

AASB Exposure Draft

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October 2014

Removal of Cross-References from Financial Statements to Other Documents

Comments to the AASB by 28 November 2014



Australian Government

**Australian Accounting
Standards Board**

Commenting on this AASB Exposure Draft

Comments on this Exposure Draft are requested by 28 November 2014.
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All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This Exposure Draft is available on the AASB website: www.aasb.gov.au.
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[Draft] Australian Accounting Standard AASB 2014-X *Amendments to Australian Accounting Standards – Removal of Cross-References from Financial Statements to Other Documents* is set out in paragraphs 1 – 7. All the paragraphs have equal authority.

PREFACE

Introduction

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards, including Interpretations, to be applied by:

- (a) entities required by the *Corporations Act 2001* to prepare financial reports;
- (b) governments in preparing financial statements for the whole of government and the General Government Sector (GGS); and
- (c) entities in the private or public for-profit or not-for-profit sectors that are reporting entities or that prepare general purpose financial statements.

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

- (a) Tier 1: Australian Accounting Standards; and
- (b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 1 requirements incorporate International Financial Reporting Standards (IFRSs), including Interpretations, issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of each Standard in the Australian environment.

Publicly accountable for-profit private sector entities are required to adopt Tier 1 requirements, and therefore are required to comply with IFRSs. Furthermore, other for-profit private sector entities complying with Tier 1 requirements will simultaneously comply with IFRSs. Some other entities complying with Tier 1 requirements will also simultaneously comply with IFRSs.

Tier 2 requirements comprise the recognition and measurement requirements of Tier 1 but substantially reduced disclosure requirements in comparison with Tier 1.

Australian Accounting Standards also include requirements that are specific to Australian entities. These requirements may be located in Australian

Accounting Standards that incorporate IFRSs or in other Australian Accounting Standards. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues. These requirements do not prevent publicly accountable for-profit private sector entities from complying with IFRSs. In developing requirements for public sector entities, the AASB considers the requirements of International Public Sector Accounting Standards (IPSASs), as issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants.

Exposure Drafts

The publication of an Exposure Draft is part of the due process that the AASB follows before making a new Australian Accounting Standard or amending an existing one. Exposure Drafts are designed to seek public comment on the AASB's proposals for new Australian Accounting Standards or amendments to existing Standards.

Reasons for Issuing this Exposure Draft

Various IFRSs explicitly permit specified disclosures to be included by cross-reference from the general purpose financial statements to a document outside the financial statements, provided that certain conditions are met. The AASB is concerned that such text may have unintended audit or regulatory compliance consequences in an Australian regulatory reporting context. The AASB noted that, reflecting this concern, it had previously decided that AASB 7 *Financial Instruments: Disclosures* should not incorporate IFRS text that mentions whether information about an entity's hedge accounting activities and the nature and extent of risks arising from its financial instruments can be disclosed by cross-reference from the general purpose financial statements to a document outside the financial statements.

The AASB proposes adopting a 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. The AASB considers that the potential consequences of including such text to be sufficiently significant to warrant departing from its policy of verbatim IFRS adoption for for-profit entities.

The AASB is also monitoring the IASB's Disclosure Initiative – Principles of Disclosure and Conceptual Framework projects, which address the use of cross-referencing. The AASB expects to revisit this proposed policy 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.

In line with its proposed policy, the AASB reviewed whether there are any existing Australian Accounting Standards that mention that specified disclosures can be included by cross-reference from the financial statements. The AASB noted that AASB 1 *First-time Adoption of Australian Accounting Standards* (May 2009) and AASB 119 *Employee Benefits* (September 2011) make mention of cross-referencing in respect of specified disclosures. The AASB proposes amending AASB 1 and AASB 119 to remove the relevant text.

Main Features of this Exposure Draft

This Exposure Draft proposes amendments to AASB 1 and AASB 119 in the form of a draft amending Standard. The proposed amendments would amend:

- (a) AASB 1, to remove mention of a first-time adopter of Australian Accounting Standards, in respect of its first interim financial report that complies with AASB 134 *Interim Financial Reporting*, providing the information specified by paragraphs 32(b) and 33 of the Standard (explanation of the effects of transitioning to Australian Accounting Standards) by cross-reference from the interim financial report to another published document; and
- (b) AASB 119, to remove mention of an entity disclosing certain information about a defined benefit plan that shares risks between entities under common control by cross-reference to disclosures in another group entity's financial statements, provided certain conditions are met.

The proposed amendments do not affect AASB 1 or AASB 119 as they apply to an entity preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements. Such entities are presently not required to comply with the paragraphs proposed for amendment.

Application Date

It is proposed that the amendments would apply to annual reporting periods beginning on or after 1 July 2015. It is proposed that early adoption of the amendments will not be permitted.

Request for Comments

Comments are invited on any of the proposals in this Exposure Draft by 28 November 2014. Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents express a clear overall opinion on whether the proposals, as a whole, are supported and that this opinion be supplemented by detailed comments, whether supportive or otherwise, on the major issues. The AASB regards supportive and non-supportive comments as essential to a balanced review of the issues and will consider all submissions, whether they address some or all specific matters, additional issues or only one issue.

Specific Matters for Comment

The AASB would particularly value comments on the following:

- 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;
- 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;
- 3 whether you agree with the proposed transitional provisions and application date;
- 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;
- 5 whether, overall, the proposals would result in financial statements that would be useful to users;

- 6 whether the proposals are in the best interests of the Australian economy; and
- 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.

EXPOSURE DRAFT ED 256

ACCOUNTING STANDARD AASB 2014-X

AMENDMENTS TO AUSTRALIAN ACCOUNTING STANDARDS – REMOVAL OF CROSS- REFERENCES FROM FINANCIAL STATEMENTS TO OTHER DOCUMENTS

Objective

- 1 The objective of this Standard is to amend AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits* to remove mention of providing specified disclosures by cross-reference from the financial statements to another document.

Application

- 2 **This Standard applies to:**
 - (a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act 2001* and that is a reporting entity;
 - (b) general purpose financial statements of each other reporting entity; and
 - (c) financial statements that are, or are held out to be, general purpose financial statements.
- 3 **This Standard applies to annual reporting periods beginning on or after 1 July 2015. Early adoption of this Standard is not permitted.**
- 4 **This Standard uses striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that striking out or other typographical material.**

Commencement

- 5 This Standard commences on the day this Standard is made by the Australian Accounting Standards Board.

Amendments to AASB 1

- 6 Paragraphs 32(b) and 33 are amended as follows (deleted text is struck through):

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) Each such interim financial report shall, if the entity presented an interim financial report for the comparable interim period of the immediately preceding financial year, include:
 - (i) a reconciliation of its equity in accordance with previous GAAP at the end of that comparable interim period to its equity under Australian Accounting Standards at that date; and
 - (ii) a reconciliation to its total comprehensive income in accordance with Australian Accounting Standards for that comparable interim period (current and year to date). The starting point for that reconciliation shall be total comprehensive income in accordance with previous GAAP for that period or, if an entity did not report such a total, profit or loss in accordance with previous GAAP.
 - (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) If an entity changes its accounting policies or its use of the exemptions contained in this Standard, it shall explain the changes in each such interim financial report in accordance with paragraph 23 and update the reconciliations required by (a) and (b).
- 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.~~

Amendments to AASB 119

- 7 Paragraph 150 is deleted and a note added as follows:
- 150 [Deleted by the AASB]

BASIS FOR CONCLUSIONS

This Basis for Conclusions accompanies, but is not part of, AASB 2014-X.

Background

- BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft. Individual Board members gave greater weight to some factors than to others.
- BC2 The Board was concerned that some International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) explicitly permit specified disclosures to be included by cross-reference from the general purpose financial statements to a document outside the financial statements, in most cases provided that certain conditions are met. The Board does not consider that the role of the IASB should extend to indicating where disclosures are required or permitted to be located. Accordingly, the Board is concerned that text that mentions cross-referencing may have unintended audit or regulatory compliance consequences in an Australian reporting context, if it were not excluded from Australian Accounting Standards. The Board noted that, reflecting this concern, it had previously decided that AASB 7 *Financial Instruments: Disclosures* should not include text from IFRS 7 *Financial Instruments: Disclosures* in relation to information about an entity's hedge accounting activities and the nature and extent of risks arising from its financial instruments being able to be made by cross-reference from the general purpose financial statements to a document outside the financial statements (see paragraphs BC6 and BC7).
- BC3 The Board proposes adopting a 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 to documents outside the general purpose financial statements. The Board considers that the potential consequences of these explicit references to making disclosures by cross-reference from general purpose financial statements to be sufficiently significant to warrant departing from its policy of verbatim IFRS adoption for for-profit entities. The Board is also cognisant that not mentioning the provision of information by cross-reference from the financial statements may be an impediment to responding to concerns about duplication and clutter in financial statements. The Board is aware that the IASB is considering the use of cross-referencing as part of its Disclosure Initiative – Principles of Disclosure and

Conceptual Framework projects, and is closely monitoring those projects. The Board expects to revisit its proposed policy when 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.

- BC4 The Board identified that AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 119 *Employee Benefits* include mention of making certain specified disclosures within the annual general purpose financial statements or interim financial report provided certain conditions are met, including that a cross-reference to the information is made. In line with its proposed policy, the Board decided to propose that the relevant text be removed from the Standards.
- BC5 The proposed amendments would amend:
- (a) AASB 1, to remove mention of a first-time adopter of Australian Accounting Standards, in respect of its first interim financial report that complies with AASB 134 *Interim Financial Reporting*, providing the information specified by paragraphs 32(b) and 33 of AASB 1 (explanation of the effects of transitioning to Australian Accounting Standards) by cross-reference from the interim financial report to another published document; and
 - (b) AASB 119, to remove mention of an entity disclosing certain information about a defined benefit plan that shares risks between entities under common control by cross-reference to disclosures in another group entity's financial statements, provided certain conditions are met.

Significant Issues

Cross-References Removed from Australian Accounting Standards

- BC6 The Board previously decided not to incorporate paragraph B6 of IFRS 7, when making AASB 7. Paragraph B6 of IFRS 7 mentions that an entity may disclose information about the nature and extent of risks arising from financial instruments by cross-reference from the financial statements. In 2013, the Board considered whether the deleted paragraph should be reinstated. The Board decided not to reinstate the paragraph as it was concerned that there may be unintended consequences in an Australian reporting context in doing so.

- BC7 As part of its due process on International Financial Reporting Standard *IFRS 9 Financial Instruments (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39)*, the Board noted that the revised IFRS 7 disclosures explicitly mention that an entity's hedge accounting activities may be incorporated by cross-reference from the financial statements to information that is already presented elsewhere, provided certain conditions are met. The Board decided not to include the text that mentions cross-referencing when making AASB 2014-1 *Amendments to Australian Accounting Standards*, as it was similarly concerned that there may be unintended consequences in doing so in an Australian reporting context.
- BC8 In September 2014, consistent with its rationale for the decisions in paragraphs BC6 and BC7 above and 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 to documents outside the general purpose financial statements, the Board also tentatively decided not to incorporate into Australian Accounting Standards:
- (a) the text in IFRS 9 *Financial Instruments* (issued by the IASB in July 2014) that mentions providing credit risk disclosures by cross-reference from the financial statements; and
 - (b) the IASB's amendments to IAS 34 *Interim Financial Reporting* resulting from its Annual Improvements Cycle 2012-2014 project, to the extent the amendments include text that mentions providing specified disclosures by cross-reference from the interim financial report.¹
- BC9 The Board's proposed amendments to AASB 1 and AASB 119 are consistent with its decisions and rationale to date with respect to excluding similar text from Australian Accounting Standards.

Explanation of Transition to Australian Accounting Standards

- BC10 The Board considered the text in paragraphs 32(b) and 33 of AASB 1 that explicitly permits an entity to provide an explanation of the effects of transition to Australian Accounting Standards by cross-reference from a first-time adopter's first interim financial report to another published document. The Board noted that the published document need not be available to users of the financial statements on

¹ The IASB issued International Financial Reporting Standard *Annual Improvements to IFRSs 2012-2014 Cycle* in September 2014. An Australian Standard incorporating the IFRS is expected to be issued in Q4 2014.

the same terms as the interim financial report of the entity, or at the same or earlier time. The Board was concerned that the interim financial report would be incomplete without this information.

- BC11 The Board decided to propose that AASB 1 be amended to exclude the IFRS text that mentions cross-referencing, as it was concerned that there may otherwise be unintended consequences in an Australian reporting context. The Board does not expect the proposed amendments, if incorporated into Australian Accounting Standards, to have a significant impact on entities in Australia as the proposed amendments could conceivably only affect entities that adopt Australian Accounting Standards for the first time and prepare interim financial reports.
- BC12 Paragraph Aus1.6 of AASB 1 relieves a first-time adopter preparing an interim financial report under Australian Accounting Standards – Reduced Disclosure Requirements from providing the disclosures specified by paragraphs 32 and 33 of AASB 1. Accordingly, the proposed amendments to AASB 1 are not expected to significantly affect entities preparing financial statements in accordance with Australian Accounting Standards – Reduced Disclosure Requirements.

Defined Benefit Plans that Share Risks between Entities under Common Control

- BC13 AASB 119 as reissued in September 2011 updated the disclosure requirements for entities that participate in defined benefit plans that share risks between entities under common control. Paragraph 150 of the Standard includes text explicitly providing that many of these disclosures may be made by cross-reference from the financial statements to disclosures in a group entity's financial statements, provided that the group entity's financial statements:
- (a) separately identify and disclose the information required by the plan; and
 - (b) 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.
- BC14 The Board noted that the cross-reference from the financial statements is to disclosures in another entity's financial statements. The Board was concerned about the reporting entity's ability to affect the content and availability of that other group entity's financial

statements. The Board was concerned that the general purpose financial statements would be incomplete without this information.

- BC15 The Board decided to propose that AASB 119 be amended to exclude the IFRS text that mentions cross-referencing, as it was concerned that there may otherwise be unintended consequences in an Australian reporting context. The Board noted that it was not aware of the extent to which entities may have to date taken advantage of the text in AASB 119 explicitly permitting information about defined benefit plans that share risks between entities under common control to be cross-referenced from the financial statements, but had regard to the mandatory application date of the Standard being for annual reporting periods beginning on or after 1 January 2013.
- BC16 Paragraph Aus1.6 of AASB 119 relieves an entity preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements from providing the disclosures specified by paragraphs 149–150 of AASB 119. Accordingly, the proposed amendments to AASB 1 are not expected to significantly affect entities preparing financial statements in accordance with Australian Accounting Standards – Reduced Disclosure Requirements.

Application Date and Transitional Provisions

- BC17 The Board decided to propose that the amendments apply retrospectively in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors* to annual reporting periods beginning on or after 1 July 2015. Comparative information is required as the Board does not expect the proposals to be difficult to implement in practice.
- BC18 The Board noted that an entity is already able to avail itself of the proposed amendments under the existing text of AASB 1 and AASB 119. Accordingly, the Board decided that it is not necessary to permit the Standard to be early adopted.