Australian Government

Financial Reporting Council

MANAGING COMPLEXITY IN FINANCIAL REPORTING

Findings from the consultation process

Prepared by the Financial Reporting Council (FRC) Managing Complexity Task Force[1]

3 October 2012

1. OVERVIEW

Introduction

On 29 May 2012, the FRC's Managing Complexity Task Force released a report *Managing Complexity in Financial Reporting* (available at http://www.frc.gov.au/), and requested comments by 31 July 2012. Fifteen submissions were received in response to the invitation to comment:

- Australian Institute of Company Directors (AICD)
- Australian Prudential Regulation Authority (APRA)
- BDO
- CPA Australia
- Deloitte
- Ernst and Young (EY)
- Group of 100 (G100)
- Grant Thornton
- Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC)
- Institute of Chartered Accountants Australia (ICAA)
- Institute of Public Accountants (IPA)
- KPMG
- Professor Bradbury, Massey University
- Pitcher Partners
- PricewaterhouseCoopers (PwC)

[1] Task Force membership:

Mr Bruce Brook (Chairman – May 2011 to June 2012), Mr Michael Coleman (Member – May 2011 to June 2012, Chairman – June 2012 to September 2012); Ms Tanya Branwhite, Mr Michael Dwyer (May 2011 to March 2012), Ms Judith Downes, Mr Kevin Stevenson; Mr Les Pascoe (Secretary – May 2011 to June 2012), and Ms Jane Cheung (Secretary – June 2012 to September 2012).

Key findings

Some key themes which emerged from the consultation include the following:

- Respondents observed that the report focuses on large listed companies, and does not give consideration to NFPs, smaller entities and the public sector.
- Views diverged on whether complexity is inevitable, and whether the FRC should concentrate its efforts on the management of complexity, or to reduce complexity.
- The sources of reporting complexity as identified by the Task Force in its report were largely supported. Of the sources, 'complexities in the regulatory framework' attracted the most comments, and several submissions were of the view that it would be worthwhile revisiting the reporting framework in Australia. In particular, there was a view that the reporting requirements for not-for-profit (NFP) entities, smaller entities, and the public sector could be further explored to reduce the reporting burden on such entities. Suggestions were made to allow International Financial Reporting Standards (IFRS) for Small and Medium Entities (SMEs) in Australia, and/or revise the Reduced Disclosure Requirements (RDR) framework to lessen the reporting burden. Several respondents noted the low take-up rate of RDR, and suggested that the Australian Accounting Standards Board (AASB) make it easier for entities to adopt RDR and consider further changes to RDR to ensure that the reporting burden for eligible entities is aligned to the benefit provided to users of their reports.
- Strategies proposed in the Managing Complexity in Financial Reporting report which received general support were:
  - Make better use of developments in information technology and delivery to enable users to more efficiently access their desired information. However, respondents cautioned that thought needs to be given to how this may affect the way an audit is conducted and interpreted, and that information may be misinterpreted when taken out of context. Others suggested that while this might improve access to information, it would not itself reduce complexity.
  - Urge the International Accounting Standards Board (IASB) to undertake reforms, especially with the release of a presentation and disclosure framework.
  - In the absence of a presentation and disclosure framework by the IASB, the FRC should encourage regulators and standard-setters to issue guidance on materiality and disclosure, to minimise irrelevant and boilerplate disclosures in financial reports.
  - Continue to monitor the work of other jurisdictions in addressing the issue of complexity in financial reporting. Appendix E provides a list of publications currently available which seek to address this issue.

2. SUMMARY OF RESPONSES RECEIVED

Is complexity inevitable? (Appendix A)

The Report requested specific comments on whether or not stakeholders agree that complexity is inevitable in the short-term, and accordingly whether efforts should be concentrated on strategies to assist stakeholders to better manage this complexity.

Submissions were divergent on this issue:

- Three respondents agreed with the Task Force's conclusions that complexity is inevitable in the short-term, and that efforts should be concentrated on strategies to assist stakeholders to better manage this complexity.
- Two submissions agreed that complexity may be inevitable in the short-term, and that initial efforts should be focussed on the better management of complexity. However, this should not be at the cost of the ultimate goal of reducing complexity.
- Five submissions were of the view that complexity is inevitable in the short-term only for large listed companies, as it is possible to reduce complexity for small, and non-publicly accountable entities – such as by adopting the IFRS for SMEs standard, or by revising the RDR standard.
- Three submissions were of the view that complexity in financial reporting can be addressed.
- The Task Force notes the AASB has confirmed its view that IFRS for SMEs is not presently suitable for a second tier of requirements for general purpose financial statements in Australia. However, the AASB will continue to monitor developments in the IFRS for SMEs in an integrated public sector/private sector reporting environment as part of its ongoing review of RDR. Thus the FRC will maintain its dialogue with the AASB on this important issue. The AASB deliberations on this issue are referred to at: http://www.aasb.gov.au/Work-In-Progress/Reduced-Disclosure-Requirements.aspx

Sources of reporting complexity (Appendix B)

The Report outlined four sources of reporting complexity: (i) increasingly complex business operations, (ii) complexities in the regulatory framework, (iii) changing attitudes of businesses and stakeholders, and (iv) developments in integrated reporting.

With the exception of integrated reporting, the sources identified by the Task Force were largely supported by the submissions.

Increasingly complex business operations, leading to complexities in the regulatory framework

The Task Force's conclusions were supported by the submissions.

Several submissions noted that one of the problems is that General Purpose Financial Reports (GPFRs) and specific disclosures are sometimes required for entities or circumstances for which such reports were not created (for example, specific regulatory disclosures), or when user needs do not warrant it.

One submission acknowledged that Australia's use of the differential framework, for example the RDR regime, has mitigated the complexity. Another submission agreed that RDR is a good initiative to mitigate complexity for smaller and non-publicly accountable entities, however, was of the view that the current RDR regime is difficult to access.

Changing attitudes of businesses and shareholders

The Task Force's conclusions were supported by the submissions.

There was general agreement that there has been an increase in unnecessary or boilerplate disclosures in financial reports, and that this is partly due to a lack of a framework or guidance in materiality for determining appropriate disclosures.

Respondents also identified that an 'if in doubt, disclose' mentality is often fuelled by the perceived threat of regulator and court action in the wake of an increasingly litigious business environment (a direct result of the Global Financial Crisis), and time pressures to meet reporting deadlines.

Developments in integrated reporting

Respondents did not agree that integrated reporting is a source of reporting complexity, especially as it is still only in its early phases of development. Respondents noted that integrated reporting is intended to be a means of tackling complexity in reporting, and therefore should not be regarded as a source of complexity.

Other sources of reporting complexity

Other sources identified include:

- Differences in levels of stakeholder understanding, leading to a need for additional explanations targeting less sophisticated users of financial reports.
- Globalisation, resulting in entities being required to comply with conflicting and duplicating requirements in different jurisdictions.
- Regulatory reporting, which imposes additional disclosures on entities.

Strategies for managing complexity (Appendix C)

The main strategies considered by respondents are outlined in this section.

Suggested Strategy #1: Make better use of developments in information technology and delivery

Submissions were supportive of the suggested strategy to make better use of developments in information technology and delivery. However, it was acknowledged by several respondents that this strategy merely improves the delivery of information contained in financial reports, but does not necessarily reduce complexity for preparers.

Some specific actions noted include:

- permitting the publishing of certain information currently required to be disclosed within the annual report, and additional supplementary information (for example, corporate governance compliance, explanation of accounting policies, detailed explanation and key judgements made etc.) on the website, with an appropriate cross-reference in the annual report; and
- considering an integrated reporting model, by having a summarised financial report, with access to the full version of the report via a link.

It was also noted that there will be challenges which will need to be overcome, for example:

- Audit – the audit opinion is made in respect of the financial statements as a whole. There is a risk that information may be misleading when not read in the context of the financial statements as a whole.
- Misuse and/or misunderstanding of the information reported.

Suggested Strategy #2: Address legal impediments to preparers determining relevant material disclosures

Two respondents were in favour of extending the business judgement rule to include judgements made in financial reporting. This was on the basis that such strategies would provide directors with reasonable protection against liability and therefore minimise the incidence of over-disclosure and encourage more meaningful and useful disclosures. One respondent presented the view that the current BJR may already protect directors for judgements made in financial reports.

However, it was also noted that while the business judgement rule may assist in reducing complexity, the issue of disclosure is best addressed by way of a presentation and disclosure framework.

Suggested Strategy #3: Empower users through delivery of financial information via XBRL

Respondents generally agreed that XBRL provides an easier means for users to sift through information relevant to them. Some respondents suggested providing incentives for XBRL adoption, such as extensions to the lodgement of the annual report, or reducing lodgement or other fees.

Respondents were divided on the issue of whether XBRL adoption would assist in reducing or managing complexity. Four respondents expressed a view that XBRL may not enable reductions in complexity or the volume of disclosures, and identified a risk that XBRL may increase the reporting load for companies. It was also noted that countries which have adopted XBRL do not appear to have reduced complexity in their financial reports.

The Task Force agrees that XBRL is a mechanism for improving the delivery of financial information. Over time, improved usability of reports arising from XBRL adoption or the more widespread use of Standard Business Reporting (SBR) [2] may also lead to fewer demands for increases in the volume and complexity of financial disclosures.

Suggested Strategy #4: Develop guidelines that encourage more use of financial reporting terms and definitions

Respondents were divided on whether or not this proposed strategy is appropriate.

Four respondents were broadly supportive of the development of a glossary, to encourage consistency in terms used in financial reports. However, five respondents believed that developing a glossary would only contribute to complexity, as entities will have reduced flexibility. It was also noted that such a glossary will be difficult to maintain, and respondents cautioned against developing a glossary which may be inconsistent with interpretations by IASB and other jurisdictions.

[2] SBR is an Australian Government program which reduces the business reporting burden. Further information on SBR may be found at www.sbr.gov.au .

Suggested Strategy #5: Urge the IASB to undertake reforms

Respondents were supportive of the FRC working with the AASB to urge the IASB to undertake reforms. In particular, respondents were supportive of the IASB developing a principles-based framework to be applied for presentation and disclosure requirements.

Other suggestions were to:

- urge the IASB to address public sector and other NFP entity issues at the IFRS level, so that local standard setters such as the AASB would not have to tailor standards for these entities; and
- encourage more use of the IFRS Interpretations Committee to promote the uniform interpretation of IFRS.

Suggested Strategy #6: Consider better ways of influencing the IASB

Respondents were supportive of the FRC considering better ways of influencing the IASB. Some suggested ways include:

- the AASB playing a more proactive role in coordinating and managing responses from domestic preparers and users to the IASB, for example, facilitating face-to-face events with preparers and users;
- increased cooperation between preparers, users, domestic standard-setters and the IASB; and
- ensuring that Australia has appropriate representation on significant and influential policy setting boards and other powerful forums.

Other suggested strategies

Several other strategies for reducing/managing complexity were also raised in the submissions.

Review the application of reporting requirements for different types of entities

Several submissions suggested addressing one of the main sources of complexity identified in the report – that being complexities in the regulatory framework. This could be achieved by:

- Undertaking research into what users need in a GPFR, and taking appropriate action based on the findings;
- Reviewing the definition of the reporting entity, to ensure that the costs of preparing financial reports do not outweigh the benefits to users, for entities currently defined as a 'reporting entity';
- Consider allowing IFRS for SMEs for non-listed, non-publicly accountable entities and/or reviewing the RDR framework to allow for fewer disclosures; and
- Improving access to RDR.

Improve the education of users of financial reports

Four respondents identified the improvement of the education of users of financial reports as a possible strategy to managing complexity. If the education of users was improved, entities would no longer need to include additional information to explain complex disclosures in the financial report.

Improve guidance on materiality and disclosure

Six respondents were of the view that releasing additional guidance on materiality and disclosure would help to reduce complexity, by minimising irrelevant and immaterial disclosures. Respondents suggested that the FRC:

- encourage ASIC to issue a regulatory guide on disclosure, which emphasises that immaterial disclosure is not necessary nor useful to users; (the task force notes that in accordance with Accounting Standards, only material disclosures are required);
- consider incentives to encourage directors and preparers to eliminate repetitive immaterial information in annual reports, such as by working with the 'Australasian Reporting Awards'; and
- consider other initiatives which would help preparers and auditors shift the focus from 'completeness' to 'relevance' and 'understandability'.

It was also noted in several submissions that the current proposal to withdraw AASB 1031 should be postponed until an equivalent standard is issued by IASB, or until adequate alternative guidance is available.

Address Australian legislative areas, such as the remuneration report

Three respondents identified the streamlining of requirements for remuneration reporting as a possible strategy. It was also noted that as this area is Australia-specific, it is an area where the FRC could work with the Treasury to produce a 'quick win'.

Establish a Financial Reporting Lab

Two respondents suggested that the FRC establish a project similar to the UK FRC's Financial Reporting Lab, which provides an environment where investors and companies can come together to develop pragmatic solutions to reporting needs.

3. RECOMMENDATIONS

Based on the findings of the consultation, it is recommended that the FRC:

- examine how the current financial reporting regime for the various types of reporting entities in Australia can be best explained and understood, and if needed, seek rationalisation of the regime (for example, through further deregulation of who needs to report);
- support the AASB's ongoing review and consideration of further enhancements to the Reduced Disclosure Regime, including ongoing monitoring of developments in the IFRS for SMEs standard;
- encourage a more coordinated approach between different agencies of Government when considering accounting disclosure requirements;
- encourage preparers to make better use of developments in information technology in the delivery of financial reports;
- encourage ASIC to emphasise that, under accounting standards, only material disclosures are required (especially in communications such as the regular commentary about their areas of focus when reviewing financial reports);
- support ASIC's proposal to foster more meaningful Operating and Financial Reviews (sometimes referred to as Management Discussion and Analysis) in annual reports;
- note those submissions which suggest the use of the business judgement rule, or a safe harbour for decision made by directors, to address the issue of over-disclosure in financial reports;
- support the Government's proposals to simplify the remuneration report;
- reinforce the need for board education on financial reporting;
- continue to monitor integrated reporting;
- continue to influence the IASB to undertake reforms including rationalisation of disclosures; and
- continue to monitor the work of other jurisdictions in addressing the issue of complexity in financial reporting.

APPENDICES – TABLE OF SUBMISSIONS RECEIVED

The following appendices provide extracts from the submissions received organised into tables by topic. Minor amendments have been made to the individual responses for presentational purposes.

APPENDIX A: Is complexity inevitable?

(a) Complexity is inevitable in the short-term, and efforts should be concentrated on strategies to assist stakeholder to better manage this complexity.

APRA	We accept the Task Force's conclusions.
G100	We consider 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 the developments in integrated reporting and a replacement of the Operating and Financial Review or Management Discussion and Analysis (MD&A) can be viewed as a means of assisting, managing 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.
PwC	We support the Task Force's conclusions.

(b) Complexity may be inevitable in the short-term, and initial efforts should be focussed on the better management of complexity. However, this should not be at the cost of the ultimate goal of reducing complexity.

HoTARAC	We agree that complexity cannot be significantly reduced in the short-term because it is a product of the existing financial reporting frameworks which itself would be difficult to amend in the short-term. We agree that assisting stakeholders in managing complexity is the appropriate short-term strategy for coping with complexity. In addition, we recommend that the FRC focus on long-term strategies and solutions to reducing complexity in financial reporting, in particular the strategies for engagement with the IASB to ensure progress with its development framework and to identify potential initiatives to reduce complexity in financial statements.
KPMG	We agree with the Task Force's conclusion that complexity is inevitable in the short-term. However, we also believe that complexity is inevitable in the medium to long-term. This is a consequence of the source of the complexity and the fact that this appears intrinsically linked to local regulatory and global financial reporting frameworks. Concentrating efforts on better management of complexity, whilst important, should be considered as an initial and interim step. We do not believe that this should be at the cost of the ultimate goal of reducing complexity.

(c) Complexity is inevitable in the short-term only for large listed companies, as it is possible to reduce complexity for small, and non-publicly account table entities.

BDO	While the Task Force's conclusions may be largely true when dealing with listed companies, complexity is a significant issue for unlisted entities including NFPs. We believe there are immediate actions available to the regulators and standard setters which would reduce complexity and its impact on this sector now and in the future.
CPA Australia	The development of the RDR framework together with the IFRS for SMEs standard is one possible approach to reducing complexity. We understand that the public sector's ability to use the RDR framework may be compromised because the framework can only be used by entities that do not have public accountability – an oxymoron for public

	sector entities. Exploring how this issue may be resolved may be a useful short-term activity. Currently, Australian entities without public accountability are not able to use the IFRS for SMEs standard. In some situations, compliance with this standard might result in a further reduction in the complexity of reporting. Further examination of this issue might have some useful outcomes in the short term. Outside of work on the RDR and IFRS for SMEs frameworks, we agree that as it is not likely that complexity can be significantly reduced in the short term, concentration on strategies to assist stakeholders to better manage complexity is appropriate.
EY	We agree with the Task Force's view, particularly in respect of listed and other publicly accountable entities that are required to apply all the recognition, measurement and disclosure requirements of IFRS.
ICAA	We agree that a significant proportion of business have become increasingly complex and an inevitable consequence is the increasing complexity of financial reporting. Further, because our requirements are largely driven from overseas, the ultimate aim of reducing complexity, for the listed market at least, is not solely within our control. Hence, managing complexity is the most appropriate in the short-term at least. However, not all businesses are complex and we consider that action could be taken across Australia and New Zealand (NZ) to reduce the complexity of financial reporting across the SME and NFP sectors. Part of this work has been done, with the AASB's introduction of RDR. However, there is still scope to do a lot more in this area, particularly if the work currently being done by the AASB on special purpose financial reporting results in the removal or modification of the current requirements.
IPA	We agree that management of complexity is important. Standard setters and regulators must take opportunities to reduce the volume of regulation in the reporting arena. A further option is modifying the RDR so that fewer disclosures are required for non-publicly accountable entities. This should be placed on AASB's agenda only after sufficient time has lapsed to allow conclusions to be drawn from implementation.

(d) Complexity in financial reporting can be addressed

AICD	We do not agree with the premise in the Report that 'complexity is inevitable in the short term'. We believe that addressing two key areas (namely: getting the right entities reporting the right information, and extending the business judgement rule to include those judgements made by directors in the preparation of the financial statements), would go a long way to mitigating the issue of increasing complexity.
Deloitte	We believe that complexity in financial reporting reflects numerous factors which we categorised as those arising from the environment in which business is conducted; those arising as a result of the internal entity structure itself; and those arising from the accounting setting and regulatory environment. We see no reason why those factors creating complexity in financial reporting arising from the business environment in which an entity operates or from the entity structure itself will dissipate, and therefore, we believe that efforts to manage complexity in financial reporting should be driven by consideration of the accounting standard framework to be applied and the regulatory framework to which the entity is subject. The primary objective should still be to improve the effectiveness of financial reporting and thus reduce the complexity. We do not believe that by managing the complexity in the short term, we will alleviate many of the concerns.
Pitcher Partners	Complexity in the short-term is not considered inevitable; efforts on strategies to assist stakeholders to better manage complexity should be implemented as a priority. Improving access to the RDR standards could significantly reduce complexity in the short-term. We consider that resources should be diverted to enable appropriate access of these standards as a priority. As the actual reduced disclosures have already been

	determined, this is now only an editorial function that should not be costly to implement. We consider that an assessment of the effectiveness of the RDR regime cannot be made properly until access is improved.

APPENDIX B: Sources of reporting complexity

(a) Increasingly complex business operations, leading to complexities in the regulatory framework

BDO	Continued complexity is a result of the drive by the IASB and the Financial Accounting Standards Board (FASB) to improve financial reporting. These actions are driven by a more complex business environment and the requirement to service the needs of investors, particularly in respect of ensuring comparability across entities operating in similar industries and markets. A review of the IASB's work program clearly shows that complexity is about to move to a whole new level with new standards proposed for revenue, leases and financial instruments. In a principles-based framework, it is possible that two entities, faced with similar transactions, will adopt differing accounting treatments. This issue can only be addressed by providing users of the report with adequate information as to (a) identify where this type of judgement has been applied, and (b) to fully understand the judgement. This inevitably results in complex disclosure.
CPA Australia	The report does not acknowledge the AASB RDR reporting framework and its effect on the GPFRs of most large proprietary companies and many entities in the NFP private sector whereby they are most likely to contain substantially less disclosures compared with that required by IFRS. We think the RDR framework together with the IASB's IFRS for SMEs standard may provide a mechanism for reducing complexity.
Deloitte	In its discussion of the sources of reporting complexity the FRC rightly notes that the current regulatory framework is not optimal and has identified that many regulators, in Australia and elsewhere, sometimes require GPFRs for entities or circumstances for which such reports were not created.
G100	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, 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'.
HoTARAC	The application of the full suite of IFRSs to all Australian reporting entities amplifies complexity for the Australian public sector entities, particularly given the current focus of the IFRSs on the private sector and capital market users. We agree that reaction to financial crises and scandals have flowed into reporting requirements in ways that have added to complexity. This has led to changes that we believe are inappropriate from a public sector reporting perspective for both users and preparers. At times, this has been identified by AASB, for example, the AASB is currently considering specific revisions to IFRSs for application to NFP entities. A number of points raised by the FRC, particularly in respect of the mixture of rule-based and principle-based standards, the framework for presentation and disclosure, and the hybrid measurement framework at least partially arise from the lack of a current conceptual framework for IFRS to guide the development of principle-based standards. Ideally, standards should be developed or revised within overarching principles established under a conceptual framework. Developing or revising standards without a conceptual framework can lead to inconsistencies between

	standards, lack of understandability and proliferation of rule-based standards. The latter may have also been exacerbated by the IASB and FASB convergence project. Due to an arguable lack of engagement between standard setters and the primary users of GPFRs, standard setters (with input from regulators and preparers) make their own judgements about appropriate recognition, measurement and disclosure requirements, using their extensive conceptual expertise. We are not aware of any evidence or research that confirms that the broad ranges of users actually require the sophisticated requirements in accounting pronouncements. Therefore, there is an argument that current accounting pronouncements may be more complex than they really need to be. Decisions by standard setters are also leading to an increasing range of subjective judgements required of entity management in preparing GPFRs. Increased disclosures and negotiations with auditors to explain the subjective judgements lead to difficulties for preparers and auditors in applying accounting pronouncements. It may also reduce comparability between entities. Outside of the accounting framework, some HoTARAC jurisdictions have an additional layer of financial reporting issued through mandatory guidelines for public sector reporting entities under their control where the requirements of Australian equivalents to IFRSs do not fully address perceived public sector needs. Further, market regulators such as ASIC have also requested additional information to be included in financial reports. Such requests are consistent with the Australian accounting framework as the accounting standards issued by the AASB only provide for the minimum requirements for GPFRs.
ICAA	We agree that GPFRs are often required when the users' needs do not warrant it. We consider that the application of full IFRS recognition and measurement to all reporting entities provides an unreasonable burden for many of those entities. The area that many reporting entities struggle with in IFRS is the hybrid measurement framework of historical costs and fair values. SMEs (NFPs in particular) are often resource-poor and struggling to remain up-to-date with the latest IFRS developments.
Professor Bradbury	Part of the problem is that GPFRs are reported to a very wide set of stakeholders. It is too easy to suggest that disclosures XY and Z ought to be useful to 'someone'. If the range of 'legitimate' stakeholders was narrowed then GPFR could be more focussed.
Pitcher Partners	The RDR is a worthy initiative which has the potential to significantly reduce the number of extensive notes required when a business is privately funded. External stakeholders that do not contribute to the funding of a business will be more concerned with liquidity and going concern rather than the notes that relate to the internal management of the business. Unfortunately, the early adoption of RDR has been problematic. Firstly, the RDR standards were not published in time for reporting at 30 June 2011 and there was insufficient time to make amendments to reporting templates. Further when the accounting standard handbooks were released for 2012, the RDR paragraphs were not shaded in the text and therefore accessing the RDR standards has been difficult and time-consuming via a separate section of the AASB website. Presumably these difficulties will be addressed before 1 July 2013. If access to the RDR standards is difficult, then the objective of reducing complexity has failed. Many of our clients are not using RDR due to difficulties in access. We understand the AASB may be researching the extent to which RDR has been used; however the lack of access is an important factor in understanding why adoption might be fairly limited.
PwC	We agree with the Task Force's view that increasingly complex reporting requirements are a consequence of increasingly complex reporting requirements rather than a source

	of such complexity. We acknowledge, however, that since the introduction of IFRS in Australia, preparers, investors and other users of financial statements have voiced concerns over the length, volume and value of many disclosures in the financial report.

(b) Changing attitudes of businesses and shareholders

CPA Australia	We agree that there has been an increase in disclosure in the financial report regardless of the item's materiality or importance. In part, we believe that this is a consequence of a lack of clarity around materiality which forms a barrier to both preparing and auditing financial statements.
Deloitte	Pursuant to the *Corporations Act 2001*, accounting standards have the force of law. Consequently, regulators in enforcing their interpretation of the law can (and do) influence the behaviour of both preparers of financial statements and their auditors. In reacting to the regulators' actions, preparers and auditors more often than not lean towards providing more disclosure rather than applying judgement to determine whether such disclosure is appropriate for the information needs of the report's users. It is the absence of an adequate framework to allow preparers to use their judgement to determine the relevance of disclosure, especially when reacting to the regulators' focus areas, which contributes to the overload of irrelevant and boilerplate disclosures. It is the existence of such disclosures, and the multiple pages thereof, which often in practice result in criticism of the unnecessary complexity of today's financial statements. Hence it is important that the IASB and influential regulatory bodies acknowledge and provide a framework that allows for preparers to adopt judgement (and the use of materiality with respect to disclosures) and to better tailor their disclosures and financial reports to the needs of their users. Not all disclosures will be relevant, or of equal importance across organisations and this will allow preparers to focus on the more relevant disclosures and in turn, deliver a more meaningful financial report to its users. We note that the IAASB have responded to this matter and have undertaken a project to explore the issues and concerns around the audit of disclosures. The objective of this initiative is to assist the IAASB to gain a robust understanding of the views and perspectives on issues relevant to auditing disclosures in a financial statement audit.
EY	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
ICAA	We note the behaviour amongst preparers and auditors of 'when in doubt, disclose' which we agree is to some extent explained by the increased aversion to risk in response to a more litigious business environment. However, we consider this attitude may be somewhat abetted by ASIC through the operation of its financial reporting surveillance program. The action of ASIC as well as how ASIC is perceived by preparers and auditors has an impact on their behaviour. While ASIC plays a very useful role by giving regular updates on what it considers its main focus areas, it gives no guidance on what it considers to be material disclosures. Thus preparers and their auditors often feel it is less risky (and quicker) to disclose everything rather than trying to make a judgement about what is material. A judgement that they perceive may be challenged by ASIC. This attitude leads to the voluminous and often 'boilerplate' disclosure contained in financial reports which can detract from material disclosures and deter proper review of these reports. The issue of 'voluminous' and 'boilerplate' disclosures is not an Australian-specific

	problem as evidenced by the many global consultation papers on disclosure including the consultation paper referred to in the Report issued by the IAASB *The Evolving Nature of Financial Reporting: Disclosure and its Audit Implications*. The *Feedback Statement* issued by the IAASB in January includes similar comments received from respondents as to the inadvertent influence regulators have in this area.
KPMG	The actions of regulators influence the behaviour of both preparers and auditors. Any plans to manage complexity by focusing on the understandability rather than the completeness of disclosures will need the full buy-in of securities and audit regulators. We believe the current regulatory framework leads to a focus on completeness of disclosures in order to avoid being second-guessed with respect to the significance or relevance of any omitted disclosures. A consequence of the GFC is enhanced pressure on finance teams and others involved in the financial reporting process. This appears to be partly a result of finance teams being leaner and also due to increased reporting complexities as a direct result of the GFC. Time constraints generally result in financial reporting preparers rolling forward last year's financial statements – meaning disclosures are less likely to be critically re-evaluated and removed, only added to. Change is mainly driven when those charged with governance who set an expectation and tone for change throughout the organisation. Without a clear strategy and direction from Audit Committees and Boards, there is little incentive for preparers to invest in substantial disclosure change. This is exacerbated by the 'completeness' focus. We encourage the Task Force to consider initiatives that focus on the role of all stakeholders in the financial reporting process, including those who set the tone for change.

(c) Developments in integrated reporting

CPA Australia	Given that integrated reporting is still in its early phases of its development we were somewhat surprised that it has been identified as a source of complexity. The Task Force opines that Australia should monitor developments in integrated reporting with a view to encouraging adoption only of that which clearly provides a pathway to simpler reporting that communicates better with stakeholders. We believe it is too early for the FRC to establish criteria to be used in making decisions about whether or not to adopt integrated reporting.
G100	We do 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.

(d) Other sources identified and other comments

– Differences in education levels

KPMG	There are significant differences in levels of stakeholder education and financial literacy, resulting in disparate reporting needs. The current 'one size fits all' reporting model is not able to meet this expectation. This is a significant issue both in Australia and also from a global perspective, and is both a driver of complexity and a by-product of complexity in financial reporting. Differing education levels can be a driver of complexity due to entities striving to

	explain their results and operations to different sets of users. We have observed numerous documents being produced by companies targeting different user needs. Additionally, we note that disclosures contained within reporting documents that may add to the complexity of financial reporting, are often a direct response to a request from a user or group of users.

– Globalisation

KPMG	Entities listed in multiple jurisdictions are exposed to diverse regulatory frameworks with conflicting and duplicating requirements, often requiring the same results to be lodged multiple times in different formats.

– Regulatory reporting

G100	There are a number of industries where the level of regulatory reporting has increased significantly in recent years. For example, in financial services there is an increasing volume of regulatory reporting which includes financial measures and data which is prepared on a different basis to statutory financial reporting. In addition, many large Australian companies with international operations also have reporting obligations to overseas regulators where the reporting standards are different. Whilst convergence to IFRS may assist to reduce this, it is unlikely to be the solution, and therefore disparate and inconsistent regulatory reporting requirements is another significant driver of complexity to current reporting frameworks.
HoTARAC	The regulatory function is often reactive to crises and scandals, and tends to set rules and compliance regimes to resolve the matter rather than applying a conceptual approach. Sometimes GPFRs are used by regulators to meet their special purpose needs, which is not the defined purpose of GPFRs, thus at times creating confusion and adding another layer to the information required by the standard setters.

– Other comments

CPA Australia	We have observed the same set of issues being identified in similar studies elsewhere across the globe. This is not surprising given the increasingly global nature of business and the development of the profession.
ICAA	We agree that presentation of results or performance reporting is a key source of complexity and we note the Report's observations about the development of 'shadow reporting'. The whole area of performance reporting has been demanding review for some time now and we believe is best tackled by the IASB in its conceptual framework project. ASIC's Regulatory Guide 230 provides some useful guidance and examples for company management when faced with the issue of providing a clear explanation of their results in the within the context of IFRS.
IPA	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.

APPENDIX C: Strategies for managing/reducing complexity

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

BDO	The internet should be used extensively to give additional information that supplements the financial report. This information could include a (i) detailed explanation of accounting policies, (ii) detailed explanation and key judgements and estimates, (iii) education and guidance as to the impact of selecting a particular accounting treatment/policy, and (iv) detailed management discussions and analysis.
EY	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.
G100	We agree 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 needs to be addressed. A 'quick win' would be to permit publishing the details of compliance with corporate governance requirements and recommendations on the website with an appropriate cross reference in the annual report.
Grant Thornton	An Integrated Reporting model could significantly reduce the complexity by having a summarised financial report, with access to the 100 pages plus Corporations Act financial report, using a web link.
HoTARAC	We strongly endorse this suggestion to using evolving technology in assisting users in navigating to the parts of the Annual Report that are most relevant. To be effective, the technology employed should be accessible by a wide range of users. However, we question the connection between companies putting governance policies and procedures on their website, and minimising boilerplate descriptions in Annual Reports.
ICAA	We agree with the common sense approach of 'unbundling' of reporting. Any areas currently dealt with in our local legislation could easily be amended to use the website more rather than including information in annual reports. This would include the governance requirements, which would involve approaching both the ASX and the ASX Corporate Governance Council with such a request, as we understand that the Corporate Governance Principles will be undergoing a revision in 2012/2013.
KPMG	Whilst we agree that new technologies may appear to offer ways of managing increasing volumes of reporting, this by itself will not significantly impact the complexity currently faced in financial reporting. Further utilisation of technologies to 'unbundle' financial reports may have the unintended impact of increasing complexity. Critically, an audit opinion is given on the financial statements taken as a whole, so unbundling into various segment and user reports will present the user with difficulties in identifying which terms of the carved-up financial statements have been subject to audit or review.
Pitcher Partners	Annual reports contain a wealth of information about the financial performance and position of a business. Those involved in technical financial reporting are familiar with the requirements and can quickly navigate through the pages of content. However those who are not closely involved in technical accounting concepts are faced with information overload. We need to have mechanisms where users can drill down through summarised financial information to find the content they are interested in quickly and easily. The sequential presentation of information is not the most user-friendly format. The technology is already available to suer hyperlinks to make electronic access easy for the user. Solutions need to be researched to enable the

	identification and separation of audited and non-audited information presented to users. In addition each accounting standard requires consideration of definitions, basis of conclusion, illustrative examples and information in other documents. Again, all this information is presented in paper or PDF documents, in a sequential order – perhaps the least user-friendly option. Technology should be used to facilitate the way financial reporting requirements are referenced and used. In turn, electronic financial reports could link directly to electronic standards for an explanation of defined terms and accounting policies.

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

– Respondents in favour of extending the BJR rule

AICD	The AICD Director Sentiment Index found that most directors still believe that director liability and compliance requirements (based on current legislation) will negatively impact their willingness to serve on a board. Until there is an appropriate director liability regime in Australia, it is unlikely that there will be a significant change to current financial reporting practices, and financial statements will continue to be cluttered with immaterial and in some cases ‘boilerplate’ disclosures. A potential solution would be to give consideration to the extension of the business judgement rule which is set out in section 180(2) of the *Corporations Act 2001* to include the judgements and elections that directors make in the preparation of the financial statements. The BJR is currently limited to breaches of section 180(1) of the *Corporations Act 2001* – the duty of care and diligence. IFRS is a principles-based framework, and many of the accounting standards require entities to make elections as to the accounting treatment for recording their transactions, particularly with respect to recognition and measurement. These standards further require certain estimates to be made in the calculation of the values to be recorded. This results in directors using judgements when making those elections. However, there is currently no protection provided to directors under the *Corporations Act 2001*, should it be determined, at some later date that those accounting elections were in error. We believe this is particularly harsh where the directors have acted in good faith and informed themselves about the subject matter. Section 295(4) of the *Corporations Act 2001* details the requirements of the directors’ declaration in respect of the financial statements and accompanying notes. This section requires directors to state whether in their opinion the financial statements ‘provide a true and fair view’ of the financial performance and financial position of the entity (if not additional disclosures required). However, ASIC Regulatory Guide 230 states that it believes that only in rare circumstances would the accounting standards not provide a ‘true and fair view’. ASIC guidance is not a statement of law. Rather it is an expression of the regulators view of preferred practice. Nevertheless, this potentially limits the willingness of directors to make such disclosures. There is a need by regulators to acknowledge that strict adherence to the accounting standards may not lead to true and fair and understandable financial statements and may lead to the opposite of what they are trying to achieve. We believe that the provision of adequate safe harbours and a broad-based judgement rule relating to the judgements made in preparation of the financial statements will go a long way to providing directors with the appropriate protection, resulting in more meaningful corporate disclosures.

G100	We believe that a quick win will be providing safe harbour protection and amend the BJR for directors, which 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.

– Respondents not in favour of extending the BJR rule

CPA Australia	We understand that the BJR relates directly to the duty of care and diligence. This is quite deliberate as the duty is based on the law of negligence. Directors' powers of management are applied in term of an understanding of the reasonable foreseeability of harms caused by their acts and omissions. There is some validity in arguing that BJR protection could be extended to the duty of good faith, but far less merit in suggestion application to fiduciary based duties. We see the act of preparing and presenting financial statements falling squarely as part of powers of management governed by expectations of care, skill and diligence which directors hold themselves out as possessing. As a critical part of powers management, the associated duty falls under s180 to which the BJR applied. The development of a broad-based defence would add no more and it is difficult to see how specific rules could be developed to provide protection in relation to financial disclosures when the overarching statutory duty is broad and quite all-embracing. Moreover, it needs to be kept in mind that the statutory rules sit alongside general law rules which have developed to set the standards of expectation of director behaviour. These general law rules do not point to the development of any wider protections than presently exist. If the Centro case can be taken as a guide, the courts are showing little sympathy for directors who err in relation to duties around financial disclosure. Finally, it should not be ignored that the rationale which sits behind the BJR is that courts do not wish to see themselves set up as mechanisms for reviewing management decisions which sit squarely with directors. Accordingly, we think courts would be very reluctant to determine and develop precedent about what should and should not be included in the notes to the financial statements.

– Other comments

ICAA	A business judgement rule defence may help to reduce the incidence of immaterial and boilerplate disclosure. The issue of disclosure however is we believe best tackled in the presentation and disclosure framework.
EY	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.

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

– Respondents broadly supportive of the encouragement of XBRL

EY	We support the 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 the use of XBRL, we recommend that FRC consider means by which users could be incentivised to adopt XBRL, for example, by providing an extension to the lodgement of the annual report in the first year using XBRL 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. If adopted, we recommend that the FRC consider how we leverage the lessons learned in other jurisdictions on their adoption of XBRL.
Grant Thornton	We support using technology for managing complexity and at a second stage believes that encouragement should be provide to the listed market to produce XBRL enabled financial reports. At this time it should be voluntary and an incentive could be a reduction in filing fees by ASIC and perhaps a reduction in ASX fees as well.
IPA	There should be greater encouragement for entities to adopt Standard Business Reporting and to transition their financial reporting to XBRL. This will provide entities with a cost effective means of presenting financial statements online. We have argued in our Pre-Budget Submission for 2012-13 that the funding for Standard Business Reporting should be increased.
Pitcher Partners	XBRL as a reporting language will enable computer assisted techniques to identify and evaluation the financial information produced. XBRL will provide an effective tool for users such as analysts, regulators and researchers. However, a presentation format that assist any stakeholder to access information, definitions, accounting policies and analysis about a single line item is a financial report, will be more helpful than ploughing through pages of accounting policies and notes that are presented sequentially.

– Respondents sceptical of the linkage between XBRL and a reduction of complexity

G100	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.
ICAA	If it can be shown that the introduction of mandatory XBRL lodgement overseas has resulted in a reduction of complexity or the efficient management of complexity, we agree that methods to encourage the adoption of standard business reporting (SBR) in Australia should be considered. These include mandatory adoption but incentives such as reduced filing fees and extended lodgement dates should also be considered.
KPMG	XBRL is a useful tool for financial reporting and could help manage increased volumes of reporting. XBRL may aid the user in navigating through financial reports. However, this tool is already in use in the US, UK, Singapore, Japan and several other countries. Preparers and users of financial reports in these countries still endure the same complexity-related issues as Australia.

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

– Respondents broadly supportive of developing a glossary of terms and definitions

EY	We support the proposed strategy. Different industries place importance on different parts of the annual report. 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.
IPA	We would encourage standard setters and industry groups to establish consistent definitions for terms used in reports.

KPMG	The development of standard definitions for other financial reporting terms would (i) ease the burden on users being able to understand financial reporting; and (ii) assist users in accurately comparing the results of companies. However, strongly encouraging entities to adopt such definitions does not remove the current complexities seen through a significant number of companies reporting measures using similar titles that are calculated on a different basis, or from identical ratios being disclosed by calculated with a different reference point. Convincing entities to adopt these standard definitions would also be a significant challenge, given that the mismatch of definitions and terms stems from entities trying to tailor them to their specific facts and circumstances to aid in the explanation of certain events, transactions or results. For standardised definitions and terms to be fully effective, it would require support from both global regulatory bodies and global accounting bodies to ensure a consistent approach and application. Further to the points above, on a local Australian level we note that the concept of standardised non-IFRS terms and definitions would need to be discussed with ASIC and considered in conjunction with the requirements and intention of Regulatory Guide 230.
Pitcher Partners	We consider that a glossary of defined terms would be beneficial to users and preparers of financial statements. There are a multitude of terms and conditions which have specific meaning and are separately defined in individual accounting standards. Currently, a user needs to know which accounting standard has been applied in order to access the individual standard to examine the definition. This is neither practical nor achievable – ordinarily users will not be unfamiliar with the detailed requirements of accounting standards and will not know which standard to access. We consider that it would not be an overly onerous task in the short-term to extract copies of the definition section in each accounting standard to compile a glossary. In the long-term, with better electronic presentation of financial reports, these terms could be hyperlinked from an electronic financial report to the glossary to facilitate suer understanding. It should be noted that the *Corporations Act 2001*, in its online version, includes links to all definitions and other sections where they are mentioned, which has made it such a user-friendly electronic document. It would be beneficial to produce electronic financial reporting standards that included explanatory links in the same way.

– Respondents not supportive of developing a glossary of terms and definitions

AICD	There is a risk that such a glossary could needlessly increase the compliance obligation on entities. We suggest it may be more beneficial to encourage entities to develop their own glossaries reflective of these issues and accounting treatments that are key to understanding their financial statements and accompanying note disclosures.
CPA Australia	Given the increasingly global nature of business and the development of the profession, we would caution against the development of financial reporting terms and definitions different from those that are used internationally.
G100	We question 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 (e.g. lost time injuries

	example), their enforceability and the imposition of sanctions for non-compliance.
HoTARAC	It is unclear about the nature of any such terms and definitions, for example, whether these would be industry specific or applicable by all entities, and therefore we are unable to gauge how this suggested strategy would help. It is also unclear how such standard terms and definitions would work within a principles-based framework. Subject to these uncertainties, we would suggest that the terms and definitions would ideally be promulgated through the accounting standards framework.
Professor Bradbury	Trying to 'define' accounting terms is not an appropriate response. This will only add to complexity. The investor community use their own definition of accounting data, which they feed into their own valuations models. Defining a term differently is unlikely to have any impact on this process. Furthermore, XBRL is based on a common taxonomy, so I do not see any further standardisation required. At worst, creating definitions might be seen as developing interpretations of IFRS.

(e) Urge the IASB to undertake reforms

– General comments

EY	We support the 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 coordinated manner. We believe that the initiatives by the UK FRC, the joint working group of the Institute of Chartered Accountants of Scotland and the New Zealand Institute of Chartered Accountants and the US Securities and Exchange Commission.
HoTARAC	The true driver of the number and length of disclosures by all reporting entities is the accounting standards issued by standard setters. This largely results from disclosures being developed by standard setters on a topic-by-topic basis, with the ultimate consequence that the perspective given to disclosures about some topics is arguably greater than it should be, relative to other topics.
IPA	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. We would encourage standard setters domestically and internationally to be mindful of the tendency to add to standards rather than remove obsolete requirements.
PwC	The Interpretations Committee of the IASB 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 Interpretations Committee is being underutilised which is leading to growing diversity in practice. For example, we are aware that submissions to the Interpretations Committee are being used by some to legitimise accounting practices when the Interpretations Committee 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.

– Disclosure and presentation framework

G100	We strongly support 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 PwC, in response to a challenge from Sir David Tweedie developed ‘Less is More’ (October 2009) which sought to address some of the issues. However, while progress has been slow, we take comfort from recent developments of cooperation by the European Financial Reporting Advisory Group (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 and the FASB on developing a disclosure framework.
HoTARAC	We recommend that presentation and disclosure requirements be developed as part of the IASB’s conceptual framework projects. As well as addressing the rule-based and potentially onerous disclosure requirements, the IASB’s framework could assist in delineating a clear goal for the development of principles-based standards that would also address the existing complexity in recognition and measurement. The IASB conceptual framework applying high level principles would provide general guidance that may be more easily applied with little or no modification for the NFP sector in Australia.
ICAA	As noted in the IAASB’s *Feedback Statement* the only real long term solution to the problem of complexity requires a truly collaborative approach amongst stakeholders. Standard setters, preparers, auditors and regulators must collaborate in order to make the much needed progress in this area. Many stakeholders globally have recognised the need for the development of a presentation and disclosure framework. We support the development of such a framework by the IASB in full consultation with all stakeholders. All interested stakeholders should urge the IASB to establish a presentation and disclosure framework and review performance reporting urgently. This need has been recognised globally by standard setters, the Institute and other stakeholders. In order for this to be successful we agree with the need in Australia to establish a more effective relationship with IASB through industry bodies, standard setters and other groups.
KPMG	We endorse the AASB lobbying the IASB to establish a framework for presentation and disclosure (including specific guidance on the application of materiality to disclosures as mentioned above). To ensure effective lobbying by Australia in international policy setting the FRC should ensure that Australia has appropriate representation on significant and influential policy setting boards. Reform of disclosure requirements is not the only reform required to reduce complexity. Reform would also be required to local Regulations and Listing Rules. For reporting complexity to be substantially reduced, regulatory frameworks globally need to be harmonised, to promote one consistent framework for financial reporting. Development of a global accounting disclosure framework that provides criteria for including disclosures in the financial statement acknowledges the need to balance considerations relating to completeness, relevance and understandability in assessing the nature, extent and presentation of disclosures, will help preparers shift the focus of disclosures from completeness to relevance and understandability. We have written to the IAASB along these lines, encouraging them to fully engage with the IASB.
PwC	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 statement issued by the

	100 Australian listed companies in 2007 and 2010, 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.

– Address public sector and other NFP entity issues at the IFRS level

HoTARAC	Addressing public sector and other NFP entity issues at the IFRS level would reduce the imperative for the AASB and individual jurisdictions to tailor standards for those entities' use through the inclusion of Aus paragraphs from the AASB or additional reporting requirements by jurisdictions, or at least this could significantly reduce their scope and number. This would also lead to a number of desirable outcomes, such as increased comparability across reporting in different sectors, transaction neutrality in financial reporting and the freeing up of AASB resources currently dedicated to NFP issues. Transaction neutrality is particularly pertinent as it is desirable that similar transactions, regardless of the sector the entity belongs to, should be treated in a similar manner for accounting purposes. However, specific public sector issues need also to be addressed to ensure that GPFRs remain relevant and useful to the users of financial statements of those entities. We would also recommend the FRC encourage IASB to work collaboratively with the International Public Sector Accounting Standards Board (IPSASB) to promote consideration of public sector issues in standard development.

(f) Consider better ways of influencing the IASB

EY	We support the strategy and believe that more active participation from preparers and users 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.
HoTARAC	We question whether regularly commenting on standard setters proposals automatically creates a professional relationship that facilitates an exchange of viewpoints. Increased cooperation between preparers, users, domestic standard setters and the IASB is likely to provide a more effective way to bridge the gap the Task Force identified between users, the individual preparers and the IASB for better ensuring future revisions to IFRS meet the needs of users of whom the changes are intended to affect. This engagement is critical and we support the IASB's current outreach initiative with the AASB being a key player in the Asian-Oceanian Standard-Setters Group.
KPMG	We believe to fully harness our potential in influencing the IASB, Australia's resources need to be directed to best effect. We encourage the FRC to ensure that Australia has appropriate representation on significant and influential policy setting boards and other powerful forums. Representation across such boards and in forums will strengthen Australia's ability to influence the IASB, and increase Australia's voice and presence on a global stage.

(g) Review the application of reporting requirements for different types of entities

– General comments

CPA Australia	We note the AASB is currently undertaking a research project on differential reporting and we believe the progression of this project should act as an initiator for a broader public debate on this subject. We encourage the FRC to seize this opportunity to create

	a practical, meaningful financial reporting framework that is responsive and relevant to the needs of the various users of financial statements whilst acknowledging that one size does not fit all.
HoTARAC	We agree that application of IFRSs to all reporting entities across Australia adds to reporting complexity. We believe a solution would be for standard setters to focus on the development of principles that are genuinely suitable for and able to be applied by, a broad range of reporting entities, rather than just large corporations. Standard setters should focus on the provision of adequate implementation guidance to accompany individual standards. This would improve comparability between entities by reducing the likelihood of different interpretations by preparers and auditors.

– Research into user needs

HoTARAC	The FRC may wish to consider strategies to reduce complexity resulting from standard setters not meeting the users' needs. GPFRs are intended to meet the needs of a broad range of users who cannot themselves direct entities to prepare specific information to meet their individual needs. However, standard setters make their own sophisticated judgements about the minimum information that they consider users would need. One obvious, and arguably the most important, strategy would be to undertake research into the true information needs of the broad range of 'general purpose' users, to determine the extent to which existing accounting pronouncements meet those needs. The fact that many entities choose to present a view of their financial performance and position outside audited financial statements may in part suggest that existing accounting standards do not always meet users' needs.
CPA Australia	If real progress is to be made in managing complexity in financial reporting in Australia, an essential first step is a comprehensive review of who reports what – in other words a review of the requirements and application of the differential financial reporting framework.

– Review the definition of the reporting entity

HoTARAC	Standard setters should review the definition of the reporting entity, to attempt to ensure the costs of preparation do generate significant benefits to users.

– Allow adoption of IFRS for SMEs, or review the RDR framework

AICD	In the April 2012 results of the AICD Director Sentiment Index, nearly one-third of director respondents held the belief that IFRS is dysfunctional to some degree. AICD has always advocated and continue to advocate, that IFRS should not be applied to all entities in Australia. Australia is one of only a few jurisdictions that require all reporting entities (listed and non-listed) to apply IFRS or 'IFRS equivalent standards. In the majority of other economies, this requirement only applies to listed entities. We believe that it is necessary to revisit this position in Australia and only require publicly accountable entities to apply IFRS. For non-publicly accountable entities we continue to advocate that they should be allowed to adopt the IFRS for SMEs accounting standard. This standard is a better and more relevant system of accounting principles compared to 'full' IFRS, given it provides a simpler measurement and recognition requirement compared to the AASB RDR. The RDR only provides relief with respect to the provision of disclosures, and these entities required to continue to apply the full recognition and requirements of IFRS. We note that of those entities that are entitled to adopt the RDR, not many have in fact adopted it. A recent survey by Grant Thornton showed that only 24 per cent of

	respondents were likely to adopt any of the simplifications to financial reporting as a result of the *Corporate Reporting Reform Act 2010*.
BDO	We believe that actions should be taken to reduce complexity for the non-listed sector. We strongly urge the FRC to reconsider the 'one size fits all' approach of non-listed entities and to instead adopt a differential reporting model in Australia. This would include simplified measurement rules, as well as significantly reduced disclosure requirements. We have serious concerns as to the cost-benefit of forcing non-listed entities to apply the complex requirements association with the presumed new revenue and lease standards as well as forcing consolidation as a mandatory requirement. We predict that if this strategy is followed the only solution will be to remove a large number of entities from any financial reporting requirements through significantly increasing the reporting thresholds. This would not ultimately be a good solution. The AASB, while rejecting the use of IFRS for SMEs for non-publically accountable entities in Australia, have stuck with the minimum disclosures required by IFRS for SMEs as the backstop for RDR. These disclosures are significantly in excess of the requirements typically contained within a 'special purpose report' prepared by a non-reporting entity. RDR includes extensive mandatory disclosures presenting disaggregated information, fixed asset tables etc. AASB's decision to adopt RDR in preference to IFRS for SMEs has increased the disclosure burden on Australian entities, and any move to scrap 'special purpose' reporting will significantly increase the complexity of non-public listed entities. In preparing RDR, the AASB adopted a 'top down' approach to disclosure, starting with the full suite of IFRS disclosure and removing specific disclosure requirements, while maintaining a principle of never requiring less disclosure than was required by IFRS for SMEs. We recommend that the AASB at the very least review the disclosure requirements of RDR, adopting a 'bottom up' approach, with additional disclosure only being required if its omission would materially impact the usefulness of the financial report. A practical RDR product would be watched closely internationally, and would likely be widely copied, if it truly offered reduced disclosure and focussed only on the 'must have' disclosures rather than all the 'nice to have' items.
EY	We highlight the RDR is seen by many as the mechanism by which complexity can be reduced for non-publicly accountable Australian entities. The FRC should consider whether the RDR regime goes far enough to reduce the level of disclosures required for non-publically accountable companies.
Grant Thornton	It is relevant to note that the take up of RDR is quite low, and we estimate that only around 5 per cent of entities that could apply RDR, have in fact adopted RDR. This may be due to the fact that the significant complexity in IFRS is the recognition and measurement rules. We belive that it is unfortunate that Australian entities are penalised with increase financial reporting costs, due to the AASB's objection to IFRS for SMEs, and this continues to put Australia at an economic disadvantage to many other countries where IFRS for SMEs is allowed or encouraged. The fact that IASB specifically rejected a RDR type model as the alternative to full IFRS is telling, and We continue to lobby for the introduction for IFRS for SMEs in the Australian market, as an option to RDR or full IFRS for non-publicly accountable entities. From our two recent surveys (2009 and 2011), IFRS for SMEs has the support of around 80 per cent of respondents and was supported by 77 per cent of those who made submissions to the AASB when it was considering differential reporting. IFRS for SMEs remains supported by the AICD, Chartered Secretaries Australia and the 2 major

	accounting bodies being CPA Australia and ICAA, as well as many other constituents and in particular smaller businesses and their advisers. The IASB has advised that over 80 countries have adopted IFRS for SMEs and in 2011 over 10 million SMEs are using IFRS for SMEs. It also seems logical for the AASB to allow non-reporting entities to use the RDR equivalents of the standards they are required to adopt – AASB 101, 107, 108 and 1031.
HoTARAC	We generally support differential reporting. IFRSs are mainly directed at large companies with complex transactions, hence requiring detailed information that may not be necessary or relevant for smaller entities. The IASB has sought to reduce complexity of the application of the full suite of IFRSs through a set of self-contained set of standards tailored for SMEs. The IFRS Foundation claims that IFRS for SMEs result in a 90 per cent reduction in disclosures. The AASB has adopted these principles in developing its RDR for ‘Tier 2’ entities. While our jurisdictions have not adopted RDRs at this stage as they have been assessed as not providing the same benefits as for private sector reporting, differential reporting signposts future strategies for reducing complexity and merits further consideration by the FRC. For example, we recommend the FRC give some consideration to introduce a third or fourth tier to extend the benefits of differential reporting.
ICAA	We support the AASB’s development of RDR as an alternative to IFRS, as well as the research work it is undertaking on non-reporting entities. However, we note that RDR only exempts entities from disclosures and not recognition and measurement. Even with RDR as it currently stands, we consider that more exemptions to disclosures can be made for non-publicly accountable entities. Further, we consider the FRC and/or AASB should evaluate the application of IFRS for all reporting entities, considering overseas experiences with alternative simpler recognition and measurement frameworks. This comment is based on member feedback over a number of years from the small to medium and NFP sectors. One such framework, with international recognition is IFRS for SMEs. The IASB is currently undertaking a post-implementation review of this standard. We encourage the AASB both contribute to this review in an open and consultative manner in order to achieve a result that would be acceptable in an Australian and NZ context. We anticipate that this will include amendments to recognition, measurement and disclosures.
IPA	We support the implementation of the standards issued by the IASB that constitute the full suite of IFRS. It is essential that 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. We have 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 create a more complex regulatory environment for preparers and users of financial statements in the sector. 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. We endorse the proposals of the AASB included in the RDR for entities that are not publicly accountable.
KPMG	Broadening the scope of the RDR, including increasing the scope for entities who can adopt it and also the disclosure exemptions allowed, may assist in managing complexity in the short term for some entities, until a reformed financial reporting framework is established.

– Improve access to RDR

Pitcher Partners	A 'quick win' would be the timely availability of RDR standards and a glossary, both in printed and electronic formats, would still improve access and reduce the time spent in searching for information.

(h) Improve the education of users of financial reports

BDO	A basic issue in respect of financial reports being viewed as overly complex is that users and preparers are not appropriately educated as to the application and purpose of the new necessarily complex accounting standards. We would recommend that an education/awareness program be undertaken to enable users and preparers to properly understand how all accounting standards work, emphasising in particular the areas where key judgements apply and the purpose and use of specific disclosures. Such a program may include online references and examples produced by the Australian Government, the ASX and/or the professional bodies, as well as traditional training courses.
EY	The FRC could consider the framework for providing education to users of financial statements and the bodies responsible for the provision of such education.
HoTARAC	Educating or training users to assist their understanding of the information contained in the GPFRs may be worth further investigation. There is an information gap resulting from a lack of users' understanding of this information. This may be one of the reasons that many reporting entities in both the private and public sectors have been providing their own interpretation of their business financial results and position through additional communication to their financial statement users, including their shareholders. We consider FRC may have a role in encouraging and promoting the independent education and/or training of report users. This could curb and/or mitigate the opportunity taken by some entities to present their own subjective analysis and interpretation of their financial results.
Pitcher Partners	Education is an important part of the application of IFRS recognition and measurement criteria, and it is disappointing that much debate revolves around compliance rather than how the information produced can be used more effectively for decision-making to improve business performance. At present, the practice of reconciling non-IFRS information to IFRS information is gaining popularity – perhaps because there is a lack of understanding as to how IFRS information can be used more effectively. We consider that the FRC should actively encourage or participate in the development of educational materials for the business community that explain how and why IFRS information is useful for decision-making, rather than current guidance which tends to focus on what is required when.

(i) Issue guidance on materiality and disclosure

BDO	Rightly or wrongly ASIC is viewed as taking a very hard line in respect of disclosure, whether it be through the ASIC surveillance program or the ASIC auditor inspection program. The threat of ASIC raising concerns about omitted disclosure has, in part, acted as a driver to include more disclosure rather than less. We would urge ASIC to consider issuing a regulatory guide on disclosure, in part emphasising that immaterial disclosure is not necessary or useful to users. AASB 1031 *Materiality* has for a number of years provided both auditors and preparers a very useful workable definition of materiality and has typically been used as a means of justifying why a particular disclosure was not material, particularly in debates with the regulator. It is proposed that AASB 1031 will be withdrawn by AASB. We believe

	that this proposal is detrimental to the basic aim of reducing complexity and that instead AASB 1031 should be extended to explicitly cover materiality as it applies to disclosure. While the IAASB has issued a very useful consultation paper on materiality, this is in the context of auditors addressing the risk of material misstatement due to inappropriate/inaccurate disclosure and the evidence an auditor should gather to appropriately reduce the risk of material misstatement in the context of the auditor's opinion. It is not appropriate that preparers of a financial report are forced to refer to an auditing standard for guidance and direction. Therefore we would urge the AASB to retain AASB 1031 until an equivalent standard is issued by the IASB.
EY	We recommend the FRC 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'. Additional guidance from the standard-setters and the regulators on how to apply materiality would assist directors and preparers assess regulatory risk and focus on material disclosures that are relevant to the annual report.
HoTARAC	Materiality is an overriding consideration when determining whether or not to comply with associated disclosure requirements set by standard setters. Therefore, the issues discussed by the FRC could be addressed if standard setters issued clear statements that preparers are always to consider the materiality of a matter when determining which disclosures should be included in financial statements. This would be particularly important if the AASB proceeds with its plan to withdraw AASB 1031 *Materiality*. If AASB 1031 is withdrawn, we expect that the standard materiality paragraph included in each Australian accounting standard would also be deleted. A common set of standards for information that sits outside the financial statements would assist entities in preparing such information and users in understanding this information and making comparison between entities. The IASB has gone some way to addressing this through the non-binding practice statement Management Commentary and the IPSASB has commenced a process for developing reporting requirements for such information with their projects on reporting service performance information and financial statement discussion and analysis. We recommend such projects be encouraged to identify relevant information to be included in the financial reports without adding additional layers and resulting complexity. We also note that guidance for information sitting outside financial statements would also be useful in curbing overly subjective management analysis of financial results.
ICAA	We recommend that the FRC participate in the development of guidance on the assessment of materiality for disclosure purposes. This guidance together with education should be directed squarely at the 'if in doubt, disclose' behaviour so prevalent amongst preparers and auditors. Guidance could be developed in conjunction with standard setters and regulators and include specific examples of what is considered to be immaterial and boilerplate disclosures. The guide could explore the concepts of relevance and understandability as opposed to completeness when assessing disclosures. Such a guide would assist preparers and auditors in making judgements about what may constitute a material disclosure.
KPMG	One significant item that needs to be defined and applied consistently is the concept of materiality and how it applies to disclosures. This view is supported in the recent *Towards a Disclosure Framework for the Notes* discussion paper released in July 2012 by EFRAG. There is no explicit guidance as to how materiality applies to disclosures that are required by specific IFRSs. Accordingly in practice, if the related account balance or

	class of transaction is material, then the disclosure items required by the relevant accounting standard are likely to be included, even if they are determined to be of low relevance to users based upon the industry or circumstances of the entity. In today's environment preparers and auditors tend to focus on the completeness of disclosures and are reluctant to have required disclosures omitted even when those disclosure are determined to be of low relevance to financial statement users. We believe that this is because of a concern that, in the absence of guidance, judgements will be questions and therefore it is 'safer' to focus on the completeness of disclosures in order to avoid being second guessed with respect to the relevance of any omitted disclosures. We therefore support initiatives aimed at helping preparers and auditors shift the focus of disclosures from completeness to relevance and understandability. To make significant progress in this area, guidance on disclosures and assessing their materiality needs to be developed. We agree that there is a need to better define the concept of materiality, to encourage better disclosure rather than greater volume of disclosures. We believe this, coupled with explicit regulatory support, would help to reduce complexity by encouraging focus on understandability and relevance rather than completeness.
Pitcher Partners	The use of 'standard' reporting templates and example accounts that incorporate irrelevant disclosures should be prohibited or strongly discouraged. There are numerous examples of entities that include, for example, a full suite of accounting policy notes concerning, say, financial instruments – including accounting policies that relate to every classification of financial assets, financial liabilities and hedging transactions that the entity doesn't currently have and does not currently enter into. When this practice is extended across the full suite of accounting standards there are numerous additional pages of information included about the accounting policies that might be adopted if or when the entity enters into those types of transactions. This practice could quickly and easily be managed by directors and auditors, and perhaps through adverse publicity about companies that simply 'pad out' their financial reports with unnecessary information.

(j) Address Australian legislative areas, such as the remuneration report

G100	We believe that a potential quick win would be to streamline 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.
ICAA	Quick wins could be achieved by focusing on the Australian legislative areas, such as those recommendations relating to the location of governance requirements, as well as areas included in the annual report, such as remuneration reporting. We understand that Treasury is working on draft legislation on remuneration reporting. However, we consider the FRC and the AASB could be extremely helpful in performing a preliminary assessment on the Treasury recommendations to ensure they are 'simpler' and 'less complex' before such legislation is issued for public scrutiny.
PwC	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 ten 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 that the remuneration report effectively meet 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.

(k) Establish a 'Financial Reporting Lab'

G100	The Task Force could seek to initiate a project similar to the single figure for remuneration project in the UK. 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.
KPMG	The UK Financial Reporting Lab provides an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs: (i) as a learning space, companies can use the Lab to test new reporting formats with investors, and investors can indicate areas where management can add greater value through the information they provide; and (ii) as a hub to support innovation in reporting, the Lab's focus on gathering and sharing evidence from the market provides the broader corporate community with feedback from shareholders on the value that new reporting formats bring.

(l) Other suggested strategies

BDO	The financial report is arguably prepared by accountants for accountants. We believe that the needs of investors may be better served by requiring the preparation of an MD&A, setting out in plain English a commentary on the financial report and the key accounting judgements made. The requirement for listed entities to produce an informative MD&A following a prescribed format should be set by the Australian Government.
Professor Bradbury	The FRC should encourage the IASB to withdraw the EPS standard. If a company did not report EPS would the financial statements be materially incorrect? Having an accounting standard on an accounting ratio raises several issues: (i) it is inconsistent with the IASB's position they provide information but analyst convert that information into estimates of value; (ii) it begs the question –why not have more standards covering leverage ratios or the quick ratio? (iii) it is likely to result in further clutter and complexity, because there is an argument that per share figures will be required for comprehensive income or pro-forma earnings numbers. We often require disclosure of reconciliations between balance sheet items. Most of the PPE note is really a reconciliation of opening and closing balances. Such items of disclosure are essentially part of the stewardship control function, rather than the decision usefulness function.
HoTARAC	One area that the FRC may wish to consider is whether there are alternatives to using GPFRs to meet the needs of regulators. For example, in relation to regulatory disclosures currently included in GPFRs, regulators could alternatively require separated audited special purpose reports to be prepared by the targeted entities.
KPMG	The continued harmonisation efforts with non-IFRS nations (particularly the US) need to be considered to ensure any changes in financial reporting requirements designed to manage or reduce complexity do not adversely impact the harmonisation agenda. As noted in our previous submission, the work being done in the area of Integrated Reporting appears well aligned with many of the Task Force's areas of focus. We continue to believe that a better business reporting framework can help cut the clutter and create reporting efficiency, by providing an opportunity for organisations to

	communicate more clearly about important investment drivers.
PwC	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 (i.e. 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.

APPENDIX D: Other comments received

(a) Need to consider the different types of entities

Deloitte	The report does not explicitly address whether its observations and strategies are focussed on publicly accountable entities (i.e. mainly listed entities) alone or at all entities. Some observations and suggested strategies are more focussed on those entities that are publicly accountable. The development of practical solutions and strategies to reduce complexity in financial reporting requires a clear delineation between the various categories of reporting entity as what is suitable to a large listed company may not be appropriate to a small charitable organisation or a large government agency.
Grant Thornton	The issue of complexity in financial reporting needs to be addressed at three levels being: publicly accountable entities (mainly listed companies), non-publicly accountable entities, and non-reporting entities. The report appears to be dealing predominately with listed companies whereas complexity is an issue for unlisted entities including NFPs.
HoTARAC	We recommend the FRC give public sector issues further consideration. In particular, we recommend that FRC's engagement with IASB include encouragement for IASB to liaise with the IPSASB, in addition to the AASB, to ensure that the IASB is better informed and more able to consider the impact of its decision on the public sector. Complexity is an issue for all reporting entities; however we note that the paper appears to focus on private sector reporting. We consider a number of points raised by the FRC particularly pertinent to public sector entities. Therefore, we would urge the FRC to take into account the interest of both for-profit and NFP reporting entities.
IPA	We believe the sole focus of the six strategic themes outlined by the report to be 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.
Pitcher Partners	The Australian capital market comprises approximately 2000 listed companies, the majority of which (below the top 300) are relatively small businesses. Australia's top 500 businesses have been reported to contribute approximately 50 per cent of gross domestic product. According to ASIC statistics there are nearly two million companies registered in Australia. There is a further unknown number of businesses operating in non-corporate structures. We consider that future economic growth in Australia will stem from the innovation and entrepreneurship of growing businesses. Growing businesses need reliable financial information for decision-making. This sector is not given adequate attention by the FRC and there is a lack of representation for this sector on boards and committees that influence the development of reporting requirements. Further, there seems to be minimal understanding of the way businesses may transition between market segments from (say) small family businesses to publicly traded listed entities. As the barriers to entry increase through regulatory compliance,

	we anticipate a decline in the number of entities seeking funds through fundraising on capital markets. There is a risk that the FRC is concentrating efforts into a market segment that may display limited growth in the future. We consider that the FRC needs to take a more balanced approach to address the specific needs of the Australian business environment, rather than following global precedent.

(b) Integrated reporting

IPA	We note 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. We would encourage caution in policy deliberations in relation to the adoption of such an integrated reporting framework.
KPMG	KPMG's Better Business Reporting initiatives and publications suggest simple enhancements to financial statement disclosures which are easy to execute and which should enable a reduction in clutter and repetition and an increase in clarity, with a view to eventually developing an integrated business report along the lines of the IIRC Discussion Paper. We encourage the Task Force to explore ways in which the FRC can continue to support local and global Integrated Reporting initiatives to facilitate a reporting framework which better meets the needs to users.
Pitcher Partners	Integrated reports aim to link strategy, governance and financial performance in the context of social, environmental and economic impacts. We urge the FRC to consider how a stakeholder group with significant divergence in their interest and capabilities will interpret the information presented side-by-side. We are concerned as to how stakeholders with a primary interest in one dimension of the report will have an understanding of how information in another dimension is measured.

(c) Other comments

HoTARAC	Complexity may be perceived to be beneficial to some users. Some commentators, in particular market analysts and some regulators may argue that it may be necessary to reflect the complex environment in which an entity operates, provide additional information to improve understandability and comparability, and permit an entity to comply with its regulatory requirements. Consequently, we recommend the Task Force consider providing further explanation as to why complexity in the context of financial reporting requirements is an issue. We are of the view that complexity in financial reporting may impinge, not only on information consistency, but on other qualitative characteristics of financial reports, as outlined in the Australian accounting framework. We recommend the FRC consider the impact on audit arising from any agreed initiatives resulting from this review.
Pitcher Partners	With the large number of countries now adopting IFRS and participating in the due process for their development, we have serious concerns that standard setting can no longer respond to emerging issues in the business environment on a timely basis. There is an increasingly long lead time between identification of an issue and the release of authoritative financial reporting requirements. For example, consider the complexity surrounding revenue recognition and the major debates that commenced with a discussion paper in December 2008. The final standard is not yet available and it is unlikely that the standard when issued will be operative before 2015. We consider that this period of time is far from satisfactory. In this interim period, we have an accounting standard that is not complex, but we question whether it is fit for purpose.

APPENDIX E: Existing material relevant to managing complexity

- Australian Institute of Company Directors and the Financial Services Institute of Australia – *Underlying Profit: Principles for reporting of non-statutory profit information,* 2009
- Group of 100 and PricewaterhouseCoopers' – *Less is More*, October 2009
- UK Financial Reporting Council – *Effective Company Stewardship: Next Steps*, September 2011
- International Integrated Reporting Committee – Discussion Paper *Towards Integrated Reporting: Communicating Value in the 21st Century*, September 2011
- International Auditing and Assurance Standards Board – Feedback Statement *The Evolving Nature of Financial Reporting: Disclosure and its audit implications*, January 2012
- International Auditing and Assurance Standards Board – Invitation to Comment *Improving the Auditor's report*, June 2012
- European Financial Reporting Advisory Group – Discussion paper *Towards a Disclosure Framework for Notes*, July 2012
- Financial Accounting Standards Board – Discussion paper *Disclosure Framework*, July 2012