

## **EXPOSURE DRAFT NZASB 2017-1**

### **AMENDMENTS TO RDR FOR TIER 2 FOR-PROFIT ENTITIES**

**(ED NZASB 2017-1)**

**Invitation to Comment**

January 2017

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PO Box 11250  
Manners St Central, Wellington 6142  
New Zealand  
<http://www.xrb.govt.nz>

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# Information for Respondents

## Invitation to Comment

The New Zealand Accounting Standards Board (NZASB)<sup>1</sup> is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all comments before finalising the proposals for disclosure requirements for Tier 2 for-profit entities.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues that are relevant to you.

Submissions should be sent to:

Chief Executive  
External Reporting Board  
PO Box 11250  
Manners St Central  
Wellington 6142  
New Zealand

Email: [submissions@xrb.govt.nz](mailto:submissions@xrb.govt.nz)  
(please refer to *RDR for For-profit Entities* in the subject line)

We would appreciate receiving a copy of your submission in electronic form (preferably Microsoft Word format) as that helps us to efficiently collate and analyse comments.

Please note in your submission on whose behalf the submission is being made (for example, own behalf, a group of people, or an entity).

The closing date for submissions is **26 May 2017**.

## Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website ([xrb.govt.nz](http://xrb.govt.nz)), unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 1993 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g. that it would be likely to unfairly prejudice the commercial position of the person providing the information).

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<sup>1</sup> The NZASB is a sub-Board of the External Reporting Board (XRB Board), and is responsible for setting accounting standards.

## List of Abbreviations

The following abbreviations are used in this Invitation to Comment.

AASB	Australian Accounting Standards Board
ED	Exposure Draft
GPFS	General purpose financial statements
IASB	International Accounting Standards Board
ITC	Invitation to Comment
NZ IFRS	New Zealand equivalents to International Financial Reporting Standard
NZ IFRS RDR	NZ IFRS with disclosure concessions for Tier 2 for-profit entities
NZASB	New Zealand Accounting Standards Board, a sub-Board of the External Reporting Board
RDR	Reduced Disclosure Regime
SPFS	Special purpose financial statements

## Questions for Respondents

	Paragraphs
1. Do you agree with the overarching principles on which the proposed RDR decision-making framework is based (that is, user needs and cost-benefit)? If you disagree, please explain why.	24
2. Do you agree with the two Key Disclosure Areas identified 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?	28
3. Do you agree with the proposed RDR decision-making framework and operational guidance as a whole for determining RDR for Tier 2 for-profit entities? If you disagree, please explain why.	27–49
4. Do you agree with the outcome of the application of the proposed RDR-decision making framework and operational guidance to the disclosure requirements in NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities? 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.	See ED
5. Do you agree with the approach taken by the NZASB regarding disclosures about accounting policies? If you disagree, please explain why.	55–60
6. Do you agree with the approach taken by the NZASB regarding guidance for disclosure requirements? If you disagree, please explain why.	61–63
7. Do you agree with the approach taken by the NZASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why.	64–68
8. Do you agree with the proposal to retain the approach of using an asterisk (*) for disclosures that Tier 2 entities are not required to provide and explaining partial concessions by means of an RDR paragraph? If you disagree, please provide, with reasons, an alternative approach for consideration.	77–79
9. 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 for annual periods beginning on or after 1 January 2018 (with early adoption of the concessions in NZ IAS 40 permitted only when an entity also applies NZ IFRS 16)?	80–82

10. Do you have any other comments on the ED?

# 1. Introduction

## 1.1 Background

1. The New Zealand Accounting Standards Board (NZASB) and Australian Accounting Standards Board (AASB) have jointly developed a proposed RDR decision-making framework (proposed RDR framework), which is outlined in paragraphs 27–49 of this Invitation to Comment (ITC). It is intended that the proposed RDR framework, when finalised, will form a joint Policy Statement to be used for determining disclosure requirements for Tier 2 for-profit entities<sup>2</sup>.
2. The NZASB and the AASB are proposing to amend the disclosure requirements for Tier 2 for-profit entities based on the proposed RDR framework.
3. The project:
  - (a) is intended to result in a more robust approach to determining disclosure requirements for Tier 2 for-profit entities, with a clearer focus on user needs;
  - (b) is being undertaken jointly with the AASB to maintain trans-Tasman harmonisation<sup>3</sup> for Tier 2 for-profit entities; and
  - (c) from the AASB’s perspective, is responding to issues raised during its Post-implementation Review that there needed to be a better balance between benefits of financial information to users and costs to preparers of providing that information and is part of a bigger project to assist in simplifying and improving the financial reporting framework in Australia.
4. At present, both the NZASB and the AASB have an existing second tier of financial reporting requirements for Tier 2 for-profit entities, comprising a harmonised Reduced Disclosure Regime (RDR). Tier 2 For-profit Accounting Requirements have the same recognition and measurement requirements as Tier 1 For-profit Accounting Requirements but with reduced disclosures. In New Zealand, the Tier 2 For-profit Accounting Requirements are referred to as the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).
5. Entities may elect to apply NZ IFRS RDR if they are:
  - (a) for-profit entities that do not have public accountability as defined for financial reporting purposes; or
  - (b) for-profit public sector entities that are not large (a for-profit public sector entity is not large if it has total expenses of \$30 million or less).

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<sup>2</sup> The reference to Tier 2 for-profit entities should be read as Tier 2 entities for Australian entities.

<sup>3</sup> In August 2009, the then Prime Ministers of Australia and New Zealand signed the Joint Statement of Intent: Single Economic Markets Outcome Framework. One of the outcomes of that Statement of Intent was that for-profit entities operating in both countries should be able to use only one set of accounting standards and to prepare one set of financial statements that would be acceptable in both countries.



6. Although the NZASB and the AASB have undertaken this project jointly, there are some differences in the New Zealand and Australian financial reporting frameworks, which each board took into account when developing the proposals. These differences include the following.
- (a) Since the introduction of the Financial Reporting Act 1993 in New Zealand, companies with a statutory requirement to prepare financial statements are required to prepare general purpose financial statements (GPFS) in accordance with generally accepted accounting practice (GAAP).<sup>4</sup>
  - (b) In contrast, in Australia, companies with a statutory requirement to prepare financial statements are not necessarily required to prepare GPFS. To determine whether to prepare GPFS or special purpose financial statements (SPFS), entities consider whether they are reporting entities as defined in Australia.
  - (c) As a consequence of the statutory requirements in New Zealand, for over 20 years New Zealand accounting standards have included a second tier of financial reporting requirements for entities preparing GPFS in order to provide some reporting concessions for certain entities that are not publicly accountable. For example, NZ IFRS RDR was introduced as a replacement for an existing differential reporting regime.
  - (d) In contrast, in Australia, a second tier of reporting requirements for entities preparing GPFS was introduced relatively recently, in 2010.
7. The above differences between the financial reporting frameworks in New Zealand and Australia have resulted in some differences in how the NZASB and AASB are proposing to present the disclosure requirements for Tier 2 for-profit entities, as explained further in Section 2. However, notwithstanding those differences, the outcome of applying the Tier 2 Accounting Requirements is expected to be substantially the same in both New Zealand and Australia. In other words, in practice, a Tier 2 for-profit entity applying the New Zealand Tier 2 requirements should provide substantially the same disclosures as it would have done if it had instead applied the Australian Tier 2 requirements.

## 1.2 Purpose of this Invitation to Comment

8. The purpose of this ITC and associated Exposure Draft (ED) is to seek comments on (a) the proposed RDR framework and (b) proposed amendments to the disclosure requirements for Tier 2 for-profit as a consequence of applying that framework.
9. The proposals in this ITC and accompanying ED do not change which for-profit entities are permitted to report in accordance with Tier 2 Accounting Requirements. The proposals, when finalised, amend the current disclosure requirements for Tier 2 for-profit entities.

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<sup>4</sup> Under the Financial Reporting Act 1993 very small companies could prepare financial statements in accordance with the Financial Reporting Order (FRO) 1994 rather than in accordance with GAAP. Recent legislative reforms have removed the statutory requirement for many small and medium-sized companies to prepare GAAP-compliant financial statements or financial statements in accordance with the FRO. However, those companies that continue to have a statutory requirement to prepare financial statements also continue to have a statutory requirement to prepare GPFS in accordance with GAAP.

### 1.3 Timeline and Next Steps

10. Submissions on ED NZASB 2017-1 are due by **26 May 2017**. Information on how to make submissions is provided on page 4 of this Invitation to Comment.
11. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the amended disclosure requirements for Tier 2 for-profit entities.

## 2. Overview of Invitation to Comment and ED

### 2.1 Summary of the Content

13. This Invitation to Comment and accompanying ED, ED NZASB 2017-1 *Amendments to RDR for For-profit Entities* contain:
  - (a) an explanation of the New Zealand Accounting Standards Framework as it applies to Tier 2 for-profit entities;
  - (b) an explanation of the current approach for determining disclosure requirements for Tier 2 for-profit entities;
  - (c) an explanation of how the Key Disclosure Areas in the proposed new RDR decision-making framework were determined;
  - (d) an explanation of the proposed RDR framework, accompanying operational guidance and its application for determining Tier 2 disclosure requirements, in particular where the approach of the NZASB and the AASB differ;
  - (e) an explanation of the method for identifying Tier 2 disclosure concessions;
  - (f) a high-level summary of the differences between the current RDR for Tier 2 for-profit entities and the proposed RDR for Tier 2 for-profit entities in ED NZASB 2017-1; and
  - (g) proposed amendments to the disclosure requirements for Tier 2 for-profit entities as a consequence of applying the proposed RDR framework.
14. The NZASB is seeking feedback on (a) the proposed RDR framework, and (b) the disclosure requirements for Tier 2 for-profit entities as a result of applying the proposed RDR framework.
15. At the end of this project, the proposed RDR framework will form a Policy Statement (attached as Appendix A) issued jointly by the NZASB and the AASB and that policy will be applied for determining disclosure requirements for Tier 2 for-profit entities in New Zealand and Tier 2 entities in Australia.
16. Although judgement is required in applying the proposed RDR framework, different people applying it should generally come to similar conclusions about the disclosure requirements for Tier 2 for-profit entities.
17. This [ED is accompanied by a staff analysis of the application](#) of the proposed RDR framework to the disclosure requirements in NZ IFRS. The analysis uses shading to identify the proposed reduced disclosures for Tier 2 for-profit entities, and also provides a comparison of current RDR with the new proposals applying the proposed RDR framework.

### 2.2 Determining RDR for For-profit Entities

#### Current Approach for Determining RDR

18. At present, the disclosure requirements for Tier 2 for-profit entities are consistent with, and substantially the same as those for Australian Tier 2 entities.

19. The current Tier 2 disclosure requirements are based on the approach developed by the AASB in 2010. That approach uses the IFRS for SMEs<sup>®</sup> Standard as the starting point. The 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
  - (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.
20. Operational guidance was developed to facilitate the application of the “user needs” and “cost-benefit” principles.

#### **Proposed Approach for RDR**

21. In 2015 the NZASB and the AASB undertook a project to jointly review the approach taken for determining Tier 2 disclosure requirements.
22. The AASB consulted representatives of users of the financial statements of Australian Tier 2 entities, both for-profit and not-for-profit, to identify the information needs of those users. The NZASB undertook a limited consultation with users of the financial statements of New Zealand Tier 2 for-profit entities to identify their information needs.<sup>5</sup>
23. Based on the feedback received from the Boards’ outreach, a proposed RDR framework and operational guidance to facilitate its application have been developed.
24. The overarching principles of the proposed RDR framework are that:
  - (a) the information provided by the financial statements meets user needs; and
  - (b) the benefits of providing the disclosures exceed the costs.
25. The Boards have developed the proposed RDR framework to provide a more robust approach and consistent basis for developing Tier 2 disclosure requirements. That is, the Boards’ expectation is that different people should be able to apply the RDR framework and operational guidance and come to similar conclusions about whether or not a Tier 2 for-profit entity should be required to comply with a Tier 1 disclosure.
26. The IASB has decided not to update the IFRS for SMEs Standard for some of the limited-scope amendments and new IFRS<sup>®</sup> Standards 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.

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<sup>5</sup> The XRB Board is currently undertaking research to identify the financial information and assurance needs of users of for-profit Tier 2 entity reports in accordance with its Strategic Action Plan.

## 2.3 Proposed RDR Decision-making Framework

27. Under the proposed RDR framework a Tier 2 for-profit entity discloses information about its financial position, financial performance and cash flows by presenting a set of financial statements in the same way that a Tier 1 for-profit entity prepares its financial statements. However, the overarching principles of user needs and cost-benefit are applied to the disclosure requirements in NZ IFRS to reduce the disclosures to be provided by Tier 2 entities.
28. The Boards identified two Key Disclosure Areas that they consider would be 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 policy 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.
29. The disclosures about transactions and other events that are significant or material to an understanding of the entity's operations as represented by the financial statements are categorised broadly into:
- (a) disclosures of a general nature that apply for all transactions and events (paragraphs 28(b)(i)–(iv)); and
  - (b) specific disclosures about particular types of transactions and events (paragraphs 28(b)(v)–(viii)).
30. The RDR framework is based on a rebuttable presumption that the benefits of providing the disclosures listed in paragraph 28 above exceed the costs. Unless that presumption is rebutted, Tier 2 entities are required to provide those disclosures. An example of when the presumption might be rebutted is where a standard requires extensive disclosures about a topic that is, or 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 for-profit entities, in which case the presumption is rebutted and Tier 2 for-profit entities are not required to provide those disclosures.

31. 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 for-profit entities are not required to provide those disclosures. An example of when the presumption might be rebutted is 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 these cases, the presumption is rebutted and Tier 2 for-profit entities are required to provide the disclosure.

#### **Question for Respondents**

1. Do you agree with the overarching principles on which the proposed RDR decision-making framework is based (that is, user needs and cost-benefit)? If you disagree, please explain why.
2. Do you agree with the two Key Disclosure Areas identified 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?

#### **Operational Guidance**

32. Operational guidance has also been developed to facilitate application of the proposed RDR framework to the disclosure requirements for Tier 1 for-profit entities. The areas dealt with in the guidance are discussed below.

##### *Presentation vs Disclosure*

33. An objective of the proposed RDR framework is that the face of the financial statements of Tier 1 for-profit entities and Tier 2 for-profit entities would display the same information. As a consequence of this, the presentation<sup>6</sup> requirements for Tier 1 entities and Tier 2 entities are the same. The RDR framework is concerned only with reducing the disclosure burden for Tier 2 entities. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.
34. Requirements are considered to be presentation requirements if they:
- (a) specify the broad structure of the financial statements, including the basis of classification of items; and
  - (b) address additional line items, disaggregation and subclassification of line items on the face of the primary financial statements.
35. Presentation requirements are not subjected to analysis under the proposed RDR framework.

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<sup>6</sup> The standards sometimes use the term presentation interchangeably with the term classification.

36. Requirements are considered to be disclosure requirements if they:
- (a) specify additional line items and disaggregation to be disclosed in the notes; and
  - (b) may be provided either on the face of the financial statements or in the notes.
37. Disclosure requirements are subjected to analysis under the proposed RDR framework.

*Disclosure Objective/Principle*

38. Some NZ IFRSs include paragraphs that require an entity to disclose information to meet a stated objective. For example, "An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period." (paragraph 44 of NZ IFRS 2 *Share-based Payment*). These paragraphs are then followed by more specific disclosure requirements to meet that objective.
39. In these circumstances, the paragraphs that require specific disclosures are subjected to analysis under the proposed RDR framework and the paragraphs that require an entity to meet a stated disclosure objective are reduced for Tier 2 for-profit entities.
40. Paragraphs 51 and 89 of NZ IFRS 16 *Leases*, issued in February 2016, include a disclosure objective without requiring an entity to provide any disclosures. Instead, disclosure requirements are set out in other paragraphs. Paragraphs 51 and 89 are, therefore, not reduced because they do not contain disclosure requirements.

*Guidance*

41. The disclosure requirements in NZ IFRS are often accompanied by guidance which is intended to assist entities in providing those disclosures. This guidance is generally kept for Tier 2 for-profit entities.
42. However, guidance about the presentation of information "in a tabular format, unless another format is more appropriate" is reduced to provide Tier 2 entities with more flexibility on how information is presented.

*Disclosures that are Encouraged*

43. Tier 2 for-profit entities are not required to provide disclosures that are encouraged (rather than required).

*Reconciliations*

44. Tier 2 for-profit entities are not required to provide reconciliations of opening balances to closing balances.
45. However, the individual items that make up that reconciliation are subjected to analysis under the proposed RDR framework because some of those items are Key Disclosure Areas. In these circumstances, the individual items that are a Key Disclosure Area are required to be disclosed by Tier 2 for-profit entities.

### *Cross-referencing in NZ IFRS*

46. Sometimes a disclosure requirement or guidance includes a cross-reference to disclosure requirements or guidance in another NZ IFRS.
47. Where the cross-referencing is specific, (for example, a disclosure in NZ IFRS 3 *Business Combinations* includes a reference to paragraph 85 of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), both paragraphs are either kept for, or not required to be considered by, Tier 2 entities.
48. Sometimes the cross-referencing is of a general nature (for example, a reference to NZ IAS 36 *Impairment of Assets* rather than to a specific paragraph in NZ IAS 36). These paragraphs are also kept for Tier 2 entities.

### *NZ IFRSs that are not Applicable to Tier 2 For-profit Entities*

49. NZ IFRS 8 *Operating Segments* and NZ IAS 33 *Earnings per Share* do not apply to Tier 2 for-profit entities. Requirements in other NZ IFRSs that refer to these two standards without establishing any additional disclosure requirements are, therefore, not required to be provided by Tier 2 for-profit entities.

#### **Question for Respondents**

3. Do you agree with the proposed RDR decision-making framework and operational guidance as a whole for determining RDR for Tier 2 for-profit entities? If you disagree, please explain why.

50. The NZASB is also seeking feedback on the outcome of applying the proposed RDR framework to the disclosure requirements in NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities. The analysis of that application is contained in a separate document which does not form part of ED NZASB 2017-1. This is provided to enable constituents to provide feedback on the proposed RDR framework and its application.

#### **Question for Respondents**

4. Do you agree with the outcome of the application of the proposed RDR-decision making framework and operational guidance to the disclosure requirements in NZ IFRS to determine the disclosure requirements for Tier 2 for-profit entities? 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.

## **2.4 Different Approaches when Applying the Proposed RDR Framework**

51. Over the course of this joint project, differences in approach to applying the proposed RDR framework have arisen between the NZASB and the AASB.
52. As discussed earlier, this is largely a factor of differences in the financial reporting frameworks in Australia and New Zealand. For example, in Australia entities



preparing GPFS with Reduced Disclosure Requirements may be moving from SPFS, generally with an increase in disclosures, not just moving from Tier 1 GPFS. In addition, in Australia, IFRS is used as the base for for-profit, public sector and not-for-profit standards. Modifications are generally made by way of separate appendices. The AASB approach is therefore intended to reflect existing understood practice and balance the different interests.

53. In New Zealand, all entities that have (or previously had) a statutory requirement to prepare financial statements prepare GPFS. These entities have, therefore, been applying NZ IFRS or NZ IFRS Diff Rep<sup>7</sup>, which means the NZASB's approach is focused on entities that have been preparing GPFS for some time rather than entities previously preparing SPFS.
54. Despite these differences, as noted earlier, 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.

### **Disclosures about Accounting Policies**

55. NZ IAS 1 *Presentation of Financial Statements* requires an entity to disclose its significant accounting policies comprising the measurement basis (or bases) used in preparing the financial statements and the other accounting policies used that are relevant to an understanding of the financial statements (paragraph 117). Paragraphs 118–121 provide guidance for meeting the requirements of paragraph 117.
56. Other NZ IFRSs also contain requirements for an entity to disclose its accounting policy for particular types of transactions. For example, NZ IAS 2 *Inventories* requires an entity to disclose the accounting policies adopted in measuring inventories, including the cost formula used (paragraph 36(a)) and NZ IFRS 15 *Revenue from Contracts with Customers* requires an entity to disclose the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied (paragraph 124(a))).
57. 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 reasons for this are:
  - (a) The note in the financial statements about accounting policies is often a repeat of the requirements of the standard dealing with that type of transaction.
  - (b) The RDR requirements are a self-contained package of disclosures and reliance on other parts of the package are fundamental to its construct. This is the approach of the IASB's *IFRS for SMEs* standard – “the *IFRS for SMEs* has specific disclosure requirements for accounting policies when a choice of models or methods is permitted because, when the related transactions are material, this would normally mean that the disclosure of the accounting policy applied is important in understanding the financial statements. The IASB thinks that when a choice of accounting policy is not available, the general requirement in paragraph 8.5 of the *IFRS for SMEs* to disclose

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<sup>7</sup> NZ IFRS Diff Rep comprised NZ IFRS with differential reporting concessions, which contained both recognition and measurement concessions and disclosure concessions. NZ IFRS Diff Rep was withdrawn effective from 1 April 2015.

'...accounting policies used that are relevant to an understanding of the financial statements' is sufficient." [*IFRS for SMEs* Standard paragraph BC253]

- (c) The AASB proposes to include in the AASB appendix<sup>8</sup> to each standard that contains disclosure requirements a paragraph that the disclosure requirements in AASB 101 and AASB 108 about accounting policies apply where relevant. Likewise, AASB 101 and AASB 108 would include similar messages.
58. As a result, the paragraphs requiring disclosures about accounting policies (and any related guidance) in other accounting standards would be reduced for Tier 2 entities in Australian Accounting Standards. In other words, other accounting standards would not contain specific requirements about accounting policy disclosures; however, Tier 2 entities might still be required to provide accounting policy disclosures relating to the topics covered in those other standards, if necessary to meet the general requirements in AASB 101 and AASB 108.
59. The NZASB is of the view that relying solely on the requirements in paragraphs 117–121 of NZ IAS 1 *Presentation of Financial Statements* for disclosures about accounting policies is not appropriate for the following reasons.
- (a) As discussed in section 2.6, the NZASB is proposing to retain its current approach of using an asterisk (\*) for identifying disclosure concessions within the body of each accounting standard. As with the existing NZ IFRS RDR and previous differential reporting regimes, Tier 2 for-profit entities are not required to provide disclosures when a disclosure requirement has been identified as an RDR concession.
- (b) As a consequence, confusion could arise if disclosures about accounting policies are required by NZ IAS 1 but are identified as a disclosure concession in a standard dealing with a specific type of transaction or event. Constituents could question which standard prevails – NZ IAS 1, under which a Tier 2 for-profit entity is required to provide the disclosure, or the other standard, under which the inclusion of an RDR concession might give the impression that a Tier 2 for-profit entity is not required to provide the disclosure.
- (c) Disclosures about accounting policies in standards other than NZ IAS 1 are included in the context of the disclosures about a specific type of transaction. Relying on the general requirement in NZ IAS 1 could result in inadequate or non-disclosure of accounting policies that are material for that entity in the context of the transaction which the standard is dealing with.
60. Therefore, the NZASB proposes to keep the requirement to disclose accounting policies in all standards that contain this requirement.

#### **Question for Respondents**

5. Do you agree with the approach taken by the NZASB regarding disclosures about accounting policies? If you disagree, please explain why.

<sup>8</sup> The AASB is proposing to include, in an AASB appendix to each standard that contains disclosure requirements, those disclosure requirements that Tier 2 entities would be required to provide.

## Guidance

61. The disclosure requirements in accounting standards are often accompanied by guidance which is intended to assist preparers in providing those disclosures.
62. 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 for Tier 2 entities in meeting those disclosure requirements. For example, paragraph 112 of AASB 15 *Revenue from Contracts with Customers* explains that an entity need not disclose information in accordance with the Standard if it has provided the information in accordance with another standard.
63. The NZASB proposes to keep all guidance related to disclosure requirements because the guidance is intended to assist preparers in providing the disclosures.

### Question for Respondents

6. Do you agree with the approach taken by the NZASB regarding guidance for disclosure requirements? If you disagree, please explain why.

## Cross-referencing in Standards

64. Sometimes a disclosure requirement or guidance in an accounting standard contains a cross-reference to another standard.
65. Where the cross-referencing is specific (for example a disclosure requirement in NZ IFRS 3 *Business Combinations* includes a reference to paragraph 85 of NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), the Boards propose that both paragraphs are either kept or reduced for Tier 2 for-profit entities.
66. Sometimes, the cross-referencing is of a general nature, for example, paragraph 96 of NZ IFRS 16 *Leases* requires a lessor to apply the disclosure requirements in NZ IAS 36, NZ IAS 38, NZ IAS 40 and NZ IAS 41 for assets subject to operating leases.
67. Where the cross-reference is of a general nature, the AASB proposes to reduce the paragraph containing the cross-reference to another standard(s). This is because, in these circumstances, the AASB considers the cross-reference to be a duplication of disclosure requirements (that is, entities would apply the disclosure requirements in the other standards in any event). Hence, the removal of the cross-reference is intended to remove what the AASB considers to be a duplication of requirements.
68. However, the NZASB proposes to keep all paragraphs that contain a cross-reference to another standard. This is because reducing the paragraphs containing the cross-references to other standards might be misinterpreted as implying that Tier 2 for-profit entities are not required to comply with the disclosure requirements in those other standards.

### Question for Respondents

7. Do you agree with the approach taken by the NZASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why.

## **Difference between Australian RDR and New Zealand RDR for Tier 2 for-profit entities**

69. Paragraphs 19–24 of NZ IAS 1 deal with departures from a requirement of an NZ IFRS.
70. The Board proposes to retain these paragraphs for Tier 2 for-profit entities whereas the AASB proposes not to retain these paragraphs for Tier 2 entities.
71. The reason for this difference is a legislative matter that is outside the remit of the accounting standards boards. In Australia, the legislation prohibits an entity from departing from a requirement in an accounting standard. A similar prohibition was contained in the Financial Reporting Act 1993 but it has not been carried over into the Financial Reporting Act 2013.
72. It is, therefore, appropriate for Tier 2 entities to provide the disclosures required by NZ IAS 1 if those entities depart from a requirement of an NZ IFRS.

## **2.5 Summary of the Differences between Current RDR and RDR Applying the Proposed RDR Framework**

73. When comparing current RDR with the new proposals, the following need to be taken into account:
  - (a) in many instances the disclosure requirements under the proposed RDR framework are different from the current disclosure requirements so the change in RDR cannot be quantified;
  - (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.
74. No changes are proposed to the disclosure requirements for Tier 2 for-profit entities in:
  - (a) NZ IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*;
  - (b) NZ IAS 23 *Borrowing Costs*;
  - (c) FRS-44 *New Zealand Additional Disclosures*; and
  - (d) NZ IFRIC 14 *NZ IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*.
75. The most substantial reductions are proposed to:
  - (a) NZ IFRS 7 *Financial Instruments: Disclosures*;

- (b) NZ IFRS 12 *Disclosure of Interests in Other Entities*;
- (c) NZ IFRS 14 *Regulatory Deferral Accounts* – there is currently no RDR;
- (d) NZ IFRS 16 *Leases* – there is currently no RDR; and
- (e) NZ IAS 7 *Statement of Cash Flows* – RDR is proposed for the amendments approved in June 2016 (the addition of paragraphs 44A–44E).

76. In respect of the standards not mentioned in paragraphs 74 and 75 above, there are either fewer disclosure requirements under the new proposals or the number of requirements has not changed, only the requirements themselves have changed.

## 2.6 Identifying RDR for Tier 2 For-profit Entities

77. The NZASB proposes to continue with the current approach of using an asterisk (\*) for identifying disclosures that Tier 2 for-profit entities are not required to provide and explaining partial concessions by means of an RDR paragraph.

78. As mentioned earlier, the AASB proposes to include, in an AASB appendix to each standard that contains disclosure requirements, those disclosure requirements that Tier 2 entities would be required to provide. This would replace the current approach of shading disclosures that Tier 2 entities are not required to provide.

79. An example of the AASB’s proposed approach is included as Appendix B.

### Question for Respondents

8. Do you agree with the proposal to retain the approach of using an asterisk (\*) for disclosures that Tier 2 entities are not required to provide and explaining partial concessions by means of an RDR paragraph? If you disagree, please provide, with reasons, an alternative approach for consideration.

## 2.7 Effective Date and Other Comments

80. The disclosure requirements in the ED include consequential amendments made to NZ IFRSs by NZ IFRS 9 *Financial Instruments* and NZ IFRS 15 *Revenue from Contracts with Customers* (which are both effective for annual periods beginning on or after 1 January 2018), NZ IFRS 16 *Leases* (which is effective for annual periods beginning on or after 1 January 2019) and all other amendments made to the disclosure requirements in NZ IFRSs which are effective for annual periods beginning on or after 1 January 2018.

81. The NZASB proposes 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 for annual periods beginning on or after 1 January 2018. By restricting early application to annual periods beginning on or after 1 January 2018 this avoids any mismatch in disclosure requirements that could arise from an entity early adopting the disclosure concessions before it applies the consequential amendments to those NZ IFRSs that are effective from 1 January 2018.

82. In addition to restricting early adoption, it is proposed that the concessions for NZ IAS 40 *Investment Properties* be available only when an entity applies NZ IFRS 16 *Leases*.

**Questions for Respondents**

9. 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 for annual periods beginning on or after 1 January 2018 (with early adoption of the concessions in NZ IAS 40 permitted only when an entity also applies NZ IFRS 16)?
10. Do you have any other comments on the ED?

## Appendix A: [Draft] Joint Policy for Determining RDR for Tier 2 Entities



Australian Government  
Australian Accounting Standards Board



NZ ACCOUNTING  
STANDARDS  
BOARD

# **[Draft] Policy for Determining RDR for Tier 2 Entities in Australia and Tier 2 For-profit Entities in New Zealand**

[date]

Approved by the AASB and NZASB for application from [date]

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External Reporting Board

PO Box 11250

Manners St Central, Wellington 6142

New Zealand

<http://www.xrb.govt.nz>

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## Preface

The Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB) apply the RDR decision-making framework, together with its accompanying operational guidance to the disclosure requirements in Australian Accounting Standards/New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) to identify which of those disclosure requirements should be reduced for Tier 2 entities in each jurisdiction.

The framework is based on Key Disclosure Areas which result in information that meets user needs.

The 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 policy 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.

Judgement is required when applying this framework, and the overarching principles of user needs and cost-benefit are considered when determining the disclosures that relevant Tier 2 entities in each jurisdiction should make.

When it is necessary to identify specific aspects of the RDR process and framework particular to the Australian or New Zealand jurisdiction, this document uses "Aus" and "NZ" prefixed paragraphs.

# 1. Introduction

1. The objective of this Policy Statement is to have accounting requirements for Tier 2 entities<sup>1</sup> in each jurisdiction to balance the costs and benefits of financial reporting. This Policy Statement is the result of deliberations by the Australian Accounting Standards Board (AASB) and the New Zealand Accounting Standards Board (NZASB) in determining disclosure requirements for Tier 2 entities in each jurisdiction.

Aus1.1 In accordance with AASB 1053 *Application of Tiers of Accounting Standards*, Tier 2 requirements (otherwise known as Reduced Disclosure Requirements (RDR)) comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements. Except for the presentation of a third statement of financial position under Tier 1, the presentation requirements under Tier 1 and Tier 2 are the same.

Aus1.2 Tier 2 reporting requirements, as a minimum, apply to the general purpose financial statements of the following types of entities:

- (a) for-profit private sector entities that do not have public accountability<sup>2</sup>;
- (b) not-for-profit private sector entities; and
- (c) public sector entities, whether for-profit or not-for-profit, other than the Australian Government and State, Territory and Local Governments.

These types of entities may elect to apply Tier 1 reporting requirements in preparing general purpose financial statements.

NZ 1.1 Tier 2 For-profit Accounting Requirements have the same recognition and measurement requirements as Tier 1 For-profit Accounting Requirements but with disclosure concessions (that is, a reduced disclosure regime (RDR)). The Tier 2 For-profit Accounting Requirements are referred to as the New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

NZ 1.2 In accordance with the Accounting Standards Framework<sup>3</sup>, for-profit entities that have a statutory obligation to prepare general purpose financial reports and do not have public accountability, as defined for financial reporting purposes, may report in accordance with Tier 2 For-profit Accounting Requirements<sup>4</sup>.

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<sup>1</sup> In New Zealand, the reference to 'Tier 1 entities' and 'Tier 2 entities' in this Policy should be read as 'Tier 1 for-profit entities' and 'Tier 2 for-profit entities' respectively.

<sup>2</sup> Public accountability is defined and explained in Appendices A and B of AASB 1053.

<sup>3</sup> The Accounting Standards Framework was approved by the Minister of Commerce in April 2012. It comprises different sets of accounting standards for for-profit entities and for public benefit entities, together with a formalised tier structure.

<sup>4</sup> A for-profit public sector entity may elect to report in accordance with Tier 2 For-profit Accounting Requirements if it does not have public accountability and it is not large (a for-profit public sector entity is not large if it has total expenses of \$30m or less).

2. This Policy Statement sets out the RDR decision-making framework and its accompanying operational guidance that the AASB and the NZASB apply to develop disclosure requirements for Tier 2 entities in Australia and New Zealand.
3. This Policy Statement was first issued in [date]. It may be reviewed periodically.

## 2. Basis for Development of RDR Decision-making Framework

4. The RDR decision-making framework has been developed to provide a consistent basis for determining the minimum disclosure requirements (or the disclosure concessions) for Tier 2 entities.
5. Although judgement is required in applying this framework, it should generally result in similar conclusions when applied by the AASB and the NZASB in determining the disclosure requirements for Tier 2 entities in each jurisdiction.
6. The overarching principles of this framework are that:
  - (a) the information provided by the financial statements meets user needs; and
  - (b) the benefits of providing the disclosures exceed the costs.
7. AASB 1053 *Application of the Tiers of Australian Accounting Standards*/XRB A1 *Application of the Accounting Standards Framework* sets out the eligibility criteria that entities in each jurisdiction must meet to report in accordance with Australian Accounting Standards – Reduced Disclosure Requirements/NZ IFRS RDR. This RDR decision-making framework does not change those criteria.

### 3. RDR Decision-making Framework

8. Two Key Disclosure Areas have been identified as being essential for meeting user needs. Those 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) accounting policy on recognition or measurement specific to a transaction or event;
    - (iv) significant estimates and judgements specific to a transaction or event;
    - (v) commitments and contingencies;
    - (vi) impairment;
    - (vii) related parties; and
    - (viii) subsequent events.
9. The disclosures about transactions and other events that are significant or material to an understanding of the entity's operations as represented by the financial statements are categorised broadly into:
  - (a) disclosures of a general nature that apply for all transactions and events (paragraph 8(b)(i)–(iv)); and
  - (b) specific disclosures about particular types of transactions and events (paragraph 8(b)(v)–(viii)).
10. The RDR decision-making framework is based on a rebuttable presumption that the benefits of providing the disclosures listed in paragraph 8 exceed the costs. Unless the standard setter rebuts that presumption, Tier 2 entities are required to make those disclosures.

#### *Disclosure of Accounting Policies*

11. AASB 101/NZ IAS 1 *Presentation of Financial Statements* and AASB 108/NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* require disclosures about accounting policies and estimates and judgements.
12. Disclosures about accounting policies are also required in some standards dealing with particular types of transactions or topics, for example, AASB 102/NZ IAS 2 *Inventories* requires disclosure of the accounting policies adopted in measuring inventories, including the cost formula used.

Aus12.1 The AASB has decided to rely on the requirement in AASB 101 and AASB 108 for disclosures about accounting policies. To achieve this, the appendix to each standard that contains the disclosure requirements for Tier 2 entities includes a reminder that the disclosure requirements in AASB 101 and AASB 108 about accounting policies apply where relevant. Likewise, AASB 101 and AASB 108 include similar messages.<sup>5</sup> Therefore, disclosures about accounting policies, other than those in AASB 101 and AASB 108, are reduced for Tier 2 entities and are not included in the appendix to each relevant standard.

NZ 12.1 The NZASB has decided to not rely solely on the requirements in NZ IAS 1 and NZ IAS 8 for disclosures about accounting policies. The NZASB considers that this avoids any confusion that might arise as a consequence of keeping the general disclosure about accounting policies in NZ IAS 1 and NZ IAS 8 while identifying the accounting policy for particular types of transactions or topics as a concession.

### *Benefits and Costs of Providing Disclosures*

13. In some cases, the presumption that the benefits of providing a disclosure exceed the costs might be rebutted. For example, a standard might require extensive disclosures about a topic that is (or relates to) a Key Disclosure Area. In this situation, there could be some specific disclosures that provide little incremental benefit to users of the financial statements of Tier 2 entities, such that the benefits of that particular disclosure do not exceed the costs<sup>6</sup>. In these circumstances, the standard setter does not require Tier 2 entities to provide the disclosures.
14. Where a disclosure is not a Key Disclosure Area, there is a rebuttable presumption that the costs of providing the disclosures exceed the benefits. Unless the presumption is rebutted, Tier 2 entities are not required to make those disclosures.
15. In some cases, the standard setter might rebut the presumption that the costs of providing the disclosure exceed the benefits. For example, some disclosure requirements provide 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). In this situation, the disclosure provides information that is beneficial for users of the financial statements of Tier 2 entities, such that the benefits of that

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<sup>5</sup> *AASB 101 Presentation of Financial Statements would include the following note upfront:*

In disclosing significant accounting policies relating to transactions and other events accounted for under Australian Accounting Standards, Tier 2 entities should refer to this Standard for relevant disclosure requirements. Should the entity assess that under this Standard disclosure of a significant accounting policy relating to transactions or other events dealt with under another Standard would be required, the entity might refer to disclosure requirements in the main body of that other Standard, if any, for guidance.

*AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors would include the following note upfront:*

For disclosures requirements relating to changes in accounting policies, Tier 2 entities should refer to this Standard.

<sup>6</sup> An example would be paragraph 11A(c) in AASB 7/NZ IFRS 7 *Financial Instruments: Disclosures* which is assessed as a Key Disclosure Area (current liquidity and solvency). However, the presumption that the benefits of providing the disclosure exceed the costs is rebutted because this information is included in the carrying amount of financial instruments in accordance with paragraph 8, which is kept for Tier 2 entities. Therefore, Tier 2 entities would not be required to provide the disclosures under paragraph 11A(c).

particular disclosure exceed the costs. In these circumstances, Tier 2 entities are required to provide the disclosures.

### ***Application of the RDR Decision-making Framework***

16. This framework is applied by the AASB and the NZASB to the disclosure requirements in Australian Accounting Standards/NZ IFRS to determine the disclosure requirements for Tier 2 entities.
17. Although there are rebuttable presumptions, as discussed above, the overarching principles of user needs and cost-benefit are considered each time this framework is applied for determining the disclosure requirements for Tier 2 entities.

### ***Operational Guidance***

18. This operational guidance is used by the AASB and the NZASB to facilitate the application of the RDR decision-making framework.

### ***Presentation vs Disclosure***

19. An objective of the RDR decision-making framework is that the face of the financial statements of Tier 1 and Tier 2 entities would display the same information. As a consequence of this, the presentation<sup>7</sup> requirements for Tier 1 and Tier 2 entities are the same. The RDR decision-making framework is concerned only with reducing the disclosure burden for Tier 2 entities. Sometimes judgement is required as to whether a particular requirement relates to presentation or disclosure.
20. The following guidance is used to distinguish between presentation and disclosure.
  - (a) Presentation requirements are requirements that specify, for the current and the comparative period, the broad structure of financial statements including the basis of classification of items.
  - (b) Requirements addressing additional line items, disaggregation and subclassification of line items on the face of the primary financial statements are considered to be presentation requirements.
  - (c) Specifications relating to additional line items and disaggregation to be disclosed in the notes are treated as matters of disclosure.
  - (d) Where a standard provides an option for disclosure of information either on the face of the financial statements or in the notes, this is considered a disclosure requirement and is assessed against the RDR decision-making framework to determine which disclosures, if any, Tier 2 entities are required to make.

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<sup>7</sup> The standards sometimes use the term presentation interchangeably with the term classification.



### Disclosure Objective

21. Some Australian Accounting Standards/NZ IFRSs include paragraphs that require an entity to disclose information to meet a stated objective.<sup>8</sup> These paragraphs are then followed by paragraphs that require specific disclosures to meet that stated objective.
22. In these circumstances, the paragraphs that require specific disclosures to meet the stated objective are subjected to analysis under the RDR decision-making framework and the paragraphs that require an entity to meet a stated disclosure objective are reduced for Tier 2 entities.
23. Some Australian Accounting Standards/NZ IFRSs include paragraphs that contain a disclosure objective without requiring an entity to provide any disclosures.<sup>9</sup> These paragraphs are not disclosure requirements so they are not reduced for Tier 2 entities.

### Guidance

24. The disclosure requirements in Australian Accounting Standards/NZ IFRS are often accompanied by guidance which is intended to assist entities in making those disclosures.
25. In general, guidance for disclosures that are required to be provided by Tier 2 entities is kept. However, where the guidance is about the presentation of information "in a tabular format unless another format is more appropriate" it is reduced to provide Tier 2 entities with flexibility on how information is presented.

Aus25.1 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.

NZ 25.1 The NZASB has decided to keep all of the guidance that relates to disclosures that Tier 2 entities are required to provide.

### Disclosures that are Encouraged

26. Where an Australian Accounting Standard/NZ IFRS encourages, rather than requires, a disclosure this is reduced for Tier 2 entities.
27. Reconciliations
28. A reconciliation required under Australian Accounting Standards/NZ IFRS is not required to be prepared by Tier 2 entities. However, the individual items in that

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<sup>8</sup> For example, paragraph 44 of AASB 2/NZ IFRS 2 *Share-based Payment*: "An entity shall disclose information that enables users of the financial statements to understand the nature and extent of share-based payment arrangements that existed during the period."

<sup>9</sup> For example, paragraph 51 of AASB 16/NZ IFRS 16 *Leases*: "The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective."

reconciliation are assessed against the RDR decision-making framework to determine which items, if any, Tier 2 entities are required to make.

*Cross-referencing in Standards*

29. Sometimes a disclosure or guidance in an Australian Accounting Standard/NZ IFRS includes a cross-reference to disclosure requirements in another Australian Accounting Standard/NZ IFRS.
30. Where the cross-referencing is specific (for example, a disclosure in AASB 3/NZ IFRS 3 *Business Combinations* includes a reference to paragraph 85 of AASB 137/NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*), both paragraphs are either kept or reduced for Tier 2 entities. Cross-referencing can be of a general nature.

Aus29.1 The AASB has decided that where the cross-referencing is of a general nature<sup>10</sup> this is reduced in Australian Accounting Standards for Tier 2 entities.

NZ 29.1 The NZASB has decided that where the cross-referencing is of a general nature, this is kept in NZ IFRS for Tier 2 entities.

***Australian Accounting Standards/NZ IFRSs that are not Applicable to Tier 2 Entities***

31. AASB 8/NZ IFRS 8 *Operating Segments* and AASB 133/NZ IAS 33 *Earnings per Share* do not apply to Tier 2 entities. Paragraphs in other Australian Accounting Standards/NZ IFRSs that refer to these two standards without establishing any additional disclosure requirements are, therefore, reduced for Tier 2 entities.

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<sup>10</sup> For example, paragraph 96 of AASB 16 includes a requirement for a lessor to apply the disclosure requirements in AASB 136, AASB 138, AASB 140 and AASB 141 for assets subject to operating leases.

## 4. Identifying Tier 2 Disclosure Requirements

### *Introduction*

33. Although this Policy Statement has been developed jointly by the AASB and the NZASB, the Boards have a different approach to identifying the disclosure requirements for Tier 2 entities. However, the outcome of applying the Policy Statement is expected to generally be the same for Tier 2 entities in Australia and New Zealand.

### *Approach to Identifying Tier 2 Disclosure Requirements*

#### *Australia*

34. The disclosures required to be provided by Tier 2 entities, along with the headings relevant to those disclosures, are included in an appendix to each Australian Accounting Standard that contains disclosure requirements.

#### *New Zealand*

35. The disclosures that Tier 2 entities are not required to provide are identified by means of an asterisk (\*) next to the paragraph or subparagraph.
36. Partial concessions are identified by means of an asterisk (\*) next to the paragraph and inclusion of an RDR paragraph which explains the disclosure requirements for Tier 2 entities.

## Appendix B: Examples of Tier 2 Disclosure Requirements in Australian Accounting Standards

### AASB 16 Leases

The following are the disclosures proposed to be identified in Appendix E of AASB 16 as disclosures required under Tier 2.

*This appendix is an integral part of AASB 16.*

- AusE1** The requirements of this appendix apply to Tier 2 entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. The disclosures identified in this appendix are all the disclosure requirements of AASB 16 that Tier 2 entities are required to comply with in preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.
- AusE2 Tier 2 entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of the disclosure requirements of AASB 16 that are not required by this appendix.
- AusE3 The Australian Accounting Standards – Reduced Disclosure Requirements do not affect the face of the financial statements.
- AusE4 With respect to accounting policies, the disclosure requirements for Tier 2 entities in AASB 101 *Presentation of Financial Statements* (paragraphs 117-133) and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraphs 28-31 and 39-40) apply where relevant. Should the entity assess that under AASB 101 and/or AASB 108 disclosure of a significant accounting policy relating to transactions or other events dealt with under this Standard would be required, the entity might refer to disclosure requirements in the main body of this Standard, if any, for guidance.

### Lessee

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#### Disclosure

- 51** The objective of the disclosures is for lessees to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. Paragraphs 52–60 specify requirements on how to meet this objective.
- 53 A lessee shall disclose the following amounts for the reporting period:
- (a) depreciation charge for right-of-use assets;
  - (b) interest expense on lease liabilities;
  - (c) the expense relating to short-term leases accounted for applying paragraph 6. This expense need not include the expense relating to leases with a lease term of one month or less;
  - (d) the expense relating to leases of low-value assets accounted for applying paragraph 6. This expense shall not include the expense relating to short-term leases of low-value assets included in paragraph 53(c);
  - (e) the expense relating to variable lease payments not included in the measurement of lease liabilities;
  - (f) income from subleasing right-of-use assets;
  - (g) total cash outflow for leases;
  - (i) gains or losses arising from sale and leaseback transactions; and
  - (j) the carrying amount of right-of-use assets at the end of the reporting period by class of underlying asset.
- 55 A lessee shall disclose the amount of its lease commitments for short-term leases accounted for applying paragraph 6 if the portfolio of short-term leases to which it is committed at the end of the reporting period is dissimilar to the portfolio of short-term leases to which the short-term lease expense disclosed applying paragraph 53(c) relates.

- 56 If right-of-use assets meet the definition of investment property, a lessee shall apply the disclosure requirements in AASB 140. In that case, a lessee is not required to provide the disclosures in paragraph 53(a), (f), (h) or (j) for those right-of-use assets.
- 57 If a lessee measures right-of-use assets at revalued amounts applying AASB 16, the lessee shall disclose the information required by paragraph 77 of AASB 16 for those right-of-use assets.
- 59 In addition to the disclosures required in paragraphs 53–58, a lessee shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 51 (as described in paragraph B48). This additional information may include, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessee’s leasing activities;
  - (b) future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities. This includes exposure arising from:
    - (i) variable lease payments (as described in paragraph B49);
    - (ii) extension options and termination options (as described in paragraph B50);
    - (iii) residual value guarantees (as described in paragraph B51); and
    - (iv) leases not yet commenced to which the lessee is committed.
  - (c) restrictions or covenants imposed by leases; and
  - (d) sale and leaseback transactions (as described in paragraph B52).

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**Lessor**

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**Disclosure**

- 89 The objective of the disclosures is for lessors to disclose information in the notes that, together with the information provided in the statement of financial position, statement of profit or loss and statement of cash flows, gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessor. Paragraphs 90–97 specify requirements on how to meet this objective.**

- 90 A lessor shall disclose the following amounts for the reporting period:
- (a) for finance leases:
    - (i) selling profit or loss;
    - (ii) finance income on the net investment in the lease; and
    - (iii) income relating to variable lease payments not included in the measurement of the net investment in the lease.
  - (b) for operating leases, lease income,

- 92 A lessor shall disclose additional qualitative and quantitative information about its leasing activities necessary to meet the disclosure objective in paragraph 89. This additional information includes, but is not limited to, information that helps users of financial statements to assess:
- (a) the nature of the lessor’s leasing activities; and
  - (b) how the lessor manages the risk associated with any rights it retains in underlying assets. In particular, a lessor shall disclose its risk management strategy for the rights it retains in underlying assets, including any means by which the lessor reduces that risk. Such means may include, for example, buy-back agreements, residual value guarantees or variable lease payments for use in excess of specified limits.

**Finance leases**

- 93 A lessor shall provide a qualitative and quantitative explanation of the significant changes in the carrying amount of the net investment in finance leases.
- 94 A lessor shall disclose a maturity analysis of the lease payments receivable, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

**Operating leases**

- 97 A lessor shall disclose a maturity analysis of lease payments, showing the undiscounted lease payments to be received on an annual basis for a minimum of each of the first five years and a total of the amounts for the remaining years.

## **Appendix B**

### **Lessee disclosures (paragraph 59)**

- B49 Additional information relating to variable lease payments that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (a) the lessee's reasons for using variable lease payments and the prevalence of those payments;
  - (b) the relative magnitude of variable lease payments to fixed payments;
  - (c) key variables upon which variable lease payments depend and how payments are expected to vary in response to changes in those key variables; and
  - (d) other operational and financial effects of variable lease payments.
- B50 Additional information relating to extension options or termination options that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (c) the prevalence of the exercise of options that were not included in the measurement of lease liabilities; and
- B51 Additional information relating to residual value guarantees that, depending on the circumstances, may be needed to satisfy the disclosure objective in paragraph 51 could include information that helps users of financial statements to assess, for example:
- (c) the nature of underlying assets for which those guarantees are provided; and

## AASB 138 *Intangible Assets*

The following are the disclosures proposed to be identified in Appendix A of AASB 138 as disclosures required under Tier 2.

*This appendix is an integral part of AASB 138.*

- AusA1** The requirements of this appendix apply to Tier 2 entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. The disclosures identified in this appendix are all the disclosure requirements of AASB 138 that Tier 2 entities are required to comply with in preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements.
- AusA2 Tier 2 entities applying Australian Accounting Standards – Reduced Disclosure Requirements may elect to comply with some or all of the disclosure requirements of AASB 138 that are not required by this appendix.
- AusA3 The Australian Accounting Standards – Reduced Disclosure Requirements do not affect the face of the financial statements.
- AusA4 With respect to accounting policies, the disclosure requirements for Tier 2 entities in AASB 101 *Presentation of Financial Statements* (paragraphs 117-133) and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraphs 28-31 and 39-40) apply where relevant. Should the entity assess that under AASB 101 and/or AASB 108 disclosure of a significant accounting policy relating to transactions or other events dealt with under this Standard would be required, the entity might refer to disclosure requirements in the main body of this Standard, if any, for guidance.

### Disclosure

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#### General

- 118** An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:
- (a) whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used;
  - (b) the amortisation methods used for intangible assets with finite useful lives;
  - (c) the gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- 119 A class of intangible assets is a grouping of assets of a similar nature and use in an entity's operations. Examples of separate classes may include:
- (a) brand names;
  - (b) mastheads and publishing titles;
  - (c) computer software;
  - (d) licences and franchises;
  - (e) copyrights, patents and other industrial property rights, service and operating rights;
  - (f) recipes, formulae, models, designs and prototypes; and
  - (g) intangible assets under development.
- The classes mentioned above are disaggregated (aggregated) into smaller (larger) classes if this results in more relevant information for the users of the financial statements.
- 121 AASB 108 requires an entity to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:
- (a) the assessment of an intangible asset's useful life;
  - (b) the amortisation method; or
  - (c) residual values.
- 122** An entity shall also disclose:
- (d) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities.
  - (e) the amount of contractual commitments for the acquisition of intangible assets.

**Intangible assets measured after recognition using the revaluation model**

- 124 If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**
- (b) the amount of the revaluation surplus and any restrictions on the distribution of the balance to shareholders.**

**Research and development expenditure**

- 126 An entity shall disclose the aggregate amount of research and development expenditure recognised as an expense during the period**
- 127 Research and development expenditure comprises all expenditure that is directly attributable to research or development activities (see paragraphs 66 and 67 for guidance on the type of expenditure to be included for the purpose of the disclosure requirement in paragraph 126).