Staff Issues Paper
Feedback received on ED 256 *Removal of Cross-References in Financial Statements to Other Documents*

Purpose

1 The purpose of this paper is to provide the Board with feedback received on ED 256 *Removal of Cross-References in Financial Statements to Other Documents* (Agenda Paper 7.4) with a view to seeking final Board decisions on:

(a) its proposed policy to not incorporate into Australian Accounting Standards any IFRS text that explicitly permits specified disclosures to be provided by cross-reference from the financial statements to another document; and

(b) the proposed amendments to AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits*;

and to revisit the Board decisions on text of a similar nature in AASB 134 *Interim Financial Reporting*, IFRS 7 *Financial Instruments* and IFRS 4 *Insurance Contracts*.

2 The comment period on ED 256 closed 28 November 2014. The AASB received nine comment letters on the ED from:

(a) Australian Institute of Company Directors (AICD);

(b) CPA Australia;

(c) Dianne Azoor Hughes;

(d) Ernst & Young (E&Y);

(e) Group of 100 (G100);

(f) HoTARAC;

(g) KPMG;

(h) Macquarie University; and

(i) PwC.

The comment letters are included as Agenda Paper 7.3.

3 This agenda paper is organised as follows:

(a) key feedback received on ED256 (paragraphs 4 – 6);

(b) staff analysis (paragraphs 7 – 19);

(c) other issues (paragraphs 20 – 28);

(d) Appendix A: Original Rationale for Deleting Paragraph B6 of IFRS 7 *Financial Instruments* from AASB 7 *Financial Instruments* (August 2005);

(e) Appendix B: October 2013 Rationale for Retaining the Deletion of Paragraph B6 of IFRS 7 *Financial Instruments* from AASB 7 *Financial Instruments*; and

(f) Appendix C: IASB Rationale for Permitting Disclosures About Hedge Accounting Activities and Credit Risk to be Provided by Cross-Reference from the Financial Statements;

(g) Appendix D: Current IAASB Projects Addressing Information Incorporated by Cross-Reference; and

(h) Appendix E: IFRS Paragraphs Explicitly Permitting Specified Disclosures to be Provided by Cross-Reference from the Financial Statements.

Key Feedback Received on ED 256

4 Staff have not prepared a formal collation of the comment letters as many respondents did not respond directly to all of Specific Matters for Comment 1-7. However, staff have summarised the main themes of the comment letters in the table below:

Respondent	Supports proposed policy	Would support amending AASB 1 & AASB 119	Explicitly recommends revisiting AASB 7	Comments re usefulness of the proposals
AICD	✗	✗	✓	Creates duplication
CPA Australia	✗	✗	✓	Creates duplication
D.A. Hughes	✗	✗	✗	Creates duplication; need to make financial statements more user friendly
E&Y	✓	✓	✗	Need to consider how regulatory compliance consequences might be addressed
G100	✓	✓	✗	Not useful; impedes streamlining
HoTARAC	✗	✗[1]	✗	Creates duplication and complexity
KPMG	✓	✓	✗	Application of materiality principle should address some of the concerns re duplication
Macquarie University	✗	✗	✓	Not consistent with government deregulation program
PwC	✗	✗	✗	Creates clutter, may obscure important information, makes financial statements more complex and harder to read

1 If the Board proceeds with the proposals, HoTARAC thinks the ability to cross-reference certain disclosures specified by AASB 119 should be retained for government employing entities. Staff do not consider there to be a not-for-profit sector specific reason for such modification under the *Process for Modifying IFRSs for PBE/NFPs*.

5 Some respondents also encouraged the Board to engage with relevant legislators and regulators to explore avenues for resolving the Board's concerns (leading to departure from IFRSs) and more generally to reduce complexity in financial statements.

6 Some respondents commented that ED 256 did not explain the unintended audit or regulatory compliance consequences of complying with IFRSs in this regard.

Staff Analysis

7 As noted in paragraph 6 above, various respondents commented on the brevity of the Board's rationale for departing from word-for-word compliance with IFRSs in the Exposure Draft. Staff note that this was intentional in part so as to not draw undue attention to possible complications with the manner in which cross-referencing could be effected and so inadvertently include an interpretation as to what may be permissible, and as it was possible that describing potential ambiguity that could give rise to regulatory compliance consequences could inadvertently crystallise the ambiguity.

Arguments for finalising the proposed AASB policy and amendments to AASB 1 and AASB 119

8 Having regard to the feedback received, AASB staff held further discussions with ASIC and AUASB staff. Following these discussions, AASB staff understand that:

(a) an entity would remain in compliance with the requirement in the Corporations Act 2001 (the Corporations Act) to comply with Australian Accounting Standards in situations where it has taken advantage of an explicit permission in a Standard to provide specified disclosures outside the notes to the financial statements by including a cross-reference in the financial statements to the location of that information (as well as complying with other conditions); but

(b) what information is required to be audited or reviewed, remains less clear. While s.301 of the *Corporations Act* requires the annual financial report (being the financial statements required by accounting standards, the notes to the financial statements, and the directors' declaration) of various companies to be subject to audit, staff continue to be concerned that diversity could arise in whether the information that has been transferred out of the financial statements is considered to be part of the financial statements and subject to audit, or is considered to be outside the financial statements and subject to auditors' responsibilities pertaining to "other information".[1]

9 In relation to paragraph 8(b) above, staff note that this is partly the issue being addressed by the International Auditing and Assurance Standards Board (IAASB) in its revision of ISA 720 *The Auditor's Responsibilities Relating to Other Information* and its Disclosures Project, both of which will clarify that disclosures specified by the accounting standards but provided by a cross-reference to a document outside the financial statements form part of the financial statements (see Appendix D to this Agenda Paper). Staff understand that the Australian Auditing Standards are currently

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1 However, staff note that paragraph BC9 of the Basis for Conclusions to IAS 34 states: "The Board further clarified that the amendment is not extending the scope of the interim financial report, because the disclosures required in paragraph 16A(a)–(k) of IAS 34 are part of the selected explanatory notes (and therefore part of the interim financial report), even if they are presented in another statement, such as a management commentary or risk report. If they are not presented, the interim financial report would be incomplete.". This implies to staff that cross-referenced disclosures would still be part of the financial statements and subject to audit.

silent in this regard. Staff also understand that there is no current domestic or international audit project relating to a review (rather than audit) of financial statements.

10 Staff are not aware whether other legislation requiring entities to comply with Accounting Standards or to audit the financial statements is interpreted in a similar manner to paragraph 8 above.

11 Staff note that the IASB is continuing its discussion on cross-referencing as part of its Disclosure Initiative – Principles of Disclosure Project, which may have implications for the instances where cross-referencing is presently permitted in IFRSs. A Discussion Paper addressing cross-referencing is expected to be issued in Q2 2015. (Staff can provide an update on the IASB's project, if the Board wants)

12 Staff are also concerned about creating other complexities for the audit, if auditable information were to be included by cross-reference to a document outside of the financial statements. For example, staff think that there could be potential issues relating to the location of that external document (e.g., within an unaudited document), the extent to which information could be cross-referenced (e.g., could only part of the disclosures be transferred), and whether or not the remaining financial statements can be said to achieve a fair presentation of the entity's position and performance. Staff note that not all the transferrable disclosures have to be available "on the same terms and at the same time" as the financial statements.

13 In the staff paper proposing that amendments be made to AASB 1 and AASB 119[2], in addition to the rationale that such amendment would be consistent with the Board's decisions to date pertaining to AASB 7, staff also noted their concern that:

(a) the wording employed in paragraphs 32(b) and 33 of AASB 1 is significantly broader than the wording employed in paragraphs 21B and B6 of AASB 7, 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; and

(b) paragraph 150 of AASB 119 permits the disclosures to be provided in another group entity's financial statements; the content and availability of which are not necessarily within the control of the reporting entity itself.

14 Further, staff consider that the determination of whether information may be presented outside the financial statements by cross-reference from the financial statements is the responsibility of the relevant regulator, and not of an international (or national) standard-setting body.

15 Lastly, staff observe that in some instances (e.g. IFRS 4 *Insurance Contracts*), the IASB has permitted information to be provided by cross-reference from the financial statements by way of a statement in non-mandatory implementation guidance that does not form part of the equivalent Australian Accounting Standard. If the Board determines to fully comply with IFRSs in this regard, staff consider that the Board will

2 See AASB Agenda Paper 18.2 from its meeting 3-4 September 2014: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M141_3-4_Sept_2014_unsigned.pdf

also need to give thought to how such instances are to be captured (see paragraphs 26 – 31 of this Agenda Paper).

Arguments against finalising the proposed AASB policy and amendments to AASB 1 and AASB 119

16 Staff considered the following arguments against finalising the proposals exposed in ED 256:

(a) incorporating IFRS text that permits cross-referencing is consistent with the Board's policy of word-for-word adoption of IFRSs for for-profit entities;

(b) the Corporations Act does not prohibit the Board from including IFRS text permitting specified disclosures to be incorporated by cross-reference into an Australian Accounting Standard;

(c) it is possible that only a small population of entities will want to provide the specified disclosures by cross-reference to a location outside the financial statements.[3]

(d) it is possible that many companies would not be able to comply with the conditions necessary to be met before information may be incorporated by cross-reference. Staff understand that in many instances the remainder of the annual report of Australian entities, unlike their international counterparts, will not have been finalised at the time the financial statements are otherwise complete.

Staff recommendation

17 On balance, staff think that the Board should not proceed with its proposed (blanket) policy as exposed in ED256. However, staff do not recommend that the Board adopt a policy of word-for-word IFRS compliance in this regard.

18 Staff consider that the Board should continue to assess each respective instance of explicitly permitted cross-referencing and determine whether to depart from IFRS wording on a case-by-case basis, subject to revisiting the issue when the IASB and IAASB have completed their respective projects relating to cross-referencing. Accordingly, staff recommend that the Board finalise its proposed amendments to AASB 1 and AASB 119.

19 Staff are conscious that not permitting disclosures to be transferred is considered by some to be inconsistent with the current focus on reducing complexity in financial reporting. However, staff are of the view that, rather than reducing complexity, permitting disclosures to be transferred has the potential to *create* undue complexities

3 Staff performed a desktop review of approximately 20 financial statements of NZ, UK, Canadian and Hong Kong companies in the banking, mining, oil and aerospace industries. Staff are aware that AUASB staff also conducted a similar review of the financial statements of other entities in these industries. Staff identified one banking group (in UK, Canada and Hong Kong) that provided specified IFRS 7 disclosures by cross-reference from the financial statements. Staff also identified an Australian government entity that had provided specified AASB 119 *Employee Benefits* disclosures by cross-reference to the financial reports of another group entity (as noted in the HoTARAC comment letter).

in advance of any amendments expected to be introduced by the IASB and the IAASB.

Question to Board members

Q1 Do Board members agree with the staff recommendation in paragraph 18 to consider whether information is permitted to be incorporated by cross-reference on a case-by-case basis?

Q2 Do Board members agree with the staff recommendation in paragraph 18 to finalise its proposed amendments to AASB 1 and AASB 119?

Other Issues

Note that the following analysis and question to Board members is only relevant if the Board *agrees* with the staff recommendation in Question 1 above.

Paragraph 16A of AASB 134

20 At its December 2014 meeting, the Board decided to incorporate the revised text of IAS 34 *Interim Financial Reporting* into AASB 134 *Interim Financial Reporting* without amendment, having regard to the comment letters received on ED 256 but ahead of its redeliberations, so as to not unduly hold up the issue of those amendments. This was actioned via AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* (made 21 January 2015). The revised text includes text that explicitly permits the disclosures specified by paragraph 16A to be provided by cross-reference from the interim financial statements to another statement, provided that the information is available to users on the same terms as the interim financial statements and at the same time. The related IASB Basis for Conclusions clarifies that "on the same terms" means that users of the financial statements should have access to the referenced material on the same basis as they have for accessing the financial statements from where the reference is made (paragraph BC10 of IAS 34).

21 Staff think that the IFRS text in paragraph 16A of IAS 34 that permits specified disclosures to be provided by cross-reference from the financial statements should be deleted from AASB 134, as unlike the transferrable disclosures specified by IFRS 7, many of the disclosures specified by paragraph 16A of IAS 34 could be viewed as being distinct and separate to each other (e.g. disclosures about revenues versus dividends paid versus issue of debt and equity securities). In addition to potentially adding complexity to the auditor's review of the interim financial report, staff think that permitting such information to be incorporated by cross-reference from the interim financial statements reduces the value of the interim financial report as a discrete document.

Question to Board members

Q3 Do Board members agree with the staff recommendation in paragraph 21 to delete from paragraph 16A of AASB 134 any IFRS text that permits specified disclosures to be provided by cross-reference from the financial statements?

Paragraphs 21B, 35C and B6 of AASB 7

Note that the following analysis and Question to Board members is only relevant if the Board *disagrees* with the staff recommendation in Question 1 above.

22 In the event the Board disagrees with the staff's recommendations in paragraph 18, staff think that the Board should revisit its decisions to remove IFRS text from AASB 7 that relates to making specified disclosures by cross-reference from the financial statements to another document. The IASB's rationale for permitting this information to be provided by cross-reference from the financial statements is set out in Appendices A and C to this Agenda Paper.

23 Staff recommend that, for consistency, the Board align the text of paragraphs 21B, 35C and B6 of AASB 7 with that of the equivalent paragraphs in IFRS 7.

Question to Board members
Q4 Do Board members agree with the staff recommendation in paragraph 23 to align the text of paragraphs 21B, 35C and B6 of AASB 7 with that of the equivalent paragraphs in IFRS 7?

Paragraph IG62 of IFRS 4

Note that the following analysis and Question to Board members is only relevant if the Board *disagrees* with the staff recommendation in Question 1 above, and *agrees* with the staff recommendation in Question 4.

24 As noted in paragraph 15 above, staff observe that paragraph IG62 of IFRS 4 notes that specified disclosures in IFRS 4 may be provided by cross-reference from the financial statements by way of a statement in non-mandatory implementation guidance in the IFRS. The implementation guidance does not form part of the equivalent Australian Accounting Standard.

25 Paragraphs 39(d) and IG62 of IFRS 4 state:

> 39 To comply with paragraph 38, an insurer shall disclose:
>
> (a) …
>
> (d) information about credit risk, liquidity risk and market risk that paragraphs 31-42 of IFRS 7 would require if the insurance contracts were within the scope of IFRS 7. However:
>
> (i) an insurer need not provide the maturity analyses required by paragraphs 39(a) and (b) of IFRS 7 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the statement of financial position; and

(ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may use that sensitivity analysis to meet the requirement in paragraph 40(a) of IFRS 7. Such an insurer shall also provide the disclosures required by paragraph 41 of IFRS 7; and

(e) …

IG62 Paragraph 39(d) of the IFRS requires an insurer to disclose information about credit risk, liquidity risk and market risk that paragraphs 31–42 of IFRS 7 would require if insurance contracts were within its scope. Such disclosure includes:

(a) summary quantitative data about the insurer's exposure to those risks based on information provided internally to its key management personnel (as defined in IAS 24); and

(b) to the extent not already covered by the disclosures discussed above, the information described in paragraphs 36–42 of IFRS 7.

The disclosures about credit risk, liquidity risk and market risk may be either provided in the financial statements or incorporated by cross-reference 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.

26 Staff understand from its discussion with ASIC staff that an entity would not be able to provide such disclosures by cross-reference from its financial statements in the absence of a statement within the Australian Accounting Standards explicitly permitting such cross-referencing. Accordingly, if the Board were to adopt a policy of word-for-word IFRSs compliance in this regard, staff think that the Board should also give consideration to how to address the instance described above.

27 Staff considered the following options for addressing the cross-referencing permitted by paragraph IG62 of IFRS 4 above:

(a) **include an Aus paragraph in AASB 4 that replicates the intent of paragraph IG62 of IFRS 4.** Staff do not recommend this option as the effect of so doing is to replace IFRS 4 guidance with AASB 4 mandatory material;

(b) **include an Aus guidance paragraph accompanying AASB 4 that replicates the intent of paragraph IG62 of IFRS 4.** Before adopting such an approach, staff would have to clarify with ASIC staff whether an entity relying on non-mandatory guidance to provide specified disclosures by cross-reference from the financial statements would be able to state compliance with Australian Accounting Standards;

(c) **bring paragraph IG62 to the IASB's attention.** Staff do not recommend bringing paragraph IG62 to the IASB's attention before the IASB's Discussion Paper on its Disclosure Initiative – Principles of Disclosure Project is issued, as the focus of the IASB's discussion differs from the above aspect.

(d) **do nothing.** Under this approach, Australian entities may not be able to provide specified AASB 4 disclosures by cross-reference from the financial statements. However, this does not impede a for-profit entity's ability to state compliance with IFRSs.

28 On balance, staff recommend Option (d) above; that is, not to incorporate paragraph IG62 of IFRS 4 into AASB 4. However, in recommending this option, staff remain concerned that it may be arguable that in applying paragraph 39(d) of AASB 4 (equivalent to paragraph 39(d) of IFRS 4 shown above), paragraphs 35C and B6 of IFRS 7 – when incorporated into AASB 7 – also apply, and accordingly explicitly permit the disclosures to be provided by cross-reference from the financial statements. Accordingly, staff think that it may be unclear to some whether the alternative disclosures noted in paragraph 39(d)(i) of AASB 4 may also be provided by cross-reference from the financial statements. Staff will clarify with IASB staff whether this was the intent of the IASB in IFRS 4, and report back to the Board at a future Board meeting.

Question to Board members

Q5 Do Board members agree with the staff recommendation in paragraph 28 not to incorporate paragraph IG62 of IFRS 4 into AASB 4?

APPENDIX A:

Original Rationale for Deleting Paragraph B6 of IFRS 7 *Financial Instruments* from AASB 7 *Financial Instruments* (August 2005)

A1 The 2005 AASB project file includes the following staff comment:

Paragraph B6 is deleted from the attached AASB 7, because the AASB's legal authority does not extend beyond setting accounting standards for application to the financial statements and associated notes (and therefore, does not extend to the type of report contemplated in paragraph B6 of IFRS 7). Paragraph B6 would also cause problems in Australia as regards auditing, since information provided by companies outside the financial report is generally not subject to audit. …

A2 In its Basis for Conclusions to IFRS 7, the IASB noted:

Location of disclosures of risks arising from financial instruments (paragraph B6)

BC43 Many respondents to ED 7 argued that disclosures about risks in paragraphs 31–42 should not be part of the financial statements[4] for the following reasons:

(a) the information would be difficult and costly to audit.

(b) the information is different from information generally included in financial statements because it is subjective, forward-looking and based on management's judgement. Thus, the information does not meet the criteria of comparability, faithful representation and completeness.

(c) inclusion of such information in a management commentary section outside the financial statements would be consistent with practice in other jurisdictions, including the US. Having this information in the financial statements would put IFRS preparers at a disadvantage relative to their US peers.

BC44 Respondents raised concerns that the disclosure of sensitivity analysis in particular should not be part of the financial statements. Respondents stated that sensitivity analysis cannot be prepared with the degree of reliability expected of information in the financial statements, and that the subjectivity in the sensitivity analysis and the hypothetical alternative values could undermine the credibility of the fair values recognised in the financial statements.

BC45 The Board considered whether the disclosures should be part of the information provided by management outside the financial statements. The Board noted that respondents generally regarded the disclosures proposed in ED 7 as useful, even if they did not agree that they should be located in the financial statements. The Board's view is that financial statements would be incomplete and potentially misleading without disclosures about risks arising from financial instruments. Hence, it concluded that such disclosures should

4 The Exposure Draft had proposed that the disclosures be made within the financial statements.

be part of the financial statements. The Board rejected the argument that increased transparency puts an entity at a disadvantage; greater certainty on the part of investors can provide a significant advantage by lowering the entity's cost of capital.

BC46 The Board also noted that some entities might prefer to present the information required by the IFRS together with material such as a management commentary or risk report that is not part of the financial statements. Some entities might be required by regulatory authorities to provide in a separate report information similar to that required by the IFRS. Accordingly, the Board decided these disclosures should be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement that is available to users of the financial statements on the same terms as the financial statements and at the same time.

A3 The Board voted in August 2005 to issue AASB 7 without the inclusion of paragraph B6 of IFRS 7.

APPENDIX B:

October 2013 Rationale for Retaining the Deletion of Paragraph B6 of IFRS 7 *Financial Instruments* from AASB 7 *Financial Instruments*

B1 The Board discussed whether paragraph B6 of IFRS 7 should be retained at its meetings in December 2012[5], May 2013[6] and October 2013[7]. 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 (now finalised in AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle*) and the Board's previous decision in August 2005 to delete paragraph B6 of IFRS 7 *Financial Instruments: Disclosures*.

B2 As requested by the Board at its December 2012 meeting, staff consulted with ASIC and AUASB staff as part of this process and reported back to the Board.

B3 At its meeting in October 2013, the Board decided to retain the deletion of paragraph B6 of IFRS 7 from AASB 7. The Board minutes of that meeting state:

> *The Board had before it a memorandum from Nikole Gyles and Masha Marchev (agenda paper 5.1).*
>
> *The Board considered the potential reinstatement of paragraph B6 of IFRS 7 Financial Instruments: Disclosures in AASB 7 Financial Instruments: Disclosures, which was deleted from the principal version of AASB 7. The Board decided that paragraph B6 should not be reinstated on the basis that it may have unintended consequences in an Australian reporting context. The Board decided that paragraph B6 should be included within the 'Deleted IFRS 7 Text' section at the end of AASB 7. The Board also decided that the Comparison with IFRS 7 in the introduction to AASB 7 should include a clarification of the reason why paragraph B6 was deleted from AASB 7.*

B4 A copy of the Board-only staff paper presented as Agenda Paper 5.1 *Potential Reinstatement of IFRS 7 paragraph B6* in October 2013 has been included as Agenda Paper 7.5 to this meeting.

B5 The Board subsequently decided at its meetings in February 2014[8], April 2014[9] and September 2014[10] not to include the second and third sentences of paragraphs 21B and paragraph 35C of IFRS 7 consistent with its decision on paragraph B6.

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5 AASB December 2012 minutes: http://www.aasb.gov.au/admin/file/content102/c3/M128_AASB_Minutes_12-13_Dec_2012_Unsigned.pdf

6 AASB May 2013 minutes: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_Meeting_131_29-30_May_2013_unsigned.pdf

7 AASB October 2013 minutes: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M135_23-24_October_2013_unsigned.pdf

8 AASB February 2014 minutes: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M136_13_February_2014_unsigned.pdf

9 AASB April 2014 minutes: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M137_8-9_April_2014_unsigned.pdf

APPENDIX C:

IASB Rationale for Permitting Disclosures about Hedge Accounting Activities and Credit Risk to be Provided by Cross-Reference from the Financial Statements

C1 The IASB's rationale for permitting disclosures about hedge accounting activities (paragraph 21B) to be provided by cross-reference from the financial statements is set out in the following Basis for Conclusions paragraphs in IFRS 7 *Financial Instruments*:

> BC35L The Board decided that all hedge accounting disclosures should be presented in one location within an entity's financial statements. However, if such information is already presented elsewhere the Board decided that, in order to avoid duplication, an entity should be allowed to incorporate that information by cross-reference, which is similar to the approach used by IFRS 7 for some disclosures that can be incorporated by reference. The Board thinks that the information will be more transparent and easier to understand if it is presented in one location within the entity's financial statements.

C2 Staff did not identify a similar Basis for Conclusions paragraph setting out the IASB's rationale for permitting disclosures about an entity's credit risk exposure (paragraph 35C) to be provided by cross-reference from the financial statements.

10 AASB September 2014 minutes: http://www.aasb.gov.au/admin/file/content102/c3/AASB_Minutes_M141_3-4_Sept_2014_unsigned.pdf

APPENDIX D:

Current IAASB Projects Addressing Information Incorporated by Cross-Reference

D1 The International Auditing and Assurance Standards Board (IAASB) is addressing the issue of cross-referenced information in its revised ISA 720 *The Auditor's Responsibilities Relating to Other Information* and in its Disclosures Project.

D2 Staff note that guidance paragraph A6 in the revised ISA 720[11] is expected to state:

> In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements.[5] As such disclosures are required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this ISA.
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> 5 For example, IFRS 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the IFRSs to either be 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.

D3 In addition, as part of its Disclosures Project, the IAASB is proposing to revise the definition of 'financial statements' in ISA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing* to explicitly refer to information incorporated by cross-reference. Of some concern may be the guidance accompanying the revised text considered by the IAASB at its December 2014 meeting, which suggests that disclosures may be provided by cross-reference to a document outside the financial statements to the extent that the applicable financial reporting framework has not <u>explicitly prohibited</u> such an action.

D4 The guidance paragraphs considered by the IAASB state:

> A1. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or other descriptive information may be found, and the information has been appropriately cross-referenced, this will form part of the financial statements.
>
> A1a. Explanatory or descriptive information required by the applicable financial reporting framework may be set out in another document, even when such incorporation is neither required nor expressly permitted by the applicable financial reporting framework. If appropriately cross-referenced, such information is part of the financial statements unless incorporation by cross-reference is expressly prohibited by the applicable financial reporting framework.

D5 While staff think this may not be an issue in Australia as we think that such an action would cause the entity to not be in compliance with the *Corporations Act*, staff think that the IAASB proposals provide support for an argument that the determination of where information should be presented is the responsibility of the relevant regulator, and not of an international (or national) standard-setting body.

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11 Refer Agenda Item 2-D from IAASB 1-5 December 2014 Meeting: http://www.ifac.org/sites/default/files/meetings/files/UPDATED-Approved-IAASB_Agenda_Item_2-D-ISA_720-Marked2.pdf. The IAASB approved a revised ISA 720 at the meeting.

APPENDIX E:

Paragraphs Explicitly Permitting Specified Disclosures to be Provided by Cross-Reference from the Financial Statements

(no bolding has been employed in the paragraphs below for presentation purposes only)

AASB 1 *First-time Adoption of Australian Accounting Standards*

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.

(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.

IFRS 4 *Insurance Contracts*

IG62 Paragraph 39(d) of the IFRS requires an insurer to disclose information about credit risk, liquidity risk and market risk that paragraphs 31–42 of IFRS 7 would require if insurance contracts were within its scope. Such disclosure includes:

(a) summary quantitative data about the insurer's exposure to those risks based on information provided internally to its key management personnel (as defined in IAS 24); and

(b) to the extent not already covered by the disclosures discussed above, the information described in paragraphs 36–42 of IFRS 7.

The disclosures about credit risk, liquidity risk and market risk may be either provided in the financial statements or incorporated by cross-reference 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

<u>IFRS 7 *Financial Instruments: Disclosures*</u>

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.

35C 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 other statements, 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.

<u>AASB 119 *Employee Benefits*</u>

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.

AASB 134 *Interim Financial Reporting*

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 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 an annual reporting period-to-date basis.

(a) …