



22 November 2005

Mr Garry Banks
Chair
Regulation Task Force
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Dear Mr Banks

Regulation Task Force

The Group of 100 (G100) is pleased to respond to the invitation to identify specific issues that should be examined by the Regulation Task Force. The G100 strongly supports the Government's initiative to address business regulation issues and is committed to ensuring a strong and efficient regulatory environment which advances the best interests of Australian business.

The G100 firmly believes that the Task Force should play an integral role in the ongoing process of regulatory reform and review and would be disappointed if the Task Force process constitutes a 'one-off' response to current concerns. However, we are concerned that the short time available to entities to respond to the Task Force and its reporting time-frame may send contradictory signals to business entities about the ongoing commitment to the review process. We consider that providing adequate time for review and analysis as part of an ongoing process will result in a more robust response to the issues and better targeted and cost-effective regulation.

The G100 supports the current Regulation Impact Statement (RIS) process in respect of new and amended regulation. However, the value of the RIS process would be enhanced significantly if an appropriate cost-benefit analysis were undertaken in respect of the different regulatory options considered. In this regard use of a costing tool such as that developed by the Office of Small Business would provide relevant information to the decision-making process.

The G100 considers that regulation relating to the following items should be reviewed as part of the current processes:

- 1. Parent entity financial statements:** The requirement for lodging parent entity financial statements in addition to the consolidated financial statements of a group should be reviewed. In this regard summary parent entity information is provided in the United Kingdom and the G100 believes that a similar approach should be followed in Australia.

2. **Solvency-based rules for dividend distribution:** The G100 believes that the present profit-based rules in respect of dividend distributions are inconsistent with other parts of the Corporations Law such as those relating to share buybacks and other capital management initiatives. Difficulties are accentuated by the adoption of IFRSs and the introduction of the tax consolidation regime. The G100 supports the introduction of a solvency-based regime with adequate safeguards and penalties to ensure compliance and protection of creditors.

We consider that the experience in New Zealand with implementing and applying a solvency-based regime is an excellent precedent for Australia. In addition, adoption of a scheme similar to that in New Zealand would foster trans-Tasman harmonisation of the Corporations Law.

3. **Executive and director remuneration disclosures:** The G100 believes that the duplication of, and the differences between, the requirements in Accounting Standards, the Corporations Act 2001, the ASX Listing Requirements and the recommendations of the ASX Corporate Governance Council are in urgent need of review with the purpose of determining a single set of requirements. Achieving such an outcome would remove a major source of confusion and frustration from the corporate governance and financial reporting processes. However, we acknowledge difficulties associated with achieving compliance with Australian equivalents to IFRSs and avoiding duplication and conflict with the Corporations Law.
4. **Accounts of subsidiary companies and SMEs:** The G100 supports the present class order relief for qualifying wholly-owned subsidiaries in respect of the preparation and lodgement of financial statements. However, we consider that relief from preparation of financial statements for subsidiaries not included in the class order warrants review. In addition, the accounting requirements relating to SMEs may, in the context of adoption of IFRSs, impose significant unnecessary burdens on these entities. For example, adoption of IFRSs in some other regimes applies to consolidated financial statements of listed companies with different requirements applying to other entities. In Australia the application of the reporting entity concept captures all entities required to prepare accounts under the Corporations Law.
5. **Cost of compliance:** The diversity of regulators and regulatory regimes imposes additional costs and burdens on entities. For example, cumbersome reporting requirements under State-based Trustee Legislation require authorised trustee companies operating in more than one State to prepare trustee reports for each company in each State. The introduction of a national trustee report to harmonise these individual reporting requirements would significantly reduce onerous reporting requirements and would be a first step towards achieving further harmonisation of requirements and a single set of requirements nationally.

As a further example, there have been instances of the need for a clarification of the role and responsibilities of ASIC and APRA as different expectations apply in respect of the transition to Australian equivalents to IFRSs and the status of the recommendations of the ASX's Corporate Governance Council.

In other cases 'guidance' issued by regulators appears to impose further burdens on entities, for example, proposed ASIC guidance in respect of pro forma financial statements and information.

6. **Concise Report:** The intention and benefits of the Concise Report, including the Concise Financial Report are being seriously eroded. While the requirements in respect of the concise financial report are reasonable in meeting the intentions of the legislation, the expansion of the range, detail and extent of matters dealt with in the directors' report overwhelms the whole report in some instances. For example, approximately half of the concise report of one company (of 80 pages) is taken up with the directors' report.

The G100 will make a supplementary submission as issues are identified in consultation with members.

Yours sincerely

Tom Honan
National President

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