Accounting alert

Alert 2010/08
Issued July 2010

Financial reporting reform update
Get ready for changes at 30 June 2010

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Together, the reforms promise substantial change, and reduced disclosure, in financial statements and are likely to affect all entities for the 30 June 2010 reporting cycle. Below, we cover:

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This accounting alert discusses the financial reporting reforms to the *Corporations Act 2001* and implementation of the AASB's 'Reduced Disclosure Regime' (RDR)

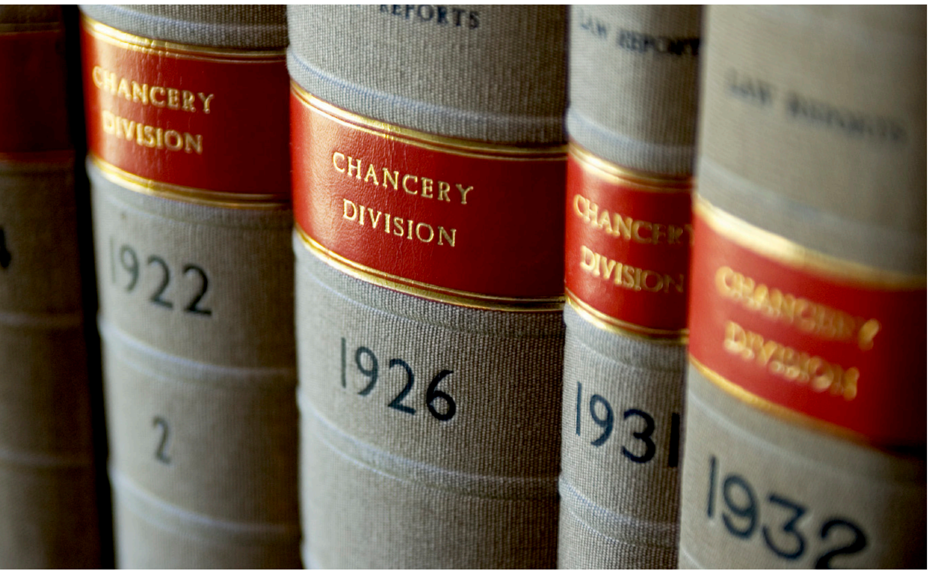
Corporations Act amendments

Overview

The *Corporations Amendment (Corporate Reporting Reform) Bill 2010* was passed by the House of Representatives on 21 June 2010, and passed by the Senate on 24 June 2010 (the last sitting day of the winter session of Parliament).

The *Corporations Amendment (Corporate Reporting Reform) Act 2010* received Royal Assent on 28 June 2010 and so has become law from that date. The accompanying *Corporations Amendment Regulations 2010 (No. 6)* were made on 29 June 2010.

Most of the amendments generally apply either from commencement (i.e. Royal Assent on 28 June 2010) or from 30 June 2010.



Summary of changes for 30 June 2010 or later financial statements

The following is a summary of key changes entities will need to include or consider in their financial statements for 30 June 2010 or later periods:

- **Parent entity information** Parent entity columns are no longer required in consolidated financial statements, instead financial information of the parent entity is disclosed by way of note in **annual** financial statements (the initial draft proposal to include this information in half-year financial statements was **not** implemented in the amended regulations and so parent entity information is not required in half-year consolidated financial statements)
- **IFRS declaration** New IFRS declaration is required in the directors' statement, but only where the financial statements themselves are fully IFRS compliant
- **Declaration of dividends** Entities need to take particular care if declaring dividends in the near future, as new requirements for the payment of dividends will apply from the time from Royal Assent
- **Early adoption of RDR** There is the potential for some entities to early adopt the 'reduced disclosure regime', e.g. for-profit entities without 'public accountability', not-for-profit entities and some public sector entities – depending on the reporting mandate placed on the entity
- **Companies limited by guarantee** The way in which companies limited by guarantee report has been overhauled – a new three-tiered differential reporting framework has been introduced, including changes to audit requirements.

Details of the changes

The table below summarises the key changes:

Area	Key changes	Impact	When effective
Parent entity financial statements	• Removal of *Corporations Act* requirement to prepare parent entity financial statements where consolidated financial statements are required • Summarised parent entity financial information presented in the notes to annual consolidated statements (prescribed by regulation).	• Reduction in the 'clutter' in annual financial statements (two or three columns rather than four or six) • Alignment with global best practice • Entities with a reporting mandate under other legislation will need to consider that mandate before removing parent entity columns.	• Financial years ending on or after 30 June 2010.
Dividends	• Introduction of a 'solvency' test in lieu of the existing 'profits' test for the payment of dividends • Dividends permitted to be paid where (a) assets exceed liabilities by an amount sufficient to pay the dividend (b) the payment is fair and reasonable and (c) no material prejudice to the ability to pay creditors.	• Greater flexibility in payment of dividends, particularly where 'non cash' impairment and similar expenses recognised • New approach introduces new subjective 'fair and reasonable' and 'no material prejudice' tests • Some uncertainty over interpretation of new requirements • Care needs to be taken during the transitional phase to ensure the correct requirements are followed when declaring dividends.	• Dividends declared on or after commencement (date of Royal Assent, being 28 June 2010).
Companies limited by guarantee	• Introduction of three-tiered reporting structure depending on revenue and deductible gift recipient status • Review rather than full audit permitted in some cases • New 'reduced' requirements for directors' reports • Prohibition on payment of dividends (for newly incorporated entities only).	• Many smaller entities will no longer be required to lodge financial statements, and some entities will be able to have financial statements reviewed rather than audited • More focussed reporting requirements in financial statements and directors' report • Prohibition on the payment of dividends will reduce the attractiveness of this structure for commercial activities going forward.	• Generally applies to reporting periods ending on or after 30 June 2010.
Changing financial years	• Entities will more easily be able to change their financial year (without applying to ASIC in many cases) • Any new financial year cannot exceed 12 months in length • Consequential change of tax year not automatically proposed.	• More flexibility in changing year ends to match the company's operating cycle or other factors • Existing requirements on changes in control will be retained.	• Financial years ending on or after 30 June 2010.
IFRS declaration	• Companies, registered schemes and disclosing entities making an explicit and unreserved statement of compliance with IFRS must include reference to this statement in their directors' declaration.	• This will only apply to those entities are fully IFRS compliant • This will **not** apply to not-for-profit or public sector entities, entities preparing special purpose financial statements or entities adopting the Reduced Disclosure Regime (RDR).	• Financial years ending on or after 30 June 2010.
Other changes	• Expansion of existing listed public company requirements for directors' reports to all listed entities • Technical amendments to cancellation of capital, Financial Reporting Council functions and the composition of the Companies Auditors and Liquidators Disciplinary Board.	• Most of these changes are not substantive, but will require changes to the financial reports of some entities • Other changes are largely considered logical.	• Most of these changes apply from commencement (date of Royal Assent, being 28 June 2010) or 30 June 2010 • Some limited requirements increasing disclosures apply from 30 June 2011.

Declaration of dividends

Meeting the new 'solvency' test

Section 254T of the *Corporations Act 2001* has been amended to state a company must not pay a dividend unless all of these conditions are met:

- The company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend
- The payment of the dividend is fair and reasonable to the company's shareholders as a whole
- The payment of the dividend does not materially prejudice the company's ability to pay its creditors.

In determining compliance with the first requirement, the legislation states assets and liabilities are to be calculated in accordance with accounting standards in force at the relevant time (even if the standard does not otherwise apply to the financial year of some of all of the companies concerned).

The superseded wording of section 254T, relying on 'payment out of profits' was unclear in that it did not define what 'profits' were and so was the subject matter of many legal cases and legal precedents. Australia's move to IFRS in 2005 further clouded the operation of this section and created more uncertainty, particularly with the penchant for the IASB to require the recognition of items outside of profit or loss.

Accordingly, the move to a 'solvency' test for the payment of dividends is a welcome move. It will eliminate what many consider 'artificial' restrictions on the payment of dividends where an entity incurs 'non cash' expenses such as impairment losses.

However, there are a number of potential issues already emerging from the new requirements and a number of commentators on the initial draft of the legislation were concerned they were too restrictive, unclear, or onerous (particularly for entities without a formal requirement to apply Accounting Standards, e.g. small proprietary companies).

In response to these concerns, the Government introduced the requirement that the solvency test be determined by reference to Accounting Standards. However, the wording remains somewhat unclear because some argue if an accounting policy is permitted by Accounting Standards, it may be used to meet the solvency requirement even though it may not be applied in the entity's financial statements. This is particularly relevant in situations such as:

- The adoption of the revaluation or fair value basis of measurement for certain assets (property, plant and equipment, eligible intangible assets and some financial instruments)
- Measurement of investments in subsidiaries, associates and joint ventures using AASB 139 *Financial Instruments: Recognition and Measurement*, rather than at cost
- Early adoption of new pronouncements – in addition to the possibility of early adoption of some pronouncements it is also unclear whether any enacted pronouncements should be considered when declaring a dividend
- The preparation of special purpose financial statements not governed by the Corporations Act itself by small proprietary companies – the need to consider Accounting Standards when determining the carrying amounts of assets and liabilities may be onerous and more involved than the previous 'profits' test in some cases.

In light of this uncertainty, an entity considering paying dividends where the carrying amounts of assets is not sufficiently greater than liabilities in the stand-alone financial statements themselves should consider the need for legal or other advice. It should be noted that breaching the requirements of the new section is a criminal offence under the Act.

Immediate considerations

The changes to section 254T will apply to dividends declared on or after the commencement of the Act, being the date the Act receives Royal Assent (28 June 2010). Accordingly, entities paying dividends around 30 June 2010 will need to carefully consider which 'version' of section 254T is being applied when declaring dividends. Although profits and solvency are somewhat linked, there may be situations where a dividend could be paid under one requirement or the other, but not both. Examples where a dividend could potentially no longer be paid, or only paid at a lower amount under the new requirements include:

- Where the entity makes a profit in the current reporting period, but has a negative net asset position, accumulated losses, or otherwise has an insufficient net asset position to meet the new requirements
- Where entities with working capital and other deficiencies are considered solvent by reference to guarantees or other measures put in place by related companies, shareholders or other parties
- Where significant amounts are recognised in other comprehensive income or equity rather than profit or loss, e.g. cash flow hedges and other financial instruments in a net 'loss' position.

The changes to the payment of dividends are a significant change. Companies should immediately consider their dividend strategies to ensure the new requirements are fully complied with in the upcoming reporting season and beyond.

Eliminating parent entity financial statements

Disclosures required by the Regulations

The new regulation 2M.3.01 requires the following disclosures to be included in the notes to the annual financial statements of the consolidated entity:

- Current assets of the parent entity
- Total assets of the parent entity
- Current liabilities of the parent entity
- Total liabilities of the parent entity
- Shareholders' equity in the parent entity separately showing issued capital and each reserve
- Profit or loss of the parent entity
- Total comprehensive income of the parent entity
- Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries
- Details of any contingent liabilities of the parent entity
- Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment
- Comparative information for each of the above items.

The disclosures are required to be calculated in accordance with the accounting standards in force in the financial year to which the disclosure relates.

We have included an example of how the parent entity information required by the regulations might be represented in financial statements in Appendix A.

Entities with annual reporting obligations at 30 June 2010 should immediately prepare for the need to prepare, and have audited, the new parent entity disclosures in the notes to the financial statements.

Some of the disclosure requirements of the new regulations may not be required by Accounting Standards, or are expected to be eliminated as part of IASB projects or the joint AASB-NZ FRSB project to eliminate cross-Tasman differences. This is particularly true of the requirement to disclose contractual commitments and contingent liabilities. It may be that the regulations may need amendment as the related accounting requirements change (in order to remain consistent with accounting requirements).

Finally, regulations made are subject to disallowance by the Parliament for a particular period after enactment. Due to the expected long winter break of Parliament and possible Federal election, this period may not commence for some time. However, as the final regulations only require parent entity disclosures in annual financial statements (refer below), it may be unlikely they would be challenged by the Parliament.

Uncertainty over the ability to continue to include parent entity information
The amendments to the *Corporations Act 2001* to eliminate the need for separate financial statements for the parent itself has been done in a manner which means such financial statements are no longer required under any circumstances where consolidated financial statements are prepared.

Because the implementation of accounting standard requirements is done in a legal framework of the Act, some argue the inclusion of parent entity information in the financial statements would be a breach of the law. Others argue AASB 127 *Consolidated and Separate Financial Statements* does not stipulate which entities should prepare separate financial statements and the inclusion of additional information in financial statements is acceptable.

It is understood the Australian Securities and Investments Commission (ASIC) is considering making an enabling Class Order to ensure entities that choose to present parent entity columns in the primary financial statements and elsewhere in the financial report can continue to do so. However, any such Class Order can only be made once the *Corporations Amendment (Corporate Reporting Reform) Act 2010* receives Royal Assent (this occurred on 28 June 2010).

Parent entity information in half-year financial reports
The requirement for the inclusion of parent information in the notes to the financial statements is being enacted by way of regulations. The Minister for Financial Services, Superannuation and Corporate Law has indicated the regulations are scheduled to be considered at an Executive Council meeting on 29 June 2010.

The draft regulations issued by the Government in December 2009 originally included a requirement for parent entity information in both annual **and** half-year financial statements. The updated Explanatory Memorandum to the final Bill also specifically references regulations being created for both the annual and half-year financial statement requirements.

The *Corporations Amendment Regulations 2010 (No. 6)* were made on 29 June 2010. The regulations **do not** require the disclosure of additional parent only information in half-year financial reports. Accordingly, there is no requirement to disclose parent entity information in half-year consolidated financial reports.

Impact on entities not governed by the Corporations Act
The changes to the requirements for parent entity financial statements apply only to those entities required to prepare financial statements under the *Corporations Act 2001*. Other entities, such as some trusts and partnerships, would need to consider their reporting mandate (e.g. trust deed, legislation or other regulations) when determining whether to eliminate parent entity columns.

In some cases, the presentation of parent entity information has been included in financial statements due to the historical 'convention' of Australian entities presenting such information. Where there is no obligation to present parent only financial statements under the entity's reporting mandate, the governing bodies of these entities might choose to eliminate parent entity information from financial reports in light of the *Corporations Act* amendments.

Revised requirements for directors' declarations

Summary of the new requirements

If a company, registered scheme or disclosing entity has included in the notes to the financial statements, in compliance with the accounting standards, an explicit and unreserved statement of compliance with international financial reporting standards, s.295(4) of the *Corporations Act 2001* has been amended to require a declaration by the directors that this statement has been included in the notes to the financial statements.

Technically, the new directors' declaration requirement refers to cross referencing to the statement of compliance with IFRS in the notes to the financial statements, rather than making a separate declaration of compliance in the directors' declaration itself. Directors may choose to word their declaration in a way that more fully confirms the entity's compliance with IFRS whilst also complying with the law by referring to the IFRS declaration in the notes as well. We've included an example in Appendix B illustrating this approach.

This new requirement applies to financial years ending on or after 30 June 2010, but will only apply to those entities making an explicit and unreserved statement of compliance in the notes to the financial statements in accordance with paragraph 16 of AASB 101 *Presentation of Financial Statements*.

Accordingly, the new requirements will not apply to not-for-profit or public sector entities, entities preparing special purpose financial statements or entities adopting the 'Tier 2' reduced disclosure requirements (RDR, discussed below).

Furthermore, there are other minor wording changes due to the elimination of the parent entity information from the primary financial statements.

AASB's Reduced Disclosure Regime

Overview

The AASB held a special meeting on Friday 25 June 2010 to progress its consideration of its (then) proposed revised differential reporting framework, with the objective of making the necessary Standards to implement the 'Reduced Disclosure Regime' (RDR) in time for early adoption by entities in their 30 June 2010 financial statements.

The meeting did not make the necessary Standards, but instead dealt with a number of 'sweep issues' in order to approve those Standards on or before 30 June 2010. The matters dealt with included consideration of a need for 'RDR' amendments to AASB 134 *Interim Financial Reporting* (so that equivalent disclosure RDR exemptions would apply if an entity chose to prepare an interim financial report) and a number of 'domestic' Standards.

The AASB considered the final standards out of session and made the following standards on 30 June 2010 (the Standards were released on 2 July 2010):

- AASB 1053 *Application of Tiers of Australian Accounting Standards* – this Standard implements the two-tier reporting framework:
  - **Tier 1** – Australian Accounting Standards – full disclosure requirements, which are IFRS compliant in relation to for-profit entities (full recognition and measurement requirements also apply)
  - **Tier 2** – Australian Accounting Standards – Reduced Disclosure Requirements – the second tier is the new 'RDR' with reduced disclosure requirements (but with full recognition and measurement requirements, the same as Tier 1).
- AASB 2010–2 *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* – this Standard details the various disclosures in individual Standards which do not apply to entities applying the RDR.

What are the differences between Tier 1 and Tier 2?

Unlike the *IFRS for SMEs*, entities applying Tier 1 or Tier 2 will apply the same *recognition* and *measurement* requirements. The only difference between the tiers is the level of *disclosure* required. (Presentation requirements are identical, except Tier 2 entities will not be required to present a 'third balance sheet' under AASB 101 *Presentation of Financial Statements*).

The approach of effectively adopting at least the recognition and measurement requirements of IFRS for all entities in Australia from 2005 (with some modification for not-for-profit and public sector entities) has meant that a lot of the 'pain' of adopting IFRS has already been incurred in the Australian context.

Compared with IFRS, the *IFRS for SMEs* does not result in a substantial reduction in complexity in the recognition and measurement requirements – and in fact many 'simplifications' may be more onerous in practice (e.g. introduction of 'uncertain tax position' accounting for income taxes), be counterintuitive (e.g. mandatory amortisation of goodwill over a ten year period) or may or may not ultimately align with 'full IFRS' (e.g. rewrite of financial instruments requirements). Furthermore, there are as yet no widely accepted interpretations of contentious issues under the *IFRS for SMEs*, a position similar to the original IFRS transition in 2005, with all the uncertainty this brought on transition.

Taken in this context, the AASB's tentative decision not to adopt the *IFRS for SMEs* can be seen as a logical step. The future paths of IFRS and IFRS for SMEs may diverge over time, particularly in light of the significant projects being undertaken by the IASB. Accordingly, it is equally reasonable to not completely shut the door on *IFRS for SMEs* just yet. The AASB has acknowledged it will continue to contribute to the future development of the *IFRS for SMEs* in the future and may at some point reconsider its introduction in Australia.

When do the revised requirements apply?

The revised requirements in AASB 1053 and AASB 2010-2 have mandatory application to annual reporting periods beginning on or after 1 July 2013. Early adoption will be permitted for annual reporting periods beginning on or after 1 July 2009.

The restriction of early adoption is a pragmatic solution to the dilemma facing the AASB of how to permit early adoption for earlier accounting periods. To allow earlier adoption would mean the AASB would need to consider 'RDR' disclosure exemptions for earlier versions of Standards or Standards which are no longer applicable. Alternatively, the AASB could make early adoption of the RDR conditional on early adoption of all Standards applicable to annual reporting periods ending 30 June 2010. Neither of these options is particularly palatable and therefore the solution agreed to by the AASB is at least a workable one.

How are entities applying Tier 1 and Tier 2 (RDR) differentiated?

The entities that would apply each tier are set out in the table below:

Sector	Tier 1 (full Australian Accounting Standards)	Tier 2 (reduced disclosure requirements)
For-profit private sector entities	Publicly accountable entities (including entities *deemed* to have public accountability).	Non-publicly accountable entities, unless the entity elects to apply Tier 1.
Not-for-profit private sector entities	Choice of applying Tier 1 or Tier 2 requirements, unless the relevant regulator requires Tier 1.	
Public sector entities	Federal, State, Territory and Local Governments.	All other entities, unless the relevant regulator requires Tier 1.

How will entities be affected?

The following table summarises the impact on various classes of entity:

Class of entity	Impact
For-profit reporting entities with 'public accountability' (e.g. listed entities, disclosing entities, banks, insurance companies and other financial institutions).	**No change** These entities will continue to prepare Tier 1 general purpose financial statements that fully comply with IFRS, including all recognition, measurement, presentation and disclosure requirements.
Other for-profit reporting entities preparing general purpose financial statements but lacking 'public accountability'.	**Reduced disclosure** Able to take advantage of Tier 2 (the RDR), with the option of early adoption to annual reporting periods beginning on or after 1 July 2009 (i.e. 30 June 2010 for June balancing entities).
Non-reporting entities currently preparing special purpose financial statements, including wholly-owned subsidiaries and eligible large proprietary companies.	**No change at this stage** These entities will still be able to prepare special purpose financial statements if considered appropriate, until such time as the AASB undertakes further research and determines the way forward for these entities. In other words, these entities will not be required to apply either Tier 1 or Tier 2 at this stage.
Federal, State, Territory and Local Governments.	**No change** These entities will continue to prepare general purpose financial statements that fully comply with all the requirements of Australian Accounting Standards (including IFRS as modified for the public sector entities), including all recognition, measurement, presentation and disclosure requirements.
Other not-for-profit entities.	**Reduced disclosure** Able to take advantage of Tier 2 (the RDR), with the option of early adoption to annual reporting periods beginning on or after 1 July 2009 (i.e. 30 June 2010 for June balancing entities).

Which entities are 'publicly accountable'?

AASB 1053 adopts, with a limited change to limit it to the for-profit sector, the IASB's definition of 'publicly accountable' as is contained in the *IFRS for SMEs*.

The definition contained in AASB 1053 is as follows:
Public accountability *means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs.*

A for-profit private sector entity has public accountability if:
(a) Its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
(b) It holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

Essentially, an entity is considered to have public accountability if its debt or equity instruments are publicly traded, or if it is a financial institution or other entity that, as part of its primary business, holds and manages financial resources entrusted to it by clients.

In addition, AASB 1053 deems the following entities to have public accountability (and so must apply 'Tier 1' requirements):

- Disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market
- Co-operatives that issue debentures
- Registered managed investment schemes
- Superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. II.E.1 *Regulation of Small APRA Funds* (December 2000)
- Authorised deposit-taking institutions.

What about not-for-profit and public sector entities?

The AASB decided not to apply the 'public accountability' criterion in relation to not-for-profit and public sector entities, instead:

- All not-for-profit entities would be permitted to apply the Tier 2 RDR requirements
- All public sector entities, other than Federal, State, Territory and Local Governments, would be permitted to apply Tier 2 RDR requirements.

Although AASB 1053 makes Tier 2 (RDR) available to all not-for-profit private sector entities and most public sector entities, regulators might exercise a power to require Tier 1 in relation to certain entities.

The AASB has decided not to interfere with the 'reporting mandate', i.e. which entities have to prepare financial statements, or what form of financial statements. Instead, the AASB has laid out the broad financial reporting framework, with differentiation between Tier 1, Tier 2 (RDR) and, for the time being, non-reporting entities.

Therefore, the AASB is effectively leaving the reporting mandate question to be a policy decision for legislators and regulators, rather than the AASB.

Accordingly, entities wanting to take advantage of the Tier 2 (RDR) requirements must consider both AASB 1053 and the entity's reporting mandate when determining the appropriate financial statements to prepare.

Further complications will arise in event the 'Stage 2' reforms eliminate the reporting entity concept from the differential reporting framework, as the ability to prepare special purpose financial statements under Australian Accounting Standards would then be removed.

Which entities will be required to comply with 'Tier 1'?
The proposals would see the following entities being required to apply Tier 1 and so apply Australian Accounting Standards in full without any disclosure relief:

- All entities listed on the Australian Securities Exchange, National Stock Exchange and similar exchanges (including any foreign exchange)
- All banks, credit unions, securities brokers/dealers, mutual funds, investment banks and registered managed investment schemes
- Federal, State, Territory and Local Governments
- Any entity required to apply full IFRS under its reporting mandate (legislation, ministerial directive, etc).

As part of its consultation and redeliberation process, the AASB decided to exclude the following entities from mandatorily application of Tier 1: universities (to ensure public sector and private universities had equivalent frameworks), insurance entities (as some captive insurers may not have public accountability), self-managed and small superannuation funds (lack of a broad group of investors) and Australian Financial Services Licence (AFSL) holders (classification depends on the nature of the services provided).

These changes are sensible and provide a better balance between the 'public accountability' concept and the nature of these entities.

Which disclosures have been reduced for entities apply Tier 2 (RDR)?
The AASB's determined the reduced disclosures under Tier 2 (RDR) largely guided by the IASB's approach in developing the disclosure requirements for the *IFRS for SMEs*. Accordingly, disclosures omitted by the IASB in developing the *IFRS for SMEs* are also excluded from Tier 2 (RDR), and the 'user need' and 'cost benefit' principles applied by the IASB have been used where the *IFRS for SMEs* was not directly relevant.

The importance of the 'general purpose financial statements' concept is a key guiding factor the AASB used in determining the Tier 2 (RDR) disclosures. As a result the disclosure requirements under Tier 2 (RDR) are reduced, but not to the extent some may be expecting. That disclosure burden is largely consistent with the IASB's *IFRS for SMEs* regime.

The implementation of the Tier 2 requirements through AASB 2010-2 is complex and driven by legal requirements. To clearly understand the disclosure relief, entities may prefer to refer to the 'compiled' version of the Standards where disclosures not required to be applied by Tier 2 entities will be shaded.

Now the revised disclosure regime has been implemented, there will continue to be only one 'suite' of Standards to refer to (rather than 'full' Australian Accounting Standards and an Australianised *IFRS for SMEs*).

Whilst there are numerous exceptions, the table below broadly summarises the disclosure matters generally retained and those omitted under Tier 2 (RDR).

Disclosure items generally retained	Disclosure items generally omitted
Format and layout of primary financial statements.	Detailed narrative disclosure, e.g. nature and extent of risks arising from financial instruments under AASB 7, standards on issue but not yet effective.
Descriptions of accounting policies and methods.	Detailed information on how amounts have been measured, e.g. share-based payments, fair values.
Key amounts included in the financial statements, e.g. impairment and reversals, breakdown of revenue, discontinuing operations, fair value adjustments, gains and losses.	Supplementary information about key transactions, balances and events, e.g. financial information about associates/joint ventures, alternate presentation of profit or loss information, impairment, defined benefit plan liabilities
Movement schedules, e.g. share-based payments, fixed assets, goodwill, intangibles, investment property.	Many additional Australian disclosures, e.g. audit fees, franking credits, capital commitments.
Reconciliations of key transactions and balances, e.g. business combination breakdowns, income tax expense and deferred tax balances.	Most disclosures required by Interpretations.
Significant uncertainties and judgements.	
Information about the entity and its related parties (but not necessarily details of transactions and balances).	

Who will benefit from the RDR?

The key potential beneficiaries of early adoption will be reporting entities and other entities preparing general purpose financial statements that do not have 'public accountability'. Smaller not-for-profit and some public sector entities will also potentially be able to take advantage of the reduced disclosures offered by the RDR, unless required to comply with Tier 1 under its reporting mandate.

Although AASB 1053 and AASB 2010-2 have a mandatory application date (commencing in 2013), entities are in essence not required to adopt the Tier 2 requirements. Some entities eligible to apply Tier 2/RDR may nevertheless choose to fully comply with all disclosure requirements under Australian Accounting Standards, e.g. entities expected to become 'publicly accountable' in the future (perhaps due to an expected IPO) or those wishing to state compliance with IFRS due to the a global reach of its business.

What are the next steps?

Finalising Stage 1

The issue of AASB 1053 and AASB 2010-2 is the first stage in AASB's revised differential reporting regime. However, stage 1 is not quite complete as it has not considered the RDR reduced requirements in the following standards:

- AASB 4 *Insurance Contracts*
- AASB 1023 *General Insurance Contracts*
- AASB 1038 *Life Insurance Contracts*, although the AASB's initial view is that life insurance is of high public interest and comprehensive information is needed
- AAS 25 *Financial Reporting by Superannuation Plans.*

A further due process will be undertaken in relation to these Standards and a further exposure draft or other constituent feedback sought before they are finalised. This means entities applying Tier 2 (RDR) will still be required to fully comply with the disclosure requirements of these Standards where they are applicable to the entity.

Stage 2

Consideration of the appropriate financial reporting by entities currently considered 'non-reporting entities' will be undertaken in 'Stage 2' of the AASB's project.

The AASB has appointed two consultants to undertake research on the application of the reporting entity concept by entities lodging financial statements with the Australian Securities and Investments Commission. This research will be used in the AASB's deliberations in Stage 2.

These developments indicate the AASB intends to proceed with Stage 2 of the revised differential reporting framework. There are some unsubstantiated concerns that the reporting entity concept is being 'abused' to avoid full reporting requirements by some entities. The research being undertaken should confirm or refute this possibility and permit the AASB to make an informed decision.

The exact outcome of this process on non-reporting entities cannot be predicted with any certainty at this point. There remains some opposition to the elimination of the reporting entity concept from the differential reporting framework and its elimination would increase the financial reporting burden on affected entities.

In the event there is a change in the framework for these entities, it is unlikely to be mandatorily applied for a number of years (noting mandatory application of first stage of the RDR is not expected until annual reporting periods beginning on or after 1 July 2013).

More information

More information about the developments discussed in this document, see the following:

- ***Corporations Amendments (Corporate Reporting Reform) Act 2010*** – final Act after receiving Royal Assent and being registered on the *Federal Legislative Instruments Register (FRLI)*
- ***Corporations Amendment Regulations 2010 (No. 6)*** – implements the requirement to disclose parent entity information as a note to consolidated financial statements
- ***AASB 1053*** *Application of Tiers of Australian Accounting Standards* (from the AASB website, PDF 210kb)
- ***AASB 2010-2*** *Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements* (from the AASB website, PDF 269kb)
- ***AASB Action Alert*** (PDF 48kb) from its special RDR meeting on 25 June 2010
- ***Federal Government press release*** on passage of the Corporations Act amendments
- ***Federal Government press release*** on making of Corporations Act regulations
- ***Accounting alert 2010/07*** – further AASB redeliberations
- ***Accounting alert 2010/05*** – initial AASB redeliberations, including the decision to split the project into two stages
- ***Accounting alert 2010/02*** – analysis of the final proposals in ED 192 *Revised Differential Reporting Framework* and AASB Consultation Paper *Differential Financial Reporting – Reducing Disclosure Requirements*
- ***Accounting alert 2009/11*** – overview of the initial draft AASB proposals and the complimentary proposals to amend the *Corporations Act 2001*
- ***Our comment letter*** on ED 192 *Revised Differential Reporting Framework*.

Appendix A – illustrative example of parent entity disclosures

GAAP Holdings (Australia) Limited
Notes to the financial statements

Source	GAAP Holdings (Australia) Limited
	56. Parent entity disclosures
	Financial statements
s.295(2)	The financial statements for the year are: (a) Unless paragraph (b) applies – the financial statements in relation to the company, registered scheme or disclosing entity required by the accounting standards (b) If the accounting standards require the company, registered scheme or disclosing entity to prepare financial statements in relation to the consolidated entity – the financial statements in relation to the consolidated entity required by the accounting standards.
	Notes to financial statements
s.295(3)	The notes to the financial statements are: (a) Disclosures required by the regulations (b) Notes required by the accounting standards (c) Any other information necessary to give a true and fair view (see section 297).
	Disclosures required in the notes to the consolidated financial statements
Reg2M.3.01	(1) For paragraph 295(3)(a) of the Act, if paragraph 295(2)(b) of the Act applies to a parent entity, the following (a) Disclosures are required in the notes to the financial statements of the consolidated entity: (a) Current assets of the parent entity (b) Total assets of the parent entity (c) Current liabilities of the parent entity (d) Total liabilities of the parent entity (e) Shareholders' equity in the parent entity separately showing issued capital and each reserve (f) Profit or loss of the parent entity (g) Total comprehensive income of the parent company (h) Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries (i) Details of any contingent liabilities of the parent entity (j) Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment (k) Comparative information for the previous period for each of paragraphs (a) to (j).
	(2) The disclosures in subregulation (1) must be calculated in accordance with accounting standards in force in the financial year to which the disclosure relates.
	(2) In this regulation: *Parent entity* means a company, registered scheme or disclosing entity that is required by the accounting standards to prepare financial statements in relation to a consolidated entity.

Source	GAAP Holdings (Australia) Limited		
	56. Parent entity disclosures (cont'd)		
	56.1 Financial position		
		30/06/10	30/06/09
		$'000	$'000
	Assets		
Reg2M.3.01(1)(a), (k)	Current assets	27,653	21,878
	Non-current assets	94,260	99,637
Reg2M.3.01(1)(b), (k)	Total assets	**121,913**	**121,515**
	Liabilities		
Reg2M.3.01(1)(c), (k)	Current liabilities	29,811	40,895
	Non-current liabilities	27,242	7,048
Reg2M.3.01(1)(d), (k)	Total liabilities	**57,053**	**47,943**
	Equity		
Reg2M.3.01(1)(e), (k)	Issued capital	32,777	48,672
	Retained earnings	30,420	23,719
Reg2M.3.01(1)(e), (k)	**Reserves**		
	General reserve	807	807
	Asset revaluation	1	1
	Investments revaluation	57	35
	Equity settled employee benefits	206	338
	Hedging	–	–
	Foreign currency revaluation	–	–
	Option premium on convertible notes	592	–
	Tax consolidation	–	–
	Other [describe]	–	–
	Total equity	**64,860**	**73,572**
	56.2 Financial performance		
		Year ended 30/06/10	Year ended 30/06/09
		$'000	$'000
Reg2M.3.01(1)(f), (k)	Profit for the year	13,891	12,426
	Other comprehensive income	22	(38)
Reg2M.3.01(1)(g), (k)	Total comprehensive income	**13,913**	**12,388**

Source	GAAP Holdings (Australia) Limited		
	56. Parent entity disclosures (cont'd)		
Reg2M.3.01(1)(h), (k)	**56.3 Guarantees entered into by the parent entity in relation to the debts of its subsidiaries**		
		30/06/10	30/06/09
		$'000	$'000
	Guarantee provided under the deed of cross guarantee (i)	**11,980**	**24,624**
	(i) GAAP Holdings (Australia) Limited has entered into a deed of cross guarantee with two of its wholly-owned subsidiaries, Subthree Limited and Subseven Limited.		
Reg2M.3.01(1)(i), (k)	**56.4 Contingent liabilities of the parent entity**		
		30/06/10	30/06/09
		$'000	$'000
	[describe]	**–**	**–**
Reg2M.3.01(1)(j), (k)	**56.5 Commitments for the acquisition of property, plant and equipment by the parent entity**		
		30/06/10	30/06/09
		$'000	$'000
	Plant and equipment		
	Not longer than one year	26	70
	Longer than one year and not longer than five years	–	–
	Longer than five years	–	–
		26	**70**

Appendix B – illustrative example directors' declaration

GAAP Holdings (Australia) Limited
Director's declaration

Source	GAAP Holdings (Australia) Limited
	Directors' declaration
s.295(4)	The directors' declaration is a declaration by the directors: (c) Whether, in the directors' opinion, there are reasonable grounds to believe that the company, registered scheme or disclosing entity will be able to pay its debts as and when they become due and payable (ca) If the company, registered scheme or disclosing entity has included in the notes to the financial statements, in compliance with the accounting standards, an explicit and unreserved statement of compliance with international financial reporting standards – that this statement has been included in the notes to the financial statements (d) Whether, in the directors' opinion, the financial statement and notes are in accordance with this Act, including: (i) Section 296 (compliance with accounting standards) (ii) Section 297 (true and fair view). (e) If the company, disclosing entity or registered scheme is listed--that the directors have been given the declarations required by section 295A.
	The directors declare that:
s.295(4)(c)	(a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable
s.295(4)(ca)	(b) In the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note [x] to the financial statements[1]
s.295(4)(d)	(c) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity[2]
s.295(4)(e)	(d) The directors have been given the declarations required by s.295A of the Corporations Act 2001 [listed companies, listed disclosing entities and listed registered schemes only].
ASIC-CO 98/1418	At the date of this declaration, the company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee In the directors' opinion, there are reasonable grounds to believe that the company and the companies to which the ASIC Class Order applies, as detailed in note 39 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.
s.295(5)	Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001. On behalf of the Directors (Signature) C.J. Chambers, Director Sydney, 11 September 2010

Footnotes
1. This declaration is only required if the entity has stated compliance with International Financial Reporting Standards in the notes to the financial statements.
2. Where the financial statements have been prepared for a company rather than for a consolidated entity, this wording should be amended accordingly.

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