Perspective

This is one of a series of articles where experts in assurance, reporting and regulatory matters discuss recent technical and policy developments in these areas.

Proposed Reduced Disclosure Requirements revisions for Tier 2 entities

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Introduction

The Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB) (the Boards) are proposing to revise their approach to determining disclosure requirements for Tier 2 entities[1], and to make consequential changes to the current disclosure requirements for Tier 2 entities.

The proposals:

a) are intended to result in a more robust approach to determining disclosure requirements for Tier 2 entities, with a clearer focus on user needs

b) are being undertaken jointly to maintain trans-Tasman harmonisation for Tier 2 for-profit entities and

c) from the AASB's perspective, are responding to issues raised that there needed to be a better balance between benefits of financial information to users and costs to preparers of providing that information and are part of a bigger project to assist in simplifying and improving the financial reporting framework in Australia.

The Boards are seeking feedback from constituents on the proposed revised approach and changes to the disclosure requirements for Tier 2 entities by **26 May 2017**. See AASB ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* and ED NZASB 2017-1 *Amendments to RDR for Tier 2 For-profit Entities* and its accompanying Invitation to Comment.

Current approach to determining RDR

The current Tier 2 disclosure requirements are based on the approach developed by the AASB in 2010. That approach uses the International Accounting Standards Board's (IASB) IFRS for SMEs® Standard as the starting point. The current process for identifying disclosure concessions is as follows:

a) draw directly on the disclosure requirements in the IFRS for SMEs Standard when Tier 2 recognition and measurement requirements are the same as those under the IFRS for SMEs Standard and

[1] The reference to Tier 2 entities covers Tier 2 for-profit and not-for-profit entities in Australia and Tier 2 for-profit entities in New Zealand.

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b) use the “user needs” and “cost-benefit” principles applied by the IASB in developing its IFRS for SMEs Standard when Tier 2 recognition and measurement requirements are not the same as those available under the IFRS for SMEs Standard.

Operational guidance was developed to facilitate the application of the “user needs” and “cost-benefit” principles.

The IASB currently has decided not to update the IFRS for SMEs Standard for new IFRS® Standards and some of the limited-scope amendments that have been issued over the past few years (for example, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*). This means that the IFRS for SMEs Standard cannot be used as the starting point for determining disclosure requirements for Tier 2 entities for these recently issued standards.

Proposed revised approach

The Boards undertook limited outreach and, based on feedback received, developed a proposed RDR decision-making framework and operational guidance to facilitate its application.

The overarching principles of the proposed RDR framework are that (i) the information provided by the financial statements meets user needs, and (ii) the benefits of providing the disclosures exceed the costs.

Under the proposed RDR framework a Tier 2 entity discloses information about its financial position, financial performance and cash flows by presenting a set of financial statements in the same way as a Tier 1 entity. However, the overarching principles of user needs and cost-benefit are applied to the disclosure requirements in Australian Accounting Standards/NZ IFRS to reduce the disclosures required to be provided by Tier 2 entities.

The Boards identified two Key Disclosure Areas that they consider are essential for meeting user needs. These Key Disclosure Areas are:

a) current liquidity and solvency of the entity and

b) transactions and other events that are significant or material to an understanding of the entity’s operations as represented by the financial statements. This comprises disclosures about:

    i. the nature of the transaction or event that makes it significant or material to the entity

    ii. associated risks specific to a transaction or event

    iii. associated accounting policies on recognition or measurement specific to a transaction or event

    iv. associated significant estimates and judgements specific to a transaction or event

    v. commitments and contingencies

    vi. impairment

    vii. related parties and

    viii. subsequent events.

The proposed RDR framework is based on a rebuttable presumption that the benefits of providing the disclosures listed above exceed the costs. Unless that presumption is rebutted, Tier 2 entities are required to provide those disclosures. For example, the presumption might be rebutted where a standard requires extensive disclosures about a topic that relates to a Key Disclosure Area. There could be some specific disclosures that provide little incremental benefit to users of the financial statements of Tier 2 entities, in which case the presumption is rebutted and Tier 2 entities would not be required to provide those disclosures.

Similarly, there is a rebuttable presumption that the costs of providing a disclosure exceed the benefits where the disclosure is not a Key Disclosure Area. Unless the presumption is rebutted, Tier 2 entities are not required to provide those disclosures. For example, this presumption might be rebutted where the disclosure provides information about the reporting framework under which the financial statements are prepared or information about the structure of the entity reporting (that is, whether the reporting entity is a group and the composition of that group) and providing the disclosure does not impose significant additional costs on the entity reporting. In such cases, the presumption is rebutted and Tier 2 entities would be required to provide the disclosure.

An objective of the proposed RDR framework is that the face of the financial statements of Tier 1 entities and Tier 2 entities would display the same information, except for the requirement to present a third statement of financial position.[2] The operational guidance explains what is considered to be presentation requirements for the purposes of applying the proposed RDR framework.

Different approaches of the Boards when applying the proposed RDR framework

Over the course of this joint project, differences in approach to applying the proposed RDR framework have arisen between the AASB and the NZASB. This is largely a factor of differences in the financial reporting frameworks in Australia and New Zealand. Despite these differences, the outcome of applying the proposed RDR framework is expected to result in substantially the same disclosure requirements for Tier 2 entities in Australia and Tier 2 for-profit entities in New Zealand. The differences in approach relate to the following:

a) Disclosures about accounting policies – the AASB proposes to place reliance on the requirements in AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* for Tier 2 entities to disclose significant accounting policies applied in the preparation of the financial statements. The NZASB proposes to keep the requirement to disclose accounting policies in all standards that contain this requirement.

b) Guidance – in limited circumstances, the AASB proposes to reduce guidance for disclosures that are kept for Tier 2 entities where the guidance is of a general nature and is, therefore, considered to be unnecessary. The NZASB proposes to keep all guidance related to disclosure requirements.

c) Cross-references to other standards – where the cross-referencing is general (that is, the cross-reference is to a standard rather than to a specific paragraph in another standard), the AASB proposes to reduce the paragraph containing the cross reference whereas the NZASB proposes to keep the paragraph.

Differences between the current and proposed RDR

When comparing current RDR with the new proposals, it is important for entities to be aware of the following:

a) in many instances the disclosure requirements under the proposed RDR framework are different from the current disclosure requirements, so the change in RDR is difficult to quantify

b) additional RDR paragraphs cater for more partial concessions than were previously identified

c) some guidance that was previously identified as a concession is now being kept because it is guidance rather than a disclosure requirement

d) a few concessions are being removed because they are presentation requirements rather than disclosure requirements and

e) although reconciliations are not required under the proposed RDR framework, disclosure is required of some of the individual items in those reconciliations.

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[2] In certain circumstances, a Tier 1 entity is required to prepare a statement of financial position at the beginning of the preceding period (see paragraph 10(f) of AASB 101/NZ IAS 1).

Effective date

It is proposed that the effective date of the amended disclosure requirements would be annual periods beginning on or after 1 January 2019, with early application permitted for annual periods beginning on or after 1 January 2018. The amendments to AASB 140/NZ IAS 40 *Investment Property* may be adopted only when a Tier 2 entity adopts AASB 16/NZ IFRS 16 *Leases*.

The restrictions on early adopting the amended disclosure requirements are to ensure that the disclosures contained in the exposure draft are aligned with amendments to disclosures in Australian Accounting Standards/NZ IFRS that are effective for annual periods beginning on or after 1 January 2018, such as the consequential amendments arising from AASB 9/NZ IFRS 9 *Financial Instruments* and AASB 15/NZ IFRS 15 *Revenue from Contracts with Customers*.

Feedback sought

The Boards are seeking feedback from constituents on the proposals by **26 May 2017**. AASB ED 277 is available at aasb.gov.au/admin/file/content105/c9/ACCED277_01-17.pdf and the New Zealand Invitation to Comment and ED NZASB 2017-1 are available at xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/NZASB_2017-1.aspx The exposure drafts are accompanied by a staff analysis that applies the proposed RDR decision-making framework to the disclosure requirements for Tier 1 entities in order to derive revised disclosure concessions for Tier 2 entities.