Australian Government
Australian Accounting Standards Board

XRB EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

NZ ACCOUNTING STANDARDS BOARD

Staff Paper

Project:	**Reduced Disclosure Requirements (Tier 2) Principles**	**Meeting**	AASB October 2015 (M148)
Topic:	**Sweep Issues – Effective Date, Early Application and Transitional Requirements**	**Agenda Item:**	15.2
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Introduction and objective of this paper

1 The objective of this paper is to obtain decisions from the Boards in relation to the following sweep issues:

(a) the effective date of the proposed revised Reduced Disclosure Requirements (RDR) disclosures for Tier 2 entities;

(b) whether the proposed revised RDR should be available for early application and, if so, would early application be available on a revised Standard-by-revised Standard approach or as a single 'big bang' of all revised Standards; and

(c) the transitional requirements, if any, for Tier 2 entities.

2 This paper is structured as follows:

(a) Summary of staff recommendation (paragraph 3)

(b) Effective date of the proposed revised RDR disclosures (paragraphs 4-10)

(c) Early application of the proposed revised RDR (paragraphs 11-17)

(d) Transitional requirements (paragraphs 18 -28)

Summary of staff recommendations

3 The staff recommend the following:

(a) Issue 1: Staff recommend an effective date for the proposals of annual periods beginning on or after 1 January 2018.

(b) Issue 2: Staff recommend that Tier 2 entities:

(i) should be able to apply the proposed revised RDR early on a revised RDR Standard-by-Standard basis, other than proposed revised RDR AASB 101/NZ IAS 1, AASB 107/NZ IAS 7 and AASB 108/NZ IAS 8;

(ii) that elect to early adopt one or more of the proposed revised RDR AASB 101/NZ IAS 1, AASB 107/NZ IAS 7 and AASB 108/NZ IAS 8 be required to apply each of the three revised RDR Standards at the same time; and

(iii) should be required, where Standards refer to other Standards or are referred to in other Standards, to apply simultaneously both the Standard containing the cross-reference and the Standard referred to.

(c) Issue 3: Staff recommend that:

(i) Tier 2 entities applying the current RDR Standards do not provide any comparative information in the notes to the financial statements for the year of transition to the proposed revised RDR.

(ii) notwithstanding paragraph 3(c)(i) above, there should be no transitional provisions for differences on the face of the financial statements; and

(iii) no further transitional provisions are required for transition from Special Purpose Financial Statements to Tier 2, or for transition between Tier1 and Tier 2.

Issue 1: Effective date of the proposed revised RDR disclosures

<u>Background</u>

4 In September 2015, the Boards approved a project plan indicating finalisation of the proposed revised RDR in H2 2016.

5 Staff note that this timeframe provides sufficient time for the proposed revised RDR to be finalised in time for the new proposals to be effective for annual periods beginning on or after 1 January 2018.

Staff Analysis

6 In considering the issue of effective date, staff considered the following factors. An effective date of 1 January 2018 would:

(a) be expected to provide entities with sufficient time to make any changes needed to their systems to capture the revised disclosures[1].

(b) align with recently issued Australian Accounting Standards that include the consequential amendments arising from AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers*. As both of these standards contained consequential amendments to many AASB standards and NZ IFRSs, the Boards would not be issuing standards with multiple effective dates (that is, 1 January 2016, 1 January 2017 and 1 January 2018).

(c) be the most efficient for compiling the proposed revised RDR into existing Standards

7 Staff do not consider that a later effective date (for example, 1 January 2019) would be necessary for implementation of the revised RDR Framework, in particular if the Board agrees with the staff recommendation in relation to transition (discussed later in this Agenda Paper).

Staff Recommendation

8 Based on the above analysis, staff recommend an effective date for the proposals of annual periods beginning on or after 1 January 2018.

Question for Board members

Q1 Do Board members agree that the revised RDR for Tier 2 entities should be proposed to be effective for annual periods beginning on or after 1 January 2018?

Issue 2: Early application of the proposed revised RDR

Background

9 In principle, Tier 2 entities should be able to apply the proposed revised RDR early, either by a single "big bang" step of all the revised RDR Standards or on a revised RDR Standard-by-revised RDR Standard basis, subject to an assessment of the interaction between the revised RDR Standards.

Staff Analysis

10 Staff note that the disclosure requirements of a Standard are not independent of the recognition and measurement requirements of that Standard. Therefore, the disclosure

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[1] In addition, staff note that as this date is aligned with the effective date of AASB 9/NZ IFRS 9 and AASB 15/NZ IFRS 15, this enables entities to make the necessary system changes all at the same time.

requirements (including Tier 2 disclosure requirements) are not adopted independently of the underlying recognition and measurement requirements of the Standard.

11 Staff also note that many Standards include cross-references to other Standards. For example, paragraph 22 of AASB 110/NZ IAS 10 *Events after the Reporting Period* provides examples of non-adjusting events after the reporting period that would generally result in disclosure and refers to specific Standards.

12 Further, the requirements of AASB 101/NZ IAS 1 *Presentation of Financial Statements*, AASB 107/NZ IAS 7 *Statement of Cash Flows* and AASB 108/NZ IAS 8 *Accounting Policies*, *Changes in Accounting Estimates and Errors* address complementary aspects of the presentation of financial statements and are highly interrelated. In addition, the Boards' decision to cross-reference within the RDR requirements of each Standard to AASB 101/NZ IAS 1 and RDR AASB 108/NZ IAS 8 in relation to significant judgements and estimates, and accounting policies (refer paragraphs 23-26 of Agenda Paper 15.X) will also have implications for early application.

13 The advantage of applying the proposed revised RDR by a "big bang" step is that all the Standards are applied at the same time so there are no issues with any of the 'groups' of highly interrelated standards or the cross referencing between the Standards (that is, the approach may be considered to be a 'fresh start' in terms of all requirements). However, a significant disadvantage of this approach is that entities are less likely to adopt the revised Framework early as there are significant costs to transitioning to the recognition and measurement requirements of all Standards.

14 The advantage of permitting Tier 2 entities to early apply the proposed revised RDR on a revised RDR Standard-by-Standard basis is that, if an entity chooses to early adopt, they would not be required to early apply the requirements (including recognition and measurement) for *all* Standard (for example, entities would not be required to early apply AASB 9/NZ IFRS 9 and AASB 15/NZ IFRS 15). Accordingly, entities are more likely to adopt the revised Framework early as there are lower costs to transitioning a single Standard, versus all Standards.

<u>Staff Recommendation</u>

15 Staff recommend that Tier 2 entities:

(a) should be able to apply the proposed revised RDR early on a revised RDR Standard-by-Standard basis, in accordance with the application paragraphs of those Standards; and

(b) be required to apply AASB 101/NZ IAS 1, AASB 107/NZ IAS 7 and AASB 108/NZ IAS 8 when they first apply a revised RDR Standard(s). For example, if a Tier 2 entity decides to apply a revised RDR Standard for periods beginning on or after 1 January 2017, the entity will be required to apply AASB 101/NZ IAS 1, AASB 107/NZ IAS 7 and AASB 108/NZ IAS 8 at the same time.

Question 2 for Board members
Do Board members agree with the staff recommendations in paragraph 21 above?

Issue 3: Transitional Requirements

Background

16 Transition from current RDR to the proposed revised RDR is likely to result in:

(a) some disclosures under current RDR not being required under the proposed revised RDR; and

(b) some disclosures under the proposed revised RDR being required that are not required under current RDR.

17 Staff note that should the Boards decide to amend the current guidance in relation to distinguishing between presentation and disclosure (refer paragraphs 18-22 of Agenda Paper 15.1), there will be some differences in the line items and subclassifications on the face of the financial statements between financial statements prepared under current RDR and financial statements prepared under the proposed revised RDR.

Staff Analysis – Issue 3(a) Transition for Tier 2 entities moving from the current RDR to the revised RDR

18 As discussed in paragraphs 13–17 of Agenda Paper 15.1, staff recommend that the revised RDR should result in Tier 1 and Tier 2 entities presenting the same information on the face of the primary financial statements in relation to the current and comparative periods.

19 Staff are of the view that the presentation of comparative information on the face of the financial statements is unlikely to result in additional costs for Tier 2 entities as this information would be available for determining their financial performance, financial position and cash flows.

20 If there are no transitional requirements for Tier 2 entities moving from the current RDR to the revised RDR there may be additional costs incurred as:

(a) an entity will be required to provide comparative information for all amounts reported in the notes to the financial statements (paragraph 38 of AASB 101/NZ IAS 1); and

(b) there may be instances where information that is disclosed in the notes to the financial statements for the current period under the revised RDR is not required under the current RDR.

21 Although AASB 108/NZ IAS 8 exempts entities from changing comparative information "...to the extent that it is impracticable…" to determine the extent of the change, impracticable as defined in AASB 108/NZ IAS 8 is a high hurdle. As a consequence, staff consider that impracticable would not be an appropriate criterion to

apply for determining which disclosures for the comparative period Tier 2 entities transitioning to the revised RDR should not be required to make.

22 Staff are of the view, therefore, that it would be appropriate to permit Tier 2 entities transitioning to the new RDR to not disclose any comparative information in the notes to the financial statements for the year of transition.

Staff Recommendation

23 Staff recommend that Tier 2 entities:

(a) applying the current RDR are not required to provide any comparative information in the notes to the financial statements for the year of transition to the proposed revised RDR; and

(b) notwithstanding paragraph 24(a) above, there should be no transitional provisions for differences on the face of the financial statements.

Question for Board members

Q3 Do Board members agree that transitional requirements are needed to permit Tier 2 entities currently applying RDR to not provide any comparative information in the notes to the financial statements when they transition to revised RDR?

Q4 Do Board members agree that transitional provisions are not needed for Tier 2 entities for differences on the face of the financial statements when they transition to revised RDR?

Staff Analysis – Issue 3(b) Transitioning from Special Purpose Financial Statements to Tier 2 or between Tiers

24 Staff are of the view that no specific transitional requirements are needed for Tier 2 entities applying the proposed revised RDR for the first time.

25 In Australia, AASB 1053 *Application of Tiers of Australian Accounting Standards* contains the requirements for Tier 2 entities applying Australian Accounting Standards Reduced Disclosure Requirements for the first time.

26 In New Zealand, XRB A1 *Application of the Accounting Standards Framework* and NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* contain the requirements for entities applying Tier 2 Accounting Requirements in New Zealand for the first time.

Staff recommendation

27 Staff recommend that no new transitional provisions are needed, in addition to those that already exist, for transition from Special Purpose Financial Statements to Tier 2 or for transition between Tiers.

Question for Board members

Q5 Do Board members agree that no specific transitional requirements are needed for Tier 2 entities applying the proposed revised RDR for the first time?