1. Introduction

The Securities Institute of Australia has always taken a keen interest in the subject of corporate disclosure as this is the lifeblood of an informed stockmarket. It is the contention of the SIA that a great opportunity to upgrade Australian corporate disclosure to levels now obtaining in the USA and the UK has been lost in the amendments to the Ninth Schedule in the Companies Bill.

We have no disagreement with the seven amendments as they stand but would suggest strongly that further clauses be added to the Ninth Schedule to bring about compulsory disclosure of the following:

2. Turnover

Turnover should be disclosed.

This is a stock exchange listing requirement which should apply to all companies (there may be scope for certain small private companies to be exempted).

3. Description of Activities

Directors are required to state in the annual report the principal activities of the corporation during the course of the financial year and any significant change in the nature of those activities during that period.

The wording of this requirement leaves it up to the individual company to disclose as much or as little as it sees fit. In all probability companies will opt for brevity in describing their activities. The requirements of the SEC’s Form 10-K, is clearly a far more precisely worded and more penetrating requirement. Part 1, Item 1 headed “Business” reads as follows:

“(a) Identify the principal products produced and services rendered by the registrant and its subsidiaries, the principal markets for, and methods of distribution of, such products and services. Briefly describe any significant changes in the kinds of products produced or services rendered, or in the markets or methods of distribution, since the beginning of the fiscal year.

(b) If applicable and material for an understand-
admit that this data is of no analytical utility. The phrasing of an appropriate amendment dealing with this problem could well follow the wording of the relevant section of Form 10-K which must be lodged annually with the Securities Exchange Commission of the USA. Section c(1) states the following:

"Information as to lines of business. If the registrant and its subsidiaries are engaged in more than one line of business, state, for each of the registrant’s last five fiscal years, or for each fiscal year ending after December 31, 1966, or for each fiscal year the registrant has engaged in business, whichever period is less, the approximate amount or percentage of (i) total sales and revenues, and (ii) income (or loss) before income taxes and extraordinary items, attributable to each line of business which during either of the last two fiscal years accounted for –

(A) 10 percent or more of the total of sales and revenues,

(B) 10 percent or more of income before income taxes and extraordinary items computed without deduction of loss resulting from operations of any line of business, or

(C) a loss which equalled or exceeded 10 percent of the amount of income specified in (B) above;

provided, that if total sales and revenues did not exceed $50,000.000 during either of the last two fiscal years, the percentages specified in (A), (B), and (C) above shall be 15 percent, instead of 10 percent.

If it is impracticable to state the contribution to income (or loss) before income taxes and extraordinary items for any line of business, state the contribution thereof to the results of operations most closely approaching such income, together with a brief explanation of the reasons why it is not practicable to state the contribution to such income or loss."

5. Off Balance Sheet Financing

With this form of off-balance sheet finance becoming increasingly popular, scope exists for companies to become highly geared without shareholders being aware. Some companies currently state future lease rental commitments under the heading “Contingent Liabilities” but the format of this disclosure varies widely. Very few companies indeed disclose lease rentals paid and the reader of an annual report is left to surmise that the charge for a given year may have been of a similar order to the amount indicated under Contingent Liabilities in the previous year’s annual report. The SIA would like to see disclosure of lease rentals paid and lease rental commitments for each of the next five years.

6. Profit and Loss Statement

The Profit and Loss Statement presented by most companies is no more than a profit and loss appropriation account.

We believe that readers of accounts should be informed as the main determinants of revenue and expense. Sales must be included. It would be most helpful to have employee costs shown which would indicate the degree of labour or capital intensity of the company.

7. Remuneration of Executive Directors and Senior Executives

In the USA this information must be disclosed by companies whilst in the UK directors’ salaries and other remuneration from a given company are shown in strata without individual amounts being stated other than for the Chairman. In Australia no such information is required to be disclosed and no companies volunteer it. With directors’ accountability coming under increasing scrutiny, the time has arrived when shareholders should be entitled to know what their companies are paying their boards and senior executives. We recognise that the British system has some merit in maintaining a measure of privacy for the individual.

8. Fixed Assets

Significant movements in fixed assets during the year should be disclosed.

9. Equity Accounting

In many annual reports it is difficult for the reader to determine which associated companies were the source of dividends received and profits equity accounted. This information should be fully disclosed together with the related tax expense charged by the associated company.

10. Superannuation

Superannuation is becoming an increasingly important element in corporate cost structures, membership of superannuation funds being widened to include factory floor workers in a number of companies. Companies should disclose their annual superannuation contributions and the amount by which according to actuarial calculations, superannuation obligations are not fully funded.