

STAFF PAPER

IASB Meeting

Project	Disclosure Initiative—Principles of Disclosure (POD)		
Paper topic	Cross-referencing		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose of this paper

1. Some Standards allow an entity to include information required by that Standard in a report accompanying the financial statements (such as management commentary or a risk report) provided that the financial statements include a cross-reference to that other report.
2. We received feedback from outreach and on the Conceptual Framework Discussion Paper suggesting that this ability is viewed by many as an exception that relates to information required by only a few Standards. Some respondents have suggested that the IASB take a more general approach to allowing information to be incorporated in the financial statements by cross-reference because it would reduce duplication and allow preparers to disclose the information in what they consider to be the most useful location of their financial report.
3. The purpose of this paper is to obtain the preliminary views of IASB members on whether you think IFRS should allow, as a general concept, disclosures required by individual Standards to be presented in accompanying statements or reports (eg

management commentary, a risk report or other similar document). The views of the IASB will be included in the POD Discussion Paper.

Background

4. Within the context of financial statements, we generally see cross-references used:
 - (a) Wholly within the financial statements, linking to information that is also in the financial statements, for example from the primary financial statements to the notes or between notes;
 - (b) From the financial statements to some other statement or report, such as a management commentary or risk report or some other location, such as a website; or
 - (c) From outside of financial statements to the financial statements, for example a cross-reference disclosed in management commentary that refers to information in financial statements.
5. The focus of this paper is the use of cross-referencing from financial statements to some other statement, report or location (ie paragraph 4(b) above).

Current IFRS

6. Paragraph 49 of IAS 1 requires that an entity clearly identify the financial statements and distinguish them from other information in the same published document.
7. Some Standards allow an entity to incorporate disclosures located ‘outside’ of financial statements into financial statements by way of disclosing a cross-reference to that information in the financial statements (see Appendix A for a list of these requirements).

8. The most commonly quoted example is IFRS 7 *Financial Instruments: Disclosures* which allows information to be incorporated in the financial statements by cross-reference.

9. The reason for allowing this is described in the Basis for Conclusions of IFRS 7:

“[...] 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 7.BC46)

10. Another example is IFRS 4 *Insurance Contracts*. Paragraph IG62 of Guidance on implementing IFRS 4 states that cross-referencing possibilities would be applicable for the same disclosure about risk arising from insurance contracts.

11. The reason for allowing cross-referencing is because the IASB acknowledges that some information required by a Standard might be more usefully disclosed and discussed in a report accompanying the financial statements. For example, information about financial instrument risk might be better discussed as part of a more general analysis of how an entity is managing risk. The IASB has therefore, in some cases, provided this flexibility to give entities the ability to present information in what they think is the most useful way.

What we have heard

12. We have heard that duplication of information in financial reporting contributes to the ‘disclosure problem’, because it increases disclosure unnecessarily and

impairs the understandability of information by creating clutter. Furthermore it creates an unnecessary reporting burden for preparers.

13. As described above, some Standards currently give entities the possibility of not duplicating information that is already presented elsewhere ‘outside’ the financial statements, and to incorporate that information by cross-reference from the financial statements to some other statement or report, such as a management commentary or risk report. Some preparers told us that they view these existing possibilities as exceptions that only apply to the specific disclosures to which the cross-referencing guidance relates.
14. For example we have heard messages from constituents from the financial industry that in some places there is a significant overlap of information between disclosure in IFRS and disclosures required by regulatory authorities, eg Basel Pillar 3 disclosures. Some are of the view that the ability to use cross-referencing only relates to IFRS 7 disclosures and they are unable to use cross-references to other disclosures in IFRS, eg disclosures in paragraph 134 of IAS 1 *Presentation of Financial Statements* regarding information to evaluate the entity’s objectives, policies and processes for managing capital.
15. Others see these requirements as being available more generally, even if an IFRS does not contain this specific wording. For example we have seen some entities present their segment information (as required by IFRS 8 *Operating Segments*) in the management commentary, with the financial statements including only cross-references to those management commentary disclosures.
16. Furthermore as addressed in the Conceptual Framework project’s Agenda Paper 10F in June, some respondents to the IASB’s Discussion Paper DP/2013/1 *A Review of the Conceptual Framework for Financial Reporting* commented on the use of cross-referencing. A few suggested that the IASB should provide guidance on when cross-referencing is appropriate and encourage cross-referencing in those cases. A few respondents believed that the use of

cross-referencing could reduce duplication between financial statements and disclosures outside financial statements.

17. In light of streamlining financial information and avoiding clutter, there are also views that information not frequently changing from year to year, such as disclosure of accounting policies, could be separated to website as a form of standing data and incorporated in financial statements through cross-references:

“[...] there are significant potential benefits for many users of annual reports from separating standing data from information about what has changed during the period under review. [...] Such standing data could be presented separately within the annual report and with regulatory change it could be possible for such standing data to be included on a website. This would be similar to the current approach adopted for interim financial statements and to the typical content of company preliminary announcements [...] Companies and standard setters should investigate separating explanatory material within or outside the printed annual report. [...] We are aware that currently, where required by law or IFRS, explanatory information would still have to be provided and included in an appendix within the annual report, rather than separately on a website. While this isn’t ideal, as it requires preparers to continue to produce the information year on year within the annual report, it lessens the clutter effect for users.” (FRC, Discussion Paper—*Cutting Clutter*, 2011)

18. However, the request to extend the possibilities for cross-referencing is not unanimous and we have heard concerns about that idea. Some jurisdictions applying IFRS do not permit the use of the existing cross-referencing options in IFRS.¹
19. The next section of this paper discusses whether IFRS should have a general principle for the use of cross-referencing in financial statements to information in another statement or location.

¹ For example, see [AASB Action Alert Issue No: 163 14 February 2014 – section “Disclosures – Incorporation of Information by Cross-Reference”](#)

General principle for the use of cross-referencing

Conceptual basis for cross-referencing

20. In the Discussion Paper *A Review of the Conceptual Framework for Financial Reporting* (the Conceptual Framework DP) the IASB tentatively agreed that it should consider a number of communication principles when it sets disclosure requirements, including:
- (a) disclosures should be linked and help users of financial statements to understand the relationships between information provided within and outside financial statements and should permit cross-referencing where possible and appropriate; and
 - (b) disclosures should not result in duplication of the same information in different parts of the financial statements. Links between disclosures (eg cross-referencing) may be appropriate in some circumstances, for example the circumstances described in paragraph 20(a) above.²
21. Consequently we think that the role of cross-referencing is to enhance the understandability of information in financial statements. It does this by:
- (a) linking related information so that the relationships between items of information are clear; and/or
 - (b) preventing redundancy of information, ie making financial information more concise for users by avoiding unnecessary duplication.
22. We think the above principle for cross-referencing could provide the basis for the types of cross-references in financial reporting we described in paragraph 4 above. However we think it may not be sufficient. This is because although cross-referencing can enhance the understandability of financial statements, there are also concerns that, if used inappropriately, it can impair understandability.

² Conceptual Framework DP paragraph 7.50.

Concerns about the use of cross-referencing

23. The staff discussed, with constituents, including preparers, users and enforcement representatives, the idea of whether to extend the current possibilities in IFRS requirements for cross-referencing. The idea would be to broaden these possibilities into a general principle that would apply to all disclosure requirements in the notes to the financial statements. Although there was support for broadening cross-referencing possibilities, many expressed concerns about it.
24. The most common concerns relate to the risk of fragmentation of financial statements information. Some users feel uncomfortable if disclosures are placed in a different statement, report or location, because it could impair understandability of information in a complete set of financial statements. We have grouped these concerns as follows:
- (a) Identifying the financial statements (paragraphs 25-27);
 - (b) Audit implications (paragraphs 28-30);
 - (c) Access (paragraph 31).

Each of these is discussed below.

Identifying the financial statements

25. Cross-referencing to information outside financial statements can make it more difficult to clearly identify what forms part of the IFRS financial statements and hence whether those financial statements are complete. Specifically cross-referencing can make it difficult to understand:
- (a) whether cross-referenced information is part of a complete set of financial statements; or
 - (b) whether the linked information is or is not prepared in accordance with IFRS.

26. The staff have heard that to address these concerns in practice some preparers depict or highlight the cross-referenced information in other statements as information prepared and audited in accordance with IFRS.
27. We have also heard concerns that too much cross-referencing in financial statements can make them less understandable. There is also a risk that it could diminish the unique position of financial statements in the broader context of corporate reporting. Specifically there is a concern that making financial statements less identifiable diminishes their “brand” as the source for reliable, neutral and verifiable data.

Audit implications

28. The use of cross-referencing could make it more difficult for an auditor to verify that the entity has complied with paragraph 49 of IAS 1 ie that an “entity shall clearly identify the financial statements and distinguish them from other information in the same published document”.
29. Recently, the IAASB published a draft for revising ISA 720 *The Auditor's Responsibilities Relating to Other Information* clarifying that disclosures required by IFRS but located outside financial statements and incorporated through cross-referencing forms part of financial statements.
30. In addition there may be a perceived different quality of information between financial statements and other statements or reports. In many jurisdictions management reports are not subject to audit and users may perceive the quality of information placed elsewhere outside of the financial statement to be different. Furthermore, even if management reports are subject to audit in some jurisdictions, the issue was raised that the quality of audit could be different. For example the staff have heard that some information can be labeled as ‘not audited’ in the notes to the financial statements, but the same information may be labeled as audited information in the management report.

Access

31. We have heard that users of financial statements prefer to access information from a single place. Concerns about access were particularly the case where the cross-reference referred to a location outside of the annual report (or other compliance document) eg a separately published document or to a website. We think this is because they think the cross-referenced information will be:
- (a) difficult to find, or not included at all, because the cross-reference and the linked information may not “stay together”. For example if the cross-reference reads across different mediums such as cross-references in a printed set of financial statements to a website;
 - (b) not accessible and available over the same period that the financial statements are available; and
 - (c) seen as a barrier as it requires unnecessary effort to access.

Possible approaches

32. Despite the concerns described in paragraphs 23-31 above, we recommend that the IASB express a preliminary view in the POD Discussion Paper that IFRS does extend the current guidance in IFRS on cross-referencing. We think it has the potential to be an effective mechanism to reduce redundant information in financial statements and could help entities link related information together and tell their story.
33. Compared to current possibilities for cross-referencing the staff have considered two alternative approaches in IFRSs:
- (a) The cross-referencing possibilities in particular Standards (including conditions for when cross-referencing is appropriate) should be shifted to a general principle that would apply to all disclosures. The

explicitly-stated possibilities in particular standards (eg IFRS 7) would be removed; or

- (b) as part of an overall review of all disclosures the IASB could, on an individual basis, identify those disclosures that would be eligible to be reported outside of financial statements and incorporated through cross-referencing. The IASB would also clarify the basis on which some information may be reported outside of the interim financial statements but not cross-referenced for annual reporting.

34. In the staff's view, alternative (a) above is preferable. However, because of the concerns raised about cross-referencing the staff think that additional guidance could be developed to help entities determine if or if not cross-referencing is appropriate.

Additional guidance

35. To discuss what additional guidance on cross-referencing might be needed we have split the discussion between ways to address concerns about:
- (a) identifying audited financial statements (see paragraph 36);
 - (b) accessing cross-referenced information (see paragraphs 37-40).

Addressing concerns about identifying audited financial statements

36. The staff believe that the following conditions could provide the basis for additional guidance to address concerns about identifying what information is included in the audited financial statements:
- (a) The entity should disclose—together with the unreserved statement of compliance in accordance with paragraph 16 of IAS 1—a list of cross-referenced information placed outside the financial statements that forms part of a complete set of financial statements in accordance with IFRS.

- (b) The cross-referenced information located ‘outside’ financial statements should be depicted or visualised as being information prepared in accordance with IFRS and forming part of the financial statements (and audited if applicable).
- (c) The cross-referencing must be direct and be precise as to what it relates to.

Concerns regarding access to cross-referenced information

- 37. Current conditions for cross-referencing consistently require that the cross-referenced information be made available to users ‘on the same terms as the (interim) financial statements and at the same time’.³ In the context of cross-referencing to different parts of the annual report/financial report there is less concern about accessibility because the cross-reference and the information are under the same wrapper, ie within the same “document”.
- 38. The staff think that the condition described in paragraph 36(c) above that cross-referencing must be direct and be precise as to what it relates to, would also help users of financial statements find cross-referenced information.
- 39. However within the context of placing data to another location, there are also concerns, that the separated information does not remain available for the same time as the other parts of the financial statements.
- 40. We believe that the IASB could provide further clarification guidance. For example, the IASB could decide that the conditions ‘on the same terms and at the same time’ are not met if there is a reasonable risk that separated cross-referenced information will not remain available over time at the cross-referenced location. In such circumstances outsourcing some information from financial statements to

³ In June 2014, as part of the Annual Improvement efforts for IAS 34, the IASB tentatively concluded that disclosures should be made available to users ‘on the same terms as the interim financial statements’ when users have access to the referenced material ‘on the same basis and on the same terms as the financial statements’

the entity's website would not be eligible for cross-referencing because there is a reasonable risk that the separated information does not remain available.

Improvements for narrow-focus amendments

41. In a previous meeting the IASB discussed the possibility that the staff may identify improvements to disclosure requirements during the research phase of the Principles of Disclosure project that should be elevated to a Standards level project immediately, such as proposals for narrow-focus amendments to IFRS similar to the recent Disclosure Initiative projects on IAS 1.
42. If the IASB wanted to provide a more general cross-referencing provision we think a proposal could be developed, quickly and discreetly into a narrow focus amendment to IAS 1 (with consequential amendments to IFRS 7 and IFRS 4). Developing these proposals directly into an Exposure Draft would respond to calls to reduce unnecessary duplication of information and hence deliver tangible improvements to disclosures sooner rather than later.
43. However, exposing further amendments to IAS 1 so soon after the Amendments to IAS 1 Exposure Draft issued in March 2014 could be confusing to some stakeholders. Separation from the topics in a Principles of Disclosure Discussion Paper may also mean that the cross-referencing proposals are not considered as part an overall package that is planned to ultimately replace IAS 1. Finally, we understand that some constituents have significant concerns about the use of cross-referencing discussed in this paper. We think including the topic in the Discussion Paper will give them additional time to consider any proposals.
44. The staff are swayed by the concerns described in paragraph 43, and therefore recommend that the discussion on cross-referencing is included in the POD discussion paper. We do not recommend that the proposals on cross-referencing are developed into a narrow-focus amendment to IAS 1 in the short-term.

Questions for the IASB

Do you agree with the staff's view (see paragraphs 32-34) that IFRS should include a general principle for cross-referencing that would apply across IFRS and that would replace cross-reference guidance in particular Standards? If not, what alternative approach should be considered for cross-reference guidance in IFRS?

Do you agree that the additional guidance for the use of cross-referencing to information otherwise outside of financial statements (as described in paragraphs 35-40) is necessary?

Does the IASB agree with the staff's view not to develop narrow focus amendments to IFRS on cross-referencing?

Appendix A—List of cross-referencing requirements

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 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 19 paragraph 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.

IAS 34 paragraph 16A:⁴

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, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis

⁴ Subject to proposed amendments to IAS 34 as part of the Annual Improvements to IFRSs 2012–2014 Cycle