



Mr Keith Kendall  
 Chair  
 Australian Accounting Standards Board  
 Level 20, 500 Collins Street  
 Melbourne VIC 3000

25 February 2022

Dear Keith

**Australian Accounting Standards Board - AASB Agenda Consultation 2022–2026 – Invitation to Comment ITC-46**

Thank you for the opportunity to comment upon the Board’s Invitation to Comment on its agenda consultation paper (ITC-46).

We write as Chair of the Australian Business Reporting Leaders Forum (BRLF) and Executive Director of the Deakin University Integrated Reporting Centre (DIRC) respectively. The Deakin University Integrated Reporting Centre provides the Secretariat for the BRLF. This is our response to the Invitation to Comment, and in particular, the questions raised.

We have not commented on all questions, instead focusing on potential project and research project matters of most importance to the DIRC and BRLF – sustainability reporting, service performance reporting in the not-for-profit sector, and digital financial reporting. We also believe that these are the three projects that are of the most importance to all stakeholders in the Australian corporate reporting system.

**1. Do you agree that the AASB should add projects on sustainability reporting, service performance reporting and digital financial reporting to the work program?**

We believe that the AASB should add projects on sustainability reporting and its connectivity to integrated reporting, service performance reporting in the not-for-profit sector, and digital financial reporting. For each of these topics we have additional comments that we would like the AASB to consider.

Our comments reflect the DIRC’s desire to see Australian corporate reporting evolve to respond to the changing information needs of the public, in a manner aligned with developments in the global corporate reporting system. Researchers at the DIRC have undertaken related research to establish an evidence-base that can be used to inform these projects, and inform our response to this consultation. We are happy to share this evidence-base with the AASB.

Sustainability Reporting

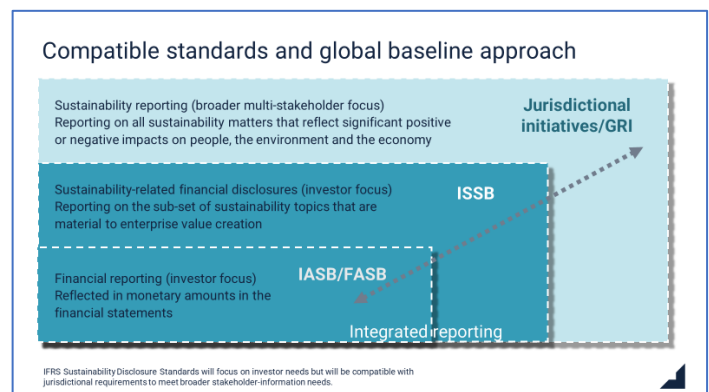
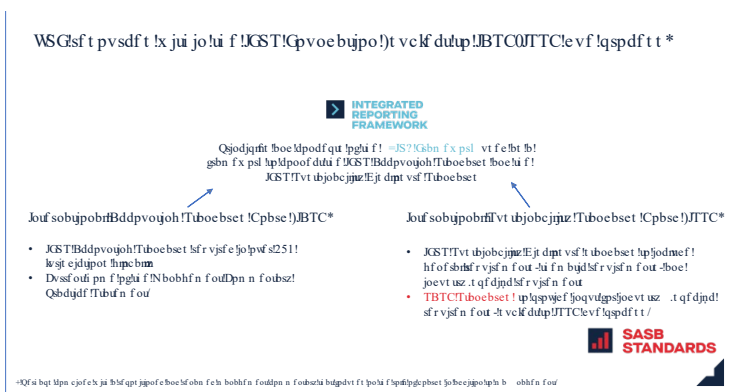
A project on sustainability reporting must be added and prioritised. The AASB’s sustainability reporting project should not be approached in a silo – it needs to be set in the context of the entire global and Australian corporate reporting system. It should address integrated reporting which provides the basis for connectivity between financial reporting standards and sustainability disclosure standards, and so the way in which the non-mandatory International Integrated Reporting <IR> Framework is used in Australia. The primary reference to the <IR> Framework is in Recommendations 4.3 and 7.4 in the Fourth Edition of the ASX Corporate Governance Principles and Recommendations.

The diagrams below have been sourced from the Value Reporting Foundation’s February 2022 pack explaining the Value Reporting Foundation’s (VRF) role in the IFRS Foundation (IFRSF) in the establishment of a global baseline to be picked up as appropriate in individual markets.

As stated in our response to ITC 48, we believe that the Financial Reporting Council should play a key role in establishing this connectivity, emulating the role of the IFRS Foundation in Australia after the VRF is consolidated into the IFRSF in the months to come. That will require close interaction with the ASX Corporate Governance Council.

The distinctive contributions of the <IR> Framework is in guiding preparers on how to describe their business – their purpose, strategy and resource allocation, governance, business model (including the process to ensure the integrity of corporate reports) and risk management - in their corporate reports, and select the metrics to measure and report the performance and prospects of their businesses:

- The first diagram shows that the <IR> Framework will sit above the IASB and ISSB, providing the basis of connectivity between IASB and ISSB Standards, and the context for reports using those Standards to determine the metrics in their corporate reports.
- The second diagram, often referred to as the ‘nested materiality diagram’, shows how integrated reporting is the foundation of both IASB and ISSB Standards



The AASB project should be set in this global context, where the strategy to be adopted by the ISSB is to be ‘climate first’, not ‘only climate’.

This response should be read in the context of our recent submission on ITC-48 on Extended External Reporting, which included recommending maximum global alignment and taking a ‘whole of system’ approach, involving both the FRC and ASX Corporate Governance Council.

In particular, we recommended that there should be an Australian equivalent of the ISSB (‘owner’ of ISSB and Australian equivalents) – a ‘third board’. We said:

“The AASB position should be applied so as to be consistent with the manner in which ISSB Standards are to be adopted in Australia, either mandatory or voluntary. If the precedent of Australian Accounting Standards is followed, which we favour, this would be by law and on a mandatory basis. If this is the case, phase in first time adoption rules will be required. Other regions (eg the EU) and countries (eg TCFD Recommendations) will be mandatory for large companies in the UK from April 2022 and New Zealand) are following a mandatory path.

We believe that a third board to sit alongside the Australian Accounting Standards Board and Australian Auditing and Assurance Standards Board under the oversight of the Financial Reporting Council – perhaps an Australian Sustainability Standards Board – should be formed as a matter of urgency.

This board can be strongly aligned with the Australian Accounting Standards Board but with its own objectives, resourcing and appropriate expertise. That expertise will focus on sustainability and integrated reporting.”

A third board would have:

- Appropriate mandate and independence from financial reporting setting;
- Objectives tailored to the role of the Australian equivalents to ISSB Standards and in the context of the whole of system approach;
- Dedicated resourcing – with no conflicts in resource allocation to financial reporting standard-setting – delivering the right expertise: business, integrated reporting, and ESG / sustainability reporting. Standard-setting expertise can best be achieved by resource sharing with the AASB.

The expertise suggested above will be required in the body analysing the outcomes of this consultation.

A critically important connectivity consideration in relation to the use of the ISSB Standards in Australia is that standards must be the basis of ‘suitable criteria’ for assurance under international Standard on Attestation Engagements ASAE 3000, ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information. We encourage the AASB to work closely with the Australian Auditing and Assurance Standards Board on assurance issues in relation to Australian equivalents of ISSB Standards.

Our research shows that the demand for sustainability information is widespread, spreading down to small to medium size enterprises (SMEs) being commonly requested to communicate information of this nature. We recommend that the AASB project be clear on which entities sustainability reporting requirements will apply to, and if guidance is developed, that consideration be made as to how this guidance can be appropriately applied to the various types of entities from which this information is currently being sought.

We make two other observations:

- Sustainability reporting needs to be embraced by the AASB’s digitisation initiative (refer below). The often-quoted work of Ocean Tomo contains research findings indicating that only 10% of market capitalisation is represented by assets recognised under IFRS. Accordingly, the maximum return on a digital reporting investment will be delivered by coverage of the Australian equivalents to ISSB Standards and well as the Australian equivalents to IASB Standards;
- We recommend that the ‘financial / non-financial’ distinction not be used. At least in the long term, all matters have a financial consequence. The question at particular reporting dates is whether those financial consequences are presently material. This is a key feature of the ‘nested materiality diagram’. We would only use that distinction if ‘financial’ is clearly defined to be matters recognised in the Australian equivalents to IFRS.

### Service Performance Reporting

We also regard an AASB project on service performance reporting as being highly important, but not as high as the sustainability reporting. This is because some of the issue is currently being addressed by the ACNC, where information is requested on the Annual Information Statement on how charities and not-for-profits are achieving their objectives.

The DIRC sees this information as being important information for charities and not-for-profits. As with sustainability reporting, this topic is aligned with broader reporting of information being demanded by report users, and consistent with alignment with the <IR> Framework. Accordingly, we concur with this project being given high importance on the basis that service performance reporting and sustainability reporting are potentially closely related projects, with their own nuances regarding alignment.

The project should be designed to learn from prior attempts at developing a standard on service performance reporting and ensure that this is undertaken in close liaison with the ACNC, again being consistent with taking a whole of system, connected approach to the Australian corporate reporting system.

There is a wealth of knowledge to be gained from the New Zealand Accounting Standards Board from the development of their standard in this area, and thus the AASB should aim to learn from those experiences, including any research undertaken on the implementation of this standard.

Also, another learning point from the New Zealand experience was the importance of working closely with the Auditing and Assurance Standards Board.

Much research has been done in Australia, and it is important to learn from this.

#### Digital Financial Reporting

Consistent with our responses above regarding taking a whole-of-system approach and system connectivity, we believe that there should be an AASB project on digital **corporate** reporting, not only digital **financial** reporting.

Just as the world has moved on from a financial reporting-only corporate reporting system model, so must digital reporting cover not just financial reporting, nor sustainability reporting (refer comments on Ocean Tomo research above).

We are not saying that the digital corporate reporting project should cover only XBRL, but it does provide a useful focus for the discussion. The AASB may find the attached publication about automated corporate reporting to be of some assistance.

Just as the Australian equivalents to IFRS would provide an appropriate underlying taxonomy for digital financial reporting, the Australian equivalents to ISSB Standards will provide an appropriate underlying taxonomy for digital sustainability reporting.

Our work on integrated reporting for SMEs has identified a demand for digital reporting information even from the SME sector, but the form of information demanded, mainly through either supply chain or financial capital provider requests for broader information, is currently very disjointed, and any structure, and automation, would be very beneficial.

As we analyse various corporate reports to assess report quality, we are very constrained by the format of the reporting, and the inability to compare across reports. This depletes our ability to provide a most beneficial evidence base from research in Australia.

Prioritisation of these three projects

We would assign the following priorities to these projects:

- Sustainability reporting – Highest priority
- Digital corporate reporting – Medium-High priority
- Service performance reporting in the not-for-profit sector – Medium-High priority

Further, if total resourcing available would only be sufficient for sustainability reporting, then it should all be allocated to that project. Hence our rating of this project as highest priority.

Available further resources should be allocated equally between digital corporate reporting and service performance reporting in the not-for-profit sector. Hence our rating of these projects as medium-high priority.

**2. Do you agree that the AASB should add research projects on sustainability reporting, service performance reporting and digital financial reporting to the work program?**

There is a lot of research available on these projects, and experiences from other standard-setters. This research should first be evaluated for its ability to inform the objectives of the AASB, and identify knowledge gaps. Research projects on sustainability reporting, service performance reporting and digital financial reporting to address these knowledge gaps should be added to the work program.

Should you require further information, we can be contacted at the below e-mail addresses.

Yours faithfully



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**About the Deakin Integrated Reporting Centre**

The purpose of the Deakin Integrated Reporting Centre is to promote the adoption of integrated reporting in Australia and internationally and support research, thought leadership and education in integrated reporting, with the aim that the Centre be recognised by the profession, business community, government and academic institutions as an international leader in this field.

**About the Australian Business Reporting Leaders Forum**

The purpose of the Australian Business Reporting Leaders Forum is to drive positive reform in Australian business reporting. It is a discussion forum on topical issues for providing education, ascertaining points of view, making submissions on relevant matters and advocating for change in Australian business reporting - to better inform both the capital markets and broader stakeholders on an organisation's performance and future prospects.