

28 November 2014

Ms Kris Peach, Chair  
Australian Accounting Standards Board  
By email: [standard@asb.gov.au](mailto:standard@asb.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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