risks specific to a transaction or event.

³ AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers*, AASB 136/NZ IAS 36 *Impairment of Assets* and AASB 101/NZ IAS 1 *Presentation of Financial Statements*.

- 9 Staff understand that the factor that distinguishes the core and supporting disclosure areas (CDAs from SDAs) is a difference in the Boards' expectations about the quantum of the reduction of disclosures that relate to the CDAs and SDAs of Tier 2 entities. Accordingly, staff have identified the following guidance to use when applying the framework:
- (a) CDAs: there is a rebuttable presumption that the benefits of disclosure exceed the costs; and
 - (b) SDAs: there is a rebuttable presumption that the benefits of disclosure *do not* exceed the costs.
- 10 A flowchart of the process is included in the appendix to this paper.

Question for Board members

- Q1 Do Board members agree with the process developed by staff to apply the Boards' RDR decision-making framework to determine the disclosures that Tier 2 entities would be required to make?

Appendix

Process to apply the RDR decision-making framework to determine the disclosures required by Tier 2 entities.

