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3 July 2017

Dear Warren

Exposure Draft NZ ASB 2017-1: Amendments to RDR for Tier 2 For-Profit Entities

Thank you for the opportunity to comment on the proposed *Amendments to RDR for Tier 2 For-Profit Entities* (ED NZ ASB 2017-1).

Overall we agree with the proposed RDR Framework and the outcome of its application to identifying disclosure concessions. Our submission focuses primarily on the overarching principles of the proposed RDR Framework, although we have also commented on certain specific proposed disclosure concessions.

We have also commented on the RDR concession concerning the exemption to prepare consolidated financial statements in NZ IFRS 10. We note that this concession is not specifically addressed in the ED. However, we are concerned that that this concession will mean that in some cases the top New Zealand company will not be required to prepare consolidated financial statements and that users may not receive full information about the entity in which they have an interest.

Our responses to the questions raised in the Invitation to Comment are contained in the Appendix to this letter.

Further Information

Please do not hesitate to contact me (Simon Lee) on 04 816 4678 if you would like to discuss our submission in greater detail.

Yours sincerely

Simon Lee
National Technical Director

Simon Wilkins
Partner



Appendix

Question	KPMG Comments
<p>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.</p>	<p>We agree with the overarching principles on which the RDR framework is based, being 'user needs' and 'cost-benefit'.</p> <p>However, we believe that some guidance or examples to illustrate or explain the type of factors the NZ Accounting Standards Board will consider when assessing 'cost-benefit' and 'user needs' would be useful to assist readers in understanding the basis on which RDR concessions are granted.</p> <p>We also note that decisions on RDR concessions are determined at an overall level. However, materiality is entity specific. We therefore suggest that the RDR Framework clarify how the RDR Framework interacts with materiality assessment at the entity level. Our preference is that it be made clear within the RDR Framework that, notwithstanding that certain disclosure concessions are provided under the RDR Framework, preparers of financial statements are still responsible to ensure that financial statements include disclosures necessary for users to understand the impact of material/significant events and transactions on the financial performance and position of an entity.</p> <p>We also note that the XRB is in the process of performing research on user needs for Tier 2 entities. We consider that the interaction between the 'cost-benefit' and 'user needs' is a key aspect of the Framework, and hence the outcome of this research is fundamental to the Framework.</p>
<p>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</p>	<p>We generally agree with the Key Disclosure Areas identified – being information about:</p> <ul style="list-style-type: none"> (i) Current liquidity and solvency; and (ii) Transactions and other events that are significant or material to an understanding of the entity's operations. <p>We note that paragraphs 28(b)(i) – (iv) appear to be principle based, and paragraph 28(b)(v) – (viii) lists specific types of transactions. Other transactions, such as business acquisitions, business and asset disposals, share-based payments and the issue of complex financial instruments could impact the liquidity and solvency of an entity and also be material to understanding an entity's operations.</p> <p>In our view, this second group of specific disclosures is not necessarily an exhaustive list of transactions or events that would require disclosure. If these specific items are retained we suggest that additional explanation be provided as to why these items</p>



Question	KPMG Comments
<p>which one(s) you disagree with and why?</p>	<p>have been separately specified within the RDR Framework. One approach would be to reflect these items in the RDR Framework as examples of the types of transactions that might be caught under paragraphs 28(a) and (b)(i) – (iv).</p>
<p>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.</p>	<p>In general we agree with the operational guidance provided.</p> <p>However, we disagree with the proposal in paragraph 39 which states that the paragraphs that require an entity to meet a stated disclosure objective should be reduced. In the absence of additional explanation, this may cause confusion for preparers in terms of whether they need to provide any of the specific disclosure requirements (which may not be reduced), as they are 'exempted' from the entire disclosure objective. Unless the entire disclosure requirement section (i.e. including the objective and specific disclosure requirement paragraphs that follow) is reduced, we believe objective paragraphs should be retained for Tier 2 entities and additional guidance provided for Tier 2 entities (please see point 4 below).</p>
<p>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:</p> <p>a) which disclosures that are identified as requirements that you believe Tier 2 entities should not be required to provide; and</p> <p>b) which disclosures that are identified as concessions that you believe Tier 2 entities should be required to provide.</p>	<p>Our submission focusses primarily on the overarching principles of the proposed RDR Framework. Overall we agree with the outcome of the application of the RDR-decision making framework. However, we note the following matters with regard to the specific RDR concessions.</p> <p><i>Disclosure objectives</i></p> <p>As noted above, it is proposed to provide RDR concessions with respect to disclosure objective paragraphs included in a number of standards. For example the amendments propose to include RDR concessions in respect of NZ IFRS 2.44, NZ IFRS 3.59, NZ IFRS 5.30, NZ IFRS 7.7, and NZ IFRS 13.91.</p> <p>In our view, entities should not be exempt from these disclosure objectives. Rather the disclosure objectives should be met by RDR entities making the disclosures required for RDR entities. This seems to be the objective of NZ IAS 1 RDR15.1 which states that the application of NZ IFRS RDR, with additional disclosure where necessary, is presumed to result in financial statements that achieve a fair presentation.</p> <p>We suggest that no disclosure concession be provided in respect of the disclosure objectives in the standards and that the RDR paragraph be amended to clarify that in respect of a Tier 2 entity the disclosure objective will be met when an entity complies with the RDR disclosures required by the standard, with additional disclosures where necessary.</p>



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	<p><i>Other</i></p> <p>NZ IAS 36.134 includes an RDR concession in respect of CGUs whose recoverable amount is based on fair value (NZ IAS 36.134(e)). However, there is no RDR concession in respect of CGUs whose recoverable amount is based on value in use (NZ IAS 36.134(d)). Both paragraphs relate to disclosures regarding recoverable amount. However, one is considered a Key Disclosure Area and the other is not. Given the similarity of the disclosures required by these sub-paragraphs the difference in RDR status is not clear to us and a consistent approach would seem preferable.</p>
<p>5. Do you agree with the approach taken by the NZASB regarding disclosures about accounting policies? If you disagree, please explain why.</p>	<p>We agree with the approach proposed by the NZASB with respect to accounting policies.</p> <p>We specifically consider that the inclusion of the disclosures about accounting policies should be driven by the same principles which drive the decision to retain or reduce the various disclosures within each accounting standard.</p>
<p>6. Do you agree with the approach taken by the NZASB regarding guidance for disclosure requirements? If you disagree, please explain why.</p>	<p>We agree with the approach taken by the NZASB regarding guidance for disclosure requirements.</p>
<p>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.</p>	<p>We agree with the approach proposed by the NZASB regarding cross-references to other standards.</p>
<p>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</p>	<p>We agree with the proposal to retain the use of an asterisk for disclosures that Tier 2 entities are not required to provide, and partial concessions made using an RDR paragraph.</p> <p>The use of asterisk and supplementary RDR paragraphs is well understood in New Zealand. Furthermore we are not aware of any issues that would necessitate a change of approach.</p>



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provide, with reasons, an alternative approach for consideration.	
<p>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)?</p>	<p>We agree with the proposed effective date of 1 January 2019.</p> <p>We suggest that NZ ASB clarify whether entities can early adopt the proposed RDR concessions on disclosure by disclosure basis, a standard by standard basis, or as a whole.</p>
<p>10. Do you have any other comments on the ED?</p>	<p>We note that the ED does not consider the RDR concession set out in NZ IFRS 10 RDR 4.1 regarding the exemption to prepare consolidated financial statements. We understand that no change is proposed in respect of this concession as this concession relates to the scope of NZ IFRS 10, rather than disclosures.</p> <p>However, we believe that application of the concession provided in NZ IFRS 10 RDR 4.1 means that certain entities will not be required to prepare consolidated financial statements. We are concerned that certain users will not receive consolidated financial statements and hence full information about the entity in which they have an interest.</p> <p>Every company that has one or more subsidiaries is required to prepare group financial statements that comply with generally accepted accounting practice [CA 1993, section 202(1)]. The Financial Reporting Act 2013, section 7, defines group financial statements as:</p> <p>“...the statements for the group as at the balance date, or in relation to the accounting period ending at the balance date, that are required to be prepared in respect of the group by <u>an applicable financial reporting standard</u>...” [emphasis added]</p>



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	<p>NZ IFRS 10 (being an applicable financial reporting standard) requires an entity that is a parent to present consolidated financial statements. However, the scope of NZ IFRS 10 is limited such that entities are not to prepare consolidated financial statements if four conditions are all met (NZ IFRS 10.4).</p> <p>Tier 2 RDR entities are exempt from one of the criteria to apply the scope exemption. Specifically, in order to qualify for the exemption RDR entities do not have to meet the criteria that their ultimate parent produces consolidated financial statements that are available for public use and comply with NZ IFRS [NZ IFRS 10.4(a)(iv)]</p> <p>Consider the following scenario:</p> <ul style="list-style-type: none"> ▪ Company A is a large company and a 100% owned subsidiary of an overseas company. ▪ Company A has three subsidiaries in NZ. ▪ Company A is therefore required to prepare general purpose financial statements under the Companies Act 1993. ▪ Assume also that Company A qualifies to report as a Tier 2 entity under the RDR Reporting Framework. ▪ Company A meets the first three scope exemptions set out in NZ IFRS 10.4. <p>In this case Company A is required to prepare group financial statements in accordance with the Companies Act 1993, section 202(1), and these financial statements are required to comply with generally accepted accounting practice.</p> <p>Therefore, in the scenario described above, we believe that it is possible to interpret the requirements of the Companies Act and NZ IFRS 10 such that Company A could apply the RDR exemption in NZ IFRS 10.4, and not prepare group financial statements.</p> <p>We agree that it is not necessary that RDR entities have a parent or ultimate parent that produces <u>publicly available</u> consolidated financial statements. However, we believe that the top company in NZ should be required to prepare consolidated financial statements where such a company is required to prepare general purpose financial statements. If our interpretation is correct then we suggest that the XRB reconsider the exemption and/or clarify NZ IFRS 10.RDR4.1. We note that the scenario detailed above also applies in respect of NZ IAS 28.17(d), where an entity may therefore apply an exemption to the application of the equity method for investments in associates in the same manner in which it may apply the consolidation exemption. We therefore recommend that the XRB consider the operation of these two items together.</p>