



To:	AASB members	Date:	16 August 2010
From:	Ahmad Hamidi	Agenda Item:	13.3
Subject:	The process of developing RDR proposals	File:	P 52

Action

Agree on:

- (a) the process that should be followed in developing the RDR proposals in respect of new and revised Standards; and
- (b) the key points that should be included in the Policy Statement *AASB Policies and Processes* in relation to developing RDR proposals.

Background

1. During the first stage of the differential reporting project, when the RDR versions of the then existing Standards were being developed, staff drafted the proposed RDR disclosures on the basis of an analysis that applied the following general approach:
 - (a) drawing directly on the *IFRS for SMEs* when the RDR recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and
 - (b) using the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when the RDR recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.
2. A set of principles operationalising the general approach was used in developing disclosures under the RDR. These principles, which were included in Appendix C to ED 192 *Revised Differential Reporting Framework* (and are attached) were adhered to during redeliberation of the proposed RDR disclosures in the light of comments received. The gist of the general approach and related principles is incorporated in the Basis for Conclusions accompanying AASB 1053 *Application of Tiers of Australian Accounting Standards*, paragraphs BC76 to BC80.

3. In finalising ED 192 draft proposed RDR disclosures were reviewed by all members out of session. During redeliberation of RDR proposals, a Subcommittee reviewed draft amendments to proposed RDR disclosures.

The Process for new and revised Standards

4. Staff recommend that the same principles should continue to be used in determining the RDR disclosures relating to new or revised Standards.
5. AASB 1053, paragraph BC98 states:

The Board decided that Tier 2 requirements should be maintained on a continuous basis, rather than waiting for the IASB to update its *IFRS for SMEs*, which the IASB plans to undertake only every few years, by which time there would be an accumulation of possible changes. The AASB intends that each future Exposure Draft or Invitation to Comment involving changes to Tier 1 that includes disclosure proposals would seek comment about which disclosures should be included in Tier 2, and may include the AASB's proposed reduced disclosures.
6. In relation to the domestic EDs, the analysis and drafting of proposed disclosures under the RDR should begin as soon as the drafting of the ED reaches a stage where the proposed disclosures under the ED are not expected to undergo any material changes. The process should be planned and managed in a manner to ensure the exposure of the proposed RDR disclosures as part of each ED or soon afterwards.
7. In developing an AASB ED that incorporates an IASB ED, the analysis of proposed disclosures for the purposes of the RDR needs to start at the earliest feasible stage. This stage may be the ballot draft stage or an earlier stage when no further material changes to disclosures proposed in the pending IASB ED are expected.
8. In cases where the IASB's proposed disclosures are simple and few in number, it may be possible to include RDR proposals in the AASB ED that incorporates the IASB ED. However, in most cases staff expect that the nature of IASB ED disclosure proposals will necessitate a separate disclosure document outlining RDR disclosure proposals to avoid a delay in the publication of an IASB ED.
9. In general, RDR proposals would involve:
 - (a) the analysis of proposed disclosures in an IASB ED using the principles (see attached Agenda paper 13.3.1);
 - (b) identification of disclosures to be excluded from the RDR and any RDR paragraphs to be included in the RDR; and
 - (c) using the shading tool to depict the disclosures that the AASB proposes to be excluded from the RDR.

10. Ideally, the Board would have an opportunity to opine on the proposed RDR disclosures relating to an IASB ED. To facilitate the staff analysis and expedite making RDR disclosure proposals, staff recommend that the Chairman should have the discretion to:
- (a) seek to have the disclosure proposals reviewed by a Subcommittee of the Board (if relatively straight forward); or
 - (b) seek to have the disclosure proposals reviewed by all Board members.
11. Staff recommend that a new standard section in the Preface to each AASB ED (including those that incorporate IASB ED) informs readers about the introduction of Tier 2 into the Australian reporting environment and the process that will be used to seek comment on RDR disclosure proposals. The following wording is recommended for this new section:

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

Below are the AASB's RDR disclosure proposals in respect of this ED:

OR

A separate consultative document is being issued for comment shortly after the issue of this ED outlining the AASB's RDR disclosure proposals in respect of this ED.

12. The document that exposes the RDR proposals would state that the proposed retention in the RDR, or exclusion from RDR, of a disclosure proposed in an IASB ED is not an indication of the AASB's support or otherwise of the IASB's proposal.
13. Staff recommend that the Policy Statement *AASB Policies and Processes* include the following description:

Process of determining and exposing disclosures under Tier 2

The following general approach is applied in determining disclosures under Tier 2:

- (a) drawing directly on the *IFRS for SMEs* when the RDR recognition and measurement requirements are the same as those under the *IFRS for SMEs*; and

- (b) using the ‘user need’ and ‘cost-benefit’ principles applied by the IASB in developing its *IFRS for SMEs* when the RDR recognition and measurement requirements are not the same as those available under the *IFRS for SMEs*.

Tier 2 requirements are maintained on a continuous basis, rather than waiting for the IASB to update its *IFRS for SMEs*. Comment is sought about which proposed disclosures in each ED (domestic or incorporating an IASB ED) should be excluded from Tier 2 and the AASB seeks comment on its proposed reduced disclosures as part of the ED or in a separate document.

A document setting out the principles used in applying the general approach in determining proposed disclosures under Tier 2 is available on the AASB website.

Communicating with interested parties

- 14 The staff recognise that it will take some time for constituents to appreciate the embedding of RDR within each project and that repetitive communication will be needed to drive home the messages. It is expected that when an AASB ED incorporating an IASB ED is released, with an RDR version to come, we will need to be very clear about the planned sequence. We will also need to indicate that, when the *IFRS for SMEs* is revised, we will produce an ED to cover RDR implications. Additionally, articles and presentations will be used to reinforce the messages, as will roundtable discussions.

Attachment:

Agenda paper 13.3.1 Principles Used in Developing RDR Disclosures