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31 July 2012

Dear Bruce,

MANAGING COMPLEXITY IN FINANCIAL REPORTING

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Financial Reporting Council (FRC) with its comments on the Report from the FRC Managing Complexity Task Force dated 29 May 2012 (Report). Grant Thornton's response reflects our position as auditors and business advisers to listed and privately held companies, not-for-profit entities (NFPs), and other businesses.

This submission has benefited with input from our clients, Grant Thornton International, discussions with key constituents, and 2 Surveys (web links below) conducted by Grant Thornton that looked at how IFRS as applied in Australia could be simplified and made more meaningful to interested constituents.

<http://www.grantthornton.com.au/files/gt-financialreportingsurvey-1111.pdf>
http://www.grantthornton.com.au/files/gt_ifrs_survey_0509-final.pdf

Grant Thornton had previously made a 29 August 2011 submission to the Task Force following its 30 June 2011 invitation for comments on Complexity in Financial Reporting (Annexure A), which drew attention to the Grant Thornton 2009 and 2011 surveys.

Grant Thornton believes that the issue of complexity in financial reporting needs to be addressed at 3 levels being: publicly accountable entities (mainly listed companies); non-publicly accountable entities; and non-reporting entities. The FRC Task Force's Report appears to be predominantly dealing with listed companies whereas complexity is an issue for unlisted entities including NFPs.

1. Complexity for listed companies

For listed companies, managing complexity in financial reporting is dependent to a large extent on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as it is Government policy, which Grant Thornton supports, that Australian listed companies should follow the same financial reporting requirements that apply in most significant global countries.

However the complexity that Grant Thornton sees it, relates to users of financial reports given that a typical Top 100- listed company's financial report is 100 pages plus in length. Grant Thornton believes that adopting an Integrated Reporting model could significantly reduce the complexity by having a summarised financial report of say some 4 pages, with access to the 100 pages plus Corporations Act financial report, using a web link. A good example is the National Australia Bank's 2011 Annual Review which is in an Integrated Reporting format to shareholders which has a 4 page summary financial report, along with access to the 174 page Corporation Act financial report.

Grant Thornton supports using technology for managing complexity and at a second stage believes that encouragement should be provided 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.

2. Complexity for non-publicly accountable entities

The IASB has acknowledged that IFRS is only designed for listed entities and has issued for non-listed entities that are producing high quality financial reports the IFRS for SMEs accounting standard. The Australian Accounting Standards Board (AASB) has accepted that full IFRS can add to un-necessary costs and complexity by adopting the IFRS for SMEs disclosure standards in its Reduced Disclosure Regime (RDR). However RDR contains additional disclosures given the AASB's insistence that the IFRS full recognition and measurement requirements be maintained rather than the simplified recognition and measurement that is contained in IFRS for SMEs.

The AASB's RDR is supported by Grant Thornton as an option to IFRS however it is relevant to note that the take up of RDR is quite low with Grant Thornton estimating that only around 5% of entities that could apply RDR, have in fact adopted RDR. This in Grant Thornton's view is due to the fact that the significant complexity in IFRS is the recognition and measurement rules. Grant Thornton believes that it is unfortunate that Australian entities are penalised with increased 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 the IASB specifically rejected an RDR type model as the alternative to full IFRS is telling, and Grant Thornton continues to lobby for the introduction of IFRS for SMEs in the Australian market, as an option to RDR or full IFRS for non-publicly accountable entities.

From Grant Thornton's 2 recent Surveys (2009 and 2011) IFRS for SMEs has the support of around 80% of respondents and was supported by 77% of those who made submissions

to the AASB when it was considering differential reporting. IFRS for SMEs remains supported by the Australian Institute of Company Directors, Chartered Secretaries Australia and the 2 major accounting bodies being CPA Australia and the Institute of Chartered Accountants in Australia, 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.

3. Complexity for non-reporting entities

Non-Reporting entities in Australia are currently only required to adopt the 4 AASB disclosure accounting standards being AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, and AASB 1031 Materiality. ASIC has stated that it believes that the recognition and measurement requirements of most IFRS standards also apply although that is an ASIC interpretation and not legislation.

Given that the AASB has issued RDR equivalent standards for the disclosure standards, it would seem logical for the AASB to allow non-reporting entities to use the RDR equivalents of those standards.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED



Keith Reilly
National Head of Professional Standards

Annexure 1

Mr Bruce Brook
Chairman
Corporations and Capital Markets Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: les.pascoe@treasury.gov.au

29 August 2011

Dear Mr Brook

GRANT THORNTON SUBMISSION- FRC REDUCING COMPLEXITY IN FINANCIAL REPORTING TASK FORCE

Thank you for your 30 June 2011 letter that seeks Grant Thornton Australia Limited's (Grant Thornton) views on 'Complexity in Financial Reporting'. Our responses to the particular issues raised by your FRC Taskforce are set out below.

1. The views of your firm on financial reporting-related issues for preparers of financial reports;

Grant Thornton believes that many preparers of financial reports struggle with the complexities of International Financial Reporting Standards (IFRS) which are re-badged by the Australian Accounting Standards Board (AASB) as Australian Accounting Standards. Whilst Grant Thornton has supported the June 2010 initiative of the AASB in allowing non-publicly accountable entities to adopt a Reduced Disclosure Regime (RDR) which contains less disclosures than full IFRS, the take up has been lower than Grant Thornton had expected.

However disclosures are only part of the simplification issue and that is why the International Accounting Standards Board (IASB) that has the responsibility for issuing IFRS, in 2009 issued a less complex version of IFRS titled IFRS for SMEs based on full IFRS recognition, measurement and disclosures, but much simplified so that non-publicly accountable entities (i.e. generally non-listeds) had a more realistic set of accounting standards that significantly reduce the complexity in financial reporting. Grant Thornton remains disappointed that the AASB rejected allowing Australian entities the choice of adopting IFRS for SMEs, the RDR or stay with full IFRS, particularly given the strong support that remains today from the major Accounting Bodies (CPAA and ICAA), and the Australian Institute of Company Directors, and other interested constituents.

To date the IASB has stated that 73 (January 2011) major countries are considering or have adopted IFRS for SMEs for non-publicly accountable entities, with most recently the United Kingdom announcing that IFRS for SMEs would apply in 2014. In other major countries such as Canada and it appears the United States, a simplified measurement, recognition and disclosure framework has or is being suggested for non-publicly accountable entities with the framework being similar to IFRS for SMEs. Australia remains one of the few countries that require reporting entities to adopt full IFRS recognition and measurement rules.

2. The views of your firm on the information needs of informed investors;

Grant Thornton believes that informed investors need financial information that is credible and hence our support for IFRS for publicly accountable entities and IFRS for SMEs for non-publicly accountable entities.

3. Advice whether your firm has undertaken surveys of preparer issues and user needs on its own account and whether the findings of these surveys either are publicly available or could be shared with the taskforce;

Grant Thornton undertook a Survey in 2009 on IFRS and our findings are available on our website at http://www.grantthornton.com.au/files/gt_ifrs_survey_0509-final.pdf

This Survey found that 80% of respondents supported simplification of IFRS and 83% supported allowing IFRS for SMEs as an option for Financial Reporting in Australia. Grant Thornton is just finalising a 2011 Survey conducted on the Corporate Law Reform simplifications and the AASB's RDR simplifications that were both issued in June 2010. Grant Thornton expects the results of this 2011 Survey will be available by the end of September 2011 and a copy will be sent to you as soon as it is finalised.

4. Any views you may have about the drivers of complexity in financial reporting and steps that could be taken to overcome complexity, either generally or in respect of particular aspects of reporting;

The Australian Government has accepted that Australia should follow the financial reporting framework of the IASB and to the extent that simplifications are able to be made for publicly accountable entities - that remains the IASB's mandate. Grant Thornton encourages research that can be made available on simplification and the recent Scottish and New Zealand Institutes of Chartered Accountants Report on Simplification is useful www.nzica.com/reducingdisclosures.

However for non-publicly accountable entities there is an easy and immediate solution for Australia and that is to adopt IFRS for SMEs which is much more simplified than full IFRS or the AASB's RDR model. The IASB by issuing IFRS for SMEs has acknowledged that full IFRS or even RDR which the IASB rejected when it was

considering reducing complexity in financial reporting, is not generally suitable to non-publicly accountable entities.

If you require anything further on what Grant Thornton believes is the most pressing financial reporting issue in Australia at this time, please feel free to contact me

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

cc Lynn Wood, Chairman - FRC

Les Pascoe & Michael Lim - Treasury