

## ISSUES PAPER

### Deletion of Cross-References from Australian Accounting Standards

#### PURPOSE

- 1 Decide whether to remove references to the incorporation of information by cross-reference from:
  - (a) the forthcoming amendments to paragraph 16A of AASB 134 *Interim Financial Reports* (paragraphs 6 – 16);
  - (b) AASB 1 *First-time Adoption of Australian Accounting Standards*, paragraphs 32(b) and 33 (paragraphs 17 – 21); and
  - (c) AASB 119 *Employee Benefits*, paragraph 150 (paragraphs 22 – 27).

#### BACKGROUND

- 2 The Board previously discussed issues with incorporating information by cross-reference to a document outside the financial report at its meetings in December 2012<sup>1</sup>, May 2013<sup>2</sup>, October 2013<sup>3</sup>, February 2014<sup>4</sup>, April 2014<sup>5</sup> and May 2014<sup>6</sup>.
- 3 The cross-referencing issue was initially raised to address consistency concerns between a proposed amendment to IAS 34 to permit certain information to be provided by cross-reference (the forthcoming amendments to paragraph 16A addressed in this agenda paper) and the Board's previous decision to delete paragraph B6 of IFRS 7 *Financial Instruments: Disclosures* when making AASB 7 *Financial Instruments: Disclosures* in August 2005. As requested by the Board at its December 2012 meeting, staff consulted with the ASIC and AUASB as part of this process.
- 4 At its meetings in October 2013, February 2014 and April 2014, the Board decided to delete the second and third sentences of paragraph 21B and retain the deletion of paragraph B6 of IFRS 7 from AASB 7, **on the basis that the deleted text may have unintended consequences in an Australian reporting context.**
- 5 Paragraphs 21B and B6 of IFRS 7 read as follows (italics show the text deleted by the AASB from AASB 7):

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1 AASB December 2012 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/M128\\_AASB\\_Minutes\\_12-13\\_Dec\\_2012\\_Unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/M128_AASB_Minutes_12-13_Dec_2012_Unsigned.pdf)

2 AASB May 2013 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_Meeting\\_131\\_29-30\\_May\\_2013\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_Meeting_131_29-30_May_2013_unsigned.pdf)

3 AASB October 2013 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_M135\\_23-24\\_October\\_2013\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M135_23-24_October_2013_unsigned.pdf)

4 AASB February 2014 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_M136\\_13\\_February\\_2014\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M136_13_February_2014_unsigned.pdf)

5 AASB April 2014 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_M137\\_8-9\\_April\\_2014\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M137_8-9_April_2014_unsigned.pdf)

6 AASB May 2014 minutes: [http://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Minutes\\_M138\\_28-29\\_May\\_2014\\_unsigned.pdf](http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M138_28-29_May_2014_unsigned.pdf)

- 21B An entity shall present the required disclosures in a single note or separate section in its financial statements. *However, an entity need not duplicate information that is already presented elsewhere, provided that the information is incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.*
- B6 *The disclosures required by paragraphs 31-42 shall be either given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time. Without the information incorporated by cross-reference, the financial statements are incomplete.*

#### FORTHCOMING CROSS-REFERENCE IN AASB 134

- 6 The IASB is expected to issue Annual Improvements arising from its Annual Improvements to IFRSs 2012-2014 Cycle Project in Q3 2014, including an amendment to IAS 34.
- 7 The forthcoming IASB Annual Improvement to IAS 34 is expected to amend IAS 34.16A to clarify the meaning of disclosure of information ‘elsewhere in the interim financial report’. At its meeting in June 2014, the IASB considered the IFRS Interpretation Committee’s recommendations on the proposed amendment to IAS 34<sup>7</sup>, including the proposed final wording for the final amendment<sup>8</sup>, and tentatively decided to finalise the proposed improvement.
- 8 The proposed final wording for the amendment to paragraph 16A is (new text is underlined and deleted text is struck through) reads as follows:

**16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, ~~if not disclosed or~~ elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to some other statement (such as management commentary or risk report), that is available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the information incorporated by cross-reference, the interim financial**

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7 Refer June 2014 IASB Agenda Paper 13E: Annual Improvements: to IFRSs 2012-2014 Cycle (ED/2013/11) – Comment letter analysis: IAS 34 Interim Financial Reporting – Disclosure of information ‘elsewhere in the interim financial report’: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/June/AP13E-Annual%20Improvements.pdf>

8 Refer June 2014 IASB Agenda Paper 13F: Annual Improvements: Project – 2012-2014 Cycle: Staff draft of proposed wording for final amendments – changes tracked from 2014 Bound Volume: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/June/AP13F-Annual%20Improvements.pdf>

**report is incomplete. The information shall normally be reported on a financial year-to-date basis.**

(a) ...

- 9 The text deleted from paragraphs 21B and B6 of IFRS 7 is similar to that now proposed for inclusion in IAS 34.16A – a difference being that IFRS 7 refers to the financial statements for the annual reporting period, while IAS 34.16A references the interim financial report. However, staff think that there is no practical difference between the two requirements.

#### **Previous AASB comments to the IASB**

- 10 The Annual Improvement to IAS 34 described above was exposed as part of IASB Exposure Draft ED/2013/11 *Annual Improvements to IFRSs 2012-2014* (incorporated into AASB Exposure Draft ED 247 of the same name). The AASB submission to the IASB ED agreed with the IASB's amendment to IAS 34 as the proposed wording was not expected to have any significant impact for Australian entities applying the Standard. Staff note that certain respondents to AASB ED 247 noted that, in Australia, the *Corporations Act 2001* and other legislation may require the information specified by AASB 134.16A to continue to be provided within the interim financial statements and notes thereto.
- 11 In finalising the Annual Improvement, the IFRS Interpretations Committee and IASB proposed to amend the wording of paragraph 16A from that included in the original proposal. IFRS Interpretations Committee staff proposed amended draft wording for paragraph 16A at the IFRS Interpretations Committee meeting in May 2014. The AASB considered that draft proposed wording at its May 2014 meeting, and noted that the suggested revised wording of IAS 34 paragraph 16A may have unintended consequences in an Australian reporting context. The Board directed staff to discuss the issue with the IASB staff. Subsequent to the AASB May 2014 meeting, AASB staff raised the Board's concerns with IASB staff. The IASB staff acknowledged the Board's concerns and informally advised that the IASB is expecting to address the use of cross-referencing for incorporating disclosures into financial statements as part of its Disclosure Initiative – Principles of Disclosure project (The IASB discussed cross-referencing at its July 2014 meeting – refer Agenda Item 21).
- 12 Staff note that the proposed final wording of paragraph 16A differs slightly from the text included in the Agenda Paper considered by the IFRS Interpretations Committee at its May 2014 meeting, but that the revised wording is aligned with that of paragraphs 21B and B6 of IFRS 7 and accordingly does not alleviate the Board's concern from its May meeting.

#### **Staff recommendation**

- 13 AASB staff consider that the proposed final wording of the amendment is broader than that included in the original proposal as staff think it could be read as not limiting the cross-reference to be only to other documents included within the interim financial report, and may have unintended consequences in an Australian reporting context if incorporated into AASB 134 *Interim Financial Reporting*.

- 14 Staff recommend that the forthcoming new second and third sentences of IAS 34.16A, if finalised by the IASB without significant amendment from that included in this agenda paper, be **excluded** when the IASB Annual Improvement is issued and incorporated into AASB 134 for consistency with the Board's reasons for deleting IFRS 7.21B and B6, that is, on the basis that the deleted text may have unintended consequences in an Australian reporting context.
- 15 The staff recommendation is for the Annual Improvement amendment to AASB 134 to appear as follows (new text is underlined and deleted text is struck through):
- 16A In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, ~~if not disclosed~~ or elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**
- (a) ...
- 16 Staff consider that no further due process is necessary in relation to the proposed amendment to AASB 134.16A.

#### Question to Board Members

- Q1 Do Board Members agree with the staff's recommendation in paragraphs 14 – 15 to exclude the forthcoming new second and third sentences of IAS 34.16A from AASB 134?
- Q2 Do Board Members agree that no further due process is necessary in relation to the proposed amendment?

#### CROSS-REFERENCE INCLUDED IN AASB 1

- 17 Staff have identified that AASB 1 permits certain information to be provided by cross-reference from the financial statements. AASB 1.32 and 33 read as follows [emphasis added]:

#### Interim financial reports

- 32 To comply with paragraph 23, if an entity presents an interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements, the entity shall satisfy the following requirements in addition to the requirements of AASB 134:
- (a) ...
- (b) In addition to the reconciliations required by (a), an entity's first interim financial report in accordance with AASB 134 for part of the period covered by its first Australian-Accounting-Standards financial statements shall include the reconciliations described in paragraph 24(a) and (b) (supplemented by the details required by paragraphs 25 and 26) **or a cross-reference to another published document that includes**

**these reconciliations.** [Staff note: AASB 1.24-26 are set out in Appendix 2]

(c) ...

33 AASB 134 requires minimum disclosures, which are based on the assumption that users of the interim financial report also have access to the most recent annual financial statements. However, AASB 134 also requires an entity to disclose ‘any events or transactions that are material to an understanding of the current interim period’. Therefore, if a first-time adopter did not, in its most recent annual financial statements in accordance with previous GAAP, disclose information material to an understanding of the current interim period, its interim financial report shall disclose that information **or include a cross-reference to another published document that includes it.**

18 The reference to allowing information to be provided by cross-reference from the first interim financial report to another published document has always existed in AASB 1 (May 2009). Similar text was included in paragraphs 45(b) and 46 of AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), which was superseded by AASB 1.

#### Staff recommendation

19 While staff are not aware of any instances where entities have relied on this relief, staff recommend that AASB 1.32(b) and 33 be amended to remove the ability for entities to disclose information by cross-reference (that is, to delete the text shown in bold in paragraph 17 above):

- (a) for consistency with the Board’s reasons for deleting IFRS 7.21B and B6, that is, on the basis that the deleted text may have unintended consequences in an Australian reporting context; and
- (b) as staff are concerned that the wording of the relief in these paragraphs is significantly broader than the wording employed in IFRS 7.21B and B6, which at least has restrictions on the information that is provided by cross-reference as it requires the information to be included in a statement that is available to users of the financial statements on the same terms as the financial statements and at the same time.

20 Staff recommend that the proposed amendments are exposed for comment via a 30-day ‘adverse comment’ Exposure Draft.

21 Further, staff recommend that the proposals apply to annual reporting periods beginning on or after 1 January 2015. While AASB 1.32(b) and 33 relate to interim financial reports, the Standard itself applies to annual reporting periods (refer AASB 1.Aus1.2) – the proposed amendments should similarly follow the application paragraphs of the Standard.

#### Question to Board Members

Q3 Do Board Members agree with the staff’s recommendations in paragraphs 19 – 21 to:

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| <ul style="list-style-type: none"> <li>(a) amend AASB 1.32(b) and 33 to remove the ability for entities to disclose information by cross-reference to another document?</li> <li>(b) expose the proposals in (a) for 30-day adverse comment; and</li> <li>(c) propose that the proposed amendments apply to annual reporting periods beginning on or after 1 January 2015?</li> </ul> |
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## CROSS-REFERENCE INCLUDED IN AASB 119

- 22 Staff have identified that AASB 119.150 permits certain information to be provided by cross-reference from the financial statements. AASB 119.149-150 read as follows [emphasis added; paragraph 149 is included for context]:

### **Defined benefit plans that share risks between entities under common control**

- 149 If an entity participates in a defined benefit plan that shares risks between entities under common control, it shall disclose:
- (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy.
  - (b) the policy for determining the contribution to be paid by the entity.
  - (c) if the entity accounts for an allocation of the net defined benefit cost as noted in paragraph 41, all the information about the plan as a whole required by paragraphs 135–147.
  - (d) if the entity accounts for the contribution payable for the period as noted in paragraph 41, the information about the plan as a whole required by paragraphs 135–137, 139, 142–144 and 147(a) and (b).
- 150 **The information required by paragraph 149(c) and (d) can be disclosed by cross-reference to disclosures in another group entity's financial statements if:**
- (a) that group entity's financial statements separately identify and disclose the information required about the plan; and
  - (b) that group entity's financial statements are available to users of the financial statements on the same terms as the financial statements of the entity and at the same time as, or earlier than, the financial statements of the entity.

- 23 The ability of entities to provide certain AASB 119 information by cross-reference from the financial statements to other statements was included in AASB 119 when it was reissued in September 2011. The revised AASB 119 is applicable to annual reporting periods beginning on or after 1 January 2013. The superseded AASB 119 (December 2004) did not include similar relief.

### Staff recommendation

- 24 Staff note that the AASB 119.150 permits extensive disclosures to be provided by cross-reference. Staff are not aware of any instances where entities have relied on this relief, but note that many entities would have only applied the revised AASB 119 for 30 June 2014 year ends.
- 25 Staff recommend that AASB 119.150 be deleted so as to remove the ability for entities to disclose information by cross-reference to another document:
- (a) for consistency with the Board's reasons for deleting IFRS 7.21B and B6, that is, on the basis that the deleted text may have unintended consequences in an Australian reporting context; and
  - (b) as staff are concerned that the content and availability of group entity's financial statements are not necessarily within the control of the reporting entity itself.
- 26 Staff recommend that the proposed amendment is exposed for comment via a 30-day 'adverse comment' Exposure Draft.
- 27 Further, staff recommend that the proposals apply to annual reporting periods beginning on or after 1 January 2015.

### Question to Board Members

- Q4 Do Board Members agree with the staff's recommendations in paragraphs 25 – 27 to:
- (a) delete AASB 119.150 to remove the ability for entities to disclose information by cross-reference to another document?
  - (b) expose the proposals in (a) for 30-day adverse comment; and
  - (c) propose that the proposed amendments apply to annual reporting periods beginning on or after 1 January 2015?

## APPENDIX 1: PROPOSED AMENDMENTS TO IAS 34.16A

### Proposed amendment included in IASB ED/2013/11

IASB ED/2013/11 *Annual Improvements to IFRSs 2012-2014 Cycle* proposed that IAS 34.16A be amended in the following manner (new text is underlined and deleted text is struck through):

**16A** In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, ~~if not disclosed~~ or elsewhere in the interim financial report. The disclosures below shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to the other part of the interim financial report that is available to users of the interim financial statements on the same terms as the interim financial statements and at the same time. If users do not have access to the information incorporated by cross-reference, the interim financial statements are incomplete. The information shall normally be reported on a financial year-to-date basis.

(a) ...

### Proposed amendment included in IFRS Interpretations Committee Agenda Paper 17E(i)

IFRS Interpretations Committee Agenda Paper 17E(i) from its May 2014 meeting proposed that IAS 34.16A be amended in the following manner (new text is underlined and deleted text is struck through):

**16A** In addition to disclosing significant events and transactions in accordance with paragraphs 15–15C, an entity shall include the following information, in the notes to its interim financial statements, ~~if not disclosed~~ or elsewhere in the interim financial report. The following disclosures shall be given either in the interim financial statements or incorporated by cross-reference from the interim financial statements to other information outside the interim financial statements. These disclosures shall be made available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the information incorporated by cross-reference, the interim financial report is incomplete. The information shall normally be reported on a financial year-to-date basis.

(a) ...



**APPENDIX 2: EXTRACTS FROM AASB 1 *FIRST-TIME ADOPTION OF AUSTRALIAN ACCOUNTING STANDARDS***

**Reconciliations**

- 24 To comply with paragraph 23, an entity's first Australian-Accounting-Standards financial statements shall include:
- (a) reconciliations of its equity reported in accordance with previous GAAP to its equity in accordance with Australian Accounting Standards for both of the following dates:
    - (i) the date of transition to Australian Accounting Standards; and
    - (ii) the end of the latest period presented in the entity's most recent annual financial statements in accordance with previous GAAP.
  - (b) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for the latest period in the entity's most recent annual financial statements. The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for the same period or, if an entity did not report such a total, profit or loss under previous GAAP.
  - (c) if the entity recognised or reversed any impairment losses for the first time in preparing its opening Australian-Accounting-Standards statement of financial position, the disclosures that AASB 136 *Impairment of Assets* would have required if the entity had recognised those impairment losses or reversals in the period beginning with the date of transition to Australian Accounting Standards.
- 25 The reconciliations required by paragraph 24(a) and (b) shall give sufficient detail to enable users to understand the material adjustments to the statement of financial position and statement of comprehensive income. If an entity presented a statement of cash flows under its previous GAAP, it shall also explain the material adjustments to the statement of cash flows.
- 26 If an entity becomes aware of errors made under previous GAAP, the reconciliations required by paragraph 24(a) and (b) shall distinguish the correction of those errors from changes in accounting policies.