Scott Rogers
Secretary
Financial Reporting Council
The Treasury
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31 July 2012

Dear Scott

Managing complexity in financial reporting

We are pleased to respond to the report issued by the FRC's Managing Complexity Task Force.

We support the Task Force's conclusions that complexity is inevitable in the short term and that their efforts are best focussed on strategies to assist stakeholders to better manage this complexity. In the longer term, we also support the Task Force's call for the Australian standard setting and business community to continue to influence the work of the International Accounting Standards Board (IASB), in particular for the establishment of a conceptual framework for presentation and disclosure.

We note that the report tends to focus on the issues affecting listed entities; therefore our response considers how we believe the FRC could help this group of entities better manage complexity. We acknowledge that there is also continuing research and discussion being undertaken by the Australian Accounting Standards Board (AASB) regarding the financial reporting framework for non-listed and non-reporting entities and we have not commented on these issues in our submission.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (03) 8603 3868 if you would like to discuss further.

Yours sincerely

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PwC Australia's response to the report issued by the FRC's Managing Complexity Task Force, "Managing complexity in financial reporting"

We welcome the Task Force's focus on "managing complexity" rather than "reducing complexity", and we agree with their view that increasingly complex reporting requirements are a consequence of increasingly complex business operations rather than a source of such complexity.

We acknowledge however, that since the introduction of International Financial Reporting Standards (IFRS) in Australia, preparers, investors and other users of financial statements have voiced their concerns over the length, volume and value of many disclosures in the financial report.

In addition to the strategies for better managing complexity identified by the Task Force in its report, with which we agree, we propose the FRC focus on the following four issues as a priority.

1) Simplifying the remuneration report. The sources of complexity that the FRC could most directly influence are those areas of reporting that are Australian specific. We believe the FRC could work with the AASB to facilitate the simplification of the Australian-specific disclosure requirements that apply to the remuneration report. For most businesses, the remuneration report runs beyond 10 pages, containing considerable detail and complexity, in particular regarding employee share plans. While aspects of the information are undoubtedly important, the sheer volume of the content can make extracting the most important information a complex task for shareholders. In order to ensure the remuneration report effectively meets the needs of users of financial statements, we believe that promoting the benefits to Treasury of streamlining the remuneration report could be a "quick win" for the FRC.

2) Maximising the benefit of the joint 'trans-Tasman' private sector financial reporting convergence project between the AASB and NZ External Reporting Board (XRB). In order to extract the most benefit from the recently harmonised financial reporting frameworks, legislative changes also need to be made in Australia and New Zealand that would allow NZ-owned companies registered in Australia (and vice versa) to lodge financial statements prepared in accordance with NZ Law without requiring intricate knowledge of Australian Law (ie, relating to the directors' report etc). We encourage the FRC to work with the XRB to raise this issue with the NZ government and advocate for legislative change.

3) Reducing the disclosure requirements in IFRS and the length of financial statements more generally. We would support the FRC encouraging the IASB to develop a principles-based approach to guide it when mandating new disclosures and reviewing existing disclosures. Based on PwC's comparison of the financial statements issued by 100 Australian listed companies in 2007 and 2010, the length of financial statements had grown by 20% for small companies and 10% for large companies. We believe the length of financial statements has a direct correlation to the understandability of financial information to "ordinary investors". The Group of 100 report "Less is more" (Oct 2009), which was developed in conjunction with PwC, seeks to address this issue. We believe that managing complexity and perceived complexity by de-cluttering financial statements would benefit all stakeholders involved in financial reporting, including businesses and the investor community.

4) Encouraging the International Accounting Standards Board to maximize the use of its Interpretations Committee (IC). The IC plays a vital role in promoting the uniform interpretation of IFRS by providing authoritative and timely guidance on accounting issues that have arisen within the context of applying IFRS. In the past, the IASB has been keen to avoid a proliferation of official interpretations for fear that it could lead to rules-based reporting requirements. While we support the Board's focus on principles, we believe the IC is being underutilised which is leading to growing diversity in practice. For example, we are aware that submissions to the IC are being used by some to legitimise accounting practices when the IC either fails to deal with the issue on a timely basis or publishes agenda rejection notices, perhaps motivated by a desire to limit the number of interpretations issued in any given year. This has the potential to increase the complexity of reporting requirements by embedding alternative interpretations in practice. It also adversely affects the comparability of financial reporting.