Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Sustainability Reporting**	**Meeting**	AASB February 2022 (M185)
Topic:	**Feedback summary—ITC 46 *AASB Agenda Consultation 2022-2026***	**Agenda Item:**	3.4
		Date:	7 February 2022
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Objective

1 The purpose of this paper is to summarise the feedback about sustainability reporting from ITC 46 *AASB Agenda Consultation 2022-2026* (ITC 46)—the consultation period for which will close on 18 February 2022[1].

2 This paper is for information purposes only and does not ask the Board to make any decisions.

Structure

3 This paper is structured as follows:

(a) Key messages (paragraph 4)

(b) Background and methodology (paragraphs 5-8)

(c) The importance of sustainability reporting (paragraphs 9-10)

(d) The Board's role in developing sustainability reporting requirements in Australia (paragraphs 11-15)

(e) The scope of sustainability reporting (paragraphs 16-24)

(f) Approaches to international alignment (paragraphs 25-42)

(g) Mandatory versus voluntary sustainability reporting requirements (paragraphs 43-45)

(h) Assurance of sustainability reports (paragraphs 46-48)

(i) Sustainability reporting in the not-for-profit sectors (paragraphs 49-51)

[1] Note that this paper consider only the feedback received so far on the Board's Sustainability Reporting project. Other preliminary feedback on ITC 46 is included in Agenda Paper 5.1 *AASB Agenda Consultation—Project update*. Written submissions to ITC 46 and a summary of the ITC 46 roundtable discussion (planned for 17 February 2022) will be tabled with the Board at a future meeting.

(j) Incorporating sustainability into the accounting standards (paragraphs 52-53)

(k) Other feedback (paragraphs 54-55)

(l) Question to Board members

(m) Appendix A: Demographic information.

Key messages

4 Respondents provided a wide range of feedback to the Board about the potential scope and direction of a project addressing sustainability reporting:

(a) ***The importance of sustainability reporting*** (see paragraphs 9-10)—All respondents commented that sustainability reporting is important to them. Most respondents observed an increase in demand from a wide range of stakeholders for more transparent, consistent and comparable sustainability information, with some highlighting the potential economic consequences should Australia not meet that global demand.

(b) ***The Board's role in developing sustainability reporting requirements in Australia*** (see paragraphs 11-15)—Almost all respondents were supportive of the Board expanding its scope of activities to include sustainability reporting.

(c) ***Scope of sustainability reporting*** (see paragraphs 16-24)—Almost all respondents highlighted that the scope of sustainability reporting is broad and (i) includes both financial and non-financial information; (ii) its objectives differ from that of financial reporting; (iii) its primary users are not limited to the primary users of general purpose financial reports; and (iv) covers a wide range of matters that extends beyond just climate reporting.

(d) ***Approaches to international alignment*** (see paragraphs 25-42)—Almost all respondents commented that the Board should consider international alignment as a priority in developing a sustainability reporting framework or standards for Australia. However, there were mixed views about which international approach the Board should align to.

(e) ***Mandatory versus voluntary sustainability reporting requirements*** (see paragraphs 43-45)—Most respondents, including preparers, expressed their support for the development of mandatory sustainability reporting requirements for the for-profit sector in Australia.

(f) ***Assurance of sustainability reports*** (see paragraphs 46-48)—Most respondents commented that when the Board thinks about standard-setting in the context of sustainability reporting, it should also consider the auditability of sustainability information.

(g) ***Sustainability reporting in the not-for-profit sectors*** (see paragraphs 49-51)—Almost all respondents from the not-for-profit sectors commented that sustainability reporting requirements should first be developed for the for-profit sector and then later expanded to include the not-for-profit sectors.

(h) ***Incorporating sustainability into the accounting standards*** (see paragraphs 52-53)—Some respondents highlighted that the Board should consider updating existing requirements and guidance in the AASB Standards to help preparers of financial statements better incorporate sustainability information, such as climate risk.

Background and methodology

5 Staff reached out to over 120 stakeholders[2]. At the date of this paper, the Board has received 33 responses through one-to-one and group meetings relating to sustainability reporting from a wide range of stakeholders. Appendix A provides a summary of type of respondent. There were mixed views across the types of respondents and staff have highlighted any identified trends in responses[3].

6 Responses so far have been primarily received through engagement in outreach meetings (both one-to-one and group meetings). One written submission has been received at the date of this paper (see Agenda Paper 5.1). All written submissions to ITC 46 and a summary of the ITC 46 roundtable discussion (planned for 17 February 2022) will be tabled with the Board at a future meeting. The comment period for ITC 46 will close 18 February 2022.

ITC 46 *AASB Agenda Consultation 2022-2026*

7 ITC 46 requested feedback on the projects the Board should be prioritising in the five-year period from 2022 to 2026. As part of ITC 46, the Board recommended adding sustainability reporting to its work program.

8 In particular, the Board requested feedback about sustainability reporting as part of:

(a) Potential projects—projects recommended by the Board but for which the Board has not yet considered the scope of. In addition to two other projects (being service performance reporting and digital financial reporting), the Board recommended adding sustainability reporting to its work program and asked stakeholders:

(i) whether they agreed that the Board should add sustainability reporting to its work program and what the scope of such a project should be; and

(ii) what priority they think should be given to a project on sustainability reporting—high, medium or low.

(b) Potential research projects—to enable the Board to better understand the topic, the Board suggested adding a sustainability reporting project to its research program and asked stakeholders about what they thought the scope of such a project should be.

The importance of sustainability reporting

9 All respondents commented that sustainability reporting is important to them. These respondents observed that sustainability reporting is important for the following reasons:

(a) almost all respondents, including preparers, highlighted the growing demand for sustainability information by a broad range of stakeholders that go beyond investors;

(b) most respondents noted that sustainability reporting is needed to demonstrate that the focus is not only on financial statements and metrics, but on the broader impacts

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[2] See Agenda Paper 5.1 for a detailed breakdown of stakeholders from whom staff have sought feedback.

[3] This paper uses the following terms to describe the extent to which particular feedback was provided by respondents:

Term	*Extent of response among respondents*
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

an entity has. For example, some of these respondents commented that sustainability reporting:

(i) should be equivalent to financial reporting as both are equally important;

(ii) and financial reporting are interdependent—that is, you can't effectively report on one without also reporting on the other; and

(iii) is integral to understanding an entity's performance, financial position, and resilience;

(c) most respondents noted that sustainability reporting is needed to hold entities accountable for their impact. For example, these respondents, including preparers, expressed their concern about greenwashing, a practice whereby entities focus only on disclosing their positive impacts and dismiss or obscure information about their negative impacts;

(d) many respondents commented that sustainability reporting is important because stakeholders want to understand better the costs associated with sustainability matters such as climate change. For example, one respondent observed that the recent catastrophic fires in Australia likely resulted in a significant and ongoing cost to insurers, but that this cost has not been highlighted or identified anywhere;

(e) some respondents commented that sustainability reporting helps support financial stability in the Australian economy. For example, these respondents noted that:

(i) the broader economic ramifications of not reporting sustainability information will be significant. For example, Australian entities will likely be penalised or fined by foreign investors and economies for not reporting sustainability information; and

(ii) sustainability reporting helps stakeholders better understand the impacts of an entity on the Australian economy. For example, Australia's biodiversity is highly sensitive, and as such, stakeholders need to understand better the costs and benefits of when biodiversity is impacted; and

(f) some respondents commented that sustainability reporting helps directors and senior management meet their reporting obligations. For example, these respondents observed recent lawsuits regarding director negligence where climate risk had not been disclosed despite being material to stakeholders[4].

10 Furthermore, almost all respondents observed that there has been an increased focus on sustainability information by a wide range of stakeholders in recent years, including investors. For example, most respondents observed that stakeholders are increasingly demanding sustainability information because it is material to their decision-making. These respondents commented that sustainability information is being requested by a range of stakeholders such as:

(a) primary users of financial statements (being existing and potential investors, lenders and other creditors);

(b) analysts and ratings agencies;

(c) existing and potential customers;

(d) governments and regulators (both domestic and foreign);

[4] https://www.theguardian.com/australia-news/2017/aug/08/commonwealth-bank-shareholders-sue-over-inadequate-disclosure-of-climate-change-risks

(e) insurance providers; and

(f) internal stakeholders such as existing and potential employees, the board and senior management.

The Board's role in developing sustainability reporting requirements in Australia

11 Almost all respondents were supportive of the Board expanding its scope of activities to include sustainability reporting:

(a) most respondents highlighted the Board's standard-setting experience and transparent due process—in particular, these respondents highlighted the Board's reputation for developing high-quality accounting standards;

(b) many respondents commented that the Board is well placed to develop sustainability reporting requirements because:

(i) it operates outside day-to-day politics;

(ii) it can leverage its existing relationship with the IFRS Foundation to ensure Australia's views are well represented; and

(iii) it can leverage its existing relationships with other government bodies and regulators to best succeed in this space; and

(c) some respondents commented that the Board is the only standard-setting body in Australia that has the expertise and experience necessary to bridge the gap between sustainability and financial reporting.

12 Most respondents commented that a project addressing sustainability reporting should be considered a high priority for the Board. These respondents observed that current sustainability reporting is simply an exercise in meeting stakeholder expectations which are constantly changing. In their view, there is an urgent need to develop sustainability reporting requirements to provide clarity in the market.

13 However, many of these respondents and respondents that were not supportive of the Board expanding its activities to include sustainability reporting had the following concerns:

(a) lack of sufficient resources—that is, many respondents highlighted:

(i) the Board's existing work program and expressed concern that a project addressing sustainability reporting would divert resources from important accounting standard-setting projects; and

(ii) the Board's lack of expertise in sustainability reporting; and

(b) lack of knowledge and skills in the domestic market—some respondents highlighted that the Australian market lacks sufficient knowledge and expertise in sustainability reporting and commented that to be successful, the Board will need to also focus on educating the market so that domestic stakeholders understand the value of sustainability reporting.

14 Of those respondents who commented that a project addressing sustainability reporting should not be considered a high priority for the Board many noted that, while a project addressing sustainability reporting is important, it is no more important than other existing projects on the Board's work program.

15 A few respondents commented that sustainability reporting requirements should not be written in the same way as accounting standards. These respondents commented that, in

their view, sustainability reporting requirements should be less burdensome because more flexibility is needed in sustainability reporting due to its ongoing and rapid evolution.

The scope of sustainability reporting

16 Almost all respondents commented on the scope of sustainability reporting. In particular, respondents highlighted the following areas of scope that they think the Board should consider when making decisions about the scope and direction of a project addressing sustainability reporting:

(a) sustainability reporting includes both financial and non-financial information, not only non-financial information or information outside the scope of general purpose financial reporting (see paragraphs 17-18);

(b) the objective of sustainability reporting differs from the objective of financial reporting, and consequently, the scope of sustainability reporting goes beyond that of financial reporting (see paragraphs 19-20);

(c) users of sustainability reports include primary users of general purpose financial reports (users of financial reports), but are not limited to those users—that is, sustainability reports are intended for a much broader audience than financial reports (see paragraphs 21-22); and

(d) sustainability reporting includes climate reporting but should not be limited to climate reporting (see paragraphs 23-24).

Financial versus non-financial information

17 Almost all respondents commented that sustainability reporting, like financial reporting, encompasses both financial and non-financial information. For example, a few respondents observed that while sustainability information itself may not always be financial in nature, it has financial consequences both in the short and long term which should be communicated in a sustainability report.

18 Of those respondents who responded to ITC 48 *Extended External Reporting*, almost all disagreed with the statement that sustainability reporting is limited to being a non-financial reporting matter.[5]

Objective of sustainability reporting

19 Most respondents commented that the objective of sustainability reporting is better transparency around measuring and reporting on the impacts of an entity's operations on sustainable development. A few of these respondents noted that, should the project only focus on a narrow aspect of sustainability reporting (such as only focusing on financial impacts), it should not be referred to as sustainability reporting as it causes confusion in the market and is misleading.

20 Some respondents observed that the objective of sustainability reporting (as described in paragraph 19) complements the objective of financial reporting, which focuses only on the financial impacts of an entity's operations. In their view, sustainability reporting is a lens through which to communicate with a broader range of stakeholders, including users of financial reports.

[5] See Agenda Paper 3.5 *Feedback summary—ITC 48* Extended External Reporting.

Users of sustainability and financial reports

21 Almost all respondents commented that sustainability reporting is intended for a broader audience than financial reporting[6]. For example, many of the preparers that responded noted that sustainability reporting is critical to them because it gives them the social license to operate—that is, sustainability reporting is integral to communicating with the communities in which they operate.

22 However, some respondents, particularly from the for-profit sector, noted that focusing initially on meeting investors' information needs is appropriate provided the intention would be to broaden the scope beyond investors in the long term.

Sustainability reporting topics

23 Almost all respondents commented that climate reporting was the best topic to start with because there is global consensus that climate change exists and needs to be addressed (see also Agenda Paper 3.5 *Feedback summary—ITC 48* Extended External Reporting).

24 However, almost all respondents also commented that while sustainability reporting includes climate reporting, it should be made clear that sustainability reporting goes beyond that and addresses other topics (see also Agenda Paper 3.5). For example, many respondents observed that there are other sustainability reporting topics that are equally as important such as:

(a) biodiversity;

(b) indigenous and human rights;

(c) modern slavery;

(d) data privacy and management; and

(e) environment and nature.

Approaches to international alignment

25 Almost all respondents commented that, should the Board decide to develop sustainability reporting requirements in Australia, international alignment should be considered a priority:

(a) many respondents commented that internationally consistent and comparable sustainability reporting would be the key to its success in Australia in the long term;

(b) many respondents commented that it would affect international competitiveness and participation if the Australian approach was not consistent with what was done internationally. For example, these respondents noted that:

(i) entities that are headquartered in Australia rely on international investment and would be obligated to report applying an internationally aligned framework or standards should they wish to engage with international market participants; and

(ii) international alignment simplifies the market and makes sustainability information more accessible to both domestic and international market participants;

(c) some respondents commented that international alignment would likely reduce the cost of sustainability reporting for preparers that need to meet the reporting

[6] Paragraph 1.5 of the IFRS *Conceptual Framework for Financial Reporting* defines primary users of general purpose financial reports as being existing and potential investors, lenders and other creditors.

requirements of multiple jurisdictions. For example, some respondents observed that in other jurisdictions, such requirements are being mandated, and it would be burdensome if Australia's approach did not align with those; and

(d) a few respondents commented that international alignment would increase the relevance of sustainability reporting.

26 Instead of developing its own sustainability framework and/or standards, these respondents also commented that the Board should seek to leverage off the work of existing and well-established international sustainability reporting standard-setters and framework providers. However, there were mixed views about the international and jurisdictional perspectives the Board should align to:

(a) International Sustainability Standards Board (ISSB) (see paragraphs 27-34);

(b) Global Reporting Initiative (GRI) (see paragraphs 35-38);

(c) TCFD Recommendations (see paragraph 39);

(d) International Integrated Reporting Council (IIRC) (see paragraph 40); and

(e) European Union (see paragraphs 41-42).

International Sustainability Standards Board (ISSB)

27 Most respondents commented on the recent establishment of the ISSB. However, there were mixed views about whether the Board should align with the approach of the ISSB.

28 Of those respondents that supported alignment with the ISSB's approach:

(a) many respondents commented that it would be easier to adopt the approach of the ISSB to get initial buy-in as it will likely help reduce the regulatory burden of reporting for preparers. Of these respondents, some commented that the Board should only use the ISSB's approach as a starting point and build on it to develop the most appropriate reporting to meet Australian stakeholder needs;

(b) some respondents commented that the ISSB would be leading the effort in bringing much-needed clarity to sustainability reporting; therefore, it makes the most sense to align with their approach;

(c) some respondents noted the ISSB, as part of the IFRS Foundation, is well placed to bridge the gap between sustainability and financial reporting; and

(d) a few respondents commented that, due to the complexity of existing sustainability reporting standards and frameworks, the Board would be more likely to be successful should it leverage off the work of the ISSB, which consolidates multiple sustainability reporting standards and frameworks[7].

29 However, these respondents, and many respondents that were not supportive of the ISSB's approach, also had concerns about certain aspects of their approach. In particular, these respondents had concerns about:

(a) the definition of material proposed in the prototype standard *General Requirements for the Disclosure of Sustainability-related Financial Information* (see paragraphs 31-33); and

(b) the focus on disclosures only (see paragraph 34).

[7] In November 2021, the Value Reporting Foundation (made up of the International Integrated Reporting Council and the Sustainability Accounting Standards Board) and the Climate Disclosure Standards Board announced their intent to consolidate with the IFRS Foundation.

30 Of the respondents who were not supportive of the ISSB's approach, most raised the same concerns as those outlined in paragraph 29. In addition to those concerns, these respondents also commented that they were not supportive of the ISSB's approach because:

(a) the ISSB's approach would not be fit for purpose in the long term as it doesn't hold entities accountable for their impacts on sustainable development—a few of these respondents also commented that the Board shouldn't waste resources on an approach that would not be relevant in the long term;

(b) applying such a narrow focus will increase the burden of reporting as preparers will still be obligated to meet the information needs of users of sustainability reports which go beyond the information needs of users of financial reports. For example, a few preparers highlighted that, because of their affiliation with the International Council of Mining and Metals, they will have to continue to report applying the GRI framework and standards regardless of the ISSB's approach;

(c) the ISSB will not be successful because no jurisdictions are committing to their approach despite being supportive of the direction of the ISSB; and

(d) the ISSB would be unlikely to expand or change its approach to address the information needs of multiple stakeholders, as demonstrated by the lack of ongoing involvement of the GRI in the ISSB's approach.

Definition of material

31 The proposed prototype standard *General Requirements for the Disclosure of Sustainability-related Financial Information* states that:

> *10 … Sustainability-related financial information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.*
>
> *11 Sustainability-related financial information influences those decisions if it influences users' assessments of the value, timing and certainty of the entity's future cash flows, and hence users' assessment of the entity's enterprise value.*

32 Some respondents commented that, while they support the direction of the ISSB, they were concerned about the proposed definition of material which aligns with the definition in the IFRS *Conceptual Framework for Financial Reporting*, and which was broadly developed to support the International Accounting Standards Board's standard-setting activities. Consequently, these respondents commented that the definition is not appropriate in the context of sustainability reporting because:

(a) the objective of sustainability reporting differs from that of financial reporting—that is, the objective of sustainability reporting is to measure and report on the impact of an entity's operations on sustainable development, not to measure and report information that will influence the decision-making of users of financial reports (see also paragraphs 19-20);

(b) the proposed definition is too narrow in scope as it dismisses the information needs of all other users of sustainability reports—that is, while users of sustainability reports include users of financial reports, they are not limited to those users (see also paragraphs 21-22); and

(c) in their view, the focus on financial impacts on an entity's operations will:

    (i) not result in the disclosure of information that is relevant to users of sustainability reports; and

(ii) enable entities to engage in greenwashing by allowing them to stop reporting (or not report) on their impacts on sustainable development.

33 A few respondents noted that material sustainability risks will also be material financial risks. That is, material sustainability risks will, in their view, materially affect the financial statements in the medium to long term—so, despite the narrow scope of the proposed definition, it should provide the coverage being sought for when applied.

Disclosure requirements

34 The prototype standards are predominantly focused on disclosure and provide limited authoritative guidance on measuring sustainability information. Some respondents commented that widespread consistency and comparability in sustainability reporting would not be achieved unless measurement and recognition of sustainability information were also addressed. In their view, an approach which focuses only on disclosure requirements without also providing guidance on how to prepare those disclosures will not result in the consistency and comparability which is being sought for in sustainability reporting.

Global Reporting Initiative (GRI)

35 Most respondents, in particular preparers, observed that the GRI is the dominant sustainability reporting framework applied in Australia[8], and as such, some were supportive of an approach which would see the Board align with the GRI framework and standards. These respondents also supported alignment with the GRI for the following reasons:

(a) in their view, the GRI is the most sophisticated and comprehensive framework for sustainability reporting that is well-established and has a long history, so it shouldn't be dismissed by the Board without consideration;

(b) unlike the ISSB's approach, the GRI seeks to meet the information needs of users of both sustainability and financial reports;

(c) given that GRI is the dominant sustainability reporting framework in Australia, the path of least resistance would be alignment with the GRI; and

(d) their expectation is that, in the long term, the sustainability reporting environment will align with the GRI, so it doesn't make sense to narrow the scope of sustainability reporting in the short or medium term.

36 Some respondents, in particular preparers, observed that applying the GRI framework and standards is resource intensive. However, they also commented that the outcome is a sustainability report that is relevant to the users of sustainability reports.

37 A few respondents, excluding preparers, were not supportive of the potential alignment with the GRI. In their view, the GRI's concept of double (or dynamic) materiality (which focuses on the involvement of a broad range of stakeholders in the assessment of materiality of sustainability information) is too difficult to apply.

38 A few respondents observed that an approach that predominantly aligns with the GRI has been proposed by the European Union (EU) and is expected to be finalised and applicable in 2023 (see also paragraphs 41-42).[9]

[8] See also Agenda Paper 3.6 *Preliminary academic literature review*.

[9] For more information about EU's perspective refer to Agenda Paper 3.3 *Australian and selected jurisdictional perspectives*.

Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations

39 Most respondents, including respondents to ITC 48[10], were supportive of an approach to climate reporting which aligns with the TCFD Recommendations. However, some respondents observed that because the TCFD Recommendations are not a framework or set of standards, it lacks the specificity needed to result in relevant disclosures. These respondents suggested the Board expand on the TCFD Recommendations and provide guidance on how to apply them.

International Integrated Reporting Council (IIRC)

40 A few respondents commented on the Integrated Reporting (<IR>) Framework as issued by the IIRC. While no respondents suggested the Board's approach align with the <IR> Framework, a few respondents commented that the Board should consider the 'capitals model' of the <IR> Framework[11] because, similar to the GRI, it requires engaging with stakeholders and translating an entity's operations and strategy into value for those stakeholders.[12]

European Union (EU)

41 A few respondents observed that the EU is currently undergoing a process to improve their sustainability reporting requirements and that this process is a joint project between the EU and the GRI[13]. These respondents suggested that aligning with the EU's approach may be most appropriate because:

(a) unlike the ISSB's approach, the EU's approach has considered carefully academic evidence and engaged in outreach and public consultation with a diverse range of stakeholders for whom sustainability reporting is relevant; and

(b) an approach that aligns with the EU's approach would better align with the UN Sustainable Development Goals.

42 One respondent who was not supportive of aligning with the EU's approach commented that such an approach isn't economical and will likely hinder rather than help the market.

Mandatory versus voluntary sustainability reporting requirements

43 Most respondents were supportive of developing sustainability reporting requirements for mandatory application in the for-profit sector because, in their view:

(a) the consistency and comparability of sustainability reporting cannot be achieved unless it's mandated;

(b) preparers won't voluntarily transition to a new sustainability reporting framework or set of standards unless it's mandated;

(c) sustainability reporting is being mandated in other jurisdictions so it's only a matter of time until sustainability reporting is mandated in Australia;

(d) all sustainability reporting standards and frameworks (including the guidance in the TCFD Recommendations) are already voluntary, so respondents don't want the Board

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[10] See Agenda Paper 3.5.

[11] The capitals identified by the IIRC are: financial capital, manufactured capital, intellectual capital, human capital, social and relationship capital, and natural capital.

[12] For more information about the IIRC and the <IR> Framework refer to Agenda Paper 3.2.

[13] For more information about the EU's perspective refer to Agenda Paper 3.3.

to be adding to the existing selection but instead think the Board should focus on enforcing the direction of sustainability reporting; and

(e) most voluntary disclosures tend to be biased and unregulated.

44 Some respondents acknowledged that it might not be possible to develop mandatory sustainability reporting requirements in the short term; however, they also acknowledge that the Board should make clear the expectation that sustainability reporting requirements will be mandated in the long term. In the interim, and to help support the transition to sustainability reporting, some of these respondents suggested that the Board consider an 'if not, why not' approach. Such an approach would see entities that do not meet a particular disclosure requirement explain why they have not met it.

45 A few respondents were not supportive of mandating sustainability reporting requirements for all for-profit entities. These respondents observed that small-to-medium (SME) entities already find the current financial reporting requirements burdensome. Consequently, these respondents commented that any sustainability reporting requirements should not unduly burden SME entities.

Assurance of sustainability reports

46 Most respondents commented that when the Board considers sustainability reporting, it should also consider the auditability of sustainability information. These respondents commented that the assurance or audit of sustainability reports:

(a) is critical to providing comfort to users of such reports; and

(b) will help ensure consistency of information between sustainability and financial reports.

47 Many respondents, in particular preparers, observed that limited assurance over sustainability reports already exists. However, in their experience engagements of these types are only available through the big four accounting firms. Some of these respondents were concerned by the cost of such engagements as a result of the lack of competition in the market.

48 A few respondents commented that it would be burdensome to SME entities if sustainability reports were subject to assurance or audit due to the cost of such assurance engagements.

Sustainability reporting in the not-for-profit sectors

49 While supportive of the Board expanding its scope of activities to include sustainability reporting, almost all respondents from the not-for-profit (NFP) sectors commented that sustainability reporting requirements should first be developed for the for-profit sector. A few of these respondents commented that NFP entities already find existing financial reporting requirements to be burdensome and lack the resources to engage in sustainability reporting.

50 A few respondents from the NFP sectors commented that the Board should develop sustainability reporting requirements to make them accessible to everyone, regardless of what sector an entity is in. These respondents, and some other respondents, suggested that the Board consider alternatives similar to those in the AASB Standards, such as tiered reporting when developing sustainability reporting requirements. In their view, such an approach will ensure that all entities are subject to the same rules regardless of the sector in which they operate.

51 A few respondents from the NFP sectors noted that sustainability reporting is not relevant to the sector because, for many NFP entities, sustainability is limited to whether they are financially sustainable and able to operate for the next 12-month period.

Incorporating sustainability into the accounting standards

52 Some respondents highlighted that, in addition to considering sustainability reporting, the Board should also consider updating existing requirements and guidance in the AASB Standards to help preparers of financial statements better incorporate sustainability information, such as climate information, in preparing the financial statements. For example:

(a) a few respondents commented that tax transparency could be better dealt with in the financial statements, such as by requiring entities to disclose in the notes to the financial statements how much tax is paid to foreign and domestic government taxation bodies; and

(b) a few respondents commented that it would be helpful if the Board considered updating the AASB Standards to help preparers better assess the effects of climate and other sustainability risks on long term asset and liability values.

53 A few respondents also thought the Board should consider sustainability in the context of unrecognised intangible assets (such as the value of a forest on a piece of land purchased for mineral extraction) and whether such assets should be recognised.

Other feedback

54 A few respondents commented that the Board should consider digital reporting while it considers sustainability reporting. These respondents thought that digital reporting can help bridge the gap between sustainability and financial reporting.

55 A few respondents commented that the Board should consider working with other government bodies and regulators to help incentivise preparers and make sustainability information more accessible. For example, one respondent suggested the Board work with the Australian Taxation Office to allow a temporary deduction for fees incurred in preparing sustainability reports. In their view, such an approach would enable SME and NFP entities to engage in sustainability reporting without being unduly burdened by the initial cost.

Question to Board members

Question to Board members

Q1: Do Board members have any questions about the summary of feedback received?

Appendix A: Demographic information

A1. Staff have sought feedback from more than 120 stakeholders from all sectors and industries (see Agenda Paper 5.1). So far, we received 33 responses directly related to the Sustainability Reporting project through one-to-one and group meetings from a range of stakeholders[14].

Type of respondent

Type	***Number of responses***
Academic	6
Other[15]	7
Preparer	14
User	4
Regulator	2
Total	33

Respondents by sector

Sector	***Number of responses***
For-profit	16
Not-for-profit[16]	5
Other	12
Total	33

[14] Written submissions to ITC 46 and a summary of the ITC 46 roundtable discussion (planned for 17 February 2022) will be tabled with the Board at a future meeting.

[15] Other is used to classify other types of respondents such as NFP committees or industry bodies that represent a wide range of stakeholders, and representatives from sustainability reporting bodies.

[16] Includes responses from both private and public NFP sectors.

Respondents by industry type

Industry	***Number of responses***
Academia	6
Agriculture	2
Consultancy	1
Extractives[17]	3
Insurance	2
Investors	3
Mixed[18]	9
Regulator	2
Sustainability reporting body	2
Technology	1
Transport	2
Total	33

[17] Includes both mining and oil and gas.
[18] That is, the respondent operates in more than a single industry.