



<b>Project:</b>	<b>Sustainability Reporting</b>	<b>Meeting</b>	AASB February 2022 (M185)
<b>Topic:</b>	<b>Feedback summary—ITC 48 <i>Extended External Reporting</i></b>	<b>Agenda Item:</b>	3.5
		<b>Date:</b>	8 February 2022
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		<b>Decision-Making:</b>	High
		<b>Project Status:</b>	Consider project direction

## Objective

- 1 The purpose of this paper is to summarise the feedback on [ITC 48 \*Extended External Reporting\*](#) (ITC 48)—the consultation period for which closed on 28 January 2022.
- 2 This paper is for information purposes only and does not ask the Board to make decisions.

## Attachments

- 3.5.1 Submissions received in response to ITC 48

## Structure

- 3 This paper is structured as follows:
  - (a) Background and methodology (paragraphs 4-7)
  - (b) Summary of feedback received (paragraphs 8-20)
    - (i) The Board adopting an immediate position (paragraphs 8-11)
    - (ii) Mandatory versus voluntary reporting (paragraphs 12-14)
    - (iii) TCFD Recommendations (paragraphs 15-19)
    - (iv) Summary of suggested changes to the proposed Position Statement (paragraph 20)
  - (c) Question to Board members
  - (d) Appendix A: Demographic information
  - (e) Appendix B: Summary of key feedback from outreach meetings.

## Background and methodology

- 4 Responses to this topic were received as written submissions to ITC 48 and as part of the outreach activities relating to ITC 46 *AASB Agenda Consultation 2022-2026*<sup>1</sup> (as one-to-one and group meetings). The feedback summary encompasses all responses, including the responses received as part of outreach activities relating to ITC 46.<sup>2</sup>
- 5 The Board received 17 written submissions to ITC 48. Appendix A and Agenda Paper 5.1 *AASB Agenda Consultation—Project update* provides a list of respondents and summary of type of respondent.<sup>3</sup> A feedback summary of key feedback received to ITC 48 from outreach meetings is included in Appendix B

### **ITC 48 Extended External Reporting**

- 6 ITC 48 proposed:
- (a) that the Board not adopt a long term position in response to the global movement towards the harmonisation of sustainability reporting standards and frameworks and should instead wait until wider international consensus has been reached before making decisions about the scope and direction of its sustainability reporting project; and
  - (b) until wider international consensus has been reached, that the Board adopt an immediate position of expressing their support for the voluntary application of the TCFD Recommendations as the leading sustainability reporting framework in Australia.
- 7 Stakeholders were asked:
- (a) whether they agree that the Board should adopt an immediate position (see paragraphs 8-11);
  - (b) whether the Board’s immediate position should support mandatory or voluntary application of the TCFD Recommendations (see paragraphs 12-14); and
  - (c) whether they agree that the TCFD Recommendations are appropriate for the purpose of the Board adopting an immediate position (see paragraphs 15-19).

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<sup>1</sup> For a summary of feedback received so far to ITC 46, refer to Agenda Papers 5.1 and 3.4.

<sup>2</sup> Most stakeholders referred only to the Board’s long term approach to sustainability reporting (ITC 46). They did not provide feedback on the Board’s proposed short term (or interim) approach, which only considered climate-related financial disclosures (ITC 48). Note that while staff asked for feedback as part of the one-to-one and group meetings held for ITC 46, only a few stakeholders commented on ITC 48 as part of that outreach.

<sup>3</sup> This paper uses the following terms to describe the extent to which particular feedback was provided by respondents:

<i>Term</i>	<i>Extent of response among respondents</i>
Almost all	all expect a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

## Summary of feedback received

### The Board adopting an immediate position

- 8 Many respondents commented that they were supportive of the Board taking an immediate position supporting the application of the TCFD Recommendations.<sup>4</sup> In their view the proposed Position Statement provides an indication to the current sustainability reporting environment and will help prepare stakeholders for incoming climate-related financial reporting requirements that will likely align to the TCFD Recommendations.<sup>5</sup> However, some of these respondents were unclear as to the need for the Board to adopt an immediate position<sup>6</sup>.
- 9 A few respondents from outreach meetings on ITC 46 expressed support for the Board taking an immediate position as proposed in the Position Statement only if that position aligned with the long term approach the Board will take to climate reporting. These respondents highlighted the transition cost should the Board decide to go in a different direction in the long term.
- 10 Some respondents did not express support for the Board taking an immediate position because, in their view:
- (a) it would be more prudent to wait until international consensus has been reached before endorsing a climate-related reporting standard or framework. These respondents highlighted the potential cost of compliance, even if the Board only endorses the voluntary application of the TCFD Recommendations;<sup>7</sup>
  - (b) the TCFD Recommendations are already voluntary and can be applied by any entities in Australia. These respondents questioned the value of the Board adopting an immediate position when it wouldn't change anything in the current sustainability reporting environment;<sup>8</sup>
  - (c) Australia lacks the legal or standard-setting framework to develop, implement and enforce sustainability reporting and as such a comprehensive consultation should occur around what is the most appropriate standard-setting body, along with determining what enabling legislation is required;<sup>9</sup> and
  - (d) focusing its efforts on the long term approach to sustainability reporting would be the most effective use of the Board's limited resources—that is, these respondents highlighted that it would create more value in the short term if the Board focused its efforts on what to do about sustainability reporting in the long term.<sup>10</sup>
- 11 Two respondents from the not-for-profit public and private sectors observed that they have not identified an urgent need for climate-related reporting. As such, these respondents

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<sup>4</sup> For example, refer to submissions from Michael Vardon, the Institute of Public Accountants (IPA), Deakin University's Business Reporting Leadership Forum (BRLF), PWC, joint Chartered Accountants Australia and New Zealand (CAANZ) and Certified Public Accountants (CPA) Australia, EY, KPMG, David Hardidge, and the Australian Banking Association (ABA).

<sup>5</sup> For example, refer to the submission from the IPA.

<sup>6</sup> For example, refer to the submission from the Australian Institute of Company Directors (AICD).

<sup>7</sup> For example, refer to the submission from the National Australia Bank (NAB) and the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).

<sup>8</sup> For example, refer to Appendix B.

<sup>9</sup> For example, refer to the submissions from PWC, joint CAANZ and CPA Australia, and the Property Council of Australia (PCA).

<sup>10</sup> For example, refer to the submission from academic, Peter Wells.

suggested that the Board undertake further research and engagement to determine the relevance and effect of such reporting for the not-for-profit sectors.<sup>11</sup>

### **Mandatory versus voluntary reporting**

- 12 Most respondents expressed their support for the Board’s proposed immediate position to remain voluntary. However, consistent with feedback to ITC 46<sup>12</sup>, these respondents also expressed support for eventual mandatory sustainability reporting more broadly. In their view, consistency and comparability in sustainability reporting in the long term would likely only be achieved if it were mandated.
- 13 Some respondents to ITC 48 questioned the Board’s legal mandate to make any sustainability reporting requirements mandatory. For example, respondents observed:<sup>13</sup>
- (a) that it is not the responsibility of the Board to mandate such reporting and that that responsibility sits with regulators; and
  - (b) that it would be inconsistent with the existing [Due Process Framework for Setting Standards](#) should the Board immediately endorse the mandatory application of the TCFD Recommendations.
- 14 One respondent suggested the Board consider an ‘if not, why not?’ approach. That is, if an entity were not to provide climate-related financial disclosures in line with the TCFD Recommendations then it should explain the reasons.<sup>14</sup>

### **TCFD Recommendations**

- 15 Almost all respondents expressed their support for the TCFD Recommendations. However, consistent with the feedback on ITC 46<sup>15</sup>, many respondents also observed that:<sup>16</sup>
- (a) the GRI is the leading sustainability reporting framework in Australia, not the TCFD Recommendations; but
  - (b) the TCFD Recommendations are generally acknowledged to be the leading guidance on climate-related financial disclosure.
- 16 Many respondents also commented their support of the TCFD Recommendations in the context of climate as it provides an appropriate starting point from which to report on climate-related financial disclosures and predominantly aligns with the anticipated approach of the IFRS Foundation’s International Sustainability Standards Board (ISSB).<sup>17</sup>
- 17 However, many respondents also expressed concern that the scope of sustainability is broad and is not limited to climate-related financial reporting. These respondents suggested that the Board clarify that the TCFD Recommendations are relevant only to climate-related financial disclosures and are not intended for broader application or other sustainability topics as implied by the proposed Position Statement. For example, a few of these respondents also commented that there are other sustainability reporting matters for which the TCFD Recommendations are not appropriate (such as modern slavery) and suggested the

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<sup>11</sup> Refer to the submission from HoTARAC and the Australian Charities and Not-for-profits Commission (ACNC).

<sup>12</sup> See Agenda Paper 3.4.

<sup>13</sup> For example, refer to the submissions from IPA, PWC, joint CAANZ and CPA Australia, and PCA.

<sup>14</sup> Refer to the submission from EY.

<sup>15</sup> See Agenda Paper 3.4.

<sup>16</sup> For example, refer to submissions from Carol Adams, IPA, Global Reporting Initiative (GRI), and David Hardidge.

<sup>17</sup> For example, refer to submissions from Deakin University’s BRLF, PWC, EY, KPMG, and ABA.

Board consider endorsing other leading sustainability reporting standards and frameworks in addition to the TCFD Recommendations.<sup>18</sup>

- 18 A few respondents that commented they were not supportive of the proposed Position Statement highlighted that the TCFD Recommendations:
- (a) focus only on the risks that climate change poses to businesses and financial markets, with the information needs of investors being of particular relevance.<sup>19</sup> These respondents observed that the scope of sustainability reporting is broader—that is, consistent with feedback to ITC 46:
    - (i) users of sustainability reports include investors but are not limited to investors; and
    - (ii) similar to financial reports, sustainability reports include both financial and non-financial information and should not be limited to only financial or non-financial information;
  - (b) are the product of a political process and lacks specificity to the extent that selective disclosure and misstatement (i.e. greenwashing) by preparers would be likely and affect the integrity of financial reporting.<sup>20</sup>
- 19 One respondent asked the Board to clarify the location of disclosures compliant with the TCFD Recommendations—for example, if such disclosures should be made as part of the financial statements, the financial report or in a separate report.<sup>21</sup>

#### **Summary of suggested changes to the proposed Position Statement**

- 20 Overall, respondents suggested that the Board consider making the following changes to the proposed Position Statement:
- (a) clarifying that the proposed Position Statement is relevant only to climate-related financial disclosures, not all sustainability reporting matters (see paragraph 17);
  - (b) clarifying that the TCFD Recommendations are generally accepted as the leading guidance on climate-related financial disclosures only (see paragraphs 15 and 17);
  - (c) clarifying where climate-related financial disclosures should be made when the TCFD Recommendations are applied (see paragraph 19).

#### **Questions to Board members**

##### **Questions to Board members**

**Q1:** Do Board members have any questions or comments about the feedback summary?

**Q2:** How do Board members wish to proceed in relation to the proposals outlined in ITC 48?

<sup>18</sup> For example, refer to submissions from Carol Adams, Michael Vardon, ACNC, IPA, Peter Wells, joint CAANZ and CPA Australia, EY, KPMG, GRI, David Hardidge and PCA.

<sup>19</sup> For example, refer to the submission from the ACNC.

<sup>20</sup> For example, refer to the submission from academic, Peter Wells.

<sup>21</sup> Refer to the joint submission from CAANZ and CPA Australia.

**Appendix A: Demographic information**

- A1. Staff have sought feedback on the broader agenda consultation invitation to comment, ITC 46 from more than 120 stakeholders from all sectors and industries (see Agenda Paper 5.1). Most respondents referred only to the Board’s long term approach to sustainability reporting (ITC 46) and did not provide feedback on the Board’s proposed short term (or interim) approach (ITC 48). Note that while staff asked for feedback as part of the one-to-one and group meetings held for ITC 46, only a few stakeholders commented on ITC 48.
- A2. We received 17 written submissions.

**Type of respondent**

<i>Type</i>	<i>Number of responses</i>
Academic	4
Accountancy body	2
Accounting firm	3
Advisory	1
Other <sup>22</sup>	3
Preparer	3
Regulator	1
Total	17

**Respondents by sector**

<i>Sector</i>	<i>Number of responses</i>
For-profit	8
Not-for-profit <sup>23</sup>	3
Other	6
Total	17

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<sup>22</sup> Other is used to classify other types of respondents such as not-for-profit committees or industry bodies that represent a wide range of stakeholders.

<sup>23</sup> Includes responses from both private and public not-for-profit sectors.

### Respondents by industry type

<i>Industry</i>	<i>Number of responses</i>
Academia	4
Accountancy body	2
Accounting firm	3
Advisory	1
Banking	2
Mixed <sup>24</sup>	3
Regulator	1
Sustainability reporting body	1
Total	17

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<sup>24</sup> That is, the respondent operates in more than a single industry.

## Appendix B: Summary of key feedback from outreach meetings

- B1. Most stakeholders referred only to the Board’s long term approach to sustainability reporting (ITC 46). They did not provide feedback on the Board’s proposed short term (or interim) approach, which only considered climate-related financial disclosures (ITC 48). Note that while staff asked for feedback as part of the one-to-one and group meetings held for ITC 46<sup>25</sup>, only a few stakeholders commented on ITC 48 as part of that outreach.
- B2. Of those respondents who responded to ITC 48 **as part of the ITC 46 outreach**:
- (a) most respondents commented that they support the application of the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD Recommendations). However, many also observed that the TCFD Recommendations is not the most commonly applied sustainability reporting framework in Australia but acknowledged that the TCFD Recommendations are the leading guidance on climate-related financial disclosure. Consistent with the feedback received on ITC 46<sup>1</sup>, these respondents observed that, the Global Reporting Initiative (GRI) is the most commonly applied sustainability reporting framework in Australia and suggested that the Board clarify in the Position Statement that the scope of TCFD Recommendations is limited to climate-related financial disclosure;
  - (b) many expressed concern that, in their view, ITC 48 implied that sustainability reporting is limited to (i) climate-related financial disclosure; (ii) investors as primary users of sustainability reports; and (iii) non-financial information. Consistent with feedback on ITC 46, these respondents observed that (i) sustainability reporting is not limited to climate-related financial reporting and includes other matters that are equally important; (ii) users of sustainability reports include investors but are not limited to investors; and (iii) sustainability reporting includes both financial and non-financial information;
  - (c) some respondents commented that the Board should focus its efforts on its long term approach to sustainability reporting rather than issue a Position Statement in the interim;
  - (d) a few expressed support for the Board’s interim approach to climate-related financial disclosures only if the Board intends to develop climate-related financial reporting requirements that will predominantly align to the TCFD Recommendations in the long term; and
  - (e) a few commented that the TCFD Recommendations are already a voluntary set of recommended disclosures and the Board isn’t adding any value to stakeholders by expressing its support for their voluntary application in the short term.

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<sup>25</sup> See Agenda Paper 3.4.