STAFF PAPER

**30 June 2014**

**Prepared for joint Capital Markets Advisory Committee and Global Preparers Forum meeting**

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| **Project** | **Disclosure Initiative—Principles of disclosure** | | |
| Paper topic | Placement of information—cross-referencing | | |
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## Purpose of this paper

1. The purpose of this paper is to obtain feedback from GPF and CMAC regarding placement of information, specifically the use of cross-referencing[1], in financial reporting.

2. In this session we would like to focus the discussion on cross-referencing of information required by IFRS as part of the notes that the entity may present elsewhere than in the financial statements, ie in other statements, regulatory reports or any other separate location (eg separate web pages).

## Background

3. We have heard that duplication of information in financial reporting contributes to the 'disclosure problem', because it increases disclosure unnecessarily. Thus duplication increases the cost for preparers, and ultimately, for the users, of financial statements (investors and analysts).

[1] For the purposes of this discussion, a cross-reference is an instance within the primary financial statements that refers to related information elsewhere within the primary financial statements or outside of those statements. A cross-reference can exist as an index, a note reference on the face of a primary financial statement or a description in the notes.

4. Some Standards currently give entities the option not to duplicate information that is already presented elsewhere, and incorporate the information by cross-reference from the financial statements to some other statement, such as a management commentary or risk report (see Appendix A). These existing options to avoid duplication are considered by some as exceptions that only apply to the disclosures listed as requirements in that particular Standard.

5. We are exploring whether these specific options should be replaced by a general option that applies across IFRS. Furthermore, some constituents recommended to explore whether the use of cross-referencing should be considered for other circumstances, ie in addition to duplication of information for the same reporting period.

## Circumstances for cross-referencing

8. Some examples of circumstances for the use of cross-referencing provided to us are[2]:

   (a) duplication of information that already has to be provided in other statements or documents (regulatory filings for example) for the same reporting period. For example, in addition to those examples listed in IFRS 7, disclosures about capital management in accordance with IAS 1 *Presentation of Financial Statements* are argued to be similar to those requirements of Basel Pillar III disclosures for financial institutions;

   (b) duplication of long-standing information in different reporting periods. For example unchanged accounting policies, lists of information about subsidiaries or definitions of specific terms; and

   (c) information considered by the entity as not being material for users, but whose complete omission would probably cause the need for justification for that omission to regulators and other parties.

[2] We have also received suggestions regarding the use of cross-references to solve the issue of information complexity. This assumes the existence of two types of users in respect of their level of financial knowledge: more sophisticated and less sophisticated users. The solution proposed was to leave more complex information out of the primary financial statements- instead making a cross-reference to it, to reduce disclosures. We do not think that cross-references would be a solution to this particular issue. This issue may be discussed in another paper, which deals with structure and organisation of the information.

9. We think that cross-referencing is, with conditions, a way of resolving the issue of duplication of information, thereby avoiding unnecessary disclosure, ie as noted in paragraph 8 scenarios (a) and (b). We are less convinced of using cross-referencing for scenario (c), because it does not relate to duplication, although it is an issue that needs to be assessed.

### What are the concerns?

10. Notwithstanding the above benefits, we think that the use of cross-referencing may impair the understandability of information in a complete set of financial statements when:

    (a) multi-level/extended linking happens, ie cross-referencing from one document to another document to another document etc.

    (b) too many cross-references are used.

11. We think that these two examples above may create:

    (a) scattered information; and

    (b) hidden relevant information.

12. Other possible concerns include:

    (a) the diminishment of status/or the concept of financial statements; and

    (b) inconsistency with audit, regulatory and legal restrictions in different jurisdictions.

### Conditions/restrictions on the use of cross-referencing

13. If the option to use cross-referencing is extended, we think we should establish the right conditions/restrictions for cross-referencing. These conditions aim to reach an adequate and controlled way of cross-referencing, avoiding impairment of understandability, among other concerns, thereby ensuring the same quality of the information.

14. For example, IFRS 7 *Financial Instruments: Disclosures* effectively describes the following conditions/restrictions regarding use of cross-referencing:

(a) When it addresses duplication.

(b) When the information is incorporated into the primary financial statements via the cross-reference.

(c) When the 'home' or source of the information is available to users of the primary financial statements on the same terms as the primary financial statements and at the same time.

15. Another possible condition/restriction, for the purpose of transparency, would be to provide a list in the notes of all cross-reference sources used. This list would be placed prominently, for example adjacent to the statement of compliance with IFRS, which would mitigate understandability impairment as discussed above.

| **Question 1—Cross-referencing as a solution** |
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| Do you agree that cross-referencing is the right solution for the problem of duplication of information as described in paragraphs 8(a) and 8(b) above? If not, please state your arguments.<br><br>Are there other circumstances for using cross-referencing? |

| **Question 2—Concerns about using cross-references** |
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| Do you have any concerns regarding the use of cross-referencing? Do you see any practical, legal or audit issues? |

| **Question 3—Cross-referencing conditions** |
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| If you agree that cross-referencing is useful in some circumstances, in what conditions should cross-referencing be used? |

## Appendix A—Overview of cross-reference guidance for presenting information elsewhere

IFRS 7 paragraph 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.

IFRS 7 paragraph 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.

IFRS 7 Basis for Conclusions:
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.

IFRS 1 paragraph 32:
To comply with paragraph 23, if an entity presents an interim financial report in accordance with IAS 34 for part of the period covered by its first IFRS financial statements, the entity shall satisfy the following requirements in addition to the requirements of IAS 34:

(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 IFRSs at that date; and
    (ii) a reconciliation to its total comprehensive income in accordance with IFRSs 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 IAS 34 for part of the period covered by its first IFRS 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 IFRS, 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).

IAS 34 paragraph 33 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, IAS 34 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 paragraph 39(d) 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.