Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VICTORIA 8007

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AASB Invitation To Comment 48 Extended External Reporting

Dear Dr Kendall

Ernst & Young is pleased to comment on the above Invitation To Comment. We welcome the opportunity to contribute to the future of financial reporting in Australia.

Since the International Sustainability Standards Board (ISSB) is still in the process of developing an ISSB standard based on Task Force on Climate-related Financial Disclosures (TCFD) framework, we agree with adopting the TCFD framework. We recommend an 'if not, why not?' disclosure approach in applying the TCFD framework, and would expect sufficient time be given for preparing the disclosures.

Please refer to our detailed responses on the above and other questions raised in the Invitation to Comment in the appendix to this letter.

We would be pleased to discuss our comments further with either yourself or members of your staff. If you wish to do so, please contact Frank Palmer on (02) 8295 6264 or Li-Peng Lim on (02) 9248 5399.

Yours sincerely

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Appendix

Background

Our working world is undergoing significant shifts. Investors, regulators and — more broadly — society are increasingly demanding greater transparency around both the financial and nonfinancial performance of organisations to assess their true long-term value.

EY's Climate Change and Sustainability Services (CCaSS) practice helps clients strategise for long-term value by understanding and evaluating nonfinancial outcomes and impacts (including climate change), identifying risks and opportunities, and supporting the reporting of nonfinancial performance disclosures to their stakeholders. EY is a member of the Task Force on Climate-related Financial Disclosures (TCFD) and issues regular Climate Risk Barometer publications which monitor the progress of reporting against the TCFD recommendations at a global and regional level. These publications have highlighted small incremental improvements in climate risk disclosures since the launch of the TCFD but also show a significant gap between the full set of recommended disclosures and current practice.

Given our role in helping clients respond to climate change risks and the development of reporting frameworks such as the TCFD recommendations, we welcome the opportunity to make this submission on the draft Position Statement proposed to be adopted by the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

Responses to specific questions for comment

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 the TCFD framework. Adopting this position will align Australia to comparable jurisdictions, but we expect a reasonable timeline be given for preparers to develop and implement the disclosures.

   EY is a long-standing advocate for the effective identification, management and disclosure of climate change risks and impacts.

   Strong governance, effective risk management, forward-looking scenario analysis and transparent, usable disclosures are the bedrock of managing the systemic and financial risks presented by climate change. Achieving this requires companies, financial institutions, intermediaries, regulators and professional services and advisory firms to play their part.

   EY welcomes the work that AASB has undertaken in recent years to steadily grow capability and expertise in understanding and managing the financial risks of climate change.

   The international consensus in relation to climate-related disclosures is already extensive. Regulatory frameworks for climate change risk management and disclosure are emerging across a range of jurisdictions. This includes the mandating of climate-related disclosures in line with the TCFD framework, which is gaining momentum. Countries and regions, including New Zealand, UK, EU, Hong Kong, Switzerland and Brazil, have already made public commitments to support the framework.

In addition, future IFRS Sustainability Disclosure Standards to be issued by the ISSB will build on the TCFD framework supported by the International Organization of Securities Commissions (IOSCO) and bring greater robustness to climate-related disclosures.

There remain significant challenges that need to be addressed. Some of these include the availability of data, asymmetry of information, lack of analytical capability, the development of tools and frameworks for the harmonisation of definitional frameworks to better inform comparative risk analysis, and the complete and timely disclosure of material information to inform intelligent risk-based decision making.

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

EY recommends an 'if not, why not?' approach. That is, if a company were to not provide disclosures then it should explain the reasons.

In June 2021, the Investor Group on Climate Change (IGCC), CDP and the UN Principles for Responsible Investment (PRI) jointly issued *Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia*. The plan notes that current voluntary climate reporting in Australia is insufficient and calls for clear mandatory signals from regulators. The plan also sets out a roadmap for companies to improve their reporting practices by 2024.

In September 2020, New Zealand was the first jurisdiction to make climate risk reporting mandatory for publicly listed companies and large financial institutions. The UK Government followed suit in November 2020 and announced mandatory climate risk reporting aligned with TCFD guidelines for premium listed companies on a "comply or explain" basis, for accounting periods beginning on or after 1 January 2021. In June 2021 G7 Summit, the remaining G7 advanced economies are now also committed to rolling out mandatory climate-related financial disclosures for companies in the near future.

EY acknowledges the emerging support from individual institutions for mandatory TCFD disclosure, and Recommendation 11 from the Australian Sustainable Finance (ASFI) Roadmap to shift TCFD reporting to a 'if not, why not?' approach. The ASFI Roadmap is supported by most large financial institutions in Australia. This is consistent with the increase in mandatory disclosure requirements in key markets such as New Zealand and the UK and allows for alignment in a phased-in approach.

EY also recommends the AASB considers the application of the position, for example whether disclosures are to be applicable for Tier 1 companies only.

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?**

EY supports the TCFD as an appropriate framework for climate risk.

EY recommends that the AASB continues to contribute to the ISSB process for greater guidance that will enable improved consistency and transparency for investors making decisions.

EY's annual Climate Risk Disclosure Barometer assesses disclosures of more than 1,100 companies across 42 countries. EY's 2021 Global Climate Risk Barometer noted that while many organisations perform well in relation to coverage of the TCFD Recommendations, few companies rate highly in relation to the quality of their disclosures. The data indicates that while more companies are indeed reporting on climate-related risks and opportunities, they may be doing so as a "tick box" exercise. In addition, relatively few had made quantitative climate-related disclosures within their financial statements.