
Trends in 2015 Annual Reports

Streamlined financial reporting

May 2016



Corporate reporting – a better narrative

Streamlined financial reporting is an important milestone on the better corporate reporting journey that's taking place in New Zealand and globally. Momentum for change is gathering as stakeholders demand more than just profit figures from the companies they have invested in. Investor slide packs and webcasts are the sought after information of the day as users demand information in an understandable, easily digestible format.

The scope of reporting requirements has widened to a broader narrative: sustainability, corporate governance, remuneration, and long form audit reports, to name a few.

The New Zealand trend follows on from the FMA's discussion forum in 2014 titled 'Beyond International Financial Reporting Standards'. Based on the themes raised in that forum, the FMA issued a report 'Quality financial reporting' in 2014 that included ideas to help improve the effectiveness of financial statements.

Internationally there are trends to go one step further. South Africa is the first country to mandate integrated reporting, which focuses on the effective use of six capitals: financial, manufactured, intellectual, human, social and natural. The question is, who will follow?

Digital disruption will also affect the way in which information is gathered and shared. The SEC in the US requires companies to file information in an XBRL format. Their Chairman is in favour of a new approach.

With anything new there are paths to choose – wait for regulators to decide what is best or bring about change yourself. We congratulate companies that have had a go and encourage them to continue to innovate.

"Our primary message is that financial statement information should focus on the specific needs of its primary users. We encourage entities to be bold and reduce immaterial disclosures."

Source: FMA website
- Quality financial reporting

"...we should rethink not only the type of information we ask companies to disclose, but also how that information is presented, where and how that information is disclosed, and how we can take advantage of technology to facilitate investors' access to information and make it more meaningful to them."

Source: SEC Chairman Mary Jo White, 27 January 2014



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Streamlining trends in 2015 annual reports

Why the change?

Today's information must be digestible and to the point. Investors need decision relevant data. They don't have time to wade through volume and jargon. Perception also counts – in a PwC survey of global investment analysts, 80% said the quality of a company's reporting directly influenced their perception of management quality.



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What do the standard setters and regulators think about it?

Regulators locally and globally have supported the change towards more streamlined reports as it helps investors see the bigger picture. Above we mentioned that in 2014, the FMA issued a report called 'Quality financial reporting' that gave reporters ideas to help improve the effectiveness of their financial statements. In March 2016, the XRB published a research report on the usefulness of financial reports produced by for-profit entities operating in New Zealand. Respondents to the XRB's research called for simplification of the language used in financial reporting. The IASB has disclosure reform on its agenda, as does the SEC and FASB in the US. The IASB has recently issued a draft Practice Statement on the application of materiality to financial statements and is currently working on a project on principles of disclosure.

Who has streamlined their report?



60% of the NZX 50 have streamlined their reports.

Top 10 companies averaged a



32% reduction in the length of their financial statements by streamlining.

The average length of a streamlined reports is





Telling the story in a better way

Create a better framework

37%

(of companies who streamlined) reordered their notes into groups or 'chapters' that contain related information. Examples include 'Financial performance chapters containing segment, income and expense and tax information, and 'Funding' chapters including borrowing, finance lease and capital risk management information.

Benefits



Users can see the interaction between balance sheet and income statement numbers and understand how particular transactions have affected the financial statements as a whole.

Consider materiality

A key part of streamlining is considering what's material to the users of the financial statements and omitting information that is immaterial. The top three companies who streamlined cut the number of notes by

47%

Benefits



The financial statements are more focused on the significant/material balances and transactions and allow users to make better decisions regarding the company.



Users are not distracted by information that will not affect their decisions.



Preparers save time as they do not have to prepare, review and publish superfluous information.

Language improvements

The top five companies who used plain language averaged

41%

reduction in the length of their financial statements.

Tips

A

Avoid jargon, or language typically used only in your industry.

B

Avoid repetition, use clear simple messaging to get your information across.

C

Use language that is to the point and which aligns with the reporting content.



Highlight important information

Accounting policies

90%

(of the companies who streamlined) put accounting policies in the related notes.

Benefits



Allows users to see how numbers are calculated alongside the numbers themselves.



Helps preparers to identify policies that are not relevant or significant to the financial statements.



Avoids repetition where narrative descriptions of balances are similar to the policy.

Key estimates and judgements

83%

(of the companies who streamlined) put key estimates and judgements in the related notes.

Benefits



Users can understand how the estimates and judgements affect recognition and measurement in the financial statements.



Users are unlikely to read the financial statements cover to cover. Having all the relevant information in one place makes it easier to find.

Use design to tell the story

20%

used signposting including symbols and colours to highlight a particular area of focus for the reader. Only one company used graphs and charts to display information rather than standard tables and text.

Benefits



Visual signposting helps the reader navigate the report and highlight critical information by making it more prominent.



Graphs and charts allows visual display of trends and movements, saving users from having to interpret the figures themselves.





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