

24 January 2022

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

Dear Dr Kendall

ITC 48 – Extended External Reporting

Thank you for an opportunity to comment on the Australian Accounting Standards Board's (**AASB**) proposal to publicise a Position Statement on Extended External Reporting.

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of more than 47,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

In summary, the AICD has no objection to the AASB issuing the position statement set out at Appendix A of the 'Request for Comments'.

Sustainability standards in Australia

As you will have noted from previous submissions to the AASB, the AICD supports the decision of the IFRS Foundation to establish an International Sustainability Standards Board (**ISSB**) and to release non-financial reporting standards. We also believe that those standards should then be introduced into Australia to apply to Australian based entities. However, in our view, the decision whether to introduce ISSB standards is ultimately a policy decision for the Australian government.

Should the Australian government decide it wishes to introduce ISSB standards, we note that some important jurisdictional issues arise as to how those standards should be implemented in Australia. In our view, the Australian government and potentially the Federal Parliament will need to determine whether existing standard setting bodies are best placed to make those standards or whether responsibility should be assigned to a new body.

TCFD framework

The AICD also supports the recommendations of the Task Force on Climate-related Financial Disclosures (**TCFD**) framework. We supported the introduction of APRA's [Prudential Practice Guide 229 Climate Change Financial Risks](#) which essentially applies the TCFD's recommendations to APRA regulated entities. We regularly provide information and education to AICD members on the framework and its implications. Our recently released [Climate Risk Governance](#) guide, encourages boards to consider reporting and disclosure in line with TCFD recommendations.

Implementation of the TCFD's recommendations requires stress testing and scenario analysis against a range of possible climate outcomes. For some entities this may be a complex exercise involving detailed economic modelling. For others, it will be a more qualitative and judgment-based process to help them consider how climate change may impact on 'business as usual', and to sense check their strategy across the range of potential risks. It is for this reason that the AICD, through the [Climate Governance Initiative](#), is looking to provide additional assistance and guidance to boards seeking to oversight stress testing and scenario analysis. In our view, any calls for entities to implement TCFD recommendations should note that entities use of scenario analysis and stress testing should be proportionate to their size, sector, business risk and exposure to risk.¹

Specific Questions

Having provided that background, we set out our responses to your specific questions below:

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?

While we are not clear on the need for the AASB to adopt an immediate position we have no objection to the AASB adopting the position outlined at Appendix A, subject to our suggested wording below. We believe there is sufficient international consensus in support of the TCFD framework and its recommendations, including from the AICD.

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

In our very strong view, the position should be applied only on a voluntary basis. We believe the decision to mandate TCFD recommendations is a policy decision for Government, as has been the case in jurisdictions such as New Zealand and the UK. We question whether it is within the AASB's jurisdiction to require entities to adopt the recommendations of the TCFD, noting that it is not an accounting standard or even a reporting framework.

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 do not believe that a position should (or can) be applied on a mandatory basis. If the position is applied on a voluntary basis (as set out in Appendix A) then we agree that the recommendations of the TCFD provide an appropriate framework for this position. We agree with the reasoning provided in the paper and note our support of the TCFD framework.

We suggest the following additional wording be added to the Position Statement (new words underlined):

The AASB emphasises that any reporting on EER matters is to be completely voluntary and nothing in this Position Statement is to be taken as mandating, encouraging or recommending that any EER be undertaken at this time.

¹ Note similar wording in APRA's Prudential Practice Guide CPG 229 Climate Change Financial Risks at paragraph 38.

Implementation of the TCFD's recommendations requires stress testing and scenario analysis against a range of possible climate outcomes. For some entities this may be a complex exercise involving detailed economic modelling. For others, it will be a more qualitative and intuitive process to help the entity consider how climate change may impact on 'business as usual', and to sense check its strategy across the range of potential risks. An entity's use of scenario analysis and stress testing should be proportionate to its size, sector, business risk and exposure to risk.

Next steps

We hope our response will be of assistance. If you would like to discuss any aspects further, please contact David McElrea at dmcelrea@aicd.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

Louise Petschler GAICD

General Manager, Advocacy