



ASIC

Australian Securities & Investments Commission

Innovation in corporate reporting

*Presentation at panel session by John Price, Commissioner,
Australian Securities and Investments Commission*

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CHECK AGAINST DELIVERY

Our objectives

ASIC has the objectives of ensuring investor trust and confidence and fair, orderly and transparent markets. The quality of financial reports is an important contributor to these objectives. This involves providing useful and meaningful information for investors and others.

While some level of complexity in financial reports is necessary given the increasing complexity of businesses and the environment in which they operate, important information can be lost in unnecessary clutter. For a number of years we have emphasised in public statements that we focus on material disclosures and do not pursue immaterial disclosures. We were also major contributors to the Financial Reporting Council's paper on *Managing complexity in financial reporting*.

We are encouraged by recent efforts by a number of Group of 100 members to address the complexity of financial reports and make those reports more useful and meaningful for investors and other users.

As you know many companies have sought to find a more cohesive order to the notes to their financial reports, use plain language and remove duplicate or immaterial disclosures. They have also sought to provide a better link and flow between the financial report and the operating and financial review.

Today I will discuss ways to improve reporting and address complexity, including opportunities to review the presentation of the overall annual report and to use new technologies to better present information. Before doing so, it is useful to consider some of the challenges we face.

Taking the challenge

There are a number of challenges in addressing the complexity of financial reports.

There is no doubt that it is a challenge to address the different needs of different users of financial reports with varying knowledge, skills and levels of sophistication. For example, the needs and demands of analysts and more sophisticated investors have led to more disclosure and additional detail and analysis in analyst briefings and investor presentations.

Flexibility in presentation to tell the story in a more appropriate manner for the company can be at the expense of comparability with the presentation by other companies. It can be difficult to achieve the right balance between a format and information tailored to the circumstances of the company and facilitating investor comparisons with other companies.

Directors may be cautious of possible criticism or liability if important information is omitted from financial reports or is not given sufficient prominence or explanation.

There can also be some difficult judgements as to whether particular information is material to users. Preparers and auditors may struggle with judgements as to whether some note disclosures are material to users of financial reports.

Efforts at streamlining information can substantially increase the time to prepare financial reports, particularly in the first year. It is much more difficult to present information in the most meaningful manner than simply including all of the information that was presented last year in an unchanged format.

In our view, the time investment required to better present financial reports is well worthwhile in improving communication to investors.

Some considerations

Some considerations that may be useful when reviewing the presentation of annual reports include:

- consider whether the report is clear, concise and effective for its intended audience
- tell the story about the financial position and performance, including business strategies, risks and prospects
- ensure that information in the operating and financial review and other documents links back to the financial report and that they tell a cohesive story
- ensure an appropriate balance is achieved between flexibility in presentation and comparability, and
- remember that unnecessary detail can detract from the information that is important to investors and other users.

ASIC guidance

In recent years, we have provided guidance to assist directors and preparers of financial reports to provide more useful and meaningful information in annual reports.

Our Regulatory Guide 247 *Effective disclosure in an operating and financial review* emphasises the importance of providing meaningful information on the underlying drivers of results, as well as business models, risks and future prospects. The information should be presented in a clear and concise manner, and complement the information in the financial report.

Regulatory Guide 230 *Disclosing non-IFRS financial information* also emphasises the need to provide useful and meaningful information in a manner that is not potentially misleading.

These two regulatory guides are complementary and are useful when considering how to best communicate information to investors.

Digital financial reporting

A number of the challenges that I mentioned earlier can be addressed by voluntarily adopting digital financial reporting.

Digital financial reporting can complement the current efforts to represent information in the notes to the financial statements. It facilitates a more flexible presentation while improving comparability between companies. It also greatly enhances the ability of investors to navigate financial reports.

The latest version of digital financial reporting uses 'iXBRL' (inline eXtensible Business Reporting Language) and allows digital information to be displayed in a web browser as a normal financial report. This removes the need to prepare and lodge PDF or paper financial reports.

Digital financial reports using iXBRL allow the use of hyperlinks to better structure the information and allow users to more easily navigate financial reports. Information is also tagged with a common set of identifiers to facilitate analysis by computers and ready comparison across companies and over time.

Future versions might also allow videos to be embedded in annual reports.

Start the journey

We believe it is important that companies review their presentation of their financial reports to address concerns about complexity of financial reports. While there are challenges, I encourage you to start the journey and make the investment.