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31 July 2012

Ms Lynn Wood
Chairman
FRC Managing Complexity in Financial Reporting
C/ The Treasurer
Langton Crescent
PARKES ACT 2600

via email frcsecretary@treasury.gov.au

Dear Ms Wood

Thank you for the opportunity to contribute and respond to the Financial Reporting Council's ("FRC") Managing Complexity in Financial Reporting report ("report"). We appreciate that the FRC acknowledge that the complexity in financial reporting is inevitable in the short term and the report is a way forward in pursuing a strategy to manage complexity in financial reporting.

We have not undertaken surveys on preparers and users to gather comments on the report. Our comments in Appendix A arise from our role as auditors and observations through our interactions with preparers and users of financial statements.

Whilst we support the proposed strategies, we believe that there will be practical implementation challenges on all of the strategies. We would be pleased to assist the FRC in the development of the implementation.

Should you have any questions of the matters raised in this letter, please do not hesitate to contact Lynda Tomkins (Lynda.tomkins@au.ey.com or (02) 9276 9605).

Yours sincerely

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Appendix A

1. **Are there any additional <u>sources of reporting complexity</u> which should be considered by the Task Force and FRC, and if so, what?**

We agree with the FRC's summary of the most significant sources of reporting complexity.

The FRC's report highlights a lack of understanding as to which disclosures are material and an increasing risk averse attitude of directors, preparers and auditors as factors that have resulted in a 'when in doubt, disclose' behaviour being adopted. We also note that challenging this behaviour requires additional processes and time by directors, preparers and auditors. Meeting statutory reporting deadlines is already a significant challenge for many preparers. Short reporting deadlines, particularly for ASX listed companies, limits the ability of some preparers to undertake such a process.

2. **Do you agree with the Task Force's conclusion that complexity is inevitable in the short-term and accordingly the efforts should be concentrated on strategies to assist stakeholders to better manage this complexity?**

We agree with the Task Force's view, particularly in respect of listed and other publically accountable entities that are required to apply all the recognition, measurement and disclosure requirements of International Financial Reporting Standards.

3. **Do you have any comments on the strategies <u>to better manage complexity</u> as suggested by the Task Force?**

(i) Make better use of developments in information technology and delivery

We support the proposed strategy to 'unbundle' the annual report to allow users to filter information and to access the level of detail suited to their needs. We also support that the governance policies and procedures could be removed from the annual report and published on the website.

However, we recognise that challenges exist that will need to be overcome. There is an expectation of users that financial statement information is audited. However, the audit opinion is made in respect of the financial statements as a whole. There is a risk that filtered or selected financial information may be misleading when not read in the context of the financial statements as a whole.

(ii) Address legal impediments to preparers determining relevant material disclosures

We agree with the stated strategy and support strengthening the legal framework to better allow directors and preparers to apply judgement in determining whether disclosures are material.

We recommend the FRC also consider incentives to encourage the directors and preparers to eliminate repetitive, non material data in the annual reports. This could be via working with the 'Australasian Reporting Awards' – a not-for-profit organisation with the aim or improving financial reporting.

Additional guidance from the standard setters and the regulators on how to apply materiality would assist directors and preparers assess regulatory risk and provide greater apply to focus on material disclosures that are relevant to the annual report.

(iii) Empower users through delivery of financial information via XBRL

We support the FRC's proposed strategy. Whilst we do not believe that XBRL will reduce complexity it will provide users with increased flexibility with how they consume information and greater ability to analyse and compare information between companies.

In the absence of mandating use of XBRL, we recommend that the FRC consider means by which users could be incentivised to adopt XBRL, for example, by encouraging private entities by providing an extension to the lodgement of annual report in the first year using XBRL (after the timely lodgement of the pdf format) and / or by reducing lodgement fees.

However adoption of XBRL would increase the burden on preparers of the annual report as tagging information can be time consuming and costly to the preparers. Therefore we recommend that the FRC seek to find ways to assist companies manage this burden.

We understand that XBRL lodgement of financial report information is mandatory for certain countries such as US, UK, Singapore and Japan. However, the IFRS taxonomy is not used by all of these countries.

Some believe that the current IFRS taxanomy is too restrictive with approximately 2,000 to 3,000 items and further analysis may be required to add additional tagging options for Australian specific information or for industry specific information (for example the US has over 15,000 tagging options). Furthermore, if the IFRS taxonomy is to be expanded, we believe that there is a need for greater collaboration between the standard setters, regulators and preparers in working through the requirements.

If adopted we recommend that the FRC consider how we leverage the lessons learned in other jurisdictions on their adoption of XBRL.

(iv) Develop guidelines that encourage more use of financial reporting terms and definitions

We support the FRC proposed strategy. Different industries place importance on different parts of the annual report.

(v) Urge the IASB to undertake reforms

We support the FRC proposed strategy.

There have been a number of initiatives that have been undertaken to consider the complexity of financial reports and we believe it will be important that any future developments should be progressed in a co-ordinated manner. We believe that the initiatives by the UK Financial Reporting Council, the joint working group of the Institute of Chartered Accountants of Scotland and New Zealand Institute of Chartered Accountants and the US SEC.

(vi) Consider better ways of influencing the IASB

We support the proposed strategy by the FRC and believe that more active participation from preparers and users is an in responding to the IASB could be a key driver of reducing and managing complexity. To encourage this we recommend that the AASB play a more proactive role in coordinating and managing responses from preparers and users to the IASB. An example could be facilitating face-to-face events directly with preparers and users using the principles that the IASB uses elsewhere to actively engage these constituents.

4. Do you have any suggestions for the financial reporting terms and definitions that should be encouraged for development (Suggested Strategy #4)

Please refer to response 3 (iv) above.

We believe that defining industry specific measures such as cash costs in the mining sector or cash profits in the banking sector could assist in improving understanding of terminology and increasing comparability across companies.

5. Please indicate 'quick wins' that you believe could be achieved in managed complexity, which could be delivered within the current Australian legislative framework and IFRS.

We believe that potential quick wins include:

(1) the AASB playing a more active role in facilitating and coordinating Australian responses to the IASB; and

(2) working with the 'Australian Reporting Awards' project to achieve greater profile and influence the behavioural changes of preparers.

6. Are there any other issues the Task Force should consider?

Further to the matters above, we highlight the Australian Reduced Disclosure Regime ("RDR") is seen by many as the mechanism by which complexity can be reduced for non-publically accountable Australian companies. The FRC should consider whether the RDR regime goes far enough to reduce the level of disclosures required for non-publically accountable companies.

In addition, the FRC could consider the framework for providing education to users of financial statements and the bodies responsible for the provision of such education.