

Ms Deepa Raval
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
LONDON WC2B 4HN

23 January 2013

Dear Madam

Thinking about disclosures in a broader context

Westworth Kemp is an accounting, auditing and governance advisory practice based in Australia (www.westworthkemp.com.au). Whilst not directly affected by the actions of the UK Financial Reporting Council ("FRC") we see the developments being made by the FRC as important contributions and influences on the direction of financial reporting across the globe and accordingly we are respectfully making this submission on your above named paper.

The paper makes an important contribution to thinking about how information about a company's business affairs can best be conveyed to users of financial information and we welcome the broadening of the consideration of the role of disclosures beyond the strict confines of the financial report. In particular, the disclosure themes articulated on pages 16 and 17 provide a framework through which users of company financial information can access information that is presently often mixed and confused with other non-financial material. Increasingly sources of company information include analysts briefings, information on the company website, continuous disclosure etc., but financial statement disclosures provide a starting point from which to approach the issue.

The distinction between:

- Historical information and its more detailed analysis in the primary financial statements;
- Forward looking information including information about risks and uncertainties in the management commentary; and
- Governance information,

provides a useful categorisation of information that in our view enhances its accessibility.

While we understand the primary focus is on financial reporting, we believe the paper could be enhanced if it included consideration of :

- The interaction between the way information is provided in annual reports and information is provided through continuous disclosure reports. This consideration could include both the nature of financial information included in continuous disclosure reports and the ways in which a framework could guide the to cross linking of that information to annual reports;
- The impact of XBRL on the nature and volume of financial information and how that can help meet the demands of analysts for large volumes of information.

With respect to the specific questions asked at page 60 of the paper:

1. Would a disclosure framework that addresses the four questions identified below help address the problems with disclosures?
 - What information do users need?
 - Where should disclosures be located?
 - When should a disclosure be provided?
 - How should disclosures be communicated?

We agree that the needs of users must be paramount in any consideration of disclosures. We have a concern that accounting standards (and as a consequence financial statements) often lose contact with the primary purpose of financial reports - which is communication. In our view the four questions put here reinforce the importance of financial reporting as communication and are fundamental to the development of an effective disclosure framework.

2. Do the disclosure themes set out on page 16 of this paper capture the common types of disclosures that users need?

As we have noted above the disclosure structure set out on page 16 captures the basis for conveying the common types of disclosures that users need and provides a useful framework.

3. Do you agree with the components of the financial report as identified on page 20? Are there any other components that should be identified?

We believe that there should only be a limited number of components of a financial report to avoid complexity. The components given on page 20 provide an appropriate working premise. Sustainability reporting may perhaps form a fourth component, unless this information is seen as forming part of the three components already identified. With the increased emphasis on sustainability disclosures, where they fit within any disclosure framework should be considered.

4. Do you believe that the placement criteria identified in this paper are appropriate?

In our view the placement criteria are appropriate.

5. How should standard setters address the issue of proportionate disclosures?

Proportionality is a difficult issue not just for standard setters but also for preparers of financial information. Preparers have difficult judgements to make, whichever method of achieving proportionality is chosen. In our view, whilst simplifying disclosure requirements for all companies is appealing, it is unlikely to meet user and in particular analysts' demands. In our view a differential disclosure regime is likely to introduce complexity as attempts are made to identify different user groups and needs. Arbitrary thresholds such as financial limits or the public accountability criterion can lead to the application of inappropriate disclosure requirements in specific circumstances.

For example, in Australia, many retirement villages can enjoy reduced disclosure requirements under the reduced disclosure regime set out in AASB 1053 *Application of Tiers of Australian Accounting Standards*¹ if they are not considered to be publicly accountable and can therefore omit IFRS 7 disclosures relating

¹ http://www.aasb.gov.au/admin/file/content105/c9/AASB1053_06-10.pdf

to risk. However, because retirement villages hold significant bonds from residents these disclosures are highly relevant to these entities.

Our preference is for standard setters to be asked to set principles-based disclosure that allow preparers to determine the level of disclosure appropriate for the entity and the users of its financial information. This is aligned with our overarching view that the presentation of financial information needs to be firmly rooted in the principle of communication and the understanding of user needs.

The old Australian differential reporting regime based on the reporting entity concept articulated in Australian Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*² was open to abuse, but, when correctly applied, did focus on user needs as the determining factor in deciding on appropriate accounting and disclosure requirements.

6. Do you agree with the framework for materiality set out in this paper? How could it be improved?

Pursuant to our overarching belief that clear communication should be the guiding principle of financial reporting we endorse the tiered approach to materiality set out at page 34. In principle we support the proposals in Appendix C. However we have had experience in Australia of unduly complex reporting of information about remuneration. Whilst much of this flows from the operation of statute the complexity is illustrative of what could happen through accounting standards. We believe that a framework should provide guidance to those setting requirements as to the nature of governance information that usefully needs to be reported in particular endorsing principles of clarity, simplicity and recognising the need to avoid de minimis disclosures.

The Australian Accounting Standard AASB 1031 *Materiality*³ may also be of use in considering the framework for materiality set out in the paper.

7. Are there other ways in which disclosures in financial reports could be improved?

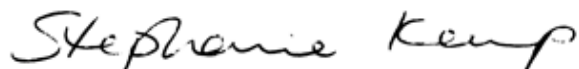
Apart from the comments we made above recommending that consideration also be given to the interaction between this project and other sources of company information and the role of sustainability reporting, we have no further suggestions for the framework.

If you would like to discuss any of these matters further do not hesitate to contact us at:
chris@westworthkemp.com.au or on +61414459083.

Yours faithfully



Chris Westworth, LLB, FCA, FAICD



Stephanie Kemp MA, FCA

² http://www.aasb.gov.au/admin/file/content102/c3/SAC1_8-90_2001V.pdf

³ http://www.aasb.gov.au/admin/file/content105/c9/AASB1031_07-04_COMPdec09_01-11.pdf