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The Treasury
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By email to: SBRpolicy@treasury.gov.au

15 March 2013

Options Paper: Use of Standard Business Reporting (SBR) for Financial Reports

Dear Sir/Madam

Ernst & Young is pleased to submit its comments on the Options Paper: Use of Standard Business Reporting (SBR) for Financial Reports issued in November 2012.

Ernst & Young's response reflects our position as auditors and business advisers to the Australian business community.

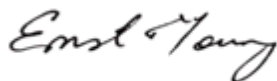
We believe that requiring mandatory lodgement of financial reports using SBR for listed entities would be more beneficial for investors in the long term. Mandatory lodgement is proposed as option 1 in the options paper. While our preference is to use SBR in iXBRL format, further factors not covered in the options paper should be considered prior to moving away from the requirement to lodge PDF or paper versions of the financial report.

We suggest that a phased-in approach for implementation should be considered, taking into account market capitalisation and the extent of tagging required. We believe that Australia can learn from overseas markets where SBR for financial reporting is either required or permitted. We also stress the need for a robust transition plan and sufficient time to overcome the practical challenges that companies will have.

Our detailed comments on several of the discussion points noted in the options paper are set out in the Appendix to this letter.

Should you wish to discuss the contents of this letter with us, please contact David Hardidge - Executive Director, Financial Accounting Advisory Services on (07) 3807 1975 or david.hardidge@au.ey.com or Lynda Tomkins - Partner, Australian IFRS Leader on (02) 9276 9605 or lynda.tomkins@au.ey.com.

Yours faithfully

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

Appendix

Adoption of SBR for financial reporting

We believe that in the long term mandatory lodgement of detailed financial reports using SBR for listed entities would be more beneficial for investors through increased transparency and easy comparability of financial reports.

We consider iXBRL to be more suitable than XBRL given that iXBRL enables rendering financial data in a more visually appealing format for people. XBRL was originally designed as a machine-to-machine language. The US SEC program, which does not currently use iXBRL, provides evidence of various problems when entities attempt to make their XBRL filing “look” like the paper/PDF versions. XBRL documents can be viewed only with specialized XBRL viewers while iXBRL documents can be viewed on standard browsers.

We recommend that iXBRL be strongly considered as part of the Australian SBR implementation to avoid these problems.

We note that the following factors not covered in the options paper should be considered prior to moving away from the requirement to lodge PDF or paper versions of the financial report along with the iXBRL lodgement.

Legal version for lodged financial statements

Currently the paper or PDF version of the signed financial statements is accepted in Australia to be the legal documents of the entity. Financial reports lodged with iXBRL will raise the question as to what the legal version of the statutory financial statements is, as the human readable version would be regenerated each time it is used. The rendering of the human readable version will be based on the software used.

We recommend more research is needed and clarity provided around whether the iXBRL file lodged (with “hidden” XBRL tagging), or the rendered human-readable version (that does not include the XBRL tags) be considered the legal version of the statutory financial report of the entity.

Legal liability

We emphasise the need to determine the legal liability for incorrect XBRL tagging. Potential for errors and inconsistencies are cited as a disadvantage by other countries using XBRL. If an entity selects the wrong tag from a taxonomy, then users of that information may rely on incorrect information. As demonstrated with the current US system, there may be numerous, but minor, errors in XBRL reporting that ultimately undermine the success of SBR. While there has been harmonisation of definitions and their consistency in approach where SBR is used elsewhere in Australia, this will be far more difficult to achieve for financial reporting. Any legal liability regime needs to deal with this.

Level of assurance

The US SEC to date has not mandated an audit of financial reports prepared in XBRL format. Australian Auditing Standards do not currently require auditors to perform procedures or provide assurance on XBRL tagged data in the context of an audit or review of a financial report. We believe the level of external assurance on XBRL-tagged data and the extent of liability needs to be determined as the use of XBRL evolves in Australia. The level of assurance required on XBRL reporting would inevitably have a cost impact.

Analysis of Options

We broadly agree with the benefits associated with the electronic lodgement of the financial reports using SBR noted in the options papers under paragraphs 40-44. We make further comments below.

Efficient data analysis

It is usually a very manual and labour intensive process to transfer data from physical paper or PDF financial reports for various purposes, e.g. research, survey, data comparisons etc. While data can be cut-and-pasted from electronic paper reports, depending on security settings, it does not provide the automated extraction of tagged items that XBRL and iXBRL tools provide.

In addition, the cut-and-pasted data does not provide the additional information that XBRL/iXBRL provides such as the links between tags provided by the taxonomy (e.g. cash and cash equivalents is part of current assets, which is part of total assets), or other context information (e.g. period end date, amount without confusing thousands, millions etc.)

Cost of access

Currently ASIC charges a fee to access financial reports including voluntary XBRL lodgements. We believe that the cost of accessing XBRL information should be free, whether the XBRL information is made available via the ASIC or other government website, the ASX website, or entity's websites.

We further believe that if XBRL information is available for free for the public on a central website, such as the ASIC, ASX or other government website, there should not be a need to require the XBRL/iXBRL information to be mandatorily included on the entity's website.

Application and Implementation

We believe that limiting application to listed companies and possibly unlisted disclosing entities to be more appropriate as financial data of such entities will be most useful to the investment community. Mandatory lodgement will provide internal and external stakeholders of these entities opportunity to more effectively analyse and compare information across businesses and industries.

We do not believe there is a near term need for private companies to utilise SBR for their financial reports.

Phased-in approach

We believe that a phased-in approach, similar to the US SEC program, would be suitable for Australia. The US SEC program concentrated firstly on the listed companies with the largest market capitalisation (Tier 1) and tagging their financial statements at a high level (Level 1 block tagging). The program then expanded to companies with smaller market capitalisation (Tiers 2 and 3) and at the same time expanded the level of detailed tagging (progressively to Level 4 detailed tagging).

Transition period

We suggest providing a long transition period to enable entities to evaluate and action the challenges, upgrade required software and systems and allow software developers to make improvements to the XBRL creation tools, the IFRS Taxonomy and software validation tools. A reasonable and defined lead time, would allow time for the inevitable learning curve and unforeseen implementation issues.

However, this should be accompanied by a transition plan with clear milestones to assist both the Government and companies to continue to progress towards implementation.

Other concerns

We believe that Australia should learn from lessons from overseas implementation of XBRL. Some common issues we have noted include:

Availability of tools / viewers - There needs to be adequate tools available for users to view the XBRL lodgements.

Pilot Program - Give entities and investors adequate time to test the systems and tools /viewers.

Voluntary / Mandatory - While voluntary programs are useful as a pilot program, overseas experience is that they do not lead to widespread adoption. The full benefits are only achieved with mandatory application to those entities whose financial statements are desired to be in XBRL format.

Extent of the number of tags in the IFRS Taxonomy - There is a clear disparity between the elements for the IFRS taxonomy and FASB US GAAP taxonomy (approximately 3,700 elements for IFRS taxonomy and 12,000 for FASB GAAP taxonomy out of a total of over 17,500 that includes technical tags).

This raises the issue as to whether the IFRS Taxonomy has sufficient tags / elements. Fewer amounts of tags would mean that entities will need to create their own specialised dictionary or extension taxonomy, which increases costs and decreases comparability of financial information between entities of the same industry.

IFRS Filers are not required to file their financial statements in XBRL, in the absence of a taxonomy approved by the US SEC. In 2011, the US SEC delayed their approval of the IFRS taxonomy, pending review for the level of tagging.

The Draft 2013 IFRS Taxonomy includes approximately 750 common practice elements that are in addition to those disclosures included in the IFRS Bound Volumes. This follows two XBRL Detailed Tagging Task Forces that applied to then (2011 and 2012) IFRS Taxonomies for detailed tagging.

Waiting for the results of the SEC review (due date not yet known) of the suitability of the updated IFRS Taxonomy for their purposes should assist in evaluating whether the IFRS Taxonomy is suitable for Australian purposes. The review may not be conclusive given that the SEC has a very detailed taxonomy. Such a detailed taxonomy may be argued as causing some tagging problems.

Other common US SEC submission problems

The SEC has issued a number of releases identifying common problems. These releases, and the SEC's approach to encouraging entities to comply, should be considered for any Australian implementation.

Common submission problems include:

- ▶ Extending (i.e. adding company created) tags unnecessarily
- ▶ Selecting a wrong standard tag
- ▶ Incorrect signs - amounts in parentheses, positives / negatives
- ▶ Incorrect reporting period dates
- ▶ Improper decimal settings