

# G100 National Congress Speech

John Stanhope, Group of 100 National President, 28 September 2004

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Ladies and gentlemen, welcome to the Group of 100 Congress for 2004.

I am confident that you will find today's program challenging and informative.

We certainly got off to a great start with Cathy Walter's presentation at the dinner last night - 'Corporate Governance after CLERP9 – Quo Vadis?' I trust that not too many had to ask the question 'Wither goest though' – 'Where are you going' this morning.

I'm intrigued by the title of another speech coming up this afternoon – Paul Carter and Nick Chipman's '...as Spice is to Food, Risk is to Business.' I hope they're not about to give us too much heartburn or discomfort. I look forward to their presentation and to the rest of our speakers throughout the day.

It will be a busy and stimulating day. Indeed it has been a busy time for the Group of 100 and much has transpired since our last Congress in May 2002.

We are now in a period of significant reform, the culmination of many months intense discussion and deliberation in this country involving the Government, regulators, the ASX, business and the broader Australian community. The lead up to this reform and the implementation process which follows, has been the subject of considerable public scrutiny and media comment.

The Group of 100 has not been "sitting on its hands" during this time. Indeed, it has been a very active participant in the reform process.

This has been expressed through its participation on the ASX Corporate Governance Council; in its submissions to Treasury including CLERP 9; its contribution to exposure drafts covering international accounting standards and in its research, preparation and launch to the business community of a number of corporate best practice initiatives, including our Guides to Complying with ASX Principle 7 and our Review of Operations.

All these developments have as a common denominator – change. It demands of us all the capacity to adapt to change and to in effect "embrace it". Certainly not to succumb to it. It is also in the Group of 100's common interest to continue to "be heard" on matters vital to our role in business and Australia's position in a global and competitive world. We are still, in international terms, a small player but we are one whose views are often sought on business and regulatory matters through the forums we actively contribute to such as the IASB or have alliances with, such as the Working Council for CFOs in the United States.

At the operational level, the future of Australia's senior CFOs and finance executives is very much about providing high value adding decision support to the CEO and senior management teams and greater engagement with the Board (or directors).

In my short address this morning, I will touch on some issues of particular importance to the Group of 100 and on which we have clear positions to enunciate.

First, looking ahead to Year 2005 for IAS.

## **Year 2005 for IAS**

The Financial Reporting Council's International Accounting Standard Year 2005 strategy has delivered a new dynamic for financial reporting in Australia.

The implementation of the decision for most companies is well advanced. However, the process to date has emphasised some critical issues for the way in which the views expressed on behalf of corporate Australia and Australia are put to the International Accounting Standards Board.

In view of the ongoing role of the IASB, we must be actively engaged in the processes of the IASB (and the Australian Accounting Standards Board) from the inception of projects.

As part of our response to this changed paradigm, the G100 has formed an IASB Liaison Group comprising representatives from the major business organisations. Their role is to engage with IASB personnel and the Australian member of the IASB's Standards Advisory Council. Their purpose is co-ordinating and developing common views; informing IASB representatives of the views of Australian business; and receiving feedback on the status of IASB developments.

This group met with IASB Chairman, Sir David Tweedie, on his visit to Australia in March this year and will be meeting with IASB member Warren McGregor and IASB staff next month.

The G100 played a significant role in the genesis of the international harmonisation process and remains a strong supporter of principles-based accounting standards and the Year 2005 strategy.

However, we do have a number of concerns about the transition process and how our views are received and addressed in the IASB forums. These concerns are based on our perception (and it's also a perception in some quarters in Europe, which is evidenced by the failure to endorse IAS39 in its entirety) that the IASB has not been sufficiently responsive to the views of business. The perception is that it appears to be focusing on US GAAP issues and not necessarily issues relevant in those jurisdictions that have adopted IASB Standards.

While resolving issues with US GAAP is required in the longer term, it is important that the existing adherents remain committed to the process without being disenfranchised. In this respect, the ongoing relationships and the need for interpretations of Standards, which are principles-based, particularly in the transition and implementation phases, is critical to the success of the whole process.

It is also important that there are consistent and unambiguous interpretations of IASB Standards, as the benefits of adoption of IASB Standards will rapidly erode if jurisdictions develop their own interpretations. In this regard, the nature and role of local interpretative bodies such as the UIG must adapt to the new environment, as must IFRIC and the IASB.

## **Corporate governance**

The implementation of CLERP9 and the ASX Corporate Governance Council Recommendations is proceeding in the context of a heightened awareness of corporate governance issues and how companies are responding.

The G100 believes that if companies (and ultimately their shareholders) are to harvest the benefits of these changes and to add value to the business, it is essential that the approach to controls and compliance is integrated with the ongoing business processes.

In this context, we strongly support the Australian principles-based approach in preference to a more rules-based approach. In other words, a process that relies on a periodic ‘ticking of the boxes’ as an add-on will not be value-adding and is more susceptible to breakdowns or failure as the emphasis on the issues changes as the environment changes.

Many of the changes may be viewed as providing cosmetic or superficial benefits in the Australian context.

However, one change which the G100 strongly supports is the requirement that listed entities provide as part of the Directors’ Report an Operating and Financial Review. We believe that providing a balanced and objective OFR addresses a major gap in Australian financial reporting and will make a major contribution to the quality and credibility of corporate governance and financial reporting in Australia.

Change has also been required around Director and Executive Remuneration. Apart from the debate about the level of remuneration, the G100 believes that one set of disclosure requirements which satisfy the Corporations Law and Accounting Standards should apply for director and executive remuneration. It is incongruous for two sets of overlapping and, in some cases, different requirements to apply to listed companies. Compliance with these requirements imposes significant burdens in reporting and has led to the G100 conveying these views to the AASB.

We draw some comfort that the AASB has recently decided, in the interests of reducing the burden on preparers and users, to amend AASB 1046 ‘Director and Executive Disclosures’ to the extent needed to align it with Section 300A of the ‘Corporations Act’.

Further, given the CLERP9 and ASX Principles of Corporate Governance, it is likely that the expectations of users and regulators will now be significantly enhanced. It is changes like these that will make a greater contribution to corporate governance in this country than requirements under which the regulator is given the power to be ‘judge, jury and executioner’, or requiring the auditor to report to the regulator any suspicions relating to whether law is not complied with.

### **Regulatory frameworks**

There has been recent publicity about the compliance difficulties and cost burdens that result from differences in approach and requirements in different countries. This is a major issue for those companies that operate and raise capital in a number of jurisdictions. For example, this is particularly evident in the differences in approach under the Sarbanes-Oxley regime in the US and the requirements in Australia.

There is an increasing case to argue that the quest for the benefits which has driven the process for the adoption of international standards should be broadened to embrace consistency of approaches and requirements in regulatory environments.

For example, a valuable first step from an Australian perspective would be to advance the process to integrate the regulatory frameworks (such as the Corporations Act and Listing Rules) of Australia and New Zealand. As both of us are adopting IASB Standards, accounting differences will eventually disappear.

The G100 supports amending the Corporations Act in respect of dividend distributions so that they are not based on archaic and complex rules and precedent in respect of the meaning of profit. Under New Zealand Law, the dividend paying capacity of a company is determined on the basis of solvency and contains protections in the event of improper distributions. Harmonisation with this approach would simplify and streamline processes for Australian companies.

## **Reforming AGMs**

Annual General Meeting reform is a topic of discussion which you will hear a lot more of in the future.

I just want to make a couple of points – and I'm necessarily talking here from a Telstra point of view as a means of illustrating the issue and how companies are seeking a resolution which enhances shareholder communication and involvement - as well as G100 National President.

I fully support the principle that improved communication between companies and their shareholders can only improve the trust and understanding that shareholders have of their companies and the transparency of corporate governance.

I also support the notion that the AGM is for all shareholders and it isn't appropriate for one interest group, or one individual shareholder, to use the AGM as a forum to push their individual issue.

In common with many other listed companies, Telstra has explored ways to improve shareholder communications in recent years, including the use of innovative technology such as webcasting and other electronic communications.

A more recent example of seeking new ways to improve shareholder communication, at the 2004 Telstra Annual General Meeting to be held on 28 October shareholders have been invited to submit questions in advance of the meeting – giving all shareholders the opportunity to put their questions and, ensuring there is a broad coverage of issues of interest to all shareholders attending the AGM.

Giving considerable attention to the means of improving the value of the AGM is very important, particularly for retail shareholders who have few other opportunities to interact directly with directors and management. However, Telstra's experience is that generally less than 1000 of our 1.75 million shareholders attend the AGM in person and perhaps the same number again views the webcast of the AGM. Most get their impression of the business from the media rather than direct contact.

The key piece of company communication received by most of our shareholders is either our concise or full annual report. So, it may be worth considering ways in which the effectiveness of annual reports as a means of communication might be improved.

Telstra has undertaken significant work in recent years to encourage our shareholders to receive electronic communications. We now have some 220,000 shareholders receiving some form of electronic communications.

At Telstra we strongly believe that improving communication is a vital initial step towards rebuilding trust and reinforcing the quality of our corporate and market systems, practices and values.

On a general note, improved communication between companies and their shareholders, particularly their retail shareholders, is essential if the wider community is to be convinced that the vast majority of company directors and executives are highly skilled and competent individuals focused on growing the wealth of shareholders within a solid set of values.

## **CFO/Board behaviour**

The changing role of the CFO is the subject of two of our presentations today, as well as a panel session – and I look forward to them very much. I'm always open to ideas on how to do my job better.

The ongoing debate about CFOs is certainly a lively one. In what I've read lately, we CFOs have been called lots of things – bean counters, number crunchers, the devil's advocate, corporate gunslingers - and they're just the good ones!

But whatever labels people want to put on us, there is absolutely no doubt that the CFO's role is changing. No longer are we out in the back room doing the numbers, as it were.

Today's CFO is expected to be at the right hand of the chief executive or managing director, providing – and being seen to be providing - strong strategic direction as well as astute financial analysis for the company.

Today's CFO must be a steward and a strategist -

- no longer looking back in delivering last month's accounts, but looking forward to where the company will be next month and beyond-
- leading and cultivating his own team of experts in the finance area – understanding behaviours as well as balance sheets -
- not just identifying problems, but coming up with solutions -
- driving decisions, maintaining financial rigour and constructively challenging -
- knowing what's happening in the real world in terms of the business trends, the market dynamics, the competitive pressures – and articulating these things without fear or favor -
- knowing the business backwards-
- communicating with the investment community, shareholders and the media -
- and all the time retaining the traditional technical skills of the accountant –thoroughness and meticulous attention to detail.

In a very real sense, this is the natural evolution of the CFO's role in an increasingly complex corporate world. The view seems to be that because the CFO has all the relevant company information at his or her disposal – the performance information, customer profitability, competitive financial intelligence, demand forecasting and returns on capital information – he or she has a unique ability to inflect business growth, which should be utilised accordingly.

But it's more than that, unfortunately. A somewhat different dynamic is also at work, coming as it does out of the corporate collapses, the scandals, etc of recent times. It's a sense of frustration and outrage in the community that someone has to be held accountable.

And in the absence of anyone actually putting up their hand to take the blame for the mess, the community is saying – not unreasonably - that the CFO should be one of those held responsible.

CEOs and CFOs are in an interesting position at the moment in Australia, and I assume elsewhere, with respect to board behavior. With all the governance requirements that are being placed on companies post-Enron, Worldcom, HIH etc, boardrooms are trying to come to grips with a rather blunt dilemma: how do we make sure we are not next.

Half the board wants more and more detail – more and more information about the company - which they want the CFO to supply. In this case, directors are acting as surrogate managers, which is a little difficult when directors are only paying full attention to the business for, say, one day every six weeks.

The other half is saying ‘no – we only do see the company one day every six weeks, so we can’t be managers. We are just making sure the processes and controls are in place. We don’t need to get into the detail.’

The dilemma for CFOs and CEOs is that if a board is behaving like this, how do you please both halves - how do you please everybody, or should you be trying to do so?

I have got no doubt this will settle down over time, but in the immediate term how does the CFO help the CEO to manage the situation.

Well, first we must recognise that this dynamic is in fact occurring. The CFO has to be alert to the situation. Then, the CFO must review what is essentially important, provide more detail, but convince directors of the need for balance. The CFO must help them understand that it’s not only having the right information that is important, but the right amount of information.

In Australia, CFOs have tended to keep the two roles – steward and strategist - in balance. What happened in the US is that the CFO became more of a strategist and more a deputy CEO. So as a result, the stewardship got less attention, leaving the possibility of the Worldcom and Enron-type events.

So the role of the CFO is to be both steward and strategist. In light of current pressures, I would add a third task – it’s also the role of the CFO to build a whole lot of new things to accommodate the requirements of IFRS and other priorities such as Sarbanes-Oxley, CLERP 9 and ASX Corporate Governance Principles. These issues in particular demand resources with a broad range of skill sets covering accounting, treasury, human resources, financial markets and information technology.

So, clearly, CFOs have a bit to do at the moment. And so do we today.

I wish you all a stimulating 2004 G100 National Congress.

Thank you.

## John Stanhope, National President – Group of 100

### Closing remarks – at the conclusion of the National Congress

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I want to thank each and every one of you for your attendance at G100 Congress 2004.

I trust you've found the Congress informative and relevant. I know I have.

It's been a day of thoughtful and intelligent presentations from a range of speakers, as well as a highly stimulating panel discussion. And as varied as the presentations have been, I think it's noteworthy that they all have a common thread – they look ahead.

Corporate Governance after CLERP9, the future of Australian accounting under IFRS, the changing role of the CFO, how best to balance the short and long-term interests of shareholders and the market, managing changes in the regulatory landscape, the evolving role and functions of the ASX – these are all issues that will define our space in the immediate future.

They're important – and it's important that they are discussed – as they have been today -not to promote self-interest or any particular agenda, but in the realisation that we are part of an evolving environment; that the new requirements upon business are not so much revolutionary as evolutionary; and that they can in fact add genuine value to a business.

At the end of the day, however, as important as all this is, we should not get too preoccupied with it, or overwhelmed by it. We must neither confuse nor compromise business success with regulatory and reporting obligations, and other reforms.

Our primary focus must continue to be to help run our companies well – that's our job – to do our best. In fact, it's everyone's job. It doesn't matter what level of the business we are at.

As a CFO, I spend a considerable part of my time talking to staff from all over the business.

In part, I do this because I like people. I like talking with them. I hear their ideas. I hear their issues. I learn from them.

But I do it mainly because I want to explain to them the importance of being passionate about what they do. An ongoing challenge for me as CFO is to simply explain to people working for the company how they can do a better job - how they can easily measure their own success.

That's why we need to be constantly developing performance metrics that aren't just relevant to the business, but which are understandable and achievable for the people who are actually doing the job every day.

These are the sorts of things that the CFO can do and needs to do - to ensure people stay focused, enjoy what they are doing and stay passionate about the business challenges that lay ahead.

This way, their success is not measured against the boss.

It's not measured against their colleagues.

It's not measured against the regulators.

It's not even measured against their competitors.

It's measured against the real yardstick – themselves – through a commitment that understands that improvement is not something that one goes through, as it were – but is continuous – a permanent state of mind. That's where the passion comes in.

That concludes our Congress – thank you all.