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Ms Kris Peach FCA
Chair, Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Via email: standard@aasb.gov.au

Dear Ms Peach

Submission on Exposure Draft ED 277: Reduced Disclosure Requirements for Tier 2 Entities

Thank you for the opportunity to provide a submission on the Exposure Draft ED 277: Reduced Disclosure Requirements for Tier 2 Entities ("the ED").

The Australian Institute of Company Directors (AICD) is committed to excellence in governance. We make a positive impact on society and the economy through governance education, director development and advocacy. Our membership of more than 40,000 includes directors and senior leaders from business, government and the not-for-profit sectors.

We understand that the Australian Accounting Standard Board's ("AASB") post-implementation review has revealed a low adoption of the Reduced Disclosure Requirements ("RDR") framework. The review revealed that disclosure reductions in the current framework (using the IFRS for SMEs as a base) were not sufficient to encourage many organisations to change to RDR. Therefore, the AASB consider there exists a need to refine the principles for determining the level of RDR to achieve a better cost versus benefits outcome.

The AICD would prefer to see any change to the RDR framework to be evidence based. Whilst some informal consultation with users appears to have occurred, we would encourage a full analysis identifying the users of for-profit versus not-for-profit financial reports (perhaps separating these sectors into private sector versus government sector), and specific consultation to determine their specific needs.

Without a clear indication of user needs for these type of financial reports, the benefits of changing the RDR framework do not seem clear over the implementation cost for organisations already adopting RDR in Australia.

Further, the AICD does not consider that proposed changes to the RDR framework should be done in isolation of the broader review of the financial reporting framework. The financial reporting framework is in need of review as a priority. The reporting thresholds for proprietary companies were last updated in 2007. Thresholds for public company limited by guarantee companies were last updated in 2010. In the AICD's view, these thresholds should be reviewed and updated considering international developments and the extent of economic significance of such entities in the Australian economy.

Further, in 2014 the AASB Research Report No. 1 raised ‘some fundamental questions about the adequacy of financial reporting by entities that do not have ‘public accountability’. A review should consider who is required to prepare a financial report and what type of financial report is required to be prepared. Until that work is undertaken, it is unclear what type of entities the RDR are intended to apply to and as such the user needs are unable to be clearly determined.

In addition to the above comments, on the basis that the Australian Accounting Standards Board (“AASB”) intends to proceed with the proposed amendments, we have commented specifically on the individual questions in Attachment A.

We hope our comments will be of assistance to you. If you would like to discuss any aspect of this submission, please contact Kerry Hicks, Senior Policy Adviser, on (02) 8248 6635 or at khicks@aicd.com.au.

LOUISE PETSCHLER
General Manager, Advocacy

ATTACHMENT A: RESPONSES TO THE SPECIFIC MATTERS FOR COMMENT

1. **Do you agree with the overarching principles on which the proposed RDR decision-making framework identified in the proposed joint Policy Statement is based (that is, user needs and cost-benefit)? If you disagree, please explain why (see [draft] joint Policy Statement paragraph 6 fo this ED)**

   We agree with the overarching principles identifed in paragraph 6 of the ED, being:
   (a) The information provided by the financial statements meets user needs; and
   (b) The benefits of providing the disclosures exceed the costs.

2. **Do you agree with the two Key Disclosure Areas identified in the proposed join Policy Statement as being essential for meeting user needs? If you disagree with either Key Disclosure Area (including any of the specific disclosures about transactions and other events significant or material to understanding the entity's operations as represented by the financial statements), please explain which one(s) you disagree with and why? (see [draft] joint Policy Statement paragraph 8 to this ED)**

   We consider that this question should be the subject of further consultation linked to the identification of users and the determination of their specific needs – considering both the for-profit and not-profit sectors separately. The not-for-profit sector should be further considered from a public sector versus private sector perspective.

   We note the original disclosure reductions made within IFRS for SMEs were based on the following principles which identified users' interest in information about:

   - Short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;
   - Liquidity and solvency;
   - Measurement uncertainties;
   - The entity's accounting policy choices;
   - Disaggregation of amounts presented in the financial statements; and
   - Transactions and other events and conditions encountered by such entities.

   The above areas were determined through international consultation when the IFRS for SMEs standard was first being developed.

   We note the AASB have expanded the key disclosure areas in this ED to specifically cover risks, judgements, impairment, related parties and subsequent events. We note that this expansion has had the effect of adding disclosures to the RDR in certain standards, which include AASB 7 *Financial Instruments: Disclosures,* AASB 12 *Disclosure of Interests in Other Entities,* AASB 119 *Employee Benefits,* AASB 124 *Related party Disclosures*, AASB 127 *Separate Financial Statements* and AASB 136 *Impairment of Assets.*

   We do not consider there is a need for increasing disclosures in all these areas, as we cannot clearly identify how these additional areas relate to 'user needs'. Therefore, we recommend a comprehensive study of user identification and user needs is undertaken before finalising the Key Disclosure Areas.

3. **Do you agree with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities? If you disagree, please explain why (see the [draft] joint Policy Statement to this ED). In relation to the proposed joint Policy Statement the AASB is particularly seeking to know whether the disclosures required of not-for-profit entities are appropriate relative to the disclosures required of for-profit entities.**

   Refer to our answer provided in question 2.

4. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies? If you disagree, please explain why? (see [draft] joint Policy Statement Aus 12.1 to this ED).**

   We agree with the AASB approach regarding disclosures about accounting policies. This approach is to rely on the general requirements for disclosure of accounting policies in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* rather than repeating accounting policy disclosure requirements contained in other specific standards.

   This may require some simplified user communication (perhaps in the form of a flow chart) to indicate that the lack of a specific provision does not mean that an accounting policy is not required, and they need to assess the requirement of an accounting policy within the context of AASB 101 and AASB 108 applying materiality principles.

   However, if this approach is taken in respect of the disclosures about accounting policies it would be useful and consistent to also use this approach in respect of disclosures about estimation uncertainty. For example, AASB 101 contains a general requirement regarding the source of estimation uncertainty (paragraph 125). However, the proposed RDR framework includes also specific disclosures regarding uncertainities (such as paragraph 85(b) of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets,* assumptions in paragraph 134 of AASB 136 *Impairment of Assets* and paragraph 9 of AASB 12 *Disclosure of Interests in Other Entities.*

   We note in both the areas identified above, it would be helpful if Australia and New Zealand had a consistent approach.

5. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements? If you disagree please explain why (see [draft] joint Policy Statement paragraph Aus 25.1 to this ED).**

   We agree with this approach. This approach is to reduce some of the guidance for Tier 2 entities where it is considered unnecessary. However, we consider that Australia and New Zealand should adopt the same approach.

6. **Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus 29.1 to this ED).**

   We agree with this approach. This approach is to reduce the cross-referencing to other standards where this cross-referencing is general in nature. However, we consider that Australia and New Zealand should adopt the same approach.

7. **Do you agree with the outcome of the application of the proposed joint Policy Statement to the disclosure requirements in Australian Accounting Standards to determine the disclosures that Tier 2 entities should be required to provide? (See Proposed Tier 2 Disclosures). If you disagree with the outcome, please identify, with reasons:**
   - **(a) Which disclosures that are not identified as requirements that you believe Tier 2 entities should not be required to provide; and**
   - **(b) Which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide.**

We have not been through every proposed disclosure in every standard and assessed it against the Proposed joint Policy Statement. However, we have undertaken this task for some of the standards. The AICD considers that the current application of the proposed joint Policy Statement has not resulted in a significant enough reduction to the disclosure requirements for Tier 2 entities when compared to Tier 1 entities.

In our comparison we noted some disclosures that were required in the proposed Tier 2 RDR Framework that did not meet the Key Disclosure Areas. The rationale for these type of disclosures commonly was explained as follows - "Paragraph….is not a Key Disclosure Area. However, the presumption that the costs of providing the disclosure exceed the benefits is rebutted because the information helps users…..". We do not support situations where the presumption is rebutted, especially without evidence of specific user needs, and therefore we recommend removal of such disclosures.

Further, while liquidity and solvency is a proposed Key Disclosure Area, it was also a key part of the IFRS for SMEs framework. Therefore, we would not expect to see new disclosures being included in the proposed ED relating to liquidity and solvency. However, we identified significant additional disclosures being proposed with the rationale provided that it met the 'liquidity and solvency' Key Disclosure Area (these were found in AASB 7 and AASB 12). We encourage the review of such additional disclosures to determine whether the disclosures proposed are material.

We encourage both boards to revisit the application of the proposed joint Policy Statement with a greater focus of consistency between the two boards based on what is considered material and significant, with reference to a appropriate identification of users and analysis of their needs.

8. **Which approach do you prefer for identifying RDR for Tier 2 entities:**
   - **(a) The approach taken in this ED with the Proposed Tier 2 Disclosures to include an Australian Appendix in each Australian Accounting Standard that identifies the disclsoures that Tier 2 entities are required to provide; or**
   - **(b) Use the approach taken in the New Zealand ED to use an asterisks (*) for disclosures that are not required and explaining partial concessions by means of an RDR paragraph. The approach taken in the New Zealand ED is illustrated in the Appendix A to this ED.**

We do not support approach (a) because this approach would duplicate content and contribute to the length of each accounting standard. We also consider this approach would be a challenge for preparers when applying standards – having to move between the standard and the appendix when applying, presenting and disclosing information. We consider that mandatory disclosure requirements should be contained in the main body of the accounting standard.

The current shading approach in Australia has not been subject to any complaints and it works well. Disclosures are shaded when the disclosure is not required by Tier 2 entities. We do not see a need to change this approach.

However, we do consider that Australia and New Zealand should adopt the same approach in this regard.

9. Do you agree that when an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements, both presentation and disclosures requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entiities are required to provide? If you disagree, please explain why?

As outlined in our response to question 8, we do not agree with the use of an appendix to identify which disclosures Tier 2 entities are required to provide.

10. Do you agree that, once approved, the amended Tier 2 disclosure requirements should be effective for annual periods beginning on or after 1 January 2019 with early application permitted? Early application is permitted for periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 Investment Property permitted when an entity first applies AASB 16 Leases), with AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors as revised by this [draft] Standard applied at the same time an entity first applies a Standard that is revised by this [draft] Standard.

We agree with the effective date.

11. The Exposure Draft does not propose any specific transition requirements. Do any issues warrat trannsitional provisions and, if so, what transitional provisions do you suggest?

We are not aware of any specific transition issues.

12. Do you think that when approved, the amended Tier 2 disclosures would encourage eligible entities that currently:

(a) Prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements; and

(b) Prepare Tier 1 General Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements?

In our view the amended Tier 2 disclosures would not encourage eligible entities identified in (a) and (b) above to prepare Tier 2 General Purpose Financial Statements. The AICD considers that entities will unlikely incur the cost to change their current approach unless they can see significant cost savings – which the proposed RDR does not achieve.

13. The AASB would particularly value comments on whether:

(a) There are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?

(b) Overall, the proposals would result in reporting that would be useful to users?

(c) The proposals are in the best interests of the Australian economy?

The AICD considers that users will differ and their needs will differ for private NFPs versus government NFPs. Therefore these sectors will need to approached differently.

Whether such reporting is useful to users needs to be determined by comprehensive analysis with identified users, taking sector approach.

The AICD cannot determine whether these proposals, made in isolation of the review of the whole financial reporting framework, are in the best interests of the Australian economy without further research undertaken on users and their specific needs. Without such analysis, it is difficult to see how changing the current requirements will benefit organisations since it will only increase their costs in converting to the new RDR Framework.

Any changes to the RDR framework would be best achieved together with a review of the whole financial reporting framework which would include an update on who is required to prepare and lodge financial reports and what form of financial report is required to be lodged.