

Ms Kris Peach  
Chairperson  
Australian Accounting Standards Board  
PO Box 204  
Collins St West VIC 8007

22 March 2018

## **AASB Exposure Draft ED 284 *Recent Standards - Reduced Disclosure Requirements***

Dear Ms Peach

Ernst & Young is pleased to submit its comments on AASB Exposure Draft ED 284 *Recent Standards - Reduced Disclosure Requirements*. Our detailed responses to the Specific and General Matters for Comment are contained in Appendix A to this letter.

As a general observation, the proposed reliefs in the ED for Tier 2 entities appear at first glance to be limited. In the context of AASB 1058, limited disclosure relief for Tier 2 entities is proposed. This may come as a surprise to many smaller not-for-profit (NFP) entities, because they may feel there remains an overload of disclosures. In the case of AASB 1059 no disclosure relief for Tier 2 entities is proposed; however, we note that the standard has a narrow focus and no change is likely warranted due to the benefit of the disclosures to users of the financial statements.

Following the practice for similar disclosures in other standards, the ED removes (via use of shading out) 'encouraged' disclosures, even though a Tier 2 entity could choose not to give encouraged disclosures and still be in compliance with the requirements of the relevant standard. For the proposals relating to AASB 1058, we think the disclosures in paragraphs 29 and 30 should be shaded out (the language lacks imperative - 'an entity shall consider disclosing ...' and 'may be appropriate for an entity to disclose ...') in order to be consistent with the practice for 'encouraged' disclosures.

Despite the limited reliefs proposed in the ED, as detailed in our response to Question 1 in Appendix A, some reliefs proposed for AASB 16 appear to remove helpful guidance or exclude information we consider beneficial to users of Tier 2 entities' financial statements.

While the analysis in Appendix B of the ED concludes a disclosure should be retained or reduced on the basis of user needs, there is limited or no reasoning provided to support it, nor who those users might be. As such, it is often difficult to assess the proposals in the ED.

Should you wish to discuss this letter with us, please contact Frank Palmer on (02) 8295 6264 or John Virgo on (08) 9429 2206.

Yours faithfully



Ernst & Young

**Appendix A: Specific and General Matters for Comment**

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

We have concerns regarding some of the proposed RDR concessions for AASB 16. These are as follows:

Reference	Comment
AASB 16.53(h)	We do not believe that item (h) should be excluded for Tier 2 entities. The analysis in Appendix A of the ED indicates that it is removed on the basis of limited utility to users. However, we think similar information is needed under AASB 107.43 as non-cash investing/financing transactions, which is retained under RDR, indicating it has utility to users.
AASB 16.54	We think excluding the first sentence under RDR (presentation of disclosures in tabular format unless another format is more appropriate) is unhelpful to both preparers and users. Any guidance on presentation would seem to be equally as useful to Tier 2 entities as it is to Tier 1 entities.
AASB 16.58	While we understand the basis for excluding this under RDR (given the cross-referenced paragraphs in AASB 7 are excluded under RDR), we think, given the potential for AASB 16 to fundamentally change entities balance sheets, it appropriate to retain disclosure of the maturity analysis of lease liabilities for Tier 2 entities.
AASB 16.91	See comments regarding paragraph 54 above.
AASB 16.B50(a)	We consider that the lessee's reasons for using extension and termination options and their prevalence provides key strategic insights on the stability of an entity's leasing arrangements and the necessity of leasing. As such we disagree the costs would exceed the benefits.
AASB 16.B51	Similarly to the preceding item, we consider that the information regarding residual value guarantees (proposed to be excluded for Tier 2 entities) is strategically important to understanding the entity's leasing activities, particularly if the assets are highly specific to the entity.
AASB 16.52	The qualitative information on sale and leaseback transactions required by this paragraph could be vitally important for matters such as liquidity management. As such we disagree the costs would exceed the benefits.

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

We have the following comments regarding RDR concessions for AASB 1058:

Reference	Comment
AASB 1058.29-30	We think these two paragraphs should be excluded (shaded out) for Tier 2 entities because they lack an imperative given the language of 'an entity shall consider disclosing ...' and 'may be appropriate for an entity to disclose ...' Such language suggests the disclosures contained in these paragraphs have a similar status to the 'encouraged' disclosures in, for example, paragraph 37, which are excluded for Tier 2 entities.
AASB 1058.29(b)	Further to the immediately preceding point, we disagree with retaining this disclosure given that RDR relief is given for similar (but not identical) disclosures in AASB 15.116(b) and AASB 15.120(b).
AASB 1058.33	This disclosure is based on AASB 15.120, which is granted RDR relief for Tier 2 entities. Applying the same logic to AASB 1058 we suggest that this disclosure in AASB 1058 should similarly be shaded.

Reference	Comment
AASB 1058.36	The analysis in Appendix B of the ED suggests that the judgements about when an obligation is satisfied would be a source of estimation uncertainty under AASB 101.125. We do not agree that such judgements would be captured by this AASB 101 disclosure, and therefore disagree with excluding this disclosure for Tier 2 entities.
AASB 1058.C7(b)	We suggest that this disclosure should be retained for Tier 2 entities. We do not think it would add substantial compliance costs as the amount of the difference needs to be determined and disclosed under paragraph C7(a). The disclosure under paragraph C7(b) provides some context to explain the difference. We note that the equivalent disclosure in AASB 15.C8(b) was not granted RDR relief.

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

We do not object to the proposal to not provide RDR concessions for AASB 1059. On the basis of the nature of such arrangements any disclosures or guidance for public sector grantors in service concession arrangements would be equally beneficial to users irrespective of whether the entity is Tier 1 or Tier 2.

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

On the basis of the effective dates of the standards affected by the proposals we consider the proposed effective date to be appropriate. However, given the timing of the comment deadline and the potential for further deliberations by the Board, we suggest this be the earliest possible date.

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

We have no further comments on the ED proposals.

**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.

We are not aware of any regulatory issues 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.

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

Subject to our responses to the specific matters raised for comment as provided above, we believe that overall the proposals would result in reporting that is useful to users.

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

In the context of the limited scope of the proposals, which are made in the context of the existing framework for determining reduced disclosure requirements for Tier 2 entities, we would not consider the interests of the Australian economy would be detrimentally impacted by implementing the proposals. As noted in our comment letter to the Board on ED 277, we believe that further revision to the Australian financial reporting environment is required to address the issues that arise as a result of the current focus upon the reporting entity concept as the basis for differential reporting. In this respect Australia is unique in adopting the reporting entity concept, and might be out of step with other jurisdictions where the focus of accounting standards is generally on their application to GPFS. We note the Boards on-going project to address this matter.

**9. Unless already provided in response to specific matters for comment 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.**

We have no further comments on this matter.