

30 September 2005

Dr Anthony Marinac
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
Canberra ACT 2600
Australia

Dear Anthony,

Re: Corporate responsibility

The National Institute of Accountants (NIA) is pleased to respond to the parliamentary committee's request for comments on corporate social responsibility (CSR) and, more generally, the quality of reporting by all entities within this jurisdiction.

We believe that while entities may have an obligation to their shareholders to ensure that the value the business returns to them is reasonable all entities should have regard for the community as a whole. In fact, many companies will already take stock of community concerns when they deal with issues regarding CSR. Corporations take from the community through the provision of products and services for sale and any environmental detriment that may come from the establishment of particular businesses. They also give to the community through their employment of citizens as well as any philanthropic activity in which an entity engages.

An issue of particular concern to us, however, is the question of whether additional law is required for the reporting of such information.

While we have some specific observations to make about the need for a high quality of reporting to stakeholders and the role of specific regulations in assisting this, our general position is that companies must be encouraged to incrementally improve their disclosures without imposing further regulation via the parliamentary process. This would be overkill during a period where bodies such as the Australian Stock Exchange (ASX) are attempting to nurture an environment where companies willingly inform all stakeholders about their operations in clear and unambiguous terms under the principles of continuous disclosure.

Stakeholders within the accounting framework

It is useful at the outset to remind parliamentarians about the accounting profession's reporting framework that has been in place within this country for more than 15 years. The accounting profession fostered the

development of what is known as a conceptual framework that sets down the principles for which entities should prepare financial statements that comply with all accounting standards. The conceptual framework takes the broadest notion of stakeholders, which includes shareholders, employees, creditors and suppliers amongst others. The purpose of mentioning the statements of accounting concepts, which were developed by the Australian Accounting Standards Board during the early part of the 1990s, is to advise the committee that there is already material in the reporting framework that refers to the reporting to a broader range of stakeholders. These principles already exist in the discipline of financial reporting and as such the basis for setting down some principles for reporting CSR within the current framework of the ASX Corporate Governance Council. While the interest of the parliament in these issues is appreciated it is unnecessary for the parliament to set further laws regarding disclosure in these areas, particularly given the fact that the philosophical basis for reporting to the community is already embedded within the framework developed by accountants.

Evolution rather than revolution

Companies must be encouraged by stakeholders in the marketplace to speak frankly about their prospects and also the way in which they manage the company. They need to be given the opportunity to allow these aspects of their communication to evolve over time. Companies must also be given the opportunity to get market kudos for reporting well to the market place rather than be in a position where the enthusiasm for improved reporting is beaten out of them by legislated solutions.

Talking about the way in which they manage the company includes but is not limited to the publication of key performance indicators related to finance. Financial indicators, however, tend to be seen as more reliable because established methods of accounting for expenses, revenues, assets and liabilities exist. This submission will not debate the adequacy of such frameworks. The fact is that such frameworks exist and established assurance standards to verify the robustness of figures that live in company accounts also exist. External audit is for many companies a statutory obligation and one for which they pay a fee based on the work an external audit firm believes is necessary to do.

Non-financial information

There is in our view no need to have the same statutory emphasis on the provision of non-financial information to the market place other than existing provisions within the law for continuous disclosure and management discussion and analysis. We believe there is greater benefit in leaving it open for industries to develop and grow their own protocols for communicating certain types of industry-based disclosures related to occupational health and safety, philanthropy, environmental risk management and general storytelling regarding a company's own key performance indicators.

Integrating such demands into law will make companies subject to such requirements more reluctant to be open about their operations and such disclosures would end up being reviewed by lawyers to determine whether

the disclosures posed any litigation threat to an entity. There is greater merit in turning to groups such as the Group of 100, the lobby group for chief financial officers of the 100 largest entities in Australia, that have written guidance on management discussion and analysis and sustainability reporting. Such guides ought to be referenced in the listing rules issued by the ASX rather than any prescription in an Act of Parliament. We would prefer that such disclosures be made voluntarily by entities or be demanded as a result of interaction with market forces rather than be embedded in law. Any further regulation in the area of reporting may create a disincentive for companies to report in a manner that is better suited to investors and other stakeholders.

Market assessment a powerful tool

The participants in the capital market – retail and institutional investors – and commentators in the media are in the habit of reviewing such disclosures from time to time. The market can be a powerful regulator in its own right where quality reporting is concerned. Entities that do not provide full and frank disclosure can and should be embarrassed publicly by analysts and media commentators. That is a more appropriate form of regulation in this area of disclosure. Negative publicity can do more to impact a company's responsiveness than actions from the regulator because public scrutiny has the potential to impact an entity's share price.

Consider the situation where an entity does not disclose any information about serious environmental management issues. Such information could be deemed to be price sensitive if it were to emerge that a company did not have appropriate environmental management processes in place. The absence of such information would be deemed to be a breach of continuous disclosure. A regime for regulating such matters already exists as does the scope for a company to lose investment from outsiders for bad conduct.

The NIA would be pleased to present before the parliamentary committee on these matters or answer any questions from the committee secretariat at any time. Please feel free to contact me on 03 8665 3143 or tom.ravlic@nia.org.au should you wish to discuss our submission further.

Kindest Regards

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National Institute of Accountants