AASB 17-18 December 2014
Agenda Paper 3.7 (M142)

ED256 sub 1

GROUP OF 100

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24 November 2014

Ms K Peach
Chairman
Australian Accounting Standards Board
PO Box 204
COLLINS STREET WEST VIC 8007

Dear Ms Peach

ED 256 "Removal of cross references from financial Statements to other documents"

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comment on Exposure Draft 256.

1. *Do you agree with the AASB's proposed policy to not include in Australian Accounting Standards any IFRS text that mentions that an entity could include disclosures specified by Accounting Standards by cross-reference?*
The G100's position is that Australian equivalents of IFRSs should be consistent with the requirements of the IASB except where there are conflicts with Australian law. While we support the proposed policy in order to avoid issues arising from non-compliance with legal requirements, to the extent that they exist, we believe that there is an urgent need for a review of the legal requirements and regulatory practice. We believe this is necessary to take account of developments in technology and initiatives to streamline financial reporting and that the AASB should be proactive in this regard.

2. *Do you agree with the proposals to amend:*
a. AASB 1 to remove mention of providing the disclosures specified by paras 32(b) and 33 by cross-reference from the interim financial report; and
b. AASB 119 to remove mention of providing disclosures about defined benefit plans that share risks between entities under common control by cross-reference from the general purpose financial statements.
Consistent with the proposed policy the G100 accepts that these proposals are necessary for consistency with Australian law and regulatory practice. However, as referred to above, a review of Australian law and regulatory practice is an urgent matter if unnecessary detail and complexity is to be removed from financial reports.

3. *Do you agree with the proposed transitional provisions and application date?*
The G100 agrees with the proposed application date.

4. *Are there any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:*
a. not-for-profit entities; and
b. public sector entities, including GAAP/GFS implications.
The G100 is concerned that the inability to provide certain disclosures by cross-reference to other readily available material impedes the efforts to streamline the financial reporting process. We believe that work aimed at removing legal and regulatory impediments to these processes is a matter of priority.

5. *Whether, overall, the proposals would result in financial statements that would be useful to users?*
No. We do not believe that the inclusion of detailed information which is readily available in other documents issued by the company or could be incorporated by way of reference would be useful to users. In addition, it serves to add to the reporting burden and business costs.

6. *Are the proposals in the best interests of the Australian economy?*
See response to Q5.

7. *Unless already provided in response to specific matters for comment 1-6 above, the costs and benefits of the proposals relative to the current requirements, 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 incremental costs of the proposals relative to the existing requirements.*
No comment.

Sincerely
Group of 100 Inc

Neville Mitchell
President

ED256 sub 2

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27 November 2014

Ms K Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
VICTORIA 8007

Via email: standards@aasb.gov.au

Dear Ms Peach,

Exposure Draft– ED 256: Removal of Cross-References from Financial Statements to Other Documents

Thank you for providing us with the opportunity to comment on the Australian Accounting Standards Board's (AASB) Exposure Draft: *ED 256: Removal of Cross-References from Financial Statements to Other Documents* (ED256), which was issued in October 2014.

The Australian Institute of Company Directors (Company Directors) is one of the two largest member-based director associations worldwide with over 35,000 members, including individual members from a wide range of corporations: publicly-listed companies, private companies, not-for-profit organisations, charities, and government and semi-government bodies. As the principal professional body in Australia representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

Company Directors does not support the proposed amendments to the accounting standards set out in ED256 which restricts the ability to cross-reference to disclosures outside the financial statements in certain instances. We are of the view that the Basis of Conclusions supporting ED256 does not sufficiently articulate the nature and extent of the 'unintended audit or regulatory compliance consequences in an Australian reporting context' that may arise and that justify the need for the proposed amendments in the exposure draft.

Further, we are concerned that removing the ability of entities to cross-reference to sections outside of the financial statements for certain disclosures may result in the duplication of information within an entity's broader corporate reporting and increase the reporting burden.

We also encourage the AASB to reconsider their decision to remove the ability of entities in applying AASB 7, *Financial Instruments: Disclosures,* to cross-reference to a document outside the financial statements for disclosures on both an entity's hedge accounting activities and disclosure of the nature and extent of risks arising from its financial instruments.

In support of the above, we note the recent amendments to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations 3rd Edition,* which allow listed entities to disclose their corporate governance information either on the entity's website or in its annual report. The ASX Corporate Governance Council noted that many entities may use this opportunity to streamline their annual reports.

AUSTRALIAN INSTITUTE
of COMPANY DIRECTORS

Finally, Company Directors encourages the AASB to review all existing accounting standards to determine whether there are instances where disclosures can be removed from the notes to the financial statements and included by reference to where the information is provided.

We hope that our comments will be of assistance to you. If you are interested in discussing any of our views please do not hesitate to contact me or Nicola Steele on +61 3 8248 6600.

Yours sincerely,

Rob Elliott
General Manager Policy & Advocacy

MACQUARIE UNIVERSITY | INTERNATIONAL GOVERNANCE AND PERFORMANCE RESEARCH CENTRE

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Ms Kris Peach
Chairman
Australian Accounting Standards Board
standard@aasb.gov.au

cc: Senator.cormann@aph.gov.au

Dear Kris

28 November 2014

ED 256 Removal of Cross-References from Financial Statements to Other Documents

Macquarie University's Department of Accounting and Corporate Governance is pleased to provide the Australian Accounting Standards Board (AASB) with its comments on ED 256 Removal of Cross-References from Financial Statements to Other Documents, which we do not support.

Macquarie University's response reflects our position as a leading educator to the Australian and global community. This submission has benefited with input from discussions with key constituents.

We do not support the AASB's proposal in ED 256 to depart from the International Accounting Standards Board's (IASB) decision to allow Cross-Referencing from Financial Statements to Other Documents.

Whilst it is noted that the AASB had previously decided to not allow Cross-Referencing in AASB 7, contrary to the IASB's IFRS 7, we suggest that the AASB needs to reflect on recent developments around the need to reduce clutter in financial statements, and in particular the decision made by the ASX Corporate Governance Council to allow Cross-Referencing for its 2015 Corporate Governance Principles and Recommendations, based on the need to reduce clutter and complexity in the Financial Report.

No evidence is provided by the AASB as to why in the Australian context there may be 'unintended audit or regulatory compliance consequences' which the IASB clearly does not believe exists.

We believe that the AASB's proposals are also contrary to the Government's policy of reducing un-necessary red tape and its broad de-regulatory program, as well as consuming valuable AASB and Government resources that could be better spent elsewhere. On that basis we have copied this submission to the Acting Assistant Treasurer so he is aware of our concerns.

Macquarie University would be pleased to discuss this submission as and when required. If you require any further information or comment, please contact Keith Reilly - *keith.reilly@mq.edu.au*

Yours sincerely

Keith Reilly - Industry Fellow
International Governance and Performance (IGAP) Research Centre
Department of Accounting and Corporate Governance, Macquarie University

ED256 sub 4

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28 November 2014

Kris Peach
Chair
Australian Accounting Standards Board
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Via email: standard@aasb.gov.au

Dear Kris

Exposure Draft 256: Removal of Cross-references from Financial Statements to Other Documents

CPA Australia welcomes the opportunity to comment on the above Exposure Draft (ED). CPA Australia is one of the world's largest accounting bodies and represents the diverse interests of more than 150,000 members in public practice, industry, commerce, government, not-for-profits and academia in 121 countries throughout the world.

The ED proposes to remove the ability to include cross-references in financial statements to disclosures outside the financial statements. Australia's approach to International Financial Reporting Standards (IFRS) has been to adopt verbatim (for application by for-profit entities that state compliance with IFRS), the standards as issued by the International Accounting Standards Board (IASB), unless there are compelling reasons to not do so. While the ED states that the intent to remove the ability to cross-refer from the financial statements to other documents is premised on unintended audit or regulatory compliance consequences in the Australian environment, it does not specify the nature of these unintended audit or regulatory compliance consequences. Therefore, in addition to recommending that the AASB does not proceed with the proposals in the ED, to be consistent with Australia's approach to adopting IFRS, we also suggest reinstating the cross-referencing option in AASB 7, subject to other priorities in the AASB's work plan. A further issue that could result from the proposal is the duplication of information that could adversely impact on the issue of complexity in financial reporting.

If you require further information on any of our views expressed in this submission, please contact Ram Subramanian by email at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Dr Eva Tsahuridu
Manager, Accounting Policy

Building a better working world

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Ms Kris Peach
Chair
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28 November 2014

Invitation to comment on AASB Exposure Draft Removal of Cross-References from Financial Statements to Other Documents (ED 256)

Dear Ms Peach

Ernst & Young Australia ('Ernst & Young') is pleased to provide comments on the AASB's Exposure Draft 256 *Removal of Cross-References from Financial Statements to Other Documents* (the 'ED').

Overall, Ernst & Young is generally supportive of the proposal in ED 256 to remove from AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits*, text which permits entities to provide certain disclosures by cross-reference to other documents. We understand that this is consistent with the AASB's previous decisions not to incorporate IFRS text in AASB 7 *Financial Instruments: Disclosures* which would allow certain disclosures to be incorporated by cross-reference to a document outside the financial statements.

While we support the AASB's policy of verbatim IFRS adoption for for-profit entities, we accept that as pointed out in the ED, explicitly permitting specified disclosures to be included by cross-reference from the general purpose financial statements to a document outside the financial statements may have unintended consequences with respect to both the audit of such information and regulatory compliance in the Australian regulatory reporting environment. While the nature of the AASB's concerns with respect to these regulatory compliance consequences is not specifically outlined in the ED, we understand that it relates to the interpretation of the requirements of the *Corporations Act* relating to the financial report, and the need to present the financial statements as a single self-contained document. We suggest that it would be helpful if the nature of these concerns was specified more clearly in the Basis for Conclusions to the proposed amendment.

We support the AASB's stated intention to revisit its proposed policy of not including in Australian Accounting Standards any IFRS text that mentions that an entity could disclose information specified by Accounting Standards by cross-reference from the general purpose financial statements once the IASB has issued concepts relating to presentation and disclosure as part of its Conceptual Framework project and has completed its *Disclosure Initiative – Principles of Disclosure* project, which address the use of cross-referencing.

In addition, we suggest that the Board consider engaging with relevant legislators and regulators with a view to exploring how the regulatory compliance consequences of cross-referencing mentioned above might be addressed. We note that with the pace of change in technology, the methods used to access information are evolving rapidly and that this has broader implications for how the information contained in financial statements and related disclosures are accessed. This also potentially includes the issue of accessing of information contained in other documents or locations. We therefore think it would be appropriate for the Board to initiate a dialogue with other stakeholders in the regulatory space regarding these broader implications.

We would be pleased to discuss our comments further with you. Please contact Charles Feeney (charles.feeney@au.ey.com or (02) 9248 4665) or Peter Gerhardy (Peter.Gerhardy@au.ey.com or (08) 8417 2057) if you wish to discuss any of the matters in this response.

Yours sincerely

Ernst & Young

Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
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28 November 2014

Dear Kris,

Invitation to comment on ED 256 *Removal of Cross-References from Financial Statements to Other Documents*

Invitation to comment on ED 255 *Financial Reporting Requirements for Australian Groups with a Foreign Parent*

We are responding to your invitations to comment on the above Exposure Drafts (EDs) on behalf of PwC.

We support the Board's proposal in ED 256 to require ultimate Australian parents to apply the equity method in accounting for interests in associates and joint ventures if either the parent or the group, or both, are a reporting entity. The proposed amendments would remove the inconsistencies between AASB 10 and AASB 128.

However, we do not support the Board's conclusions in ED 256 to remove from the Australian Accounting Standards any IFRS text that permits an entity to include disclosures specified by Accounting Standards by cross-reference to other documents. Our detailed responses to ED 256 are in Appendix A to this submission.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (03) 8603 5371 if you would like to discuss our comments further.

Yours sincerely

Margot Le Bars
Partner, PricewaterhouseCoopers

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Appendix A: Detailed responses ED 256

1) **whether you agree with the AASB's proposed policy to not include in Australian Accounting Standards any IFRS text that mentions that an entity could include disclosures specified by Accounting Standards by cross-reference;**

We do not agree with the Board's proposed policy to prohibit including disclosures by cross-reference to another document. We believe that it is appropriate to include a cross-reference in the financial statements to other documents that include the information required by the standards rather than repeat the information in the financial statements. These cross-references should only be as permitted by IFRS standards and where the information has been made available to users on the same terms as the financial statements and at the same time, or earlier, as the financial statements.

The exposure draft states that the proposed amendments are to alleviate concerns that, should an entity include information by cross-referencing to another published document, it might lead to "unintended audit or regulatory compliance consequences in an Australian reporting context".

In our view, cross-referencing from the financial statements to another part of the financial report should not cause any audit issues if that information is appropriately identified. We note that the IAASB's recent exposure draft on ISA 720 *The auditor's responsibilities relating to other information* intends to clarify that disclosures located outside of the financial statements and incorporated through cross-referencing would form part of the financial statements. We believe this would be a more appropriate means to alleviate any audit concerns arising from cross-referencing.

ED 256 does not elaborate which regulatory issues, if any, could arise where an entity satisfies disclosure requirements of accounting standards by way of cross reference, where this is specifically permitted by the standards. Section 296 of the *Corporations Act 2001* requires that the financial statements comply with accounting standards. Where cross referencing is permitted by the standards this should not cause an entity to breach this requirement. We are not aware of any other sections in the *Corporations Act 2001* or the associated Regulations that would specifically prohibit cross referencing.

We believe that repeating information, which has already been provided to users elsewhere, adds clutter to the financial statements and could obscure other important information that is more relevant to the users. It could make the financial statements more complex and difficult to read, whereas we believe entities should strive to make their financial statements less complex and more accessible.

Therefore we do not believe that there is sufficient cause for the Board to depart from its policy of verbatim IFRS adoption for for-profit entities.

Responses to questions 2 – 7

We do not have any further comments on the specific questions in the exposure draft. Should the Board adopt the proposals, we do not have any concerns regarding the proposed application date.

ACT
Government
Chief Minister and Treasury

Ms Kris Peach
The Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Ms ~~Peach~~ Kris,

Exposure Draft (ED) 256 *Removal of Cross-References from Financial Statements to Other Documents*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments to the Australian Accounting Standards Board (AASB) on ED 256 *Removal of Cross-References from Financial Statements to Other Documents*.

HoTARAC acknowledges the AASB's initiative to achieve a clearer delineation between general purpose financial statements and other publicly available information. However, to prevent unnecessary divergence from IFRS requirements, HoTARAC recommends the AASB postpone its final decision on the removal of cross-references from financial statements until a set of disclosure principles has been developed by the IASB under the new IASB disclosure framework.

The Attachment to this letter sets out HoTARAC's comments on each question in the ED.

If you have any queries regarding HoTARAC's comments, please contact Alison Cuthbert from Queensland Treasury and Trade on 07 3035 1431 or via email to: alison.cuthbert@treasury.qld.gov.au.

Yours sincerely

David Nicol
Chair
Heads of Treasuries Accounting and Reporting Advisory Committee

24 November 2014

ATTACHMENT

HoTARAC response to Exposure Draft 256 *Removal of Cross-References from Financial Statements to Other Documents*

Specific Matters for Comment

Question 1
Whether you agree with the AASB's proposed policy to not include in Australian Accounting Standards any IFRS text that mentions that an entity could include disclosures specified by Accounting Standards by cross-reference.

HoTARAC believes there may be certain circumstances where it is more appropriate to use cross-referencing on the grounds of cost-efficiency and readability. It therefore recommends the AASB postpone its final decision on this until such time as it has reviewed the IASB disclosure principles and the IASB's rationale for allowing cross-referencing under the new disclosure framework.

HoTARAC agrees in principle with the AASB that it is ideal to have financial statements that are self-contained, and that users of financial statements should be provided with all relevant information without having to obtain any external information. However, where certain information could be easily accessed and identified from other publicly available documents, HoTARAC suggests that flexibility should be allowed for cross-referencing to that information. The reduction in duplication may result in the financial statements being more understandable to users and reduce the cost of preparation/publication by preparers.

HoTARAC has previously acknowledged in its submission on International Public Sector Accounting Standards Board ED 54 *Reporting Service Performance Information* that there may be certain circumstances where it is more appropriate to use cross-referencing. HoTARAC believes that provided the cross-referenced information is relevant to the disclosure requirement, prepared on the same basis as required by the accounting standard and is publicly available (readily accessible) when the financial statements are issued, cross-referencing may be an effective way to improve the quality of disclosure. The focus should be on the quality of disclosure rather than the volume of disclosures made. This could be achieved by reducing unnecessary duplication between financial statements and other information that accompanies the financial statements, such as an annual report.

HoTARAC notes the AASB's concerns (as specified in the Basis for Conclusions) about a reporting entity's ability to influence the content and availability of external documents (whereby some disclosures could be presented outside the financial statements rather than within the entity's financial statements). However, HoTARAC also notes that some IFRS pronouncements currently allow an entity to incorporate into financial statements information located in other statements or reports, by way a cross-reference to that information. Examples include IFRS 1 *First time Adoption of International Financial Reporting Standards*, IFRS 4 *Insurance Contracts*, IFRS 7 *Financial Instruments: Disclosures*, IAS 19 *Employee Benefits* and IAS 34 *Interim Financial Reporting*. The main justification used by the IASB for allowing cross-referencing in those standards is that some information may have already been disclosed outside the financial statements. A requirement to reproduce such information in the financial statements may create an additional reporting burden to preparers, cause unnecessary overlap and potentially add more complexity. To explicitly prohibit cross-referencing is arguably a departure from the 'pure IFRSs', as acknowledged by the AASB in paragraph BC3.

HoTARAC notes that the IASB has an active project "Disclosure Initiative". HoTARAC expects the IASB will clarify in that project why cross-referencing is allowed by some standards, but is not an option in others.

The IASB intends to issue a Discussion Paper in 2015 in which the cross-referencing issue will be specifically discussed. In paragraph BC3 the AASB states it expects to revisit its proposed policy (of disallowing cross-referencing) when the IASB has issued further material relating to presentation and disclosure, and completed its Disclosure Initiative project. HoTARAC therefore recommends the AASB postpone its final decision until it has reviewed the IASB disclosure principles and the IASB's rationale for allowing cross-referencing under the new disclosure framework.

The Financial Reporting Council (FRC) previously established a task force on the issue of managing complexity in financial reporting. The task force proposed some recommendations in late 2012 after consultation with Australian constituents. In particular, one of the recommendations suggested that only material disclosures should be required under accounting standards, and urged the AASB to continue to influence the IASB to undertake reforms including rationalisation of disclosures. Two messages may be perceived from the task force recommendations. One of these messages is that the duplication of information in disclosures contributes to financial reporting complexity. The other message is that the AASB should work collaboratively with the IASB to reduce complexity in financial reporting. HoTARAC recommends the AASB make its final decision on this ED in line with the recommendations of the FRC task force.

Question 2

Whether you agree with the proposals to amend:

(a) AASB 1 to remove mention of providing the disclosures specified by paragraphs 32(b) and 33 by cross-reference from the interim financial report; and

(b) AASB 119 to remove mention of providing disclosures about defined benefit plans that share risks between entities under common control by cross-reference from the general purpose financial statements.

HoTARAC does not agree with the proposals at this point in time.
Refer to the response to Question 1 and below for a detailed explanation of HoTARAC's position.

(a) HoTARAC believes that the ability to cross-reference year-end financial statements would significantly reduce the burden of interim financial reports.

(b) In relation to proposed amendment to AASB 119, HoTARAC is concerned about the potential implications of removal of paragraph 150 for reporting by individual government employing entities in respect of superannuation funds that provide defined benefits to government employees.

These funds typically operate by requiring participating individual government employing entities to make contributions on behalf of their current employees. The overall government employer liability for the employees' future benefits is then managed by the government, with the individual employing entities having no further responsibility to an employee once they have left that entity's employment and it ceases to make contributions in respect of the employee. When the superannuation fund members become eligible for benefits, they are paid directly by the superannuation fund.

As these plans are, in substance, defined contribution schemes from the perspective of individual employing entities, in their financial reports they cross-reference to the government entity that reports the government's overall employer liability. However, the extent to which the risks are shared between individual employing entities for the overall government employer liability, within the meaning of AASB 119, is unclear. For example, under the Commonwealth's superannuation scheme, individual employing entities' risk is limited to the actuarially determined value of employer contributions for current service cost. These employer contributions are based on assumptions about demographic and financial variables that are intended to reflect the ultimate cost of the superannuation fund benefits. Individual employing entities' reporting in this area most likely relies on the cross-referencing provisions of paragraph 150 of AASB 119.

Requiring individual employing entities to make the disclosures of paragraphs 149(c) and (d) would result in those entities reporting information on defined benefit obligations over which they have no control.
Accordingly, if the AASB proceeds with the removal of paragraph 150 of AASB 119, HoTARAC requests that the AASB insert an Aus paragraph to affirm the current practice in respect of individual government employing entity reporting practice for these types of defined benefit plans.

Question 3

Whether you agree with the proposal transitional provisions and application date.

HoTARAC does not agree with the proposals at this point in time.
Refer to the response to Question 1 for a detailed explanation of HoTARAC's position.

Question 4

Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

(a) not-for-profit entities; and
(b) public sector entities, including GAAP/GFS implications.

HoTARAC is not aware of any regulatory issues that may affect the implementation of the proposals for public sector entities. HoTARAC is unable to comment on other not-for-profit entities.
Although HoTARAC has previously noted (refer to the extract below from HoTARAC's submission on AASB ED 247 *Annual Improvements to IFRSs 2012-2014 Cycle*) the potential for regulatory constraints that prohibit using cross-referencing within entities' interim financial statements, it still supports the use of cross referencing where available.

> ***"IAS 34 Interim Financial Reporting: Disclosure of information 'elsewhere in the interim financial report'***
> *While we support the proposal as it provides an expedient way to reduce duplication of information, the current definition of a half-year financial report defined by s.303 of the Corporations Act 2001 may be interpreted by auditors still requiring the information to be included within the financial statements and notes, hence limiting the opportunity to cross reference outside the financial statements. This change may not be available to other public sector bodies and entities that comply with other legislation that still require the information to be reported within the financial statements and notes. The revised paragraph 16A is verbose and unwieldy and it is preferable for it to be reworded before it becomes a standard."*

Question 5

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

HoTARAC considers that while users of financial statements may not have to obtain information from external sources where cross-referencing has been disallowed, this needs to be balanced against the resulting complexity, in determining the appropriate level and/or volume of disclosure in financial statements.

Question 6

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

No comment.

Question 7

Unless already provided in response to specific matters for comment 1 – 6 above, the costs and benefits of the proposals relative to the current requirements, 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 of the proposals relative to the existing requirements.

No comment.

Other Comment

HoTARAC notes that the International Auditing and Assurance Standards Board (IAASB) published a draft ISA 720 (Revised) *The Auditor's Responsibilities Relating to Other Information* specifying that disclosures required by IFRS but located outside financial statements and incorporated through cross-referencing form part of financial statements. The consistency between what is considered included in financial statements from an accounting standards perspective versus what is considered included from an audit perspective may need to be reviewed should this IAASB ED become a standard.

28 November 2014

Ms Kris Peach, Chair
Australian Accounting Standards Board
By email: standard@aasb.gov.au

Exposure Draft ED 256 *Removal of Cross-References from Financial Statements to Other Documents*

Thank you for the opportunity to provide comments on the changes proposed in ED 256. This submission provides an SMP perspective and is based on:

(i) my previous experience as the Technical Standards Partner for a large mid-tier firm in Australia;
(ii) my previous experience as chair of a group of technical representatives from ten large national networks in Australia over a period of approximately six years;
(iii) my continuing experience acting as a consultant to firms in a large international network of firms; and
(iv) my role as an independent audit committee member.

1. General Comments

1.1 Financial statements contain a significant depth and breadth of information, with a primary objective to assist users in their decision-making about providing resources to the entity. The objective in Chapter 1 of the IASB Framework states:

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit.

1.2 While the quality of the financial information content is set at a high standard (in accordance with accounting standards), the presentation of that information, whether in hard copy or electronic, continues to follow a ***sequential format***. Given the increasing volume of detailed information contained in financial statements, in my view, presentation in a sequential format is the least user-friendly format. In the absence of familiarity with the particular financial report being examined, navigation and access by users looking for specific information is extremely cumbersome.

1.3 In this digital age, where information can be accessed quickly and efficiently using technology, it is disappointing that the primary source of financial information provided by entities to sophisticated investors in global capital markets, remains in such an antiquated format. Imagine entities reporting their financial results using a financial statements app which presented the four key statements with “drill-down” capability. A user could use technology to examine any number presented in the financial statements by accessing links, quickly and effortlessly, to information relevant to the compilation of that number. For example, the detailed information would provide links to other relevant note disclosures including:

- the accounting policy;
- the analysis of the account into its sub-classifications; and
- narrative information to explain any events or circumstances that have impacted the result presented.

1.4 This technology is available already and currently may be used to provide “drill-down” for management examining internal financial information on reporting dashboards. Although there are both regulatory and information security issues to be resolved for external reporting, if general purpose financial statements are to remain relevant and useable, a more user-friendly reporting format is urgently needed.

1.5 In addition, investors use other information about an entity and its performance when making investment decisions, which is not contained in the financial report. They are familiar with seeking information from different sources, including different sections of an entity’s website. Consequently, seeking cross-referenced material would not be a new or unfamiliar procedure for investors and other users of financial statements.

2. Specific Matters for Comment

2.1 I do **not** agree with the AASB’s proposal to exclude from Australian Accounting Standards any IFRS text that mentions an entity could include disclosures specified by Accounting Standards by cross-reference. As explained in paragraphs 1.2-1.4 above, the sequential presentation format of financial statements does not facilitate quick and easy access to information relevant to the numbers presented. Although cross-referencing does not provide a complete solution, it is a step in the right direction, which reduces the volume of duplicated information that a user needs to search through, to locate information relevant to an item being examined.

2.2 These matters are not agreed for the reasons provided above.

2.3 Agreed

2.4 The proposals for cross-reference to a ‘published document’, if adopted, would need clarification in the Australian context. In accordance with the reporting requirements of Chapter 2M of the Corporations Act 2001, any cross-referenced material would remain a component of the statutory report and therefore subject to regulatory scrutiny. For example, clarification would be needed regarding:

- the persons responsible for the preparation and presentation of the ‘published document’ and the approval process for that document;
- the location of the ‘published document’ to ensure user access at all times, in conjunction with access to the financial report;
- other information that might be contained in the ‘published document’ that might detract, or provide an alternative context for the information that is cross-referenced from the financial statements;
- the appropriate form of label of information cross-referenced within a published document and identification of boundaries regarding the extent of information that has been cross-referenced.

Although an easier solution would be to resist cross-referencing, as explained in paragraphs 1.2-1.5 above, if financial statements are to remain relevant and useable, a more user-friendly format is needed. Cross-referencing will not provide a complete solution, but will assist in reducing the amount of duplicated information that a user needs to examine.

2.5 A solution to make financial statements more user-friendly is urgently needed. Consequently, the AASB proposals to maintain the status quo will **not** result in financial statements that are useful to users. In contrast, the AASB proposals will maintain the presentation of voluminous quantities of financial information in a sequential format that is cumbersome and difficult to navigate.

2.6 It would be great to see the AASB and Australian Treasury promoting a more user-friendly format for financial reporting, perhaps by placing sections of the financial report (such as accounting policies) in a separate section of an entity's web site. This would reduce the volume of information presented in a financial report and enable easier navigation. While the current IASB proposals for cross-referencing are minimal, they are a step in the right direction. If the IASB proposals are adopted in Australia, they will prompt commencement of a change of both thinking and reporting processes, to promote more effective presentation of financial information in the long term. If the IASB proposals are not adopted in Australia, then Australian corporates are unlikely to commence the journey towards more effective reporting, in-line with other countries using IASB financial reporting standards.

2.7 The AASB proposals are unlikely to increase costs. However, in my view, the AASB proposals are likely ***to reduce the benefits*** implicit in reducing information overload and duplication. As described in paragraph 1.5 above, investors are familiar with accessing information from different sources to support their investment decisions. Not all corporates will have 'published documents' to which information can be cross-referenced. However, for those corporates who are able to cross-reference, examination of their presentation and processes will facilitate deliberation of improved formats for financial reporting, as the ability to cross-reference is promoted further by the IASB.

Please feel free to contact me to discuss further any matters arising from this submission.

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Ms Kris Peach
Chair
Australian Accounting Standards Board
PO Box 2014
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Our ref Submission -ED 256

26 November 2014

Dear Kris

Submission- ED 256- Removal of Cross-References from Financial Statements to Other Documents

We are pleased to have the opportunity to comment on ED 256 – Removal of Cross-References from Financial Statements to Other Documents.

KPMG agrees with the AASB's proposed policy to not include in Australian Accounting Standards any IFRS text that provides an entity the ability to include disclosures specified by Accounting Standards by way of cross-reference. We also agree with the proposals to remove mention of including certain disclosures by cross-reference from AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits.*

KPMG supports the recent re-focus in the market place on an entity including in its financial report those disclosures that are material and relevant to the users of financial report. In this context we do not believe that requiring entities to include disclosures in the financial report (rather than by way of cross-reference) to be contrary to this principal, as the relevant disclosures would only be included in the financial report if they were material to the users of the report.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (03) 9288 5423.

Yours sincerely

Bernie Szentirmay
Partner