

29 May 2017

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Warren Allen
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Dear Warren

Exposure Draft NZASB 2017-1 Amendments to RDR For Tier 2 For-Profit Entities

We appreciate the opportunity to comment on the exposure draft *Amendments to RDR For Tier 2 For-Profit Entities* (ED NZASB 2017-1).

We are pleased that the NZASB has developed a proposed decision-making framework (the framework) to guide the determination of disclosure concessions for the Tier 2 Reduced Disclosure Regime (RDR). An appropriate framework should contribute to more appropriate concessions being provided, concessions being consistent across the suite of standards, and a better balance of the costs and benefits of financial reporting.

While the ED is only relevant to Tier 2 for-profit entities, we strongly encourage the NZASB to develop a similar framework as a priority that would apply to the selection of disclosure concessions to the Public Benefit Entity (PBE) Tier 2 RDR. We are concerned that the different underlying approaches to the selection of disclosure concessions between the proposed for-profit Tier 2 and existing PBE Tier 2 Frameworks may result in unnecessary differences and complexity for preparers, users, and auditors involved with both for-profit and PBE Tier 2 entities.

Our responses to the Questions for Respondents outlined in the *Invitation to Comment* are attached. Our Tax Director will provide a separate submission to you on matters identified on the outcome of the framework to NZ IAS 12 *Income Taxes*.

In preparing this submission, we have also consulted with our colleagues at the Office of the Auditor-General.

If you would like to discuss any of our comments, please phone me on 021 222 6107 or email me at robert.cox@auditnz.govt.nz.

Yours sincerely

A handwritten signature in blue ink that reads "Robert Cox". The signature is written in a cursive style with a blue ink color.

Robert Cox
Head of Accounting

Our responses to the questions in the Invitation to Comment

- 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.**

We agree with the proposed overarching principles. However, we recommend the framework explain the definition of financial statement users that was used in developing and applying the framework.

- 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?**

No, we do not fully agree with the two Key Disclosure Areas and make the following comments.

We are concerned that wording of the first Key Disclosure Area as **current** liquidity and solvency may put too much focus on short term information and excludes appropriate focus on longer term financial viability. Users are particularly interested in any information that may provide insights into future prospects, as well as information about future financial viability (such as maturity dates for borrowings) and this important information is potentially removed by the implied short term (that is, current) focus of this Key Disclosure Area.

We recommend that this Key Disclosure Area be renamed along the lines of "Liquidity, solvency and ongoing financial viability of the entity".

We are also unclear why the Boards consider that risks, associated accounting policies and significant estimates and judgements are essential for meeting user needs for the second Key Disclosure Area (transactions and events), but not the first (liquidity and solvency). We urge the Boards to reconsider this or at least explain their rationale why these matters are not equally important to both Key Disclosure Areas.

- 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.**

Other than our comments in response to question 2 above, we agree with guidance as a whole.

For greater clarity, we recommend additional guidance be added to the framework to reinforce that preparers of financial statements must still exercise judgement in determining whether a disclosure without a disclosure concession should be made on materiality grounds. This is consistent with paragraph 31 of NZ IAS 1 *Presentation of Financial Statements*. Without such guidance, there is the risk that preparers think that all disclosures must be made that do not have a disclosure concession, regardless of the materiality of the disclosure to the entity.

- 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:

Which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide?

We have not identified any requirements that Tier 2 entities should not be required to provide.

Which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide?

We provide comments of detail on certain disclosure concessions we disagree with that are proposed for NZ IFRS 7 *Financial Instruments: Disclosures* and NZ IAS 16 *Property, Plant and Equipment*.

- NZ IFRS 7 – Liquidity risk disclosures

We agree with the Boards that the liquidity risk disclosures of NZ IFRS 7 paragraph 39 are a Key Disclosure Area. However, we disagree that all the disclosures of this paragraph should be a disclosure concession. The rationale given for the disclosure concession for 39(a) and (b) is that the costs of providing the disclosure exceed the benefits.

We disagree with the Boards proposed disclosure concession for IFRS 7 paragraph 39(a). We consider the maturity analysis for financial liabilities, excluding derivatives, required by paragraph 39 (a) provides important information about an entity's liquidity and solvency. Without such information, we consider it could be difficult to adequately assess the liquidity and solvency (and ongoing financial viability) of an entity. We are also not persuaded that the preparation of this information is likely to be costly. The liquidity information for most tier 2 entities should be readily constructed from information on hand.

We are also concerned that as a consequence of the concession provided by paragraph 39(a), that no future cash flow information would be provided about lease liabilities recognised that would arise from the future adoption of NZ IFRS 16 *Leases*. The lease liabilities for some Tier 2 entities could be significant under NZ IFRS 16 and we consider the information could be important for users.

We agree that a disclosure concession be provided from preparing a maturity analysis for derivatives because preparing this information can be complex and costly. Treasury systems may be required to produce such information, or entities may not be able to access such information easily to disaggregate the undiscounted value of derivatives into relevant time periods. We therefore support the disclosure concession for IFRS 7 paragraph 39(b).

- NZ IAS 16 – Valuation disclosures

We disagree with removing the requirement in paragraph 77(a) and (b) for Tier 2 entities to disclose the effective date of the valuation and whether an

independent valuer was involved. We consider this important information for public sector entities (both for profit and public benefit entities).

We disagree that the costs of providing this disclosure exceeds the benefits. These disclosures should be simple for Tier 2 entities to prepare with negligible cost.

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

We do not have any concerns with the NZASB's proposed approach.

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

We do not have any concerns with the NZASB's proposed approach.

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.

We do not have any concerns with the NZASB's proposed approach.

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.

We agree with the NZASB's proposed approach. Users of the accounting standards are familiar with this approach and we are not aware of any broader concerns about the current approach to identifying RDR concessions.

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)?

We agree the mandatory effective date of 1 January 2019 should provide Tier 2 for-profit entities sufficient time to prepare for the amended RDR.

10 Do you have any other comments on the ED?

We have no further comments.