ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

26 May 2017

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

Dear Ms Peach

ED 277 Reduced Disclosure Requirements for Tier 2 Entities

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to comment on the Exposure Draft. The views expressed in this submission represent those of all Australian members of ACAG.

A new set of principles and associated guidance is necessary given the results of the post-implementation review and the fact that IFRS for SMEs has become dated. Overall ACAG welcomes and supports the proposed joint policy and resulting Tier 2 disclosures.

We have identified some areas of the policy which should be improved or refined and disclosures where we disagree with the outcome.

ACAG appreciates the opportunity to respond and trust that you find our comments useful.

Yours sincerely

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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 to this ED).**

We support the overarching principles of user needs and cost-benefit as the basis for what is to be included in financial statements.

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 with the two Key Disclosure Areas identified and suggest an additional principle for stewardship and accountability. This would facilitate important disclosures such as those required by AASB 1052 Disaggregated Disclosures which, in our view, should be included in financial statements of both Tier 1 and Tier 2 public sector agencies in order to provide accountability about whether programs have been achieved.

Although liquidity and solvency are not always relevant in the public sector, materiality principles can be applied to further reduce any unnecessary information being provided in financial statements in this regard.

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.**

Other than the comments provided above, ACAG agrees with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities.

ACAG requests that the AASB clarify that the Policy Statement is intended for the use of the AASB, and is not required to be used by Tier 2 entities in determining their individual reporting obligations.

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).**

While we generally support the proposed approach with regards to disclosure of accounting policies, there are some cases where we do not consider that the scope of AASB 101 would necessarily capture disclosures proposed to be removed from other standards.

AASB 101 paragraph 117 focusses on disclosure of the measurement basis used in preparing the financial statements. Requirements previously contained in standards which go beyond this should be retained if the AASB consider them important. An example is AASB 102 paragraph 36(a).

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 do not agree with the proposed approach to reduce some of the guidance for disclosures that are retained for Tier 2 entities. Where guidance is provided to support a paragraph which has been retained for Tier 2 reporting, it should be included in the Appendix.

Guidance assists preparers to understand the key requirements and does not create an additional burden. An example is AASB 7 paragraph 22A. The guidance in the second sentence of that paragraph is useful in determining what level of detail is appropriate for the explanation of risk management strategies used.

For paragraphs which require disclosures to meet a stated objective, these seem broad enough in nature to be retained without increasing the risk of over-disclosure. These paragraphs assist in evaluating what level of disclosure should be provided and should be retained on the basis that they provide useful information to enable preparer judgement.

For example, AASB 16 paragraph B48 provides guidance in relation to paragraph 59 which is retained for Tier 2 reporting. This guidance would be useful to preparers in considering whether additional information is required and could help to achieve the correct balance of reporting.

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).

ACAG does not have any concerns with the proposal to remove general cross-references. However, some paragraphs in the staff analysis identified as being ‘general cross-references’ included additional requirements.

For example:

- AASB 16 paragraph 95 in referring to AASB 116 contains requirements to further disaggregate classes of property, plant and equipment in addition to the disaggregation requirements in AASB 116.

- The level of disaggregation required by AASB 101 paragraphs 78(b) and (d) is not required by any other standard.

The attachment to this letter notes all instances we identified.

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.

At times, it was difficult to determine the basis of application of the proposed joint Policy Statement.[1]

ACAG believes that paragraphs requiring an entity to disclose information to meet a stated objective (per paragraph 21 of the exposure draft) are relevant for Tier 2 entities.

This would seem to be consistent with the IASB's Conceptual Framework ED which states that 'including specific presentation and disclosure objectives in a standard enables an entity to identify information and decide how to communicate that information in the most efficient and effective manner.' While some of the necessary interpretation is removed for Tier 2 reporting there is still some judgement required in the level of detail to be provided in meeting a disclosure requirement.

Attached is a list of disclosures where we disagree with the outcome. Of these, we wish to highlight the following:

- AASB 1055 Budgetary Reporting: We are unsure why the statement of profit or loss and other comprehensive income has been removed from Tier 2 requirements when the statement of financial position and statement of cash flows has not. Presumably this reflect the Key Disclosure Area of liquidity/solvency. However, as we noted in our answer to Question 2, liquidity/solvency is a lesser issue for the public sector, especially for entities within the scope of AASB 1055 (not-for-profit entities within the GGS). Some jurisdictions only report the statement of profit or loss and other comprehensive income for both tiers. We recommend that only disclosures relating to the statement of profit or loss and other comprehensive income be required of Tier 2 entities subject to AASB 1055 to meet our proposed principle of stewardship and accountability.

[1] For example, it is proposed that reconciliations will not be required to be disclosed by Tier 2 entities, however individual items have been assessed against the RDR decision-making framework. It was not clear why disclosure of depreciation was considered necessary under AASB 116 and AASB 140 but amortisation under AASB 138 was not.

- AASB 1054 Australian Additional Disclosures: reporting of auditor fees is useful information for users of all financial reports and should be retained.

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 <u>are required to provide</u>; 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 these two options, ACAG prefers the approach taken in this ED to include an Australian Appendix. Advantages include:

- The RDR disclosure requirements in a standard can easily be found in the appendix.
- The appendix approach allows flexibility to rewrite some of the paragraphs if necessary.

The New Zealand approach would be difficult to apply as the RDR paragraphs would not be easily identified. Further, this approach does not work well where there is partial application of a paragraph.

Some ACAG members prefer the current approach of shading the disclosures not required for Tier 2 over the proposed appendix approach. This is because the relevant paragraphs are easily identified and it enables preparer judgement due to the disclosure requirements being read in the context of all requirements of the standard.

The approach taken in this ED does not easily enable an understanding of how the disclosure requirements link to the overall objectives of the standard. Further, some are of the view that creating further appendices to standards is undesirable.

Including the presentation and disclosure requirements in an appendix only has the risk of readers incorrectly interpreting that they are not required to comply with certain paragraphs in the main body of the standard for Tier 2 reporting. For example, AASB 5 paragraph 5B is about disclosures. This paragraph has not been included in the proposed appendix. This is an important paragraph as it clarifies that certain disclosure requirements contained in other standards do not apply. Preparers could interpret that this does not apply to Tier 2.

Another example is AASB 101 paragraph 10A. This has not been included in the proposed appendix despite relating to presentation.

However, we appreciate there are complexities in administering the current approach, particularly where standards change.

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.

Yes, if the appendix approach is adopted, both presentation and disclosure requirements are necessary to avoid confusion.

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.

ACAG supports the mandatory application date of 1 January 2019.

To accommodate entities concerned about implementing this standard at the same time as other substantial changes to accounting, ACAG would encourage that early application be permitted for periods beginning on or after 1 January or 1 July 2017.

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?

ACAG does not see the need for any specific transition requirements based on the limited number of additional disclosure requirements.

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.

While we welcome the review of the reduced disclosure requirements, we do not anticipate that these changes would provide a significant incentive within the public sector to move from Tier 1 to Tier 2.

Further, ACAG does not believe that there will be a significant shift from Special Purpose Financial Statements to Tier 2 GPFS, as there are likely to be additional disclosures

General Matters for Comment

13. 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?**

Overall the proposals will result in useful reporting that is in the best interests of the Australian economy where the option to prepare Tier 2 financial statements is adopted.

Unless already provided in response to the matters for comment 1-12 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or nonfinancial) 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 further comments related to costs or cost savings.

Other comments

The existing Conceptual Framework does not provide guidance around presentation and disclosure.

To ensure that preparers apply the principles contained in the draft policy when determining whether disclosures at either the Tier 2 or Tier 1 level are provided, the AASB may wish to consider including these principles in guidance to AASB 1053. This would alleviate some of our concerns in the staff analysis. We understand that the AASB are considering preparing a flowchart which may outline the approach to be taken by preparers. This would be welcomed.

Attachment

Proposed RDR (shaded)	AASB staff comments	ACAG comments
AASB 5/NZ IFRS 5 Non-current Assets Held for Sale and Discontinued Operations		
<u>Presentation and disclosure</u> **30 An entity shall present and disclose information that enables users of the financial statements to evaluate the financial effects of discontinued operations and disposals of non-current assets (or disposal groups).**	Paragraph 30 requires presentation and disclosures to meet a stated objective. Therefore, the paragraph 30 reference to disclose is reduced for Tier 2 entities. Presentation requirements are not subjected to analysis. Therefore the reference in paragraph 30 to present is kept for Tier 2 entities.	The full paragraph should be retained. This paragraph is broad in nature and could be read in the context of the specific Tier 2 disclosures retained without resulting in additional information being reported. Regardless, the partial reduction puts the onus of the information to be through presentation. This would be an increased burden on Tier 2 (not a reduced burden).
33(c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements	Paragraph 33(c) is a Key Disclosure Area (current liquidity and solvency) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 33(c) is kept for Tier 2 entities.	Paragraph 33(c) also includes the following which has not been required here: *'These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).'* Not specifying this in the appendix could be interpreted as meaning more disclosure required for Tier 2 than Tier 1. Paragraph 29 of AASB 7 is an example of a similar paragraph which has been retained.
AASB 7/NZ IFRS 7 Financial Instruments: Disclosures		
Significance of financial instruments for financial <u>position and performance</u> **7 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its financial position and**	Paragraph 7 requires disclosures to meet a stated objective. Therefore, paragraph 7 is reduced for Tier 2 entities.	Disclosure objectives such as this provide important context when interpreting the specific requirements retained for Tier 2 and should be retained. We do not agree with the Board's position regarding these paragraphs. Refer to question 7 in the covering letter.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
performance.		Given the broad nature of these types of paragraphs it would not result in any increased burden to preparers. This particular objective provides context around the level of detail that needs to be disclosed to meet the specific disclosures requirements later in AASB7, particularly those around nature and exposure to risk.
12B An entity shall disclose if in the current or previous reporting periods, it has reclassified any financial assets in accordance with paragraph 4.4.1 of AASB 9/NZ IFRS 9. For each such event, and entity shall disclose: (a) The date of reclassification (b) A detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements (c) The amount reclassified into and out of each category.	Paragraph 12B is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 12B is reduced for Tier 2 entities.	The application of the standard with regard to classification relies on judgements being made (refer 8(b)(iv) of the proposed policy). Changes in classification could be indicative of manipulation of results and as such should be disclosed where material. We note that AASB 101.80A also relates to reclassifications and this paragraph has been retained, as has paragraph 42 of AASB 5 which is similar in principle. This paragraph should also be retained for Tier 2 reporting as the change of classification will result in a differing measurement (refer 8(b)(iii) of the proposed policy).
12D If, since its last annual reporting date, an entity has reclassified financial assets out of the fair value through other comprehensive income category so that they are measured at amortised cost or out of the fair value through profit or loss category so that they are measured at amortised cost or fair value through other comprehensive income it shall disclose: (d) the fair value of the financial assets at the end of the reporting period; and (e) the fair value gain or loss that would have been recognised in profit or loss	Paragraph 12D is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 12D is reduced for Tier 2 entities.	This paragraph should be retained for Tier 2 for the reasons set out above.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
or other comprehensive income during the reporting period if the financial assets had not been reclassified.		
16A The carrying amount of financial assets measured at fair value through other comprehensive income in accordance with paragraph 4.1.2A of AASB 9/NZ IFRS 9 is not reduced by a loss allowance and an entity shall not present the loss allowance separately in the statement of financial position as a reduction of the carrying amount of the financial asset. However, an entity shall disclose the loss allowance in the notes to the financial statements.	Paragraph 16A is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 16A is reduced for Tier 2 entities.	This requirement should be retained on the basis of principles 8(b)(iv) and (vii). A loss allowance may be a significant estimate and involves application of judgement. Further, the expected credit loss may affect liquidity and solvency.
22A An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied. This explanation should enable users of financial statements to evaluate (for example): (a) how each risk arises. (b) how the entity manages each risk; this includes whether the entity hedges an item in its entirety for all risks or hedges a risk component (or components) of an item and why. (c) the extent of risk exposures that the entity manages.	The first sentence of paragraph 22A is a Key Disclosure Area (associated risks specific to a transaction or event) – the benefits of providing the disclosure exceed the costs. The remainder of paragraph 22A is guidance of a general nature to enable users to evaluate those risks and how the entity manages each risk. Therefore, the first sentence of paragraph 22A is kept for Tier 2 entities and subparagraphs (a)–(c) are reduced for Tier 2 entities.	This is considered to be necessary guidance for disclosures that are required to be provided by Tier 2 entities and should be retained.
22C When an entity designates a specific risk component as a hedged item (see paragraph 6.3.7 of AASB 9/NZ IFRS 9) it shall provide, in addition to the disclosures required by	Paragraph 22C is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 22C is reduced for Tier 2 entities.	This should continue to be required as it involves significant judgements and could be used to manipulate results.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
paragraphs 22A and 22B, qualitative or quantitative information about: (a) how the entity determined the risk component that is designated as the hedged item (including a description of the nature of the relationship between the risk component and the item as a whole); and (b) how the risk component relates to the item in its entirety (for example, the designated risk component historically covered on average 80 per cent of the changes in fair value of the item as a whole).		
23F For cash flow hedges, an entity shall disclose a description of any forecast transaction for which hedge accounting had been used in the previous period, but which is no longer expected to occur.	Paragraph 23F is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 23F is reduced for Tier 2 entities.	This disclosure requirement should be retained as it relates to the impact of a future event which requires judgement.
35L An entity shall disclose the contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity.	Paragraph 35L is a Key Disclosure Area (current liquidity and solvency) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 35L is kept for Tier 2.	This is not useful information and should be a reduced disclosure.
42I In the reporting period that includes the date of initial application of AASB 9/NZ IFRS 9, the entity shall disclose the following information for each class of financial assets and financial liabilities as at the date of initial application: (c) the amount of any financial assets and financial liabilities in the statement of	Paragraph 42I(c) is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 42I(c) is reduced for Tier 2 entities.	Disclosure would be required where there is a material impact to meet the requirements of AASB 108. There is no reduced burden.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
financial position that were previously designated as measured at fair value through profit or loss but are no longer so designated, distinguishing between those that AASB 9/NZ IFRS 9 requires an entity to reclassify and those that an entity elects to reclassify at the date of initial application.		
AASB 13 /NZ IFRS 13 Fair Value Measurement		
93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Standard/NZ IFRS) in the statement of financial position after initial recognition: (a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other Australian Accounting Standards/NZ IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other Australian Accounting Standards/NZ IFRSs require or permit in the statement of financial position in particular	The reference to paragraph 91 in the lead-in of paragraph 93 is reduced for Tier 2 entities because paragraph 91 is reduced for Tier 2 entities. Paragraph 93(a) is a Key Disclosure Area (current liquidity and solvency) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 93(a) is kept for Tier 2 entities.	The requirement to disclose the reasons for the measurement for non-recurring fair value measurements should be reduced. This is not useful information and it is generally evident from the other disclosures in the financial statements regardless.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with AASB 5/NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).		
AASB 15/NZ IFRS 15 Revenue from Contracts with Customers		
Appendix C Effective date and transition **Transition** C8 For reporting periods that include 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 111/NZ IAS 11, AASB 118/NZ IAS 18 and related Interpretations that were in effect before the change; and (b) an explanation of the reasons for significant changes identified in C8(a).	Paragraph C8 is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph C8 is reduced for Tier 2 entities.	There is no reduced burden. Disclosure would be required where there is a material impact to meet the requirements of AASB 108.
AASB 16/NZ IFRS 16 Leases		
53 A lessee shall disclose the following amounts for the reporting period: (a) depreciation charge for right-of-use assets by class of underlying asset;	Paragraph 53(a) is a Key Disclosure Area (nature of transaction or event that makes it significant or material to the entity) – the benefits of providing the disclosure exceed the costs. However, disclosure of total depreciation is sufficient.	This should be retained to be comparable with the requirements retained in AASB 116 paragraph 73(e)(vii).

Proposed RDR (shaded)	AASB staff comments	ACAG comments
	Therefore, paragraph 53(a) is kept for Tier 2 entities except for the requirement to provide the depreciation by class of underlying asset.	
Operating leases 95 For items of property, plant and equipment subject to an operating lease, a lessor shall apply the disclosure requirements of AASB 116/NZ IAS 16. In applying the disclosure requirements in AASB 116/NZ IAS 16, a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. Accordingly, a lessor shall provide the disclosures required by AASB 116/NZ IAS 16 for assets subject to an operating lease (by class of underlying asset) separately from owned assets held and used by the lessor.	The AASB has decided where the cross- referencing is of a general nature this is reduced in Australian Accounting Standards for Tier 2 entities. This would be reduced in AASB 16 – general cross reference to other standards.	This paragraph includes disaggregation requirements additional to those contained in AASB 116 and as such should be retained.
Appendix B **Lessee disclosures (paragraph 59)** B48 In determining whether additional information about leasing activities is necessary to meet the disclosure objective in paragraph 51, a lessee shall consider: (a) whether that information is relevant to users of financial statements. A lessee shall provide additional information specified in paragraph 59 only if that information is expected to be relevant to users of financial statements. In this context, this is likely to be the case if it helps those	In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept. The AASB has decided to reduce some of the guidance for disclosures that would otherwise be kept for Tier 2 entities, in particular where the guidance is considered to be unnecessary for Tier 2 entities in meeting the related disclosure requirement. This is reduced in AASB 16 – guidance of a general nature.	This is necessary guidance for preparers which should be retained.

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users to understand: (i) the flexibility provided by leases. Leases may provide flexibility if, for example, a lessee can reduce its exposure by exercising termination options or renewing leases with favourable terms and conditions. (ii) restrictions imposed by leases. Leases may impose restrictions, for example, by requiring the lessee to maintain particular financial ratios. (iii) sensitivity of reported information to key variables. Reported information may be sensitive to, for example, future variable lease payments. (iv) exposure to other risks arising from leases. (v) deviations from industry practice. Such deviations may include, for example, unusual or unique lease terms and conditions that affect a lessee's lease portfolio. (b) whether that information is apparent from information either presented in the primary financial statements or disclosed in the notes. A lessee need not duplicate information that is already presented elsewhere in the financial statements.		
AASB 101/NZ IAS 1 Presentation of Financial Statements		

Proposed RDR (shaded)	AASB staff comments	ACAG comments
78 The details provided in subclassifications depends on the requirements of Australian Accounting Standards/NZ IFRS and on the size, nature and function of the amounts involved. An entity also uses the factors set out in paragraph 58 to decide the basis of subclassification. The disclosure vary for each item, for example: (b) receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments and other amounts;	The AASB has decided where the cross- referencing is of a general nature this is reduced in Australian Accounting Standards for Tier 2 entities. This would be reduced in AASB 101 – general cross reference to other standards	Paragraph 78(b) includes requirements additional to those contained in other standards and should be retained if considered important.
(d) provisions are disaggregated into provisions for employee benefits and other items; and	The AASB has decided where the cross- referencing is of a general nature this is reduced in Australian Accounting Standards for Tier 2 entities. This would be reduced in AASB 101 – general cross reference to other standards	Paragraph 78(d) includes requirements additional to those contained in other standards and should be retained if considered important.
79 An entity shall disclose the following, either in the statement of financial position or the statement of changes in equity, or in the notes: **(b) a description of the nature and purpose of each reserve within equity.**	Paragraph 79(b) is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, Paragraph 79(b) is reduced for Tier 2 entities.	This gives context to the liquidity of the entity and should be retained.
AASB 102/NZ IAS 2 Inventories		
Disclosure **36 The financial statements shall disclose:** **(a) the accounting policies adopted in measuring inventories, including the**	The AASB has decided to rely on the requirement in AASB 101 and AASB 108 for disclosures about accounting policies. This would be reduced in AASB 102 – the requirements of paragraph 117 of AASB 101 are	Under AASB 101.117 preparers are prompted to state that inventories were held at cost for example, but in our view this would not necessarily be interpreted to extend to the cost formula used. This information should

Proposed RDR (shaded)	AASB staff comments	ACAG comments
cost formula used;	sufficient	be retained if it is considered important.
Aus36.1(h) the basis on which any loss of service potential of inventories held for distribution is assessed, or the bases when more than one basis is used.	Paragraph Aus36.1(h) is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph Aus36.1(h) is reduced for Tier 2 entities.	This relates to the judgement principle and therefore should be retained.
AASB 108/NZ IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors		
28. When initial application of an Australian Accounting Standard/NZ IFRS has an effect on the current period or any prior period, would have such an effect except that it is impracticable to determine the amount of the adjustment, or night have an effect on future periods, an entity shall disclose: **(g) the amount of the adjustment relating to periods before those presented, to the extent practicable; and**	Paragraph 28(g) is a Key Disclosure Area (accounting policy on recognition or measurement). However, the presumption that the benefits of providing the disclosure exceed the costs is rebutted because calculating the effect of the adjustment relating to periods before those presented could be costly for Tier 2 entities. Therefore, paragraph 28(g) is reduced for Tier 2 entities.	We do not agree with the rebuttal that the costs would exceed the benefits. This would not be costly to calculate. Generally, this adjustment is the opening balance adjustment that is presented in the Statement of Changes in Equity in accordance with AASB 101.106(b).
AASB 110/NZ IAS 10 Events after the Reporting Period		
Dividends 13 If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with AASB 101/NZ IAS 1 *Presentation of Financial Statements.*	The first sentence of paragraph 13 provides guidance about the recognition of dividends declared after the reporting period but before the financial statements are authorised for issue. Paragraph 137 of AASB 101/NZ IAS 1 requires disclosure of the amount of dividends proposed or declared before the financial statements were	The first sentence relates to recognition and should not be included in the Appendix.

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	authorised for issue. Therefore, paragraph 13 is kept for Tier 2 entities. The AASB has decided that where the cross-referencing is of a general nature this is reduced in Australian Accounting Standards for Tier 2 entities. The final sentence would be reduced in AASB 110 – general cross reference.	
18 It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.	In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept. The AASB has decided to reduce some of the guidance for disclosures that are kept for Tier 2 entities, in particular where the guidance is considered to be unnecessary for Tier 2 entities in meeting the related disclosure requirement. This would be reduced in AASB 110 – guidance of a general nature	This explains paragraph 17 which is retained for Tier 2 and should be included in the Appendix.
AASB 116/NZ IAS 16 Property, Plant and Equipment		
73(e)(vii) depreciation	Paragraph 73(e)(vii) is a Key Disclosure Area (nature of transaction or event that makes it significant or material to the entity for an understanding of the entity's operations) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 73(e)(vii) is kept for Tier 2 entities.	It is not clear what the basis is for retaining disclosure of depreciation (ie what was the basis for deciding that this will be significant or material compared to other areas of the reconciliation). In our view this is an example of where entity-specific application is required – all of the reconciliation areas may be material for an entity whose sole purpose is the holding of assets, which can occur in the public sector. Further, depreciation is required to be disclosed in AASB 116 and AASB 140, but amortization is not required in AASB 138. This seems inconsistent. Conversely, if an agency held mostly land, depreciation would not be material at all.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
75 Selection of the depreciation method and estimation of the useful life of assets are matters of judgement. Therefore, disclosure of the methods adopted and the estimated useful lives or depreciation rates provides users of financial statements with information that allows them to review the policies selected by management and enables comparisons to be made with other entities. For similar reasons, it is necessary to disclose: (a) depreciation, whether recognised in profit or loss or as a part of the cost of other assets, during a period; and (b) accumulated depreciation at the end of the period.	Paragraph 75 provides guidance about the depreciation method. The methods adopted and the useful lives or depreciation rates would be disclosed as part of the entity's accounting policy for property, plant and equipment.	This provides explanation for 73(b) and (c) which are retained and should be included in the Appendix.
77 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by AASB 13/NZ IFRS 13: **(a) the effective date of the revaluation;** **(b) whether an independent valuer was involved;** **(c)–(d) [deleted by IASB]**	Paragraphs 77(a) and (b) are not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraphs 77(a) and (b) are reduced for Tier 2 entities.	This is important information to understand the risk stemming from the valuation process (ie how reliable it is) and should be retained. A user cannot determine what is regular if no date is provided. Property, plant and equipment for most government agencies if the largest item on the balance sheet and subject to the most judgement. Further, there is little to no cost in including this information in the financial statements. In our view the benefits to users (i.e helping them understand the valuation and whether fair value is regularly assessed) exceeds the cost to preparers of including the information in their financial statements. Our recommendation is consistent with your approach for other standards e.g AASB 12 where the following is proposed to be retained:

Proposed RDR (shaded)	AASB staff comments	ACAG comments
		12(c) the proportion of ownership interests held by non-controlling interests. 12 (d) the proportion of voting rights held by non-controlling interests, if different from the proportion of ownership interests held.
AASB 119/NZ IAS 19 Employee Benefits		
138 An entity shall assess whether all or some disclosures should be disaggregated to distinguish plans or groups of plans with materially different risks. For example, an entity may disaggregate disclosure about plans showing one or more of the following features: (a) different geographical locations. (b) different characteristics such as flat salary pension plans, final salary pension plans or post-employment medical plans. (c) different regulatory environments. (d) different reporting segments. (e) different funding arrangements (eg wholly unfunded, wholly or partly funded).	Paragraph 138 is guidance about aggregation and disaggregation of defined benefit plans for disclosure purposes. Therefore, paragraph 138 is reduced for Tier 2 entities.	This is useful guidance for preparers and should be retained.
147 To provide an indication of the effect of the defined benefit plan on the entity's future cash flows, an entity shall disclose: (a) a description of any funding arrangements and funding policy that affect future contributions. (b) the expected contributions to the plan for the next annual reporting period.	Paragraph 147 is a Key Disclosure Area (current liquidity and solvency) – the benefits of providing the disclosure exceed the costs except for the second sentence in paragraph 147(c). Therefore, paragraph 147 is kept for Tier 2 entities except for the second sentence of paragraph 147(c) which is reduced for Tier 2 entities.	This could be reduced for Tier 2 reporting. Disclosure about maturity profiles is not required for financial instruments under AASB 7 for Tier 2 so it seems inconsistent to retain paragraph 147(c).

Proposed RDR (shaded)	AASB staff comments	ACAG comments
(c) information about the maturity profile of the defined benefit obligation. This will include the weighted average duration of the defined benefit obligation and may include other information about the distribution of the timing of benefit payments, such as a maturity analysis of the benefit payments.		
AASB 124/NZ IAS 24 Related Party Disclosures		
15 The requirement to disclose related party relationships between a parent and its subsidiaries is in addition to the disclosure requirements in AASB 127/NZ IAS 27 and AASB 12/NZ IFRS 12 *Disclosure of Interests in Other Entities*.	Paragraph 15 is guidance for paragraph 13, which is kept for Tier 2 entities Therefore, paragraph 15 is kept for Tier 2 entities.	This is not useful information and could be reduced for Tier 2 reporting.
16 Paragraph 13 refers to the next most senior parent. This is the first parent in the group above the immediate parent that produces consolidated financial statements available for public use.	In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept. The AASB has decided to reduce some of the guidance for disclosures that are kept for Tier 2 entities, in particular where the guidance is considered to be unnecessary for Tier 2 entities in meeting the related disclosure requirement would be reduced in AASB 124 – guidance of a general nature.	It is not clear why this paragraph is less important than para 13 or 14. This does not seem to be consistent application.
AASB 136/NZ IAS 36 Impairment of Assets		
130 An entity shall disclose the following for an individual asset (including goodwill) or a cash-generating unit, for which an impairment loss has been recognised or reversed during the	Paragraph 130(f)(iii) is a Key Disclosure Area (associated risks specific to a transaction or event) – the benefits of providing the disclosure exceed the costs.	This exceeds what is required by the proposed AASB 13 disclosure requirements for Tier 2. As such this should be reduced.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
period: **(a) if the recoverable amount is fair value less costs of disposal, the entity shall disclose the following information:** **(iii) for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive. The entity shall also disclose the discount rate(s) used in the current measurement and previous measurement if fair value less costs of disposal is measured using a present value technique.**	Therefore, paragraph 130(f)(iii) is kept for Tier 2 entities.	
(g) if recoverable amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.	Paragraph 130(g) is a Key Disclosure Area (associated significant estimates and judgements specific to a transaction or event) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 130(g) is kept for Tier 2 entities.	This exceeds what is required by the proposed AASB 13 disclosure requirements for Tier 2. As such this should be reduced.
AASB 137/NZ IAS 37 Provisions, Contingent Liabilities and Contingent Assets		
Disclosure **84 For each class of provision, an entity shall disclose:**	Paragraph 84 is not a Key Disclosure Area – the costs of providing the disclosure exceed the benefits. Therefore, paragraph 84 is reduced for Tier 2	Given that recognition and measurement of provisions is highly judgmental, this is information that should be retained (current year only). In particular, part (e) would meet the principles of

Proposed RDR (shaded)	AASB staff comments	ACAG comments
(a) the carrying amount at the beginning and end of the period; **(b) additional provisions made in the period, including increases to existing provisions;** **(c) amounts used (ie incurred and charged against the provision) during the period;** **(d) unused amounts reversed during the period; and** **(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.** **Comparative information is not required.**	entities. (Paragraph(l) of AASB 101/NZ IAS 1 requires provisions to be presented as a separate line item in the statement of financial position)	significant estimates and judgements. and associated risks specific to a transaction or event.
AASB 138/NZ IAS 38 Intangible Assets		
118 **(e) (vi) any amortisation recognised during the period;**	The AASB has decided where the cross-referencing is of a general nature this is reduced in Australian Accounting Standards for Tier 2 entities. Therefore, paragraph 118(e)(v)-(vi) are reduced in AASB 138 – general cross-reference to another standard.	Should be included on the same basis as depreciation under AASB 116 and AASB 140.
AASB 140/NZ IAS 40 Investment Property (In the middle column, paragraphs 74, 77 and 78 are amended and paragraph 75(b) is deleted by AASB 16 and NZ IFRS 16 Leases. New text is underlined and deleted text is struck through).		
Disclosure **Fair value model and cost model** 74 The disclosures below apply in addition to those in ~~AASB 117/NZ IAS 17~~AASB 16/NZ IFRS 16. In accordance with ~~AASB 117/NZ IAS 17~~ AASB 16/NZ IFRS 16, the owner of an investment property	Paragraph 74 requires disclosures about investment property in addition to the disclosures required by AASB 16 Leases. The second sentence would be reduced in AASB 140 –	This entire paragraph should be reduced as it does not contain anything additional to AASB 16.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
provides lessors' disclosures about leases into which it has entered. ~~An entity~~ A lessee that holds an investment property as a right- of-use asset ~~under a finance or operating lease~~ provides lessees' disclosures as required by AASB 16/NZ IFRS 16 ~~for finance leases~~ and lessors' disclosures as required by AASB 16/NZ IFRS 16 for any operating leases into which it has entered.	general cross reference to other standards	
AASB 1050 Administered Items		
9 A government department's operating statement only recognises income and expenses of the government department. Similarly, a government department's statement of financial position only recognises assets that the government department controls and liabilities that involve a future sacrifice of the government department's assets. 10 Items recognised in the statement of financial position include the assets and liabilities of the trusts that the government department controls and from whose activities the government department obtains benefits. 11 The responsibilities of a government department may encompass the levying or collection of taxes, fines and fees, the provision of goods and services at a charge to recipients, and the transfer of funds to eligible beneficiaries. These activities may give rise to income and expenses that are not attributable to the government department. This occurs, for example, where the government department is unable to use for its own	Paragraphs 9-13 are neither a presentation or a disclosure requirement and therefore, are not subject to analysis. The Appendix will include a paragraph signposting that the Standard includes guidance on distinguishing between administered items and controlled items.	In our view the signposting is not necessary or relevant to the Appendix.

Proposed RDR (shaded)	AASB staff comments	ACAG comments
purposes the proceeds of user charges, taxes, fines and fees it collects without further authorisation, or where the transfer of funds to eligible beneficiaries does not involve a reduction in the assets recognised in the government department's statement of financial position. In addition, the government department may manage government assets in the capacity of an agent and may incur liabilities that, for example, while involving a future disbursement from the Consolidated Revenue Fund or other Fund will not involve a sacrifice of the assets that the government department controls as at the end of the reporting period. This administered income and these administered expenses, assets and liabilities are not recognised in the government department's operating statement or statement of financial position. 12 A government department's ability to control all, or a portion of, the proceeds of the user charges, fines and fees it levies may be subject to complex arrangements. Consistent with those arrangements, where a government department does not control any of the proceeds of the user charges, fines and fees that it levies, it does not recognise any of the proceeds of those user charges, fines and fees as income. Similarly, where, as a result of automatic appropriations or other authority, a government department controls some but not all of the proceeds of user charges, fines and fees, the department		

Proposed RDR (shaded)	AASB staff comments	ACAG comments
14 The tax revenues, user charges, fines and fees administered by a government department and the amount of funds transferred to eligible beneficiaries are an important indicator of the government department's performance in achieving its objectives. Therefore, paragraph 7 requires disclosure of income and expenses administered by a government department that are not recognised in the government department's operating statement. Disclosure of this information by major class and by activity facilitates an assessment of activity costs and cost recoveries, and is therefore relevant to parliamentary decision making and enhances the discharge of accountability obligations. Even though a government department does not control such items, the effective and efficient administration of these items is an important role of the government department.	Paragraphs 14 with the exception of the reference to 'and by activity' is guidance for applying paragraph 7 that is kept for Tier 2 entities. Therefore, paragraphs 14 with the exception to 'and by activity' is kept for Tier 2 entities.	The disclosure of information by activity should be retained. As stated in our cover letter, disaggregated disclosures are important for public sector entities to provide accountability.
AASB 1055 Budgetary Reporting		
6 Where an entity's budgeted: **(a) statement of financial position;** **(b) statement of profit or loss and other comprehensive income;** **(c) statement of changes in equity; or** **(d) statement of cash flows;** **reflecting controlled items is presented to parliament and is separately identified as relating to that entity, the entity shall disclose**	Paragraph 6 is a Key Disclosure Area (current liquidity and solvency of the entity). However, the presumption that the benefits of providing the disclosure exceed the costs is rebutted for: (b) statement of profit or loss and other comprehensive income; and (c) statement of changes in equity. Therefore, paragraphs 6 is kept for Tier 2 entities except for subparagraphs (b) and (c).	As outlined in the cover letter we believe that part (b) should be retained for both Tier 1 and Tier 2 reporting. In our view this is the most useful of the four statements.
AASB Interpretation 129/NZ SIC 29 Service Concession Arrangements: Disclosures		

Proposed RDR (shaded)	AASB staff comments	ACAG comments
Consensus 6 All aspects of a service concession arrangement shall be considered in determining the appropriate disclosures in the notes. An operator and a grantor shall disclose the following in each period: (a) a description of the arrangement;	Paragraph 6(a) is a Key Disclosure Area (nature of the transaction or event that makes it significant or material to the entity) – the benefits of providing the disclosure exceed the costs. Therefore, paragraph 6(a) is kept for Tier 2 entities.	Including the first sentence is not consistent with similar paragraphs in other standards. However, ACAG's view is that guidance paragraphs should be retained as they are useful for preparers.