



Accounting Standards Review Board  
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28 April 2010

The Chairman  
 Australian Accounting Standards Board  
 PO Box 204  
 Collins Street West  
 Victoria 8007  
**Australian**

Dear Kevin

**COMMENTS ON AASB CONSULTATION PAPER ON DIFFERENTIAL FINANCIAL REPORTING –  
 REDUCING DISCLOSURE REQUIREMENTS**

**Introduction**

1. The ASRB is pleased to provide comment on the AASB Reduced Disclosure Regime (RDR) consultation paper and related Exposure Draft (ED 192). The ASRB welcomes the AASB's consideration of the differential reporting issue in Australia and considers it a useful step in the context of trans-Tasman convergence.
2. As the AASB is aware the ASRB is currently considering the future shape of accounting standards in New Zealand. This follows the release of our own Discussion Document entitled the "Proposed Application of Accounting and Assurance Standards under the Proposed New Statutory Framework for Financial Reporting". The ASRB is also very mindful of the Single Economic Market (SEM) statements made last year by Prime Ministers Rudd and Key and in particular the convergence outcomes for financial reporting, particularly in the for-profit space. Our comments are provided in the context of these two factors. Because of the strategic importance of the issues in the context of the SEM initiative we have copied this letter to the Financial Reporting Council and Australian Treasury.

**Tiered Reporting Approach**

3. The ASRB supports the proposed move to a differential reporting approach based on establishing explicit reporting tiers with different reporting requirements but within the overall umbrella of general purpose financial reporting. Such an approach has operated in New Zealand for the best part of 20 years, is widely supported by our constituency, and has proven to be a cost effective means of addressing cost-benefit reporting issues for smaller entities. The ASRB therefore supports the AASB's broad intentions in this regard.

**The New Zealand Situation**

4. As part of our Discussion Document on the accounting standards framework, the ASRB proposed the continuation of a tiered reporting approach in New Zealand and outlined some suggestions as to how that might operate in the future. Those suggestions included:

- A two tier structure for for-profit entities;
  - Defining which entities fall into which tier by reference to the IASB definition of public accountability;
  - Applying IFRS (rather than equivalents) to Tier 1; and
  - Outlining two alternative options for Tier 2 accounting standards (IFRS for SMEs or a Differential Reporting Regime) – respondents were asked for their views on the factors the Board should consider in deciding on which option is preferable.
5. The AASB will recognise both some similarities and some differences in these ASRB proposals compared to those in your Discussion Document.
  6. In relation to the Tier 2 accounting standards options, the ASRB Discussion Document did not refer to, nor was able to consider, the AASB's RDR proposals because the release of our document preceded yours. In this context it is important to note that the differential reporting option outlined in the ASRB Discussion Document described it as a regime "broadly along the lines of the current Differential Reporting Framework". The current New Zealand Differential Reporting (DiffRep) framework provides for some recognition and measurement differences as well as disclosure exemptions. It is therefore somewhat different from the RDR approach proposed in your Discussion Document.
  7. The feedback from respondents has been generally supportive of the approach outlined in our Discussion Document, particularly in relation to the proposals for a two tier structure, and the application of IFRS (rather than New Zealand equivalents) to for-profit entities. Respondents also expressed a general preference for the DiffRep IFRS option (including recognition and measurement differences) rather than IFRS for SMEs, although there was still some support for the latter.
  8. There was also considerable feedback on the proposal to use the IASB definition of public accountability to define the tiers. This was focused around two main areas: the narrowness of the IASB definition and in particular a desire to expand it to cover securities not traded in a public market; and a view that "public accountability" should be viewed wider than the financial markets dimension and include large for-profit public sector entities (State Owned Enterprises and the like) and possibly large for-profit non-issuers as well.
  9. The ASRB is currently in the process of reviewing the comments of respondents to its Discussion Document and considering the way forward. It has not yet formed a view on the issues outlined above and is very cognisant that an important factor to be taken into account in its considerations (in light of the SEM Outcome Statements) is trans-Tasman convergence. The release of the AASB's RDR Discussion Document is very timely and helpful in this context.

### **Developing a Joint Trans-Tasman Approach**

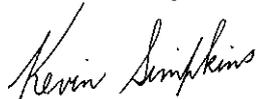
10. In the ASRB's view, in order to give effect to the SEM Outcome Statements, the first best option in relation to convergence for for-profit entity reporting is for the two jurisdictions to adopt approaches that are common in the following respects:
  - Same number of reporting tiers;
  - Same criteria for defining which entities should fall into which tier; and
  - Accounting standards that are substantively the same within each tier.
11. The current ASRB and AASB proposals, together with the work that is going on between the AASB and the FRBSB on converging IFRS equivalents, provide a useful starting point for establishing a common trans-Tasman for-profit entity reporting approach. Both jurisdictions are proposing the use of two tiers, both are proposing to use "public accountability" as the base criteria for the tiers, and both are considering broadly similar options for accounting standards for the tiers.
12. There are, however, important areas of detail where our respective proposals differ. The ASRB considers that net trans-Tasman benefits will be maximised through the establishment of a

common trans-Tasman approach. If this is to be achieved it will be important that the two jurisdictions work together to establish a unified approach in key areas, in particular:

- The definition of “public accountability” that will be used to define the tiers including the extent to which it is expanded from the IASB definition;
  - The harmonisation of accounting standards for Tier 1, including the extent to which the adoption of IFRS rather than country equivalents is a viable option;
  - The selection of the most appropriate option for accounting standards for Tier 2 over the short and medium terms including RDR, Differential Reporting with recognition and measurement differences, and IFRS for SMEs; and
  - The approach and timeline to achieve this.
13. In this context the ASRB would welcome the establishment of a process for the ASRB, FRSB, FRC and AASB to be able to work collaboratively on these issues.
14. In relation to timing, the ASRB notes the AASB’s proposal to issue a final pronouncement on the RDR by the end of June 2010. While the ASRB understands the rationale for this, it is concerned that this timeline will almost certainly preclude a joint consideration of the issues in the way outlined above. The ASRB encourages the AASB to reconsider the broader convergence agenda as part of the Board’s deliberations on the timing of implementation of its proposals.

We would of course be happy to discuss the comments in this submission with the AASB in more detail.

Yours sincerely



**Kevin Simpkins**  
Chairman

cc Chairman Financial Reporting Standards Board  
Chairman Financial Reporting Council  
Mr Jim Murphy, Markets Division, Australian Treasury