

Business Reporting Leaders Forum

*At KPMG Melbourne Tuesday 12 May 2015 and
KPMG Sydney on Thursday 28 May 2015*

New Website: www.brlf.net

Attendees – a broad cross-section of the reporting supply chain in Australia

Chief Financial Officers/ Finance	Directors / Chief Executive Officers	Accounting / Legal Firms	Investor Relations Officers & Sustainability Officers	Investors & Analysts	Other Stakeholders
<p>Peter Meehan - G100</p> <p>Damien Coleman – Telstra</p>	<p>John Stanhope - Aus. Post, AGL, BRLF (Chairman)</p> <p>Peter Matthey - Cabrini Health Australia</p> <p>Peter Wilson - AHRI</p> <p>Andrew Bragg - FSC</p> <p>Michael Coleman AICD</p> <p>Tony Coleman - Lonergan Edwards</p> <p>Pauline Vamos - ASFA</p> <p>Kerry Lee - BCA</p> <p>Nicola Steele – AICD</p> <p>Simon Longstaff – St James Ethics Centre</p>	<p>Michael Bray</p> <p>Rachel Scully</p> <p>Kylie Dumble</p> <p>KPMG</p> <p>Matthew Bell</p> <p>Terence Jeyaretnam</p> <p>Vanessa Richards</p> <p>Julian Crawford</p> <p>Kathryn Franklin</p> <p>Ernst & Young</p> <p>Paul Shepherd</p> <p>Pricewaterhouse Coopers</p>	<p>Timothy Nelson - AGL</p> <p>Cara Brigham - Urban Growth NSW</p> <p>Cate Harris</p> <p>Michael Long</p> <p>Lend Lease</p> <p>Jason Robertson - David Jones</p> <p>Diana McGuinness - Stockland</p>	<p>Alison George (M) - Regnan</p> <p>Paul Murphy - ACSI</p> <p>Pablo Berrutti - Colonial First State</p>	<p>Judith Fox - Governance Institute of Australia</p> <p>Paul Davies – Banarra</p> <p>Dr Pamela Stark – The Middle Way</p> <p>Michael Rich, James Rohan, Amanda Keogh</p>

Academia	BRLF/ IIRC	Accounting Bodies		Regulators / Exchanges / Standard Setters/ Government
<p>Roger Simnett</p> <p>University of NSW</p> <p>John Dumay</p> <p>Tianyuan (Sherry) Fang</p> <p>Nonna Martinov-Bennie</p> <p>Nick McGuigan</p> <p>Keith Reilly</p> <p>Macquarie University</p> <p>Rosemary Sainty</p> <p>University of Technology, Sydney</p> <p>Roger Simnett</p> <p>Trish Strong</p> <p>University of NSW</p> <p>Brad Potter</p> <p>University of Melbourne</p>	<p>Liz Prescott - IIRC</p> <p>Nick Ridehalgh - KPMG/BRLF</p>	<p>Nikole Gyles</p> <p>Marina Michaelides</p> <p>Merran Kelsall</p> <p>AASB Melbourne</p> <p>Joanna Spencer</p> <p>Richard Mifsud</p> <p>AASB Sydney</p> <p>Nicholas Diss</p> <p>CPA Australia</p> <p>Charles Macek</p> <p>IFRS Advisory Council</p>	<p>Geraldine Magarey</p> <p>Chartered Accountants Australia & New Zealand</p> <p>Michael Nugent</p> <p>IFAC</p>	<p>Doug Niven</p> <p>ASIC</p>

Agenda

Time	Subject	Presenter
7.30	Welcome	John Stanhope
7.40	Update on BRLF leadership activities <ul style="list-style-type: none">• G20/ B20• Treasury• AICD	John Stanhope
8.00	Update on global IIRC activities	Liz Prescott (IIRC)
8.15	Update from AUASB on Assurance over Integrated Reports	Merran Kelsall, Richard Misfud (Sydney), Marina Michaelides (Melbourne)
8.25	Discuss the AASB's project on 'Reporting Service Performance Information and how it may relate to <IR>'	Nikole Gyles (Melbourne) Joanna Spencer (Sydney)
8.40	Academic research – the 'value add' of IR, as well as paper on Director Liability (to be published in Companies and Securities Law Journal in May)	Professor Roger Simnett (Sydney)
8.55	Discussion on next BRLF meeting, and close at 9.00 am	John Stanhope

Update on BRLF Leadership Activities

John Stanhope

Update on BRLF Leadership Activities - Agenda

- B20 update
- The Australian Business Context

Integrated Reporting <IR> – B20 Turkey



Infrastructure & Investment Taskforce Recommendations

'MAIN PAGE'

Increase the availability for long-term financing for investment, including for infrastructure, by removing unnecessary disincentives for long-term investment, setting out coherent national plans to promote the development of local capital markets, and promoting the provision of appropriate credit enhancement instruments and/or co-investment mechanisms for infrastructure projects where required.

ESSENTIAL ENABLER

A review by the **Integrated Reporting Council** and International Accounting Standards Board in relation to making corporate reporting more conducive to infrastructure and other longer-term investment, and eliminating or addressing current barriers.

UNLOCKING INVESTMENT IN INFRASTRUCTURE

Is current accounting and reporting a barrier?

B20 Panel of six international accounting networks
June 2014

Cross-Cutting Streams	Themes	Infrastructure & Investment Taskforce	Other taskforces (Financing Growth, Trade etc)	Outcome
Taskforce Chair		<i>Ferit Şahenk (Chairman of Doğu holding)</i>		
Governance & Sustainability	Integrated Reporting <IR> <i>Mervyn King</i>	Implement 2014 B20 Reco'tion : IIRC / IASB Review <i>John Stanhope</i>	e.g. <IR> enabler of financial stability	B20 & G20 Recommend Integrated Reporting adoption
	Other G&S Themes			
Digital Economy / Food Security				
Outcome		Increased Availability of Financing Infrastructure & Other Long-Term Investment		Integrated Reporting Recognised as a 'Main Page Enabler'

Integrated Reporting Commendation – Big 6 Accounting Firms



B20 INFRASTRUCTURE
& INVESTMENT TASKFORCE
POLICY SUMMARY
JULY 2014

Recommendations

The Taskforce recommends six key, practical steps that G20 nations should take—individually and collectively—to promote more, and more efficient, investment in infrastructure. Collectively, these actions could generate \$8 trillion worth of additional infrastructure capacity by 2030, and \$1.6 trillion of additional investment by businesses in their own operations every year. They will also contribute up to 1 per cent to the G20 target of 2 per cent additional growth over the next five years, and lay the foundation for sustainable, inclusive growth and employment over the longer-term.

G20 leaders should

6. **Increase the availability of long-term financing for investment, including for infrastructure**, by removing unnecessary disincentives for long-term investment, setting out coherent national plans to promote the development of local capital markets, and promoting the provision of appropriate credit enhancement instruments and/or co-investment mechanisms for infrastructure projects where required.

These steps will make a substantial contribution to increased employment and inclusive, sustainable growth, but closing the infrastructure gap requires continued action on many fronts. In particular, the B20 notes its support for the following initiatives, many of which are already underway.

- **A review by the Integrated Reporting Council and International Accounting Standards Board** in relation to making corporate reporting more conducive to infrastructure and other long-term investment, and eliminating or addressing current barriers²

² See the recent report by the B20 Panel of six international accounting networks (2014) *Unlocking investment in infrastructure – Is current accounting and reporting a barrier?* Available at www.b20australia.info

UNLOCKING INVESTMENT IN INFRASTRUCTURE

Is current accounting and reporting a barrier?

B20 Panel of six international accounting networks

June 2014

Narrowing
the **gap**

Encouraging infrastructure investment poses many challenges for governments and developers –Over the next 15 years, the gap between available funds and demand for infrastructure development around the world could be as much as \$500 billion annually¹

¹ Estimate by McKinsey and Standard & Poor's

Our recommendations

Longer-term focus

The Panel recommends that the 2014 B20 make the following actionable recommendations to the G20.

- Encourage corporate reporting innovations and initiatives that provide investors with a longer-term and broader perspective on shareholder value creation to complement the historical financial performance and current financial position perspective provided by financial statements. The B20 notes the particular relevance of integrated reporting as an example in this respect.
- Each G20 Finance Minister should assess and address any practical, legal or statutory barriers to improved corporate reporting and work towards removing such barriers in order to make corporate reporting more conducive to infrastructure and other long-term investment.

Evolution of the B20 Integrated Reporting Recommendation

- Grounded in enabling long-term investment
- 2013 Russian B20 Infrastructure & Investment Taskforce – called for ‘Big 6’ review
- 2014 Australian B20 Infrastructure & Investment Taskforce – considered and endorsed accounting firms’ review
- 2015 Turkish B20 Infrastructure & Investment Taskforce – draft <IR> Recommendation
 - Preliminary <IR> Recommendation (Washington April 2015)
 - Fit with 3 Turkish priorities – Investment, Inclusiveness, Implementation
 - Phase 1 Feedback to B20 on Australian Advocacy
 - Phase 2 Feedback

Recommendation 1 – Recommended Action 4

Receive and review the report endorsed by the 2014 B20 of the International Integrated Reporting Council and International Accounting Standards Board in relation to making corporate reporting more conducive to investment in infrastructure and other long term investment; and prepare a report with recommendations on what G20 governments can do to promote widespread adoption of Integrated Reporting, with each nation assessing and addressing any practical, legal or statutory barriers to improved corporate reporting and work towards removing such barriers.

The Australian Business Context



1. Director liability
2. Cutting corporate reporting red tape
3. Making corporate reporting more conducive to long term investment
4. Conservative investor environment – dividends preferred to funding growth
5. Maximising benefit of assurance investment
6. Innovation and education agenda

Corporate Reporting Reform is underway in Australia

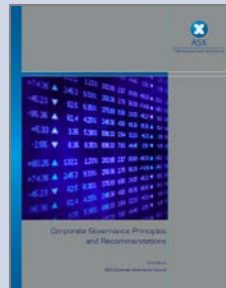
The Building Blocks Are Falling Into Place

Market Design 2010-2013: Timeline

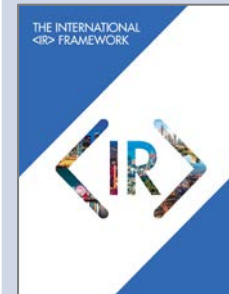
Momentum Builds - Aim to improve quality of corporate reporting to better meet needs of shareholders, regulators & other stakeholders



ASIC Regulatory Guide 247: Effective disclosure in an operating and financial review – March 2013



ASX Corporate Governance Principles and Recommendations (3rd edition) – March 2014 effective from 1 July 2014



International Integrated Reporting <IR> Framework – December 2013

Threshold Issues (Stanhope letter): 2014 – Business Reporting Leaders Forum: Cormann Meeting 13 October 2014

Director Liability – Change s180(2) of Corporations Act – modelling on UK rules

- Business Judgement Rule for Voluntary Integrated Reports
- Safe Harbour for Forward-looking Statements in OFR

Cutting Red Tape in Corporate Reporting

- Built on real world examples
- BRLF-led Task Force reporting to Finance Minister
- Cut clutter at the same time as improving corporate reporting

Real Business Benefits

Capital Allocation – B20 / G20

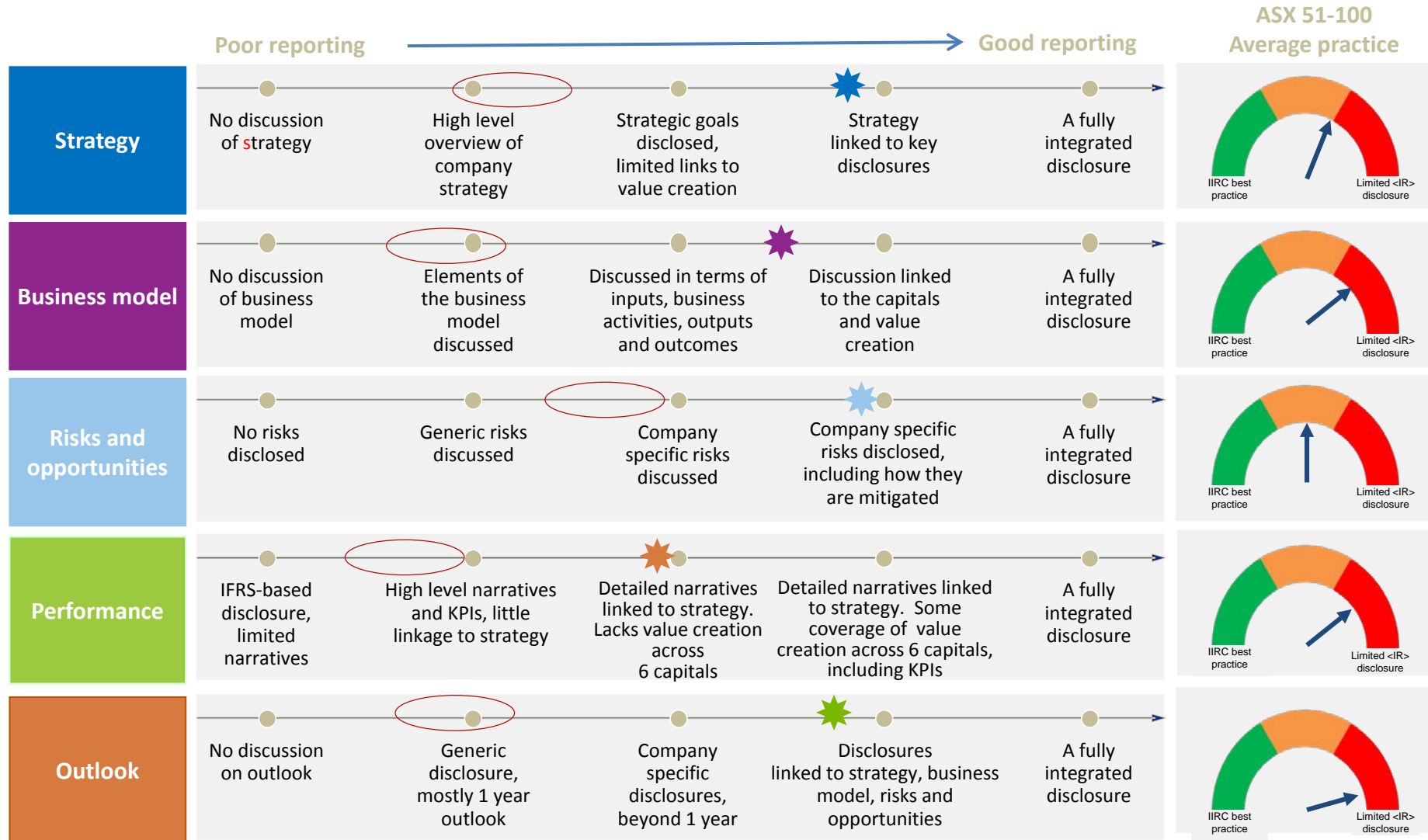
- <IR> widely adopted
- Each G20 nation finds its own path - 'If not, why not?' ASX Corporate Governance Council <IR> Principle

Enhanced Capital Allocation - Assurance

- <IA> widely valued
- IAASB issues <IA> Assurance Framework

RG247 – One year on...

- KPMG's benchmarking of 2013 OFR's of ASX51-100 companies against the principles of <IR>



ASX Corporate Governance Principles & Recommendations

Key reporting changes in the Third Edition - effective from 1 July 2014

Key changes	<ul style="list-style-type: none">▪ Greater flexibility to make governance disclosures on the company website▪ Shift from focus on safeguarding the integrity of 'financial reporting', to the broader 'corporate reporting'
Principle 4: Safeguard integrity in corporate reporting	<ul style="list-style-type: none">▪ Listed entities should have formal and rigorous processes that independently verify and safeguard the integrity of corporate reporting
Principle 7: Recognise and manage risk	<ul style="list-style-type: none">▪ Disclose any material exposures to economic, environmental and social sustainability risks▪ Including how they intend to manage the risks and the impact they have on the ability to create or preserve value over the short, medium and long term

FRC Core Objectives & ASX CG Principle 4 Now Misaligned



LEADING INDICATOR *Bellwether of public opinion*

- ASX Corporate Governance Principles 3rd Edition March 2014
- 4. Safeguard integrity in corporate reporting: A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.
- A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.
- Commentary
- While ultimate responsibility for a listed entity's financial statements rests with the full board, having a separate audit committee can be an efficient and effective mechanism to bring the transparency, focus and independent judgement needed to oversee the corporate reporting process.
- The role of the audit committee is usually to review and make recommendations to the board in relation to:
 - the adequacy of the entity's corporate reporting processes;
 - whether the entity's financial statements reflect the understanding of the committee members of, and otherwise provide a true and fair view of, the financial position and performance of the entity;
- NEXT
- Input to B20 Review
- Define corporate reporting
- Insert an integrated reporting recommendation after IIRC / IASB



LAGGING INDICATOR *Standard setting & regulatory interpretation of existing law*

- Core objectives of the FRC
- The FRC operates within a framework set out in the *Australian Securities and Investments Commission Act 2001* (the Act). The Act sets out core objectives for accounting and auditing standard setting in Australia. The objectives are that:
 - Accounting standards should require the provision of information that:
 - allows users to make and evaluate decisions about allocating scarce resources;
 - assists directors to discharge their obligations in relation to financial reporting;
 - is relevant to assessing performance, financial position, financing and investment;
 - is relevant and reliable;
 - facilitates comparability; and
 - is readily understandable.
 - Auditing standards should require the provision of information that:
 - Provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the Corporations Act; and
 - Require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate.
 - Accounting standards should facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas.
 - Accounting and auditing standards should facilitate the Australian economy by having accounting and auditing standards that are clearly stated and easy to understand.
 - Accounting standards should maintain investor confidence in the Australian economy, including its capital markets.
- NEXT
- Task Force recommended by Assistant Treasurer
- Broaden objectives to encompass corporate reporting
- Change name to Corporate Reporting Council

Update on Global IIRC Activities

Liz Prescott

Update on Global IIRC Activities - Agenda

- Mervyn King visit
- Network activities
- Investor outreach
- Policy work
- Corporate Reporting Dialogue
- Website relaunch and thought leadership

Mervyn King visit

- Sydney: Monday May 4th
 - Alex Malley, CEO, CPA Australia
 - CFS GAM Client Luncheon with Jamie Allen, Secretary-General, ACGA
 - John Brogden, CEO, AICD
- Sydney: Tuesday May 5th
 - Lee White, CEO CAANZ and Stephen Harrison, CEO , GAA
 - ACSI Conference
- Sydney: Wednesday May 6th
 - Interview for GIA Governance Directions journal
 - Dinner with Kris Peach, Chair, AASB and Ian Mackintosh, Vice-Chair, IASB
- Melbourne: Wednesday May 6th
 - Peter Meehan, CEO and Geoff Harris, National Exec, G100
 - <IR> Pension Fund Network meeting
 - CFS GAM Client Luncheon with Jamie Allen, Secretary-General, ACGA

Network Activities

- Business Network
- Industry Networks
 - Pension fund network
 - Banking network
 - Insurance network
- Public Sector Pioneer Network

Investor Outreach

- Working through institutions
- Leverage networks
- Work more closely with analysts
- Develop research and the case for 'integrated investment'
- Encourage advocacy through leading investors

Policy work



Corporate Reporting Dialogue

- 1st deliverable, Landscape map, released
- Map has 3 levels – Purpose, Scope and Content
- Maps scope and content of standards and frameworks through lens of <IR>

🚩 Purpose
🔍 Scope
📄 Content
● = Full coverage
◐ = Partial coverage

Scope of standard or framework through the lens of <IR>

Initiative	Financial capital ⓘ	Manufactured capital ⓘ	Intellectual capital ⓘ	Human capital ⓘ	Social and relationship capital ⓘ	Natural capital ⓘ
CDP's Information Requests						●
CDSB Framework for reporting environmental information and natural capital						●
FASB Accounting Standards	●	◐	◐	◐		◐

🚩 Purpose
🔍 Scope
📄 Content
● = Full coverage
◐ = Partial coverage

Content of standard or framework through the lens of <IR>

Initiative	Organisational overview and external environment ⓘ	Governance ⓘ	Business model ⓘ	Risks and opportunities ⓘ	Strategy and resource allocation ⓘ	Performance ⓘ	Outlook ⓘ
CDP's Information Requests	◐	◐	◐	◐	◐	◐	◐
CDSB Framework for reporting environmental information and natural capital	◐	◐		◐	◐	◐	◐
FASB Accounting Standards	◐		◐	◐	◐	◐	

Website relaunch and thought leadership

- New website launched 1 May
- Thought leadership
 - Creating Value series – Boards, Investors
 - SAICA Getting Started Guide
 - SAICA Exploratory Survey on Integrated Thinking
- A number of new examples added to the Integrated Reporting database

AUASB's Update on Assurance over Integrated Reports

Merran Kelsall

Richard Misfud (Sydney)

Marina Michaelides (Melbourne)

AUASB's Update on Assurance over Integrated Reports

- IAASB <IR> Working Group established 2014 to monitor activities and advise IAASB
- IIRC sought input to Assurance papers in 2014
- Feedback to IIRC = valuable input
- Issues:
 - Demand for assurance on <IR>?
 - How deal with assurance on non-financial information and forward looking information?
 - Does Framework = Suitable criteria?
 - Scope of assurance engagements?
- Plan information-gathering and interaction with key stakeholders
- How address assurance needs in the public interest & recommend actions
- Response to IIRC Assurance paper “Call to Action” planned for mid-2015, discussion paper to follow

<IR> *Preliminary discussions/research*

- Jurisdictional differences, but demand mainly from management
- Demand from investors expected to increase
- Investors: variety of focus and horizon and demand may differ
 - Narrative information, important part of analysis by institutional investors, need quantitative KPIs
 - Annual Report is the top-ranked data source for key financial and non-financial information, prefer elements in one document
 - Expect information to be more comparable across companies and better integrated with financial information
- Accept we are at an early stage of evolution for reporting, let alone for assurance
→ market willingness to explore and innovate
- Keenness to consider broader issues of credibility and trust

<IR> Some Assurance Challenges

- **Maturity of Reporters**
 - Reporting and reporting processes
 - Credibility and trust – forward looking information
 - Demand for assurance – Cost vs Benefit

- **IIRC Framework**
 - Boundary of the <IR>
 - Completeness of <IR>
 - Materiality determination process
 - Connectivity principle

<IR> Some Assurance Challenges cont'd

- **Assurance Engagement**

- Variety in scope
- Suitability of criteria : a combination of formal and specifically developed criteria
- Balance and clarity of the assurance report: short form vs long form

- **Recent Experience in Emerging Assurance Markets**

If assurance on <IR> follows a similar pattern to assurance on sustainability reporting then:

- Majority of the assurance engagements will be focused on obtaining limited assurance
- The scope and objectives of assurance engagements may differ from one to another
- The majority of assurance engagements will be performed by major accountancy firms

AASB's project on 'Reporting Service Performance Information and how it may relate to <IR>'

Nikole Gyles – AASB Technical Director (Melbourne)

Joanna Spencer – AASB Project Manager (Sydney)

Reporting Service Performance Information

Objective: To establish principles and requirements for an entity to report service performance information that is useful for accountability and decision-making purposes

Scope: Public and private sector not-for-profit entities – potential to extend to for-profit entities

Principles:

- Able to assess extent, efficiency and effectiveness of an entity's service performance
- Link between service performance objectives and achievements
- Both positive and negative information to be reported
- Meet the qualitative characteristics of useful financial information

Elements of Service Performance Information:

- Service performance objectives
- Performance indicators – inputs, outputs, outcomes, efficiency, effectiveness

Reporting Service Performance Information

Similarities between Reporting Service Performance Information and <IR>

- Framework for reporting
- Business model - Inputs – outputs – outcomes
- Reporting entity
- Positive and negative information
- Variance from targets
- Characteristics of information

Academic research

Professor Roger Simnett (UNSW Sydney)
(Sydney only)

Academic research

Two recent research projects I have been involved with (both papers sent to BRLF):
Zhou S, R Simnett and W. Green. *“Does Integrated reporting matter to the capital market”*. Working paper UNSW Australia April 2015.(Note that this is a working paper and has not been through peer review process). Paper is attached and is available at <http://ssrn.com/abstract=2600364>.

A. Huggins, R. Simnett and A Hargovan. 2015. *“Integrated Reporting and Directors’ Concerns about Personal Liability Exposure: Law Reform Options”* forthcoming Companies and Securities Law Journal, 33 (May) 176-195.

Discussion of: Does Integrated reporting matter to the capital market”.

Using South African data for listed companies 2009-2012, and a within company between year design (do companies that that change their reporting to more closely align with <IR> framework) benefit in the capital market?

- *Found that improved reporting aided analysts forecast accuracy and dispersion of reported profit, expected as a result of reducing information risk (uncertainty)*
- *Improved reporting resulted in cost of capital advantage, not for largest companies (large analysts following), but for medium companies (smaller analysts following), suggesting benefit from improved information environment for these companies*

BRLF wrap up

John Stanhope