ITC48 sub 1

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Professor of Accounting
Durham University Business School, UK and
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Keith Kendall
Chair, Australian Accounting Standards Board

10 January 2022

Dear Keith

Comment letter on the draft Position Statement on Extended External Reporting (EER)

I appreciate the opportunity to provide feedback on the draft Position Statement proposed by the Australia Accounting Standards Board (AASB) relating to Extended External Reporting (EER). I have been following developments and evidence provided to the various bodies developing recommendations and Standards relating to extended, narrative and sustainability reporting over the last 25 years. Over that time sustainability and narrative reporting has improved globally in quantity and quality due to regulation, Stock Exchange requirements, increasing take up of the GRI Standards, TCFD recommendations and the broader influence of the International <IR> Framework[2]. The regulatory developments in the European Union are perhaps the most advanced and are informed by broad stakeholder engagement and research.

Statements not supported by evidence

There are some points made in the draft where evidence is lacking or contradictory. For example:

1. The draft Position Statement states (p 6): "All stakeholder feedback that the AASB has received to date is that the TCFD is the most commonly applied framework for EER in Australia." This is contrary to readily available evidence (see below). Further, I was one of the stakeholders providing input (through a conversation of approximately an hour with three AASB staff members), input that contradicted this statement.
2. The draft Position Statement further states (p 6): "there is significant stakeholder demand for the AASB to provide some form of guidance for those preparers wanting to take immediate reporting action". This stated demand is provided as a reason for not following 'normal due process' (by way of making the AASB's position voluntary

[1] My background relevant to this submission is here.
[2] See https://www.carrotsandsticks.net/, A4S (2021) and KPMG, (2020)

only). The AASB could simply set out the facts regarding current use of reporting frameworks (see below) and advise companies to adopt one or more (if they haven't already). Many reporters use more than one of the available frameworks because any one does not serve all their reporting needs. The ISSB Standards are some way off and are aimed at reporting to investors. GRI Standards allow companies to report to a wide range of stakeholders.

Evidence of use of reporting frameworks in Australia

Regarding frameworks used in Australia, the GRI Standards were found to be the most commonly used by the ASX100 (KPMG 2020a) and by the ASX300 (First Advisors).

In November 2020 KPMG reported[3] that 58% of Australia's top 100 companies were 'following' (according to them presumably) the TCFD recommendations, yet only 20% of ASX 100 companies use scenario analysis to model the impacts of climate change on their business. It is a TCFD recommendation to disclose such information. In other words, the TCFD recommendations are applied selectively – not all recommendations are followed. Many companies that 'follow' TCFD report their greenhouse gas emissions and processes (which are required by GRI Standards and by NGERS) with limited information on risks and scenario analysis. Similarly, academic studies have similarly found low disclosure even by large, high impact global companies on key elements of TCFD recommendations, particularly where they go beyond requirements in GRI Standards (see for example Abhayawansa and Adams, 2021 and Baboukardos, Dionysiou, Slack, Tsalavoutas and Soligkas, 2021).

In December 2020 KPMG (2020a) released their Australian supplement to their Global Sustainability Reporting Survey (KPMG 2020a) reporting that 66% of ASX100 companies report using GRI Standards, up from 42% in 2017. The GRI Standards are also the most used globally (KPMG 2020b). When it comes to the ASX300, First Advisors reported in October 2020 that 60% use GRI, followed by TCFD (40%), UNGC (37%) and SASB (7%)[4].

Also worth noting, is that 67% of the ASX 100 companies seek to connect their activities to the SDGs (KPMG 2020a), but there is a considerable amount of 'rainbow washing' in these endeavours. (Adams, 2017, 2020; Adams et al 2020; GRI, UNGC and WBCSD, 2015 are intended to guide companies in this process.)

The conversation I had with AASB staff covered the key sustainable development issues that negatively impact the Australian economy, society and environment. Climate change is clearly one. Others include water, biodiversity, rights of indigenous people, modern slavery, equality, diversity and inclusion and food security. The reporting pattern of Australian companies perhaps recognises that these matters are of interest to their stakeholders and impact on their business. Indeed, globally, a significant body of research indicates that this is the case.

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[3] See https://home.kpmg/au/en/home/media/press-releases/2020/11/asx100-companies-ahead-of-global-firms-in-acknowledging-climate-risks-20-november-2020.html

[4] See https://www.firstadvisers.com.au/esg-reporting-among-the-asx300/

Reponses to your consultation questions

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?*

   An immediate position of intention to increase mandatory reporting on sustainable development issues (including, but not limited to climate change) that impact on the Australian economy, its people and its environment would be welcomed by many parts of society (see, for example the responses to the Australian Senate Inquiry on the SDGs and Abhayawansa, Adams and Neesham, 2021). This would increase voluntary reporting on a broad range of issues, using a number of frameworks, and improve the quality of reporting, in preparation for mandatory reporting.

   An immediate position to recommend only one current framework, covering one issue of relevance to the Australian economy, society and environment would be a backward step.

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

   There is a substantial amount of academic research indicating that where reporting is voluntary, it is incomplete and misleading, particularly with regard to negative impacts and risks. This research was referenced in submissions by academic responses to the IFRS Foundation's consultation paper on sustainability reporting[5]. Voluntary reporting guidelines can give the impression of accountability when in fact key matters are not disclosed or disclosed in an incomplete and misleading manner. The KPMG evidence noted above with regard to reporting on elements of the TCFD recommendations demonstrates this. A statement of intention to make mandatory by a specified date, reporting on a broad range of sustainable development issues (including, but not limited to, reporting on risks and scenario analysis as in the TCFD recommendations) would increase reporting on a broad range of issues. It would avoid discouraging those companies in the majority of ASX 100 companies currently reporting on key sustainable development issues using GRI Standards from continuing to do so. This would be detrimental to those companies with a loss of stakeholder trust resulting from a lower level of accountability on matters that are material to the economy, society and the environment. The GRI materiality process and indicators also alert companies to issues of importance to investors.

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?*

   The AASB's statement that the TCFD recommendations are the most used is contrary to the evidence referenced above.

[5] See for example the references here.

As noted above research evidence is clear that in the absence of mandatory reporting, reporting is misleading and the quality poor (see, for example, Herbohn, Clarkson and Wallis with respect to climate change reporting). I do not believe the TCFD recommendations should be recommended or mandated to the exclusion of disclosures on other pressing sustainable development issues relevant to Australia. An immediate alternative to mandating the TCFD recommendations would be to expand the scope of disclosures required under the NGERS scheme[6] and the organisations to which they apply. Continued consultation on planetary boundaries and broader sustainable development issues relevant to Australia would be valuable.

Further, the TCFD conceptual framework is not suitable for broader sustainable development issues. Given corporate interest in Australia and globally in demonstrating how activities link to sustainable development and the SDGs, this is something the AASB should consider. The Sustainable Development Goals Disclosure (SDGD) Recommendations (Adams et al, 2020) had to adapt the TCFD conceptualisation, following written consultation and expert input, to fit broader sustainable development issues drawing on the approaches in the GRI Standards and the International Integrated Reporting Framework. This is explained in Adams (2020) which also summarises the consultation feedback. The metrics in the GRI Standards are the most appropriate for this purpose. There is a need for companies to set targets that are aligned to achieving sustainable development.

I look forward to seeing further pronouncements that are informed by evidence and that will lead to mandatory reporting aligned with the achievement of sustainable development.

References and additional relevant material

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[6] http://www.cleanenergyregulator.gov.au/NGER/

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Response to Invitation to Comment

ITC 46 AASB Agenda Consultation 2022–2026

Michael Vardon, Associate Professor, Environmental Accounting, Fenner School of Environment and Society, Australian National University, Canberra ACT michael.vardon@anu.edu.au

General comment

Extended External Reporting (EER) is an important issue nationally and internationally. The multiple competing EER reporting frameworks is causing confusion for corporations, existing or potential investors in corporations, regulators, and consumers.

The recognition of the need for EER Standards, and pathway to set those standards, and a de facto interim EER Standard via the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) provides a degree of certainty for the accounting profession and should increase the amount of trust of those using EER for decision making.

The demand for EER Standards is immediate and the accounting profession, the bodies setting accounting and enforcing standards, the institutions (e.g., universities) providing accounting education, are playing catch-up. Without EER Standards the accounting profession risks continuing confusion, a proliferation of multiple reporting frameworks, an inability to compare the performance of different enterprises and risks loss of confidence in the profession.

The international standardisation of the System of Environmental-Economic Accounting (SEEA) via a United Nations process provides an example of how EER-like Standards can be developed and adopted, first as interim standards (or "experimental" in the SEEA terminology). A key part of this process was the involvement of non-accounting professions.

Answer to questions

Q1. 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?

The AASB should adopt an immediate position on EER Standards as outlined in Appendix A of the document provided for comment. The caveats are appropriate, and the text provides an indication of the current situation with regard to the number of existing frameworks and the development of ERR Standards.

Q2. Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?

Application of the EER Standard should be voluntary. However, there should be a compulsorily disclose statement. Those choosing not to voluntary adopt the TCFD recommendations must disclose this and may provide reasons for non-adoption (e.g., use of another EER framework). This is a clear signal that mandatory EER Standards will eventually be set.

Q3. 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?

The use of TCFD is appropriate as an interim EER Standard. However, climate change is not the only environmental-related financial risk and the development of full and mandatory EER Standards must consider these risks in the final EER Standards. Developing standards for the reporting of environmental and social impacts of corporations is a related task and could proceed in unison.

The development of final EER Standards will require the involvement non-accounting professionals in the identification of all environmental risks and the way should be understood, measured and reported, as is implied in "Key areas of Future Work" (p.32 TFCD). It is noted that the Members of the Task Fork of TCFD (pp. 44-45) did not include climate change experts, although they were consulted (p. 46). Including climate change experts, and environmental and sustainability experts more generally, should be a part of the development of EER Standards. The decision not to establish a separate body for developing sustainability reporting standards as stated in the [Draft] Position Statement on Extended External Reporting Framework (Appendix B of the consultation document) should be reconsidered, especially in light of the establishment of the International Sustainability Standards Board by the IFRS.

Australian Government

Australian Charities and Not-for-profits Commission

21 January 2022

Australian Accounting Standards Board

Our reference: ACNCSUB2022/1

ACNC submission – ITC48 Extended External Reporting

The Australian Charities and Not-for-profits Commission (**ACNC**) welcomes the Australian Accounting Standards Board's (**AASB**) Invitation to Comment on the draft Position Statement relating to Extended External Reporting (**ITC 48**).

About the ACNC and the charity sector

1. The ACNC is the federal charities regulator with the following statutory objects – to:

    a. maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector;
    b. support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector; and
    c. promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

2. The ACNC is careful to balance each of these objects and has considered them in responding to ITC 48.

3. The ACNC regulates over 59,000 charities in Australia which are a sub-sector of the Not-for-profit (NFP) sector. It is with regard to the impact of the proposed change on the charities subsector within which we frame our response.

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?

4. The ACNC has not identified an urgent need for this type of reporting for charities at this time.

5. We would suggest that the uncertainties in the area of EER referred in ITC 48 are likely to be even greater in the case of charities, as noted below, our view is that more research is needed on the subject of EER disclosure information needs for not-for-profit entity stakeholders.

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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?

6. Taking into account the ACNC Act's third object, to promote the reduction of unnecessary regulatory obligations on the sector, our view is that any position must be applied on a voluntary basis, given that there is no identified urgent need for charities, and because ITC 48 notes the level of uncertainty about what form such reporting will ultimately take. This means that the AASB's position may subsequently change.

7. Many charities, particularly smaller charities, do not currently undertake reporting of this type and to mandate it could add significant cost and administrative burden for these charities, potentially diverting charity resources away from core activities. At this stage, it is unclear whether such reporting by charities would be of sufficient interest to charity stakeholders such that the benefits of this reporting would outweigh the costs.

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?

8. The Task Force on Climate-related Financial Disclosures (**TFCD**) recommendations appear to focus on the risks that climate change poses to businesses and financial markets, with the information needs of investors of particular interest. Charities generally do not have investors and climate change could affect charities in quite different ways to for-profit organisations, noting that the charity sector is very diverse.

9. The TCFD does not appear to be directly relevant to charities. Our view is that further research and consultation with the sector is needed on the question of Extended External Reporting charity stakeholder information needs.

Next steps

10. If you have queries about this submission, please contact our Reporting Team at reporting@acnc.gov.au.

The Hon Dr Gary Johns
Commissioner
Australian Charities and Not-for-profits Commission

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24 January 2022

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

Louise Petschler GAICD
General Manager, Advocacy

National Australia Bank Limited
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28 January 2022

Australian Accounting Standards Board
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Dear Sir/Madam

AASB INVITATION TO COMMENT: ITC 48 *EXTENDED EXTERNAL REPORTING*

Thank you for the opportunity to comment on ITC 48 *Extended External Reporting*. We are supportive of improved reporting and disclosures, and already include the Task Force on Climate-related Financial Disclosures (TCFD) recommendations within our external reporting.

Our comments on your specific consultation questions are included below:

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 anticipate that international developments in climate reporting will occur within a relatively short timeframe. The worldwide focus on climate change, as demonstrated at COP26, together with the formation of the International Sustainability Standards Board (ISSB) supports this view. We note that a Climate-related Disclosures Prototype has already been released, and that this will be considered by the ISSB.

As a result, we are of the view that the AASB should continue to provide input / feedback through the structures already in place, and wait until wider international consensus has been identified, rather than adopt an immediate position in this regard.

The compliance effort and costs to comply with any framework, even where this is on a voluntary basis, are significant, and we are of the view that limited benefit will be obtained from the AASB recommending / requiring compliance with a specific framework until such wider international consensus has been reached.

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 currently apply the recommendations of the TCFD within NAB's external reporting on a voluntary basis, having been formal supporters of the TCFD's recommendations since October 2017.

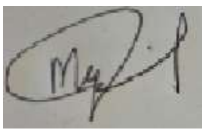
Any extended external reporting should continue to be presented on a voluntary basis until wider international consensus has been reached. Then the AASB can consider how that might best be implemented in an Australian context, giving specific regard to achieving international consistency to reduce potential reporting burden from differing requirements.

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?**

As mentioned above, we are supporters of the TCFD's recommendations and currently apply the recommendations within NAB's external reporting. We consider that the TCFD recommendations provide an appropriate framework for extended external reporting.

As detailed in Question 1, we consider that the AASB should not adopt a position until wider international consensus has been reached.

Sincerely



Marc Smit

Head of Group Accounting Policy & Assurance

INSTITUTE OF PUBLIC ACCOUNTANTS

27 January 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
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Dear Dr Kendall

Invitation to Comment (ITC) 48 *Extended External Reporting*

Thank you for the opportunity to comment on ITC 48 *Extended External Reporting*.

Extended External Reporting (EER) is an increasingly important and fast evolving area that stakeholders are seeking guidance. This is evident with International Financial Reporting Standards Foundation's establishment of the International Sustainability Standards Board (ISSB) in November 2021. Such developments reinforce IPA's view that EER is an area in which the Australian accounting profession, including the Australian Accounting Standards Board (AASB), has an important role. However, the role and nature of guidance and/or requirements to be developed by the AASB need to meet the stakeholders' current and future needs and have regards to due process. As such, IPA commends the AASB's efforts in addressing constituents' requests for immediate action with the issue of "[draft] Position Statement on Extended External Reporting Framework" (in Appendix A). The AASB's support of the voluntary adoption of the recommendations made by the Taskforce on Climate-related Financial Disclosures (TCFD) in the draft Position Statement provides a way forward in addressing the immediate needs of stakeholders, and affording the AASB the time to develop a formal position and framework for EER that accords with the AASB's standard-setting process.

Whilst IPA agrees with the AASB's preliminary support for the TCFD, the TCFD deals with financial risks of climate and therefore represents a limited perspective of the broader sustainability reporting. IPA encourages the AASB, when developing its final position and pronouncement on the EER framework, to consider other risks, such as biodiversity loss and reporting on other aspects of sustainability, such as human rights and labour issues, and anti-corruption/ethical business conduct.

Furthermore, EER affects a wide cross section of stakeholders such as, users, preparers, auditors, accounting and auditing bodies, and regulators. Consequently, IPA recommends the AASB outline the timeframe for the likely issuance of definitive guidance and/or requirements for EER. The indicative timeframe would assist stakeholders in their plans for implementing the impending EER framework.

Our response to the specific questions in the draft Position Statement are in Attachment 1.

If you have any queries with respect to our comments or require further information, please contact me at vicki.stylianou@publicaccountants.org.au or on mobile 0419 942 733.

Yours sincerely

Vicki Sylianou
Group Executive, Advocacy & Policy
Institute of Public Accountants

About the IPA

The IPA is one of the professional accounting bodies in Australia with over 47,000 members and students across 80 countries. Approximately three-quarters of our members either work in or are advisers to the small business and SME sectors. Since merging with the Institute of Financial Accountants UK, the IPA Group has become the largest SME and SMP focused accounting body in the world.

ATTACHMENT 1 – IPA's response to specific questions to ITC 48

Question 1 – Adopting a position
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 consensus has been identified?

IPA supports the AASB adopting an immediate position on EER, as it addresses the immediate needs of stakeholders in an increasingly important and fast evolving area.

EER is an area that affects a wide cross section of stakeholders such as, users, preparers, auditors, accounting and auditing bodies and regulators. Consequently, these stakeholders' inputs are crucial in developing the nature of the guidance and/or requirements to be issued by the AASB. The AASB will also need to consider international developments, such as those of the International Sustainability Standards Board, to ensure that the AASB's final position on EER meet the stakeholders' current and future needs. To achieve all of this requires time. The AASB's immediate position on EER would afford the AASB time to develop a formal position and framework for EER that accords with the AASB's standard-setting process, including those outlined in Position Statement 1 "FRC/AASB/AUASB Position Statement on Extended External Reporting and Assurance" (in Appendix B).

However, to provide stakeholders with more certainty and time to prepare for the impending EER framework, IPA recommends the AASB outline, as soon as practicable, the timeframe for the likely issuance of definitive guidance and/or requirements for EER.

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

IPA agrees with the AASB's preliminary position to support the voluntary adoption of the recommendations in the Taskforce on Climate-related Financial Disclosures (TCFD). This is a prudent approach, given the AASB is at the early stages of considering the structure, scope and nature of guidance and/or requirements to be developed for EER. To mandate any requirements, without following the AASB's due process for standard setting are likely not to meet the stakeholders' needs in the longer term and be costly to the stakeholders in the event that the AASB changes its position. Additionally, given the pace of developments domestically and internationally (in particular the ISSB), the AASB acknowledged in the draft Position Statement (in Appendix A) that "Stakeholders…must be aware of the potential for a significant shift in direction at an indeterminate future time." Therefore, the sensible preliminary position by the AASB would have to be on a voluntary basis.

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 the recommendations of the TCFD is appropriate framework for this position?

IPA agrees with the AASB's preliminary support for the TCFD framework as a means to addressing the immediate needs of stakeholders. Given there are several frameworks currently available for use, the AASB's support for TCFD provides some clarity to stakeholders in the short term. It is also a pragmatic approach, as the TCFD is the framework that is:

- Most commonly applied in Australia by stakeholders including regulators and market participants
- Used by the External Reporting Board to develop legislated mandated climate standards in New Zealand and
- Being used by the ISSB as a starting point in developing a standard on climate disclosures, as the TCFD framework maps how preparers should disclose the possible financial impacts of climate change and contains the four core elements of climate disclosure of governance, strategy, risk management, and metrics and targets.

However, as stated in our covering letter, the TCFD deals with financial risks of climate and therefore represents a limited perspective of the broader sustainability reporting. We also note the AASB's Position Statement 1 (in Appendix B) states that AASB's initial focus on EER is on sustainability reporting.

According to KPMG's *Sustainability Reporting Survey 2020*[1], 67% of the Australian Stock Exchange (ASX) 100 companies link their business activities to the Sustainable Development Goals (SDGs) and 66% use the Global Reporting Initiative (GRI) global standards for reporting, while 58% of the ASX 100 companies also include TCFD disclosures.[2,] These statistics indicate Australian entities take a wider view of sustainable development and not simply measuring and disclosing climate risk.

Furthermore, as an example, the GRI has over 30 standards, covering areas such as anti-corruption, energy, waste, customer privacy, diversity and equal opportunity, along with guidance on making climate risk disclosures (guided by the TCFD Framework).

IPA encourages the AASB, when developing its final position on the EER framework, to consider other frameworks and risks (such as biodiversity loss and reporting on other aspects of sustainability, human rights and labour issues, and anti-corruption/ethical business conduct) that are beyond climate disclosures. Consideration of the areas such as those contained in GRI standards would ensure the AASB's final position and pronouncement on EER is comprehensive, meets constituents' needs and reflects domestic and international sentiments on EER.

1 *Sustainability Reporting Survey 2020* https://home.kpmg/au/en/home/insights/2020/11/sustainability-reporting-survey-2020.html

2 *Towards Net Zero: International and Australian climate risk reporting.* https://home.kpmg/au/en/home/insights/2020/11/climate-risk-reporting-towards-net-zero.html

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15 December 2021

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ITC 48 Extended External Reporting

I welcome this opportunity to make a submission and would like to comment both generally as well as the specific questions.

General Comment

The development of general purpose financial reporting has been guided for the last 60 years by what we now refer to as conceptual frameworks. This is currently provided by the Conceptual Framework for Financial Reporting, and the concepts underpinning this can be traced to Accounting Research Study No.1, The Basic Postulates of Accounting by Moonitz published in 1961, and Accounting Research Study No. 3, A Tentative Set of Broad Accounting Principles for Business Enterprises by Sprouse and Moonitz published in 1962 by the AICPA. These frameworks identify the objective(s) of financial reporting, the user(s) of financial reports and how the information in financial reports is used. Importantly, this provides guidance on the scope and content of financial reports. It also provides a discipling mechanism on standard setters and it has contributed to the quality of general purpose financial reports.

Unfortunately, it does not seem that these issues have not been properly addressed in relation to Extended External Reporting. There are numerous consequences of not understanding who the users of the information are and how the information is used, including:

1. Whether reporting should be focused solely on carbon emissions or environmental impacts more generally (i.e., scope). The significance of this is highlighted by the impacts it would have on evaluation of the replacement of thermal coal as an energy source by coal seam gas (i.e., assuming a decision making focus). The former would simply require consideration of the volume of carbon emissions whereas the latter would require that consideration be extended to chemicals used in the process of extracting coal seam gas. While focusing on carbon emissions might be considered simplifying it is subject to unintended consequences such as those that saw diesel cars getting preference due to lower carbon emissions but ignoring other emissions.
2. Consideration of whether recognition should be given to the activities of the reporting entity or whether consideration extended to the wider implication of the business (i.e., suppliers and customers. This issue is analogous to how recognition is made in financial reporting to the costs of property plant and equipment. Recently a motor car racing business announced it was going carbon neutral by planting 20,000 trees. This

might cover the carbon emissions relating to fuel used but it totally ignores carbon emissions arising the manufacture of the cars and components. Is narrowly presenting the 'immediate' carbon emissions of the operations of the entity presenting relevant and reliable information for evaluation of the environmental impacts of the business? While this is a simple question in this context, it could equally be asked of airlines and every other businesses. Finally, failure to address this appropriately will create incentives for reporting entities to structure their business operations to minimize reported emissions, without regard to emissions by other entities in their supply chain, potentially in other jurisdictions.

3. Is extended external reporting intended to be complementary to financial reporting and does this require articulation into financial reports? This would likely be necessary to fully understand the implications for future financial performance and be relevant to investment decision making. Most obviously, environment impacts might be disclosed as liabilities or contingent liabilities and failure to do this creates the risk that disclosures simply become 'political statements'. The importance of this is perhaps highlighted by papers considering the value relevance of environmental disclosures. Of particular interest is Clarkson et al. (2004) which suggests that environmental disclosures generally are relevant, but this is qualified by Clarkson et al. (2013) who find the relevance is limited to environmental disclosures that have economic consequences (i.e., those above the levels permitted by regulation and for which financial penalties are imposed). This later result might be characterized by investors being more like economists that environmentalists.
4. If extended external reporting is intended to facilitate aggregation of environmental impacts by government it is unlikely that this falls within the bounds of general purpose reporting. As such it is best undertaken by the relevant government agencies.

In summary without a proper framework it is difficult to understand how the AASB can endorse any specific framework for extended external reporting. This should not be interpreted as saying that extended external reporting should not be addressed by the AASB in the future, rather that it should be undertaken in a systematic manner and not an ad hoc basis. At this point in time the AASB should direct the majority of its resources to developing a framework to guide the development of extended external reporting. If what is recommended is solely the result of a political process it will surely fail.

However, as an interim measure consideration could be given to the identification of specific disclosures that might be considered relevant (i.e., listing without narrative). Such disclosures might be made electronically through a structured data file and users would be able to extract information that they consider relevant. Such a standardized approach would avoid issues with disclosures being inconsistent / variable and industry specific. Furthermore, this would provide:

1. Empirical evidence that would potentially support the development of a framework for extended external reporting (i.e., who the users of the information are and how is the information to be used); and
2. An appreciation of how users access information which would be relevant to the consideration of future directions in digital financial reporting.

Specific Comments

1. For the reasons identified above generally it is considered appropriate for the AASB to develop a framework to guide extended external financial reporting. However, until this is in place it is premature to adopt a position on specific guidance.
2. If the AASB does not endorse specific guidance this is redundant.
3. The TCFD is at best ‘ad hoc’ and the product of a political process. It is difficult to understand how these disclosures might systematically / meaningfully impact investors decision making. Rather it provides scope for management commentary and forward looking information and claims for which there are few constraints to ensure integrity in the reporting process. Selective disclosure and / or misstatement is likely. Hence it should not be endorsed.

I would like to conclude by saying that I believe that it is appropriate that the boundaries of reporting be extended, and this is potentially disclosing information relevant for determining the future prospects of firms. However, if this is to be realized it must be developed on a solid foundation.

Yours faithfully

Peter Wells

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DEAKIN UNIVERSITY

BRLF
Business Reporting Leaders Forum

Mr Keith Kendall
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24 January 2022

Dear Keith

Australian Accounting Standards Board - Extended External Reporting – Invitation to Comment ITC-48

Thank you for the opportunity to comment upon the Board's Invitation to Comment on its Extended External Reporting proposal (ITC-48).

We write as Chair of the Australian Business Reporting Leaders Forum (BRLF) and Executive Director of the Deakin University Integrated Reporting Centre and 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.

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?

Response

The AASB should adopt an immediate position. In our view, that position should immediately strongly recommend that companies apply the TCFD Recommendations in 2022.

In addition, that immediate position should strongly encourage companies to in relation to their 2022 reporting to start working with:

- *the existing prototype climate disclosure and general reporting requirements standards prepared by the Technical Readiness Working Group of the IFRS Foundation*
- *the ISSB exposure drafts if available in time for their 2022 reporting*

to put their 2022 TCFD disclosures into a broader business context. This should be followed by a mandate for application of the final ISSB Standards in 2023.

Reasoning

Australia should aim for its corporate reporting system to be a 'mirror image' of the global system. This strategy proved successful 20 years ago when the IFRS Foundation and IASB were formed, and IFRS developed and adopted. Australia was able to have an influence globally, with a focus on international standards being adoptable in Australia with minimal modification.

Wide international consensus has already been achieved. Australia should act now to be as aligned in substance and form as far as possible with the international position. The Chair of the ISSB has been appointed, with the two vice-chairs likely to be announced prior to 31 January 2022. The other members of the Board are expected to be announced in February, with the first meeting in April.

It is expected that the exposure drafts of the climate disclosure and general requirements standards will be based on the prototypes produced by the Technical Readiness Working Group of the IFRS Foundation and closely resemble them; and quite likely that final standards will be issued in the final quarter of

2022. Accordingly, Australian companies will be faced with adoption choices at 30 June 2022 and 30 June 2023, either as first-time adoption or early adoption.

48% of Australian Top 200 listed entities were already adopting the TCFD Recommendations at 30 June 2021[1] and most of the remainder are likely to do so as a natural market progression with investors such as State Street flagging action if integrated management and disclosure in relation to climate risks is not evident[2]. Critical mass in TCFD adoption has already been achieved.

Many Australian companies have now embraced the concepts of integrated reporting and some such as AGL have demonstrated that integrated reporting lends itself to reporting under the TCFD Recommendations within the strategic business context of an integrated report. The <IR> Framework is one of the reporting approaches taken into account in producing the abovementioned prototypes.

Further, Recommendation 7.4 of the ASX Corporate Governance Principles and Recommendations already makes a recommendation in relation to disclosure of all environmental and social risks, including climate risks:

> "A listed entity should disclose whether it has any material exposure to environmental or social risks and. If it does, how it manages or intends to manage those risks."

The commentary for Recommendation 7.4 includes:

> "One particular source of environmental risk relates to climate change."
>
> "The Council would recommend entities to consider whether they have a material exposure to climate change risk by reference to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD') and, if they do, to consider making the disclosures recommended by the TCFD."

Recommendation 7.4 also allows companies to comply with Recommendation 7.4, which all environmental and social risks including climate change, within the business context of an Operating and Financial Review in the Directors Report, or an integrated report, prepared in accordance or with reference to the International Integrated Reporting <IR> Framework.

Complying with our recommendation should not be unduly burdensome given that many companies are already adopting the TCFD Recommendations on a voluntary basis and / or in relation to Recommendation 7.4. Further, a recommendation to consider voluntary adoption of TCFD Recommendations will be obsolete and out of step with international developments before it is issued, even if that is immediately. Hence our strong recommendation to use the exposure drafts / prototypes in 2022, which would be consistent with the approach being taken in a number of other countries.

It is essential that Australia acts immediately, both at the system level and also at the level of what is likely to be required or suggested of Australian companies. This needs to go beyond suggesting that Australian companies consider the voluntary adoption of the TCFD Recommendations.

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[1] KPMG report ASX200 Corporate Reporting Trends - 2021

[2] Refer The Australian, 'Green targets: State Street puts ASX 200 boards on notice', 17 January 2022: "While 60 companies in the ASX200 have adopted a framework disclosing climate risks, there is concern from investors about the range of different approaches, leading to vast inconsistencies. Most climate disclosures in the Task Force on Climate-Related Financial Disclosure are not being integrated into financial statements and few companies are crunching 1.5-degree Paris target scenarios, suggesting many corporates may be failing to adequately stress-test their businesses for climate change."

Finally, IRC-48 talks about the AASB and AUASB 'developing an Extended External Reporting Framework for Australia'. We assume that this refers to the framework or system within which reporting standards and guidance are developed in Australia, and not an intention to replicate or parallel the <IR> Framework, which we would disagree with.

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

Response *Reporting under the TCFD Recommendations should be mandatory in 2022. Reporting under the prototypes / exposure drafts should be strongly encouraged for 2022. Reporting under the ISSB Standards should be mandated for 2023.*

Reasoning

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.

We stress integrated reporting as the IFRS Foundation will 'own' the <IR> Framework as the umbrella conceptual framework for all corporate reporting after the Value Reporting Foundation is consolidated into the IFRS Foundation, which is scheduled to be completed before 30 June 2022. It will be important for the Australian corporate reporting system, including its oversight and standard-setting, to have strong integrated reporting expertise:

- through the FRC overseeing the application of the <IR> Framework in Australia in alignment with the IFRS Foundation's governance of the Framework globally; and
- implemented through the ASX Corporate Governance Principles and Recommendations, building on the existing Recommendation 4.3[3].

Finally, there needs to be strong connectivity between all components of the Australian corporate reporting system, including the FRC, AASB and ASX Corporate Governance Principles and Recommendations. For instance, it would be appropriate for the AASB position to recognise Recommendations 4.3 and 7.4 and note that they drive best practices in corporate governance.

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[3] "A listed entity should disclose its process to verify the integrity of any periodic report it releases to the market that is not audited or reviewed by an external auditor", supported by commentary and definitions. The glossary defines a periodic corporate report to include directors' reports (including operating and financial reviews), integrated reports as defined in the <IR> Framework and sustainability reports. Through its footnote, the commentary states that the principles of integrated reporting as set out in the <IR> Framework can be used in preparing operating and financial reviews.

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?

Response *The recommendations of the TCFD provide an appropriate framework for our recommended mandatory position for 2022. However, the TCFD Recommendations will be implemented as a natural consequence of adopting the prototypes / exposure drafts / ISSB Standards, within a stronger business context and so be of greater utility to investors. Hence our strong recommendation for their adoption in 2022, transitioning to the final ISSB Standards in 2023.*

Reasoning

While we agree that the recommendations of the TCFD provide an appropriate framework for 2022, in the longer run, we do not agree that the recommendations of the TCFD provide an appropriate framework for this position in isolation of other broader reporting changes that are being demanded. This is not to criticise the TCFD Recommendations. On the contrary, the Recommendations are tried and tested.

However, the global corporate reporting system has moved beyond 'TCFD-only'. The TCFD Recommendations are one of the resources which have been an input to the development of the prototype climate reporting and general reporting requirements standards, along with the <IR> Framework, industry-specific SASB Standards, CDSB Standards and the WEF Recommendations.

It is clear that an Australian company following the prototypes will also be following the TCFD Recommendations but with the advantage of:

- resultant disclosures being within the whole-of-business-centric context of an integrated report
- Australian companies preparing to be ready for reporting under the Australian equivalents of ISSB Standards which are likely to be in operation for 2023 corporate reporting
- the resulting reports providing the basis of suitable criteria for assurance.

Australia must move in parallel with, and have a similar system to, the global system as it relates to <IR> Framework oversight, corporate governance over corporate reporting, and standard setting - now.

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

Yours faithfully

John Stanhope
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Peter Carey
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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.

The Australian Accounting Standards Board
via submission portal: www.aasb.gov.au/current-projects/open-for-comment

27 January 2022

Extended External Reporting

We welcome the opportunity to provide comments on the draft Position Statement[1] proposed to be adopted by the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

Recent international developments

We strongly support the establishment of the International Sustainability Standards Board (ISSB). This Board will allow for the creation of globally aligned non-financial reporting standards that will provide the foundation for consistent and global Environmental, Social and Governance (ESG) reporting, enabling companies to transparently report on ESG factors affecting their business. We also support a "building blocks" approach with the ISSB standards forming a comprehensive global baseline of sustainability disclosures.

Appetite for additional non-financial disclosures

The current reporting framework provides the opportunity for listed entities to outline information that shareholders or unit holders would reasonably require to assess an entity's operations, financial position, and business strategies and prospects for future financial years. This information is included as part of the Operating and Financial Review (OFR) and can include, for example, information around how climate change might influence asset values and therefore impairment.

We acknowledge that there is a strong appetite for Australian reporting entities to provide comprehensive additional disclosures over and above these existing operational and financial reporting requirements. We see this appetite growing rapidly, as market forces, stakeholder demands and governments place pressure on entities to disclose more relevant and consistent non-financial information. Overall, we welcome the move toward comprehensive reporting and believe priority should be given by policy makers and standards setters to ensure Australia quickly responds to this growing appetite. Further, we believe that as the framework is developed in response to this appetite, we would like to see consideration given to a very wide range of non-financial metrics, including well publicised areas such as the environment and sustainability, but also critical areas such as *cyber*.

[1] https://www.aasb.gov.au/media/a3yn1thj/jointaasb_auasb_frc_policypositionstatement-11-21.pdf

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Adopting a systematic approach to Extended External Reporting in Australia

In our view, Australia does not currently have the legal or standard setting framework in place to develop, implement and enforce reporting obligations beyond the existing requirements. To develop these overarching frameworks, a comprehensive consultation should occur around what is the most appropriate standard setting body, along with determining what enabling legislation is required.

The standard setting body, be it new or existing (or the reshaping of a current body such as the AASB), should take on the role of contributing to the development of globally accepted sustainability standards by the ISSB, and have the legal authority to endorse their adoption in Australia as well as developing any additional local guidance and requirements. This body would need to have a membership of suitably qualified persons across the areas of environmental, societal and governance. We believe the Financial Reporting Council would be best placed to facilitate this consultation, taking into account a broad range of views including that of the Australian Institute of Company Directors (AICD), Governance Institute, G100, the Australian Public Policy Committee, ESG experts and existing standard setters.

In the interim, Australian reporting entities should follow the guidance from current regulators and standard setters, as well as leaning on existing reporting frameworks, most notably the adoption of the recommendations put forward by the Taskforce on Climate-related Financial Disclosures (TCFD). We expect the vast majority of Australian reporting entities will want to do this, not only to appease stakeholder demands, but to ensure like-for-like reporting on non-financial report measures becomes a common feature of the reporting landscape.

Responding to the AASB proposal: As an initial step, there should be a voluntary adoption of the recommendations put forward by the Taskforce on Climate-related Financial Disclosures (TCFD) for EER.

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 believe the AASB should encourage reporters to use the TCFD as the framework to follow as they seek to report broader information than currently required by accounting standards. We consider it premature for the AASB to be mandating requirements in advance of the ISSB proposals being finalised, and ultimately the AASB may not be the body with legal authority to issue standards.

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 acknowledge that there are many in the investment community who would like to see an immediate move to the mandatory adoption of a number of ESG non-financial metrics to allow for a baseline of comparable metrics across Australian entities. This is understandable, and ultimately the end goal for any EER framework. However, as outlined above, we consider it premature to establish a mandatory reporting regime.

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?**

Yes. The voluntary take up in Australia, as well as the mandatory adoption in internationally comparable jurisdictions such as the UK and NZ, is heavily weighted toward the TCFD framework, making it the most pragmatic framework for Australian entities to adopt on a voluntary basis until the ISSB has developed its framework.

Should you need any further information, please feel free to contact me on the number below or Benjamin Carr on 0419 165 080.

Yours sincerely,

MGraham

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28 January 2022

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Australian Accounting Standards Board
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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.

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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.

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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 Kingdom[3], Canada[4] and the European Union[5].

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.

[3]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933782/FINAL_TCFD_REPORT.pdf
[4]https://www.ircsscanada.ca/en/consultation-paper
[5]https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52019XC0620(01)

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Dr Keith Kendall
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28 January 2022

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

Ernst + Young

Ernst & Young

Building a better
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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.

Building a better working world

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.

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Our ref Submission - ITC 48

Contact Paulech, Zuzana (+61 2 9335 7329)

28 January 2022

Dear Dr Kendall

Invitation to Comment (ITC) 48 - Extended External Reporting

We are pleased to have the opportunity to comment on ITC 48 – *Extended External Reporting*.

We strongly support the adoption of the Taskforce on Climate-related Financial Disclosures (TCFD) framework by all entities when disclosing the impacts of climate-related risks and opportunities. This framework is endorsed globally and by all Australian regulators.

We believe the TCFD recommendations should be adopted immediately by entities on a voluntary basis, and urge the AASB and Financial Reporting Council (FRC) to start the due process required to make climate-related reporting mandatory as soon as practicable, with the objective of future alignment to the ISSB equivalent standard. We consider this position would strongly align with investor expectations as well as the regulatory position being adopted by other jurisdictions across the globe. We are of the view that entities adopting the TCFD framework for their climate-related disclosures in the interim will be well-placed when the new ISSB standards are finalised, and entities need to comply with them.

We support the FRC position in developing an Extended External Reporting regime within Australia, and urge the AASB to ensure they are resourced with the relevant skillsets and expertise for its expanded remit. We will expand on this further in our submission on ITC 46 – *AASB Agenda Consultation 2022-2026*, where the subject has greater context.

We have set out our detailed comments on the specific questions in the ITC in the Appendix to this letter.

We would be pleased to discuss our comments with members of the AASB or its staff. If you wish to do so, please contact Julie Locke on (02) 6248 1190, or myself on (02) 9335 7329.

Yours sincerely

Zuzana Paulech
Partner

Appendix 1

Question 1 – Adopting a position: 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 strongly agree that the AASB should adopt an immediate position. The demand for consistent, comparable and transparent disclosures of the impacts of climate change by investors and other stakeholders is high. Jurisdictions around the world are adopting positions, and given the current consensus emerging from the announcement of the International Sustainability Standards Board (ISSB) and the prototypes released on the subject, adopting a position now is appropriate.

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

We believe that the position should be applied immediately by entities on a voluntary basis and urge the AASB and FRC to start the due process required to make climate-related reporting mandatory as soon as practicable.

The expectation of mandatory application in the future would align with the growing investor and stakeholder expectations as well as the regulatory position being adopted by other jurisdictions across the globe.

Question 3 – Selecting an appropriate 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 is the appropriate framework for this position?

We agree that the recommendations of the TCFD is the appropriate framework for climate-related disclosures in the interim until the ISSB finalise their standard on the same topic. The TCFD recommendations are uniformly supported, both internationally and locally by regulators, and at this time are considered to represent the source for best practice disclosures with a significant portion of the ASX50 (and smaller portion of ASX200) utilising or referring to aspects to the TCFD framework to guide their climate-related disclosures[1].

It is widely accepted that entities adopting the TCFD framework for climate-related disclosures will be well-placed when the new ISSB standards are finalised, and entities need to comply with them.

[1] See KPMG Report: ASX200 corporate reporting trends – 2021

With the objective of maximising comparability, the endorsement of the TCFD framework should be undertaken by the AASB with the stated objective of future alignment of climate-related disclosures to the ISSB equivalent standard. Entities should then also be encouraged to adopt the other elements of the ISSB climate-related disclosure standard as it is developed, prior to finalisation.

We note that while the TCFD covers climate-related disclosures, it does not cover all EER disclosure matters. We therefore caution using language that conveys the message that EER equals climate-related financial reporting. We believe that the Integrated Reporting Framework is an appropriate base framework for broader EER on enterprise value creation.

January 2022

GRI response to the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

Reponses to the consultation questions

Dear members of the AASB,
We would like to commend you for this initiative, and for welcoming public feedback and stakeholder engagement during the process. Please find enclosed the GRI response to the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

We look forward to hearing how this initiative progresses. Needless to say, that GRI remains available to provide any input or expertise you may need regarding the next iteration of this initiative, and we hope to continue our conversations with AASB the broader field of sustainability reporting. We look forward to further discussing our feedback, and the ideas proposed in this consultation.

Your Sincerely,

Q1. 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?

The question whether or not to adopt an 'immediate position' depends not only on where the AASB would like to position itself with respect to sustainability reporting, but most of all on a clear understanding what that international consensus will look like.

There are currently two complementary developments in the sustainability reporting landscape which the AASB should consider as part of their decision making:

1. European Sustainability Reporting Standards (ESRS) are being created by the European Union– with the European Financial Reporting Advisory Group (EFRAG) and GRI leading co-construction efforts.
2. Standards for the disclosure of sustainability-related financial information are being drafted by the International Financial Reporting Standards (IFRS) Foundation – with which the newly established International Sustainability Standards Board (ISSB) is charged.

The main differences between them are:

1. First, the European Union is focused on developing reporting standards that reflect the multi-stakeholder information needs on the full sustainability spectrum across socio-economic and environmental aspects. The exclusive remit of the standards developed by IFRS Foundation is on the needs of investors and the financial impact of sustainability issues on the reporting entity itself, focusing on enterprise value creation. The ISSB is about what is commonly known as

'financial materiality'[1] and the ESRS is about 'double materiality'.[2]

2. The second major difference is enforcement. The EU standards are backed by a political process and enforcement capabilities, making reporting mandatory for some 50'000 companies from financial year 2023.[3] The IFRS standards are voluntary and can only encourage uptake of ISSB standards.

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[1] https://www.ifrs.org/groups/international-sustainability-standards-board/issb-frequently-asked-questions/

[2] https://www.efrag.org/Assets/Download?assetUrl=%2Fsites%2Fwebpublishing%2FSiteAssets%2FEFRAG%2520PTF-NFRS_MAIN_REPORT.pdf

[3] The proposal will extend the scope of sustainability reporting requirements to all large companies, whether they are listed or not meeting 2 out of 3 criteria: Revenues > EUR 40 million, Total assets > EUR 20 million and > 250 employees. See: https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/corporate-sustainability-reporting_en

GRI is a firm believer and supporter of the creation of a **comprehensive corporate reporting system** based on a **two-pillar structure** - for financial and sustainability reporting - with a core set of common disclosures, each pillar on an equal footing and mandated.[4]

- **Pillar 1** - addressing financial considerations through a strengthened financial report which includes sustainability disclosures, in the context of enterprise value.
- **Pillar 2** - concentrating on sustainability reporting focusing on all external impacts a company is having on society and the environment and hence their contributions towards the goal of sustainable development.

GRI believes both sustainability reporting initiatives should not be regarded as competing but complementary to (strengthened) financial reporting. GRI is fully committed to supporting this objective and will cooperate with the ISSB, EFRAG and other (inter) governmental organizations to drive sustainability disclosure in a two-pillar reporting structure forward providing the sustainability reporting pillar.

Under the European Sustainability Reporting Standards (ESRS) Australian companies that have (parts of) the supply chain or value chain in the EU will also need to prepare to report on this information – due to the inclusion of value chain requirements. If the AASB wants to limit the reporting burden for Australian companies supplying EU companies adopting or aligning with EU standards is advisable. In order to prepare for this, a first good step for the AASB would be to adopting or aligning the GRI Standards as GRI is involved in the EU process, as co-constructor of the ESRS.

With the global trend towards the two-pillar approach, the need for taking an immediate position by the AASB becomes 'less urgent'. We call on the AASB to publicly endorse the two-pillar approach including the double materiality principle. The future of corporate reporting landscape will be made up both by strengthened financial reporting (pillar 1) as well as sustainability reporting (pillar 2). Not in the least because stakeholders, including investors, have made it apparent that a sole focus on financial impact and enterprise value creation alone will not explain an organization's efforts on behalf of climate and society. Besides, sustainability issues have (in)direct effects on the capabilities and opportunities to create value in the future. Providing this perspective is precisely what the GRI Standards have been valued for 25 years: allowing organizations to identify, prioritize and be transparent on its impacts on the economy, environment, and people.

GRI is at the heart of global convergence relating to standards for the reporting of impacts of an organization on climate and society. It provides the basis for development of current and future reporting standards and through its sound framework for listed companies to develop standards that will be in line with the eventual IFRS Standards. Reporting using the GRI Standards will prepare the local companies and create a global baseline for both reporting according to IFRS and EU requirements.

Q2. Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?

The need for standardized, comparable information of good quality to enhance decision making by shareholders and stakeholders – in a way that avoids standard and framework shopping, cherry picking, and greenwashing – is bigger than ever. The AASB correctly mentions there is a "significant stakeholder demand for the AASB to provide some form of guidance for those preparers wanting to take immediate reporting action." GRI has and will always be a strong advocate of mandatory reporting, preferably combined with external assurance requirements. Voluntary standards can merely give the 'impression' of accountability. The AASB can however also give more guidance by providing more clarity and combat the

[4] https://www.globalreporting.org/about-gri/news-center/the-gri-perspective-why-informing-all-stakeholders-is-good-for-business/

spread of misinformation around the sustainability reporting landscape. The AASB could simply set out the facts regarding current use of reporting standards and frameworks and advise companies to adopt one or more. Something that most reporters already do, by conducting their sustainability report based on more than one single standard or frameworks because using only one does not serve all their reporting needs.[5]

Reporters and user of reporters are sometimes confused in the myriad of guidelines, frameworks, surveys, and certifications that deal with the topic of sustainability. The current reporting landscape is often incorrectly referred to as an 'alphabet soup', when it comes to actual standard setters there are only two reporting standards: GRI and SASB. With TCFD providing a framework for climate related financial disclosure but is not a reporting standard as such. The GRI Standards – being the oldest and most widely used standards – are used by most organizations as the baseplate foundations upon which they build their sustainability reporting topped off with other standard, framework ,or principle requirements. As will be elaborated on the next question, research on adoption of sustainability standards, frameworks and principles shows that the GRI Standards are the most widely adopted reporting mechanism for sustainability purposes by Australian companies.

At GRI we have therefore also made connections between the GRI Standards and other frameworks and initiatives, providing linkage documents to ensure that reporting through the GRI Standards is as straightforward as possible while helping to fulfill needs for transparency and sustainability disclosures for organizations.[6]

Q3. 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?

At GRI we believe that the recommendations of the TCFD framework provide an insufficient basis for extended External Reporting; as a matter of fact the TCFD is not a comprehensive set reporting standards rather a set of principles (see also the report from the Corporate Reporting Dialogue). An immediate position to recommend only one current framework, covering one issue – being climate - would be a backward step. The main reason is that the needs of the Australian economy, its people and its environment go beyond climate metrics alone.

The AASB's draft Position Statement that "all stakeholder feedback that the AASB has received to date is that the TCFD is the most commonly applied framework for EER in Australia" is contrary to evidence. With over 10,000 reporting organizations, covering more than 100 countries and 73% of the world's 250 largest companies: the GRI Standards are the most widely adopted sustainability reporting standards in the world[7], but also in Australia. The Australian supplement of the 2020 KPMG Global Sustainability Reporting Survey mentions that 66% of ASX100 companies report using GRI Standards, up from 42% in 2017.8 This is confirmed by the 2020 research from First Advisors that 60% of the ASX100 companies use GRI, followed by TCFD (40%), UNGC (37%) and SASB (7%).[9]

Not only external data shows a significant interest in the GRI Standards, GRI's internal data shows that in 2021, there were a total of 16.878 downloads of the GRI Standards from Australia. Most users download a package of all the Standards but many also search for topic specific standards. The top-5 individually downloaded Topic Standards over 2021 were:

- GRI 403: Occupational Health and Safety 2018 (875 downloads)

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[5] https://www.globalreporting.org/about-gri/news-%20center/gri-and-sasb-reporting-complement-each-other/

[6] For a full overview see: https://www.globalreporting.org/how-to-use-the-gri-standards/global-alignment/

[7] https://assets.kpmg/content/dam/kpmg/xx/pdf/2020/11/the-time-has-come.pdf

[8] https://assets.kpmg/content/dam/kpmg/au/pdf/2020/sustainability-reporting-survey-2020-au-supplement.pdf

[9] https://www.firstadvisers.com.au/esg-reporting-among-the-asx300/

- GRI 306: Waste 2020 (852)
- GRI 305: Emissions 2016 (570)
- GRI 201: Economic Performance 2016 (478)
- GRI 303: Water and Effluents 2018 (382)

These numbers do not just show the wide uptake of GRI Standards in Australia, but more importantly they proof that Australian companies have decided that they need to report on broader sustainability issues than climate alone; a need which cannot be addressed by the TCFD framework. For many Australian companies and industries, it goes that they are not all impacted by environmental issues to the same extent, with many organizations facing relatively more pressure on social and governance issues. Mandating the TCFD framework would leave out all social and governance issues and most other environmental components, thereby limiting the ability of these companies to show their true impact on sustainable development.

The S in ESG often gets overlooked with much of the public and investors focusing on climate and the environment. This notable, since in Australia the public focus on social issues is strong with the incidents around Juukan Gorge, the first reports under the Modern Slavery Act, the First Nations peoples' rights and of course COVID-19.

These are social topics that the TCFD conceptual framework does not cover making it thereby not suitable for corporate reporting under these broader sustainable development issues. The GRI Standards offer a strong coverage on social issues that can help companies inform on their decision making on topics such as Employment, Labor relations, Diversity & Equal Opportunity, Health & Safety, and Local communities and Indigenous people. Thereby allowing organizations to identify and prioritize its impacts on the economy, environment, and people and assessing their significance which varies according to its specific circumstances.

If the AASB is truly committed in developing reporting requirements that will allow companies and stakeholders to encompass the full spectrum of sustainable development on the Australian economy, the environment and people, these are things the AASB should consider.

PO Box 1411
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31 January 2022

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
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Dear Keith

Invitation to Comment 48 — Extended External Reporting

I am pleased to make this submission on ITC48.

I have over 30 years' experience in accounting advisory functions of large accounting and auditing firms across a wide range of clients, industries and issues in the for-profit, not-for-profit, private, and public sectors. My clients across the business and government environments have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, commonwealth, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises).

Specific matters for comment

Question 1 – Adopting a position

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?

I agree with the AASB adopting an immediate formal position. The AASB has already been involved in projects on Extended External Reporting through the IFRS Management Commentary, and the Service Performance Reporting projects.

Question 2 – Voluntary or mandatory?

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

Any positions should be voluntary, until the project has gone through a due process to determine otherwise.

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 is the appropriate framework for this position?

No, I do not agree with adopting the TCFD recommendations.

One of the issues affecting sustainability reporting has been the plethora of standards, and the associated 'alphabet soup'.

While the AASB refers to TCFD being the most commonly applied framework for EER in Australia (source not identified), TCFD is not the dominant framework. Others believe that 'The Global Reporting Initiative (GRI) currently sets the most widely-adopted standards in this area' (being a slightly different focus).

> The measure of success: Five key things the IFRS Foundation's International Sustainability Standards Board needs to have real impact
> https://www.accountingforsustainability.org/en/knowledge-hub/blogs/ifrs-international-sustainability-standard-board-issb-reporting-five-key-things.html

It is likely that the IFRS Trustees / ISSB issued prototype standards, with standards expected to be finalised within 12 months, is likely to change preferences of users and preparers. I note that not all the main players agree with the prototype standards. In particular, GRI believes that its standards are wider.

> Moves to expand disclosure for financial markets are welcome
> https://www.globalreporting.org/about-gri/news-center/moves-to-expand-disclosure-for-financial-markets-are-welcome/
>
> Main players (CDP, CDSB, GRI, IIRC and SASB) sourced from - Statement of Intent to Work Together Towards Comprehensive Corporate Reporting - Summary of alignment discussions among leading sustainability and integrated reporting organisations CDP, CDSB, GRI, IIRC and SASB, September 2020

The AASB also fails to acknowledge that reporters preparing under TCFD commonly use other frameworks. For example, the UK FRC Financial Reporting Lab in:

October 2021

found that of the TCFD reporters identified, a significant number were preparing under multiple frameworks

TCFD+CDP	59
TCFD+GRI	21
TCFD+SASB	36
TCFD+Two or more additional frameworks	26

Source: Reporting Framework Snapshots - The Task Force on Climate-related Financial Disclosures (TCFD)

July 2021

found that of the 54 SASB reporters, a significant number were preparing under multiple frameworks:

United Nations Sustainable Development Goals (SDG)	46
Carbon Disclosure Project (CDP)	45
Taskforce on Climate-related Financial Disclosures recommendation (TCFD)	40
Global Reporting Initiative (GRI)	32

Source: Reporting Framework Snapshots - SASB Standards

Yours sincerely

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31 January 2022

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Extended External Reporting – ITC 48

The Property Council welcomes the opportunity to provide comments on the draft Position Statements proposed to be adopted by the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER).

The Property Council of Australia represents a broad group of members, including owners, managers, and developers of commercial, industrial, residential and tourist accommodation. Many of those members have diversified business operations and provide regular reports to the market. The property sector employs 1.4 million Australians and shapes the future of our communities and cities. Our members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism, and hospitality venues and more.

The Australian property sector has a strong track record of identifying the most material environmental, social and governance (ESG) issues that require collective effort to address. They do this by collaborating on industry thought leadership, developing tools and resources that allow the broader industry to measure and report their progress, as well as advocating public policy change through the Property Council. Our industry is therefore well placed to comment on AASB's Draft Position Statements.

AASB and extended external reporting
We believe it is important for the AASB to demonstrate leadership in accounting standards by adopting a position on EER. We understand EER is the term the AASB has adopted to encompass non-financial reporting matters and is deliberately broad in scope. However, we note that the focus of the draft position statement (Appendix A) is largely on sustainability and climate reporting and believe the AASB needs to be clearer on the scope of the position statement.

There are additional reporting metrics that could be included in a broad EER position statement. For example, Modern Slavery impact statements, the Taskforce on Nature-related Financial Disclosures, and diversity targets/quotas (to name a few) are all part of the broad non-financial disclosure companies can provide at present. The draft position statement is silent on extended external reporting frameworks other than the Taskforce on Climate-related Financial Disclosures (TCFD) and IFRS Foundation International Sustainability Standards Board (ISSB). Concepts of ESG are constantly evolving, as are accompanying regulations, both domestic and international. In this context, it would be preferable for the position statements to specify it has a narrow focus and is commencing with sustainability and climate reporting, rather than seeking to provide direction for all possible EER frameworks.

Climate and sustainability reporting
Many leading Australian property companies will achieve net zero emission before or by 2030, at which point the industry will have well and truly redefined its most material ESG issues and proceeded to benchmark performance in those areas. As international developments continue to gather pace, the Australian market would benefit from AASB guidance on adopting and implementing global baseline climate and sustainability disclosure standards in the Australian context.

As the ISSB is still developing standards, it is important that any AASB position at this stage is voluntary and cognisant of the global context to avoid duplication or inconsistent reporting requirements. For example, the Australian Securities and Investments Commission (ASIC) released a statement in late December 2021 *encouraging* listed companies to use the TCFD recommendations as the primary framework for voluntary climate change-related disclosures. AASB could consider a similar approach in providing a recommendation on climate and sustainability reporting and the TCFD specifically, whilst acknowledging the important work of the ISSB.

A roadmap defining a long-term strategy
In principle, the Property Council of Australia supports the development of a globally consistent framework for sustainability reporting to provide investors and other key stakeholders with relevant and comparable sustainability information to make informed decisions. We would therefore welcome consultation from AASB in determining a firm position once the ISSB has completed its consultation. This would ensure adoption in Australia is context specific, provide useful and important information to stakeholders and reduce potential duplication in reporting or inconsistent requirements for Australian companies.

The Property Council believes open and transparent consultation is important for developing an Australian roadmap regarding climate and sustainability reporting. As international standards will evolve over time, AASB should define a transparent process for the continued review and identification of material issues, with a need to align with other relevant ESG reporting frameworks in the market. We would also welcome a wider consultation on EER more generally, to provide a holistic understanding of existing non-financial reporting standards and regulations, which would assist in reducing duplication in reporting.

Governance structure
We understand that, at this time, the Financial Reporting Council (FRC), the Auditing and Assurance Standards Board (AUASB), and the AASB (the Boards) do not support establishing a new body who would specialise in developing sustainability reporting standards. We believe a key part of defining a long-term strategy would include consultation with stakeholders on the best structure.

The body responsible for providing Australian specific interpretation of the ISSB standards may take the form of a sub-committee under the AASB, or a sister body to AASB – mirroring the relationship between the International Accounting Standards Board (IASB) and ISSB. It is important that stakeholders contribute to a consultation on this matter. We acknowledge the Boards intend to recruit in-house technical expertise; however, consideration needs to be given to establish a specific body responsible for standards related to sustainability reporting. This body could include appropriate ESG specialists, as sustainability reporting differs from financial reporting, and sector specialists (such as real estate).

If you would like to discuss any aspect of this submission further, please contact Adele Lausberg on 0415 225 638 and alausberg@propertycouncil.com.au, or myself on 0400 356 140 and bngo@propertycouncil.com.au.

Yours sincerely

Belinda Ngo
Executive Director, Capital Markets

Australian Banking Association

07 February 2022

Ms Siobhan Hammond
Assistant Senior Manager
Australian Accounting Standards Board
By email: shammond@aasb.gov.au

Dear Siobhan

AASB ITC 48 Extended External Reporting

Thank you for the extension to make this submission to the consultation ITC 48 Extended External Reporting which sets forward a draft Position Statement. This submission will respond to the questions asked in the consultation paper.

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 support the AASB's view that the standard setting processes of the ISSB may iterate the TCFD framework in its applied form. Such iteration could require reworking of the extended external reports of entities. Therefore, it would be appropriate for the AASB to signal a future position instead of adopting a position which is likely to change within a short period.

If the AASB is to adopt an immediate position, any extended external reporting should continue to be presented on a voluntary basis until wider international consensus has been reached.

Further, the ABA supports the AASB's active participation in the ISSB standard development processes by:

- Giving specific input regard to achieving international consistency to the greatest extent possible to reduce reporting burden on Australian entities.
- Establishing concurrent mechanisms to look at how the international standard might best be implemented in an Australian context as the international consensus becomes clear.

Finally, the AASB could consider narrowing the terminology of ITC 48 to specify climate related extended external reporting. We refer to the ABA submission to the consultation on ITC 46 which suggests the AASB develop a forward agenda for other elements of extended external reporting, particularly biodiversity/natural capital under the Taskforce on Nature-related Financial Disclosures (TNFD).

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?

The ABA is mindful that extended external reporting is a fast-evolving area. There are costs associated with reporting, as well as the lead time to change reporting processes (including changing data sources for the reporting). The ABA supports the position that climate sustainability reporting be voluntary on an ***interim basis*** and that economy-wide mandatory reporting will be the final position of the ASSB. We also support mandatory reporting as soon as practical once the IFRS standards are finalised and adapted for the Australian context. We support mandatory reporting for all ASX listed and unlisted entities and all forms of legal entities. We support the development of a 'right sizing' approach to reporting for entities where costs of a detailed disclosure may be disproportionately costly for smaller entities. We recommend the AASB develop proxies for reporting climate business metrics rather than invoking broad exemptions for businesses from reporting.

Australian Banking Association

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

The ABA and its members are supporters of the TCFD's recommendations within their extended external reporting. We consider that the TCFD recommendations provide an appropriate framework for extended external reporting. Further, the Australian Prudential Regulation Authority (APRA) has endorsed the TCFD as the appropriate framework for climate sustainability reporting for entities it regulates in its prudential guidance CPG 229 Climate Change Financial Risks[1].

Draft Position statement on EER Framework (Appendix A)

The ABA recommends that the AASB clarify that the 'end state' target on climate related extended external reporting is for economy-wide mandatory reporting which is 'right-sized'; this will enable businesses to commence consideration of their future obligations.

Position Statement (Appendix B)

We note that the AASB Boards at this time do not support the establishment of a new body that would specialise in developing climate sustainability reporting standards. We also note that the AASB plans to recruit additional in-house technical expertise. Additionally, the final paragraph also implies that the Boards' skills matrix will be updated to ensure adequate senior skill in climate sustainability reporting is represented at Board level. The ABA supports climate expertise to be represented at Board level.

Other matters

The ABA makes these further comments and recommendations:

Terminology

- That the terminology in the ITC 48 paper which refers to 'sustainability' be amended to qualify it as 'climate sustainability' given the breadth of subject matter under the 'sustainability' heading.
- We refer to the ABA submission to the consultation on ITC 46 for further comment relating to reporting on natural capital/biodiversity.

International consistency

- We note the developments in New Zealand to mandate TCFD reporting and express concern that the NZ XRB standards may not align with the AASB standards.
- The ABA recommends that the AASB leverage its position to advocate for the development of globally consistent standards and reporting obligations, especially for multinational entities with reporting obligations in multiple jurisdictions.

Industry engagement

- The ABA supports regular interaction between AASB and industry as the AASB progresses this work. The ABA is interested to participate in the Project Advisory Panel as a mechanism for providing the banking industry's input into the development of climate sustainability standards.

I would be pleased to discuss any aspect of this submission with you should it assist your considerations.

Kind regards,

Emma Penzo
Policy Director

[1] APRA CPG 229 paragraph 44 (link)

Contact: Sean Osborn
Telephone: (02) 9228 5932

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

Dear Dr Kendall

AASB Invitation to Comment ITC 48 *Extended External Reporting*

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to AASB Invitation to Comment ITC 48 *Extended External Reporting* (ITC 48). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories and the Australian Government.

HoTARAC agrees that, if an immediate position is adopted by the AASB, the recommendations of the TCFD provide an appropriate reporting framework on a voluntary basis.

Applying the TCFD recommendations in the public sector in a way that provides meaningful information for users and is cost-effective, is likely to require some adaption. HoTARAC members have a range of opinions on the matter. Several Australian governments are currently assessing their climate risk reporting and specifically the TCFD recommendations. Therefore, HoTARAC recommends the AASB continues to consult on the application of the TCFD recommendations specific to the public sector.

If you have any queries regarding HoTARAC's comments, please contact Sean Osborn from New South Wales Treasury on (02) 9228 5932 or by email to sean.osborn@treasury.nsw.gov.au.

Yours sincerely

Stewart Walters
CHAIR
Heads of Treasuries Accounting and Reporting Advisory Committee
8 January 2022

ENCLOSED:

HoTARAC Comments to the AASB on ITC 48 *Extended External Reporting*

HoTARAC Comments to the AASB on ITC 48 *Extended External Reporting*

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?

While any Australian entity can voluntarily currently adopt the TCFD recommendations, HoTARAC acknowledges the rationale for the AASB adopting an immediate recommended position. In particular, demand from private sector for-profit entities and investors. HoTARAC supports the general principle of sector-neutrality in Australian financial reporting, and suggests this policy may be relevant to prescribing sustainability standards. A majority of HoTARAC members did not explicitly agree with the need for the AASB to adopt an immediate position. Members who explicitly disagreed with the need for the AASB to adopt an immediate position cited the following reasons:

- Further analysis and consultation is required to determine the application of TCFD to the public sector. Refer to Question 3 for further comments.
- Further analysis is required to determine how the TCFD recommendations will interact with existing climate related disclosures (in progress or under development) by governments.
- Cost versus benefit of transitioning to TCFD before a wider international consensus has been identified, noting the following:
    - International developments in sustainability and climate reporting are evolving at a rapid pace. The International Sustainability Standards Board (ISSB) is expected to carry out a thorough public consultation in 2022 of its current prototypes on sustainability disclosures.
    - Adoption of any new reporting framework will undoubtedly have a significant cost, particularly initially. This could outweigh the benefits of adopting TCFD immediately, if the international position changes in a relatively short period of time.
    - Some jurisdictions have already begun or are planning to undertake significant work in 2022 on their climate-related disclosures. Any change in reporting requirements will inevitably result in additional costs.
    - Although the proposed AASB recommendation will be voluntary, it would create political and social pressure on the public sector to adopt the recommendation immediately.

Only one HoTARAC jurisdiction explicitly agreed with the need for the AASB to adopt an immediate position, citing agreement with the reasons outlined in ITC 48.

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?

A majority of HoTARAC members agree that, assuming an immediate position is adopted, the position should be on a voluntary basis. The following reasons were provided in support of a voluntary basis:

- Limited consultation to date on TCFD;

- Uncertainties on the future direction of climate-related reporting;
- EER is an onerous task requiring significant funding and resources. A voluntary basis will provide time to build capabilities and resources;
- Provides flexibility to individual entities on the timing of adoption;

No HoTARAC members support a mandatory position.

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?

A majority of HoTARAC members agree that, assuming an immediate position is adopted, the recommendations of the TCFD provide an appropriate framework for the reasons noted by the AASB in ITC 48. One HoTARAC member explicitly disagrees with the need for the AASB to identify a recommended framework at this point in time.

A majority of HoTARAC members believe further work may be needed to apply the TCFD recommendations to the public sector. The Taskforce on Climate-related Financial Disclosures was established to help identify the information needed by investors, lenders, and insurance underwriters to appropriately assess and price climate-related risks and opportunities. Several Australian governments are currently assessing the extent to which the TCFD recommendations may need to be adapted to particular features of the public sector.

Applying the TCFD recommendations in the public sector context

Some HoTARAC members are of the view that the TCFD recommendations are most relevant at a consolidated whole of government (WoG) level and, at this level, the disclosures in the public sector will be more comparable with the private sector.

In government, policies and decisions are generally made at a WoG level and individual agencies often have minimal autonomy in decision making. Therefore, meaningful disclosures in line with the TCFD recommendations on governance, strategy, risk management, metrics and targets, may be most relevant at the WOG level.

Due to the costs and resources required to adopt TCFD, some HoTARAC members believe it would only be beneficial to adopt TCFD on a gradual or staged basis at the WOG level. At least one HoTARAC jurisdiction is in the early stages of piloting TCFD for a small sample of individual agencies. HoTARAC recommends the AASB continues to consult with its members on how TCFD is best applied to the public sector.

Examples of potential challenges adapting TCFD for the public sector

Banking and Insurance Entities In the private sector, banks and insurers contract multiple third-party external customers at arm's length. Each customer will have different risk metrics. These businesses have discretion over who they lend to or insure. In the public sector, it is common to have central treasury corporations and internal-to-government insurance entities (including captive insurers). These treasury corporations and public sector insurance entities, effectively have one client, being their governments. They do not have the same discretion that private sector banks have regarding who they lend to.

The TCFD recommendations and supplemental guidance[1] appear to assume that banks will formulate climate risk management policies and integrate management of those risks (and opportunities) into their core business and client lending operations. For a banking-type entity, this would include integrating and assessing climate risk (both physical and transition risk over varying time periods) in the client loan assessment recommendation and loan covenant monitoring process.

However, in the public sector, these activities reside with central government, as the policy setter. This is consistent with how investors assess the credit worthiness of each state as a whole – not the treasury corporation (or insurer) on a stand-alone basis. Therefore, it would be impractical for financial service entities in the public-sector to apply the TCFD banking disclosures to their stand-alone operations in the same way that a private sector bank does, as they have two very different operating models.

Impacts of climate risks on individual government agencies
Most government agencies are financed largely from appropriations from their central government's consolidated fund. This means the impacts of climate risks on revenue and expenditures, will often relate to a decision of central government or treasury department, rather than the individual agency.

For example, if an agency is exposed to climate risk that results a significant reduction in revenue, the government will frequently step in to provide additional funding in order for the agency to continue to meet its service objectives. In this case, the financial impacts and the relevant financial disclosures as recommended by the TCFD, are most appropriately reported at a WoG level where climate risks and opportunities are managed.

Decisions of cabinet
In the public sector, effective governance and risk management disclosures may at time be constrained by cabinet-in-confidence protocols.

Cost versus benefit

A key benefit of climate related financial disclosures should be the usefulness of information to stakeholders. While the TCFD recommendation were primarily established to help identify the information needed by investors, lenders, and insurance underwriters, in government, the key stakeholders and users of financial information are creditors, investors, regulatory bodies, and the general public.

HoTARAC agrees public sector stakeholders are interested in the climate related risks and opportunities at a WoG level. The costs-to-benefits of replicating TCFD disclosures at an individual agency level, are not yet clear. For example, individual agency level reporting could result in hundreds of entities reporting for the one government.

[1] Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, Part D Supplemental Guidance for the Financial Sector