

24 May 2017

Ms Kris Peach FCA
The Chair, Australian Accounting Standards Board
PO Box 204, Collins St West
Melbourne, Victoria 8007

By email: standard@asb.gov.au

Dear Kris

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

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the opportunity to comment on the Exposure Draft ("the ED"). We commend the Australian Accounting Standards Board (AASB) for taking this opportunity to work with the New Zealand Accounting Standards Board (NZASB) to jointly develop these proposals. In the finalising of the proposals we encourage the AASB to continue to liaise with the NZASB to ensure trans-Tasman harmonisation to the extent possible. Our responses to the specific questions raised in the ED are set out in Appendix A. Appendix B includes more information about CA ANZ.

We support the objective of the ED, and the proposals are a useful starting point. Against this backdrop of support, we are concerned that the proposals do not go far enough to differentiate Tier 1 and Tier 2 disclosure requirements to make Tier 2 a viable alternative to Special Purpose Financial Statements. To incentivise increased uptake of General Purpose Financial Statements, an obvious distinction between the two tiers must be apparent to preparers.

It is also difficult to make a meaningful assessment of the impact of the proposals given the Tier 2 disclosure project is part of a larger project to simplify and improve financial reporting in Australia. Therefore we recommend that either substantial reductions are made to the proposed disclosures for Tier 2 entities, or the proposals are revisited once the outcome of the project to reform financial reporting in Australia is known.

Should you have any queries concerning the matters in this submission, or wish to discuss them in further detail, please contact Zowie Pateman (Acting Reporting Leader) via email; zowie.pateman@charteredaccountantsanz.com.

Yours sincerely



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Appendix A: Responses to specific questions

- 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 to this ED).**

We agree with the overarching principles.

- 2 Do you agree with the two Key Disclosure Areas identified in the proposed joint 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 agree, in principle, with the two Key Disclosure Areas. However (ii) associated risks specific to a transaction or event; and (iv) significant estimates and judgements specific to a transaction or event are covered by (i) the nature of the transaction or event that makes it significant or material to the entity. On this basis we recommend that (ii) and (iv) are removed.

- 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.**

We agree with the proposed joint Policy Statement.

- 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 paragraph Aus12.1 to this ED)**

We refer to our response to question 8 and our support to retain the current method of shading to indicate which disclosures are not required by Tier 2 entities. On this basis, the suggested approach in the Policy Statement regarding disclosures about accounting policies could cause confusion if disclosures about accounting policies are required in AASB 101 or AASB 108 but are identified as a disclosure concession in a standard dealing with a specific type of transaction or event.

- 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 Aus25.1 to this ED).**

We agree with this 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 Aus29.1 to this ED).**

We agree with this 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 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 though every disclosure in every standard and assessed it against the proposed joint Policy Statement. However, overall we believe the current application of the proposed joint Policy Statement has not resulted in a significant enough reduction in disclosure requirements for Tier 2 entities when compared to Tier 1. Application of the proposed joint Policy Statement is highly judgemental, as evidenced by differences in the proposals between AASB and NZASB. We encourage both boards to revisit the application of the proposed joint Policy Statement with a greater focus on what is considered to be material and significant.

- 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 disclosures that Tier 2 entities are required to provide; or**
- (b) use the approach taken in the New Zealand ED to use an asterisk (*) 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.**

Of the two suggested options, we prefer approach (b) because approach (a) would duplicate content and contribute to the length of the standards. Also in our view the appendix approach may cause challenges for preparers having to move between the appendix and the body of the standard.

However, the current shading approach in Australia works well, so we are in favour of keeping the shading approach to indicate which disclosures are not required by Tier 2 entities. However, we do we encourage trans-Tasman harmonisation 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 disclosure requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities 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 warrant transitional provisions and, if so, what transitional provisions do you suggest?**

We are not aware of any 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 as currently proposed would not encourage eligible entities to prepare Tier 2 General Purpose Financial Statements.

Appendix B: About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations. We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation accounting professionals across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.