31 July 2012

The Secretary
Financial Reporting Council
C/o The Treasury
Langton Crescent
PARKES ACT 2600

frcsecretary@treasury.gov.au

Dear Sir/Madam

Managing Complexity in Financial Reporting

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. We are pleased to provide comment on the FRC Task Force report.

The FRC is to be commended for seeking to tackle this issue. However, the term complexity tends to be used in the paper to include concerns about the volume of information which is reported much of which can be viewed as not material rather than complex and adds to what has been referred to as 'information overload'.

Q1 *Are there any additional sources of reporting complexity which should be considered by the Task Force and the FRC, and if so, what?*

The G100 agrees that the sources of complexity identified in the paper, with the exception of integrated reporting, are appropriate and considers that business driven complexity is inevitable. Of more concern to the G100 is the manner in which legislators and regulators respond to business and market developments.

As identified by the Task Force the current regulatory framework is not optimal as requirements by different bodies may be duplicative or inconsistent. The example provided in the paper in respect of remuneration is instructive and indicative of requirements being determined by different regulators who have different objectives/purposes. In this regard as mentioned below the FRC could consider undertaking a project similar to that of the Financial Reporting Lab of the FRC (UK) on "A single figure for remuneration" (www.frc.org.uk).

The G100 does not view the potential development of integrated reporting as a source of complexity but rather as a response to better communicate the overall performance of a business irrespective of the complexity of its operations and transactions.

Q2 *Do you agree with the Task Force's conclusion that complexity is inevitable in the short-term and accordingly that efforts should be concentrated on strategies to assist stakeholders to better manage this complexity?*

The G100 considers that with the rapidity of changes in markets and technology and the broadening and deepening of the regulatory load and requirements complexity in financial reporting is inevitable and part of a long term trend. It is in this context that developments in integrated reporting as a replacement of the Operating and Financial Review or Management Discussion and Analysis can be viewed as a means of assisting manage and better understand complexity. This is particularly so if integrated reporting is used to better present and communicate the performance of a company and better explain the distinction between and the significance of profit and loss, other comprehensive income and the use of other descriptors of performance such as underlying earnings or profit.

It is suggested that complexity can be better managed by freeing up the ability of directors and management to report on the entity's performance, prospects and strategies as they see it within a broad principles-based framework. There are several examples in current practice where directors in seeking to better communicate with shareholders and other users present what are commonly referred to an annual reviews to shareholders. In response to this growing practice the G100 in conjunction with Ernst & Young published "Reporting to Shareholders" (2008) to provide practical guidance in this area.

Q3 *Do you have any comments on the strategies to better manage complexity as suggested by the Task Force?*

The G100 agrees that developments in information technology and the use of XBRL offer opportunities for better meeting the information needs of a wide range of stakeholders. However, issues relating to the integrity and avoidance of the misuse of the information reported need to be addressed.

While XBRL may offer opportunities for enhancing the interface with shareholders and other users it does not enable reductions in the complexity or volume of disclosures. XBRL is a tool for providing information in a specified format and may assist a user to analyse and process the content of financial reports. In the absence of other developments XBRL is more likely to increase, rather than reduce, the reporting load for companies.

The G100 strongly supports efforts to encourage the IASB to undertake a project, as part of its Conceptual Framework, to develop a principles-based framework to be applied in determining disclosure requirements and presentation of information. Consistent with this the G100, in conjunction with PricewaterhouseCoopers, in response to a challenge from Sir David Tweedie developed "Less is More" (October 2009) which sought to address some of these issues.

However, while progress has been slow we take some comfort from recent developments of cooperation by EFRAG and the FASB and by the IASB in respect of its agenda consultation and review of disclosures in its Standards, in particular, the issue of discussion papers by EFRAG (www.efrag.org) and the FASB (www.fasb.org) on developing a disclosure framework.

Q4 *Do you have any suggestions for the financial reporting terms and definitions that should be encouraged for development (suggested strategy #4)?*

The G100 questions whether the development of a glossary of terms other than those already defined in accounting and auditing standards is necessary. We consider that good practice dictates that a company disclose the definition of a measure/ratio in the same document in which it is used. However, if the Task Force determines that a glossary should be developed issues arise in respect of who is responsible for its development and maintenance, how international agreement is to be achieved (eg lost time injuries example), their enforceability and the imposition of sanctions for non-compliance.

Q5 *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.*

The G100 believes that the following offer potential for 'quick wins':

- **enable companies the flexibility to publish items on their websites and incorporate in the annual report by reference: For example:**
  - ~ **permit publishing the detail of compliance with corporate governance requirements and recommendations on the website with an appropriate cross reference in the annual report;**
  - ~ **streamlining requirements for remuneration reporting by allowing a summary of key items in the annual report with the full remuneration report being available on the website. While it is an important part of governance of the company and provides accountability and transparency it is doubtful that the detail and volume currently required in the remuneration report satisfies an information need of shareholders.**
- **providing safe harbour protection and amend the business judgment rule for directors can be expected to influence the attitudes of directors when deciding the appropriate level of disclosures and applying the concept of materiality in the financial reports.**

Q6 *Are there any other issues the Task Force should consider?*

The Task Force could seek to initiate a project similar to the single figure for remuneration project in the United Kingdom. It is incongruous that an item such as director and executive remuneration, the total amount of which is insignificant in relation to other operating expenses, commands such a significant part of the annual report.

As indicated above complexity can be better managed by freeing up the ability of directors and management to report on the entity's performance, prospects and strategies as they see it within a broad principles-based framework. Distinguishing between lodgement of a technical document with regulators and the presentation of a separate report to shareholders may contribute to better communication with shareholders and other users. This would be similar to the approach to reporting in the US and means that shareholders and other users are able to determine the level of the information they utilise.

Yours sincerely
Group of 100 Inc

Terry Bowen
President