



The Manager
Corporate Reporting & Accountability Unit
Corporations & Capital Markets Division
The Treasury
Langton Crescent
PARKES ACT 2600

29 June 2012

Dear Sir / Madam

Exposure Draft: Proposed Regulation for Annual Transparency Report

We are pleased for the opportunity to contribute to the development of the regulation for the proposed annual transparency report. We support means to enhance the confidence in the capital markets.

We are providing our comments on the practical implications of implementing the draft regulations. We agree with Treasury's overall objectives and focus only on where we believe the draft proposals may have unintended consequences or may not achieve the objectives.

Treasury's explanatory memorandum states that the intention is to focus on factual information and align with global guidelines. We support these intentions and agree this is an appropriate approach for the Australian market.

Internationally, the financial information disclosure requirements are deliberately worded to require "financial information showing the importance of the audit firm". This allows for appropriate disclosure whatever the structure of the audit entity. The Treasury draft proposals specify amounts – "Total Revenue, Fees for audit, Fees for other service provided by the auditor". We are concerned that this could lead to considerable debate and a need for further guidance or regulation to explain the definition of "revenue" and "fees". This cost and time could be avoided by using the EU wording. This also allows for any changes in market expectations to be met without the need for revised regulation.

There are two areas where the proposed requirements exceed those required internationally:

- (1) requiring commentary on the **outcome** of internal independence reviews

Audit firms undertake internal reviews for many purposes and use different criteria, gradings and reports depending on the purpose. There is a danger that the proposed requirement could confuse the market because the reported outcomes may not be based on equivalent programs.

- (2) requiring a statement on the **minimum amount and nature** of CPE

CPE is a requirement of professional membership and the minimum amount and nature is set out by the professional bodies. There is a danger that this requirement could lead to "boilerplate" disclosure providing little ongoing value to the markets.

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We note that the legislation provides that material may be omitted from a report if it is “likely to result in *unreasonable prejudice*” to the reporting auditor (s332B(2)). We believe this should be reconfirmed in the regulation. As the term may be open to a number of possible interpretations, we suggest it is clarified in the regulations, for example, “as determined by the audit firm in its reasonable opinion”.

Finally we reconfirm our support for the regulations. We note that the proposals set out minimum requirements and, as is currently the case, firms may disclose more or different information and the markets may encourage other disclosure.

We would welcome the opportunity to discuss our views further. Please contact me on (03) 8603 3868 or Valerie Clifford on (03) 8603 3285 if you would like to discuss any of the points raised.

Yours sincerely

A handwritten signature in black ink that reads "Jan McCahey". The signature is written in a cursive, flowing style.

Jan McCahey
Partner