Grant Thornton

Ms Kris Peach
Chair and CEO
Australian Accounting Standards Board
PO Box 204
Collins Street West
VICTORIA 8007

The Rialto, Level 30
525 Collins Street
Melbourne Victoria 3000

Correspondence to:
GPO Box 4736
Melbourne Victoria 3001

T +61 3 8320 2222
F +61 3 8320 2200
E info.vic@au.gt.com
W www.grantthornton.com.au

7 June 2017

PRIVATE AND CONFIDENTIAL

Dear Kris

EXPOSURE DRAFT ED 277 REDUCED DISCLOSURE REQUIREMENTS FOR TIER 2 ENTITIES

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board (AASB) its comments on Exposure Draft ED 277 *Reduced Disclosure Requirements for Tier 2 Entities* (the ED). We have considered the ED, as well as the accompanying *Basis for Conclusions*.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations.

Overall we support the proposals in the ED to further refine the RDR framework. We see RDR as a very useful framework in practice allowing eligible entities considerable disclosure concessions and relieving them from the burden of preparing Tier 1 general purpose financial statements.

Based on our experience, one of the key factors attributable to the low level of RDR adoption is the lack of awareness of RDR and its benefits in the business community. Many entities do not fully appreciate the benefits of adopting RDR compared to preparing Tier 1 general purpose financial statements or special purpose financial statements. We believe there is a role for AASB in actively promoting the RDR framework and its benefits to the wider business community.

When outlining the reasons for the proposals, the ED acknowledges the low level of RDR adoption (particularly among large proprietary companies and public sector entities) and the perception that the level of disclosure currently required under RDR is burdensome. Having reviewed the ED and the staff analysis accompanying the proposals, we find it difficult to say whether the proposals result in overall reduction in disclosures for RDR entities. While some disclosures such as reconciliations have been rightfully exempted for RDR, many additional disclosures such as impairment and risk management disclosures have now been brought in for RDR entities. Hence, we are not convinced that the proposal will change the perception of RDR or make RDR more attractive to businesses.

We urge the AASB to undertake a more fundamental review of the RDR framework in due course in the context of the Australian Financial Reporting Framework project (and the potential third tier of reporting requirements in Australia), the IASB's Principles of Disclosure project and the emergence of streamlining of financial reports. We believe such a fundamental rethink is necessary to ensure that RDR continues to reflect the changing dynamics of financial reporting.

With respect to the identification of RDR requirements, our strong preference is to keep the existing 'shading' approach (as opposed to moving all RDR requirements to an Appendix) as this method works well in practice and provides context to the disclosure requirements. We find the shading approach very helpful in practice and this is also the feedback we get from our clients. We're not aware of any concerns from users' or preparers' perspective justifying the move to an Appendix based approach.

Our detailed comments are set out in the Appendix to this letter.

If you require any further information or comment, please contact Peter Kidd (peter.kidd@au.gt.com) or Siva Sivanantham (siva.sivanantham@au.gt.com).

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Merilyn Gwan
Principal – Audit & Assurance
National Audit Support

Encl.

Appendix: Specific Matters for Comment

Question 1

Do you agree with the overarching principles on which the proposed RDR decision-making framework identified in the proposed joint Policy Statement is based (that is, user needs and cost-benefit)? If you disagree, please explain why (see [draft] joint Policy Statement paragraph 6 to this ED).

We support the overarching principles which are based on user needs and cost-benefit. However, as we noted in our covering letter, we encourage the AASB to consider undertaking a broader fundamental review of the RDR framework in due course in the context of the Australian Financial Reporting Framework project (and the potential third tier of reporting requirements in Australia), the IASB's Principles of Disclosure project and the emergence of streamlined financial reports.

Question 2

Do you agree with the two Key Disclosure Areas identified in the proposed joint Policy Statement 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 (see [draft] joint Policy Statement paragraph 8 to this ED).

We agree with the proposals.

Question 3

Do you agree with the proposed joint Policy Statement as a whole for determining RDR for Tier 2 entities? If you disagree, please explain why (see the [draft] joint Policy Statement to this ED). In relation to the proposed joint Policy Statement, the AASB is particularly seeking to know whether the disclosures required of not-for-profit entities are appropriate relative to the disclosures required of for-profit entities.

We agree with the proposals.

Question 4

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding disclosures about accounting policies? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus12.1 to this ED).

We agree with the proposals.

Question 5

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding guidance for disclosure requirements? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus25.1 to this ED).

We agree with the proposals.

Question 6

Do you agree with the approach in the proposed joint Policy Statement taken by the AASB regarding cross-references to other standards that are general rather than specific? If you disagree, please explain why (see [draft] joint Policy Statement paragraph Aus29.1 to this ED).

We agree with the proposals.

Question 7

Do you agree with the outcome of the application of the proposed joint Policy Statement to the disclosure requirements in Australian Accounting Standards to determine the disclosures that Tier 2 entities should be required to provide? (See Proposed Tier 2 Disclosures.) 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 proposals except the shading of paragraph 7 and the partial shading of paragraph 9 of AASB 12 *Disclosure of Interests in Other Entities* (refer to pages 139-140 of the accompanying staff analysis document). We believe there could potentially be ambiguity in interpreting AASB 12.9 without reference to AASB 12.7 (particularly given the words ‘for example’ in AASB 12.9). Accordingly, we think both AASB 12.7 and AASB 12.9 should not be shaded.

Question 8

Which approach do you prefer for identifying RDR for Tier 2 entities:

(a) the approach taken in this ED with the Proposed Tier 2 Disclosures to include an Australian Appendix in each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide; or

(b) use the approach taken in the New Zealand ED to use an asterisk (*) for disclosures that are not required and explaining partial concessions by means of an RDR paragraph? The approach taken in the New Zealand ED is illustrated in the Appendix A to this ED.

As noted in our cover letter, our preference is to keep the existing ‘shading’ approach (as opposed to moving all RDR requirements to an Appendix) as this method works well in practice and provides context to the disclosure requirements. We find the shading approach very helpful in practice and this is also the feedback we get from our clients. We’re not aware of any concerns from users’ or preparers’ perspective justifying the move to an appendix based approach.

Question 9

Do you agree that when an Australian Accounting Standard does not have separate sections for disclosure and presentation requirements, both presentation and disclosure requirements are included in the Australian Appendix to each Australian Accounting Standard that identifies the disclosures that Tier 2 entities are required to provide? If you disagree, please explain why.

As noted in our response to Question 8 above, we prefer to keep the existing 'shading' approach. In the event that the AASB decides to move to an Appendix approach, we would support including both presentation and disclosure requirements in the Appendix where a standard does not have separate presentation and disclosure requirements.

Question 10

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? Early application is permitted for periods beginning on or after 1 January 2018 (with early adoption of the amended Tier 2 disclosures in AASB 140 *Investment Property* permitted when an entity first applies AASB 16 *Leases*), with AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* as revised by this [draft] Standard applied at the same time an entity first applies a Standard that is revised by this [draft] Standard.

We agree with the proposals.

Question 11

The Exposure Draft does not propose any specific transition requirements. Do any issues warrant transitional provisions and, if so, what transitional provisions do you suggest?

We are not aware of any need for specific transition requirements.

Question 12

Do you think that when approved, the amended Tier 2 disclosures would encourage eligible entities that currently:

(a) prepare Special Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements; and

(b) prepare Tier 1 General Purpose Financial Statements to prepare Tier 2 General Purpose Financial Statements.

As noted in our cover letter, we're not convinced that the proposals will make RDR more attractive to entities currently preparing special purpose financial statements or those that are preparing Tier 1 general purpose financial statements (GPFS) and are eligible for RDR.

We also note that currently there are uncertainties as to whether RDR will be allowed as an option for Significant Global Entities that are required to prepare and lodge general purpose financial statements (GPFS) with the Australian Taxation Office (ATO) under *Tax Law Amendment (Combating Multinational Tax Avoidance Act 2015*. The ATO is expected to release its implementation guidance in early June 2017. If the ATO decides not to accept RDR as a GPFS for the purposes of this legislation, this could potentially reduce the attractiveness of RDR as an acceptable form of GPFS.

Question 13(a)

Whether, there are any regulatory or other issues arising in the Australian environment that may affect the implementation of the proposals by not-for-profit entities, including any issues relating to public sector entities, such as GAAP/GFS implications?

We have no specific comments.

Question 13(b)

Whether, overall, the proposals would result in financial statements that would be useful to users.

Subject to our comments in the covering letter, we believe that the proposals would result in financial statements that would be useful to users.

Question 13(c)

Whether the proposals are in the best interests of the Australian economy.

We believe that the proposals are in the best interests of the Australian economy.

Question 13(d)

Unless already provided in response to the matters for comment 1-12 above, the costs and benefits of the proposals relative to the current Australian Accounting Standards, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

We have no specific comments.