update

a news bulletin for G100 members

GROUP OF 100

**August 2016**

## National Executive

**President's Dinner**: David Burns – CFO Super Retail Group and Andrew Flannery – CFO Flight Centre, presented their views and led discussion on *"The disruption of the CFO's DNA"* at a dinner hosted in conjunction with Ernst & Young in Brisbane on 27 July 2016. The discussion focused on the impact and importance of data analytics and the impact of, and responding to, digital innovation.

**Letter to Prime Minister**: Executive agreed to write to the Prime Minister outlining the major issues on the G100's agenda including tax reform, regulatory reform, streamlining financial reports and remuneration reports and integrated reporting.

**Diversity in finance:** Executive reviewed the report of the G100 membership survey on gender diversity and agreed to send the report to members, include it on the web site and seek feedback from members.

### DIARY DATES

**Executive Meetings**

6 October - Melbourne

15 December - Sydney

**Member Activities**

**5 October:** Dinner in Melbourne with David Neal, Managing Director – Future Fund Management Agency.

**14 December**: Dinner in Sydney with Greg Medcraft – ASIC Chairman

**{Details of events will be sent to members separately}**

## Taxation reform

**Task Risk Management and Governance**: Executive discussed aspects of tax risk management and a questionnaire which enables a CFO to self-assess the quality of their existing tax governance frameworks against the ATO's expectations. The questionnaire is available at http://www.portoria.tax/tax-governance-questionnaire.html/.

## Corporate reporting

**Review of structure and effectiveness**: The Trustees of the IFRS Foundation have issued an ED seeking comment on proposed amendments to its constitution dealing principally with Trustee and Board membership (geographical balance and qualifications). The proposed changes are generally consistent with views expressed in our submission dated 20 November 2015. The G100 submission is on the web site.

**Definition of a business**: The IASB has issued ED/2016/1 *"Definition of a business and accounting for previously held interests"* proposed amendments to IFRS 3 and IFRS 11. Comments are requested by 31 October 2016.

The proposed amendments provide:

- clearer application guidance to help distinguish between a business and a group of assets when applying IFRS 3; and
- clarification on how a company should account for a previously held interest in a business, if acquiring control, or joint control, of that business.

The proposed amended application guidance on the definition of a business in IFRS 3 arises from the Board's Post-implementation Review (PIR) process, which is conducted on each standard and major amendment approximately two years after their effective dates.

**Non-GAAP Disclosures**: IOSCO has issued guidance on the presentation of financial measures other than those prescribed by GAAP. The guidance is in *'Statement on Non-GAAP Financial Measures'* which includes IOSCO's expectations for presentation of such measures in the following categories:

Defining the non-GAAP financial measure: This encompasses providing a clear explanation of the basis of calculation, clearly labelling measures such that they are distinguished from GAAP measures, explaining why the measures are useful and explicitly stating that the non-GAAP measures do not have a standardised meaning and may not be comparable between entities.

Unbiased purpose: This requires that non-GAAP financial measures should not be used to avoid presenting adverse information to the market.

Prominence of GAAP measures versus non-GAAP financial measures: Non-GAAP measures and their most directly comparable GAAP measures should be presented with equal prominence, or the GAAP measure given greater prominence, and non-GAAP measures should not in any way confuse or obscure the presentation of GAAP measures.

Reconciliation to comparable GAAP measures: Reconciliations should be provided between non-GAAP financial measures and their most directly comparable GAAP measure presented in the financial statements, with adjustments explained and reconcilable to the financial statements or information about how they are calculated provided.

Presentation of non-GAAP financial measures consistently over time: Measures should generally remain consistent from period to period, include comparative information, with any changes in composition explained and also reflected in comparative information and discontinued use of a non-GAAP measure sufficiently explained.

Recurring items: Items that are reasonably likely to affect past and future periods, such as restructuring costs and impairment losses, should not be described as non-recurring, infrequent or unusual.

Access to associated information: The information that issuers provide regarding non-GAAP financial measures should be readily and easily accessible to third parties.

The statement is intended to be used by entities applying International Financial Reporting Standards (IFRSs) and other accounting principles.

The Statement is available at www.iosco.org.

**Principles-based accounting**: IASB member (Gary Kabureck) has presented a paper on the case for principles-based accounting (www.ifrs.org) which focuses on the following key aspects:

- the importance of a robust conceptual framework
- an understanding that rules will not be able to cover all situations
- use of reasonable judgment in the decision-making process
- comparability in the application of accounting rules and the benefit to primary users of financial statements
- clear communicable accounting objectives when writing standards.

**Disclosure effectiveness**: IASB member, Pat Finnegan, has provided a perspective on improving the effectiveness of disclosures relating to a company's capital structure from an investor's perspective. The paper *'Better communication – a table is worth 1000 words'* is available at www.ifrs.org.

**Integrated reporting/sustainability:** The IIRC has issued a further publication in its *'Creating Value"* series which focuses on the importance of human capital within a business and its link with integrated reporting. *"The value of human capital reporting"* is available at www.iirc.org.

Both the Singapore and Hong Kong Exchanges have launched guidelines on sustainability reporting on a 'comply or explain' basis, which is similar to the Corporate Governance Council's "if not, why not" approach. In addition, draft corporate governance codes in the Netherlands and Malaysia encourage the adoption of integrated reporting.

**Disclosure initiative**: The IASB has posted a webinar (www.ifrs.org) which provides an overview of its disclosure initiative and its discussion paper on principles of disclosures which is expected to be issued by the end of 2016.

**Insurance Accounting**: The AASB and CAANZ will host a webinar on 22 August 2016 (11 am) to explain the impact of the IASB's standard IFRS 4 "*Insurance Contracts*" which is due for release in early 2017. Members may attend by registering of the webinar registration page at www.aasb.gov.au.

The IASB has also provided additional information relating to field work on the proposals, a feedback statement on its ED and the effect of board deliberations at www.ifrs.org.

## ASX Corporate Governance Council

**Commonsense Corporate Governance**: A group of leading CEO's in the US have issued *'Commonsense Corporate Governance Principles"* (www.governanceprinciples.org).

The principles state that a company should take a long-term strategic view and explain clearly to shareholders how material decisions and actions are consistent with that view. Required interim reporting should reflect this view and provide an outlook of trends and metrics that reflect progress on long-term goals. The principles note that making short-term decisions to beat guidance is 'likely to be value destructive in the long run'.

According to the principles, companies should not feel obligated to provide earnings guidance, but if they decide to do so, they should first determine whether it 'does more harm than good'. Also, the guidance 'should be realistic and avoid inflated projections'.

Finally, the principles stress that companies are required to report their results in accordance with Generally Accepted Accounting Principles (GAAP). While the group of CEOs believes that "it is acceptable in certain instances to use non-GAAP measures to explain and clarify results for shareholders" they also stress that "such measures should be sensible and should not be used to obscure GAAP results". They also stress that all compensation expenses, including equity compensation, should be reflected in any non-GAAP measures of earnings as they are a cost of doing business.

## ASIC

ASIC has issued Consultation Paper 265 *"Communicating audit findings to directors, audit committees and senior managers"* requesting comments by 7 October 2016. It is seeking comment on its proposals to directly communicate its audit inspection findings with the company concerned. These findings are currently only communicated to the audit firm concerned. CP 265 seeks to establish criteria to be used as the basis for communication with companies.

ASIC has also issued CP 267 *'Remaking ASIC Class Orders and Guidance on audit and financial reporting'* and is seeking feedback by 12 September 2016 on proposals to remake, without significant changes, class orders including CP98/1418 *'Wholly-owned subsidiaries'* which will expire (sunset) if not remade.



 