The Institute of Chartered Accountants in Australia

2 November 2009

Melanie Kerr
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

By email: complexity@frc.org.uk

Dear Ms. Kerr,

Louder than Words. Principles and actions for making corporate reports less complex and more relevant

Thank you for the opportunity to comment on the FRC Discussion Paper *Louder than Words. Principles and actions for making corporate reports less complex and more relevant*. The Institute of Chartered Accountants (The Institute) has considered this discussion paper and our comments follow.

The Institute represents over 50,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

We welcome the publication of this DP and support the FRC in striving to improve the usefulness of corporate reports. We have been similarly concerned with the increasing complexity in corporate reporting, and this has driven our comments in a number of submissions we have recently made to the IASB and other bodies.

Overall we support the proposals in the DP, although we would like to have seen identification of specific action items to be undertaken to progress this area further. We also wish to bring your attention to some work being undertaken on this complexity issue by the G100 in Australia. We understand their final report will be released in the near future. Further, we have provided some input to the submission already lodged by the Global Accounting Alliance, of which we are a founding member and a key contributor to the report, *Getting to the Heart of the Issue: Can Financial Reporting be made Simpler and More Useful.*

If you have any questions regarding this submission, please do not hesitate to contact Kerry Hicks, Head of Reporting at the Institute via email; kerry.hicks@charteredaccountants.com.au

Yours sincerely

Lee White
General Manager Leadership and Quality

33 Erskine Street
Sydney NSW 2000
GPO Box 3921
Sydney NSW 2001
service> 1300 137 322
phone> 61 2 9290 1344
fax> 61 2 9262 1512

60 Marcus Clarke Road
Canberra ACT 2600
phone> 61 2 6282 9600
fax> 61 2 6282 9800

L32, 345 Queen Street
Brisbane Qld 4000
phone> 61 7 3233 6500
fax> 61 7 3233 6555

L11, 1 King William Street
Adelaide SA 5000
phone> 61 8 8113 5500
fax> 61 8 8231 1982

TCCI, 30 Burnett Street
North Hobart Tas 7000
phone> 1800 014 555
fax> 61 3 9670 3143

L3, 600 Bourke Street
Melbourne Vic 3000
phone> 61 3 9641 7400
fax> 61 3 9670 3143

Grd, 28 The Esplanade
Perth WA 6000
phone> 61 8 9420 0400
fax> 61 8 9321 5141

1. Can the principles for less complex regulation we propose help reduce complexity? Are there other principles that should be considered?

We strongly endorse the four principles as overarching themes identified in the FRC's discussion paper. However we note that these may need further drilling down in order to enable them to be addressed in a practical and realistic manner.

We support the use of XBRL in all jurisdictions to facilitate better access to detailed financial reporting information, as we believe this could facilitate the preparation of different reporting formats based on user needs.

2. Targeted: Is cash flow reporting in need of improvement? If so, what is the best means of achieving this improvement? Consider changes to IFRS, best practice guidance, publicity campaigns, other.

We commend the direct form of cash flow reporting as being more useful than the current indirect form contained in IAS 7 *Statement of Cash Flows* and commonly used in Europe.

In Australia the direct form of cash flow reporting has been implemented by many organisations for many years. Users of these reports tell us this information provides useful information, and preparers and auditors have developed systems that enable them to prepare/audit these direct cash flows relatively easily.

The best means of improving presentation changes, such as cash flows or net debt reporting is through the current IASB project *Financial Statement Presentation*.

3. Proportionate: Should accounting standards and other regulations be based more on the information that management produces internally?

Whilst basing standards on internal management reporting provides useful information for users, the variations in format and content without appropriate guidelines would reduce comparability and may also reduce understandability, and hence relevance.

4. Proportionate: Would a project on disclosures help stem the constant growth of accounting disclosure requirements? Could it also identify the most important disclosures, with a view to giving them greater prominence?

We strongly support a project analysing the disclosures currently required, with a view to reducing duplication, and prioritising the most important ones. However we note that different disclosures may be more relevant or more important for different user groups.

We consider the issues identified in regards to materiality to be valid and would encourage exploring whether further guidance can be developed to assist with the determination of materiality in relation to disclosures.

5. Targeted and proportionate: Who are the main users of wholly-owned subsidiary accounts? Should subsidiaries be required to file audited accounts with full disclosures? Is a more simplified reporting regime more appropriate?

We consider the issue regarding lodging financial statements of a wholly-owned subsidiary to be a regulatory matter. Usually these statements are needed for the sake of creditors and other users interested in the solvency of an entity.

In Australia our regulator allows entities to apply for a wholly owned entity class order which enables exemption from the preparation of financial statements if certain conditions are met – which includes entering into a deed of cross guarantee with the parent entity.

Further, for those entities that are unable to avail themselves of the class order a differential reporting system exists which limits the disclosures required by the wholly owned subsidiary (as compared to full IFRS disclosures) if the directors and management determine that no users of the accounts exist who rely on the subsidiary financial statements for decision making purposes.

6. Targeted and proportionate: Would it be desirable to eliminate the UK requirement to prepare, have audited, and file wholly owned subsidiary accounts in the case of a parent company guarantee?

Refer to Question 5 above.

7. Coordinated: Would it increase or decrease complexity if national and international regulators worked together in a more joined-up way? Is there a risk that international regulators working together might result in imported complexity for some jurisdictions? How do we mitigate this risk?

We are fully supportive of one set of global principles based financial reporting standards and of national standard setters working together with the international standard setter in order to achieve this common outcome.

8. Clear: Would an emphasis on delivering regulations and accounting standards in a clear, understandable way reduce complexity? How can we best move towards clearer regulations and accounting standards?

Requesting comment on regulations and accounting standards is one of the main methods used to achieve clarity. Further, field testing of major standard proposals is a further mechanism to determine complexity or otherwise of a proposal. Business and the profession need to ensure they address calls to action and provide relevant input to regulators and standard setters as part of these processes.

9. Do you agree that principles for effective communication can reduce complexity in corporate reporting?

Yes we agree.

10. What are the barriers to more effective communication? How might these barriers be overcome?

Usually common barriers include the lack of time and/or lack of ability resulting in inappropriate consideration of the contents of the financial statements resulting in lack of relevance and increased complexity.

Some of the barriers could be reduced through increased education and training around the areas of effective communication in financial statements. Although the issue frequently encountered, being the lack of time, is not easily solved.

11. Which of the specific sources of complexity in corporate reports noted on pages 54 to 55 warrant further action? Which organisation(s) would be best placed to assist with the necessary action?

We have no comment to make on this section.