ACCA

ACCA MEMBERS SURVEY

Complexity in Financial Reporting

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We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

Complexity in Financial Reporting

Certified Accountants Educational Trust (London)

ABSTRACT

Preparing financial statements has always been a demanding responsibility requiring the input of highly trained professionals. Growing complexity of business transactions and greater investor, regulatory and public scrutiny has substantially increased the demands on financial reporting. Standard setters are responsible for defining financial reporting standards which provide consistently meaningful information to users of financial statements while balancing the costs of preparing such information. Standards have continued to evolve to strike that balance but there is growing concern that financial reporting has become overly complex.

This report summarises a survey of ACCA members investigating the complexity and relevance of current financial reporting requirements. ACCA supports the development of global financial reporting standards and the survey therefore focused on the application of International Financial Reporting Standards (IFRS) and/or IFRS equivalent standards. The survey investigated whether financial reporting requirements are disproportionate to their intended benefits and whether there are opportunities for improvement.

Contents

Executive summary

Increasing complexity in financial reporting standards themselves also adversely affects confidence in the financial reporting system.

BACKGROUND

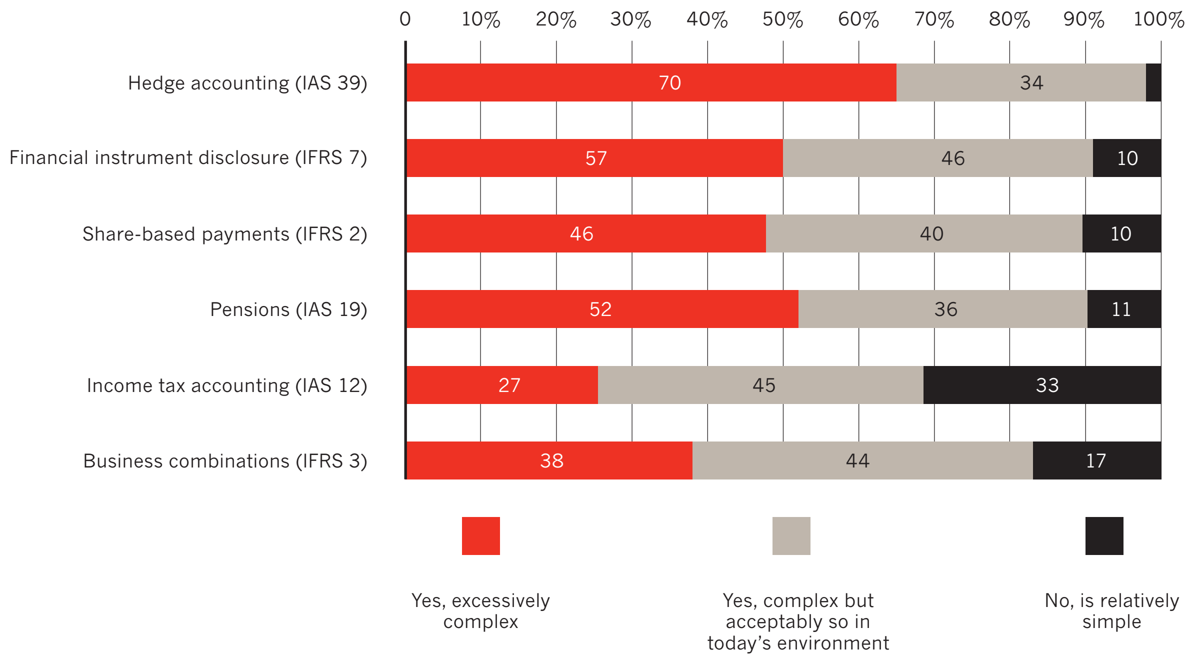
The growing complexity of business transactions, and greater investor, regulatory and public scrutiny have all added to the demands on financial reporting. Financial reporting aims to reflect economic and business reality, which ultimately shapes how investors formulate their investment decisions. Obscuring that reality can have a chain of negative consequences affecting investors themselves, lenders, customers, suppliers and employees. Although the consequences of inaccuracy in financial statements due to fraud are often sensational, there is a widening concern that the increasing complexity in financial reporting standards themselves also adversely affects confidence in the financial reporting system.

This has been acknowledged by those who are responsible for setting the standards that underpin financial reporting across the world, and increasing efforts are being made to understand how financial reporting can be made more effective.

International Financial Reporting Standards (IFRS) are increasingly becoming the global set of accounting standards, and for many countries the move to IFRS has been quite recent.

Therefore, in October 2008, ACCA conducted an online survey to investigate the experience of ACCA members closely involved in the preparation of financial statements using IFRS. Responses were received from 117 members across a wide range of countries and size of businesses.

Figure ES1: Perceived degree of complexity of specific accounting areas



KEY FINDINGS

Financial reporting is an important consideration for most organisations

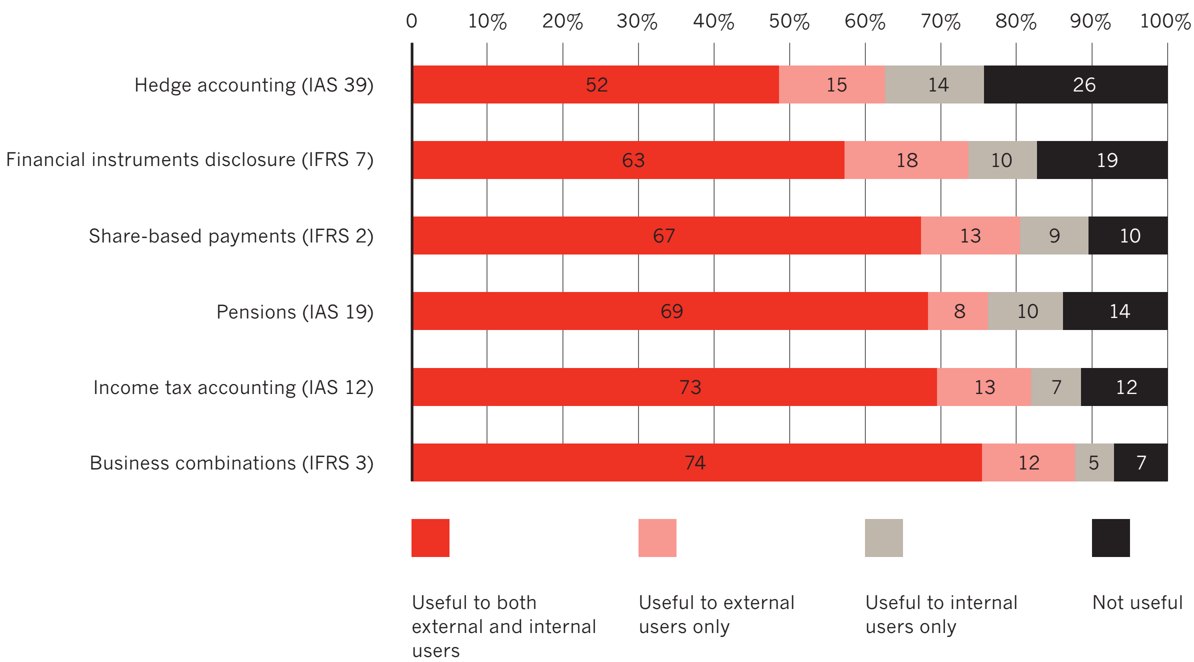
In order to understand the wider perceptions of preparers of financial statements, respondents were asked their views on specific areas of financial reporting, even where they had little practical experience in that specific area. This meant that questions on certain areas were considered by more respondents than others. There was a close correspondence between the views of respondents with experience in these areas of financial reporting and the perceptions of the overall sample (see section 1.3).

There was a strong view that the organisations for which the respondents worked attributed significant importance to the financial reporting process, with respondents scoring good communication and presentation of annual report at 4.13, on average, out of a possible 5.0 (see Fig. 2.2). This is further evident from the significant proportion of time spent on the process by respondents, and the willingness of the companies to use specialist external consultants when required, as well as the level of input from non-finance staff in the preparation of annual reports.

Respondents were also positive about improvements in the financial reporting process that had occurred since they had become involved in the preparation of financial statements (See Fig. 2.7). As well as benefiting from experience over time (62 respondents), respondents certainly believed that there had been improvements to the financial reporting standards themselves (57), as well as in the availability of other sources of guidance (47).

Organisations attributed significant importance to the financial reporting process, with respondents scoring good communication and presentation of the annual report highly.

Figure ES2: Perceived degree of usefulness of the resulting information



An element of complexity is often inherent in the underlying transactions
As is evident from Fig. ES1, there was a clear indication from respondents that financial reporting using IFRS is complex. In all areas considered in detail in this survey, there was a large majority opinion that the accounting process was difficult. What was also clear was that much of that complexity was actually inherent in the type of transactions with which they were dealing. This sentiment was also reflected in the responses to the question about why those areas were complex. The score attributed to the difficulty of understanding the transactions themselves was consistently the second ranked in all areas considered.

What was also clear was that much of that complexity was actually inherent in the type of transactions with which they were dealing.

Much complexity could be avoided
Areas in which members indicated that the complexity was largely avoidable (excessively complex) were:

- hedge accounting
- financial instrument disclosure
- share-based payments, and
- accounting for pensions.

Of those, hedge accounting further stands out, with almost two-thirds of respondents suggesting that the accounting requirements were excessively complex. The types of financial instrument that form the basis of hedging transactions carried out by companies are recognised as being inherently complex, but despite this respondents still believed that much of the complexity for accounting for such transactions could be avoided.

Standards and their requirements are difficult to understand and costly to implement
The predominant concern for respondents regarding complexity across all areas of financial reporting was the cost (in time and money) of fulfilling the requirements of the particular standards (see section 4). The importance given to this, which is understandable from a preparer's perspective, is clearly evident from responses regarding which 'other' areas of financial reporting were thought to be complex. Despite there not being any other significantly common areas noted, the primary concern was cost. This, coupled with the relatively high scoring attributed to the difficulty in understanding the respective standards themselves, further indicates strong opinion that there is an element of avoidable complexity, which is a direct result of the governing accounting standards themselves.

Standards themselves are the main source of understanding and application
One of the most striking results from the survey was how many members claimed to use the accounting standards themselves, when asked how they came to understand and apply them (see section 5). The results to this question were consistent across all the areas sampled, showing that in all areas over 70% of respondents read the accounting standards themselves for information on their application. They often also used additional material (checklists and interpretative guidance) and specialist advice, but not to nearly the same extent.

Resulting information is generally useful
It was clearly evident that despite some of the complexity in producing the relevant information, respondents found that it was useful in general. As shown in Fig. ES2, in all areas, over 75% of members believed that the information was useful to internal and/or external users. Not surprisingly, the areas that members had some reservations with in this respect were hedge accounting followed by financial instrument disclosure. These two areas were also considered to be the most complex.

75%

of members believed that the information was useful to internal and/or external users.

IMPLICATIONS

In August 2008, in the US, the Securities and Exchange Commission's Advisory Committee on Improvement to Financial Reporting (CIFR) issued its final report of recommendations, a year after it was set up. The report, geared towards requirements for US companies, highlighted proposals in five practical areas, three of which could be interpreted as US-specific issues. The other two areas were enhancing the accounting standards-setting process and improving the substantive design of new standards.

Although these recommendations certainly placed critical importance on the users of financial statements, there was a call for greater dialogue between users, preparers and auditors, as well as a more substantial input into the standard-setting process. Suggestions included 'increased field work for proposed standards and formalising post-adoption review of standards, as well as periodic assessments of existing standards'. Furthermore, there was a clear indication that actual accounting standards themselves 'do not clearly articulate their underlying objectives and principles'.[1]

The results of this survey, although drawn solely from a preparer perspective, echo many of those concerns, and suggest similar ways of improving the financial reporting process.

Avoidance of complexity

Respondents recognised that much of the complexity in accounting derives from the intricacies of the actual transactions themselves and is, therefore, beyond the control of accounting standard setters.

Nonetheless, what was equally evident was that for certain areas of financial reporting, namely, hedge accounting, financial instrument disclosure, pension accounting and the accounting for share-based payments (SBPs), much of the complexity encountered by respondents (see Fig. ES1) was unnecessary. Given the common concerns of members (for all areas sampled) about understanding and fulfilling the requirements of specific standards, it is clear that there is an element of avoidable complexity.

Therefore, and perhaps especially so, given the reliance put on the standards themselves by preparers of financial statements, there was a strong indication from the survey that standard setters need to be mindful of how the requirements of standards can affect preparers. Thus, when asked how complexity in these areas of financial reporting could be reduced, a considerable number of respondents consistently pointed to the drafting of the prevailing standard (see section 7). This often scored higher than factors that were specific to that particular area.

This is particularly relevant with many of the projects currently being undertaken by the IASB. The proposals to amend standards relating to financial instruments, accounting for retirement benefits and income taxes which are currently under review by the IASB, may significantly impact the requirements of the extant and resulting standards. The fact that any changes are often burdensome, especially when considerable investment has been made in understanding existing requirements is also evident from the survey, where respondents indicated that much of the complexity encountered in applying the standards was in the first year, and eased subsequently.

Both for new standards and subsequent amendment to existing standards, standard setters need to ensure that they fully analyse the wants of users, while taking into account the costs faced by preparers. This is clearly a difficult balance to strike. Again, as is evident in the results from this survey, respondents largely viewed the resulting financial information as useful to users (internal and/or external). At the same time, however, concerns were raised about the time needed for, and costliness of, producing that information.

There was a strong indication from the survey that standard setters need to be mindful of how the requirements of standards can affect preparers.

1. Final Report of the Advisory Committee on Improvements to Financial Reporting to the US SEC, 1 August 2008.

RECOMMENDATIONS FOR THE STANDARD-SETTING PROCESS

Respondents to the survey provided a number of general indications of how the reporting process could be improved. Although there were a number of specific accounting issues, each of which need to be considered in relation to a particular area of financial reporting, these should also be viewed as indicators for continuous assessment of existing requirements.

The standard-setting process is a difficult balancing act, but there are certainly a number of factors that could be improved in that process to ensure that preparers and users maximise the benefits, and do not suffer further complexity in addition to the considerable inherent complexity of much business activity today.

Engagement of the preparer community

The standard-setting process should engage preparers throughout the process, as well as stressing the importance of user demands. Not only should preparers be involved at an early stage, but their practical (and recent) experience should be considered at the validation and approval stage.

Research and analysis

It is vital that impact assessments are carried out on any proposed new standards or any major amendments to existing standards. There is a cost to applying new requirements, and it is important to ensure that the benefits are worthwhile, especially where much investment has already taken place for understanding and implementing the existing requirements.

Material disclosure

While disclosure to supplement other information in the financial statement is of vital importance, it is clear that there is a belief that some disclosure requirements are over-burdensome, given the materiality of transaction themselves. More explicit guidance in the standards in relation to what elements would be considered material, and, therefore, require more detailed disclosure, would benefit both preparers and users by helping to avoid unnecessary complexity in financial reports.

Guidance and drafting

Accounting standards as a whole appear to be clearly written, although some of the requirements could still be made easier to understand. This could be aided by more focused and practical guidance to supplement them.

1. Introduction

1.1 CONTEXT

Standard setters are responsible for defining financial reporting standards that provide consistently meaningful information to users of financial statements while balancing this with the costs of preparing such information.

The discussion and concerns over the complexity in current financial reporting regimes across the world are becoming more important to international standard setters. In June 2007, the US Securities and Exchange Commission (SEC) established an advisory committee to examine the US financial reporting system.[2] SEC chairman Christopher Cox said that the primary reason for its creation was that:

> *'Our current system of financial reporting has become unnecessarily complex for investors, companies, and the markets generally. The time is ripe to review how that system can be made less complex and more useful to investors.'*

The continuing convergence between US Generally Accepted Accounting Principles (US GAAP) and International Financial Reporting Standards (IFRS) is seen by the respective accounting standard setters as an ideal opportunity to improve accounting in important areas. One such area is that of reporting financial instruments, which was the subject of a discussion paper[3] issued by the International Accounting Standards Board (IASB). Sir David Tweedie, the IASB chairman, introduced the paper:

> *'IAS 39, which the IASB inherited from its predecessor body, is far too complex. We are determined to simplify and improve IAS 39 by creating a principle-based standard. Those who believe in reducing complexity in accounting standards have now the opportunity to shape the way ahead'.*

In 2008 in the UK, the Financial Reporting Council (FRC) launched a wide-ranging project to review the complexity and relevance of current corporate reporting requirements for UK publicly traded companies.

1.2 CAUSES OF COMPLEXITY

It is clear that considerable complexity can originate from the intricacy of commercial transactions and events themselves. The accounting for such transactions, by its very nature, is complicated and is therefore beyond the control of standard setters. It is therefore imperative to acknowledge and distinguish two types of complexity in financial reporting from the outset: that which is inescapable, owing to the inherent complexity of certain transactions, and that which could be avoided, having been brought about by accounting standards themselves.

The complexity caused by financial reporting standards can also derive from many factors, such as their length, the difficulty in understanding them, and the cost of applying their requirements.

1.3 METHODOLOGY

In October 2008, ACCA conducted a survey of members who participate in the preparation of financial statements under International Financial Reporting Standards (IFRS).

In order to shed light on the common concerns of those across the world who are applying IFRS in the preparation of their financial reports, ACCA's survey asked members closely involved in preparing financial statements to consider how significant an impact financial reporting standards themselves have had in causing complexity, with a view to making recommendations to the IASB.

The aim of the survey was to consider from the preparers' perspective whether current financial reporting requirements are excessively burdensome, the main reasons for this and the potential to reduce any complexity. The survey was undertaken by means of a questionnaire distributed by e-mail, and members were given four weeks to respond.

The survey was undertaken among a sample of members who had previously expressed a positive interest in taking part in ACCA research related to financial reporting. The questionnaire was sent to 1,338 members interested in financial reporting using IFRS (or equivalent standards) across ACCA's international membership base. The focus was on the overriding causes of complexity, and the relevance of IFRS, rather than on how those views might differ between jurisdictions. A total of 117 members responded (see Table 1.1).

2. 'The Advisory Committee on Improvements to Financial Reporting (CIFR) is headed by Robert C. Pozen, chairman of MFS Investment Management', SEC Press Release 2007-123, 27 June 2007, available from <http://www.sec.gov/news/press/2008/2008-166.htm>.

3. In March 2008, the IASB issued a discussion paper, *Reducing Complexity in Reporting Financial Instruments.* The paper is part of a joint convergence project with the US Financial Accounting Standards Board (FASB).

The questionnaire was designed in such a way as to reveal which areas of financial reporting are commonly seen as unduly complex and burdensome and why this may be the case. The survey was divided into three sections.

The first section asked members about their general experience of the financial reporting process within their organisations. This section of the survey concluded with a question asking members to identify specific areas of financial reporting of which they had experience.[4]

Having identified the areas of financial reporting of which they had had most recent experience, members were asked to consider how complex they found them, why they believed this to be the case and, if any complexity did exist, how it could be reduced. Given the relevance of the perceptions of preparers involved in the accounting process, as well as those who had actual experience in the specific areas, all respondents were able to answer the subsequent area-specific questions.

Responses suggest a reasonable correspondence between the views of respondents who had actual experience of these areas of financial reporting (see Table 1.2) and the perceptions of all members with regard to their complexity (see Fig. ES1). Therefore we have used the responses of all members who answered these questions in our analysis.

There were two notable exceptions.

- Those with recent experience in hedge accounting were more concerned about it being excessively complex compared with the wider group of respondents.

- Those with recent experience in accounting for share-based payment transactions appeared to be more accepting of the complexity associated with this area of accounting (54%) than the wider group of respondents (42%).

Where appropriate, we have provided further analysis concerning those respondents who had had recent experience.

Table 1.1: Locations of respondents

Region	Number	Percentage
Africa	20	17%
Americas – Caribbean	7	6%
Americas – North	5	4%
Americas – South	1	1%
Asia – Far East	31	26%
Asia – Middle East	6	5%
Asia – Other	3	3%
Australasia	4	3%
Europe – Eastern	18	15%
Europe – Great Britain	10	9%
Europe – Western	9	8%
Not specified	3	3%
TOTAL	**117**	**100%**

Table 1.2: Degree of complexity among members with recent experience of specific accounting areas

	Hedge accounting	Financial instrument disclosure	SBPs	Pensions	Income taxes	Bus Combs
Yes, excessively complex	20	35	9	20	15	16
Yes, complex but acceptably so in today's environment	6	30	13	15	33	22
No, is relatively simple	0	6	1	2	19	6
Total number of responses	**26**	**71**	**23**	**37**	**67**	**44**

4. In April 2008, the UK FRC conducted a questionnaire on the perceptions of the level of complexity in corporate reporting of UK publicly traded companies. The questionnaire was distributed to members of FRC committees to obtain their personal views. The introduction to section 3 of this report provides more details on how the findings of that questionnaire were used as the basis for this survey.

In the questions about ways in which a particular area of financial reporting was complex, respondents were asked to rank the reasons. For analysis, each section of this report provides a summary table, weighting the responses based on the ranking provided, and it is the percentages of the weighting that have been used to provide analysis of the results to this question.

At the end of the questionnaire, members were asked further questions about themselves and their organisations.

As part of the final set of questions, respondents were asked to give the number of employees in their organisation. In the course of this report, to enable further analysis, those entities that had more than 50 employees are referred to as large companies, and those with fewer than 50 as Small and Medium-sized Entities (SMEs).[5]

A representative sample of 117 members completed the questionnaire. The following section contains a quantitative analysis of the key questions and responses made in the survey.

Figure 1.1: How many employees does your company have, in total? (n=116)

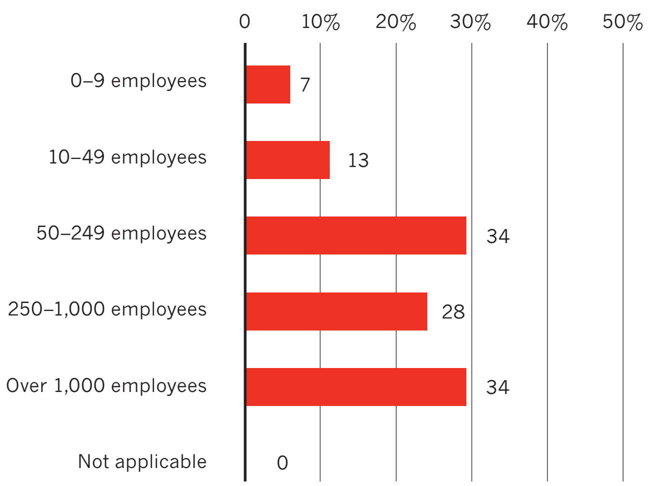
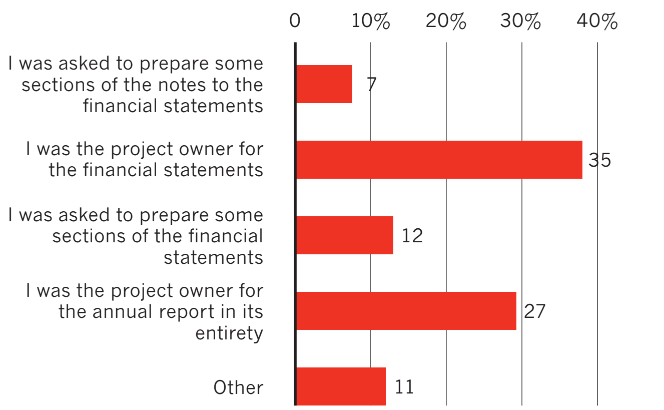


Figure 1.2. What was the nature of your involvement with the annual report? (n=92)



5. The IASB's exposure draft of February 2007, *IFRS for Small and Medium-sized Entities*, stated that IASB had had an enterprise with 50 employees in mind when drafting the standard.

2. Experience of the financial reporting process

2.1 INVOLVEMENT IN THE ANNUAL REPORT

Of the 117 respondents to the questionnaire, 92 (78%) considered themselves to have had recent personal experience preparing financial statements using IFRS or IFRS equivalents. Of those involved in preparing financial statements, a considerable majority, 62, were the project owners for either the financial statements or the full annual report. About a fifth (19) were involved in either the preparation of certain sections or of the notes to the financial statements (Fig 1.2).

Given the fact that many jurisdictions only mandate the use of IFRS for domestic listed companies, it is not surprising to note that the majority of respondents worked for companies that have over 50 employees, and could therefore be considered as relatively large entities (Fig. 1.1).

It may be expected that in larger entities, with additional resources to tackle more numerous and complex transactions, accountants would perhaps be more inclined to specialise in certain areas of the financial reporting process. It is interesting to note, therefore, that in the sample of respondents who were project owners for the financial statements or the annual report (62 in total), 53 worked in companies that had 50 or more employees. These figures are indicative of the level of seniority and experience of those respondents, and may also provide a general rationale for their views on complexity throughout the survey.

2.2 THE ANNUAL REPORT PROCESS AND YOUR ORGANISATION

Respondents were asked whether the preparation of the annual report was not considered a regular aspect of their job (Fig 2.1). Of the total sample, 46% (52 in number) disagreed, with a further 30 respondents remaining uncommitted. Only six respondents believed that good communication of the annual report was not a priority in their company. Although the sample consisted of qualified accountants who would naturally be inclined to suggest so, it is evident that the financial reporting process is valued as an integral function of a business; respondents expressed the view that good communication and presentation of the annual report was a priority in their organisation. The average score for this question was 4.13 out of 5.0.

This is further supported by the relatively wide spread of responses regarding the input into the financial reporting process from outside the expected finance and investor relation functions of organisations (Fig. 2.6).

Just over half of the companies employed external specialists to aid them in the preparation of their financial statements.

Figure 2.1: Preparing the annual report (or part of the annual report) is not my 'day job' so I need to get the report done as quickly as possible and get back to my other work. (n=114)

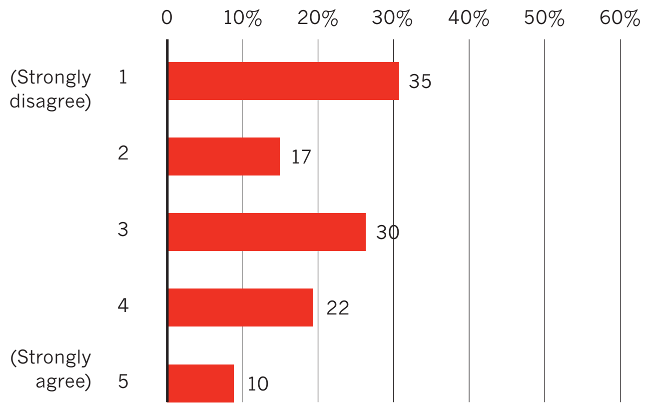
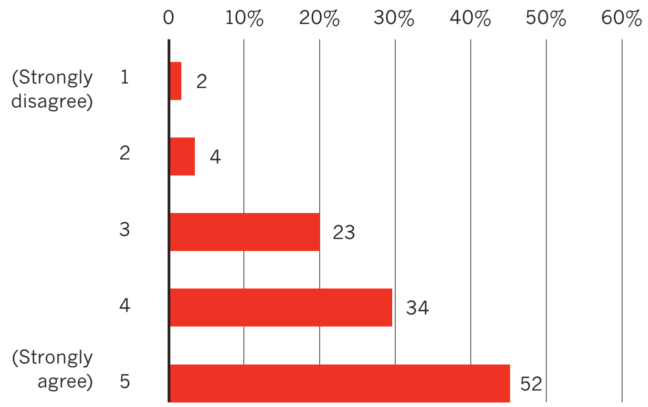


Figure 2.2: Good communication and presentation of the annual report is considered a priority in my organisation. (n=115)



While there was a certain level of input from outside the finance function of an organisation, just over half of the companies (61) employed external specialists to aid them in the preparation of their financial statements (Fig. 2.3). This was largely on an ad hoc basis, as and when required, with just 9% of companies using them to help prepare the entire financial statements. It was further evident that the larger the company, the less likely they were to use external consultants. Although larger companies would be more likely to face more complex transactions and accounting, it is also likely that they would have a more advanced and larger finance function.

When asked whether the preparation of the annual report largely involved the rolling forward of previous-year financial statements, there was an even distribution of responses (Fig. 2.4). A slight majority indicated that this was not the case. This suggests that preparers of accounts are likely to be concerned about complexity beyond the first year of implementation of a set of standards.

Figure 2.3: Do you/your company use specialist consultants in the preparation of financial statements? (n=115)

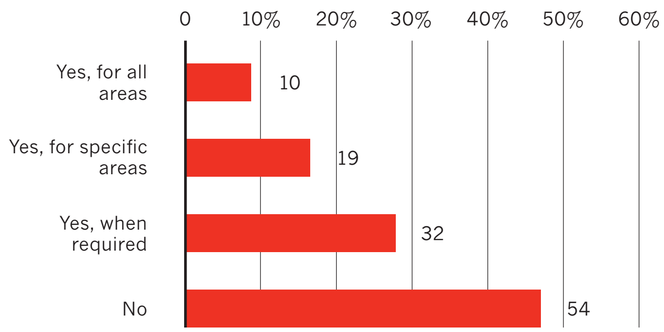


Figure 2.4: When I am preparing the annual report (or part of the annual report) most of the work involves rolling forward last year's report and inserting new figures for this year. (n=114)

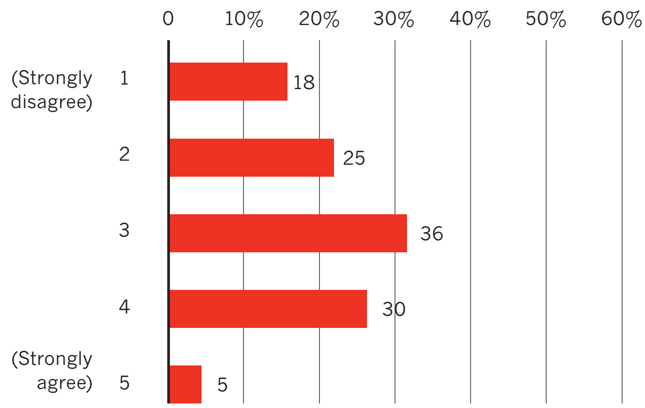


Figure 2.5: How many years have you been involved in the preparation of financial statements? (n=115)

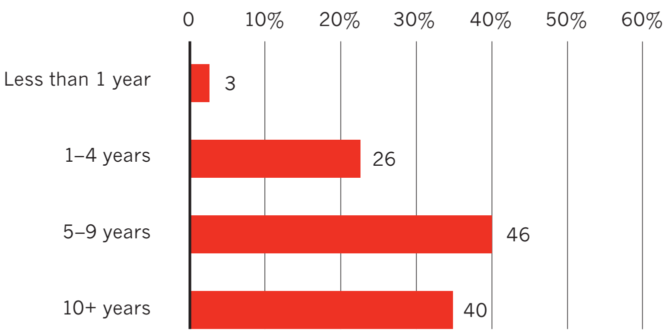
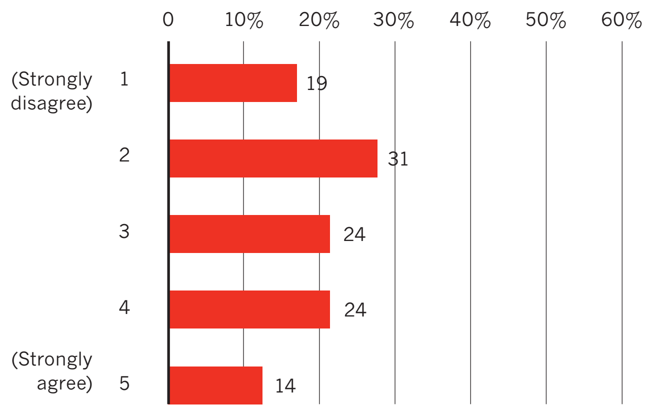


Figure 2.6: People from many different areas outside of the finance and investor relations functions in my organisation are involved in the preparation of our report. (n=112)



2.3 IMPROVEMENTS IN THE FINANCIAL REPORTING PROCESS

Coping with difficult situations is often made easier with experience, and this is clearly evident in members' responses to the question of whether the financial reporting process has improved during their time involved in preparing financial statements (Fig. 2.7). Respondents were able to select more than one of the options as to whether they believed this to be the case, and why. Of the 230 selections made to this question, only 27% indicated that the process had not improved.

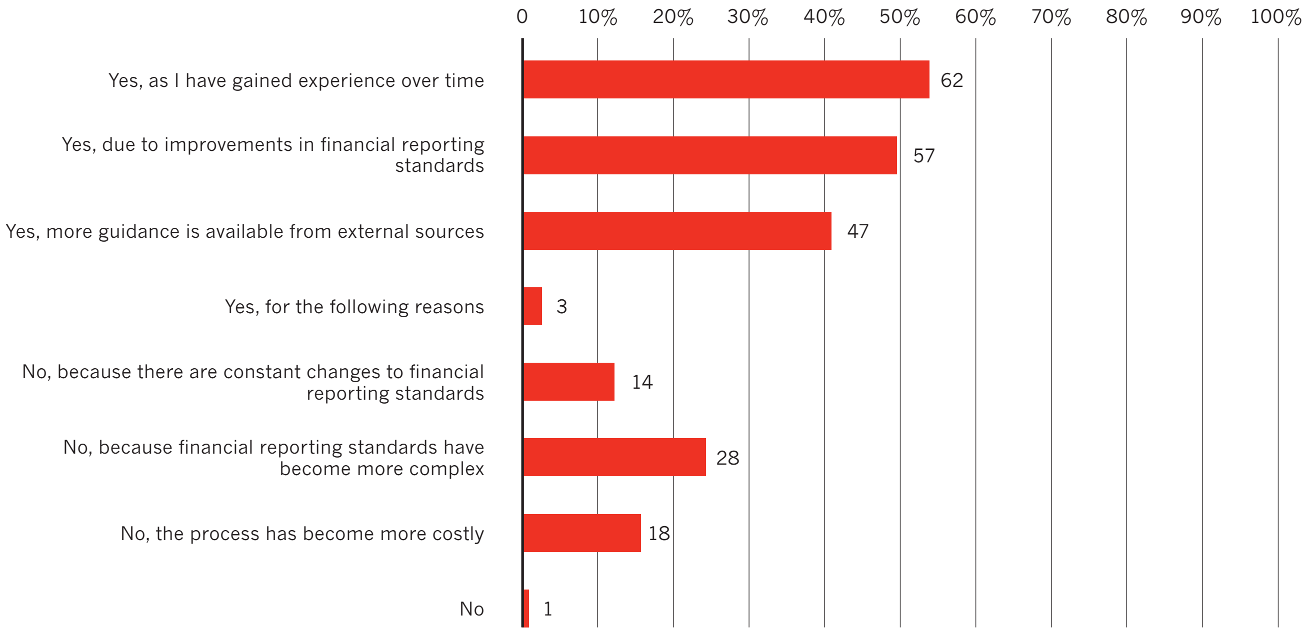
Experience

There was a clear belief that the financial reporting process had improved over time, with over half (54%) of the respondents stating this to be a result of greater experience. Of the 62 respondents who positively agreed with this statement, a significant proportion were those who had been involved in the process for between one to four years (27) and five to nine years (18). Of the members with more than ten years' involvement, the proportion (17 out of 40) who claimed that improvements to the process were a result of their experience, was slightly lower. This does not appear unreasonable, given that most of these respondents would have previously used a different set of accounting standards to IFRS. It is possible that any gains from additional experience would have been negated by the need to understand and apply a new accounting regime.

54%

of respondents stated that the financial reporting process had improved over time, as a result of experience.

Figure 2.7: In that time, do you believe that the financial reporting process has improved? (n=115)



Literature

As previously stated, the main aim of the survey was to assess to what extent accounting standards themselves add complexity to the financial reporting process. It is therefore interesting to note that there were 57 respondents who indicated that one of the reasons for the improved process was the enhanced level of standards (Fig. 2.7). This compares with 42 more negative responses on the impact of standards. Constant changes to standards (14 respondents) and the more explicit confirmation that standards had become more complex (28) were dominant reasons for those who believed that the reporting process had deteriorated.

The relatively high number of individuals in the 'five to nine years' (27) and the 'one to four years' (11) experience categories, who were positive about the effects of financial reporting standards, could potentially be reflecting their views on moving to IFRS from the previous financial reporting regime.

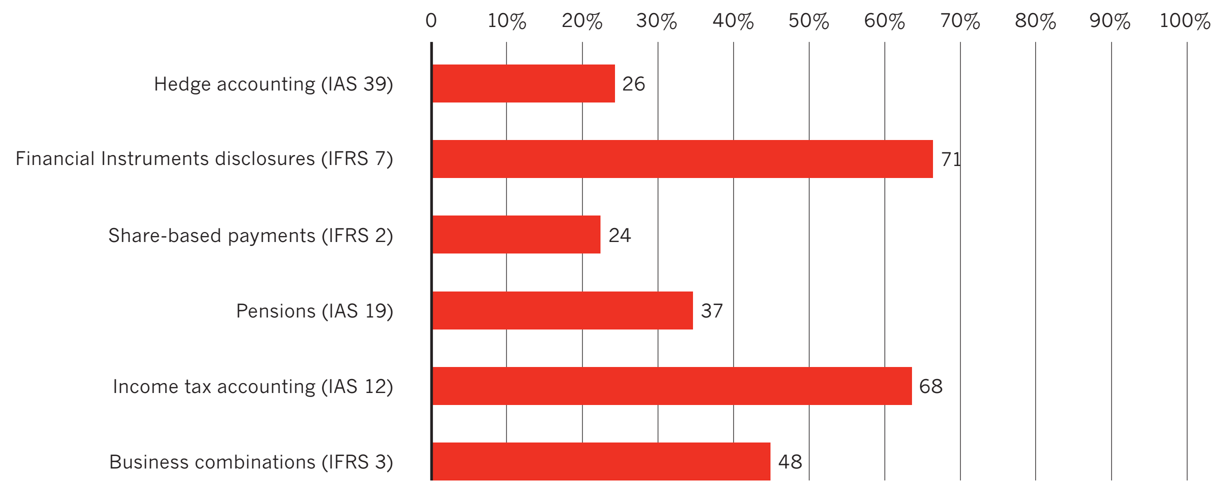
There was also a significant number of respondents who had benefited from the considerable amount of external guidance available on understanding and applying IFRS.

Options

An aim of financial reporting is to ensure that there is transparency, as well as comparability and consistency, across companies' financial statements. The proponents of a globally accepted set of accounting standards often advocate IFRS on this basis. Clearly, the availability of optional accounting treatments within standards can lead to different treatments for similar transactions, causing complexity through blurring the comparability of financial statements for users. Nonetheless, there was clear support among preparers for the inclusion of options within financial reporting standards, with 93 respondents (81%) believing them to be beneficial. This could suggest that managers value the ability to exercise professional judgement in order to reflect their business activities most appropriately.

There was clear support among preparers for the inclusion of options within financial reporting standards, with 93 respondents (81%) believing them to be beneficial.

Figure 2.8: In which of the following areas have you had personal experience of financial reporting during the last three years? (n=115)



3. Key areas of complexity in financial reporting

As referred to in the Introduction, a primary questionnaire conducted by the FRC in the UK highlighted a number of areas of financial reporting that were considered to have become more complex in recent years. Because of the wide range of experiences of the respondents to that earlier questionnaire, the areas identified were used as the basis for this survey, to provide a more in-depth analysis of why preparers of financial statements believed that complexity had increased.

The results of the FRC questionnaire showed recurring concern over complexity in the following areas: report length, financial instruments, share-based payments, pensions accounting, income tax accounting, and business combinations. The results also noted reservations about the potential increase in complexity of narrative reporting. Even so, this was not included as one of the specific areas of focus in the present survey, as there is a lack of specific guidance on narrative reporting in IFRS, and much of the input in this area of the annual report is likely to come from outside the finance function.

As a result of the numerous exposures to risk with which many institutions and their financial instruments are faced, the accompanying disclosure requirements have also become copious.

3.1 MAIN AREAS OF FOCUS

Hedge accounting

One of the most complex areas of financial reporting is accounting for financial instruments in general, and derivative financial instruments in particular. As the IASB discussion paper referred to earlier acknowledges, financial instruments can be inherently complex, and there is certainly an element of unavoidable complexity when accounting for such transactions. One of the most difficult aspects of the financial reporting for derivative financial instruments is fulfilling the requirements for hedge accounting.

Financial instrument disclosure

In August 2005, the IASB issued IFRS 7 *Financial Instruments: Disclosures* to replace IAS 30 and IAS 32. This was partly a result of the changing 'techniques used by entities for measuring and managing exposure to risks arising from financial instruments',[6] and the need for users of financial statements to have this information.

As the credit crisis worsened in 2008, observers asked why these disclosures failed to draw attention to potential problems faced by companies and especially banks, which were ultimately brought about by their exposure to risk. This in turn has led to further efforts by the IASB to consider the relevance of some of the requirements of IFRS 7, and consider improvements.[7]

It is clear that as a result of the numerous exposures to risk with which many institutions and their financial instruments are faced, the accompanying disclosure requirements have also become copious. Many users and preparers alike have taken issue with the sheer volume of disclosures that now form an increasing proportion of the financial statements they produce or analyse. This survey is intended to reveal the concerns of preparers in this area of reporting, and the reactions to the new standard issued by the IASB.

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6. IFRS 7 *Financial Instruments: Disclosures,* IASB, 2006

7. IASB consultative documents and amendments in 2008 include:
Exposure Draft: Improving Disclosures about Financial Instruments: Proposed amendments to IFRS 7, October 2008
Exposure Draft: Investments in Debt Instruments: Proposed amendments to IFRS 7, December 2008
Reclassification of Financial Assets: Amendments to IAS 39 and IFRS 7, October 2008.

Share-based payments

The degree of prevalence of share-based payments (SBPs) is often particular to certain jurisdictions. This perhaps explains the relatively few members in the sample who have had personal experience of accounting for SBP transactions in recent years – 24 had done so. It is also the probable reason why relatively few respondents noted this as an area of complexity. It is also clear from the survey that the accounting for SBPs was not perceived as being as relevant (now or in the future) to respondents as other areas. Not only was it the least applied by respondents, but fewer respondents were inclined to consider further questions about this area regardless of their recent practical experience.[8] This contrasts with hedge accounting, for instance, where although only two more members had encountered transactions, a considerably larger proportion of the whole sample were inclined to consider responding to further questions about hedge accounting. SBPs are clearly a highly specific area of accounting that did not resonate with members, unlike the more contentious issue of hedge accounting.

Pensions accounting

IAS 19: *Employee Benefits* deals with the accounting for all forms of consideration paid for services to employees. These include short-term benefits such as wages and salaries, long-term benefits that are not payable within 12 months, and termination benefits. The main cause of contention with this standard is, however, the accounting for post-employment benefits such as pensions, and more specifically the accounting for defined-benefit pension plans (DB plans). Although referring to pensions accounting in general, the questions in this section of the survey were geared towards DB plans.

Income tax accounting

The accounting treatment for income tax, including the current and future consequences (deferred tax) of transactions, recoverability and settlement of assets and liabilities, is dealt with by IAS 12 *Income Taxes*. Many people continue to question the relevance of some of the accounting requirements related to deferred tax in particular, and this part of the survey attempted to uncover the concerns of members in this area of financial reporting.

Business combinations

IFRS 3 *Business Combinations* is the accounting standard that deals with the bringing together of more than one business into one reporting entity, central to which is the issue of control. Acquiring other businesses is a commonly used method of expanding a business. The accounting for the various elements of a business over which another entity has taken control can be difficult. Members were asked a series of questions to consider how complex this process is, and what standard-setters can do to relieve some of it.

Fig. 2.8 (see page 17) represents how many respondents had experience of these areas of financial reporting in recent years. Subsequent sections of this report provide an analysis of how complex these areas are considered to be, the perceived reasons for that complexity and how, if possible, that complexity can be reduced.

3.2 OTHER AREAS WHERE COMPLEXITY ARISES

As well as these specified areas of financial reporting, respondents were asked whether there were any other areas that they had found complex when preparing financial statements. The responses to this question somewhat vindicate the focus of the survey, with 70% answering negatively.

The other areas of financial reporting that were considered to be complex represented a wide range of aspects, with very few recurring themes. Only segmental reporting and the accounting for impairments were found to be complex by more than two respondents – and then only by three in each case. The main problems encountered with these other areas were:

- fulfilling the requirements are time consuming and costly
- the transactions are complex and difficult to understand
- the difficulty in understanding the standards.

70%

of respondents said there were no other areas that they had found complex when preparing financial statements.

8. Twenty-four members had recent experience of SBP, compared with 26 for hedge accounting, although 96 members responded to the further question of whether they considered SBP to be complex – 106 answered the question for hedge accounting.

4. Causes of complexity

The second section of the survey asked respondents a series of questions on each of the key areas of financial reporting highlighted above. Clearly, the nature of the transactions themselves affects whether those areas are seen as complex. This section of the report considers whether these areas were considered to be complex and, where this was the case, the main reasons why they were deemed to be so.

4.1 COMPLEX OR NOT?

As mentioned earlier, there is a widespread perception that accounting for financial instruments and hedge accounting are among the most difficult areas of financial reporting under IFRS. This is clearly demonstrated by respondents in this survey. Only two members, who did not have recent experience in this area, believed that hedge accounting was relatively simple. About a quarter of respondents (26: 24.3%) in the survey had encountered hedge accounting. These all considered hedge accounting to be complex.

71%

find it difficult to explain the resulting accounting disclosures for hedge accounting to senior management.

In line with the views of those who had had recent experience of hedge accounting, there was an overwhelming perception among respondents in general that hedge accounting was complex. The overall views on the level of complexity among respondents in general were also consistent with the views of those who had had experience in hedge accounting. They indicated even more strongly that hedge accounting was more complex than it needed to be (20: 77%), with only six respondents indicating that the complexity was acceptable given the current business environment.

Respondents assessed the disclosure of financial instruments and SBPs on a similar basis.

4.2 COMPLEXITY IN HEDGE ACCOUNTING

When all respondents in the sample were asked why they perceived that this area of financial reporting was complex, the results again pointed to concerns with the governing standard (IAS 39, *Financial Instruments Recognition and Measurement*), and the acceptance that there was an inherent level of complexity in the transactions themselves. Respondents were asked to rank these reasons. Table 4.1 summarises the results, weighting the responses based on the ranking provided.

The results show that the complexity of fulfilling the relevant requirements of IAS 39 is the most common reason for finding hedge accounting difficult (24%). Taken together with the fact that a further 16% struggled with the understanding of the standard itself, this graphically represents the fact that IAS 39 is considered a complex standard – as is recognised by the chairman of the IASB.

A sizeable proportion of respondents (21%) also recognised that hedging transactions themselves were complicated and were the overriding reason for the resulting accounting complexity. This corresponds with the response to the previous questions, where 34 respondents (32%) stated that the complexity in this area was acceptable in today's environment.

It is also notable that, despite not being a common first choice, the lack of relevance of resulting information (to decision makers) from the application of hedge accounting was also a factor for many respondents. This point is evident from the response to the question about how difficult it is to explain the resulting disclosures to senior management (presumably the decision makers). A sizeable majority (75: 71%) found this a difficult task, again emphasising particular concerns with this area of financial reporting, given that for the other areas reviewed, on average 50.4% of respondents had difficulties in explaining the resulting disclosures.

Table 4.1: Weighted ranking for reasons why hedge accounting was considered complex

1. The standard is difficult to understand	16%
2. The transactions themselves are difficult to understand	21%
3. Fulfilling the requirements of the standard are time consuming and costly	24%
4. More time spent than should have been	11%
5. The accounting process does not produce information that is considered to be relevant for decision making	14%
6. Other	2%
7. No other reason	12%

4.3 COMPLEXITY IN DISCLOSURES RELATING TO FINANCIAL INSTRUMENTS

Many (71: 66%) respondents confirmed that they had been required to apply this standard in recent years. All respondents were asked whether they believed financial instrument disclosure was complex. The results for the overall population were entirely in agreement with those who had claimed to have had recent experience in this area.

Again, a very large majority agreed that this area of accounting was complex. In slight contrast to the views on hedge accounting, however, respondents were more inclined to accept that much of the complexity was a consequence of the business environment. Nonetheless, a majority of respondents saw the complexity in disclosures relating to financial instruments as being more complex than need be (57: 51%).

Although a significant proportion of respondents believed the current business environment made the difficulty in financial instrument disclosure acceptable, the survey results do not explain what was causing the complexity in this area. The inherent complexity of financial instruments scored a weighted average of 19% (see Table 4.2).

In general, the views of respondents to this question provide similar results to those for the causes of complexity in hedge accounting, with slightly more respondents expressing more negative views of the relevant accounting standard.

The cost of producing the disclosures compared with the benefits of this for making business decisions was again an evident concern for respondents. They again found it difficult to explain the resulting disclosures (61: 57%) to senior management, although they did not find this as testing as explaining hedge accounting information (75: 71%).

Table 4.2: Weighted ranking for reasons why financial instrument disclosure was considered complex

1. The standard is difficult to understand	14%
2. The transactions themselves are difficult to understand	19%
3. Fulfilling the requirements of the standard are time consuming and costly	29%
4. More time spent than should have been	9%
5. The accounting process does not produce information that is considered to be relevant for decision making	15%
6. Other	1%
7. No other reason	13%

4.4 COMPLEXITY IN ACCOUNTING FOR SBPs

When all respondents were asked to comment on whether they found SBPs complex, 86 respondents (90%) said they did, with 40 members (42%) stating that the level of complexity was acceptable in the current business environment. Interestingly, of the relatively few members who had recent practical experience with accounting for SBPs, a majority indicated that the complexity associated with SBPs was acceptable. The number of members who complained that SBPs were excessively complex were relatively few (46 overall and 9 with relevant experience).

The relatively stronger acceptance of the complexity relating to accounting for SBPs, owing to current business practices, is also well reflected by the recognition that SBPs are complex and difficult to understand. Many proponents of IFRS 2 have argued that the accounting and disclosures that arise from applying this standard reflect the impact that such transactions have on a company's financial performance and position.

The acceptance of the complexity in this area of accounting, especially among those members who encountered such transactions in person, also supports this view. So too does the relatively lower score (11%) apportioned to the view that the resulting financial information is not relevant for making decisions (Table 4.3). On a similar note, members indicated that it was easier to explain the resulting accounting and disclosures to senior management than was the case with accounting related to financial instruments. Fewer than half (45: 48%) of respondents found it difficult to explain. There was less concern about ability to understand this standard than for those for hedge accounting (IAS 39) and financial instrument disclosures (IFRS 7). Nonetheless, as with those other standards, concerns over the costliness of fulfilling their requirements were a significant factor (Tables 4.2–4.6).

4.5 COMPLEXITY IN PENSIONS ACCOUNTING

Many respondents, when given the opportunity to comment on this area of financial reporting, took the opportunity to do so. Of those respondents, 37 had had recent experience of applying pensions accounting in their organisation (Fig. 2.8).

Again, an overwhelming majority of respondents (91) in this section claimed that pension accounting was complex. Of those 91 (89% of the total), 35 had had recent experience in this area. Of those who had had recent experience, slightly fewer (27%, compared with 38% of the overall sample for this question) were inclined to accept that complexity because of the business environment in which their company was working. This suggests that pensions accounting is more complex than it need be, a fact demonstrated in the relatively high scoring given to the view that fulfilling the requirements of the standard causes that complexity (Table 4.4).

This is further supported by the responses to the question asking what members believed to be the most significant causes of complexity in pensions accounting. Problems with the standard itself (45%), either through the understanding of IAS 19 (18%) or the effort in fulfilling its requirements (27%) were more pronounced than for hedge accounting (40%) and financial instrument disclosures (43%). The costliness of fulfilling the requirements was clearly a significant issue in this area, although this was not replicated in concerns over the usefulness of the information finally produced. The costliness of fulfilling the requirements may be considered a consequence of using specialist consultants, such as actuaries, but this is not immediately obvious from the results of the survey – although 20 of the 37 respondents who had had recent exposure to accounting for pensions did use external specialists, they could have been commissioned to advise on other sections of the financial statement.

Table 4.3: Weighted ranking for reasons why accounting for SBPs was considered complex

1. The standard is difficult to understand	13%
2. The transactions themselves are difficult to understand	24%
3. Fulfilling the requirements of the standard are time consuming and costly	24%
4. More time spent than should have been	8%
5. The accounting process does not produce information that is considered to be relevant for decision making	11%
6. Other	1%
7. No other reason	19%

Table 4.4: Weighted ranking for reasons why pension accounting was considered complex

1. The standard is difficult to understand	18%
2. The transactions themselves are difficult to understand	20%
3. Fulfilling the requirements of the standard are time consuming and costly	27%
4. More time spent than should have been	7%
5. The accounting process does not produce information that is considered to be relevant for decision making	10%
6. Other	1%
7. No other reason	17%

4.6 COMPLEXITY IN INCOME TAX ACCOUNTING

Of all the respondents in the survey, not surprisingly, 68 (64%) had encountered income tax accounting in recent years – only financial instrument disclosure had more affirmative replies to the question of recent experience. Many other members also answered questions on the complexity in this area of reporting.

This area of accounting was the least complex, according to responses in the survey. Nearly one-third (33: 31%) of respondents considered income tax accounting to be relatively simple. A further 45 (43%) members believed that the complexity arising from this area was acceptable – only a quarter of all respondents claimed that there was too much complexity. For those in the sample who had had recent experience, just over one-fifth (15: 22%) held this view.

Of all of the areas considered, income tax accounting had the widest spread of scores for the reasons given for complexity (Table 4.5). Considerably fewer respondents than for other areas looked to the accounting standard as a cause (13% found it difficult and 22% found it costly to implement), and similarly there was less evidence that the complexity around taxes themselves was an issue (19%). The relatively high scoring for 'no other reasons', again indicates that this area of accounting was thought of as less complex than the others considered in this survey.

The view that the information produced was not commensurate with the effort required, scored 13%. This was similar to other areas. Nonetheless, the majority of respondents (56: 55%) did not see explaining the accounting and disclosures to senior management as a problem.

4.7 COMPLEXITY IN ACCOUNTING FOR BUSINESS COMBINATIONS

From the results of the survey, 48 members had had recent experience of accounting for business combinations in their organisations. Their experiences of complexity in this area were echoed by the wider perceptions of the overall respondents (99 members) who completed this section of the survey.

Overall, 38 respondents (38%) indicated that the accounting for business combinations was excessively complex. A significant proportion (44: 44%) believed that the complexity was acceptable given the business environment in which their companies operated.

When ranking the reasons for why they believed that accounting for business combinations was complex (Table 4.6), respondents strongly indicated (26%) that the requirements were costly and time consuming. This, coupled with difficulties in understanding IFRS 3 (16%), indicates concerns with the standard itself – only IFRS 7 and IAS 19 scored higher on this account.

As was the case for other areas of financial reporting, business combinations were seen as complex in themselves by a number of respondents. The 22% score is relatively high, and correlates with the fact that many respondents believed that a degree of complexity in this area of accounting was acceptable.

Table 4.5: Weighted ranking for reasons why income tax accounting was considered complex

1. The standard is difficult to understand	13%
2. The transactions themselves are difficult to understand	19%
3. Fulfilling the requirements of the standard are time consuming and costly	22%
4. More time spent than should have been	11%
5. The accounting process does not produce information that is considered to be relevant for decision making	13%
6. Other	1%
7. No other reason	21%

Table 4.6: Weighted ranking for reasons why accounting for business combinations was considered complex

1. The standard is difficult to understand	16%
2. The transactions themselves are difficult to understand	22%
3. Fulfilling the requirements of the standard are time consuming and costly	26%
4. More time spent than should have been	11%
5. The accounting process does not produce information that is considered to be relevant for decision making	8%
6. Other	0%
7. No other reason	17%

5. Understanding and applying the standards

When asked to identify the main causes of complexity (see section 4) in most of the areas considered in the survey, respondents raised a certain level of concern over the complexity within the accounting standard that dealt with each particular area. This chapter reviews the results of responses to questions relating to the application and comprehensibility of the standards.

98%

of respondents had difficulty obtaining information to apply IAS 39.

5.1 HEDGE ACCOUNTING UNDER IAS 39

Respondents were asked a series of questions on their perceptions of IAS 39. Again, in line with responses to questions related to improved reporting over time, respondents experienced the most difficulty in the first year of applying the standard. Unsurprisingly, with greater experience, the application of the standard was seen to become easier – over 40% of respondents reported this.

Again, responses to other questions strengthen the view that many of the difficulties encountered in applying hedge accounting were on initial application. When asked whether their existing management systems were able to provide the required information to apply IAS 39 in the first year of application, over 98% of respondents (82) answered negatively. Of the 84 respondents, 36 found it very difficult to obtain that information, with only two respondents finding it relatively straightforward.

Figure 5.1: IAS 39 is written in plain English except where the technical nature of the material requires more specialised language. (n=107)

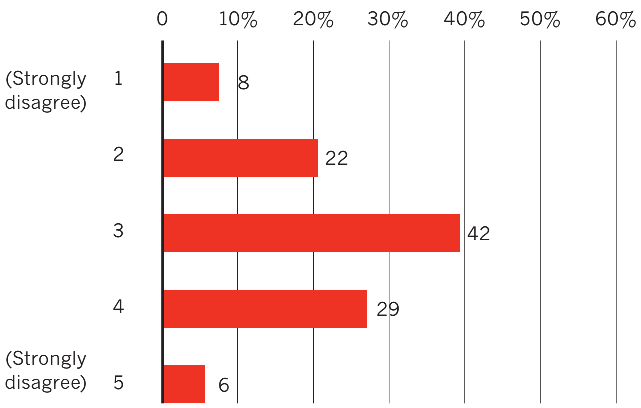
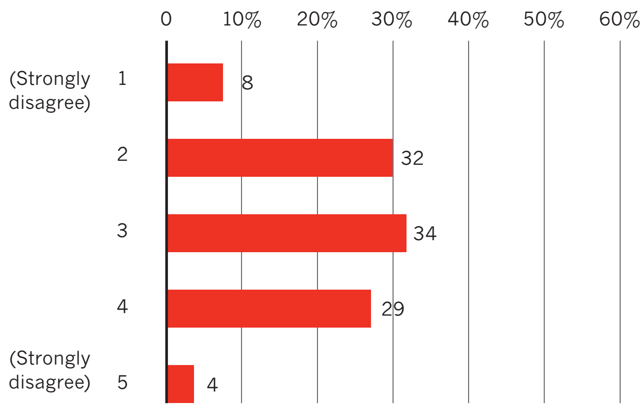


Figure 5.2: IAS 39 has a logical order and clear headers which make it easy to navigate and find the material relevant to my organisation. (n=107)

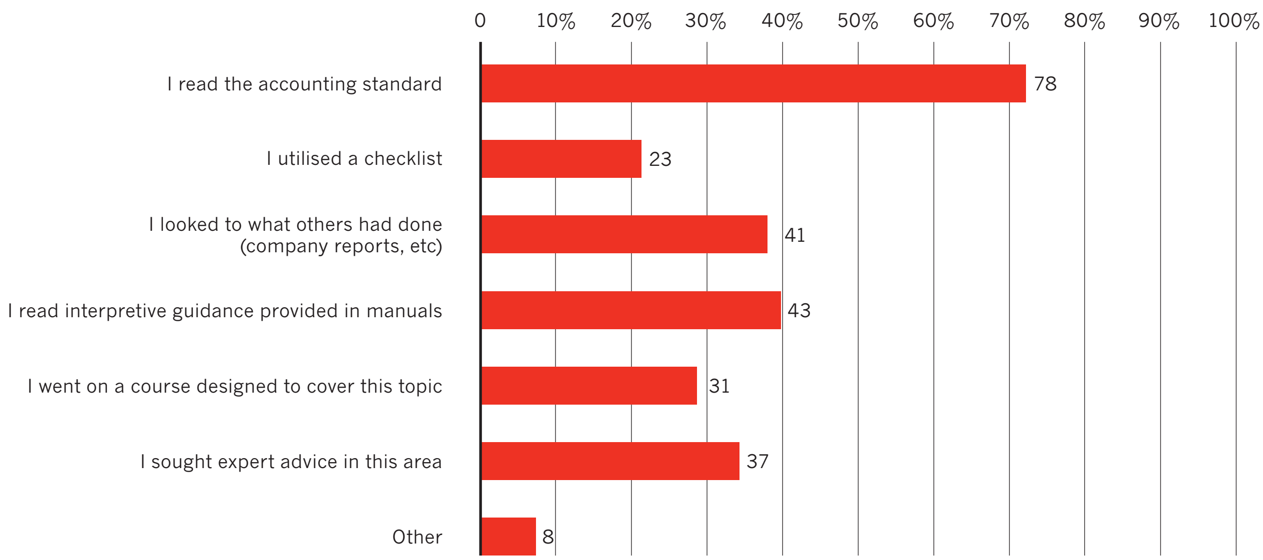


On a practical level, although a number of respondents had concerns about the language and layout of the standard itself, there was no overall consensus. This is evident from Figure 5.3, which shows that the majority of respondents (78: 72%) looked to the standard itself when trying to understand and apply it.

Other than referring to the standard itself, respondents were able to use a number of resources to familiarise themselves with this area of accounting. The preferences for the resources used were mirrored across all the other areas of financial reporting surveyed. Although there was no clear concern about the quality of the standard in terms of understanding the language (Fig. 5.1) and navigation (Fig. 5.2), the fact that fulfilling its requirements was seen as burdensome (see Table 4.1) and the reliance placed on it, suggests that standard setters need to be mindful of its importance. This is clearly evident from responses to the questions of how complexity could be reduced, as discussed in section 7.1

Although there was little concern about the clarity of IAS 39, the fact that fulfilling its requirements was seen as burdensome and the reliance placed on it, suggests that standard setters need to be mindful of the importance of the standard.

Figure 5.3: How did you come to understand and apply IAS 39 when this standard first become applicable to your company? (n=108)



Another, more specific factor relating to the standard governing hedge accounting, is the ease with which one can determine whether hedge accounting procedures are required. Figure 5.4, suggests there was a slight indication from members that it was not particularly straightforward. This suggests that there is some complexity in applying IAS 39 for hedge accounting. This is especially relevant given that there is an option regarding hedge accounting within the standard, which many companies may not be taking up because they have concerns about applying the requirements.

This fact is more acutely highlighted in Figure 5.5, which reflects responses as to how difficult it was for them to agree on the application of hedge accounting with their senior management team and the company's auditors. Only 14 respondents (14%) indicated that this was a straightforward process, with nearly half (45) having to go through considerable debate before being able to conclude.

As well as the time taken to reach a satisfactory conclusion, another measure of complexity in preparing financial statements is the level of restatements made after publishing financial statements. When asked about this, a sizeable minority, 28 (26%), of respondents were required to restate the financials as a result of their accounting treatment of hedging instruments. Given the exceptional circumstances required for restatements (including materiality thresholds), coupled with the difficulties in reaching an initial decision, these figures further indicate that respondents have encountered difficulty in correctly understanding or applying the accounting standard.

Figure 5.4: I found it straightforward to determine if hedge accounting requirements in IAS 39 applied to my company or not. (n=105)

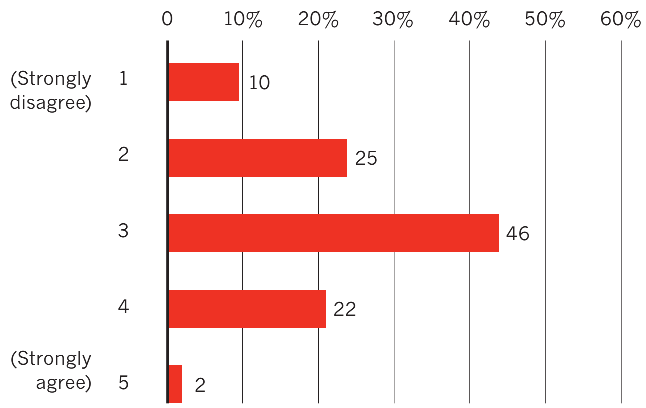
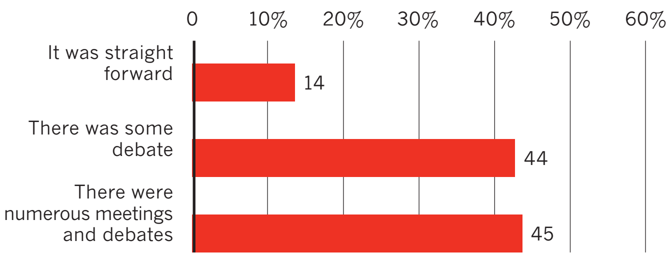


Figure 5.5: How difficult was it for you to conclude on the application of hedge accounting under IAS 39 with the senior management team and the auditors? (n=103)



5.2 FINANCIAL INSTRUMENT DISCLOSURE AND APPLYING IFRS 7

IFRS 7 was mandatory from 2007, and many respondents will have applied the standard for the first time in their organisation's most recent set of financial statements. There was a clear belief that the process of applying IFRS 7 would become easier in subsequent years.

The first year of application, as would be expected, is significantly more difficult in most areas of financial reporting. Similarly, this experience could apply to dealing with any amendments to existing accounting standards – the need to understand the relevance of those changes to one's business can be costly, as can the actual requirements. Standard setters, even when aiming to make apparently positive amendments, should be aware of the concerns of preparers in this respect. In the case of IFRS 7, almost 70% of respondents (74) did not have the necessary information readily available when first applying the standard, and only two of them were able to obtain the information easily.

When asked about the drafting of IFRS 7, the respondents again gave very similar answers to those relating to IAS 39, although respondents were less negative about the general usability (see Fig. 5.6).

The relatively positive views on IFRS 7 in this respect were confirmed by the fact that respondents claimed that the standard itself was their key source for gaining an understanding of its requirements – 85 respondents (79%) did so. Clearly, members have access to, and use, a number of resources. As previously noted, the use of these other sources of guidance was similar across all the other areas of financial reporting considered in this survey.

In the application of IAS 39 for hedge accounting, respondents found it relatively difficult to conclude some of the accounting treatments. Again only a small proportion (18: 17%) found it a straightforward process to agree whether to apply the disclosure requirements within IFRS 7 with senior management and auditors, while a relatively small proportion (24: 22%) found this a particular arduous exercise (Fig 5.7).

70%

did not have the necessary information readily available when first applying IFRS 7.

Figure 5.6: IFRS 7 is written in plain English except where the technical nature of the material requires more specialised language. (n=110)

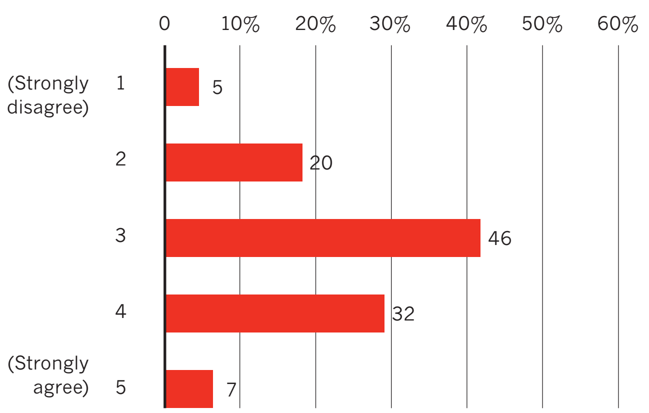
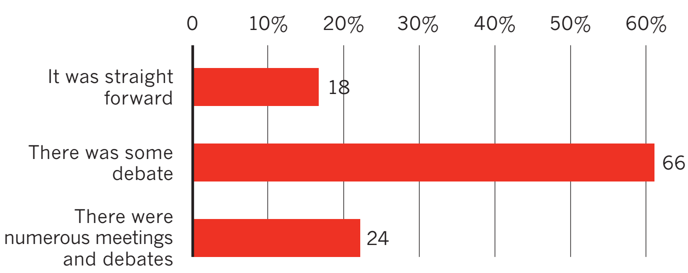


Figure 5.7: How difficult was it for you to conclude on the application of financial instrument disclosures under IFRS 7 with the senior management team and the auditors? (n=108)



5.3 SHARE-BASED PAYMENTS AND APPLYING IFRS 2

As with other the areas considered in this survey, respondents generally accepted that the first year of application was the most complex, with the experience gained then understandably easing the complexity in subsequent years.

Again, the availability of information in that first year of application was a problem for most respondents – albeit considerably less of an issue than for accounting for financial instruments. The 64 respondents (68% of all respondents) who did not have all the information readily available presumably struggled to assess appropriately the value of their obligations relating to these incentives, according to IFRS 2. Thus despite the fact that the company may have been using these incentives for a number of years, the particular requirements to assign fair value to the SBPs, for example, would have been an issue. About 44 (69%) of those that did not have the information readily available, encountered some difficulty, with a further 14 (22%) finding it very difficult.

Supporting the relatively smaller number of respondents who scored the standard as difficult to understand (13%) and its requirement costly to implement (24%) as shown in Table 4.3, there was little concern about the drafting of IFRS 2. Most respondents did not hold a strong view either way, while only about one-fifth of respondents had concerns with the language (Fig. 5.8) and usability (Fig. 5.9) of the standard, with very few strongly disapproving of the standard in these respects.

Figure 5.8: IFRS 2 is written in plain English except where the technical nature of the material requires more specialised language. (n=98)

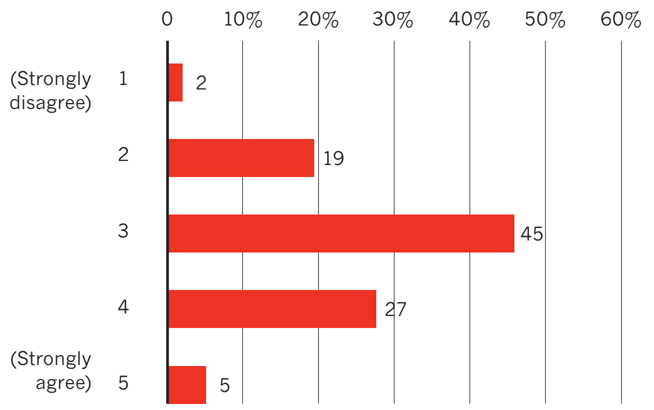
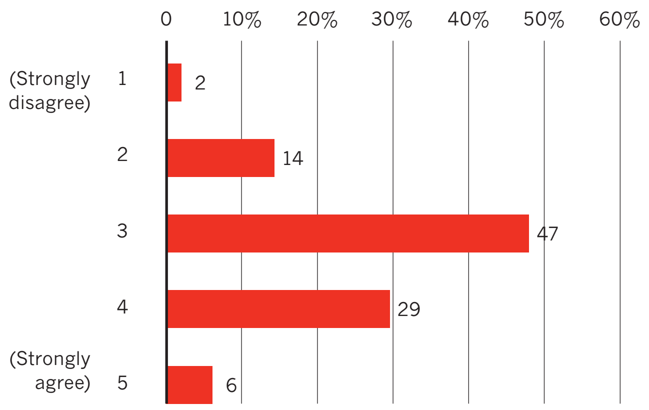


Figure 5.9: IFRS 2 has a logical order and clear headers which make it easy to navigate and find the material relevant to my organisation. (n=98)

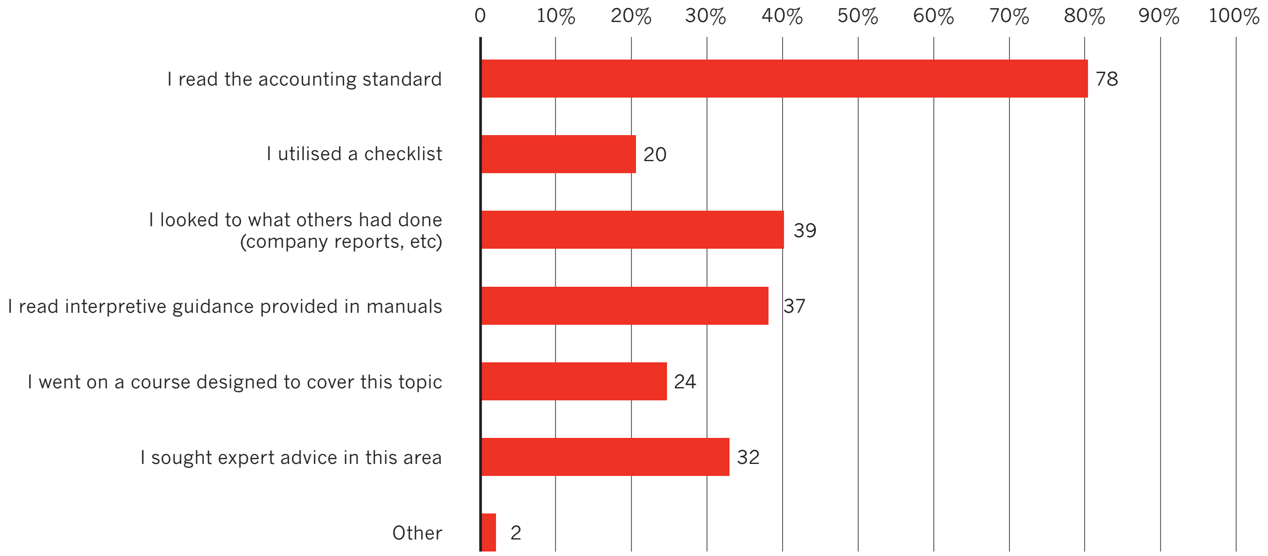


Again members used various sources of guidance to help them understand and apply the requirements. As was the case with fulfilling the requirements of IFRS 7, the positive views on the structure of the standard were reflected in respondents' use of the issued standard itself to gain an understanding of its requirements – 78 respondents (80%) did so (see Fig. 5.10).

There is a clear indication that despite acknowledging that there is complexity in the accounting for SBPs, respondents had less concern over this area of reporting than for financial instruments as a whole. This can be deduced from the greater acceptance of that complexity, as mentioned earlier, as well as the less onerous process of agreeing on the application of the standard. Nearly one-quarter (22: 23%) of respondents found it quite easy to finalise the disclosures in this area, with fewer than one-fifth (18: 19%) having to conduct a lengthy debate with their senior management and external auditors.

There is a clear indication that despite acknowledging that there is complexity in the accounting for SBPs, respondents had less concern over this area of reporting than for financial instruments as a whole.

Figure 5.10: How did you come to understand and apply IFRS 2 when this standard first become applicable to your company? (n=97)



5.4 PENSIONS ACCOUNTING USING IAS 19

Problems with understanding the standard were again a factor for many respondents (18%, see Table 4.4) who indicated that pension accounting was complex. As before, getting to grips with the requirements of the standard in the first year was an issue for most, but they accepted that the process subsequently became easier.

Although respondents had earlier shown an apparent concern about the complexity resulting from IAS 19 itself, this does not appear to have been a consequence of the wording or layout of the standard. These areas were not strongly criticised by respondents, who indicated that the detailed requirements of the standard were the issue.

The deficiencies of existing information systems were significantly similar to those for applying the requirements of IFRS 2 for the first time (68: 68% of respondents not having the relevant information available). Nonetheless, a notable number of respondents found obtaining that information very difficult (31: 46%), having to use either expert help, or additional time. Only five respondents did not have any problems in obtaining the required information.

Figure 5.11: IAS 19 has a logical order and clear headers which make it easy to navigate and find the material relevant to my organisation. (n=99)

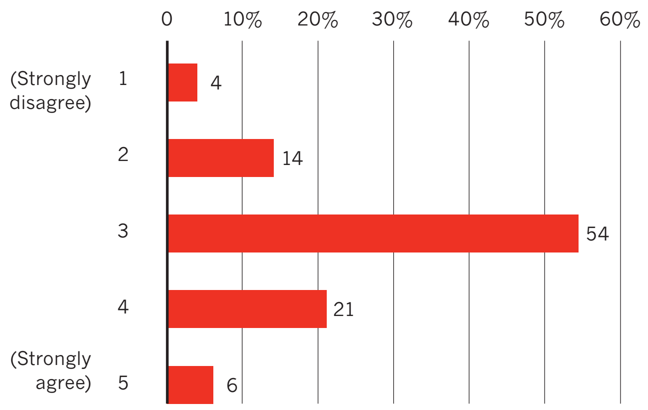
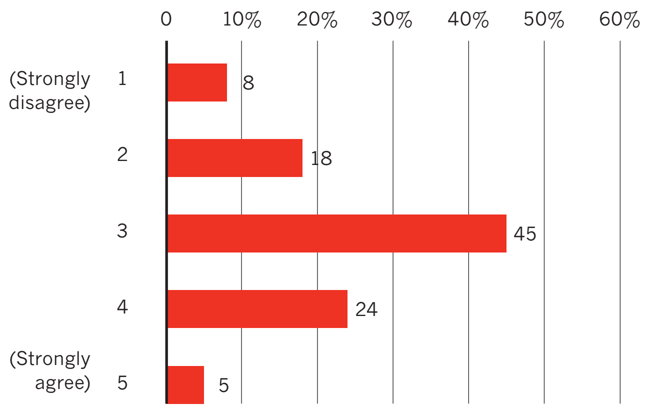


Figure 5.12: IAS 19 is written in plain English except where the technical nature of the material requires more specialised language. (n=100)



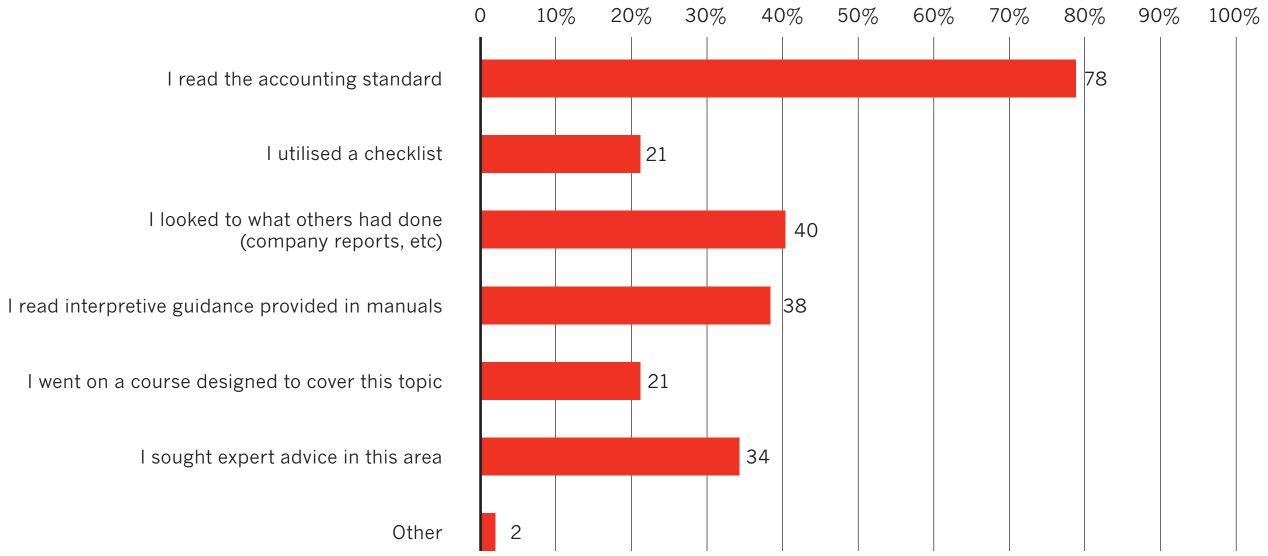
There was no striking pattern in the responses to the question about how members came to understand and apply IAS 19. Figure 5.13 is in line with responses on other areas of financial reporting, those on the accounting standard itself (not believed to be a major problem for IAS 19 according to the responses above) indicated that it was the primary source of information.

When asked how difficult it was to agree on the application of IAS 19 with senior management and the auditors, this area of accounting was slightly more contentious than the accounting for SBPs (28 respondents, compared with 18, had had considerable debate), but not as big a concern as the two areas relating to financial instruments. The level of judgement required in the measuring and disclosing of related information was clearly likely to have been a factor here.

46%

of respondents found obtaining information very difficult, having to use either expert help, or additional time.

Figure 5.13: How did you come to understand and apply IAS 19 when this standard first become applicable to your company? (n=99)



5.5 INCOME TAX ACCOUNTING AND APPLYING IAS 12

Again, the figures show that accounting for income taxes became easier for respondents after the first year. Nonetheless, (as shown in Table 4.5) members still gave considerable weight to problems in understanding IAS 12.

The relatively few concerns with the standard itself were also evident from the responses relating to the language (Fig. 5.15) and clarity (Fig. 5.14) of IAS 12.

There was an even split of responses (51 each) when asked about the readiness of information from the company's existing management information system, although of the 51 respondents who did not have the information readily available, 35 (68%) did have some difficulties in obtaining that information.

Figure 5.14: IAS 12 has a logical order and clear headers which make it easy to navigate and find the material relevant to my organisation. (n=102)

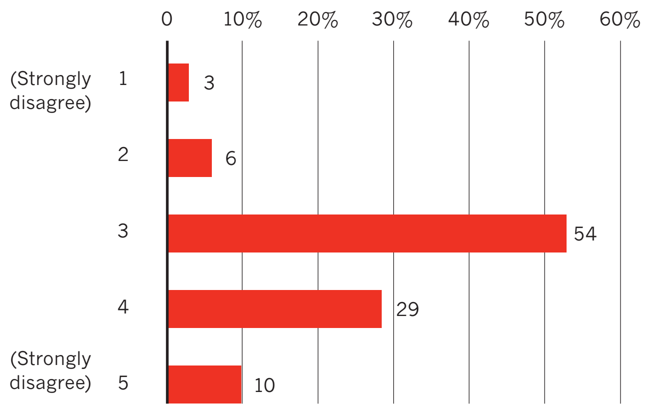
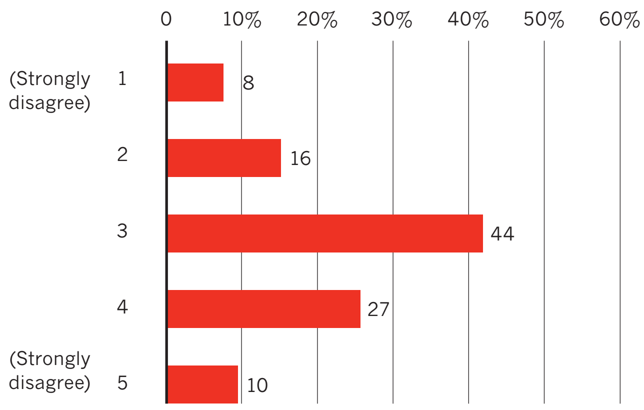


Figure 5.15: IAS 12 is written in plain English except where the technical nature of the material requires more specialised language. (n=105)



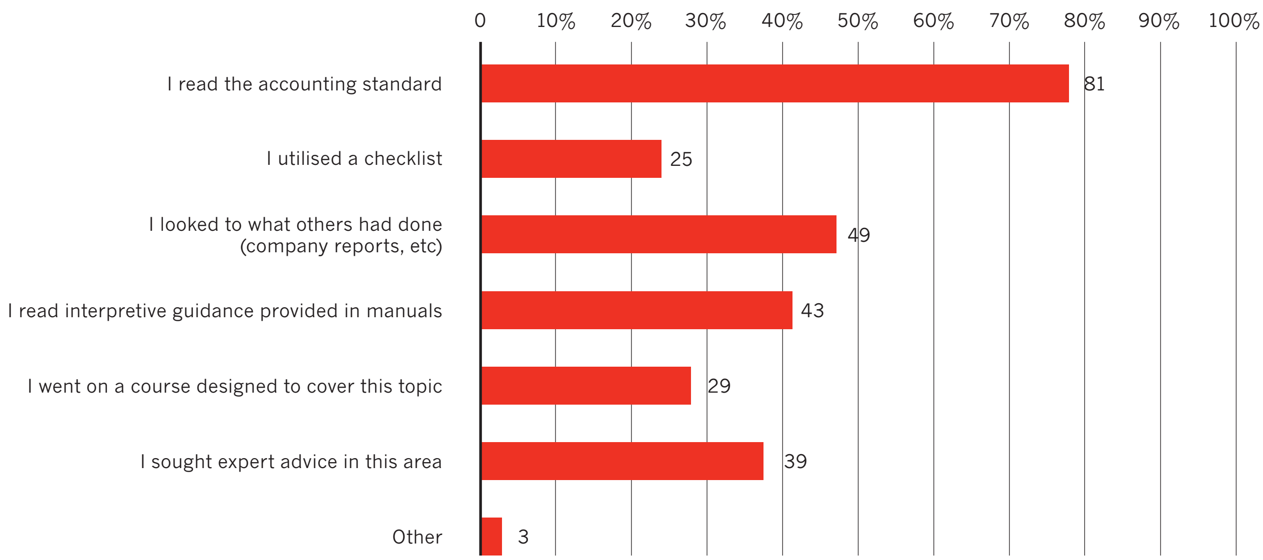
Again, the initial understanding of the requirement of IAS 12 was gained primarily from the standard itself, with similar use of other resources for guidance (see Fig. 5.16).

As would be expected from respondents' views on the complexity in this area, a larger proportion of members (35: 35%) found it relatively easy to agree on the application of the standard with senior management and the auditors. The lower level of subjectivity in this area of accounting could explain the lack of contention (18: 18% requiring numerous meetings) to conclude on the accounting for taxes.

35%

found it relatively easy to agree on the application of the standard with senior management and the auditors.

Figure 5.16: How did you come to understand and apply IAS 12 when this standard first become applicable to your company? (n=104)



5.6 ACCOUNTING FOR BUSINESS COMBINATIONS UNDER IFRS 3

Respondents apparently not only saw this area of accounting as less complex than most others (only 17 respondents (17%) found it excessively complex), but also believed that the standard itself was less responsible for that difficulty. This is also clear from the relatively positive responses to questions about the language (Fig. 5.18) and clarity (Fig. 5.17) of the standards.

When first applying the standard, 60 members (63%) indicated that there were gaps in the information available through the current management systems, with one-fifth of those (12) finding it particularly difficult to retrieve the relevant information.

38%

found accounting for business combinations excessively complex.

Figure 5.17: IFRS 3 has a logical order and clear headers which make it easy to navigate and find the material relevant to my organisation. (n=99)

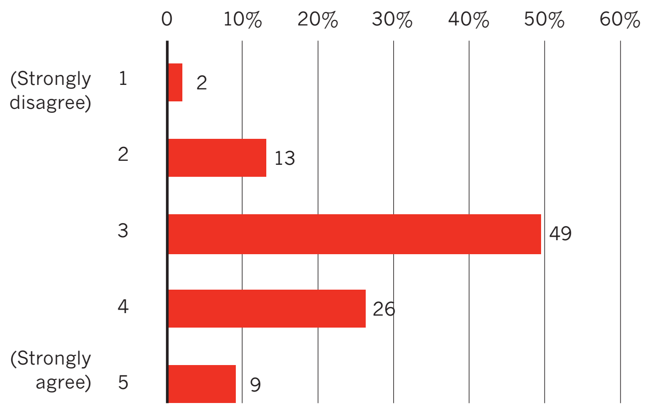
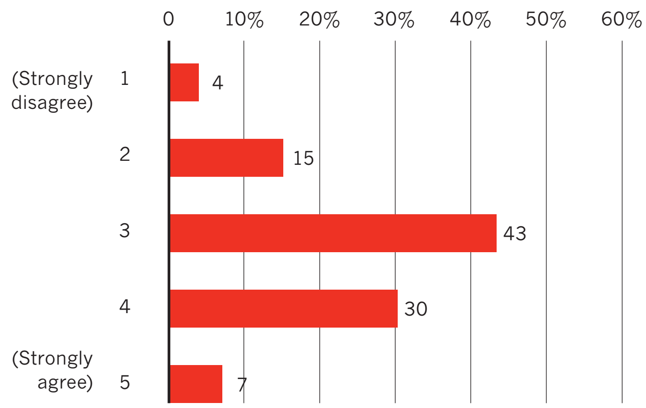


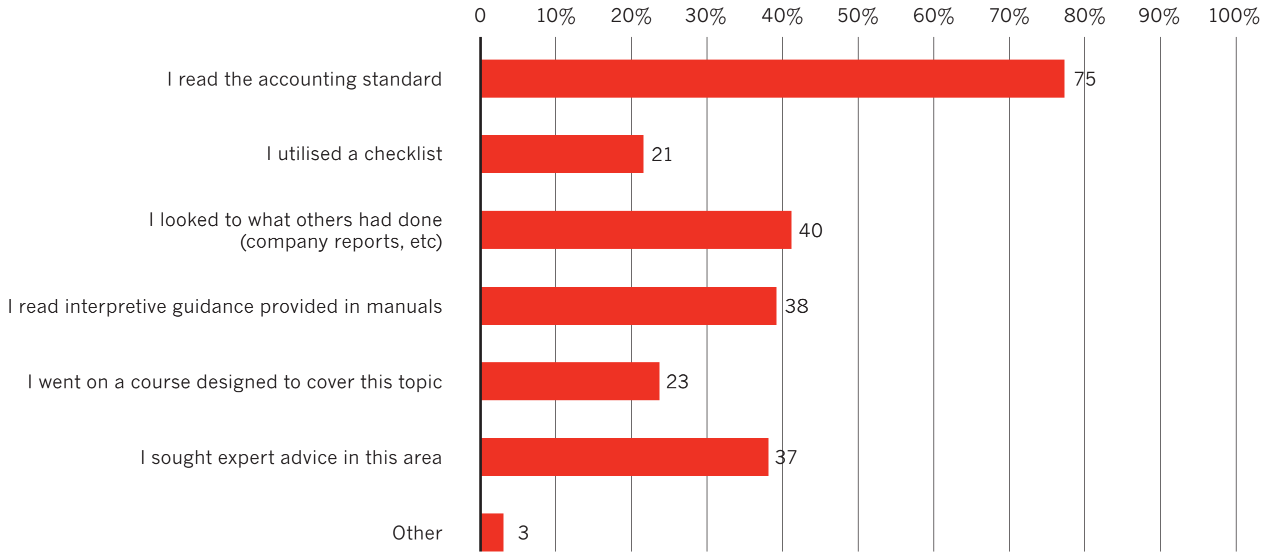
Figure 5.18: IFRS 3 is written in plain English except where the technical nature of the material requires more specialised language. (n=99)



There were no striking patterns in the responses to the question about how members came to understand and apply IFRS 3 (Fig. 5.19). Again, in line with responses on other areas of financial reporting, those on the accounting standard itself (not believed to be a major problem for IFRS 3 according to the responses above) indicated that it was the primary source of information.

The results to the questions about how difficult it was to agree on the application of IFRS 3 with senior management and the auditors were similar to those for the application of IAS 19. Given the similar observations on the usability of IFRS 3 and IAS 19, this is not surprising, with slightly more respondents finding it a more straightforward process.

Figure 5.19: How did you come to understand and apply IFRA 3 when this standard first become applicable to your company? (n=97)



6. Understanding the resulting information

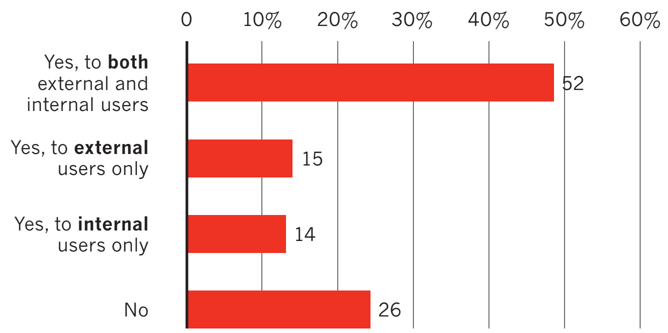
It is clear that preparers have faced varying levels of complexity when producing the information for financial statements. The questions reviewed in this section attempt to consider further whether the perceived benefits of providing that information, both internally and externally, were worth the costs and complexity faced in their preparation.

6.1 RESULTING INFORMATION FROM APPLYING IAS 39

It was noted earlier that respondents had some concerns over the relevance of the resulting disclosures to decision making, and that nearly a quarter of respondents found it difficult to explain the results of hedge accounting disclosures to decision makers.

Nonetheless, when asked specifically whether they considered the information produced under IAS 39 to be useful to users, respondents who stated that the information was not useful were in a minority (26: 24%). As shown in Figure 6.1, almost half (52) believed that such information was useful to both external and internal users. It would appear that although the resulting information is sometimes hard to explain (presumably to non-accountants, in senior management), when understood, it does provide useful information.

Figure 6.1: Do you consider the information produced through hedge accounting under IAS 39 provides useful information to users of that information? (n=107)



IAS 39 allows entities to choose whether they wish to apply hedge accounting. Many businesses use hedging instruments to manage their risks, and therefore it could be expected that management would reflect the reality of their strategic business decisions by implementing hedge accounting. In fact, when asked whether their organisation had implemented hedge accounting to enhance the communication of their performance and strategy, this was not obviously clear. Although 41 respondents agreed to some extent, the members who disagreed strongly outnumbered those who strongly agreed that hedge accounting was used to improve business communication.

There was also an even spread of responses to the question about what impact the complexity of applying hedge accounting may have when deciding whether to enter into certain hedging transactions. This suggests that although there was an indication that, for some, the accounting treatment could influence a business decision, consideration of accounting requirements was not an overwhelming factor.

6.2 RESULTING INFORMATION FROM APPLYING IFRS 7

As mentioned in section 3.1 above, one of the IASB's apparent motives for issuing IFRS 7 was the wish to provide users of financial information with meaningful disclosures relating to the risks associated with financial instruments. The IASB probably envisaged users to be external analysts and investors, and it appears from the responding sample of members (Fig. 6.2) that the application of the standard is providing those stakeholders with adequate information.

Again, the difficulty in explaining the results to internal management, as previously discussed, does not necessarily contradict the findings from this question, where internal users were also seen as beneficiaries of this information – albeit possibly after some explanation.

Respondents were asked specifically, whether the amount of time spent preparing the disclosure requirements of IFRS 7 was excessive, given their materiality to the overall financial statements.

There was a clear belief that this was the case, with 62 respondents (55%) agreeing either strongly or very strongly (see Fig. 6.3).

When asked which areas of financial instrument disclosure created disproportionate complexity in relation to their overall materiality to the financial statements, there were 37 positive responses. The two major causes of complaint for those respondents was the provision of sensitivity analysis information (18) and disclosures around qualitative risk (9).

55%

agreed that the amount of time spent preparing the disclosure requirements of IFRS 7 was excessive.

Figure 6.2: Do you consider the information produced through financial instrument disclosure under IFRS 7 provides useful information to users of that information? (n=110)

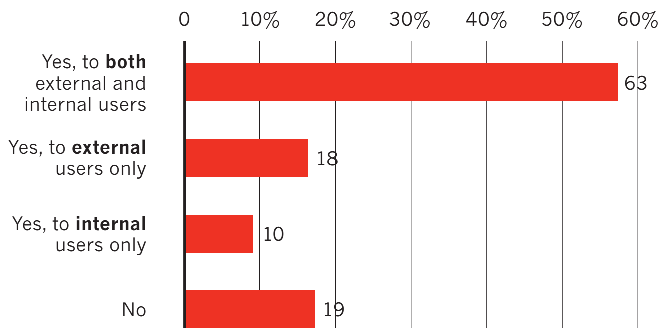
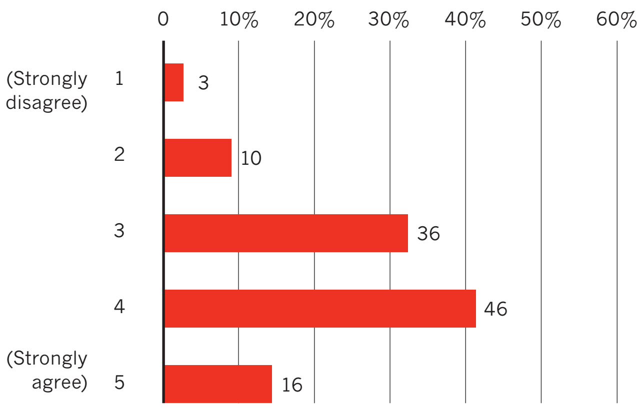


Figure 6.3: To what extent would you agree that too much time is spent preparing financial instruments disclosures under IFRS 7 given their materiality of your financial instruments? (n=111)



6.3 RESULTING INFORMATION FROM APPLYING IFRS 2

For those respondents who encountered accounting for share-based payments, as well as those members who commented on this section, there was a resounding vote of confidence in the information provided by applying IFRS 2 – only 10 (10%) believing that the information was not useful to either external or internal users.

The response to this question is particularly interesting, given the strong voices of concern and opposition to the standard when it was first issued. There had been much concern about the practical implementations of the requirements, such as the use of option pricing models to determine fair values, etc. In addition, given the number of variables, such as exercise price, interest rates, time to expiry and dividends expected to be paid during the life of the option, there was unease as to the reliability of the resulting information.

This is perhaps more clearly reflected in the concerns about the cost in time of preparing that information, given the actual impact of the resulting disclosure to the overall financial statements themselves. As shown in Figure 6.4, 26 respondents (28%) stated that, compared with the materiality of the resulting disclosure, costs were somewhat too high, and a further six indicated that they were excessive. These concerns were considerably less than those for the resulting information related to hedge accounting and financial instrument disclosure.

Members were asked whether any complexity they had encountered in accounting for SBPs would affect future business decisions, in terms of offering such incentives. Again, when the standard was first issued, many believed there could be significant fallout, citing that such schemes would inevitably lose part of their appeal when accounting charges impacted the financial statements. Figure 6.5 illustrates that there was little indication from respondents that this was the case, with only 16%, compared with 33% in the case of hedge accounting, positively believing that this may be the case.

While both these types of activity can often be essential parts of a business' operations, it is clear that most respondents believed that any negative impact SBP-type incentives might have on the organisation's financial statements (results or preparation thereof), were less relevant than their underlying purpose.

Figure 6.4: I consider that too much time is spent measuring and disclosing share-based payments in my organisation given the size and materiality of our option plan. (n=94)

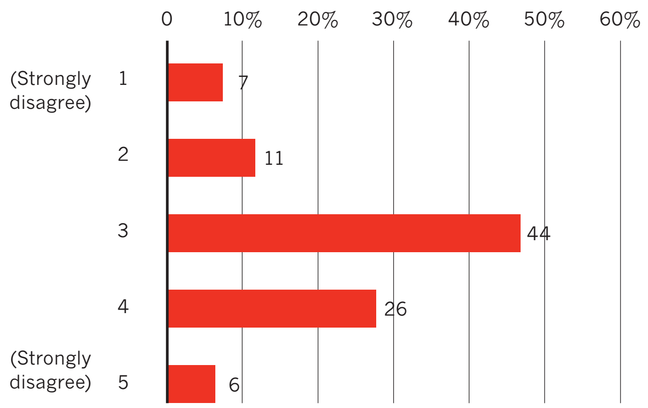
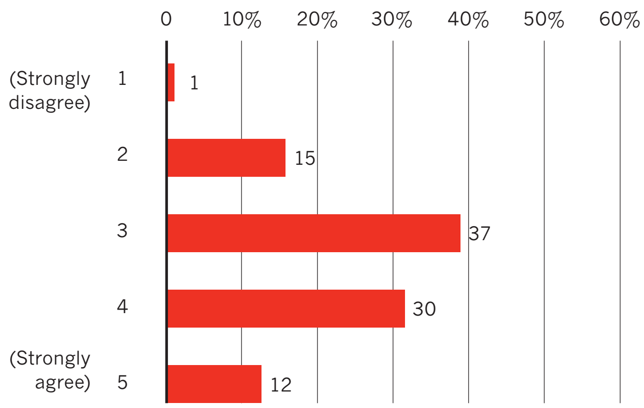


Figure 6.5: Our experience accounting for share-based payments will not impact on whether my organisation offers such incentives in the future. (n=94)



6.4 RESULTING INFORMATION FROM APPLYING IAS19

In line with the score given in Table 4.4 (which shows that only 10% raised concerns about production of relevant information for decision making), there was a positive regard for the meaningfulness of that information to users of the financial statements. Only 14 members (14%) stated that information produced by applying IAS 19 was not useful to either external or internal users. Respondents clearly indicated that they believed the information produced was useful for both internal and external users.

As was the case with SBPs, the positive views on the usefulness of the accounting information were tempered by concerns about the cost in time of preparing that information, given the actual impact of the resulting disclosure on the overall financial statements themselves. Eighteen respondents (18%) stated that costs were somewhat too high in relation to the materiality of the resulting disclosure, and a further 11 (11%) believed that they were excessive.

When asked whether complexity in the reporting of pensions would affect the company's decision on what type of arrangement s it would offer employees in the future, there was a slightly lower average score (3.19 out of 5) than for the question about whether the accounting for SBPs (3.39 out of 5) would affect business decisions. There were more who strongly believed that this may be case (15) (Fig. 6.6).

The similar results to those for SBPs are not surprising, given that such transactions are not part of the operations of any organisation, but are (potentially significant) incentives made available to employees of the organisations.

Figure 6.6: I believe that the accounting requirements of IAS 19 has had/may have an impact on the type of pension arrangements my company offers its employees. (n=100)

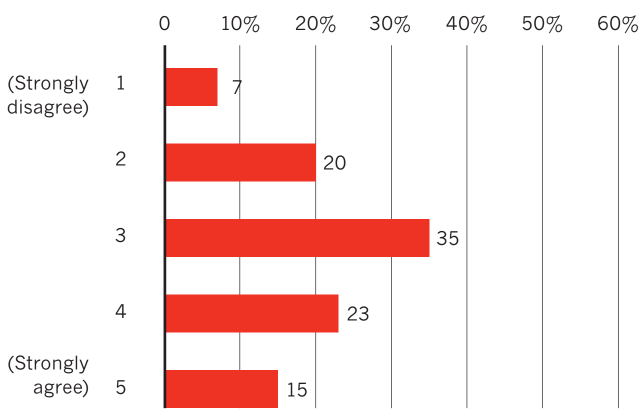
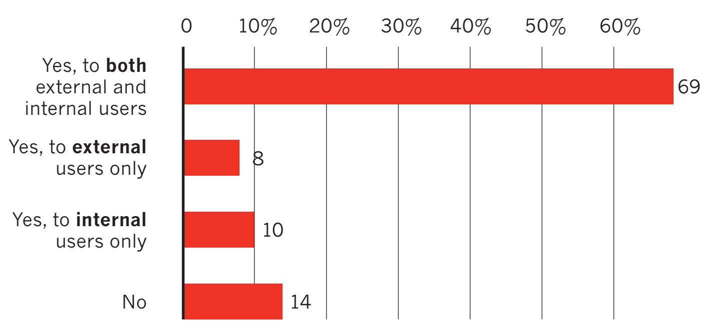


Figure 6.7: Do you consider the information produced through IAS 19 provides useful information to users of that information? (n=101)



6.5 RESULTING INFORMATION FROM APPLYING IAS 12

There was a healthy perception that the disclosures related to income tax accounting after applying IAS 12 did produce sound information, with a slight bias towards the view that this information was more relevant to external users. Nonetheless, given continuing debate over the accounting and disclosure of deferred tax, in particular, these figures do appear to be quite positive.

6.6 RESULTING INFORMATION FROM APPLYING IFRS 3

Figure 6.9 illustrates that compared with other areas of financial reporting, the cost/benefit of the information produced under IFRS 3 was not a major concern for respondents (8% score). This was also clearly indicated by the positive views on the usefulness of the information to both external and internal users.

This area was unlike others surveyed in that there was an even split of responses when members were asked how difficult it was to explain the resulting information to senior management – 48 did not encounter difficulties, 47 did.

Figure 6.8: Do you consider the information produced through the application of IAS 12 provides useful information to users of that information? (n=105)

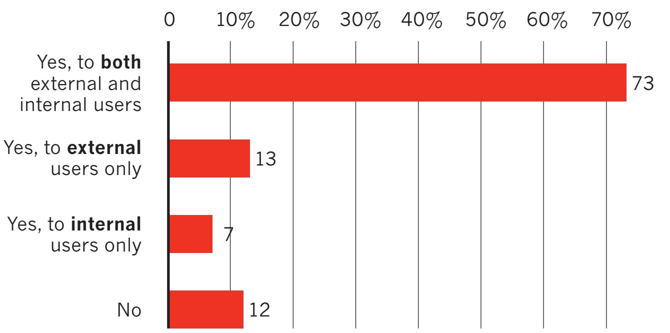
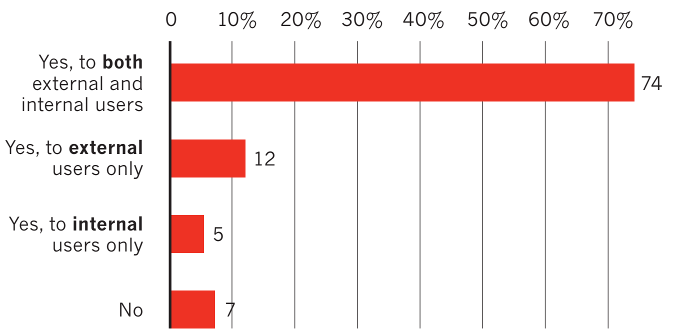


Figure 6.9: Do you consider the information produced through the application of IFRS 3 provides useful information to users of that information? (n=98)



7. Ways to reduce complexity

7.1 REDUCING COMPLEXITY IN HEDGE ACCOUNTING

From the responses relating to hedge accounting, there is compelling evidence that this is an area of complexity in current financial reporting. Although they accepted that hedging transactions themselves were partly the cause (see Table 4.1), many respondents faced difficulties in understanding, explaining and applying the relevant accounting standard.

When asked to consider how complexity in hedge accounting could be remedied,[9] 20% of respondents indicated that it was not possible. This mirrors the responses, shown in Table 4.1, to the question of why members found this area to be complex – the transactions themselves are complex.

The importance placed on the drafting of the standard was discussed under section 5.1. Although responses to earlier questions on the layout and language of the standard were inconclusive, a more significant 68 respondents (64%) to this question believed that improving the drafting of the standard would simplify the accounting in this area.

More specific areas of IAS 39 were also identified as being potential areas for the IASB's consideration as part of its project of reducing complexity in reporting financial instruments.

The IASB discussion paper on this project proposed a number of measures to simplify the current requirements in this area, which were also considered by a number of members in the survey:

- hedge effectiveness testing requirements – 30 respondents (28%) agreed that this was an area where complexity could be reduced
- eliminating hedge accounting entirely – 13 respondents (12%) agreed that this should be considered
- prohibiting aspects of hedge accounting, such as partial hedges: 23 (22%) supported this.

One area where the IASB discussion paper was silent was on the current documentation requirements for hedging. A significant number of members (31: 29%) who responded, thought that these could be simplified.

One respondent specifically questioned the cost/benefit of hedge accounting requirements in relation to the question of improving the reporting in this area. Nonetheless, concerns over the effectiveness of the resulting information, given the process required, were expressed by many respondents, as shown in Table 4.1, where this factor scored 14% of the overall ranking.

Respondents also had concerns about being challenged by external regulators and auditors. This apprehension is validated to some extent by the considerable debate with auditors on agreeing the final accounting treatment and the subsequent restatements that had to be made by some organisations.

7.2 REDUCING COMPLEXITY IN FINANCIAL INSTRUMENT DISCLOSURES

It would appear that there is a genuine belief that much of the information resulting from financial instrument disclosure can be useful. There is, however, considerable difficulty in explaining that information to senior management. This, coupled with the predominant view that the information is not relevant to internal decision makers (see Fig. 6.2) and that the costs of preparing the information are high for what is often seen as a less significant area of the accounts (see section 6.2), suggests that from a preparer perspective the cost/benefit of information resulting from IFRS 7 is not positive.

If the information is indeed beneficial to external users, as suggested by the views of preparers, then there may be an indirect benefit to preparers through greater transparency, and ultimately lower cost of capital. It therefore appears that respondents do see a benefit from additional disclosures if these focus on material matters. This is a potential area where IFRS 7 could provide more explicit guidance.

It is also important to note that, unlike the other standards, this is a relatively new standard, and therefore although the first year (which this would have been for respondents) may have been relatively painful, subsequent years may not be as difficult. This is certainly a presumption borne out by the response to the question about whether respondents 'expected subsequent years should be easier', where there was an average score of 3.4.

9. Respondents were able to choose more than one response for this question.

7.3 REDUCING COMPLEXITY IN ACCOUNTING FOR SHARE-BASED PAYMENTS

Respondents certainly believed that reporting SBPs is relevant to understanding the financial performance and position of their company. Although there was a level of concern about the pay-off for providing that information in terms of its materiality, 90% of respondents agreed that the information provided from applying IFRS 2 is useful to both internal and external users.

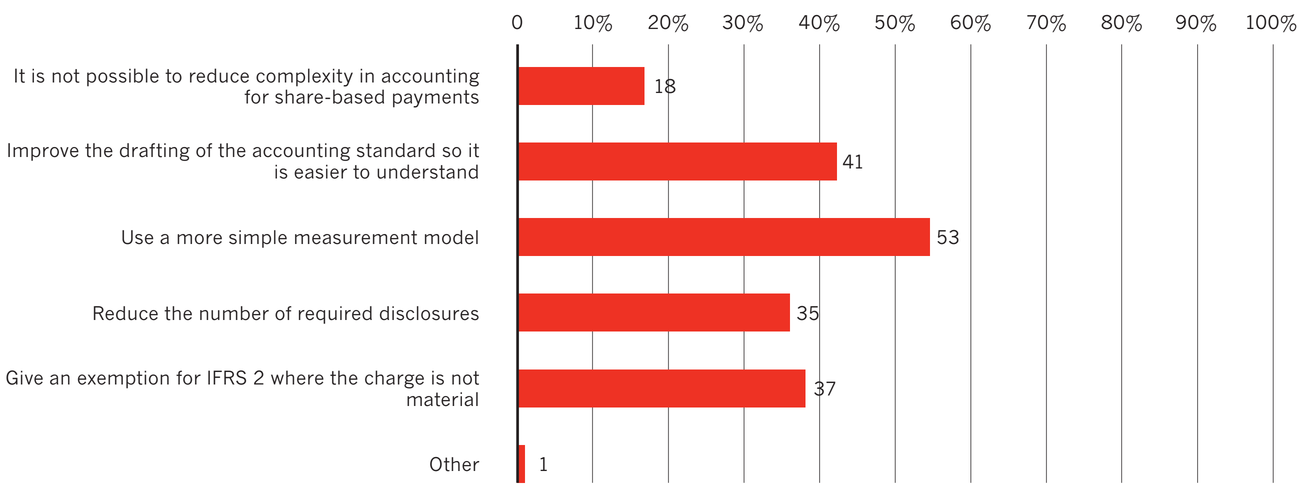
Despite the perceived benefits of the resulting information and the relatively high acceptance that much of the complexity is inescapable, it should still be noted that most respondents indicated that this area of accounting was complex. Again, much of that complexity was believed to arise in the first year of application, and it was thought that information systems needed to catch up with the specific requirements of the standard.

These views are supported by members' responses to the question of how complexity in reporting SBPs could be reduced. The difficulty of applying the option pricing models to measure the fair value of SBPs, one of the major concerns about the standard when first issued, appears still to be an issue. Respondents stated that a more simple measurement model would be the primary method of reducing complexity (Fig. 7.1).

A considerable number of respondents (42%) also indicated that the complexity in reporting SBPs could be reduced by improving the drafting of the standard.[10] This is surprising given the fairly positive responses to the questions related to the layout and readability of IFRS 2. Responses to these questions were reviewed in section 5.3, and although clearly the majority of respondents were undecided, slightly more members responded affirmatively than negatively. There was an average score of 3.1 (IFRS 2 is written in plain English), and 3.2 (IFRS 2 has a logical order) to those questions across all respondents. Among those members who had had recent experience applying IFRS 2, however, respondents were a little more circumspect in their responses, with an average score of 2.8 and 2.9 respectively.

Reiterating the concerns about the materiality of such transactions to their business, and the costs of producing the resulting disclosures, many respondents believed that the number of disclosures could be reduced, and that exemptions should be made on the basis of materiality.

Figure 7.1: How can complexity in reporting share-based payments best be reduced? (Tick all that apply) (n=97)



10. Of those members who had recent experience applying IFRS 2, a similar proportion (10: 40%) also indicated that the complexity in reporting SBPs could be reduced through the redrafting of the standard.

7.4 REDUCING COMPLEXITY IN PENSION ACCOUNTING

Despite the perceived complexity in the accounting for pensions-related transactions, respondents indicated a strong belief that the resulting disclosures are meaningful to internal and external users. Over 86% of respondents affirmed this.

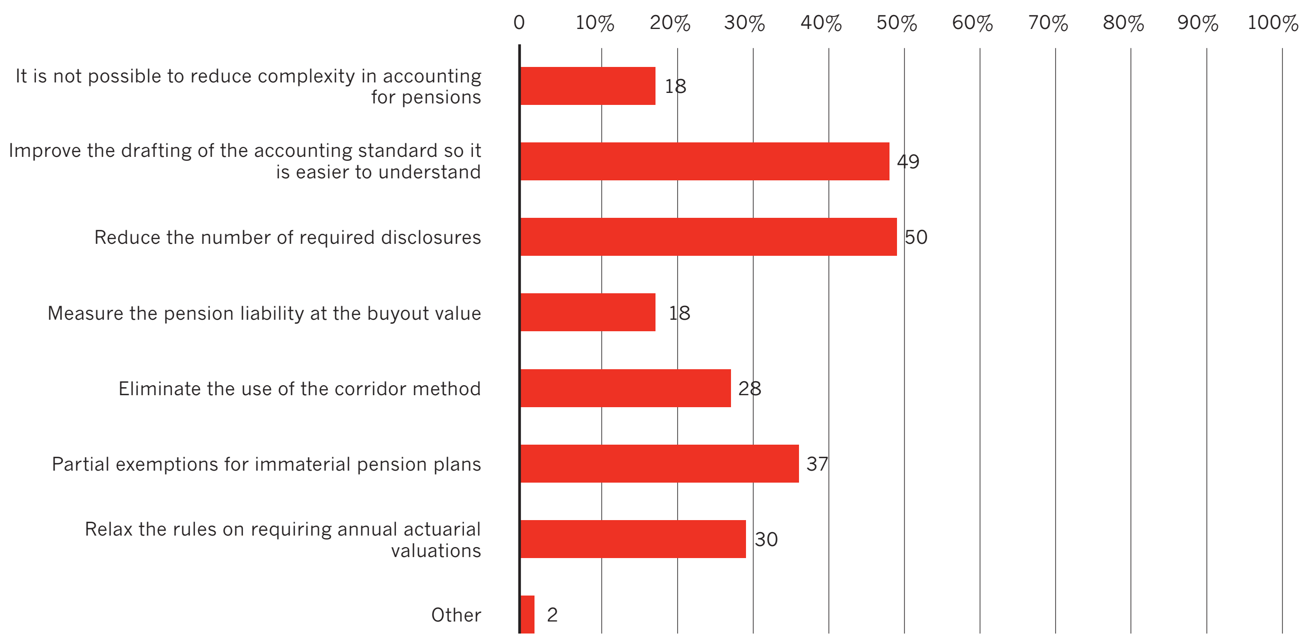
Compared with that in other areas of financial reporting, the complexity in accounting for pensions was believed to be more strongly associated with the accounting standard itself. Coupling the difficulty in understanding the standard (18%) with the costliness of fulfilling the requirements (27%), concerns with complexity were a larger proportion of the causes of negative perceptions of IAS 19 than for any of the other standards reviewed here. This fact that there were no particularly strong views expressed on the language and navigation of the IAS 19, compared with the other standards, suggests that the perceptions of complexity in the standard related to the actual requirements themselves. This is further emphasised by the relatively large number of respondents who struggled to obtain the relevant information to fulfil those requirements in the first year of application.

It is not, therefore, surprising that when asked how complexity in accounting for pensions could be reduced, respondents strongly (50: 50%) pointed to relief from the number of disclosure requirements. Of these, 31 (13%) also supported the view that the standard could be better drafted. Those who asked for relief from so many disclosure requirements, also suggested that relaxing the rules on annual actuarial valuations (17) and the elimination of the corridor approach (16) should be considered in reducing the complexity of IAS 19.

The elimination of the corridor approach was included as a suggestion in a discussion paper issued by the IASB in 2008, on proposals for amending IAS 19. Overall, 28% of respondents who considered how complexity in accounting for pension accounting could be reduced, indicated that this was a possible solution. This was similar to the proportion who had expressed recent experience in this area of financial reporting (13 out of 31).

A sizeable number of respondents believed that partial exemptions should be made for immaterial pension plans.

Figure 7.2: How can complexity in reporting pensions best be reduced? (Tick all that apply) (n=100)



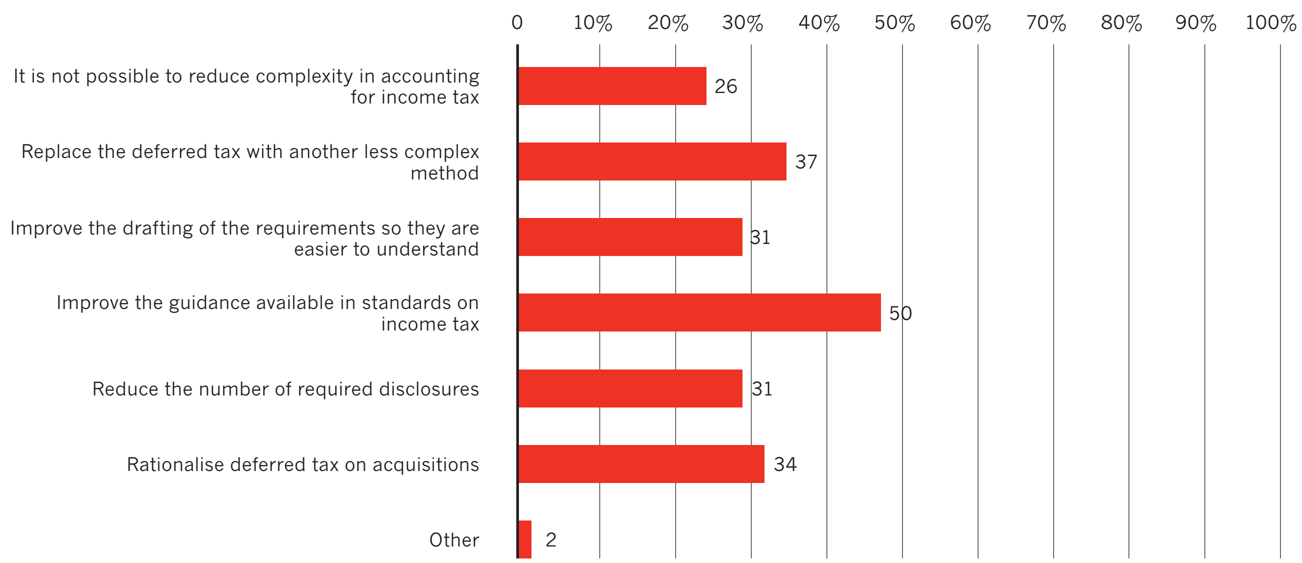
7.5 REDUCING COMPLEXITY IN ACCOUNTING FOR INCOME TAX

Of the various areas of financial reporting considered in this survey, the accounting for income tax was clearly identified as the least complex. Relatively few respondents had concerns about IAS 12 (13% found it difficult to understand and 22% costly to implement). Similarly, there was less evidence that taxation itself was complex (19%).

These sentiments were echoed throughout the responses relating to this area, with relatively few respondents experiencing difficulties in obtaining information on initial implementation, and more respondents finding it a straightforward process to agree on the accounting treatment with auditors and senior management.

When asked about ways in which reporting income tax could be simplified, there was a clear indication that the standard needed improving (29.8%) with the provision of better guidance (48.1%), especially as the subject matter itself was not seen as a complex area of financial reporting. This unnecessary complexity appears to be a result of deferred tax requirements, with 35.6% of respondents suggesting that IAS 12 should be replaced by a simpler model, and 34 respondents having particular concerns with deferred tax as applied to acquisitions.

Figure 7.3: How can complexity in reporting income tax best be reduced? (Tick all that apply) (n=100)



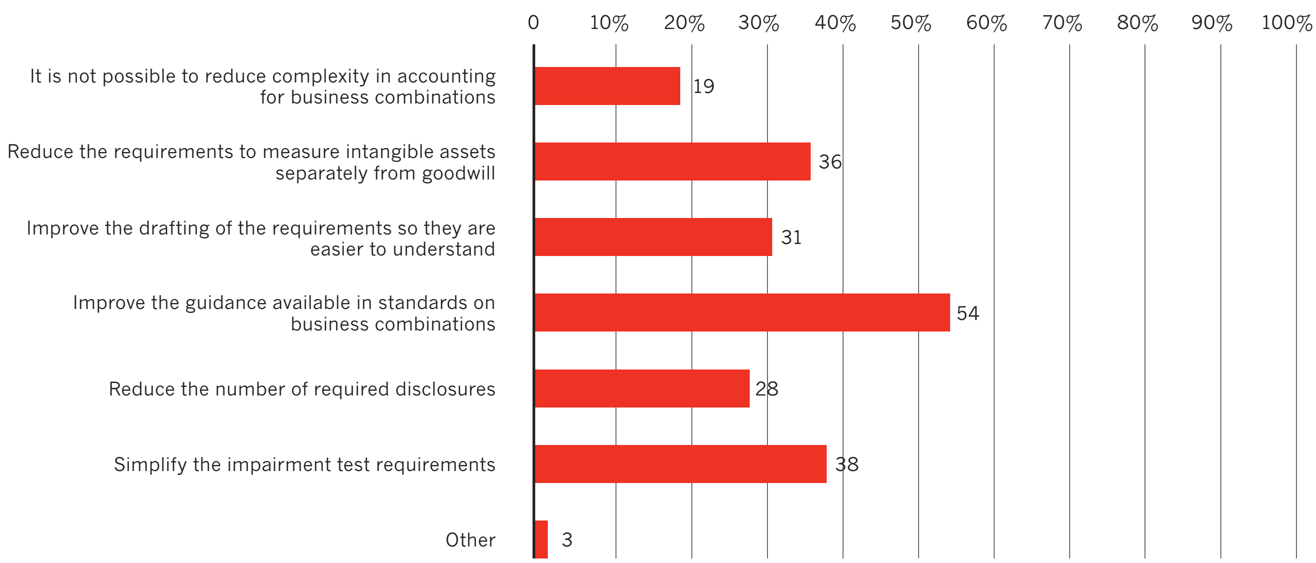
7.6 REDUCING COMPLEXITY IN ACCOUNTING FOR BUSINESS COMBINATIONS

There is a strong indication that information relating to business combinations was useful, especially for external users. Over 87% of respondents agreed with this, comparing favourably with all other areas considered.

Although there was a considerable proportion of respondents (44.4%) who indicated that the complexity associated with accounting for business combinations was acceptable to some extent, respondents did strongly indicate that the requirements of the standard were costly and time consuming (26%, see Table 4.6). Nonetheless, given the perceived value of that information, it was not considered a huge issue, a point clearly indicated, where only an 8% weighted score was given to the question of whether costs outweighed the benefits.

In terms of the measures that should be considered for reducing complexity, apart from a strong request for more guidance (55.1%), there were also concerns over the requirement to separate intangible assets from goodwill (likely to be one of the costly parts highlighted above) and impairment testing.

Figure 7.4: How can complexity in reporting business combinations best be reduced? (Tick all that apply) (n=98)



Appendix: List of questions used in the survey

EXPERIENCE OF THE FINANCIAL REPORTING PROCESS

1. Do you have any recent personal experience preparing financial statements using International Financial Reporting Standards (IFRS) or IFRS equivalent standards?

2. What was the nature of your involvement with the annual report?

3. To what extent do you agree with the following statements about preparing annual reports? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

4. How many years have you been involved in the preparation of financial statements?

5. In that time, do you believe that the financial reporting process has improved?

6. Do you/your company use specialist consultants in the preparation of financial statements?

7. Where options exist in certain financial reporting standards, do you find them beneficial?

8. In which of the following areas have you had personal experience of financial reporting during the last three years? (Please tick all that apply.)

HEDGE ACCOUNTING

9. Is hedge accounting complex? Please select the statement that best reflects your opinion on the complexity of hedge accounting.

10. What is the main reason you find hedge accounting so complex?

11. What is the next most significant reason you find hedge accounting so complex?

12. What is the third most significant reason you find hedge accounting so complex?

13. What is the fourth most significant reason you find hedge accounting so complex?

14. To what extent do you agree with the following statements about IAS 39? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

15. How did you come to understand and apply IAS 39 when this standard first become applicable to your company? (Please tick all that apply.)

18. How difficult was it for you to conclude on the application of hedge accounting under IAS 39 with the senior management team and the auditors?

19. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

20. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

21. Do you consider the information produced through hedge accounting under IAS 39 provides useful information to users of that information?

22. When you first applied IAS 39, was the information you needed readily available from your management information system?

23. How difficult was it for you to obtain all of the information you needed to apply IAS 39?

24. To what extent would you agree that your experience of the complexity of applying hedge accounting has had an impact on whether your organisation entered/will enter into certain hedging transactions in the future?

25. To what extent would you agree that your organisation chose to implement hedge accounting because it enables them to better communicate business performance and strategy?

26. How can complexity in hedge accounting best be reduced? (Please tick all that apply.)

27. Were any decisions made in the process of applying IAS 39 reversed, either by senior management or the auditors, at a later date?

28. Was any restatement of your previously published financial statements required?

FINANCIAL INSTRUMENT DISCLOSURES

29. Are financial instruments disclosures complex? Please select the statement that best reflects your opinion on the complexity of financial instruments disclosures.

30. What is the main reason you find financial instruments disclosures so complex?

31. What is the next most significant reason you find financial instruments disclosures so complex?

32. What is the third most significant reason you find financial instruments disclosures so complex?

33. What is the fourth most significant reason you find financial instruments disclosures so complex?

34. To what extent do you agree with the following statements about IFRS 7? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

35. How did you come to understand and apply IFRS 7 when this standard first become applicable to your company? (Please tick all that apply.)

38. How difficult was it for you to conclude on the application of financial instrument disclosures under IFRS 7 with the senior management team and the auditors?

39. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

40. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

41. Do you consider the information produced through financial instrument disclosure under IFRS 7 provides useful information to users of that information?

42. When you first applied IFRS 7, was the information you needed readily available from your management information system?

43. How difficult was it for you to obtain all of the information you needed to apply IFRS 7?

44. To what extent would you agree that too much time is spent on preparing financial instruments disclosures under IFRS 7 given the materiality of your financial instruments?

45. Please list which areas of financial instrument disclosures you find to create disproportionate complexity compared to their materiality. For example, this could include qualitative risk disclosures, sensitivity analaysis, etc.

46. Is the accounting for share-based payments complex? Please select the statement that best reflects your opinion on the complexity of share-based payments.

SHARE-BASED PAYMENTS

47. What is the main reason you find share-based payments so complex?

48. What is the next most significant reason you find share-based payments so complex?

49. What is the third most significant reason you find share-based payments so complex?

50. What is the fourth most significant reason you find share-based payments so complex?

51. To what extent do you agree with the following statements about IFRS 2? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

52. How did you come to understand and apply IFRS 2 when this standard first become applicable to your company? (Please tick all that apply.)

55. How difficult was it for you to conclude on the application of share-based payments under IFRS 2 with the senior management team and the auditors?

56. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

57. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

58. Do you consider the information produced through share-based payments under IFRS 2 provides useful information to users of that information?

59. When you first applied IFRS 2, was the information you needed readily available from your management information system?

60. How difficult was it for you to obtain all of the information you needed to apply IFRS 2?

61. To what extent do you agree with the following statements about share-based payments? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

62. How can complexity in reporting share-based payments best be reduced? (Please tick all that apply.)

PENSIONS ACCOUNTING

63. Is pensions complex? Please select the statement that best reflects your opinion on the complexity of pensions.

64. What is the main reason you find pensions so complex?

65. What is the next most significant reason you find pensions so complex?

66. What is the third most significant reason you find pensions so complex?

67. What is the fourth most significant reason you find pensions so complex?

68. To what extent do you agree with the following statements about IAS 19 and pensions accounting? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

69. How did you come to understand and apply IAS 19 when this standard first become applicable to your company? (Please tick all that apply.)

72. How difficult was it for you to conclude on the application of IAS 19 with the senior management team and the auditors?

73. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

74. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

75. Do you consider the information produced through IAS 19 provides useful information to users of that information?

76. When you first applied IAS 19, was the information you needed readily available from your management information system?

77. How difficult was it for you to obtain all of the information you needed to apply IAS 19?

78. To what extent do you agree with the following statements about IAS 19? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

79. How can complexity in reporting pensions best be reduced? (Please tick all that apply.)

INCOME TAX ACCOUNTING

80. Is income tax accounting complex? Please select the statement that best reflects your opinion on the complexity of income tax accounting.

81. What is the main reason you find income tax accounting so complex?

82. What is the next most significant reason you find income tax accounting so complex?

83. What is the third most significant reason you find income tax accounting so complex?

84. What is the fourth most significant reason you find income tax accounting so complex?

85. To what extent do you agree with the following statements about IAS 12? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

86. How did you come to understand and apply IAS 12 when this standard first become applicable to your company? (Please tick all that apply.)

89. How difficult was it for you to conclude on the application of income tax accounting under IAS 12 with the senior management team and the auditors?

90. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

91. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

92. Do you consider the information produced through the application of income tax accounting under IAS 12 provides useful information to users of that information?

93. When you first applied IAS 12, was the information you needed readily available from your management information system?

94. How difficult was it for you to obtain all of the information you needed to apply IAS 12?

95. How can complexity in reporting income tax best be reduced? (Please tick all that apply.)

ACCOUNTING FOR BUSINESS COMBINATIONS

96. Is business combinations complex? Please select the statement that best reflects your opinion on the complexity of business combinations.

97. What is the main reason you find business combinations so complex?

98. What is the next most significant reason you find business combinations so complex?

99. What is the third most significant reason you find business combinations so complex?

100. What is the fourth most significant reason you find business combinations so complex?

101. To what extent do you agree with the following statements about IFRS 3? (Please use a scale of 1–5, where 1 is strongly disagree and 5 is strongly agree.)

102. How did you come to understand and apply IFRS 3 when this standard first become applicable to your company? (Please tick all that apply.)

105. How difficult was it for you to conclude on the application of IFRS 3 with the senior management team and the auditors?

106. Did you find it difficult to explain the resulting accounting and disclosures to senior management?

107. Do you believe that such information would be more appropriately disclosed and discussed in the narrative, front section of your corporate report?

108. Do you consider the information produced through IFRS 3 provides useful information to users of that information?

109. When you first applied IFRS 3, was the information you needed readily available from your management information system?

110. How difficult was it for you to obtain all of the information you needed to apply IFRS 3?

111. How can complexity in reporting business combinations best be reduced? (Please tick all that apply.)

OTHER AREAS OF FINANCIAL REPORTING

112. Are there any other areas of financial reporting that you have found complex?

113. Please list the areas of financial reporting that you have found complex in the box below.

114. What are the main reasons you find these areas of financial reporting so complex? (Please tick all that apply.)

ROLE AND ORGANISATION

115. In which country are you based?

116. Please indicate the number of years since your admission to membership as a professional accountant.

117. What is your job role?

118. How long have you been in your current job role?

119. How many employees does your company have, in total?

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