ACAG Australasian Council of Auditors-General

29 March 2018

Ms. Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

By email: standard@aasb.gov.au

Dear Kris

Invitation to Comment ED 284 *Recent Standards – Reduced Disclosure Requirements*

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on *ED 284 Recent Standards – Reduced Disclosure Requirements*. The views expressed in this submission represent those of all Australian members of ACAG.

ACAG suggests that when considering potential RDR disclosure exemptions, the Australian Accounting Standards Board (AASB) consider not just individual disclosure requirements against RDR criteria but also consider whether existing disclosures not subject to RDR would be considered as meeting a Tier 2 user's needs.

ACAG believes the proposed timeframes may be difficult for agencies to achieve.

ACAG notes that Reduced Disclosure Requirements is not applied in Victoria.

ACAG appreciates the opportunity to comment and trust that you will find the attached comments useful.

Yours sincerely

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Specific matters for comment

1. **Do you agree with the proposed RDR concessions for AASB 16 *Leases*? If not, please provide reasons?**

ACAG's comments on this matter are in the attached Table.

2. **Do you agree with the proposed RDR concessions for AASB 1058 Income of Not-for-Profit entities? If not, please provide reasons?**

ACAG's comments on this matter are in the attached Table.

3. **Do you agree with that RDR concessions are not required for AASB 1059 *Service Concession Arrangements: Grantors*? If not, please provide reasons?**

ACAG agrees with this proposal.

4. **Do you agree with the proposed effective date of annual periods beginning on or after 1 January 2019 (with early adoption permitted)? If not, please provide reasons?**

ACAG supports the proposal.

5. **Do you have any other comments on the ED proposals?**

ACAG suggests that when considering potential RDR disclosure exemptions, the Australian Accounting Standards Board (AASB) consider not just individual disclosure requirements against RDR criteria but also give consideration to whether existing disclosures not subject to RDR would be considered as meeting a Tier 2 user's needs. For example, AASB 1058.32 may be considered sufficient disclosure to meet Tier 2 user needs and consequently a relevant basis for applying RDR to AASB 1058.33-35.

ACAG does not support using RDR to remove disclosures that are already discretionary. For example, AASB 1058.37 'encourages' entities to disclose information about restrictions. Making discretionary disclosures subject to RDR discourages entities in using judgement and encourages a 'shopping list' mentality to financial statement preparation. The AASB should retain the principle of RDR being the 'minimum' reporting requirement with entities still needing to consider whether additional disclosures are necessary to support user understanding of statements.

It is unclear as to the purpose of including RDR for 'application guidance' e.g. Appendix B of AASB 16. If a particular disclosure is not required under RDR then the guidance is already redundant.

General matters for comment

6. **Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
    a. **not-for-Profit entities; and**
    b. **public sector entities.**

ACAG is not aware of any regulatory issues that may affect the implementation of the proposals in ED 284.

ACAG believes the proposed timeframes may be difficult for agencies to achieve.

7. **Whether, overall, the proposals would result in financial statements that would be useful to users.**

ACAG is not in a position to comment on whether the proposals would result in financial statements that would be useful to users.

8. **Whether the proposals are in the best interest of the Australian economy.**

ACAG is not in a position to comment on whether these proposals are in the best interests of the Australian economy.

9. **Unless already provided in response to specific matters for comments above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.**

ACAG does not provide any comment about costs or cost savings.

Appendix A

Analysis of Disclosure Requirements in AASB 16 *Leases* with a View to Determining Tier 2 Disclosure Requirements

AASB 16 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comments
53 A lessee shall disclose the following amounts for the reporting period: (h) additions to right-of-use assets;	Paragraph 53(h) requires disclosure of additions to right-of-use assets for the reporting period. It does not specifically meet any particular user needs. Therefore reduce paragraph 53(h) for Tier 2 entities. The *IFRS for SMEs* Standard requires similar disclosures in paragraphs 20.14 and 20.31 in relation to leases and in paragraph 17.31(e)(i) in relation to property, plant and equipment. This is consistent with AASB 117/NZ IAS 17 paragraph 32 and with AASB 116/NZ IAS 16 paragraph 73(e)(i), which require disclosure of additions and are retained for Tier 2 entities under the current RDR framework. This would suggest retaining AASB 16/NZ IFRS 16 paragraph 53(h) for Tier 2 entities. However, applying the current RDR framework, should reduce paragraph 53(h) for Tier 2 entities on the basis of limited utility to users.	ACAG consider that this disclosure should be retained. If the item is not material then AASB 101 would apply and disclosure would not be required.
54 A lessee shall provide the disclosures specified in paragraph 53 in a tabular format, unless another format is more appropriate. The amounts disclosed shall include costs that a lessee has included in the carrying amount of another asset during the reporting period. 54.1 The amounts disclosed in accordance with paragraph 53 shall include costs that a lessee has included in the carrying amount of another asset during the reporting period.	Paragraph 54 specifies the disclosure format for paragraph 53 and a measurement requirement. The first sentence is treated as a disclosure requirement that does not meet any user needs, given its non-directive nature. The *second sentence* is treated as a measurement rather than a disclosure requirement. Therefore reduce the *first sentence* and retain the *second sentence* of paragraph 54 for Tier 2 entities by means of an RDR paragraph. Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.	Reference to the tabular format should be retained. ACAG considers that removing the 'tabular' format requirement is counter-productive, given that feedback provided to IFRS 16 BC.228 indicates that this is the best format. Removing guidance, so as to leave preparers with no guidance, is of no assistance to preparers. The analysis here is not consistent with that accompanying AASB 1059.29 which states that RDR addresses only disclosure requirements and does not address presentation requirements.

AASB 16 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comments
60 A lessee that accounts for short-term leases or leases of low-value assets applying paragraph 6 shall disclose that fact.	Paragraph 60 requires disclosure of an accounting policy choice. It meets user needs regarding the entity's accounting policies. Therefore retain paragraph 60 for Tier 2 entities. Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such disclosure requirements.	ACAG notes the analysis is not consistent with ED 277 where the AASB commented that 'the AASB has decided to rely on the requirement in AASB 101 and AASB 108 for disclosures about accounting policies. Para 60 is reduced in AASB 16 – the requirements of paragraph 117 of AASB 101 are sufficient.'
91 A lessor shall provide the disclosures specified in paragraph 90 in a tabular format, unless another format is more appropriate.	Paragraph 91 specifies the disclosure format for paragraph 90. It does not meet any user needs, given its non-directive nature. Therefore reduce paragraph 91 for Tier 2 entities. Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.	Refer to comments for AASB 16.54.
Appendix B **Lessee disclosures (paragraph 59)** B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for using extension options or termination options and the prevalence of those options; (b) the relative magnitude of optional lease payments to lease payments;	Paragraph B50 provides guidance to meeting the disclosure objective specified in paragraph 51. Treated as guidance relating to disclosures in paragraph 59 that are retained. However, the cost of providing some of the detailed disclosures would be likely to exceed the benefits. Therefore retain paragraph B50 for Tier 2 entities only in part. Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.	Unclear why this RDR is required as it disclosure is already optional e.g. 'could include' and B50 is provided as guidance. ACAG would expect preparers to exercise discretion when considering the applicability of B50 guidance. It is unclear as to the basis for concluding that the cost is likely to exceed the benefits. ACAG consider that the more relevant consideration is the absence of public accountability and the presence of users able to seek additional information outside of financial statements.

AASB 16 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comments
B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for providing residual value guarantees and the prevalence of those guarantees; (b) the magnitude of a lessee's exposure to residual value risk; the nature of underlying assets for which those guarantees are provided; and other operational and financial effects of those guarantees.	Paragraph B51 provides guidance to meeting the disclosure objective specified in paragraph 51. Treated as guidance relating to disclosures in paragraph 59 that are retained. However, the cost of providing some of the detailed disclosures would be likely to exceed the benefits. Therefore retain paragraph B51 for Tier 2 entities only in part. Neither the *IFRS for SMEs* Standard nor AASB 117/NZ IAS 17 include such requirements.	Refer to comments for AASB16.B50
B52 Additional information relating to sale and leaseback transactions that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example: (a) the lessee's reasons for sale and leaseback transactions and the prevalence of those transactions; (b) key terms and conditions of individual sale and leaseback transactions; **(c)** payments not included in the measurement of lease liabilities; and **(d)** the cash flow effect of sale and leaseback transactions in the reporting period.	Paragraph B52 provides guidance to meeting the disclosure objective specified in paragraph 51. Treated as guidance relating to disclosures in paragraph 59 that are retained. However, the cost of providing the detailed disclosures would be likely to exceed the benefits. Therefore reduce paragraph B52 for Tier 2 entities. The *IFRS for SMEs* Standard requires disclosures for lessees and lessors for sale and leaseback transactions. These disclosures could be required under paragraphs 20.13(c) and 20.16(c) as part of the general description of significant leasing arrangements. This is consistent with AASB 117/NZ IAS 17 paragraph 65, which is retained for Tier 2 entities under the current RDR framework. However, applying the current RDR framework and the cost-benefit principle, which takes precedence over corroboration with the *IFRS for SMEs* Standard, should reduce paragraph B52 for Tier 2 entities.	Refer to comments for AASB 16.B50

Appendix B

Analysis of Disclosure Requirements in AASB 1058 Income of Not-for-Profit Entities with a View to Determining Tier 2 Disclosure Requirements

AASB 1058 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comment
27 To assist users to make informed judgements about the contribution of volunteer services and inventories to the achievement of the entity's objectives during the reporting period, and the entity's dependence on such contributions for the achievement of its objectives in the future, an entity is encouraged to disclose qualitative information, by major class of transaction, about the nature of the entity's dependence arising from: (a) volunteer services it receives, including those not recognised; and (b) inventories held but not recognised as assets during the period.	Paragraph 27 encourages entities to disclose qualitative information by major class of transaction. Encouraged disclosures are reduced. Therefore reduce paragraph 27 for Tier 2 entities.	Making discretionary disclosures subject to RDR implies that entities do not have to consider whether the disclosures may be useful to users, this is not consistent with the principle that RDR is a 'minimum' set of disclosures. ACAG is also concerned that removing discretionary considerations will encourage a 'shopping list' approach to financial statement preparation. AASB 101.117-124 already provide that immaterial information may be removed regardless of whether or not AAS identifies the disclosures as required.
33 An entity shall disclose an explanation of when it expects to recognise as income any liability for unsatisfied obligations as at the end of the reporting period. An entity may disclose this information in either of the following ways: (a) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining obligations; or (b) through qualitative information.	Paragraph 33 requires disclosure of expected recognition of income arising from unsatisfied obligations. It meets user needs regarding obligations, commitments and contingencies. Therefore retain paragraph 33 for Tier 2 entities.	Should be subject to RDR. The general explanation of when the entity typically satisfies its performance obligations (AASB 1058.32) should be sufficient for a Tier 2 user. Similar disclosures in AASB 15 are subject to RDR (refer to AASB 15.120).
34 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of income arising from transfers to enable an entity to acquire or construct a recognisable non-financial asset to be controlled by the entity. In particular, an entity shall explain the judgements, and changes in the judgements, made in determining the timing of satisfaction of obligations (see paragraphs 35 and 36).	Paragraph 34 requires disclosure of judgements. It meets user needs regarding the entity's accounting policy choices and measurement uncertainties. However, the disclosure requirements in AASB 101 cover sources of estimation uncertainty and are retained for Tier 2 entities. Costs may exceed benefits as the disclosures in paragraph 34 may be more detailed than essential. Therefore reduce paragraph 34 for Tier 2 entities.	This proposal is not consistent with the approach taken in ED 277 for AASB 15.123 where the AASB retained these disclosures for Tier 2 entities on the basis that paragraph 123 was 'a Key Disclosure Area (significant estimates and judgements specific to a transaction or event) – the benefits of providing the disclosure exceed the costs'.

AASB 1058 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comment
35 For obligations that an entity satisfies over time, an entity shall disclose both of the following: (a) the methods used to recognise income (for example, a description of the output methods or input methods used and how those methods are applied); and **(b)** an explanation of why the methods used provide a faithful depiction of the entity's progress toward satisfying its obligations.	Paragraph 35 requires disclosure of the accounting methods to recognise income from satisfying obligations. It meets user needs regarding the entity's accounting policy choices. The benefits of disclosure are expected to exceed the costs in paragraph 35(a). However the costs of making the disclosure required by paragraph 35(b) could exceed the benefits. Therefore retain paragraph 35(a) and reduce paragraph 35(b) for Tier 2 entities.	Agreed. ACAG notes that this approach is consistent with ED 277 proposals for AASB 15.124.
Restrictions 37 An entity is encouraged to disclose information about externally imposed restrictions that limit or direct the purpose for which resources controlled by the entity may be used. For example, an entity may elect to disclose an explanation of the judgements used in determining whether funds are restricted and any of, or any combination of, the following: (a) assets to be used for specified purposes; (b) components of equity divided into restricted and unrestricted amounts; and (c) total comprehensive income divided into restricted and unrestricted amounts – either on the face of the statement of profit or loss and other comprehensive income or in the notes.	Paragraph 37 encourages entities to disclose information about externally imposed restrictions. Encouraged disclosures are reduced. Therefore reduce paragraph 37 for Tier 2 entities.	ACAG does not support making discretionary disclosures subject to RDR (refer to AASB 1058.27 comments).

AASB 1058 Disclosure Requirement (and RDR Proposal)	Analysis and Proposal	ACAG Response/Comment
Appendix C: Effective date and transition **Effective date** C7 For the reporting period that includes the date of initial application, an entity shall provide both of the following additional disclosures if this Standard is applied retrospectively in accordance with paragraph C3(b): (a) the amount by which each financial statement line item is affected in the current reporting period by the application of this Standard as compared to AASB 1004 Contributions before the change; and **(b)** an explanation of the reasons for significant changes identified in paragraph C7 (a).	Paragraph C7 requires disclosure of a retrospective application of the Standard. It meets user needs regarding measurement uncertainties. The benefits of disclosure required by paragraph C7 (a) are expected to exceed the costs. However, the costs of making the disclosure required by paragraph C7 (b) could exceed the benefits. Therefore retain paragraph C7 (a) and reduce paragraph C7 (b) for Tier 2 entities.	This proposal to partially reduce is not consistent with the approach taken in ED 277 for AASB 15.C8 where the AASB reduced these disclosures for Tier 2 entities on the basis that paragraph C8 was ‘not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits’.

Appendix C

Analysis of Disclosure Requirements in AASB 1059 Service Concession Arrangements: Grantors with a View to Determining Tier 2 Disclosure Requirements

ACAG has no comments