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.