

Simplified Disclosures Tier 2 Financial Reports

June 2021

From 1 July 2021, the Tier 2 Reduced Disclosure Regime is replaced by a new Simplified Disclosures Standard. This publication compares the two disclosure standards and explores how transition choices affect the disclosures.

What is changing?

The Tier 2 Reduced Disclosure Regime ("RDR") is being replaced with a new Tier 2 Simplified Disclosure Standard ("SDS") which is contained in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*.

Which entities are affected by this change?

SDS will mandatorily apply to any for-profit or not-for-profit entity preparing Tier 2 general purpose financial statements for annual reporting periods beginning on or after 1 July 2021.

This means that for entities with a 30 June balance date SDS will apply to the financial year ended 30 June 2022, and to the financial year ended 31 December 2022 for those entities with a 31 December balance date. Entities can elect to early adopt SDS.

What are the differences between the RDR and SDS disclosures?

The following sections describe the key disclosure changes between RDR and SDS:

Table 1: RDR disclosures reduced by SDS

Topic	Disclosures removed or reduced
Revenue	<ul style="list-style-type: none"> Information about assets recognised from costs incurred to obtain or fulfil a contract with a customer, and the amount of any amortisation or impairment of those contract assets; Disclosures of specific judgements regarding satisfaction of performance obligations and allocation of transaction price (however, may be caught by general requirement to disclose significant judgements); and Disclosure of the use of practical expedients relating to both significant financing components and incremental costs of obtaining a contract.
Other income and expense	<ul style="list-style-type: none"> Individually material items of income or expense items (however, separate disclosure of each material class of similar items is still required); and Gains and losses arising from the reclassification of financial assets to fair value through profit or loss.
Financial assets and financial liabilities	<ul style="list-style-type: none"> Detailed disclosures about measurement bases of financial assets and financial liabilities (accounting policy still required); Information about reclassified financial assets between measurement categories; Loss allowance recognised in relation to financial assets at fair value through other comprehensive income; Compound financial instruments with multiple embedded derivatives; Reduced disclosures on transferred financial assets not derecognised in their entirety; and Information on transferred financial assets derecognised in their entirety.
Hedging	<ul style="list-style-type: none"> Overall less detailed disclosures required in SDS, with some new disclosures added (refer Table 2 below)

Lessee disclosures	<ul style="list-style-type: none"> Dissection of expense amounts recognised by a lessee (only required to disclose lease payments recognised as expense, and additions to and depreciation of right-of-use assets); Other qualitative and quantitative information (only requires disclosure of a general description of lessee's leasing arrangements); Use of recognition exemption for short-term and low-value leases; and Disclosures relating to variable lease payments, extension options or termination options, and residual value guarantees.
Lessor disclosures	<ul style="list-style-type: none"> Finance Leases: Disclosure of selling profit or loss for finance leases. Operating Leases: Disclosure of lease income Information about how lessor manages risks associated with rights retained in underlying assets (i.e. risk management strategy); and Reduced maturity analysis detail.
Impairment	<ul style="list-style-type: none"> No separate disclosure of impairment losses & reversals for revalued assets recognised in other comprehensive income; and Recoverable amount of individual assets or cash-generating unit (CGU) for which an impairment loss has been recognised.
Share capital	<ul style="list-style-type: none"> Reconciliation of number of shares not required for comparative period.
Business combinations	<ul style="list-style-type: none"> Less details required about the acquired entity/operation.
Discontinued operations	<ul style="list-style-type: none"> Separate tax expense relating to discontinued operations; and Cash flows of discontinued operations.
Interests in other entities	<ul style="list-style-type: none"> Judgements and assumptions made where control exists with <50% of voting power (However, entity may be caught by general requirement to disclose significant judgements); Simplified disclosures about the composition of the group; No disclosure of carrying amounts of assets and liabilities to which the restrictions apply; Risks associated with interests in consolidated structured entities; Investments entities and interests in unconsolidated subsidiaries; and No disclosure of names, ownership interest, etc, for interests in joint arrangements and associates.

Table 2: New SDS disclosures not required by RDR

Topic	Additional disclosures	AASB 1060 Para
General information	<ul style="list-style-type: none"> Information about domicile and legal form of the entity, country of incorporation and the address of its registered office, a description of the nature of the entity's operations and principal activities if not disclosed elsewhere in the financial report. 	32
Hedging disclosures	<ul style="list-style-type: none"> For cash flow hedges and hedges of a net investment in a foreign operation <ul style="list-style-type: none"> periods when the cash flows are expected to occur and when they are expected to affect profit or loss. 	122
Investments in associates and joint ventures	<ul style="list-style-type: none"> For associates accounted for at cost: <ul style="list-style-type: none"> amount of dividends and other distributions recognised as income; and For equity-accounted associates and joint ventures: <ul style="list-style-type: none"> separate disclosure of share of discontinued operations. 	126 127
Business combinations	<ul style="list-style-type: none"> Qualitative description of the factors that make up goodwill. 	142 (g)
Leases	<ul style="list-style-type: none"> Lessees: <ul style="list-style-type: none"> Maturity analysis of total future lease payments; Lessors: <ul style="list-style-type: none"> Operating Leases: variable lease payments recognised as income; and Finance Leases: loss allowance for lease receivables. 	144 (b) 148 (b) 147 (d)

Employee benefits	<ul style="list-style-type: none"> For defined benefit plans: amounts recognised in profit or loss as expense, actual return on plan assets; and For termination benefits: information about the nature of the benefits, amounts of obligation and extent of funding. 	172 - 173 174
Related parties	<ul style="list-style-type: none"> Disclosure of parent-subsidiary relationship by government-related entities 	192, 200
Audit fees	<ul style="list-style-type: none"> Disclosure of fees for: <ul style="list-style-type: none"> the audit or review of the financial statements; and all other services performed during the reporting period with a description of the nature of services. 	98 - 99
Imputation credits	<ul style="list-style-type: none"> Information about imputation credits available for use in subsequent reporting periods. 	100 - 102
First-time adoption disclosures	<ul style="list-style-type: none"> Explanation of how transition has affected reported amounts, description of the nature of each change in accounting policy, reconciliation of profit or loss with separate identification of errors and, where applicable, a statement that the entity did not present financial statements for previous periods; and Note disclosure relief provided by AASB 2020-2. 	206 - 212

Table 3: Other SDS disclosure changes

Topic	Disclosure changes
Primary financial statements	<ul style="list-style-type: none"> Option to omit the Statement of Comprehensive Income and Statement of Changes in Equity and present a Statement of Income and Retained Earnings instead if the only changes to its equity during the periods for which financial statements are presented arise from <ul style="list-style-type: none"> profit or loss, payment of dividends, corrections of prior period errors, and changes in accounting policies.
Transition disclosures – first SDS financial statements	<p>Where an entity applies AASB 1 on transition to SDS:</p> <ul style="list-style-type: none"> A description of the nature of each change in accounting policy; Reconciliations of its equity determined in accordance with its previous financial reporting framework to its equity determined in accordance with SDS for both of the following dates: <ol style="list-style-type: none"> the date of transition to Australian Accounting Standards – Simplified Disclosures; and the end of the latest period presented in the entity’s most recent annual financial statements determined in accordance with its previous financial reporting framework; and A reconciliation of the profit or loss determined in accordance with its previous financial reporting framework for the latest period in the entity’s most recent annual financial statements to its profit or loss determined in accordance with SDS for the same period. <p>Otherwise the disclosures required by AASB 108.</p>

Transition choices and disclosures

The application of the various transitional provisions can be complex and depends on a number of factors. This includes whether an entity is for-profit or not-for-profit; whether the entity previously prepared RDR financial statements; and whether AASB 1 or AASB 108 is applied on transition.

An entity can only apply AASB 1 if:

- The entity's previous SPFS did not comply with all the recognition and measurement requirements of all Australian Accounting Standards; or
- The entity's previous SPFS were prepared on a stand-alone basis and were not consolidated because the entity (or group) was not considered to be a reporting entity.

In addition, for periods beginning before 1 July 2022 (which includes the first year of mandatory adoption), these entities are not required to distinguish between the correction of errors and changes in accounting policies if the entity becomes aware of errors made in its previous SPFS.

Early adoption of SDS before the mandatory application date

For-profit entities

If a for-profit entity transitions from Special Purpose Financial Statements ("SPFS") to SDS before the mandatory application date:

- The date of transition is the start of the current financial year;
- It is not required to restate their SPFS comparative financial information to comply with all measurement and recognition requirements of Australian Accounting Standards. This means the comparative financial information is prepared in accordance with the entity's previous SPFS accounting policies;
- Any accounting policy changes are recognised as adjustments at the start of current financial year;
- It is not required to distinguish between the correction of error and changes in accounting policies if the entity becomes aware of errors made in its most recent previous SPFS;
- Disclosure of any adjustments arising from accounting policy changes on transition is required.
- Additional transition disclosures may apply depending on whether the entity applies AASB 1 or AASB 108 on transition from SPFS to SDS – refer Table 3 above.

A for-profit entity that transitions from RDR financial statements to SDS before the mandatory application date:

- Applies the SDS disclosures to the current and comparative period; but
- Is not required to disclose comparative information for SDS disclosures not previously required by RDR – refer Table 2 above; and
- It is not required to distinguish between the correction of error and changes in accounting policies if the entity becomes aware of errors made in its most recent previous SPFS.

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Not-for-profit entities

There is no specific relief for a not-for-profit entity that transitions from SPFS to SDS before the mandatory application date. Hence:

- The date of transition is the start of the previous comparative financial year;
- It is required to restate their SPFS comparative financial information to comply with all measurement and recognition requirements of Australian Accounting Standards;
- Any accounting policy changes are recognised as adjustments at the start of the previous financial year;
- Additional transition disclosures may apply depending on whether the entity applies AASB 1 or AASB 108 on transition from SPFS to SDS – refer Table 3 above.

A not-for-profit entity that transitions from RDR financial statements to SDS before the mandatory application date:

- Applies the SDS disclosures to the current and comparative period; but
- Is not required to disclose comparative information for SDS disclosures not previously required by RDR – refer Table 2 above.

Adoption of SDS at the mandatory application date

Other than the limited relief in relation to distinguishing the correction of errors and changes in accounting policies for for-profit entities, no transition disclosure relief applies to either for-profit entities or not-for-profit entities transitioning from either SPFS or RDR to SDS. SDS disclosures will be required for both the current and comparative reporting periods.

Additional transition disclosures may apply depending on whether the entity applies AASB 1 or AASB 108 on transition from SPFS to SDS – refer Table 3.

If you require assistance preparing for these changes, or for any further information, please contact your local Nexia Advisor.

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Not-for-profit entities

There is no specific relief for a not-for-profit entity that transitions from SPFS to SDS before the mandatory application date. Hence:

- The date of transition is the start of the previous comparative financial year;
- It is required to restate their SPFS comparative financial information to comply with all measurement and recognition requirements of Australian Accounting Standards;
- Any accounting policy changes are recognised as adjustments at the start of the previous financial year;
- Additional transition disclosures may apply depending on whether the entity applies AASB 1 or AASB 108 on transition from SPFS to SDS – refer Table 3 above.

A not-for-profit entity that transitions from RDR financial statements to SDS before the mandatory application date:

- Applies the SDS disclosures to the current and comparative period; but
- Is not required to disclose comparative information for SDS disclosures not previously required by RDR – refer Table 2 above.

Adoption of SDS at the mandatory application date

Other than the limited relief in relation to distinguishing the correction of errors and changes in accounting policies for for-profit entities, no transition disclosure relief applies to either for-profit entities or not-for-profit entities transitioning from either SPFS or RDR to SDS. SDS disclosures will be required for both the current and comparative reporting periods.

Additional transition disclosures may apply depending on whether the entity applies AASB 1 or AASB 108 on transition from SPFS to SDS – refer Table 3



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