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Dear Sirs

We welcome the opportunity to comment on the FRC discussion paper "Louder than words - principles and actions for making corporate reporting less complex and more relevant".

Our overall view is one of support for the FRC's aims in encouraging the removal of unnecessary complexity in corporate reporting. We also agree with the approach on dual fronts, combining pleas to regulators on their manner of standard-setting, and calls to action for preparers in applying these standards in the way that is best for users.

Our detailed responses to your specific questions appear below; we also have, however, some more general observations.

Firstly, it is crucial to address the right kind of complexity. Some transactions or situations are, by their nature, inherently complex and it would be misleading if the associated financial reporting were to represent the transactions as being simple. It would also misrepresent risk to users of the accounts, who have a right to understand the level of complexity to which a company is exposing itself. Accordingly, we urge the emphasis to be on the removal of *unnecessary* complexity. Complex transactions will need complex accounting regulation so we would consider it inappropriate to pursue simplification of accounting principles and rules as an end in itself. However, in order to achieve acceptance and uniform application in practice, it is vital that standards are well written so that the required accounting treatments and disclosures are clear and easily understood. This is even more important for international financial reporting standards given the additional challenge of ensuring uniformity when standards are translated into other languages.

We believe that significant improvements in the quality of corporate reporting can be achieved if there is a focus on clarity (the clear and understandable principle) in both regulation and corporate reporting.

Some of the criticisms in the discussion paper of particular financial reporting requirements do not at present contain enough information to explain quite what the criticism is. For instance, users may not wish to see "six pages on share based payments" (page 19), and as illustrated later in the discussion paper, a share based payment charge may not be very significant in size compared to the volume of the disclosures that accompany it. It is unclear, though, whether the suggestion is that share based payment accounting is abolished, that the disclosure requirements are reduced or removed, or that the location of the disclosures may be changed, for instance by requiring preparers to publish supporting information on the internet. There may well be conceptual and practical problems, though, with any proposal to relocate certain disclosure requirements (which otherwise would seem to be a reasonable way to provide users who want detail with the information they wish for while avoiding cluttering accounts with pages of disclosures which are too detailed for high-level readers). In particular, an audit opinion on a set of accounts at present covers all the disclosures included in the notes to the accounts, allowing readers to take comfort on the note information and not just the primary statements. If such disclosures were presented other than in the annual accounts, they would no longer be within the scope of the audit report and would therefore, we believe, offer significantly reduced value to the user in terms of reliability.

Our concern about requesting changes from accounting standard-setters is that there appears to be little mileage in appealing only to UK standard setters, with the future of UK GAAP being subject to such uncertainty. Achieving change by global standard setters, though, seems much less likely because they are subject to diverse influences outside the UK and these competing pressures may not lead to the desired outcome. In particular, they are unlikely to lead to a reduction in the volume of regulations of reporting requirements. There is probably scope for reduction, though, where UK regulations overlap, as you suggest on page 27, and a review to reconcile differences and condense requirements applying to, for example, listed company reporting, would be very welcome.

We applaud the principles for preparers set out in the "effective communication" section, although it is to be hoped that most of these are already being considered by preparers. However, it is important that all elements of the regulatory framework (i.e. standard setting and compliance) support these principles. The discussion paper rightly highlights the impact of related regulation such as materiality guidance and auditing standards. However, the perceived cost to preparers of cutting clutter may be high because the regulatory framework motivates them to err on the side of caution and disclose more rather than less.

In summary, we agree that unnecessary complexity in corporate reporting should be avoided, and that a dual approach aimed at both preparers and regulators is most likely to be successful. If this consists of asking regulators only to require necessary disclosures, and preparers to take all available steps for clear and effective communication, we consider it likely to be welcomed in the business community, and to be beneficial for both users and preparers.

If you have any questions about our response please contact Iain Lowson on 0207 893 3623.

Yours faithfully

BDO LLP

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

We believe the principles proposed are helpful. In addition we feel that an additional principle which we term "justification" should be applied. Under this principle, regulators should be obligated to explain their reasons for introducing new requirements. This explanation should cover the desired regulatory outcome, the reasons why such an outcome is an improvement on existing requirements, the anticipated costs and benefits and practical issues associated with implementation. The principle of justification would encourage regulators to comply with the other principles, would improve accountability and would help gain the buy in of those affected by the regulation. This principle is of greater significance when the cost of implementing new change is high.

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.*

It is not clear to us that the calls of preparers or users to improve cash flow reporting contain consistent wishes. It does seem clear that many users prefer to see a reconciliation of net debt included even in IFRS financial statements where this is not required by the standard, but this would be a relatively minor addition to the existing requirements. Changes beyond this should only be proposed following appropriate further research.

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

There is a balance to be struck here. Recent IFRS standards have shown a move towards reporting from a management viewpoint (for instance, IFRS 7 and IFRS 8) but these are within note disclosures rather than any more fundamental areas affecting primary statements or matters of accounting policy. We do not believe that external financial reports should be dominated by individual management views, since consistency between reporting entities is crucial for users, as is maintaining the status of accounts as both balanced and neutral. This does, however, lead to a potential volume problem, if all "management view" information is presented as supplementary to, rather than serving in place of, the statutory financial statements - this leads to longer reports which some may perceive as a problem.

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?*

It is quite possible that accounting standards, both UK and IFRS, may have grown to contain some disclosure requirements that are unnecessarily detailed, and a thorough review could highlight these. It may not always be agreed, though, precisely which these are. Realistically, different industries and different company sizes have different specialisations which are therefore likely to require a range of disclosures. Accordingly, we are not sure that significant numbers of eradicable disclosures would be identified.

Nonetheless, we support the idea of initiating a review of disclosure requirements and a communication to standard-setters of the outcome of that review.

Increasingly, accounting standards require qualitative disclosures in addition to numerical disclosures. Such disclosures are inherently more judgemental and in order to be seen to be compliant, there is an incentive to disclose more rather than less. A review could usefully examine what elements are the minimum necessary to ensure the desired regulatory outcome is achieved.

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 believe there is a strong case for simplifying the reporting regime for wholly owned subsidiaries. Full IFRS is primarily focused on the needs of investors. The parent companies of wholly-owned subsidiaries rely on management information rather than statutory accounts. The financial information requirements of users of the statutory accounts of wholly-owned subsidiaries tend to be more limited.

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?*

We do not believe this would be a universally desirable change, although it may be welcomed by the user groups concerned with preparation of accounts. Even wholly owned subsidiaries have a range of stakeholders including suppliers, customers, employees and the government, and each of these parties are entitled to be able to view, and place confidence in, regular financial information. The existence of a parent company guarantee does not change this position. However, as noted above, the information needs of these stakeholders tend to be less than those of investors.

7 *Co-ordinated: 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?*

While it would seem, prima facie, that encouraging national and international regulators to work together would decrease complexity, we are not convinced this would be successful in practice because it could lead to each regulator's introducing their own requirements and therefore a net gain in the sheer volume of reporting requirements, which would not help with the goal of reducing clutter. An alternative where regulators divide responsibility between them, sharing out the workload, might theoretically allow some slimming down, although it is hard to see how it would operate successfully in practice.

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 regulation and accounting standards?*

We agree that clarity in regulations and accounting standards is vital. A lack of clarity increases costs to preparers significantly and impedes the consistent application of standards.

The discussion paper usefully highlights examples where regulation is lacking in clarity. Inconsistent use of terminology, poor language and sentence structure and the need to cross refer to requirements in several different standards is unhelpful, particularly given the volume of material. This problem is compounded when standards are translated into other languages.

Given the volume of accounting standards and regulations this is not an easy issue to solve. However, a first step would be to ensure that all new regulations are clear and understandable. The recent clarified ISA project illustrates that it is possible to review and improve regulations and we would support steps to review and improve the clarity of existing accounting standards.

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

We agree that the principles for effective communication can help reduce complexity in corporate reporting. Preparers should be encouraged to put effort into effective communication, although as we comment in our main letter above, we would see the goal as being not so much as to remove 'complexity as 'unnecessary complexity'.

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

There are many barriers to effective communication, including both lack of ability and lack of inclination or motivation. Communications such as the discussion paper are likely to be useful in improving knowledge and awareness; it is harder, though, to see a direct general motivation for improving communication other than for the larger quoted companies. The costs associated with effective communication may be a significant barrier.

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 would lend our support to the desire for clarification on fair value measurement, as the IASB are seeking to resolve at present, and also to the suggestions around revisiting the requirements for remuneration reports. This latter requirement also has the advantage of being a UK-specific regulation (although it may be broadened across the EU) and therefore one where the FRC are in a better position to influence the regulator. Although not specifically mentioned on pages 54 and 55 of the discussion paper, we would support a review of the accounting and valuation rules for intangible assets, as alluded to on page 23 of the discussion paper.

On the subject of hedge accounting, we would recommend caution. We agree that existing hedge accounting rules are difficult to apply and understand, and that it would be broadly desirable for preparers to be able to show the economic impact of their risk management arrangements. We believe, though, that in such a complex area it is crucial to have unambiguous rules in place to prevent inappropriate deferral or concealment of losses or gains.