

Many entities in Australia are now providing, and investors and other stakeholders are asking for, more than just financial statements. Information on issues such as an entity's strategy, governance and business model, key resources and relationships, and social and environmental issues (known more broadly as "external reporting") is increasingly being demanded, both in Australia and internationally. Such information is relevant to understanding not only an entity's financial performance, but all aspects of its performance, enabling interested stakeholders to make better economic decisions.

At this stage these additional disclosures are often being provided voluntarily, either as part of the Annual Report or separately in other reports. If part of the Annual Report, they are normally provided outside the financial statements, in the Operating and Financial Review (OFR), Directors' Report, or Corporate Governance Statement. This 'other information' is currently not subject to assurance, other than the auditor reading it to make sure it is not inconsistent with the financial statements.

Rather than a piecemeal approach, the FRC considers that a more holistic approach to responding to the increasing number of calls for various types of non-financial information to be disclosed is sensible. It is also logical that the approach is consistent with established strategies for financial reporting and cognisant of established structures of regulation.

Internationally, we have seen the take up of external reporting initiatives in a number of jurisdictions. The IASB has also announced its decision to review its Management Commentary Practice Statement to acknowledge the importance of external reporting in interpreting information included in financial statements and making better economic decisions. In Australia, recently proposed Recommendation 4.4 of the ASX Corporate Governance Principles would recommend a listed entity disclose, on an 'if not why not' basis, its validation processes for external reporting, to ensure that investors and stakeholders are provided with appropriate information to make informed investment decisions.

To help maintain confidence in the Australian economy, the challenge is to ensure that financial and non-financial information is subject to appropriate and preferably, similar or the same frameworks and overarching principles, and is clear, concise, relevant, balanced and credible.

As the trend to external reporting is still in its initial stages, the FRC supports voluntary adoption, although it does not, at this time, support a mandatory or prescriptive approach to external reporting, nor should this voluntary adoption be seen as endorsing adoption of the IIRC's integrated reporting framework. The FRC does note that the principles of the IIRC's integrated reporting framework are useful to organisations wishing to undertake a broader approach to reporting.

The FRC, the AASB and the AUASB will continue to monitor the extent and quality of external reporting in Australia as practice continues to develop and evolve. The AASB and AUASB will also participate in relevant international projects to ensure that Australian perspectives are addressed. We welcome feedback on how external reporting and related credibility enhancement mechanisms should be encouraged in Australia. Please contact the FRC Chair, AASB Chair or AUASB Chair as appropriate.

About the FRC:

The Financial Reporting Council (FRC) is responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The FRC monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards.

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, set in s224, are:

(a) to facilitate the development of accounting standards that require the provision of financial information that:

- (i) allows users to make and evaluate decisions about allocating scarce resources; and*
- (ii) assists directors to discharge their obligations in relation to financial reporting; and*
- (iii) is relevant to assessing performance, financial position, financing and investment; and*
- (iv) is relevant and reliable; and*
- (v) facilitates comparability; and*
- (vi) is readily understandable; and*

(aa) to facilitate the development of auditing and assurance standards and related guidance materials that:

- (i) 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*
- (ii) require the preparation of auditors' reports that are reliable and readily understandable by the users of the financial reports to which they relate; and*

(b) to facilitate the Australian economy by:

- (i) reducing the cost of capital; and*
- (ii) enabling Australian entities to compete effectively overseas; and*
- (iii) having accounting and auditing standards that are clearly stated and easy to understand; and*

(c) to maintain investor confidence in the Australian economy (including its capital markets).