



National Executive

Executive Dinner: ASIC Chairman, Greg Medcraft, spoke to members and guests on “Fintech: Opportunities, Risks and Challenges”, where he dealt with the impact of fintech developments on the financial services and markets sector and consumers and the challenges confronting regulators. The full text of the speech is available at www.asic.gov.au

Meeting with APESB Chair: Executive met with Nicola Roxon, Chair, Accounting Professional Ethical Standards Board (APESB) and Channa Wijesinge, Executive Director, to discuss the Board’s current projects and activities, and areas for ongoing liaison and co-operation (www.apesb.org.au). Of particular interest was the potential impacts of new international ethical and audit requirements regarding non-compliance with laws and regulations (NOCLAR).

Meeting with James Hall AIRA: Executive met with James Hall, incoming President of the Australian Investor Relations Association (AIRA) and discussed the role and regulation of proxy advisors, the impact of technological development, including ASX block chain initiatives, the path to achieving best practice in corporate reporting and opportunities for ongoing liaison and co-operation on projects.

Meeting with Michael Bray KPMG: Michael Bray made a brief presentation to the Executive on the current status and international developments in respect of integrated reporting. Executive reiterated the G100’s support for the concept of integrated reporting and that adoption of <IR> principles should be market driven as companies seek to improve the ways in which they communicate with shareholders and other users.

Regulatory Reform: Executive discussed recent meetings with bureaucrats in Canberra with an emphasis on reducing red tape and regulatory reform. In response to their requests, members will be requested to suggest major items where reform and red tape reduction are required.

Remuneration Reports: The G100 and PwC have published “Streamlining Remuneration Reporting” which contains recommendations based on discussions with proxy advisors, analysts and preparers, to simplify the requirements and remove duplication. The recommended approach was field tested by Cochlear using its 2015 report. The report is available at www.group100.com.au.

Special General Meeting:

The proposed amendments to the G100 Constitution were approved at the Special General Meeting held in Sydney on 15 December. The amendments principally deal with the appointment of the President, the formation of an Advisory Council and updating to reflect items now included in the Model Rules of the Victorian “Associations Incorporation Reform Act and Regulations 2012”.

DIARY DATES

Executive Meetings 2017

- Wednesday 15 February – Brisbane
- Wednesday 5 April – Canberra
- Wednesday 31 May – Sydney*
- Wednesday 1 June – Sydney*
- Wednesday 2 August – Melbourne
- Wednesday 11 October – Sydney
- Wednesday 6 December – Melbourne

*31 May - National Executive Meeting in the afternoon followed that evening by the President’s Dinner

*1 June - Group of 100 Congress

Member Activities

- Thursday 6 April – Sydney
- Lunch with Chris Jordan, Commissioner of Taxation

(Details of events will be sent to members separately)

Corporate reporting

AASB CFO Forum

The G100 in conjunction with Perpetual, hosted this forum in Sydney with Sue Lloyd, IASB, Vice-Chair, on 25 November. The discussion focused on possible approaches to “Better Communication in Primary Financial Statements”. The IASB was seeking CFO feedback on issues including:

- defining operating profit and EBIT;
- improving the reliability of underlying earnings and other non-GAAP financial measures.

Issues raised were the tension between comparability and flexibility, concerns about the lack of comparable sub-totals in the performance statement and inconsistent structure of the performance statement even within the same industry. CFOs emphasised that a uniform structure and sub-totals even within the same industry did not necessarily provide useful information to users because the nature of their operations and the way the businesses are managed are different. Accordingly, flexibility in presentation was the preferred approach.

There is a risk that the IASB will adopt an approach to the presentation of non-GAAP measures that emphasises comparability over flexibility which would make it easier for regulators to enforce discipline and compliance.

Alternative Profit Measures

The FRC (UK) has issued “Corporate Reporting Thematic Review – Alternative Performance Measures” (frc.org.uk). The review focussed on alternative measures of profit with 90% of the sample companies using such a measure as adjusted profit with the alternative measure being higher than the equivalent IFRS measure in 78% of cases. The review found that there was only limited commonality in the definition of such measures while some of the definitions gave rise to concerns about why certain items, notably recurring restructuring costs, had been excluded from the measure. Other common exclusions were share-based payment changes and movements on non-hedge accounted derivatives, profit or loss on disposal of investments or businesses and amortisation of intangible assets arising on acquisition.

IASB Agenda Consultation

The IASB has released its feedback statement on its August 2015 Agenda Consultation (www.iasb.org). The IASB drew the following messages from the 119 responses received:

- focus on completing remaining standard-setting projects, in particular insurance contracts and the conceptual framework,
- achieving better communication in financial reporting including the disclosure initiative and primary financial statements,
- continued development of implementation support including fewer standard-setting projects to enable stakeholders to focus on implementing recently issued standards,
- a more focused research program is required.

IASB’s Materiality Project

The IASB discussed submissions on the Exposure Draft and tentatively decided to:

- provide additional clarity on the extended audience, objectives and definition of materiality in the forthcoming Practice Statement (expected by late 2017),
- revise the guidance to include meeting the maximum amount of the common information needs of primary users,
- explain that entities should consider both quantitative and qualitative factors for material items,
- state that a single materiality assessment should be applied to all information,
- describe how an entity should use a materiality assessment to decide how much detail to disclose.

At its December meeting the IASB split this project into two to reflect mandatory guidance (definition of materiality) and non-mandatory guidance (materiality practice statement).

Adoption of IFRS in Australia – AASB Research Report

The AASB has published Research Report No. 3, “The impact of IFRS adoption in Australia: Evidence from academic research” (www.aasb.gov.au)

The key findings in the report are:

- IFRS adoption by Australian companies appears to have had a positive outcome for investors and analysts based on research revealing improved analyst following, and analyst forecast accuracy,
- some studies reported positive outcomes through improvements in the value and relevance of financial reports post-IFRS adoption, and reductions in the numbers of firms engaging in earnings management,
- most studies reported positive results in terms of the promotion of the comparability of Australian entities’ financial reporting practices with their global peers,
- survey research around the timing of IFRS adoption revealed a degree of pessimism among managers from listed Australian companies towards many of the possible benefits from accounting convergence.

The report concludes that:

- the FRC directive regarding adoption of IFRS continues to be appropriate; and
- most of the research generally supports the view that IFRS adoption has benefited the Australian economy.

Disclosure of Dividends

The Financial Reporting LAB (UK) has issued a report “Disclosure of dividends – policy and practice” (www.frc.org.uk). The report deals with how companies have responded to investor calls for better disclosure relating to dividends including dividend policy and includes examples of good practice.

ASIC

Cyber Security

The ASX and ASIC have undertaken a survey on cyber security awareness, capability and preparedness as part of the Government’s Cyber Security Strategy. Voluntary participation in the “ASX Cyber Security Health Check” was open until 16 December 2016. Participants will receive a confidential report benchmarking their cyber security practices (*available at www.asx.com.au/media*).

Whistleblowers

ASIC Information Sheet 52 “Guidance for Whistleblowers” assists understanding of who is considered to be a whistleblower and the kinds of protection whistleblowers may be entitled to under the Corporations Act. Company officers and other persons have legal obligations under the Corporations Act if they receive a revelation from a whistleblower. ASIC has issued “Whistleblowers – company officer obligations” which explains international and Australian whistleblower protection, procedures for a company and its relationship to a corporate culture of compliance. These are available at www.asic.gov.au

Preparation and Surveillance of Financial Reports

ASIC has issued 16-428 MR “ASIC calls on preparers to focus on useful and meaningful financial reports” (www.asic.gov.au) indicating that companies should adopt realistic valuations for asset values, appropriate accounting policies and provide more effective communication of that information. Further explanation and the areas of focus are provided in the media release. ASIC also reminds preparers of the need to disclose the impacts of new accounting standards (revenue, leases, financial instruments) to take effect over the next two years (16-442MR).

Climate Related Financial Disclosures

The Task Force on Climate Related Financial Disclosures (TCFD) was established by the Financial Stability Board to develop voluntary, consistent climate-related financial risk disclosures for use by companies to inform users making investment and other decisions (www.fsb-tcf.org). The TCFD has issued a consultation paper with the following recommendations for effective disclosure of climate-related risks:

Governance: Disclosure of the organisation's governance around climate-related risks and opportunities.

Strategy: Disclosure of the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Risk Management: Disclosure of how the organisation identifies, assesses, and manages climate-related risks.

Metrics and Targets: Disclosure of the metrics and targets used to assess and manage relevant climate-related risks and opportunities.

Integrated Reporting and Sustainability

The IIRC has issued "Creating Value: The cyclical power of integrated thinking and reporting" (www.theiirc.org). The publication deals with:

- the value of integrated thinking as an integral component of <IR>;
- vital benefits of the integrated thinking and reporting cycle;
- a 21st century model for effective long-term management;
- enhancing the board's governance role.

It also refers to a handbook on integrated reporting which provides step-by-step stages for companies to follow in order to 'make integrated thinking concrete and usable'.

Corporate Governance

South Africa released King Code IV in early November. King Code IV has been described as ground breaking on several fronts with some of the novel changes being:

- the first code to have embedded the International <IR> Framework;
- it is now 'apply AND explain', and no longer, 'apply or explain';
- the headline outcomes aimed for by the code are described from the perspective of ethical culture, good performance, effective control and legitimacy;
- there is a new emphasis on the roles and responsibilities of stakeholders. For example, there is a 17th principle that applies to institutional investors to ensure that "responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests".