

Australian Business Reporting Leaders Forum

Newsletter – December 2015

Dear BRLF Participant

The initial BRLF years between 2011 and 2014 focused on building a forum for a globally-aligned discussion about corporate reporting reform in Australia, awareness of the work of the IIRC and its Integrated Reporting <IR> Framework, and monitoring early adoption of the <IR> Framework. This report summarises 2015 developments and the proposed 2016 BRLF agenda in a bit more detail.

2015 was mainly a year of behind-the-scenes market design activity to identify the best market-based mechanism for widespread adoption of <IR> in Australia. This involved a global focus to ensure global alignment, working on behalf of the IIRC in the 2015 Turkey G20 and B20 process, principally through the B20 Infrastructure & Investment Taskforce.

It focused on how to remove blockages to widespread adoption of <IR> in Australia: director liability for well-informed forward-looking and risk-oriented statements in corporate reports; and corporate reporting red tape. We focused on building broader and deeper investor demand for corporate reporting reform, and <IR> in particular. Finally, we have been monitoring the work of the International Auditing & Assurance Standards Board (IAASB) on an <IR> Assurance Framework.

This work has set the scene for the BRLF's 2016 agenda, which will focus on developing consensus for an appropriate market-based adoption mechanism for Australia, including investors, and removing the key blockages and challenges identified above. This will pave the way for that mechanism to be implemented in 2017 and 2018 as limited, and then reasonable, assurance of integrated reports is enabled by the IAASB. We would like to bring a proposal for Australian adoption through an 'if not, why not?' ASX Corporate Governance Principle / Recommendation, modelled on South Africa's successful model. It would be phased in over two stages in similar fashion to the approach used to transition to International Financial Reporting Standards.

We thank you for your support of the BRLF to date. We look forward to your continuing support as the BRLF increases its 'voice' in 2016 to build upon the progress made in 2015. We will continue to provide a forum in support of the Australian journey towards better business reporting - in search of providing better information to investors and other key stakeholders. This will make for more effective capital markets, and a powerful corporate reporting contribution to key global and national issues. Corporate reporting is becoming more conducive to infrastructure and other long term investment; longer term business sustainability; and financial stability – however, there is still some way to go and we must maintain the momentum.

We will continue the approach of having BRLF meetings only when there is something to ask you or tell you. Accordingly, at the end of this report, we set out the proposed BRLF agenda for 2016 and ask you to reflect on it over the break and provide us with your thoughts on the proposed agenda, including any modifications you think would be appropriate. We would appreciate your comments by 15 January 2016.

We wish you and your families a happy festive season, and look forward to working with you again in 2016. Have a great break.

Best wishes

John, Nick and Michael

Australian Business Reporting Leaders Forum

Status report at December 2015

Set out below is a summary of progress made by the Australian Business Reporting Leaders Forum (BRLF) in 2015, target outcomes for 2016 and associated key actions, and the proposed 2016 BRLF agenda for your comment.

Progress in 2015



Corporate Reporting Reform in Australia.

- We continued to focus on identifying the approach to corporate reporting reform most suited to the Australian environment, maintaining an open mind as to whether this would be adoption of the IIRC's <IR> Framework.
- Given increasing acceptance of the IIRC's <IR> Framework globally and because it is most likely the approach most suited to Australia, we started to focus on the market mechanism most appropriate to achieving widespread adoption in Australia (for example, an ASX Corporate Governance Principle to build on the change made to Principle 4 in 2013 which shifted the focus from 'financial reporting' to all 'corporate reporting').
- With a view to building a groundswell for change, we are meeting with key stakeholder groups and member organisations to seek their endorsement of the need for change in Australian corporate reporting, and especially their support for <IR>. We have received written endorsement from the Group of 100, Chartered Accountants Australia & New Zealand and CPA Australia, with a number of other organisations discussing the issue and proposition with their stakeholders. We will focus on increasing documentation of this support in 2016.



Global Alignment.

- We continued to interact with and support the IIRC:
 - Through the strategy the IIRC has been following since formation to win support for <IR> by the G20 / B20. This involved trips by John Stanhope and Michael Bray, nominated to the B20 Infrastructure & Investment Taskforce by the IIRC (Member and Alternate respectively), to Washington and Ankara to ensure that the long-sought after B20 ' <IR> Recommendation' had safe passage through the 2015 Turkey B20 and G20 process.
 - The 2015 Turkey B20 Infrastructure & Investment Taskforce recommended to the G20 that it ask the IIRC and International Accounting Standards Board to report on how to make corporate reporting more conducive to infrastructure and other long term investment; and also that it ask individual G20 nations to remove blockages and challenges to widespread adoption of <IR> through mechanisms appropriate to their own environments.
 - Importantly, while the B20's <IR> Recommendation does not itself feature on the B20's 'main page', it was put forward as an enabling recommendation for the first recommendation of the taskforce, which was picked up in the final report to, and adopted by, the G20. <IR> is now part of the global 'investment ecosystem'.
 - The B20's <IR> Recommendation led us to commence engagement on behalf of the IIRC with the institutional mechanism recommended by the 2014 Australia G20 and B20 to drive infrastructure-related recommendations, the Sydney-based *Global Infrastructure Hub*, including the <IR> Recommendation. It remains to be seen whether the Hub will pick this review up, and how the B20 and G20 will take this work forward under China's Presidency in 2016.
 - As it develops an <IR> Accreditation Framework (which will be required by preparers, investors, assurers, universities and others) to build the required capacity in the corporate reporting supply chain to enable widespread adoption of <IR>.



Removing Australian Blockages and Challenges.

- Regardless of the adoption mechanism chosen, removing blockages and challenges to enabling the forward-looking and risk-oriented statements required in corporate reports, and addressing volume and complexity in corporate reporting, is critical in any approach to better integrating corporate reporting.

Addressing these matters involved numerous trips to Canberra to meet with Treasury and Attorney-General's Department officials to identify and promote solutions:

- *Corporate Reporting Red Tape.* We met with relevant politicians, the Secretary of The Treasury and Treasury officials. We spoke about the G20 / B20 <IR> Recommendation and its relevance to Australia. We discussed an appropriate institutional mechanism to oversee corporate reporting reform in Australia, including implementation of the B20 <IR> Recommendation, given that the core objectives of the Financial Reporting Council are at this stage restricted to financial reporting. We also met with Kris Peach, Chair of the Australian Accounting Standards Board to discuss its plans in relation to <IR> after it was added to the forward agenda of the IASB during 2015.
- *Director Liability.* We wrote to the Australian Institute of Company Directors (AICD) to propose a more limited change to the Corporations Act than the AICD had proposed in order to provide safe harbour for well-informed forward-looking and risk-oriented statements in corporate reports. We met with the Attorney-General's Department on this matter, who recommended that we ask the Attorney-General to refer the matter to the Australian Law Reform Commission. At this stage, we await responses to these letters. We continue to consult with eminent legal academics in this area. We note that some progress on director liability was made in relation to bankruptcy laws in the recent Innovation Statement.



Build Strong Investor Demand for <IR>.

- Now that the 'supply side' of corporate reporting reform has been addressed, and good momentum has been achieved globally in the early adoption of <IR>, it is time to step up action to build the demand side – from investors and other key stakeholders.

ESG investors have been present in the BRLF since Day 1, and the industry superannuation funds since formation of the IIRC's Investor Network. It is time to broaden the call for <IR> across the whole investment spectrum based on the business benefits available for preparers and the improved information which will flow into capital markets.



Assurance

- The IAASB formed an Integrated Reporting Working Group (<IR> WG), chaired by Merran Kelsall (Chairman of the Australian Auditing & Assurance Standards Board) which reports directly to the IAASB. The <IR> WG is monitoring developments in <IR> and other emerging forms of external reporting, with a view to assessing demand for assurance. The WG will consider whether there is a need for a response, including guidance or standard setting to address any gaps in assurance standards. The WG intends to issue a Discussion paper later in 2016.

Target Outcomes for 2016 and Associated Key Actions

Target Outcome	Key Actions
Draft ASX CG Principle / Recommendation to be put forward by the BRLF to the ASX Corporate Governance Council (ASX CGC)	<ul style="list-style-type: none"> • Draft ASX CG Principle / Recommendation to be developed and put forward by BRLF to ASX Corporate Governance Council. • Meet with individual members of the council to discuss the draft. • Discuss business benefits (referring to South African experience for evidence) and benefits to capital markets of a journey to <IR> with council members. • Assist IIRC with its endeavour to have <IR> Recommendation picked up by Global Infrastructure Hub.
Director liability resolved and draft legislation prepared	<ul style="list-style-type: none"> • ALRC referral follow up, with inquiry finalised and law change proposed • Continue to work with AICD • Continue to work with key academics
Institutional mechanism to address corporate reporting red tape in place. FRC / ERC?	<ul style="list-style-type: none"> • Meet again with Treasury • Evaluate alternative mechanisms (e.g. a re-constituted Financial Reporting Council, or an External Reporting Council)
Broad and deep investor engagement	<ul style="list-style-type: none"> • Obtain greater engagement from all main investor groups
Assurance exposure draft	<ul style="list-style-type: none"> • Continue liaising with Merran Kelsall
IIRC / Global	<ul style="list-style-type: none"> • Assist IIRC with Global Infrastructure Hub engagement as required • Paul Druckman to meet with BRLF and others in March 2016 • Keep in touch with international developments and trends (e.g. automated reporting)



Drive Benefits to Business

A key overall task for the BRLF, important to all of the outcomes and activities listed above, will be communicating the benefits to business and the capital markets of the journey to better business reporting.

Proposed 2016 BRLF Agenda

The proposed BRLF agenda for 2016 is as follows:

- Advancing removal of barriers & challenges to <IR>
- Testing ground for evolving ideas:
 - Test, modify and adopt the format and wording of regulatory driver for widespread adoption of <IR> in 2017 and beyond
 - Current hypothesis: non-mandatory ('if not, why not?') ASX Corporate Governance Principle / Recommendation building on 2013 Principle 4 update focusing board attention on 'corporate reporting' – in two phases based upon IFRS implementation phasing
 - Engagement of universities in assembling evidence
- Fully developing ASX CG Principle / Recommendation
- Developing groundswell within ASX CGC - engaging all members
- Assurance
- Forum for experts to expose new developments

It is currently proposed that the BRLF will meet on a quarterly basis in 2016, with an indicative timeline as follows:

Date	Theme	Associated Activities	Key BRLF Topics
Melbourne – 8 March, from 7.30am Sydney - 24 March from 7.30am	Australia's <IR> Adoption Mechanism and Removing Blockages and Challenges	Paul Druckman Visit	<ul style="list-style-type: none"> • IIRC / IASB Review for the 2016 China B20 • Director Liability & Corporate Reporting Red Tape
Sydney - 10 or 17 May	Moving to Widespread Adoption of <IR> as an Enabler of More Longer Term Investment	Investor Engagement	<ul style="list-style-type: none"> • Update on international experience, including South Africa • An ASX CG Principle?
August - TBA	Integrated Assurance	Assurance Round Table	<ul style="list-style-type: none"> • Consider IAASB Discussion paper • Implementing director liability and corporate reporting red tape developments
November - TBA	Where to in 2017?	<IR> Conference	<ul style="list-style-type: none"> • Draft ASX CG Principle to be put forward to Council • 2017 BRLF Agenda

Please provide your comments on this proposed agenda to Nick on nridehalgh@kpmg.com.au by 15 January 2016. Also, please put placeholders for the BRLF dates in your diaries. Please also provide Nick with detail of others who should be involved and sent invitations to BRLF meetings.