# update

a news bulletin for G100 members

GROUP OF 100

**April 2016**

## National Executive

**President's Dinner:** The Hon Dr Peter Hendy MP, Assistant Minister for Finance and Assistant Cabinet Secretary, spoke to members and guests on "Supporting innovation and agility: regulation in the 21st Century".

Dr Hendy discussed the Government's focus on supporting innovation and achieving improvements in productivity as a generator of economic growth, the tax reform processes and the trade-offs required and the need to support and encourage basic research in areas where Australia has expertise and capacity and its commercial application.

**Annual General Meeting:** The 2016 AGM was held at The Hyatt Hotel, Canberra at 12 noon Thursday, 14 April 2016. The 2016/2017 National Executive comprises the following members:

### Diary Dates 2016

**Executive Meetings**

16 June – Sydney
28 July – Brisbane
6 October – Melbourne
15 December – Sydney

**A Members' dinner will be held on the night before each meeting.**

**Member Activities**

**15 June**: Dinner with Paul Jevtovic APM, Chief Executive Officer, AUSTRAC

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

**President – Zlatko Todorcevski** (Brambles Ltd); **Deputy President Gillian Larkins** (Perpetual Ltd); **Roger Burrows** (Asciano Ltd); **Charlie Elias** (BluescopeSteel Ltd); **Anne Flanagan** (RACV Ltd); **Michael Ford** (Commonwealth Bank); **Gary Lennon** (National Australia Bank); **Mark McNamara** (Melbourne Polytechnic); **Neville Mitchell** (Cochlear Ltd); **Colin Pavlovich** (Wesfarmers Ltd); **Andrew Porter** (AFIC); **Lawrie Tremaine** (Woodside Energy); **Paul McDonald** (KPMG); **Peter Meehan** (G100).

**G100 Purpose and Structure**: National Executive discussed the role, purpose and structure of the G100 to better meet the challenges confronting CFOs and will engage with members to discuss the proposals.

**Promoting women in finance:** Executive reviewed the contents of a G100 membership survey on gender diversity. Members are encouraged to respond to the survey which will be issued shortly. The results of the survey will inform the next steps taken in this G100 initiative.

**Integrated Reporting**: The Corporate Reporting Dialogue (CRD), involving several participants including the IIRC, IASB, GRA and the FASB, has released a statement of common principles of materiality which compares materiality definitions and approaches by eight of the world's most prominent organisations in corporate reporting (corporatereportingdialogue.com).

The Financial Stability Board (FSB) formed a Task Force in Climate-related Financial Disclosures to develop voluntary, consistent climate-related financial disclosures for use by companies providing information to lenders, insurers and investors etc. In the first report it has identified the following seven fundamental principles that are critical for an effective regime of climate-related disclosures which will be the foundation for developing its recommendations:

- present relevant information;
- be specific and complete;
- be clear, balanced and understandable;
- be consistent over time;

- be comparable among companies within a sector, industry or portfolio;
- be reliable, veritable and objective; and
- provide on a timely basis.

**Meetings in Canberra:** The President and staff met with the following in Canberra on 13 April 2016, for informal discussions:

- **Cutting Red Tape**: Department of Prime Minister and Cabinet and discussed the current status of cutting red tape initiatives including the G100/PwC project on streamlining remuneration reports. It was noted that there has been a shift in emphasis in the cutting red tape program to incorporate issues relating to innovation and enhancing productivity and growth. The Government has issued a report on red tape reduction in 2015. The report, which identifies items by departments, can be downloaded at http://cuttingredtape.gov.au/annual-red-tape-reduction-report-2015.

- **Meeting with Treasury**: Discussion with Markets Group and Revenue Group staff centered on the challenges that CFOs see for the economy and doing business in the context of regulatory reform. Other issues discussed included streamlining the remuneration report, the role of the Financial Reporting Council and issues related to integrated reporting. In discussions on tax reform, the G100's views on the forthcoming tax transparency code were emphasized, including that it should be voluntary and not mandatory (to avoid it being merely a compliance exercise) and the timing of its implementation.

- **Standard Business Reporting**: Discussions with staff from the Australian Business Register on the status and future directions of the SBR project, including Deloitte Access Economics Report on SBR-enabled systems. The report found savings to business from SBR in the current financial year of $1.1 billion. The development of cost-effective software which enables mapping of items from different systems was discussed. It was noted that these products facilitate the adoption of SBR without updating existing systems.

## Taxation reform

**Depreciation of intangible assets:** The Government is proposing to amend the ITAA 1997 to provide entities with the choice to either self-assess the effective life of certain intangible depreciating assets or use the currently required statutory effective life in determining the deduction for decline in value. The purpose of the change is to better align the taxation treatment of those assets with the actual period of time that the assets provide economic benefits and achieve consistency with the treatment of tangible assets (www.treasury.gov.au).

**Luncheon**: Jeremy Hirschhorn, Deputy Commissioner ATO, spoke at a G100/Wolters Kluver luncheon in Sydney on 8 April 2015. The presentation dealt with the concept of 'justified trust' between the ATO and a large corporate taxpayer and identified the following elements:

1. The company has a tax governance policy that is 'lived' throughout the organization
2. Large specific transactions are openly discussed with the ATO in a spirit of transparency
3. The taxpayer has not entered into any transactions which have been publicly flagged as aggressive (ie 'swimming between the flags')
4. The ATO comprehensively understands the tax profile of the taxpayer on a macro basis ie the ATO understands what is taxed and what is not taxed by understanding the P&L, balance sheet and book-to-tax adjustments intimately. The objective is that the ATO team can readily explain the difference between the statutory rate and effective rate. This is the 'tax gap', and where the ATO cannot explain it, they will seek an explanation.

This approach by the ATO emphasizes the importance for corporates to have a formal tax risk management plan.

## Corporate reporting

The following submissions are on the website:

- ED/2015/8 :Application of Materiality to Financial Statements"
- Inquiry into external scrutiny of the Australian Taxation Office

**Business combinations**: The IASB has tentatively decided to issue an ED on proposed amendments to IFRS 3 '*Business Combinations*' to clarify how to apply the definition of a business to achieve greater consistency with the proposed FASB amendments.

The IASB has issued '*Clarifications to IFRS 15 Revenue from contracts with customers*' in response to implementation and interpretation issues identified by the Revenue Group Transition Resource.

**Decision usefulness of financial reporting**: EFRAG and ICAS have published a report '*Professional investors and the decision usefulness of financial reporting*' (www.efrag.org). The main findings of the report include:

- The objective of investors (valuation or stewardship) does matter.
- Investors are strongly anchored on the income statement.
- Investors have strong reservations about the representational faithfulness of bottom line figures.
- Regardless of its shortcomings, financial accounting information is a key input factor for investors' decision making.
- The quality of corporate governance, including audit, influences investors' assessment of the representational faithfulness.

The implications of the findings are:

- One size does not fit all, suggesting that standard setters need to clearly prioritise objectives for financial reporting.
- Investors seem to be strongly anchored on the income statement, which seems to conflict with the balance sheet view promoted by the IASB's existing framework.
- There is a need for development of more standardised performance measures for the income statement.
- Investor perceptions of corporate governance significantly affect their views of representational faithfulness. Standard setters therefore need to consider costs of corporate governance and enforcement of accounting standards when setting standards. For preparers, investment in high quality governance, including audit, may well pay off in the form of enhanced investor confidence.

**False accounting legislation:** The 'Crimes Legislation Amendment (Proceeds of Crime and other Measures) Bill 2016 amends the Federal Criminal Code and prohibits making, altering and destroying a document:

i. with the intention to facilitate, conceal or disguise the giving or receipt of a payment not legitimately due to a person; or
ii. reckless to the fact that doing so facilitates, conceals or disguises the giving or receipt of such a payment.

It has been observed that these amendments have serious ramifications for Australian business and that the changes make it easier to prove false accounting offences. Others have noted the need for companies to consider reviewing their current accounting protocols, implementing stricter controls where necessary as well as ensuring that an appropriate bribery and corruption compliance is in place.

**Sustainability reporting developments**: The Global Reporting Initiative (GRI) has released '*The Next Era of Corporate Disclosure: Digital, Responsible, Interactive*' a digital publication that maps out the future of sustainability reporting and disclosure. According to GRI, the future will involve new formats with organisations moving from annual reports to sustainability data exchange, while focusing on major challenges such as climate change and human rights. The publication is the culmination of the first year of GRI's "Sustainability and Reporting 2025" project and provides insights from these discussions.

The GRI and the Carbon Disclosure Project (CDP) have also released two linkage documents. The first document reveals how GRIs G4 Guidelines and CDPs 2016 climate change questions are aligned and the second document shows how GRI's G4 Guidelines and CDPs water questions (2016) are aligned. These linkage documents are intended to avoid duplication of disclosure efforts. This harmonisation will help companies to streamline their disclosure efforts and improve the consistency and comparability of environmental data. The GRI and CDP Climate Change and GRI and CDP Water documents can be downloaded from the GRI website (www.globalreporting.org).

## ASX Corporate Governance Council

The ASX has commissioned KPMG to undertake two reviews of corporate governance disclosures in relation to the third edition of the CGC's Principles and Recommendations. Entities with a 30 June reporting date report against these amended recommendations in the June 2015 financial year reporting season.

The first review will deal with the new recommendations in the third edition while the second review will deal with the disclosures with respect to the diversity recommendation 1.5.

The reviews are expected to be finalised in early May and will be released on 24 May 2016.

## ASIC

ASIC has issued a revised legislative instrument *'ASIC Corporations (Electronic Lodgement of Financial Reports) Instrument 2016/81'* which deals with dual lodgement and electronic lodgement of directors' reports, financial reports and auditor's reports which replaces three class orders:

- Class Order (CO 00/2451) Electronic lodgement of certain reports with the ASX approval
- Class Order (CO 00 06/01) Dual lodgement relief for NSX-listed disclosing entities
- Class Order (CO 96/104) Dual lodgement relief for ASX-listed entities.

The instrument relieves listed disclosing entities which are companies on registered schemes from the obligation to lodge the reports with both the market operator and ASIC.