

7 December 2011

The Manager
Corporate Reporting and Accountability Unit
Corporations and Capital Markets Division
The Treasury
Langton Crescent
Parkes ACT 2600

Email: frpdiscussionpaper@treasury.gov.au

Dear Sir/ Madam,

Future of the Financial Reporting Panel Discussion Paper

The Australian Institute of Company Directors (“Company Directors”) welcomes the opportunity to comment on the discussion paper, *Future of the Financial Reporting Panel* (“Discussion Paper”) released by Treasury on 11 November 2011. Thank you for providing us with an extension until Friday, 9 December 2011 to make our submission.

Company Directors is the second largest member-based director association worldwide, with over 30,000 individual members from a wide range of corporations; publicly-listed companies, private companies, not-for-profit organisations, charities and government and semi-government bodies. As the principal Australian professional body representing a diverse membership of directors, we offer world class education services and provide a broad-based director perspective to current director issues in the policy debate.

As directors are responsible for the approval of a company’s financial reports and the accounting policies adopted by a company, Company Directors are interested to ensure that the quality of financial reporting in Australia continues to be of a high standard striking the appropriate balance between business efficiency and regulatory compliance.

1. Summary

We note the Discussion Paper provides three options with respect to the continuation of the Financial Reporting Panel (“FRP”) namely:

- maintain the current processes and powers of the FRP; or
- modify the referral process; or
- repeal the FRP’s functions and close the Panel.

In summary, Company Directors are of the view that:

- (a) the FRP should continue to operate; and
- (b) companies should be given the ability to make referrals to the FRP.

We respond to some of the questions posed in the Discussion Paper below:

2. Key Question: Do you believe that the current process and powers of the FRP are effective and appropriate, and do not require any significant reform?

Company Directors believes that the FRP should remain in operation. The Australian accounting standards are a “principles–based” framework based on the International Financial Reporting Standards (“IFRS”). Companies applying these standards may adopt an accounting treatment in their financial report, regarding which the Australian Securities and Investments Commission (“ASIC”) may have differing interpretation. The FRP is an independent arbiter between ASIC and a company, and serves a useful purpose in helping to resolve any such conflicts of views.

The FRP has the ability to deal with these issues promptly and in a cost-effective and relatively informal way.

The FRP’s role in contributing to the quality of financial reporting should not be judged on the number of matters referred. For instance, matters may be more likely to be resolved quickly in order to avoid a FRP referral. The fact that there is a independent arbitrator available to ASIC and companies to address differences in accounting opinions in a cost-effective, neutral and expedient manner contributes positively to the quality of financial reporting in Australia.

3. Key Question: Do you believe that companies should be allowed to refer cases to the FRP without ASIC’s consent? Do you believe that such a change would have a material impact on the number of referrals coming forward?

Company Directors agrees with the proposal to allow companies to refer cases to the FRP without ASIC’s consent. This provides equitable access to the FRP for both companies and ASIC in resolving differences in accounting interpretations between both parties.

We do not believe that consideration of whether the FRP will receive an increase in the number of referrals to be relevant to the decision on whether to allow companies to make a referral to the FRP. We believe that the overriding consideration should be that companies and ASIC both have a mechanism available to them to enable each of them to resolve their differences of opinion with respect to the financial reporting of a company.

If the number of referrals becomes an issue, then further consideration could be given to, for example, reviewing the resources available to the FRP.

4. Key Question: Do you believe that the FRP’s functions should be repealed and the Panel closed?

Company Directors does not believe the FRP should be closed, as the FRP is an important mechanism to ensure the quality of financial reporting in Australia.

We do not agree with the statement in Para 53 of the Discussion Paper that states “ As it has been several years since Australia adopted IFRS, companies would now have a better understanding of the operation of these standards and the operation of the FRP may be less relevant.” The International Accounting Standards Board are continually

developing new standards and revising existing accounting standards, these are likely to be new areas of differing interpretations that could well require FRP consideration.

We also note the statement in para 55 of the Discussion Paper that “A continuing lack of referrals would also make the retention and recruitment of appropriately skilled Panel members more difficult”. We do not agree with this statement as Panel members can be on standby until required, without interruption to their other activities and careers. This is very similar to the Takeovers Panel, which has no such difficulties.

Company Directors believe that the FRP should be made up of a diverse pool of experts, and attempt to strike a balance between subject matter experts on the accounting standards and directors with a broader knowledge base.

In summary, Company Directors does not believe that it would be beneficial to the quality of financial reporting within Australia to dispense with the FRP, even though the FRP has to date not been subject to a large volume of referrals. It is important to remember that the very existence of the FRP can result in more effective resolution of differing interpretations. Furthermore, a greater number of referrals may eventuate should, as we suggest, companies be allowed to initiate referrals to the FRP.

We hope our comments are of assistance to you. If you would like to discuss any of our views please contact me or Nicola Steele on (02) 8248 6600.

Yours sincerely

Nicola Steele

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