



10 Shelley Street  
Sydney NSW 2000

P O Box H67  
Australia Square 1213  
Australia

ABN: 51 194 660 183  
Telephone: +61 2 9335 7000  
Facsimile: +61 2 9335 7001  
DX: 1056 Sydney  
www.kpmg.com.au

Mr Kevin Stevenson  
The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Our ref Submission - Tier 2 Supplements  
31 Jan

31 January 2011

Dear Sir

**Submission - Tier 2 Supplement to ED 206, ED 204, ED 202R and ED 198**

We are pleased to have the opportunity to comment on the Tier 2 Supplement to ED 206 *Severe Hyperinflation*, Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets*, Tier 2 Supplement to ED 202R *Leases* and Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers*.

We appreciate the Board's efforts to expedite the process of updating the Tier 2 reporting requirements. However, in the event that the IASB, upon issuing the final standards, makes changes to the underlying exposure drafts to which the Tier 2 supplements relate, we believe that the AASB should consider re-exposing, for comment, the disclosures included in the final standards together with their analysis of whether or not the disclosures should be included in the Tier 2 reporting requirements.

**Executive Summary**

- We agree with the AASB disclosure proposals under the Tier 2 Supplement to ED 206 *Severe Hyperinflation*.
- In relation to the Tier 2 Supplement to ED 204 *Deferred Tax: Recovery of Underlying Assets* we note that the amendments to IAS 12 *Income Taxes* issued by the IASB in December 2010 did not include the disclosure required by the Tier 2 Supplement to ED 204 in paragraph 81(l). We would therefore expect that disclosure will not be required for Tier 2 entities.
- We broadly agree with the direction of the proposals on revenue and leases. Our detailed comments with respect to the Tier 2 Supplement to ED 202R *Leases* and the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* have been included in Appendix 1 and Appendix 2, respectively, to this letter.



*Australian Accounting Standards Board  
Submission - Tier 2 Supplement to ED 206, ED 204,  
ED 202R and ED 198  
31 January 2011*

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact me on (02) 9335 7630, or Michael Voogt on (02) 9455 9744.

Yours faithfully

A handwritten signature in black ink, appearing to read 'M McGrath', written in a cursive style.

Martin McGrath  
Partner In Charge, Department of Professional  
Practice

## Appendix 1 – Tier 2 Supplement to ED 202R *Leases*

### *Whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis*

#### *ED generally*

Before addressing the AASB disclosure proposals under Tier 2 we would like to draw your attention to the fact that KPMG globally has provided comment to the IASB on ED/2010/9 *Leases*. In respect of disclosure requirements please refer to question 15 in the attached comment letter.



Comment letter on  
ED-2010-9 - Leases

#### *Tier 2 supplement for disclosures*

On the assumption that the disclosures contained in the exposure draft remain unchanged for the final standard we have the following comments in respect of the AASB disclosure proposals under Tier 2 as set out in the Tier 2 Supplement to ED 202R *Leases*:

- We do not agree with the AASB proposal to exempt entities applying Tier 2 from the following paragraphs:
  - Paragraphs 70 to 72 inclusive - set out the principle objectives for the disclosures. Therefore, we believe these paragraphs would be equally fundamental for entities applying Tier 2.

Furthermore, under the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* we note that the AASB has left unshaded similar principle objectives for the disclosures, i.e. paragraphs 69 to 71 inclusive. In our view, this apparent inconsistency should be addressed with the disclosure principles being retained.

- Paragraph 73(b) – this requires disclosure of “information about the principal terms of any lease that has not yet commenced if the lease creates **significant** rights and obligations for the entity” (emphasis added). In our view this disclosure requirement would be similar to the intent of that required by AASB 110 *Events after the Reporting Period* paragraphs 21 and 22, which is a Tier 2 required disclosure.

Further, we believe that when considering user need and cost/benefit principles that this disclosure would provide useful information where the rights and obligations are significant.

- We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs or parts thereof:
  - The second half of paragraph 75, “*and, for lessees, the amount recognised in the statement of financial position for such short-term leases.*” – the requirement for entities applying Tier 2 to disaggregate this information appears to be inconsistent with the exemptions given in other areas, for example the second half of paragraph 76.
  - Paragraph 77 and 80(a) and 80(c) – requires reconciliations from opening to closing balances in a year. In our view the requirement to disclose opening to closing reconciliations for Tier 2 entities is inconsistent amongst a number of the current AASBs and needs to be addressed. For example AASB 116 *Property, Plant and Equipment* requires the disclosure but the proposals in the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers* do not. There are a number of other examples.

Whilst we acknowledge that IFRS for SMEs requires a reconciliation disclosure for various assets and liabilities, from our discussions with a number of preparers and users of financial statements the overwhelming comment is that the cost/benefit principle is not met. In a number of instances the information can be obtained from existing disclosures in the income statement, balance sheet and statement of cash flows.

**Appendix 2 – Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers***  
***Whether you agree with the AASB disclosure proposals under Tier 2 as set out in the attached analysis***

*ED generally*

Before addressing the AASB disclosure proposals under Tier 2 we would like to draw your attention to the fact that KPMG globally has provided comment to the IASB on ED/2010/6 *Revenue from Contracts with Customers*. In respect of disclosure requirements please refer to question 10 in the attached comment letter.



Comment Letter on  
ED-2010-6 - Revenue

*Tier 2 supplement for disclosures*

On the assumption that the disclosures contained in the exposure draft remain unchanged for the final standard we have the following comment in respect of the AASB disclosure proposals under Tier 2 as set out in the Tier 2 Supplement to ED 198 *Revenue from Contracts with Customers*:

- We do not agree with the AASB proposal not to exempt entities applying Tier 2 from the following paragraphs:
  - Paragraph 78 – in our view the disclosure of transaction price information for contracts with an expected duration of more than one year is onerous for Tier 2 entities. We believe that when considering user need and cost/benefit principles that the qualitative information required by paragraph 77(b), regarding when the entity typically satisfies performance obligations, should be sufficient for entities applying Tier 2.

It should be noted, that if entities applying Tier 2 are exempted from paragraph 78, then, paragraph 73 (c) will need to be edited accordingly by removing the reference to paragraph 78.