The Securities Institute has proposed that the Australian Stock Exchange should speed up the incorporation of cashflow reporting requirements in its Listing Rules.

As noted in the accompanying article, the absence of a formal requirement could mean that investors are less than fully informed about the performance of companies in which they hold shares. Some companies thought to be prospering have foundered, unable to service their debt from available cash. Because of inadequate accounting practices, even some managements have been in the dark about their cashflow position.

The Australian Accounting Standards Board is on the point of issuing an approved standard on the disclosure of cashflow from operations, which could apply to some companies as early as June 1991. It is expected to be followed by a comprehensive standard on the reporting of cashflow information. This is a sign of slow progress: Australian legislation to require the inclusion of cashflow statements in annual reports was enacted—but not proclaimed—in 1985. Elsewhere, the usefulness of cashflow statements has been endorsed in the US, the UK and New Zealand.

Last year, the ASX issued a discussion paper, Improved Reporting by Listed Companies, which recommended mandatory cashflow statements—but not before June 30, 1992, and then only if official standards or guidelines have been issued by the AASB or the accounting profession.

In response to the discussion paper, the Securities Institute established subcommittees in Sydney and Melbourne. Their joint conclusion was that a 1992 date was "too long a period to wait, given the simplicity of cashflow statements preparation, the lack of any clash with existing accounting standards, and the urgency with which such a statement is required".

The SIA submission said: "Once again, it was felt the ASX should take the initiative to recognise the inadequacy of legal reporting requirements by applying its own more stringent requirements. New Zealand has a standard which could easily be endorsed and apply in Australia.

"Alternatively, the Accounting Standards Review Board has approved a proposed cashflow reporting standard. This is based on exposure draft 37, issued in 1986.

"The subcommittee believes that the ASX should pick up the requirements of the approved accounting standard on cashflow reporting and, when a further exposure draft on the comprehensive requirements of cashflow reporting is issued during the first half of 1991, then the requirements of the approved accounting standard should similarly be incorporated into the ASX rules."

The subcommittee also commented on the ASX discussion paper’s references to frequency of reporting. The paper said: "More frequent reporting does not necessarily lead to improved reporting. Nevertheless, it has been suggested that listed companies should provide formal reports on profits (and other matters) more frequently—perhaps quarterly."

The SIA subcommittee noted that interim reporting was first required by the New York Stock Exchange in 1910; quarterly reporting was introduced there in 1946 and reintroduced in 1970s. "It is clear that the practice of the NYSE is at least 20 years ahead of the practices of the ASX," the submission said.

"The subcommittee considers that in view of the international nature of the equity and financial markets, it is unacceptable for another to be so far behind the NYSE."

In a separate submission, an Institute subcommittee made substantial recommendations for the refinement of an exposure draft on the Corporations Amendment Bill 1991.

Areas of the legislation to which the subcommittee gave particular attention—and proposed important changes—included:

- disclosure of benefits;
- disclosure of directors' interests;
- transactions with directors and their relatives;
- transactions in relation to other officers and their spouses and relatives;
- transactions in relation to wholly-owned subsidiaries and joint-venture entities;
- transactions in relation to other related and linked bodies corporate;
- the transfer of assets between companies and associated persons.