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

Our ref Submission - ED 277 - Tier2

5 July 2017

Dear Kris

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

We are pleased to have the opportunity to comment on *Exposure Draft 277- Reduced Disclosure Requirements for Tier 2 Entities* (ED 277). Overall we support the proposals as outlined in ED 277.

Overall we concur with the ‘key disclosure areas’ identified in the draft policy. In addition we agree with the overarching principles of the proposed framework, being information that meets user needs and consideration of the costs and benefits of providing such information. Our main concern is the practical application of this framework. We would argue that the highlighted minimum disclosures are still too extensive when considering the user needs.

We still agree with the approach of setting minimum disclosures and then allowing users to disclose additional information specific to their entities underlying transactions. However, the practical application of the RDR decision-making framework needs to be further debated. One approach could be to start with the only required disclosures being a summary accounting policy and one level of disaggregation of a balance sheet item described in a note. We acknowledge that there will always be certain disclosures that the Board will require – for example certain related party disclosures. All additional disclosures are then left to the discretion of the preparers who are best placed to apply to their specific entity.

The above is a suggestion only – however what we wish to highlight is the need for the practical application of the RDR decision-making framework to be further debated.

In addition, we are concerned preparers will still be challenged in identifying the transactions and events that are significant and material to understanding the entity’s operations and that disclosure overload will therefore continue. Or indeed, relevant information may be omitted. We acknowledge the current projects relating to the Disclosure Initiative (including the Materiality Practice Statement and Principles of Disclosure) will support these decision and identification processes.

We recommend that the AASB provide an education program when the new RDR for Tier 2 entities framework is released and becomes effective to assist preparers in consistently identifying transactions and events that are significant and material to understanding the entity's operations. Although this may be viewed as ancillary to RDR, we consider that this is one of the more considerable hurdles in the adoption of Tier 2 disclosures and its application. In the most part, entities that would be considering applying, or be required to apply, the Tier 2 disclosures will include preparers that struggle with judging what is significant or material, and given there are no objective criteria for this assessment, any assistance (including examples) directly related to making these decisions will be the most beneficial in the desired outcome of a reduced disclosure regime.

Our responses to the questions in the ED are included in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact myself on (02) 9455 9744, or Julie Locke on (02) 6248 1190.

Yours sincerely



Michael Voogt  
Director, Department of Professional Practice

## Appendix

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

**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?**

We agree with the overarching principles.

**2 Do you agree with the two Key Disclosure Areas identified in the proposed joint Policy Statement as being essential for meeting user needs?**

We agree with the two Key Disclosure Areas identified.

Many preparers and entities struggle with identifying transactions and other events significant and material to understanding the entity's operations. We encourage the AASB to provide an education program when the new RDR for Tier 2 entities framework is released and becomes effective to assist preparers in consistently identifying that transactions and events that are significant and material to understanding the entity's operations. Without preparers having a context and understanding of these transactions and events, the risk is that the overlay of the emphasis of materiality will not occur and the disclosure of immaterial information will continue, negating the effect of reduced disclosures.

**3 Do you agree with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities?**

We agree with the approach of having a joint Policy Statement. Refer to the discussion in the cover of this submission for our concerns around the practical application of the decision-making framework.

**4 Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies?**

We agree with the AASB's approach regarding disclosures about accounting policies.

**5 Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements?**

Refer to the discussion in the cover of this submission for our concerns around the practical application of the decision-making framework.

Given, however, that the guidance for disclosure requirements contained in Australian Accounting Standards is often useful for preparers in understanding the types of disclosures

that could or should be made, we encourage the AASB to provide an education program when the new RDR for Tier 2 entities framework is released and becomes effective. This will enhance the understanding for preparers that the guidance in the Australian Accounting Standards relating to disclosure requirements is a useful and important resource for entities in preparing the disclosures.

**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?***

We agree with the approach taken by the AASB regarding cross-references to other standards.

**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?***

No – refer to the discussion in the cover of this submission for our concerns around the practical application of the decision-making framework.

**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.***

We prefer 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.

We are aware that a third option is also available for consideration – being the approach currently adopted by the AASB of shading the disclosures that are reduced for Tier 2 disclosure purposes.

We would support consideration being given to both shading and an Australian Appendix. This would potentially cater for different accounting standard user styles.

In addition, proposed approach relating to the disclosure of accounting policies set out in paragraphs 12 and Aus12.1 would be more effective if presented in an Appendix – as illustrated by the Proposed Tier 2 Disclosures in ED 277.

- 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?**

We agree with the inclusion of both presentation and disclosure requirement in the Australian Appendix where an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements.

- 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.**

We agree with the proposed effective date and early adoption provisions outlined above.

- 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?**

We do not believe that any specific transition requirements are needed.

- 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.**

On balance we do not think that the amended Tier 2 disclosures would encourage eligible entities that currently prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements. Special Purpose Financial Statements prepared within the Corporations Act framework are only required to comply with AASB 101, AASB 107, AASB 108, AASB 1048 *Interpretation and Application of Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards* and those disclosures considered necessary by the directors to meet the needs of members. We consider that these entities will still view the amended Tier 2 disclosures as being in excess of their current disclosure requirements.



We believe that the amendments to RDR should just be one step as part of a larger project that considers the role of special purpose financial statements for entities (in particular companies). As a package of changes then entities would be encouraged to adopt the Tier 2 reporting framework.

In relation to entities that currently prepare Tier 1 financial reports, and are not publically accountable, it is harder to form a view on a move to the Tier 2 reporting framework. Historically entities are required to prepare general purpose financial reports for any number of commercial reasons. It would therefore be a commercial decisions as to whether the preparer would want to request a change or if the user would accept such a change. Either way I suspect any trend would not be immediate, but instead would occur over a number of reporting periods.