

C/O KAMMER DER WIRTSCHAFTSTREUHÄNDER
SCHOENBRUNNER STRASSE 222–228/1/6
A-1120 VIENNA
AUSTRIA

TEL +43 (1) 81173 228
FAX +43 (1) 81173 100
E-MAIL office@frac.at
WEB <http://www.frac.at>

Françoise Flores, Chair
European Financial Reporting Advisory Group (EFRAG)
35 Square de Meeûs
B-1000 Brussels
Belgium
E-mail: commentletters@efrag.org

13 April 2014

Dear Ms Flores,

On behalf of the Austrian Financial Reporting and Auditing Committee (AFRAC), the privately organised standard-setting body for financial reporting and auditing standards in Austria, we appreciate the opportunity to comment on the EFRAG Bulletin *Complexity*.

Principal authors of this comment letter were Gerhard Prachner, Alfred Wagenhofer and Christian Gross. In order to provide a balanced Austrian view on the Bulletins, the professional background of these authors is diverse (one auditor and two academics).

GENERAL REMARKS AND SUMMARY

We believe that the EFRAG Conceptual Framework Bulletin Complexity (henceforth, the Bulletin) addresses important aspects for standard-setting. Complexity is a broader issue than just understandability of financial information by users. Therefore, we agree with the view in the Bulletin that complexity should be approached from the users', but also from the preparers' and auditors' perspective.

Part of the discussion and analysis is reminiscent to the discussion of principles vs. rules several years ago. Both discussions – the one on principles vs. rules and now the discussion of complexity – reflect (amongst other things) a standard-setters' perspective, not always taking into account that standards themselves can add to complexity. Complexity can arise from the definition of the scope

of standards, from introducing options into standards, from too detailed prescriptions of accounting treatments, from disaggregating transactions for accounting purposes, from data and assumptions required for particular measurement methods, and from disclosure requirements. The Bulletin terms such complexity avoidable complexity. We also observe that complexity in current IFRSs often arises when some standards tend to become rules-based because many specific transactions are dealt with in great detail. We believe that the IASB should emphasize principles-based standards more thoroughly by writing standards for the majority of transactions rather than for highly specific situations. However, we also want to acknowledge that more principles-based standards – even if they are likely to be less complex and better understandable for investors and other stakeholders – can become more complex in their application for preparers and auditors relative to rules-based standards.

We agree with the distinction between unavoidable complexity of economic phenomena and avoidable complexity of accounting standards and their application. However, we also note that sometimes accounting standards are not a consequence of economic complexity, but rather the reverse, i.e., accounting standards can be incentives to engineer highly complex transactions in order to achieve a particular accounting treatment. In this regard, the distinction between unavoidable and avoidable can become blurred. We believe standard-setters should be careful to avoid such reversal of causality for complexity. We suggest that this issue be addressed in the Framework as well.

SPECIFIC REMARKS

(i) Do you think there should be explicit discussion of the different aspects of complexity in the Conceptual Framework?

The Bulletin emphasises important aspects related to several qualitative characteristics of financial information. These include, but are not limited to:

- Understandability, which captures complexity from the users' perspective. Indeed, the current Framework (paragraph QC31) already addresses complexity of economic phenomena.
- Cost constraint, which implicitly captures complexity from both the preparers' and users' perspective.

We agree with the view in the Bulletin that complexity concerns should be included more explicitly in the Framework. More concretely, we suggest adding a brief discussion of complexity in the discussion of the cost constraint in the Framework (paragraphs 35–39). We think addressing complexity explicitly in connection with the cost constraint rather than with understandability is more meaningful because the cost constraint requires a trade-off between the qualitative characteristics and the cost, whereas understandability is “only” an enhancing qualitative characteristic that cannot outweigh, say, relevance. As we understand it, the discussions in paragraphs 11 and 19 of the Bulletin assume that there can be a trade-

off between complexity and relevance. The discussion of relevance itself could also include a brief discussion of complexity, as information could become less relevant if complexity for preparers and users was too high.

Complexity could also be addressed in the following areas of the Framework:

- Unit of account: Highly disaggregated information is usually more complex to prepare and to understand.
- Disclosure framework, which is currently under consideration for inclusion in the Framework. It may address complexity of disclosures by making disclosures more effective or more appropriate with respect to their objectives.

(ii) Are there any aspects of complexity in accounting not covered by this Bulletin that should be covered?

While some of the examples in the Appendix of the Bulletin could be categorised as being unduly complex (some would even argue against that, as rightly noted in paragraph 15 of the Bulletin), deciding whether something is excessively complex is a matter of judgement. This is even more so as all the examples presented in the Bulletin are linked to transactions that many people would describe as being hard to understand per se. As a result, an accounting treatment should only be viewed as being unnecessarily complex if less complex alternatives exist that portray the same transactions in a simpler way. As long as such alternative treatments are missing it is questionable whether the complexity is really avoidable.

Kind regards,

Romuald Bertl

Chairman