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Dear Geoff

***Options paper: Use of standard business reporting (SBR) for
financial reports***

Chartered Secretaries Australia (CSA) is the peak body for over 7,000 governance and risk professionals in Australia. It is the leading independent authority on best practice in board and organisational governance and risk management.

CSA has unrivalled depth and expertise as an independent influencer and commentator on governance and risk management thinking and behaviour in Australia. Our Members are all involved in governance, corporate administration and compliance, and play an important role in the reporting functions of their organisations, which include public listed and public unlisted companies, private companies, and not-for-profit (NFP) organisations.

CSA welcomes the opportunity to comment on the Options paper: *Use of standard business reporting (SBR) for financial reports* (the options paper) and draws upon the experience of our Members in formulating our submission.

General comments

In principle, CSA supports the move to standardise business reports for financial reporting. Simplifying business-to-government reporting processes by providing a standardised electronic reporting format offers the potential for businesses to improve the efficiency of their reporting to government. Likewise, the 'recorded once, reported to many' also offers government agencies a more consistent approach to collecting and sharing information.

CSA notes that the benefits to government have been reinforced by the uptake of SBR by several government agencies, such as the Australian Taxation Office (ATO), the Australian Securities and Investments Commission (ASIC), the Department of Human Services and the Australian Charities and Not-for-profits Commission (ACNC). However, the uptake by organisations has been slow, as business is not yet convinced of efficiency gains.

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CSA notes that the benefits to business have yet to be demonstrated. While the accounting profession may have a deeper understanding of the benefits that SBR can bring to business, other stakeholders with responsibility for reporting have yet to form that understanding. We also note that SBR is said to bring benefits to analysts and investors, who will achieve comparability in analysis. However, different listed entities account differently, so we remain uncertain as to how such comparability is to be achieved.

Therefore, **CSA strongly recommends** that:

- not only does the government need to clearly articulate the benefits to business of implementing SBR, but
- it also needs to undertake a communication program that assists business to understand SBR, how it interacts with existing reporting frameworks and processes, and how business as well as government agencies will benefit from its implementation.

While we understand that there is no move to mandate SBR at present, CSA is of the view that the continued integration of SBR into the information collecting systems of government agencies is likely to lead many, if not all businesses, to incorporate SBR into their accounting systems over time. CSA believes, therefore, that the question of mandatory implementation of SBR is less a matter of a deadline being imposed by the government and more a matter of how best to graduate and stage SBR implementation for organisations, depending on their reporting requirements.

CSA considers that mandatory implementation — through the push for consistent information from government agencies — will need to overcome several fundamental framework issues before SBR will be readily adopted by business. As noted above, the government must first communicate with business about SBR and how it interacts with other reporting frameworks, and also articulate the benefits of SBR to business. Without such clarity as to the benefits, any attempt to mandate SBR is likely to be ill-received.

Clarifying the impact of the SBR framework

Costs of implementing SBR

Organisations will not readily be able to assess the costs of implementing SBR without understanding the proposed scope of SBR and being able to undertake due diligence on existing systems and processes.

Listed organisations will also need to understand the timing of the adoption by the Australian Securities Exchange (ASX) of SBR, as well as the proposed interaction between ASX and ASIC in relation to dual lodgements of annual financial reports.

Adopting SBR may potentially involve substantial costs for many organisations, and the costs of implementing SBR will not be borne evenly across all industries and sectors.

CSA notes, in particular, that the benefits for small and medium-sized organisations are likely to be limited, given that financial reporting tends to be a smaller component of their operations than it is for larger organisations with a greater complexity of reporting obligations. While CSA recognises that there could be benefits associated with being able to report to various government agencies through one standardised system, CSA cautions that any benefits need to be weighed against the costs of implementation, particularly for smaller organisations whose financial information holds little value to parties external to the government.

This is particularly true in the NFP sector. CSA noted in a previous submission to Treasury on the reform of the NFP regulatory framework that, while we supported SBR in principle, we want to ensure that

... the process of incorporating the SBR taxonomy into the systems of charities not impose additional costs or the need to expand resources. As an extremely diverse sector, the NFP sector has within it many different types of organisations and the breadth of the sector means that there are many different accounting systems being used.

CSA does not support mandating a reporting framework that could cause the resources of charities to be so diverted that it could prevent them from achieving their charitable purpose in order that the government may achieve administrative benefits. An important aspect of the NFP regulatory reform project has been to simplify the information that NFP organisations will be required to provide to the ACNC, the regulator for the NFP sector. Any move to further standardise information collection that does not take into account the objective of reducing red tape for the NFP sector, but which rather creates additional administrative burdens or imposes additional administrative costs that hinder the achievement of objectives, has the potential to derail this important reform program. CSA believes that the implementation of SBR should not distract NFP organisations from being able to fulfil the purposes for which they were established.

Across all sectors, SBR implementation will impose costs by requiring the outlay of expenditure to purchase either SBR-compliant software, having a person (or team) trained to use the software, or forcing some organisations to engage accountants to ensure compliance. In addition to these new financial costs, CSA believes that there will also be business and compliance costs associated with the time needed to change accounting methodologies and systems, training and developing members of organisations to utilise the new methodologies and systems, or even simply bedding down new procedures required for compliance. These costs will be particularly felt by small and medium-sized organisations.

CSA recognises that the costs associated with refreshing accounting systems and training staff will also exist for large companies, both public and private, in the Australian business sector. While the costs associated with SBR implementation may be more reasonably borne by larger organisations, CSA notes that the overhaul of the accounting systems of larger companies is also likely to be much more expensive and more extensive than for smaller entities, particularly for multinational companies. Such costs can only be justified if the entity achieves efficiency in reporting. The costs cannot be justified if they solely achieve administrative benefits for government agencies.

As with smaller and medium-sized enterprise, therefore, large companies will need to weigh the potential benefits of standardised reporting against the potential costs involved with revamping their accounting systems, particularly as larger multinational entities already have systems in place for collecting and reporting information.

CSA also believes that there is a clear case for the government to conduct a strong communication program with the main accounting software providers. There is no reason that SBR cannot happen 'in the background' if the major software providers build it into their development programs over the next few years. This is what occurred with the implementation of GST, so there is a model for the success of such a program.

Uncertainty in financial reporting processes

As noted above, CSA is of the view that part of the reason for the relatively weak uptake of SBR by business can be attributed to:

- a lack of understanding in the broader business community as to what SBR is and how it can be applied to the business, and
- concern as to the potential costs of implementation.

In addition, most companies are used to reporting in a well-known and well-tested manner and the implementation of SBR must involve an analysis of the interaction between SBR, directors' duties and the current legal framework for reporting.

CSA notes that SBR is built into the accounting software and automates the preparation and lodgment of reports by automatically filling in 'forms' which are lodged with the government. Currently, the board of directors, alongside the chief executive officer (CEO) and chief financial officer (CFO), has primary responsibility for the financial reporting of a company. This currently entails the review and approval of various financial statements which are prepared by different parts of a company based on their relative expertise and responsibility. The board of directors, as the body responsible for the oversight of the organisation, reviews, interprets and considers the

information placed before it, and notes the advice provided by key players, before releasing the financial reports to reassure the company's stakeholders that the company's financial position is sound and its finances in good health.

The recent decision of *ASIC v Healey & Ors* [2011] FCA 717 (the Centro decision) made the directors' responsibility for financial reporting patently clear, with the directors deemed liable for approving erroneous company financial statements and, importantly, held in breach of their duty of care and diligence. Justice Middleton in the Centro decision summarised the director's duty of care and diligence noting that:

... the objective duty of competence requires that the directors have the ability to read and understand the financial statements, including the understanding that financial statements classify assets and liabilities as current and non-current, and what those concepts mean. This classification is relevant to the assessment of solvency and liquidity. Equally, a director should have an understanding of the need to disclose certain events post balance sheet date.

One pertinent issue for companies arising from the Centro decision is the need to implement a process to allow directors to have confidence that they are able to comply with their financial reporting obligations contained in Chapter 2M of the *Corporations Act 2001*.

CSA is concerned, therefore, about the potential impact that the implementation of SBR may have on the assurance and compliance processes of organisations in relation to this important process of review. For example, auditors play a central role in providing assurances to the board of an organisation in relation to their oversight of the internal accounts of the company. In particular, directors will seek assurance from auditors concerning whether management has fairly presented the information in the financial statements. The information will need to be provided to the board in one format, to allow them to easily review the material at a board meeting. That format is unlikely to be the SBR format. It is likely, therefore, that the information will then need to be reformatted to meet SBR functionality and this would constitute duplication of work.

Whereas the current framework is premised on processes which prepare, check, audit and approve information at the final stage before dissemination, by contrast CSA notes that the SBR regime asks organisations to address the recording and tagging of information at the front end. Such an approach engenders a cultural shift in the manner in which organisations collect and record information, and has implications for the legal framework in relation to directors approving the release of information.

The current approach to reviewing and approving accounts exists as a reflection of the legal and regulatory framework that is currently in place. For example, CSA notes that s 314 of the Corporations Act requires disclosing entities to provide financial reports in either hard copy or portable document form (PDF) to members of the company upon request or make them available on the company's website. While CSA understands that SBR through iXBRL taxonomy facilitates more options in presenting financial information in a mode that is 'readable' to end users, the legal and regulatory framework currently still requires paper and PDF copies of reports to continue to exist.

In particular, CSA notes that entities listed on the ASX are required to comply with the ASX Listing Rules, including the provisions which determine the form and lodging of documents. Currently Listing Rule 15.4 requires that the form of lodgment of the annual report is in PDF and hard copy. CSA is pleased to note that the ASX has agreed to adopt SBR into its lodgment system, and notes that this will likely compel many listed entities to consider adopting SBR. CSA's concern remains, however, that the regulatory framework, including the Listing Rules, do not currently accommodate SBR lodgment.

CSA believes that there is considerable scope for a careful rethink about what is a reasonable expectation of directors and executives and how SBR implementation is to work as compliance and reporting moves away from 18th century concepts of forms and paper towards 21st century ideas of 'certified' or at least 'assured' data sets.

The success of implementing SBR must include a willingness by governments and regulators to amend the legal and regulatory framework to both provide for lodgment of annual reports in different technological forms and reduce the duplication of reporting that might otherwise exist through the introduction of SBR.

Expanding reporting under the SBR framework

CSA notes that part of the concern with the implementation of SBR lies in the potential for reporting to be extended beyond financial reporting. Reporting with well defined sets of data is what SBR was created for. While this may be able to be extended to some degree to sustainability reporting where it is reporting against defined sets of data such as the Global Reporting Initiative, other forms of narrative reporting do not 'fit' the SBR framework and, moreover, should not be massaged to 'fit' a framework designed for financial reporting.

CSA notes, for example, that the Commonwealth Financial Accountability Review (CFAR) is working on the development of an integrated reporting framework for Commonwealth entities based on a pilot program undertaken during the 2011-12 annual reporting cycle. CSA is also cognisant that the Financial Reporting Council has been tasked in Australia with monitoring developments in integrated reporting for the private sector.¹

It should be noted that CSA firmly opposes any mandating of integrated reporting. However, at the same time, CSA acknowledges the substantial benefits that may flow to individual entities and the wider community from the adoption of integrated reporting. CSA fully accepts that SBR will ultimately allow a move away from prescribed forms to useable data sets. However, integrated reporting is, in effect, a kind of change management approach which:

- breaks down the propensity to think and operate in 'silos' that occurs in many organisations
- approaches the organisation's operations and desired outcomes in a desegregated manner in order to understand how the interrelationship of all its functions and actions can inform decisions concerning prospects, risks and opportunities
- provides potentially substantial productivity benefits, and
- allows companies to make better decisions as a result of an enhanced understanding of the organisation's operations and desired outcomes.

As a result, organisations are asked to 'tell their story' and to change the manner in which they collate the information which they are required to report on. CSA is strongly of the view that it is an individual journey for each organisation as they grapple with these matters and that integrated thinking cannot be achieved quickly. Any mandating of integrated reporting will likely stifle the change management process that needs to occur within organisations in order to fulfil the objectives of integrated reporting.

CSA's concern is that we believe that the SBR format is not suited to the integrated reporting framework. The SBR framework asks companies to provide data in relation to prescribed fields which are auto-populated by a company's accounting system. Integrated reporting, however, is very much about the organisation 'telling its story', using the integrated reporting framework as a guide. The individual nature of each 'story', where a holistic view of the company is the objective, cannot be forced into a model that auto-populates information. That is, SBR determines the form of the report, which is appropriate with financial information (for example, 1+1=2 and this does not change from organisation to organisation), but which is not appropriate when the report concerns information that is not necessarily measurable, or if it is measurable, is not common across organisations and sectors.

¹ The Hon Bernie Ripoll, 'Speech to the Australian Corporate Law Teachers Association Conference', Canberra, Monday 4 February 2013, available from <http://parlsec.treasurer.gov.au/DisplayDocs.aspx?doc=speeches/2013/002.htm&pageID=005&min=bfr&Year=&DocType=1>

CSA recommends, therefore, that very careful consideration be given to any attempt to expand SBR beyond financial reporting, as the implications of imposing a standardised form would undermine the objectives of current reforms in reporting such as integrated reporting.

Staging the implementation of SBR

As noted above, CSA believes that the implementation of SBR will require significant lead time in order to enable organisations to adopt SBR during the 'regular' refreshing of their accounting systems.

As noted earlier, CSA does not support mandating SBR. However, if the government takes a policy view of mandating SBR, there may be merit in staging the implementation of SBR by mandating it initially only for the ASX top 300 companies, as these are the entities best resourced to manage the additional costs of implementation. Other entities would then be covered by the mandate being phased in at a later time. CSA believes that such an approach would allow smaller and medium-sized enterprises, including those in the NFP sector, to integrate SBR into their reporting framework at a pace that is financially more sustainable for them.

Conclusion

CSA reiterates our support for SBR in principle, subject to the government

- clearly articulating the benefits to business of implementing SBR, and
- undertaking a communication program that assists business to understand SBR, how it interacts with existing reporting frameworks and processes, how business as well as government agencies will benefit from its implementation, and how efficiencies of reporting outweigh the costs associated with its introduction.

CSA does not support SBR being mandated at this point in time. CSA is of the view that both large and small companies will have significant challenges to overcome in implementing SBR. The pace of reform has been significant in recent years for all sectors, and CSA does not support imposing additional compliance costs as well as additional resources of time to manage the implementation process in order to primarily assist the administrative processes of government agencies in the first instance. We believe that more evidence is required that business will also achieve efficiencies in reporting before SBR can be mandated.

We would welcome the opportunity to discuss any of our views in greater detail.

Yours sincerely



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