Streamlined Financial Reporting Trends in 2015 Annual Reports
Corporate reporting – a better narrative

Streamlined financial reporting is an important milestone on the better corporate reporting journey that’s taking place in Australia and globally. Momentum for change is gathering as stakeholders demand more than just profit figures from the companies they have invested in. Investor slide packs and webcasts are the sought after information of the day as users demand information in an understandable, easily digestible format.

The scope of reporting requirements has widened to a broader narrative: sustainability, corporate governance, remuneration, enhanced disclosure regimes and long form audit reports, to name a few. The AASB has recently issued proposals for service performance reporting, which is an annual qualitative and quantitative narrative about an entity’s service objectives, key inputs and outputs, and the efficiency and effectiveness in achieving those. These proposals are initially planned for adoption in the government and not-for-profits sectors, but the AASB is asking whether they should apply to the private sector too. South Africa is the first country to mandate integrated reporting, which focuses on the effective use of six capitals: financial, manufactured, intellectual, human, social and natural. The question is, who will follow?

Remuneration reporting is currently enshrined in law, the downside being that it has not been able to keep pace with the needs of users. It is out-dated, unnecessarily voluminous and repetitive. Thus, it is a difficult area to streamline, although a handful of companies have made significant improvements. The two strike rule and the very nature of remuneration means it is an emotive area, where many companies tread cautiously. Users say remuneration reporting can be simplified. They want to know what portion of profit executives take home, and be able to understand and evaluate the link to company performance. Not an unreasonable request, you might think, but will all stakeholders agree on what needs to change? Should the AASB be tasked with keeping the remuneration report relevant?

Digital disruption will also affect the way in which information is gathered and shared. The SEC in the US requires companies to file information in an XBRL format. Their Chairman is in favour of a new approach:

“…we should rethink not only the type of information we ask companies to disclose, but also how that information is presented, where and how that information is disclosed, and how we can take advantage of technology to facilitate investors’ access to information and make it more meaningful to them.”

With anything new there are paths to choose – wait for regulators to decide what is best or bring about change yourself. We congratulate companies that have had a go and encourage them to continue to innovate.

Regina Fikkers
Partner, PwC

Neville Mitchell
President – Group of 100

1. SEC Chairman Mary Jo White, The SEC in 2014 (41st Annual Securities Regulation Institute, Coronado, California), 27 January 2014
Streamlining trends in 2015 annual reports

This reporting season we’ve seen a number of Australia’s largest listed companies streamlining their financial report – and in the process produce a useful document that really helps investors to understand the company’s annual performance. Essentially, streamlined financial reporting involves putting the needs of investors first by telling them what they need to know in language that’s easy to understand.

Why the change?

Today’s information must be digestible and to the point. Investors need decision relevant data. They don’t have time to wade through volume and jargon. Perception also counts – in a PwC survey of global investment analysts, 80% said the quality of a company’s reporting directly influenced their perception of management quality.

What do the standard setters and regulators think about it?

Regulators locally and globally have supported the change towards more streamlined reports as it helps investors see the bigger picture. The IASB has disclosure reform on its agenda, as does the SEC and FASB in the US. The IASB is currently developing guidance on disclosure materiality and a future project on principles of disclosure.
Who has streamlined their financial report?

As the graph below shows, nearly half of the ASX 100 have taken some steps to improve their financial reports, with the majority of change being June reporters. Some have taken a partial approach, reducing and/or re-ordering. Some intend to do more, particularly around re-writing, next year. Most companies have said it is the re-writing in plain English which takes the most effort, but has the highest impact.

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**ASX 100**

<table>
<thead>
<tr>
<th>Year</th>
<th>Streamlined Reporters</th>
<th>Old Style Reporters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 13</td>
<td>1%</td>
<td>99%</td>
</tr>
<tr>
<td>Jun 14</td>
<td>7%</td>
<td>93%</td>
</tr>
<tr>
<td>Dec 14</td>
<td>6%</td>
<td>94%</td>
</tr>
<tr>
<td>Jun 15</td>
<td>35%</td>
<td>65%</td>
</tr>
<tr>
<td></td>
<td><strong>51%</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Remainder of ASX 200**

<table>
<thead>
<tr>
<th></th>
<th>Streamlined Reporters</th>
<th>Old Style Reporters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>33%</strong></td>
<td><strong>67%</strong></td>
</tr>
</tbody>
</table>

**June reporters in ASX 200**

<table>
<thead>
<tr>
<th></th>
<th>Streamlined Reporters</th>
<th>Old Style Reporters</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>52%</strong></td>
<td><strong>48%</strong></td>
</tr>
</tbody>
</table>

*Number of June reporters in ASX 200 = 143*
Trailblazing – streamlined remuneration reporting

Having streamlined their financial statements, many companies are turning their attention to their remuneration report as the next phase in the ongoing cycle of improving communications with stakeholders.

GPT, Wesfarmers and AFIC are the trailblazers here, having managed an average reduction in size of 27%, with the overarching goal being an improvement in readability.

This is no mean feat given remuneration reports suffer from the voluminous legislation underpinning them. Complying with the incremental additions that have been made to the requirements over time can make remuneration reports unwieldy and complicated. The two strike policy at AGMs leads some companies to over disclose rather than risk under disclosing. These new reports show less can be more.

There are things companies can do now, within the existing framework, to create a more reader-friendly document that complies with legislation and meets stakeholder needs.

Essential to the process is understanding the goal of a remuneration report. It is to explain the company’s remuneration structure and practices in a way that maximises investor confidence in both the quality of information and of management. Key to this is a clear articulation of the relationship between remuneration and company performance. Any of the following streamlining concepts can be applied to the remuneration report:

• consider the order of information
• remove accounting and legal jargon and use plain English as much as possible, and
• use design and graphics to illustrate complex information.

We’ve included an example from AFIC’s remuneration report to demonstrate how graphics can be used to illustrate complex information.

Example: 2015 AFIC Annual Report

New this year: Net debt voluntary disclosures

Trailblazers Wesfarmers and Flight Centre have provided new disclosures on net debt. Flight Centre has included theirs in the financial report, while Wesfarmers has an online page summarising their current net debt strategy and profile (see below).

For many investors, net debt is an important measure of a company's financial position. Voluntarily giving this information avoids ambiguity between the company's and investors' views on what constitutes net debt and provides a snapshot of the changes during the year.

Example: 2015 Wesfarmers Annual Report

Trending - language improvements key to greatest size reduction

Since the close of the June 2015 reporting season, we have seen a marked increase in the number of companies that have streamlined their financial statements.

Of the 200 companies in our research, 41% have streamlined their financial statements to some degree, meaning they have done some or all of the following:

- grouped and reordered their note disclosures
- moved their accounting policies or critical accounting estimates and judgements into the relevant notes, or
- reduced their page numbers by more than 10%.

Of the companies who have streamlined, some have done more than others:

- 45% have partially streamlined
- 55% have fully streamlined

We’ve seen fewer companies adopt a “plain English” approach. Many see it as their second phase of streamlining, which they will undertake in the next year. The top 5 companies who have used plain English have seen the greatest reduction in their report length:

- 47% Wesfarmers
- 43% GPT
- 39% Woolworths
- 37% Cochlear
- 32% Bendigo and Adelaide Bank
**Trending – materiality judgements**

**Streamlining concept**
Companies can reconsider what is material to the users of the financial statements and omit information that is immaterial.

**Benefits**
The benefits of this are:

- The financial statements are more focused on the significant / material balances and transactions and allow users to make better decisions regarding the company.
- Users are not distracted by information that will not affect their decisions.
- Preparers save time as they do not have to prepare, review and publish superfluous information.

*Amcor cut length of financial statements by 28%*

*GPT reduced the number of notes by 20%*
Trending – accounting policies better placed

Streamlining concept

Companies are breaking up long accounting policy notes and disclosing the policies in the related notes.

Benefits

- Allows users to see how numbers were calculated alongside the numbers themselves.
- Helps preparers to identify policies that are not relevant or significant to the financial statements.
- Avoids repetition where narrative descriptions of balances are similar to the policy.

Example: 2015 Transurban Annual Report

<table>
<thead>
<tr>
<th>B5 Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2015</td>
<td>2014</td>
</tr>
<tr>
<td>Toll revenue</td>
<td>1,514</td>
<td>906</td>
</tr>
<tr>
<td>Fee revenue</td>
<td>112</td>
<td>79</td>
</tr>
<tr>
<td>Construction revenue</td>
<td>190</td>
<td>110</td>
</tr>
<tr>
<td>Other revenue</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>Total revenue</td>
<td>1,860</td>
<td>1,150</td>
</tr>
</tbody>
</table>

Accounting policy

The Group generates the following types of revenue:

<table>
<thead>
<tr>
<th>Revenue type</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Toll revenue</td>
<td>Recognised when the charge is incurred by the user.</td>
</tr>
<tr>
<td>Fee revenue</td>
<td>Recognised when the charge is incurred by the user and the amount is determined to be recoverable by the Group.</td>
</tr>
<tr>
<td>Construction revenue</td>
<td>Revenue for the construction of service concession infrastructure assets is recognised in accordance with the percentage of completion method, which is measured by reference to costs incurred to date as a percentage of total forecast costs for each project.</td>
</tr>
<tr>
<td>Other revenue</td>
<td>Includes management fee revenue, business development revenue and other road revenue, and is recognised to the extent that incurred costs will be recovered.</td>
</tr>
</tbody>
</table>

Trending - key estimates highlighted

Streamlining concept

Many companies have decided to present their key accounting estimates and judgements in the same note as the underlying data, rather than grouping all estimates and judgements together, typically at the end of the accounting policies.

Benefits

• Users can understand how the estimates and judgements affect recognition and measurement in the financial statements.
• Users are unlikely to read the financial statements cover to cover. Having all the relevant information in one place makes it easier to find.

Example: 2015 Southern Cross Media Group Annual Report

7. Non-Current Assets – Intangible Assets (continued)

Key Judgement

Useful Life

A summary of the useful lives of intangible assets is as follows:

Commercial Television/Radio Broadcasting Licences     Indefinite
Brands and Tradenames                                 Indefinite
Licences

Television and radio licences are initially recognised at cost. Analogue licences are renewable for a minimal cost every five years under provisions within the Broadcasting Services Act. Digital licences attach to the analogue licences and renew automatically. The Directors understand that the revocation of a commercial television or radio licence has never occurred in Australia and have no reason to believe the licences have a finite life. As a result, the free to air commercial television and radio broadcasting licences have been assessed to have indefinite useful lives.

Trending – a better framework and order of notes

Streamlining concept

Companies have reordered their notes into groups or ‘chapters’ that contain related information. Examples include ‘Net debt’ chapters containing cash and financial liability information, and ‘Capital investment’ chapters with PPE, finance lease and operating lease commitments information.

Benefits

- Users can see the interaction between balance sheet and income statement numbers.
- Users can understand how particular transactions have affected the financial statements as a whole.

Example: 2015 Dexus Annual Report

<table>
<thead>
<tr>
<th>Group performance</th>
<th>Property portfolio assets</th>
<th>Capital and financial risk management and working capital</th>
<th>Other disclosures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Property revenue and expenses</td>
<td>9. Investments accounted for using the equity method</td>
<td>13. Interest bearing liabilities</td>
<td>19. Audit, taxation and transaction services fees</td>
</tr>
<tr>
<td>5. Taxation</td>
<td></td>
<td></td>
<td>22. Related parties</td>
</tr>
<tr>
<td>6. Earnings per unit</td>
<td></td>
<td></td>
<td>23. Parent entity disclosures</td>
</tr>
</tbody>
</table>

Trending – using design to tell the story

Streamlining concept
Companies have used graphs and charts to display information in different ways to the standard table and text.

Benefits
- Graphs and charts can be used to break up the financial statements and highlight areas of focus.
- Allows visual display of trends or movements, saving users from having to interpret the figures themselves.

Example: 2015 Iron Road Annual Report

Source: Iron Road, 2015 Annual Report, page 42.
Telling the company’s story in a better way

While there is no standard template to follow when streamlining a company’s financial report, the best streamlined reports have a number of common features. We’ve listed our top five.

1. **Create a framework**
   Group content into logical sections so information is easy to find. For example, in the property industry it might be rentals and property values, while for a bank it might be net interest income, loans and deposits.

2. **Consider materiality**
   Only include disclosures that are material to understanding performance.

3. **Highlight important information**
   Highlight the most critical information by making it more prominent.

4. **Use clear language**
   Use plain English explanations and avoid jargon. Ask yourself, can a reader understand what we sell from reading our revenue accounting policy?

5. **Better design**
   Use colour, headings, graphs and charts to help readers navigate and improve readability.

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