

Cognos FSR at American Express

Paul Nugent – November 2012



AMERICAN EXPRESS

Director – International Controllership Strategy and Performance Improvement

American Express Company



- *American Express* – joined 2007
- *nabCapital* (National Australia Bank) - project lead London
- *Citi* - corporate & investment bank product control, country controller Tokyo, CFO consumer entity London
- *AIG* - London and Frankfurt project lead, parent entity controller, New York



- Cognos FSR Project Background at American Express
- Project Charter, Aims & Selection Process
- Pilot
- Pilot Outcome and Learnings
- Implementation
- Next Steps



2010 International controllership “5 Box Review” time survey →

- 15% - 20% controllership time – local reporting
- 75% of that work estimated to be “manual” work
- No consistent process or system
- Reporting controls ad-hoc, differed country by country

Legal Entity Controller Role

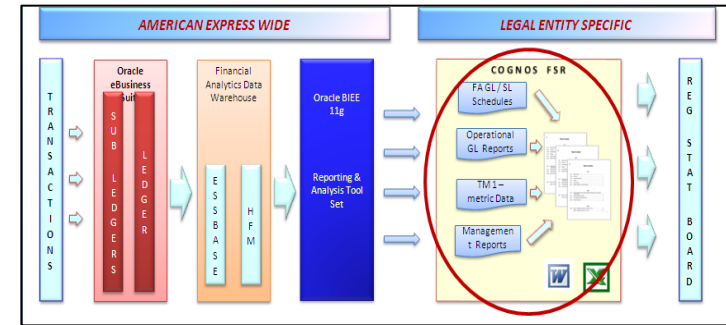


*There was a need to develop an **approach to international local financial reporting** which was **broadly standardised** and could be **consistently deployed across all international controllership**, and which would strengthen the reporting control environment and realise efficiency gains within the controllership teams.*



High Level Requirements

- Efficiency potential
- Enhancement of control environment
- Use in 40 global locations
- Alignment with controllership strategy
- Ease of implementation
- Short list reporting automation solutions



Selection and Validation

- Review short list
- Priotisation & selection
- Agreement of pilot
- High level design solution agreed

Key Considerations	Do nothing	Clarify Only	FRS Global Only	Clarity and FRS Global	Custom-build
Implementation Costs		✓	✗	✗	✗
Implementation Timing		✓	✗	✗	✗
Goal Alignment	✗	✓	✗	✓	✓
Ongoing Costs		✓	✗	✗	?
Flexibility (future needs)		✓	✓	✓	✓
Quality Improvement	✗	✓	✓	✓	✓
Control Improvement	✗	✓	✓	✓	✓
Serviceability (future needs)		✓	✗	✗	✗
Application Board		✓	✗	✓	✓
Application Statutory		✓	✗	✓	✓
Application Regulatory		✗	✓	✓	✓



Pilot Process

- Appoint project lead & decide pilot location
- Review & alignment with US implementation
- Engage technology
- Met with IBM FSR team
- 3 weeks IBM training - Sydney October 2011
- Local Australian controllership team (10) trained
- AE WCS entity statutory accounts used – in Cognos at year end
- Post implementation review



Lessons Learned and Best Practice Development

- Flexibility needs managing
- Data sources
- Process changes required
- Reporting process control need managing
- Implementation plan should incorporate the *way* to implement
- Best practices documented
- International implementation plan developed



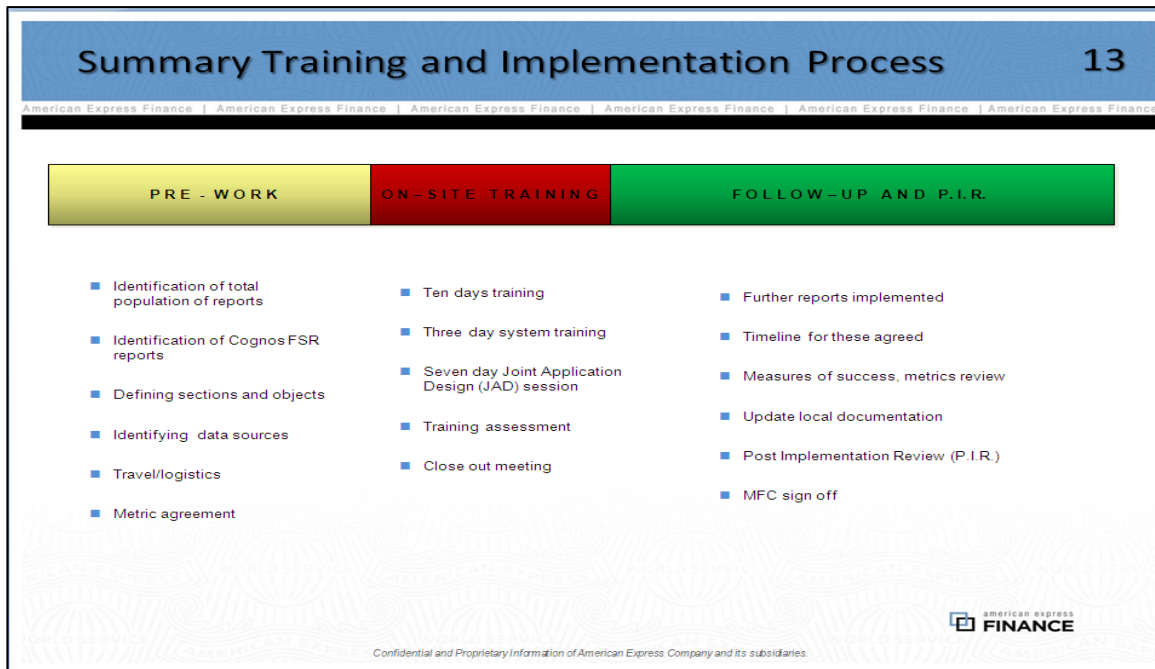
Some Examples of our Best Practice

- Separation of Data Bases
- Global online Technology Support
- Overall reporting system reconciliation to base G/L
- All sub totals cross checked
- Booking adjustments – time line and process
- Combine Excel functionality with Cognos
- Data location – “O” drive



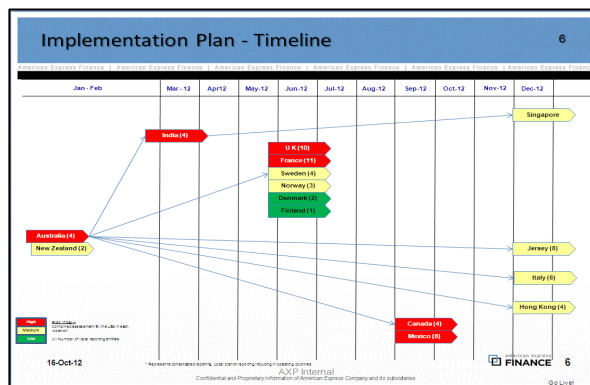
Implementation Process Developed

- Pre-work
- Two week face to face training
- Follow up and post implementation review



Implementation

- Australian pilot complete – January 2012
- Australian SME's and /or IBM to be training team for global roll out
- Process and materials developed
- Analysis of global entities to prioritise high risk markets
- Roll out methodology tested in New Zealand
- Process adjusted for NZ feedback and India implemented
- First European countries completed in May – UK, France & Nordics
- LAC – Canada & Mexico implemented in September



EFFICIENCY

- Automated data retrieval, embedded queries & controls
- Automated report roll over
- Automated validations, no manual cross casting
- Easy too see previous versions & who did what & when

FLEXIBILITY

- Use in all locations
- Use for multiple report types and formats
- Flexible controls and efficiencies set by us
- Snapshot facility – can quickly switch back to a previous version
- Fast and easy report re-ordering

CONSISTENCY

- Standard global reporting process, adaptable local schedules
- MFC checklist set up to ensure consistent output
- Reporting formats set once held in the system
- Control set in the system & applied every cycle
- Resilience

EFFECTIVENESS

- Significantly enhanced control over reporting
- Segregation of duties embedded
- Workflow methodology – scheduling formalised
- Audit trail maintained over all schedules, single location
- Multiple simultaneous users, one report location



Next Steps in the International Roll Out

- Development of virtual training to roll out to smaller low risk markets - ongoing
- Potential future “report hubbing” opportunities
- Schedule sharing - IFRS COE preparation of schedules made available globally
- US GAAP local reporting
- XBRL
- User groups, internal forums, information sharing



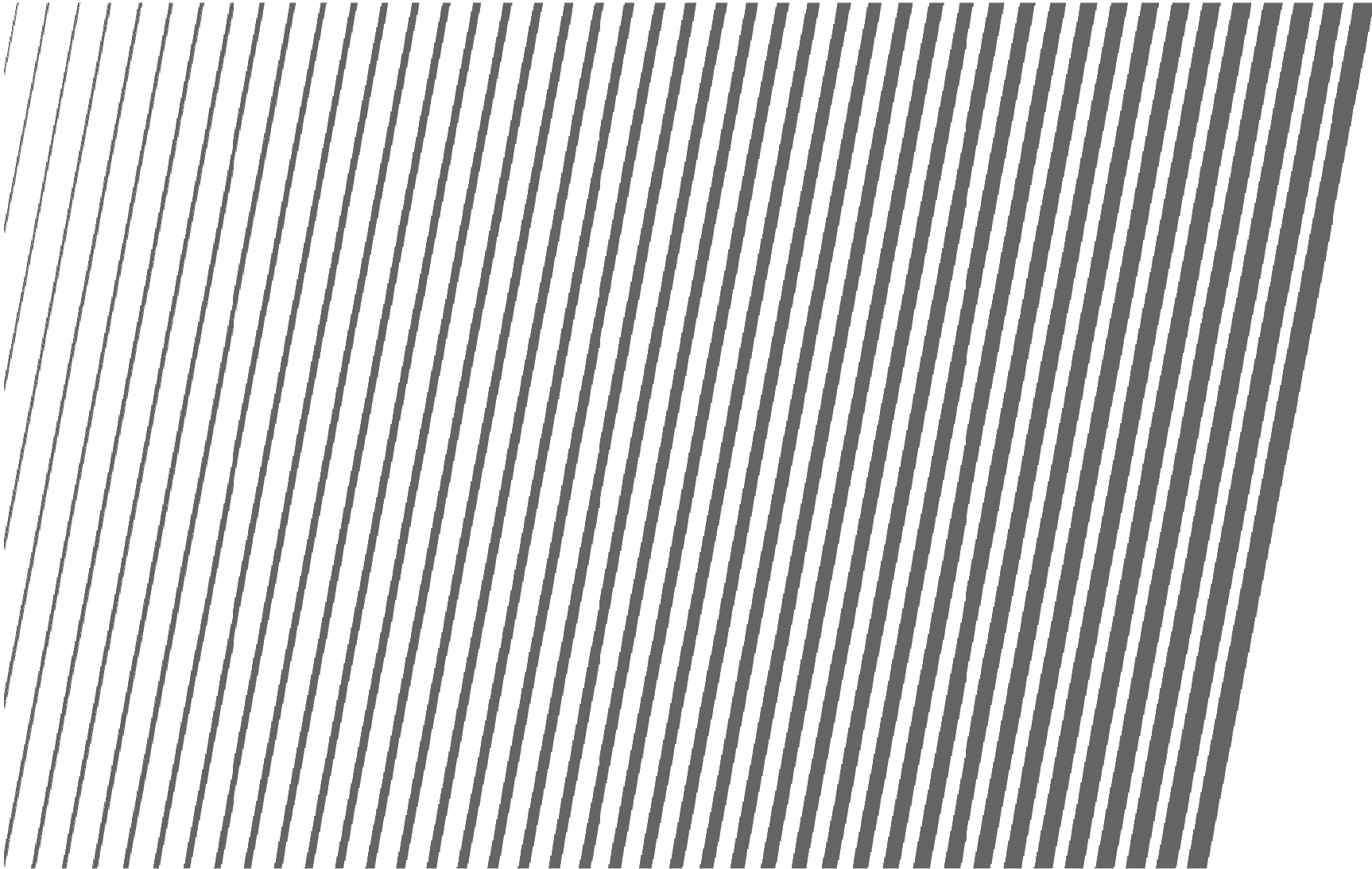


The Changing Landscape of Financial Reporting

8 November 2012

 **ERNST & YOUNG**
Quality In Everything We Do

The context



Ever increasing demands on preparers from an expanded set of stakeholders

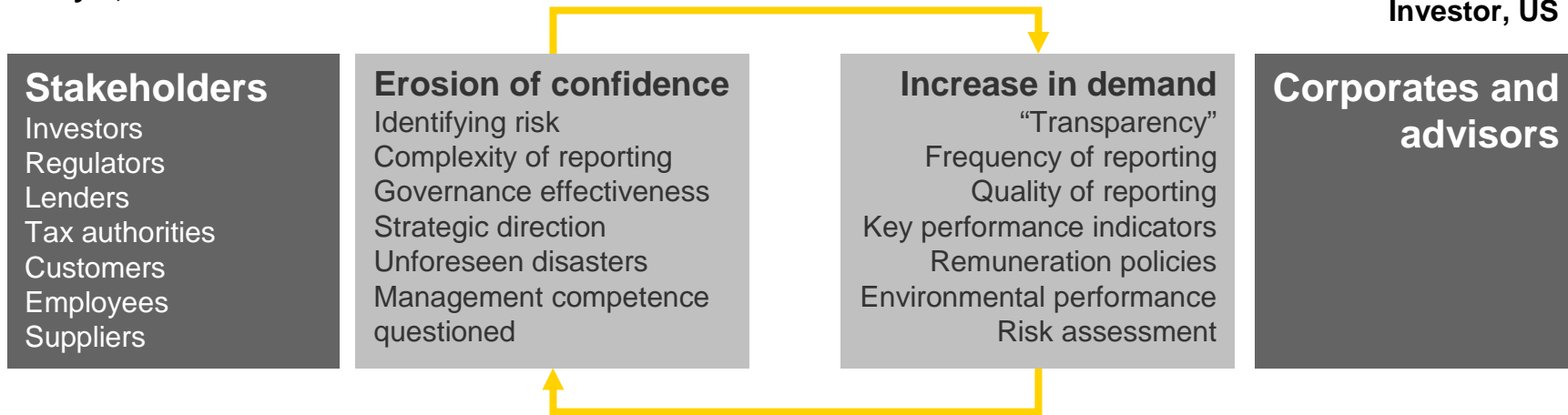
Market uncertainty has upset the balance between stakeholders and corporates

“There has been a loss of confidence, and trust will be regained only if there is a lot of transparency, because this is what was lacking.”

Analyst, France

“There’s now added scrutiny – more concern about the levels of compliance, levels of risk, levels of transparency and financial reporting than there’s ever been.”

Investor, US



“Any board should be able to describe in their accounts, simply and clearly, the principal risks and uncertainties facing the company.Boards who retreat behind boilerplate give the impression that they have not themselves understood the risks they face.”

Bill Knight, Former FRRP Chairman, UK

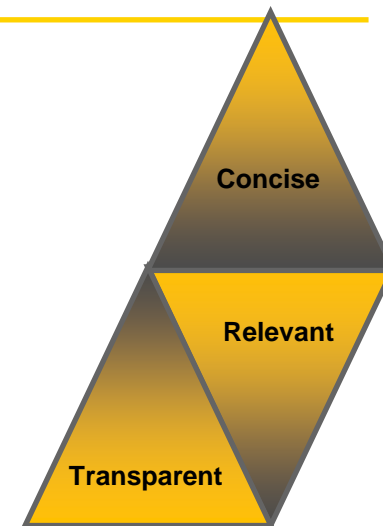
“A lot of financial reporting is mandatory... beyond that they can demonstrate that they really understand the business and make it simple for the person reading it, so I think it is the tone you adopt with your financial reporting rather than the financial reporting itself. Honesty and openness most influence financial reputation.”

Independent director, UK

Perception that narrative reporting has been in need of improvement

ASB review (2009) - Annual Reports of 50 listed companies

- ▶ Reviewed narrative reporting to establish how well companies were meeting the enhanced business review requirements of the Companies Act 2006
- ▶ Focused on “content, communication and clutter”
- ▶ Scoring mechanism from 1 to 5 (with 5 being the best)
 - ▶ KPIs not reflective of latest market issues, e.g. liquidity
 - ▶ KPIs focused primarily on performance
 - ▶ Principal risks and uncertainties too boiler plate



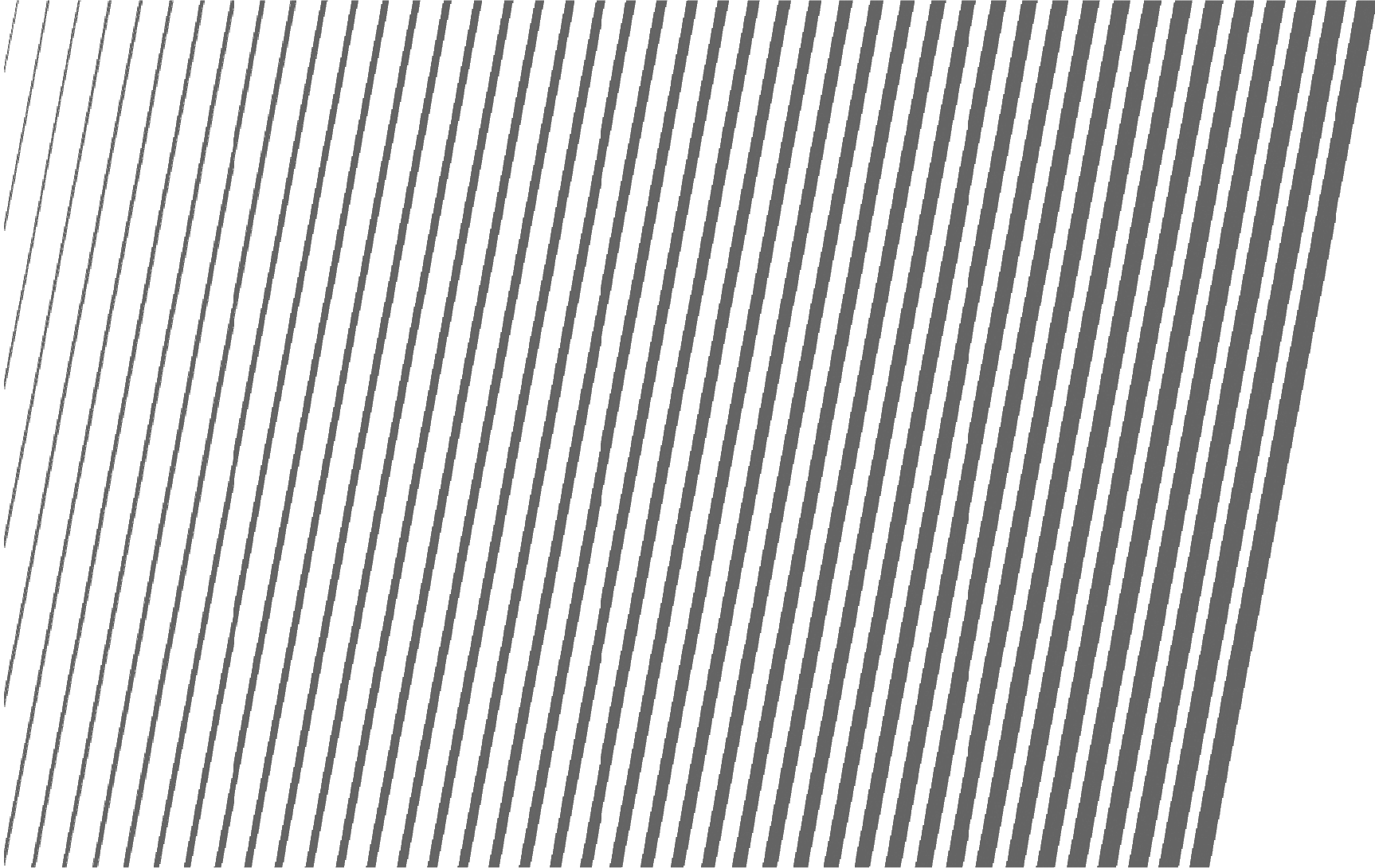
	% non compliant	% falling short	FTSE 100 av. score - 5 point scale	FTSE 250 av. score - 5 point scale
Business description	6	52	2.8	2.2
Strategy	8	44	3.0	2.5
Principal risks	0	66	2.4	2.3
Performance and position	4	20	3.2	2.9
Trends and factors	6	56	2.9	2.3
Corporate Social Responsibility	12	34	3.0	2.4
Contractual and other arrangements	12	52	2.4	2.2
Financial KPIs	6	34	3.0	2.8
Non-financial KPIs	32	20	2.7	2.2

Greater emphasis on quality (not quantity) has provided some positive results

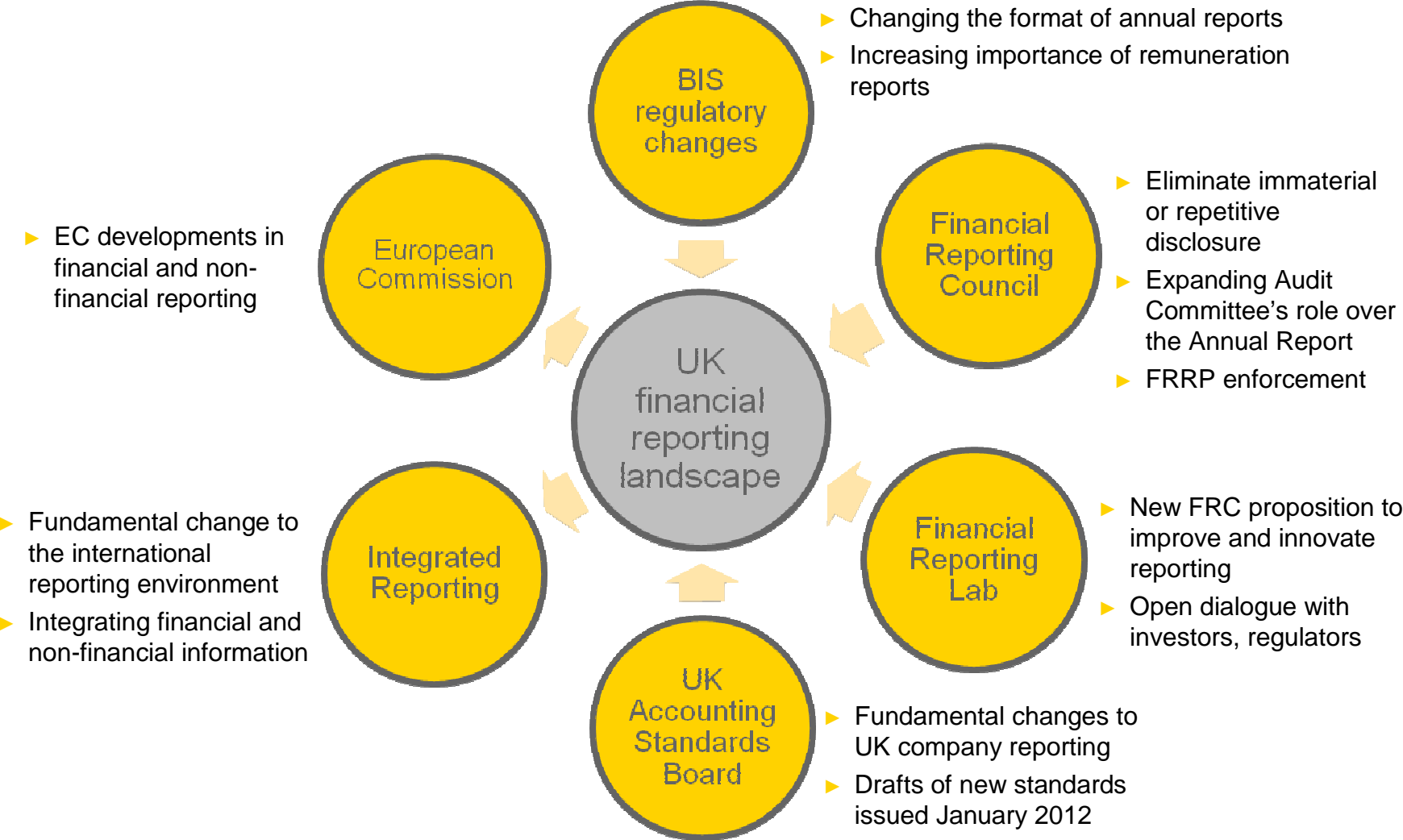
Observations from a recent review of annual reports of all FTSE 100 companies

- ▶ Key observation
 - ▶ A significant number of reporters continue to approach reporting as a compliance exercise, rather than an opportunity to tell their strategic story
- ▶ Areas showing signs of improvement
 - ▶ Aligning strategy and KPIs
 - ▶ Offering strategic insights beyond group level by identifying priorities for operating divisions
 - ▶ Explanations of risk management frameworks and processes
- ▶ Areas still in need of improvement
 - ▶ Clear explanation of the company's business model
 - ▶ Quality of information about principal risks and their management
 - ▶ Discussion of company's competitive environment
 - ▶ Lack of concrete targets offering truly forward-looking perspective
 - ▶ Information on material environmental and social issues related to the company
 - ▶ Not presenting key content in a joined-up way (continue to treat reporting as a series of discrete disclosures)

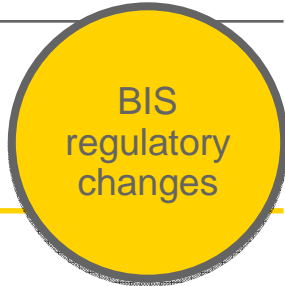
Future of UK annual reporting



There are various change drivers impacting the future of annual reporting



BIS proposals will change the format and content of annual reporting

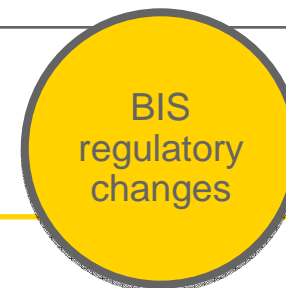


- ▶ Narrative Reporting changes proposed to take effect from October 2013
- ▶ Draft regulations issued by BIS on 18 October 2012
- ▶ The regulations propose that the annual report and accounts be split into three parts:



- ▶ Strategic Report is designed to include strategy, business model and challenges facing the company - high level financial information.
- ▶ Directors' Report will underpin the Strategic Review, covering Directors remuneration, Corporate Governance and Audit Committee report. Some reporting requirements removed.
- ▶ Financial Statements stay in their current form. Auditors to review Directors' Report and Strategic Review for consistency.

Quoted companies will be most affected by BIS proposals



Impact of BIS proposals on current reporting requirements under the Companies Act 2006 (“CA”)

- ▶ Quoted companies
 - ▶ Disclosure requirements changed from CA
 - ▶ Business Review information (including from the enhanced Business Review) included in Strategic Report, with details in Directors’ Report
 - ▶ Significant changes to the Directors’ Remuneration Report, which will become part of the Directors’ Report with key information elevated to the Strategic Report
- ▶ Medium and large companies
 - ▶ Some disclosure requirements changed from CA to simplify and remove duplication
 - ▶ Business Review renamed to Strategic Report
 - ▶ Other content remains in Directors’ Report
- ▶ Small companies
 - ▶ Disclosure requirements unchanged from CA
 - ▶ Not required to produce a Strategic Report - although encouraged to report on social and environmental issues

Reporting remuneration of executives is of increasing importance

BIS
regulatory
changes

▶ Remuneration reporting

- ▶ BIS to introduce regulations to take effect for financial years beginning on or after 1 October 2013, with some new disclosure :

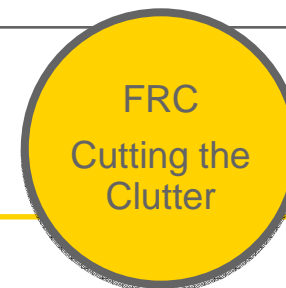
Proposed
future
reporting
on
executive
pay

- The composition and potential level of pay for each individual director
- How proposed pay structures reflect and support strategy and KPIs
- What the performance criteria are, how performance will be assessed and how this will translate into total level of reward
- How and why the company has used benchmarks and other comparison data to inform pay levels and structures
- How employee pay, views and shareholder's views have been sought and taken into account, including the results of the previous year's votes on remuneration

Policy for
the
preceding
year

- A single figure for the total pay of each individual director
- How pay awards relate to company performance and the policy agreed by shareholders at the start of the year with a binding vote
- How spend on executive pay relates to other dispersals, such as dividends, tax, business re-investment and general staffing costs

The regulators want to eliminate immaterial or repetitive disclosures



- ▶ Financial Reporting Council – Cutting the Clutter
 - ▶ No mandated requirements, more a cultural change being sought
 - ▶ Aims to reduce the amount of immaterial, repetitive or “standing data” from Annual Reports
 - ▶ Some change seen in 2011 annual reports, especially in narrative sections
 - ▶ Boards/management should
 - ▶ Determine a qualitative and quantitative threshold for reporting items in the annual report
 - ▶ Avoid immaterial information and disclosure
 - ▶ Avoid repetition of explanatory information of “standing data” year on year unless critical to user understanding
 - ▶ Look to simplify the detail
 - ▶ Potential challenges to FRC’s aspirations
 - ▶ Can greater transparency be achieved by reducing disclosures in the Annual Report?
 - ▶ How will this be achieved while standard setters demand more disclosures?

Expanded Audit Committee (AC) role in reviewing the annual report



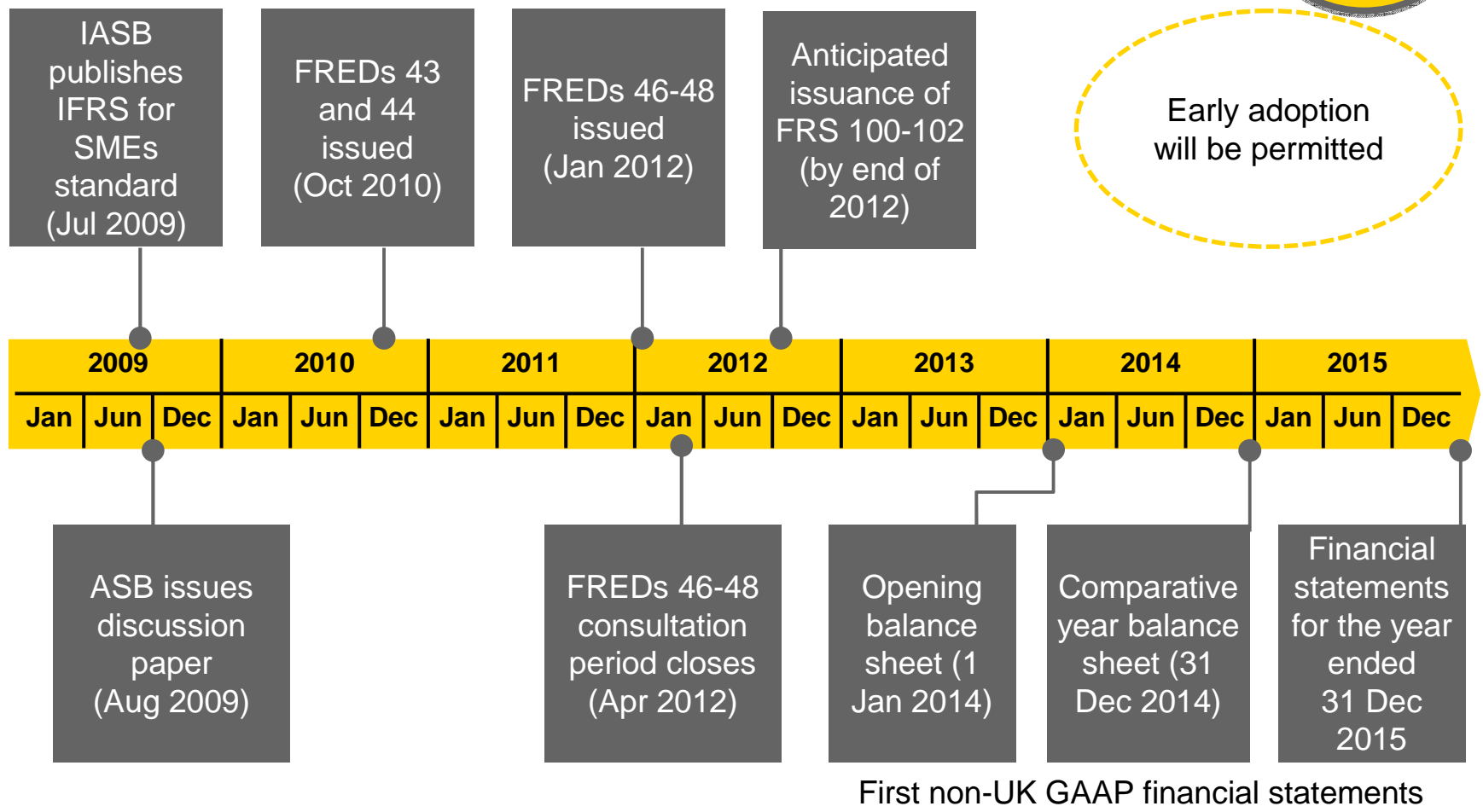
- ▶ Proposed changes to Guidance on Audit Committees
 - ▶ Under the UK Corporate Governance Code on annual report disclosures, the Board is now required to establish arrangements to enable it to confirm that the Annual Report is fair, balanced and understandable
 - ▶ This is to ensure the narrative reporting is consistent with the financial statements and accurately reflects company performance
 - ▶ The Board can seek advice on this from the Audit Committee
 - ▶ The Audit Committee is also be required to report to the Board on:
 - ▶ issues they considered in relation to the financial statements and how they were addressed, in reference to information received from the auditor
 - ▶ an assessment of the effectiveness of the external audit, and approach taken towards the appointment or removal of the auditors
 - ▶ Companies will be required to provide information on the incumbent auditor's length of tenure and the date of the last audit tender

A new forum for open dialogue aimed at improving financial reporting

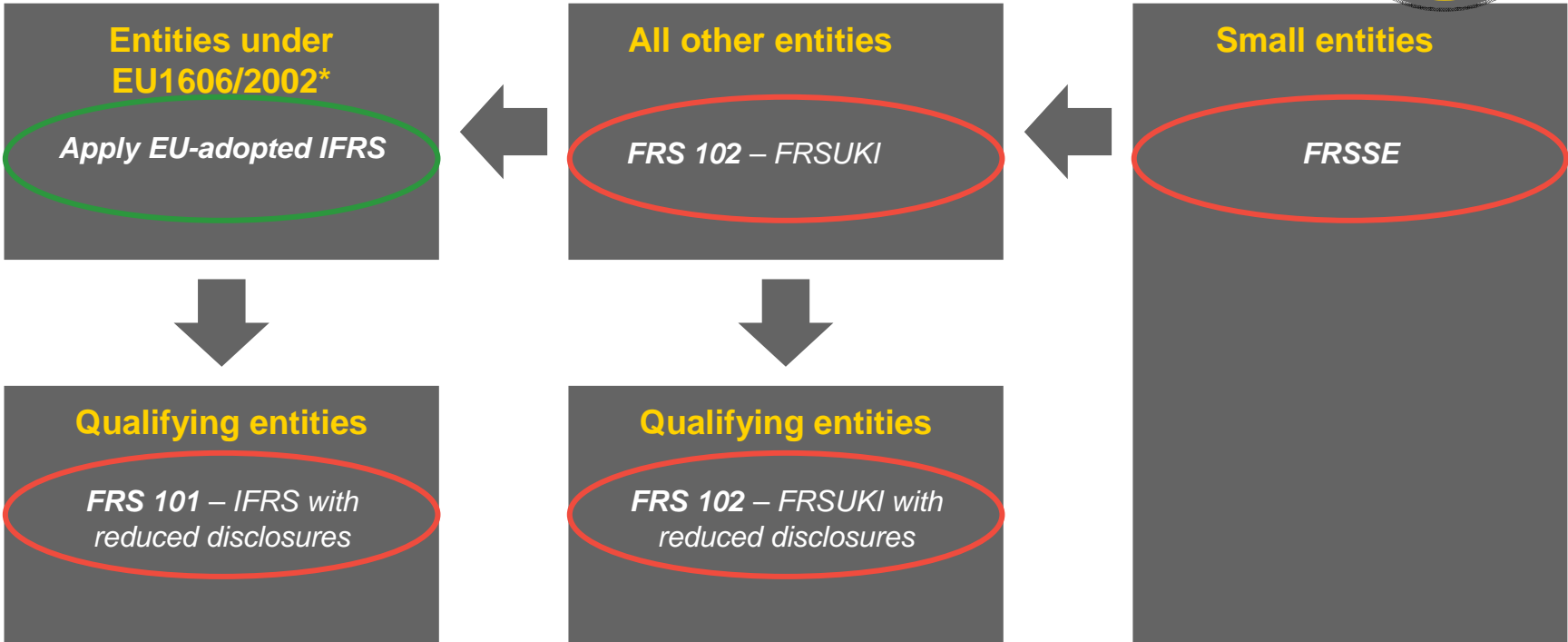


- ▶ Financial Reporting Lab
 - ▶ The Lab provides an environment where investors and companies can come together to develop pragmatic solutions to today's reporting needs:
 - ▶ Companies - test new reporting formats with investors
 - ▶ Investors - indicate areas where management can add greater value
 - ▶ A hub to support innovation in reporting
 - ▶ A focus to provides the broader corporate community with feedback from shareholders on the value that new reporting formats bring
 - ▶ The Lab has been working on a range of projects including assessing:
 - ▶ How a 'single figure' of executive remuneration might be measured and presented (project completed)
 - ▶ Ways to improve financial disclosures in a range of areas including accounting policy disclosures, presentation of cash flows, reporting of business models.

ASB timetable for elimination of UK GAAP reporting



ASB's proposals: The new framework



UK company law will require either **IAS accounts** or **Companies Act accounts**
Entities can adopt a higher tier

* IFRS will continue to only be mandatory for group accounts for those entities with securities admitted to trading on an EU regulated market or as a result of market rules or other regulations.

IIRC in the UK is helping to lead the development of Integrated Reporting



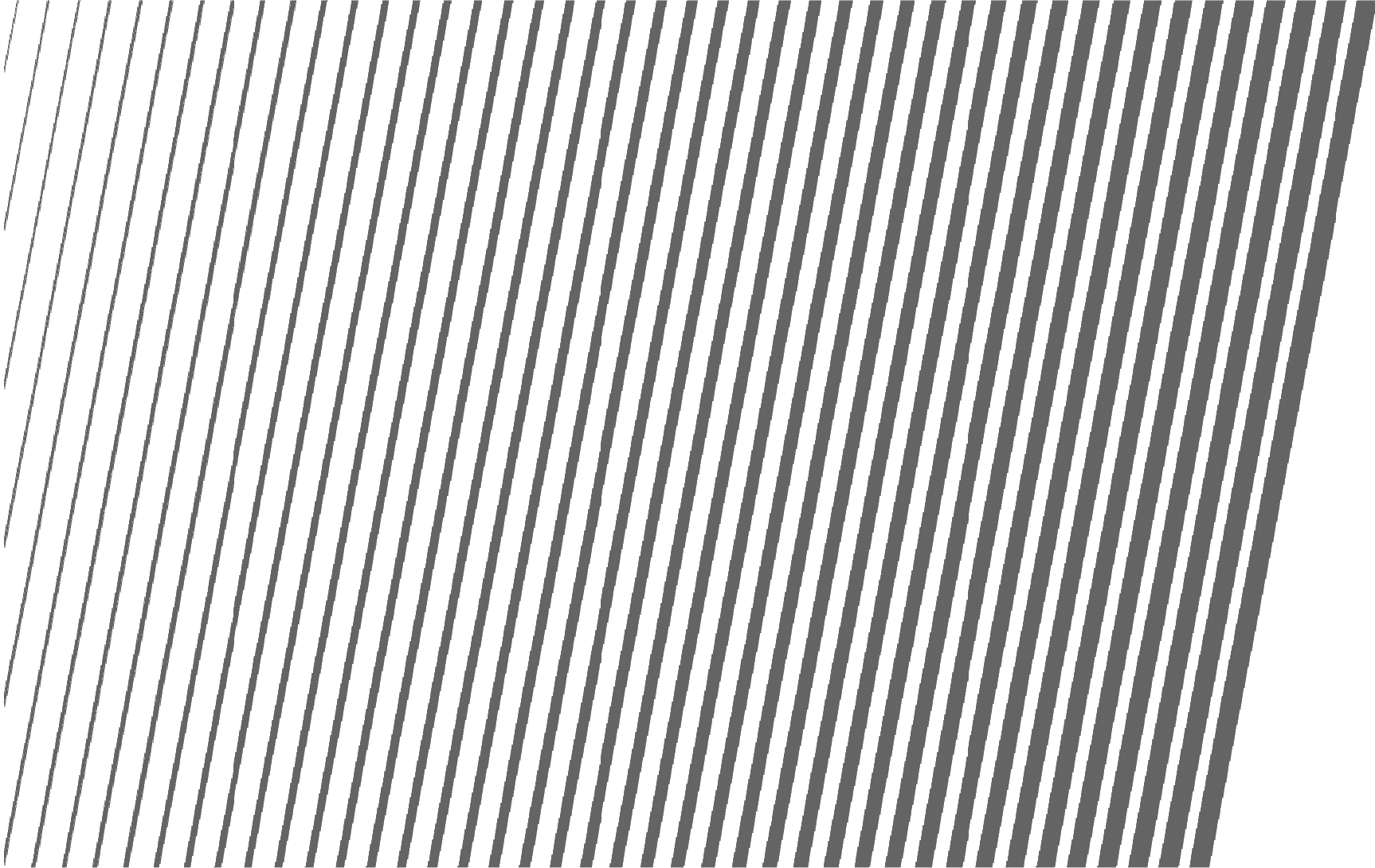
- ▶ International Integrated Reporting Council (IIRC)
 - ▶ Published a Discussion Paper (Sept. 2011) outlining the need for :
 - ▶ “greater integration of reporting to bring together material information about a company’s strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context in which it operates”
 - ▶ Launched an international pilot programme (Oct. 2011) for Integrated Reporting, with more than 70 companies participating
 - ▶ Next steps include
 - ▶ Publication of the draft Framework for Integrated Reporting (2012)
 - ▶ Development of the Integrated Reporting Framework (2013)
 - ▶ Launch of Sustainability Accounting Standards Board (SASB), October 2012
 - ▶ Raise awareness among investors and other stakeholders, ensuring they contribute to the evolution of Integrated Reporting
 - ▶ Explore opportunities for harmonising reporting requirements within and across jurisdictions

Over 70 of the world's largest companies participating in IIRC's pilot programme

Integrated Reporting



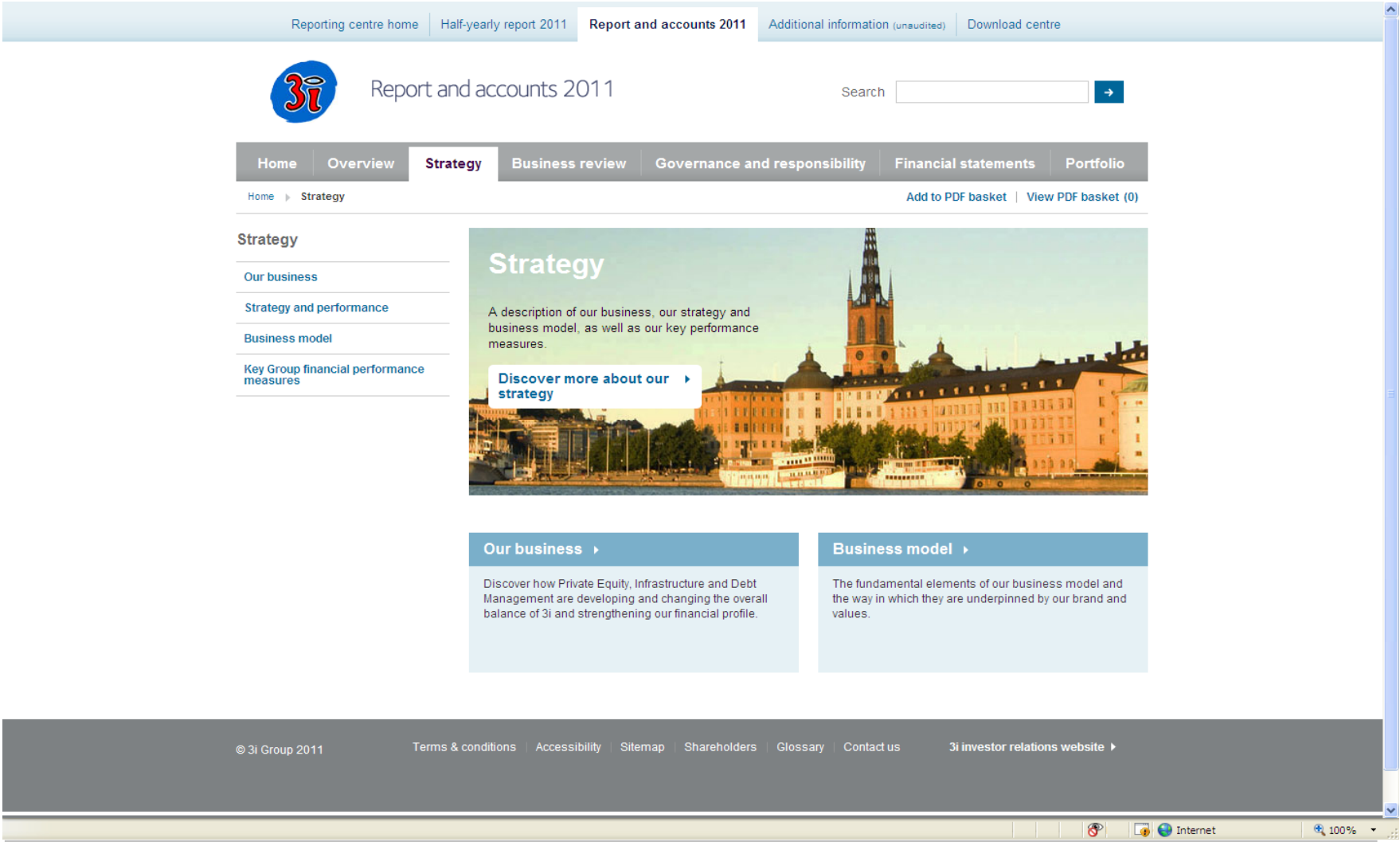
Emerging trends in online reporting



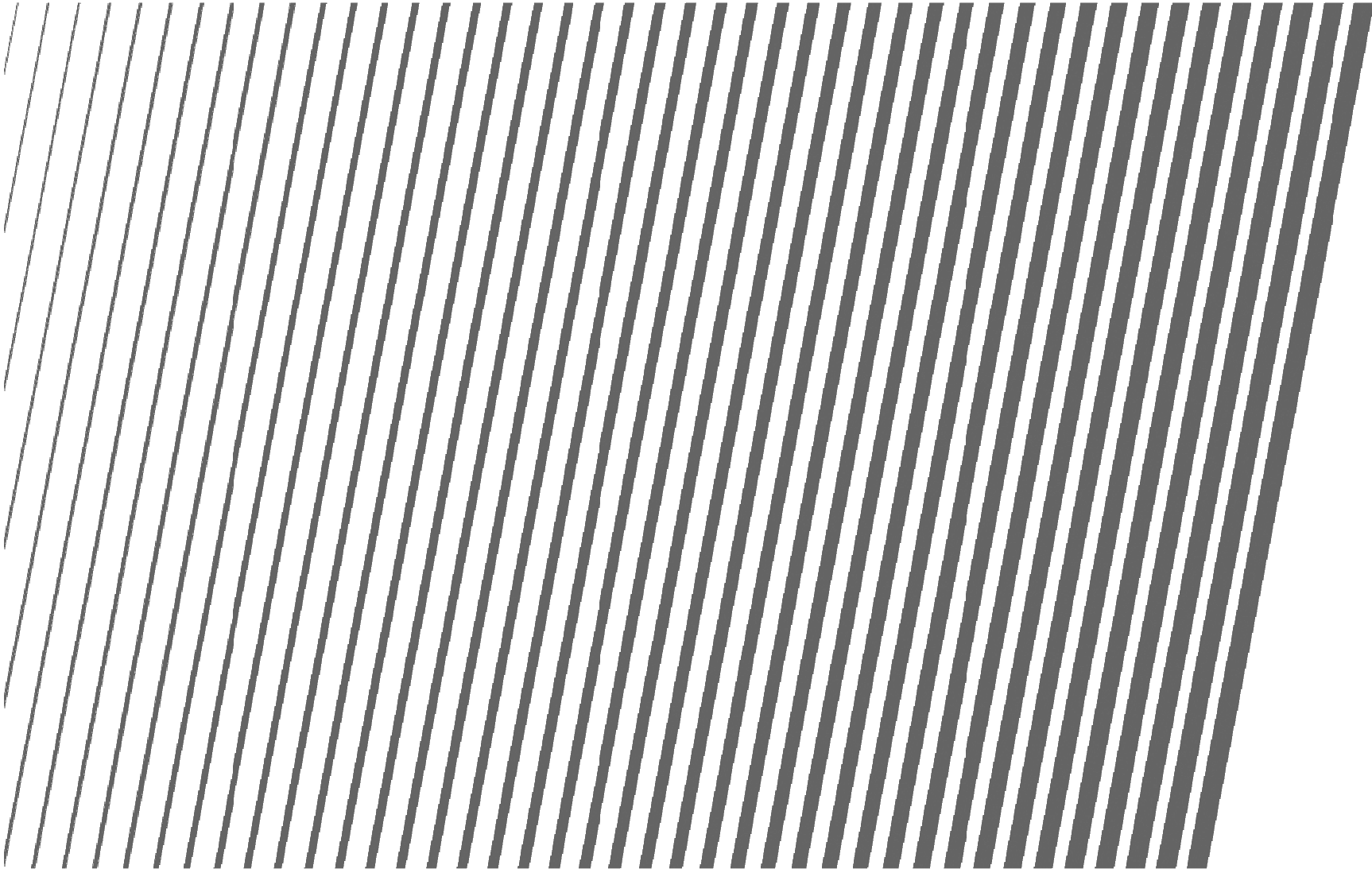
Online interactive reporting and communication is developing rapidly

- ▶ In 2011, 70 of the FTSE 100 provided an HTML report on their website (37 in 2007)
 - ▶ Shifting away from merely attaching pdf of Annual Report online
- ▶ The aim is to create engaging user experience
 - ▶ Allowing users to take a more active role in exploring key information
- ▶ Leading reporters are:
 - ▶ Making infographics more interactive
 - ▶ Surfacing key content through well-balanced home and landing pages
 - ▶ Providing multiple navigation options
 - ▶ Integrating video communication with traditional text based format
 - ▶ Offering summaries, bullet points and box outs
- ▶ Future of online reporting
 - ▶ In 2011, a few companies also opted to produce iPad apps
 - ▶ Increasing use of smartphones and tablets likely to drive greater focus on these media over the next few years
 - ▶ Linking to social media sites?

Focus on the online reporting experience - example



Closing remarks



Understand the impacts of proposed changes and plan early to achieve optimal results

What should you ask yourself?

- ▶ How does your reporting compare to your peers – how transparent do you appear?
 - ▶ Grade your own annual report against the ASB's scoring mechanism
- ▶ Are you communicating business and financial information effectively through your online channels?
- ▶ Are looming reporting changes fully understood, evaluated and communicated to stakeholders?
- ▶ Have you undertaken an exercise to identify significant gaps between your current Annual Report and what this will look like in 2-3 years time?
- ▶ Do the impending changes to the UK financial reporting framework present risks or opportunities that require action pre-implementation?
 - ▶ Which accounting framework option is appropriate for your UK entities?

Business Analytics Live 2012 for Finance

The Premier Event for Finance Professionals

Thank you!

