



<b>To:</b>	<b>AASB members</b>	<b>Date:</b>	12 May 2010
<b>From:</b>	<b>Ahmad Hamidi &amp; Lisa Panetta</b>	<b>Agenda Item:</b>	4.1
<b>Subject:</b>	<b>Differential reporting</b>	<b>File:</b>	P 52

## Action

Consider submissions on ED 192 (and related Consultation Paper), and a collation thereof, with a view to directing staff on progressing the project.

## Background

ED 192 *Revised Differential Reporting Framework* and AASB Consultation Paper *Differential Financial Reporting – Reduced Disclosure Requirements* were issued on 26 February 2010 for comment by 23 April 2010.

A total of 41 substantive submissions and 37 identical email comments have been received. The submissions and a staff collation of them have already been mailed out to members.

Roundtables on the proposed revised differential reporting framework were held in Sydney and Melbourne on 5<sup>th</sup> and 7<sup>th</sup> of May respectively. At the May meeting staff will present an outline of the outcomes of the Roundtable discussions.

## Issues where Board decisions are needed

### *Issue 1: Revised differential reporting Framework*

There is considerable support for a revised differential reporting framework amongst constituents. Some, however, think the current differential reporting regime would suffice.

### *Question 1:*

Do you agree with introducing a revised differential reporting framework?

### *Issue 2: Two-tier reporting Framework*

ED 192 proposes two tiers of reporting requirements for preparing general purpose financial statements (GPFs):

Tier 1: Full IFRSs as adopted in Australia; and

Tier 2: The Reduced Disclosure Regime (RDR).

The constituents' feedback shows there is near unanimous support for a two-tier reporting framework. A small number of commentators have proposed the consideration of a three-tier system. The third tier has generally been proposed for entities currently lodging special purpose financial statements (SPFSs) or small entities in the NFP sector.

## *Question 2:*

If the answer to question 1 is positive, how many tiers should be included in the revised differential reporting framework?

## *Issue 3: RDR or the IFRS for SMEs as Tier 2*

Under a two-tier reporting system, the majority supported the proposed RDR, but a minority supported having the *IFRS for SMEs* as an option in addition to RDR. Amongst those supporting the RDR, there is near unanimous support for an RDR for existing GPFS preparers that satisfy the criteria to report under Tier 2.

## *Question 3:*

If you agree with a two-tier Framework:

- (a) which set of requirements (RDR or the *IFRS for SMEs*) do you support; or
- (b) do you support allowing both the RDR and the *IFRS for SMEs* in the second tier and, if so, would you restrict access to the *IFRS for SMEs* to particular entities?

## *Issue 4: Identifying entities falling under each tier*

ED 192 proposes that the notion of public accountability (as defined by the IASB and supplemented by additional examples from the Australian context) be used to determine for-profit entities that must apply Tier 1 and those that have a choice of applying Tier 1 or Tier 2.

In relation to not-for-profit private sector entities, it is proposed that the default position for such entities should be to report under Tier 2 unless the relevant regulator requires Tier 1 reporting.

In regard to public sector entities, whether for-profit or not, ED 192 proposes deeming whole of governments, local governments and universities as Tier 1 entities and the remaining entities would be able to report under Tier 2 unless the relevant regulator requires Tier 1 reporting.

There was considerable support from constituents for using public accountability to distinguish for-profit private sector entities that must apply Tier 1 from those that have a choice of applying Tier 1 or Tier 2. There was also considerable support for the proposals in relation to both NFP private sector and public sector entities, although some suggested that GBEs be required to apply Tier 1 reporting.

## *Question 4:*

If you agree with two tiers, how would you identify entities reporting under each tier (including deeming in the public sector)?

## ***Issue 5: Disclosures under the RDR***

ED 192 notes the AASB used the following approach in determining disclosures under the RDR:

- (a) following the *IFRS for SMEs* approach to reduce disclosures in cases where the recognition and measurement requirements under the proposed RDR align with those available under the *IFRS for SMEs*; and
- (b) applying the ‘user need’ and ‘cost-benefit’ principles of the *IFRS for SMEs* (that is, the same principles used by the IASB in determining disclosures under the *IFRS for SMEs*) to arrive at reduced disclosure requirements in cases where the recognition and measurement requirements under the RDR differ from those under the *IFRS for SMEs*.

Virtually all respondents that agreed to the RDR supported the basis on which the disclosure requirements were determined. Some respondents to ED 192 identified disclosures that were proposed to be included in the RDR that they consider should be excluded. Others identified disclosures that were proposed to be excluded from the RDR that they consider should be included. These comments are outlined in Agenda paper 4.2, under Question (g).

### ***Question 5:***

Do you think that, in determining disclosures under the RDR, the above approach has been applied appropriately?

## ***Issue 6: Transitional provisions***

ED 192 proposes transitional provisions for entities applying Tier 1 or Tier 2 for the first time and for moving between Tiers. Many respondents support the transitional provisions. Others have proposed extending the mandatory application date or further simplifying transition for those entities that move from SPFSs to GPFSs for the first time. The proposed transitional requirements appear in paragraphs 39 to 41 of ED 192.

### ***Question 6:***

Do you think the proposed transitional provisions are appropriate?

## **The way forward**

Based on the feedback from constituents, there is considerable support for the Board’s clarification of GPFSs in the Australian context. While there is near unanimous support for an RDR for existing GPFS preparers that satisfy the criteria to report under Tier 2, there is concern about the likely costs associated with entities that presently prepare SPFSs and would need to prepare GPFSs under the proposals.

Some commentators have noted it may be helpful to allow a reasonable period for regulators to consider the implications of the Board’s clarification of GPFSs in the Australian context, and for them to possibly modify their statutory frameworks to instead require SPFSs going forward.

Others noted that a reasonable transitional period would allow entities such as trusts that may inadvertently be required by the proposed clarification to prepare GPFSs because their trust deeds refer to ‘preparation of financial statements in accordance with accounting standards’ to amend their trust deeds.

Staff note that the introduction of a second tier of GPFS requirements is independent of the

issue of the financial statements that are considered to be general purpose in the Australian context. At the same time there is concern that the Board's clarification of GPFs would put an additional cost burden on some SPFS preparers.

A number of roundtable participants see merit in breaking the project into stages, with the first stage devoted to facilitating early adoption of the RDR for those entities currently preparing GPFs. They see the removal of SPFSs from the AASB's framework as requiring more time and/or research.

Staff is of the view that there are at least three possible options for making further progress:

**Option 1:** go ahead with implementing the ED 192 proposals as a whole.

**Option 2:** go ahead with the introduction of the RDR and defer the change of application focus from the reporting entity to GPFs and the clarification of GPFs in the Australian context for a short period with a view to gathering further evidence about the viability of the current differential reporting system and the impact of the Board's proposals on SPFS preparers. Staff note that any information gathered in the short term could also be utilised in relation to Option 1.

**Option 3:** defer the introduction of the revised differential reporting regime for a few months to enable further research to gather evidence noted under option 2. Implicit in this approach is that the RDR would be unlikely to be available for early adoption for 30 June 2010 year ends.

## Draft Standards

For the purpose of preparing a draft application Standard and a draft Amending Standard staff have assumed the Board proceeds with Option 1. This has been done on the basis that it may be necessary to facilitate their publication in time for entities wishing to early adopt the RDR for 30 June 2010 year ends. Should the Board decide otherwise, staff will revise these draft Standards accordingly.

## Attachments

Agenda paper 4.2	Collation of submissions on ED 192 (already sent)
Agenda paper 4.3	Submissions on ED 192 (already sent)
Agenda paper 4.4	Draft Application Standard
Agenda paper 4.5	Draft Amending Standard