IPA INSTITUTE OF PUBLIC ACCOUNTANTS

31 July 2012

Ms Lynn Wood
Chair
Financial Reporting Council
C/o The Treasury
Corporations and Capital Markets Division
Langton Crescent
CANBERRA ACT 2600

Dear Ms Wood,

FRC report on managing complexity in financial reporting

The Institute of Public Accountants (the Institute) is pleased to respond to the paper released by the Financial Reporting Council (FRC) examining some of the causes for the growth in complexity of financial reporting and how best to manage complexity. It is a debate engaged in by various jurisdictions periodically. The Institute acknowledges the importance of the discussion and hopes the Council finds our contribution to the debate useful.

Small business and smaller entity focus

The Institute represents 22,000 members and students in Australia and overseas. The Institute's members work across the spectrum of the economy, but a large proportion either work in or provide services to small businesses and other smaller entities such as not-for-profits. We refer to perspectives obtained through consultation with our broader membership and our organisation's topic-based consultation committees in this submission as appropriate. Specific questions are addressed in the appendix to this letter.

Institute support for IFRS

The Institute is a supporter of the implementation of the standards issued by the International Accounting Standards Board (IASB) that constitute the full suite of International Financial Reporting Standards (IFRS). It is essential Australia remain aligned with the full suite of IFRS in order for both preparers and users of financial statements to have access to a stable guidance platform.

It is noted that the Institute has twice dismissed the notion of the introduction of IFRS for SMEs into the Australian reporting framework on the basis that a second suite of standards creates a more complex regulatory environment for preparers and users of financial statements in the sector.

It is important to acknowledge the role played by standard setters in making the standards more complex over a period of time. Standard setters seem reluctant to remove previous disclosure requirements when they are revising old standards. New disclosures are added on top of the old requirements. This increases the volume of literature over time. The Institute would encourage standard setters domestically and internationally to be mindful of the tendency to add to standards rather than remove obsolete requirements.

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A certain ruthlessness must be applied by standard setters in order to delete disclosure requirements that no longer appear valuable. This is as important as being cognizant of the needs of users.

Failure to focus on the smaller end of the market

The Institute agrees with the six strategic themes outlined by the FRC, but believes the sole focus on these initiatives is inadequate. Complexity in financial reporting impacts smaller entities. Measures to ease complexity across the broad spectrum of entities that prepare statutory financial statements should be included.

One possible measure that merits consideration is further deregulation of financial reporting. Views within a community change over a period of time about the types of entities that should report. It is important that the potential for deregulation be noted in any report of this nature. The Institute endorses the proposals of the Australian Accounting Standards Board (AASB) included in the Reduced Disclosure Regime (RDR) for entities that are not publicly accountable.

Role of integrated reporting

The Institute notes the debate on integrated reporting. It is important to remember that integrated reporting is likely to add to complexity. While not directly relevant to the financial statements prepared under IFRS, the integrated reporting framework – once developed – will be an additional suite of material with which entities need to comply.

The Institute would encourage caution in policy deliberations related to the adoption of such an integrated reporting framework.

Please contact our Senior Policy Adviser, Reece Agland, via e-mail at reece.agland@publicaccountants.org.au should you wish to discuss the details of this submission further.

Kindest Regards

Andrew Conway FIPA
Chief Executive Officer
Institute of Public Accountants

APPENDIX

The strongest limitation of this report is its restriction to the listed entity population. Complexity can impact on smaller entities and this report fails to deal with entities other than issuers in the Australian environment.

The listed entity population is not the largest of the Australian reporting population. Most entities reporting under the Corporations Act 2001 are either proprietary companies classified as large under the law or they are public companies limited by guarantee.

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

There are a range of issues that relate to modification of financial reports that smaller entities face if they report to State or Commonwealth agencies to acquit for grants. This will result in entities having to tailor financial information for acquittal purposes. It is important that the report's content be expanded when it is next revised to ensure that the impact of complex financial reporting on smaller entities is fully addressed.

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 Institute agrees that management of complexity is important. Standard setters and regulators must also take opportunities to reduce the volume of regulation in the reporting arena.

A further option is that of modifying the Reduced Disclosure Regime (RDR) so that fewer disclosures are required for entities without public accountability.

This should be placed on the agenda of the standard setter only after sufficient time has elapsed to allow conclusions to be drawn from the implementation process.

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

There appears to be little consideration of strategies that could make it easier for none publicly accountable entities to cope with complexity. To this end deregulation must be considered as a policy option. The report's scope must also be broadened to reflect the compliance burden of smaller entities.

Do you have any suggestions for the financial reporting terms and definitions that should be encouraged for development?

The Institute would encourage standard setters and industry groups to establish consistent definitions for terms used in reports. The Institute has no specific views on the terms that should be standardized at the current time.

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

There should be greater encouragement for entities to adopt Standard Business Reporting (SBR) and to transition their financial reporting to XBRL. This will provide entities with a cost effective means of presenting financial statements online. The Institute has argued in its Pre-Budget Submission for 2012-13 that the funding for SBR should be increased.

Are there any other issued the Task Force should consider?

As previously noted the report should have provided an overview of managing complexity in financial reporting from the perspective of the FRC's broader constituency. This can be addressed with subsequent revision.