



**ACT**  
Government

Chief Minister, Treasury and  
Economic Development

Ms Kris Peach  
The Chair  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Ms Peach

*Kris*

## **ED 277 – Reduced Disclosure Requirements for Tier 2 Entities**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on the Exposure Draft: *Reduced Disclosure Requirements for Tier 2 Entities*.

HoTARAC welcomes the proposal to establish a set of principles for determining reduced disclosure requirements for tier 2 entities. HoTARAC recommends that these principles be tailored for application to the public sector and notes this can be done with little additional effort.

Comments by HoTARAC on the Specific Matters for Comment, including the AASB Specific Matters, in the ED are in the attachment below.

If you have any queries regarding HoTARAC's comments, please contact Peter Gibson from the Department of Finance on (02) 6215 3551 or by email [peter.gibson@finance.gov.au](mailto:peter.gibson@finance.gov.au).

Yours sincerely

David Nicol

**CHAIR**

**HEADS OF TREASURIES ACCOUNTING AND REPORTING ADVISORY COMMITTEE**

23 May 2017

## ATTACHMENT: HoTARAC response ED 277

### General Comments:

HoTARAC notes the AASB's commitment to simplifying and improving the financial reporting framework and the role disclosures play in this. HoTARAC would recommend examining the scope for further reductions in disclosures for public sector entities as part of this wider project. In this regard, HoTARAC believes the New Zealand system of having more than two tiers of reporting for the public sector merits consideration.

#### Question 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).

HoTARAC agrees and strongly supports the AASB's decision to establish a consistent set of principles to determine Tier 2 entity disclosures.

#### Question 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.)

HoTARAC agrees that Key Disclosure Areas should be identified in line with the overarching principles. HoTARAC notes the application of these principles to determining whether to include individual disclosures in ED 277.

HoTARAC notes that "current liquidity and solvency of the entity" (paragraph 8(a)) would have limited application to many General Government Sector public sector entities, whose main form of funding is through annual appropriations. In HoTARAC's view the Key Disclosure Area identified in paragraph 8(b) as "transactions and other events that are significant or material" applies to both the 'for profit' and 'not for profit' sectors. However, HoTARAC stresses that this does not necessarily mean that the disclosures relevant to for-profit entities are relevant to not-for-profit entities.

Consistent with the principles-based approach the AASB has developed for related party disclosures, HoTARAC recommends consideration be given to applying 8(a) only where it is relevant to the disclosing entity. As the AASB has already identified the application of this Key Disclosure Area by standard, a simple application of the cost/benefit principle could determine if the disclosure is necessary for public sector entities.

HoTARAC notes the number of uses of this Key Disclosure Area in complying with AASB 7 *Financial Instruments: Presentation* and the potential for significant reductions in required disclosures for a number of public sector entities.

HoTARAC also notes that paragraph 15 mentions two additional areas (information about the reporting framework under which the financial statements are prepared, and information about the structure of the reporting entity) where the benefits of disclosure exceed the costs. For completeness, it is suggested that these be explicitly included within the Key Disclosure Areas.

Question 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.

HoTARAC agrees subject to our comments in Question 2 on the applicability of the liquidity and solvency Key Disclosure Area.

Question 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).

HoTARAC agrees.

Question 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).

HoTARAC considers that guidance is actually designed to help preparers of financial statements, rather than directly creating a disclosure burden. This is particularly important for Tier 2 entities, which may have less internal financial reporting resources and expertise available. On that basis, HoTARAC questions the AASB's approach, and recommends that the Basis for Conclusions include further explanation of the motivation behind this reduction in guidance. If the guidance is unnecessary or redundant, why is it included in the standard? (As a general principle, HoTARAC supports removal of paragraphs that do not provide a significant benefit to users of the standard.)

Question 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).

HoTARAC considers that while cross-referencing can be seen as a duplication of disclosure requirements, cross-referencing does serve as a reminder of other applicable standards. Tier 2 entities are smaller and less well resourced compared to Tier 1 entities, so HoTARAC is supportive of cross-referencing for Tier 2 entities that directs those entities to the specific Tier 2 disclosure requirements of those other standards.

Question 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.

HoTARAC agrees that the disclosure requirements are reasonable in the context of the joint Policy Statement.

HoTARAC refers to the response to question 2 above in respect to the Key Disclosure Area on solvency. If the AASB agrees to address HoTARAC's concerns about that Key Disclosure Area, HoTARAC suggests that those disclosures be omitted on cost/benefit grounds. HoTARAC is also willing to further discuss the application of the key disclosures in Q8(b) for application to public sector not-for-profit entities.

Question 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.

HoTARAC favours approach (a)

Question 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.

HoTARAC agrees.

Question 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.

HoTARAC agrees.

Question 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?

HoTARAC agrees with not proposing specific transition requirements.

Question 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

(a) No comment

(b) HOTARAC's view is that the amended Tier 2 disclosures do not provide sufficient additional benefit to encourage eligible public sector entities to prepare Tier 2 statements. (In most instances outside the Commonwealth, public sector not-for-profit entities presently apply Tier 1.)

**General Matters for Comment:**

Question 13

(a) 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;

HoTARAC considers that public sector, reporting requirements are often set in specific public finance or local government legislation. The Executive and Public Accounts Committees may influence the requirements of this legislation, and its application. In some instances, this may work to restrict the ability of public sector entities to adopt Tier 2 reporting.

Further, some specific accountability reporting requirements may work to restrict the benefit to some entities of presenting financial statement on a Tier 2 basis. For example, universities are required to report financial statements to the Department of Education and Training (Commonwealth). As the specification for the reporting are Tier 1, universities may not view it appropriate to produce Tier 2 financial statements for their own reporting purposes.

Finally, some preparers in the public sector in Australia, particularly in Commonwealth and State Governments, see limited benefit in preparing Tier 2 financial reports, when they still need to prepare the additional Tier 1 disclosures for inclusion in the consolidated whole-of-government financial statements. While this issue is not unique to the public sector, it is accentuated because almost every entity is considered a "subsidiary" of the whole-of-government.

Q13(b) whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC agrees that simpler financial statements would benefit users.

Q13(c) the proposals are in the best interests of the Australian economy; and

HoTARAC has no comments.

Q13 (c) continued:

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 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

HoTARAC notes that cost savings to preparers from reduced disclosures are offset by:

- the need to supply full Tier 1 information on consolidation, resulting in the use of a supplementary pack to collect the information; and
- increased differentiation in disclosures made by similar entities with similar user groups, particularly in the public sector where Tier 1 need only be applied at the consolidated level. This may result in similar entities within a particular jurisdiction choosing to adopt Tier 2 only when convenient, rather than when justified on the basis of user needs.