

10 May 2017

Mr Warren Allen
The Chief Executive
External Reporting Board
PO Box 11250
Manners St Central
Wellington
6142

Dear Sir

Requests to comment on Exposure Draft ED NZASB 2017-1 Amendments to RDR for Tier 2 For-profit Entities

Thank you for the opportunity to comment on the above Exposure Draft.

We are making this submission to you to assist the New Zealand Accounting Standards Board (NZASB) with the above Exposure Draft. We are happy for you to publish our comments publically.

In responding we have addressed the specific questions for respondents in Appendix 1.

More information on BDO is provided in Appendix 2 to this letter.

We hope that our responses and comments are helpful. Should you wish to discuss any of the points we have raised please contact me (michael.rondel@bdo.co.nz) should you have any queries or require further information.

Yours faithfully,



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Appendix 1 - Response to questions

Question 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.

Yes, we agree with these overarching principles.

Question 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?

Yes, we agree that the Key Disclosure Areas identified are essential for meeting user needs.

However, we question the way paragraph 28 has been set out. For example (b)(v) dealing with commitments and contingencies could be argued directly impact on liquidity and solvency, so may be better included under (a) than (b).

We would also suggest that (b) (v) through (vii) may be better included under a separate (third) category of Key Disclosure Areas as items that are deemed to always be significant (as a rebuttable presumption) and thus need to be addressed in disclosures.

We would also suggest that the requirements of the Disclosure Initiative be linked into the discussion in some manner. If the requirements of the Disclosure Initiative is not addressed in this section of the Framework, users may find it difficult to determine when a particular issue that falls within the areas of (b) (v) through (vii) could be considered not material for disclosure purposes.

Question 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.

Yes, we agree with the proposed RDR decision-making framework and operational guidance as a whole for determining RDR for Tier 2 for-profit entities.

Question 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.

We agree with the majority of proposed outcomes of the application of the proposed RDR-decision making framework and operational guidance to the disclosure requirements in NZ IFRS.

The areas that we do not necessarily agree with are as follows:

- **The reintroduction of qualitative and quantitative disclosures for financial instruments in NZ IFRS 7 via the removal of disclosure exemptions of paragraphs 33; 34; 35A; 35C; 35F; 35G; 35L. Based on our discussions with clients we question whether the benefits of these disclosures to users of the financial statements would exceed the costs of obtaining this information.**
- **The removal of disclosures around income and expense, gains and losses on each category of financial instrument by the inclusion of disclosure concessions for NZ IFRS 7 paragraph 20. In our opinion, users would generally be interested in understanding what direct impact financial instruments have on the Statement of Profit or Loss and Other Comprehensive Income.**
- **The removal of disclosures around transferred financial assets by the inclusion of disclosure concessions for NZ IFRS 7 paragraph 42E. In our opinion disclosures around debt factoring is useful information for users, and is not uncommon in Tier 2 entities, especially for those whose funding credit lines are under pressure.**
- **The removal of disclosures around non-adjusting post reporting date events related to ordinary share and potential ordinary share transactions by the inclusion of disclosure concessions for NZ IAS 10 paragraph 22(f). In our opinion users (especially any non-controlling interests) would be interested in details around changes or potential changes to share capital that could directly impact on them.**
- **The removal of disclosures around net exchange differences recognised in other comprehensive income by the inclusion of disclosure concessions for NZ IAS 21 paragraph 52(b). If disclosures around forex movements are required in profit or loss, we fail to see why the same requirement is also not required for other comprehensive income.**
- **The removal of disclosures in relation to recoverable amount based on fair value less costs of disposal to see, but the retention of disclosures in relation to value in use in paragraphs 134(d) and (e) of NZ IAS 36. This could lead to users erroneously using the fair value less costs of disposal to avoid disclosures.**

Question 5

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

Yes, we agree with the approach taken by the NZASB.

Question 6

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

Yes, we agree with the approach taken by the NZASB.

Question 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.

Yes, we agree with the approach taken by the NZASB.

Question 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.

Yes, we 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. This system currently works well and any change therein could lead to significant confusion by preparers.

Question 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)?

Yes, we agree with the proposed effective date and restriction on early application of these requirements.

Question 10

Do you have any other comments on the ED?

We have no further comments on ED NZASB 2017-1.

We do however raise a question on the NZASB's approach to the RDR framework for PBE Standards? Does the NZASB intend to mirror the RDR framework approach in the PBE Standards to ensure as much consistency (preferred approach) between the for-profit and PBE Standards as possible?

Appendix 2 - Information on BDO

1. BDO New Zealand is a network of eleven independently owned accounting practices, with fifteen offices located throughout New Zealand.
2. BDO firms in New Zealand offer a full range of accountancy services, including business advisory, audit, taxation, risk advisory, internal audit, corporate finance, forensic accounting and business recovery and insolvency.
3. BDO in New Zealand has 88 partners and over 800 staff.
4. BDO firms throughout New Zealand have a significant number of clients in the not-for-profit sector.
5. Five BDO firms in New Zealand (BDO Auckland, BDO Christchurch, BDO Northland, BDO Waikato and BDO Wellington) are registered audit firms and thirteen audit partners are licensed auditors.
6. Internationally, BDO is the fifth largest full-service audit, tax and advisory firm in the world, with almost 60,000 people in 1,328 offices across over 152 territories.