AASB/NZASB Staff Issues Paper
RDR – Identifying Disclosure Requirements in Accounting Standards and their Presentation

Purpose

1 The purpose of this paper is to provide the AASB and the NZASB with a basis for deciding the approach to identifying Tier 2 disclosure requirements and how the disclosure requirements are to be presented in accounting standards.

Introduction

2 In May and July 2015, the Boards tentatively decided that there is a need to change the existing RDR principles and have established a RDR decision-making framework for use in determining the minimum disclosures required of all Tier 2 entities.

3 At that time the Boards decided that:

(a) in the future, an ED proposing RDR requirements for a new standard will be based on the final IFRS, rather than the ED preceding the standard;

(b) the RDR methodology should be sufficiently flexible to accommodate the deletion for Tier 2 entities of disclosures required of Tier 1 entities and any future decisions by the Boards to rewrite disclosure requirements for Tier 2 entities;

(c) it would be premature to determine the basis on which this would be achieved; and

(d) guidance would be developed to assist Tier 2 entities in applying the disclosure requirements for Tier 2 entities, including consideration of materiality when determining the transactions and other events to disclose.

4 The purpose of this paper is to enable the Boards to now proceed with determining the basis for identifying Tier 2 disclosure requirements.

Approach to identify Tier 2 disclosures

5 Staff have identified two options for applying the Boards' RDR decision-making framework for determining the disclosures required by Tier 2 entities. Those options are:

- *Option 1:* Starting with the disclosures required for Tier 1 entities and reduce them by applying the RDR decision-making framework to identify the disclosures that Tier 2 entities are required to make (reducing Tier 1 disclosures).

- *Option 2:* Establishing the disclosure requirements for Tier 2 entities by using the RDR decision-making framework and applying a constraint that the Tier 2 disclosures will always be a subset of Tier 1 disclosures (a greenfields approach).

Option 1 – Reducing Tier 1 Disclosures

6 Option 1 involves determining the minimum disclosure requirements for Tier 2 entities by identifying which disclosure requirements for Tier 1 entities should not be required by Tier 2 entities (that is, a reductive approach).

7 The advantages of this option are:

(a) the disclosure requirements for Tier 1 and Tier 2 entities are more comparable because the wording of the disclosure requirements is the same; and

(b) there is clarity around the relationship of the disclosures required by Tier 1 and Tier 2 entities.

8 The disadvantage of this option is that, notwithstanding the Boards providing guidance, the focus is more on identifying disclosure requirements to be made by all Tier 2 entities with less attention given to disclosures about transactions and events that are significant for an entity that might provide entity-specific information.

Option 2 – Greenfields approach to establish Tier 2 disclosures

9 Option 2 involves the Boards establishing the disclosure requirements for Tier 2 entities by using the RDR decision-making framework and applying a constraint that the Tier 2 disclosures would always be a subset of Tier 1 disclosures.

10 The advantages of this option are that when articulating the disclosures required of Tier 2 entities the Boards are not constrained by starting with the words used by the IASB.

11 The disadvantage of this option is the lack of clarity around the relationship of the disclosures required of Tier 1 and Tier 2 entities.

Staff views

12 Staff recommend Option 1.[1] Tier 2 disclosures will always be a subset of Tier 1 disclosures. Therefore, clarity around the relationship of the disclosures required of Tiers 1 and 2 entities is important. This option provides that clarity.

[1] In July 2015, the Boards received agenda paper 6.3 Staff Issues Paper: *Comparison of Current RDR with RDR Under the New Proposals*. The paper included the outcomes for two approaches used by staff in identifying Tier 2 disclosures for two standards. The two approaches used by staff were the reductive approach and the greenfields approach. At that time the AASB staff recommendation was that the greenfields approach was the most appropriate approach to use in identifying Tier 2 disclosures. The NZASB staff did not make a specific recommendation. The Boards did not express a preference. On reflection, AASB staff now support Option 1 as expressed in paragraph 5 of the current paper (agenda paper 4.4). This change in view arises from the Boards establishing the RDR decision-making framework, the experience gained from undertaking the analysis reported in Agenda Paper 4.3 and a view that the NZASB was more likely to express a preference for Option 1.

Question for Board members

Q1 Do Board members agree that Option 1, whereby the Boards start with the disclosures required of Tier 1 entities and reduce them by applying the RDR decision-making framework to identify the disclosure requirements for Tier 2 entities is the appropriate option for determining the disclosures required by Tier 2 entities?

Approach to presenting the Tier 2 disclosure requirements

13 Assuming the Boards agree with Option 1 as the approach to identifying Tier 2 disclosures staff have identified three options for presenting the disclosures that Tier 2 entities are required to make. Those options are:

- *Option 1:* Retaining the current method of shading or asterisking (*) 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.
- *Option 2:* Including an appendix in each standard that identifies, for that standard, the disclosures required by Tier 2 entities.
- *Option 3:* Issuing a separate standard that contains all the disclosures that Tier 2 entities are required to make.

Option 1 – Current method of shading or asterisking (*) the disclosures that are not required

14 The advantages of this option are:

(a) preparers are familiar with this method of presenting 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.

15 The disadvantages of this option are:

(a) that in Australia, this approach requires that the communication of the proposed Tier 2 disclosures coincide with the issuing of the ED that includes proposals for Tier 1 disclosures. Because the ED proposing Tier 2 disclosure is not based on the final IFRS and as Tier 2 disclosures are a subset of Tier 1 disclosures some consider that it is too early in the process to provide feedback on an ED proposing Tier 2 disclosures. Further, this option is not consistent with the Boards' past tentative strategic decision (noted in paragraph 3(a) above) that an ED proposing RDR requirements for a new standard will be based on the final IFRS, rather than the ED;

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

(c) 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).

Option 2 – An appendix in each standard that identifies for that standard the disclosures required of Tier 2 entities

16 The advantages of this option are:

(a) that in Australia, under this approach communication of the proposed Tier 2 disclosures would no longer coincide with the issuing of the ED that includes proposals for Tier 1 disclosures. Instead, the ED proposing RDR requirements will be based on the final IFRS. This approach has been noted as being a more appropriate time to elicit constituent feedback on the Tier 2 proposals. Further, this option is consistent the Boards' past tentative strategic decision (noted in paragraph 3(a) above) that an ED proposing RDR requirements for a new standard will be based on the final IFRS, rather than the ED preceding the standard;

(b) the disclosures that apply to Tier 2 entities 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;

(c) flexibility in amending RDR:

(i) when a new IFRS is issued, only the appendix to the 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 an appendix; or

(iii) this option is equally able to accommodate either outcome of the Boards' decision on the approach to identifying Tier 2 disclosures as expressed in paragraph 5; and

(d) 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.

17 The disadvantages of this option are the appendices of several standards may need to be updated when a new (or substantially amended) IFRS is issued by the IASB.

Option 3 – Separate standard presenting the disclosures that are required of Tier 2 entities

18 The advantages of this option are:

(a) that in Australia, under this approach presentation of the proposed Tier 2 disclosures would no longer coincide with the issuing of the ED that includes proposals for Tier 1 disclosures. Instead, the ED proposing RDR requirements will be based on the final IFRS. This approach has been noted as being a more appropriate time to elicit constituent feedback on the Tier 2 proposals. Further, this option is consistent the Boards' past tentative strategic decision (noted in paragraph 3(a) above) that an ED proposing RDR requirements for a new standard will be based on the final IFRS, rather than the ED preceding the standard;

(b) the disclosures that apply to Tier 2 entities are all included in one standard;

(c) 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) this option is equally able to accommodate either outcome of the Boards' decision on the approach to identifying Tier 2 disclosures as expressed in paragraph 5; and

(d) 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.

19 The disadvantages of this option 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.

Staff views

20 Staff recommend Option 2. By issuing an ED proposing RDR requirements based on the final IFRS, constituents are better placed to provided more informed views to the Boards. The location of the disclosures that apply to Tier 2 entities is important to preparers and their inclusion in the same standard as the recognition, measurement and presentation requirements for a particular topic/type of transaction recognises that. In the context of Tier 2 disclosures, Option 2 provides a flexibility to the Boards in the way that they deal with amendments by the IASB to the disclosure requirements of IFRS. Finally, this option is considered to be the least staff resource intensive in Australia.

Question for members

Q2 Do Board members agree that Option 2, whereby the Boards include an appendix in each standard that identifies for that standard the disclosures required by Tier 2 entities is the appropriate option for presenting the disclosure requirements of Tier 2 entities?

Q3 If Board members do not agree, which option do they prefer, and why?