

CORPORATIONS LAW
SIMPLIFICATION PROGRAM

ANNUAL RETURNS AND
FINANCIAL REPORTING TO SHAREHOLDERS

PROPOSALS FOR SIMPLIFICATION

TASK FORCE
MAY 1994

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ANNUAL RETURNS

PROPOSAL FOR SIMPLIFICATION

All companies must lodge an annual return with the Australian Securities Commission.

Companies receive a partially completed return which shows the key information currently held by the ASC. The company must check the information, mark changes, and return a verified form to the ASC. The form includes a declaration on the company's solvency. When annual financial statements are required to be lodged, they must be attached to the return

The annual return form requires a large range of information. The Corporations Regulations provide for 31 possible categories of information.

The Corporations Law requires a number of these categories of information to be updated on a regular basis and the Corporations Regulations prescribe several different forms for this purpose.

The Proposal

The current annual return will be made much shorter and simpler. Many items can be deleted because they duplicate information already held in the ASC's database, or because the information is not required for Corporations Law purposes. The declaration of solvency will be omitted from the return. Directors of companies which are required to prepare accounts will continue to make a declaration of solvency when signing those accounts.

A company will only have to use one form where it needs to notify any changes during the year in any relevant information in the return.

Lodgement of financial statements will be separated from the requirement to lodge an annual return.

Practical Benefits

The proposal will have practical benefits for all companies:

- Less time spent checking information in annual returns
- Easier-to-use ASC forms.

These changes will complement the introduction of electronic lodgement of ASC forms.

FINANCIAL REPORTING TO SHAREHOLDERS

PROPOSAL FOR SIMPLIFICATION

Annual reports can be long, mainly because of detailed notes which are required on particular aspects of the accounts. These notes may be of great interest to financial analysts and other experts, but of little interest to many investors. The expense of supplying the full report to all the shareholders in a major company may be substantial.

The Task Force's proprietary company proposal (March 1994) would result in a reduction in the number of companies required to compile financial statements and send them to shareholders.

A public company may currently take advantage of an ASC class order to give its shareholders the option of not receiving any financial reports, or receiving a short form financial report. However, the shareholder must request one of these options, before the company is relieved of the obligation to provide full accounts.

In the United States, companies regulated by the Securities Exchange Commission are only required to provide a concise financial report to shareholders, but must lodge more detailed information and additional notes (together with the concise report) with the Commission. The Australian Accounting Standards Board is recommending a similar approach in Australia.

The Proposal

A company will be able to send to shareholders either:

- a. a concise financial report;
- b. that report together with more detailed information and notes which have to be lodged with the ASC.

The concise report would contain a clear focus on key aspects of the company's financial situation.

Practical Benefits

The proposal will result in:

- less expense in printing and posting annual reports
- easier-to-read financial reports for shareholders.

THE PROPOSAL

| Annual return | Issues for consideration |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. As at present, the ASC will send companies an annual return form which contains the relevant information currently on the ASC database.</p> <p>2. A company will have to mark any necessary changes on the form, verify it and return it to the ASC.</p> | |
| <p>3. The maximum number of categories of information to be included in the annual return will be reduced by about 75%. The information required will be:</p> <ul style="list-style-type: none"> • Company name and number • Address of registered office • Details of directors and secretaries • Issued shares and options • Ultimate holding company • Largest 10 shareholders in each class of shares • Other shareholders (except where current exemptions apply). | <p>Should every company be required to make an annual statement of solvency?</p> <p>Should the address of the principal business office also be required?</p> <p>Should a statement about principal activities be required?</p> <p>Is this necessary, given that Listing Rule 3C requires the largest 20 shareholders to be listed in the annual reports of listed companies and this information would be available from the ASC and ASX? The information about the top 10 shareholders would also be available on the company's share register.</p> <p>Should the current exemptions from lodgement of information about other shareholders remain (more than 500 members, within 25 km of an ASC office and with reasonable inspection facilities, and certain companies limited by guarantee)?</p> |
| <p>4. The company will continue to report any changes as they occur to:</p> <ul style="list-style-type: none"> • The address of the registered office • Details of directors and secretaries • Issued shares, including, in particular, details of allotments. <p>The form for notifying changes will be similar in format to the annual return.</p> | <p>Should a company also be required to report changes as they occur to</p> <ul style="list-style-type: none"> • Ultimate holding company • Largest 10 shareholders • Details of options on issue? |

THE PROPOSAL

| Financial reporting to shareholders | Issues for consideration |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1. If a company has to prepare financial statements, it may send to shareholders a concise financial report, or the more detailed report that contains the additional information which must be lodged with the ASC.</p> <p>2. A shareholder will be able to obtain the more detailed report from the company without charge.</p> <p>3. The legislation will specify general requirements for the concise financial report, to ensure that it gives shareholders a clear picture of the overall position of the company.</p> <p>4. The content of the concise financial report will be specified in an accounting standard developed by the Australian Accounting Standards Board.</p> <p>5. The auditor will have to certify that the concise report complies with the standard.</p> | <p>What should be the general requirements specified in the legislation?</p> <p>Should the Task Force review the existing requirements for the directors' report?</p> <p>Should the concise report contain a management discussion and analysis?</p> |

WHAT WILL BE THE EFFECT ON MY COMPANY?

What will I have to check and confirm in the annual return?

| | <u>Current</u> | <u>Proposed</u> |
|-----------------------------------------------------------------------------------------|----------------|-----------------|
| Company name and number | Yes | Yes |
| Financial year | Yes | No |
| Date of annual general meeting | Yes | No |
| Any extension of time for annual general meeting | Yes | No |
| Previous annual general meeting held after signature of previous return | Yes | No |
| Registered office | Yes | Yes |
| Class of company | Yes | No |
| Whether company in same class for whole year | Yes | No |
| Section 383 licence (to omit word 'Limited' from name) | Yes | No |
| Whether company formed for charitable | Yes | No |
| Whether superannuation trustee | Yes | No |
| Address of members' register (if more than 500 members and no list of members required) | Yes | No |
| Whether home unit company | Yes | No |
| Principal activities | Yes | No |
| Address etc of principal business office | Yes | No |
| Details of officers | Yes | Yes |
| Details of auditor | Yes | No |
| Key financial data* | Yes | No |
| Trust liability and indemnity | Yes | No |
| Issued shares and options | Yes | Yes |
| Ultimate holding company | Yes | Yes |
| Largest 10 shareholders | Yes | Yes |
| Details of additional shareholders | Yes | Yes |
| Statement by auditor | Yes | No |
| Statement by auditor in respect if exempt proprietary company | Yes | No |
| Details of failures to lodge required information | Yes | No |
| Information regarding occupier of address office | Yes | No |

* Provision of this information would be abolished under the Task Force's proprietary company proposal (March 1994).