

28 January 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007
AUSTRALIA

Via website: www.aasb.gov.au/current-projects/open-for-comment

Dear Keith

Invitation to Comment 48: Extended External Reporting

As representatives of over 300,000 professional accountants in Australia, New Zealand and around the world, CPA Australia and Chartered Accountant Australia and New Zealand (CA ANZ) welcome the opportunity to provide feedback on the above Invitation to Comment ("the ITC") that sets out the AASB's position on Extended External Reporting (EER) ("the position statement").

Below we set out our general comments. The **Attachment** to this letter contains our responses to the specific questions raised in the ITC.

General comments

As a starting point, we note the structure that the International Financial Reporting Standards (IFRS) Foundation has adopted for the formation of the International Sustainability Standards Board (ISSB). The ISSB has been formed by virtue of a change to the IFRS Foundation's Constitution, and it sits alongside the International Accounting Standards Board (IASB). It is our view that this not only ensures the impartiality of the ISSB but ensures that expertise and resources are allocated appropriately.

We agree that, as a first step, the AASB would be best placed to act in a caretaker capacity for considering an appropriate local structure and dedicated interpretation of the envisaged international sustainability standards for the Australian landscape. However, in the medium to longer-term we recommend that the Financial Reporting Council (FRC) considers mirroring the international structure adopted by the IFRS Foundation and establish a separate Australian Sustainability Standards Board. Australia has typically been a taker of international standards and this structure would best enable the domestic issuance of sustainability standards, whether voluntary or mandatory.

There are multiple considerations for the Australian corporate reporting environment of incorporating sustainability standards. For example, the skills and capabilities needed for the FRC and AASB members, and from a governance perspective we recommend the current skills matrix is updated to reflect these needs.

Additionally, we note the wording of both the *Corporations Act 2001*¹ and the *Australian Securities and Investments Commission (ASIC) Act 2001*² currently only refers to accounting standards, they do not explicitly cover sustainability standards. Therefore, amendments will be needed to the legal framework within which the AASB operates.

In our opinion, the EER position statement put forward in the ITC lacks clarity for the reader in terms of the distinction between EER, sustainability reporting and climate-related disclosures. The position statement proposes the use of the Taskforce on Climate-related Financial Disclosures (TCFD) recommendations as the baseline for sustainability-related considerations. The TCFD recommendations were drafted specifically for climate-related financial disclosures and as such would not readily apply to broader EER requirements, although we appreciate they will represent the basis for ISSB sustainability standards. To the extent that the position statement is intended to cover EER, we recommend that it is amended to clearly articulate EER, sustainability reporting as a subset of this, linking to the ISSB developments and further the TCFD recommendations as the specific basis for climate-related disclosures.

Alternatively, if the position statement is intended to provide an immediate position on climate-related disclosures for Australian entities, we recommend that the title and other references to EER are amended accordingly to appropriately align to this intent.

In addition to this, we recommend the position statement clearly establish where such disclosures (EER, sustainability and climate) should be made (or where they should reasonably be expected to be made) by an entity. For example, the TCFD recommendations contemplate disclosures made in an entity's annual filings, and this may crossover with the obligation on Australian listed entities to prepare an operating and financial review (section 299A of the *Corporations Act 2001*). However, the location of disclosures as it pertains to the existing Australian reporting landscape remains unclear.

If you require further information or elaboration on the views expressed in this letter please contact Karen McWilliams, CA ANZ at Karen.McWilliams@charteredaccountantsanz.com or Patrick Viljoen, CPA Australia at patrick.viljoen@cpaaustralia.com.au.

Yours sincerely

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¹*Australian Securities and Investments Commission (ASIC) Act 2001*. Sections 224(a), (aa)(i), 225(1)(a), (1)(e), (2)(e), (2)(f), (2)(g), (2)(h)(i), 227(1)(a) and (1)(b).

²*Corporations Act 2001*. Sections 5, 9, 227(4) and 334.

Attachment

Question 1 – Do you agree with the need for the AASB to adopt an immediate position, or should the AASB continue not to adopt a position until a wider international consensus has been identified?

We agree with the need for the AASB to adopt an immediate position to signal to companies the implications of the international developments on corporate reporting within Australia. In particular, we support the AASB adopting a position on climate-related disclosures aligned with the TCFD recommendations as we consider wide international consensus has been established in this space. However, it is critical for the AASB to appropriately scope its position.

As noted in the cover letter, as a first step the AASB would be best placed to act in a caretaker capacity for considering an appropriate local structure and dedicated interpretation of the envisaged international sustainability standards for the Australian landscape. The caveat however being that in the medium to longer-term we recommend the FRC consider mirroring the international structure adopted by the IFRS Foundation and establish an Australian Sustainability Standards Board.

It is our opinion that the value provided to stakeholders through sustainability-related disclosures, commencing with climate-related disclosures, should be viewed holistically within the broader reporting requirements for preparers. This would avoid a situation where preparers would approach the drafting of reporting in a piecemeal fashion, applying various frameworks for different parts of their EER. Accordingly, it will be critical for the AASB to clarify the location of climate-related disclosures, aligning with the 2019 emerging risks bulletin.

Question 2 – Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?

We recommend a voluntary approach be taken to EER more broadly and specifically to climate. This sends a clear signal of intent, whilst not pre-empting the medium to longer-term considerations. In this regard, we note that ASIC has also put forward the recommendations of the TCFD as its preferred baseline for climate-related considerations. It is therefore prudent and logical to ensure alignment in the messaging to the market between the AASB and ASIC, albeit with respect to sustainability-related disclosures as is contemplated by the ITC.

Question 3 – Assuming that an immediate position is adopted and regardless of whether the position is adopted on a voluntary or mandatory basis, do you agree that the recommendations of the TCFD provide an appropriate framework for this position?

We agree the TCFD recommendations provide an appropriate foundation for the specific requirements of climate-related disclosures (noting that they do not constitute a framework). It is therefore important to avoid extrapolating the recommendations to cover broader EER requirements, as they are not intended for this purpose.

We also note the use of the TCFD recommendations as a baseline by the External Reporting Board (XRB) in developing a mandatory set of climate-related standards in New Zealand, notably the New Zealand Climate Standard 1 (NZ CS1).

Further afield we also note the TCFD being the preferred foundation for climate-related considerations in several key international jurisdictions. These include the United Kingdom³, Canada⁴ and the European Union⁵.

Encouraging the adoption of the TCFD recommendations by Australian companies represents an appropriate intermediary step prior to the future potential domestic issuance of the ISSB's climate disclosure standard or the development of an equivalent domestic standard.

³https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933782/FINAL_TCFD_REPORT.pdf

⁴<https://www.ircscanada.ca/en/consultation-paper>

⁵[https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01))