FOOTPRINT www.footprintnews.com.au

Directors now face a 'pincer movement' on climate risk disclosure: AASB

01 March 2019 4:04pm

Australia's accounting standards agency has released world-first advice on the materiality of climate risk in financial statements.

The new practice statement complements TCFD climate risk disclosure recommendations and new ASX corporate governance principles, but there is an important difference, according to Kris Peach chair of the Australian Accounting Standards Board.

The new AASB guidance deals only with what should be included in the financial statements, while the TCFD and ASX guidance is focused primarily on disclosures outside the financial statements, she told *Footprint*.

It's a crucial difference because financial statements have to be audited, which is generally not the case with sustainability reports and other parts of annual reports, Peach noted.

Consequently, the new guidance means auditors "will be asking some interesting questions" of directors and others involved in the preparation of financial statements, she said.

Coupled with the questions that directors are already facing from investors, they are now likely to find themselves "in a little bit of a pincer movement", Peach said.

"You are going to get questions from investors themselves saying what have you done and why, and you are going to get the same sort of questions from auditors."

The guidance deals with all types of emerging risks relevant to a company, not just climate change, Peach noted.

However, climate change and cyber security are likely to be the most common emerging risks that are potentially material, she said.

Peach said she expected the guidance "to create heightened awareness" about these issues, and lead to "some extra and new disclosures in financial statements".

Briefings for other accounting agencies

"Our guidance is not saying you have to take into account climate change in your assumptions," Peach emphasised.

"What it is saying is that if you are in an industry that is likely to be impacted, and your investors are telling you they are very interested in this, then you are going to have to disclose what your assumptions actually are, and why."

Peach added that the AASB believes its guidance is a world-first, and would be briefing other accounting standard-setting bodies on its approach.

She noted that it generally appears to have been sustainability managers who have become aware of the guidance, which was released by the AASB without fanfare last December, and they are now briefing their financial reporting counterparts.

Investors have also picked up on it "and think it is absolutely helpful in going to have conversations with key companies", she added.

Under the radar

EY's climate change and sustainability services partner Terence Jeyaretnam told *Footprint* the AASB practice statement is one more indicator that directors need to be across the issue of climate risk and disclosure.

So far, the guidance "has definitely slipped under the radar", said Jeyaretnam, who recently hosted a Group of 100 briefing on it.

Jeyaretnam added that it might take corporate teams "a couple of years" to fully come to grips with its ramifications.

Although the guidance isn't mandatory, "from a legal and a statutory point of view, if there are questions asked of preparers and directors and auditors, I think it would be hard to say 'we have ignored that practice statement'," he said.

Peach agreed that it would be unwise to ignore the practice statement on the basis that it isn't mandatory.

"That is correct, but what it is doing it is providing guidance about requirements that are mandatory," she said.

"So it is very important that directors and CFOs and CEOs are actually considering this and making conscious decisions, not just assuming that they can ignore climate change for the purposes of financial statements," Peach said.

Climate-related and other emerging risks disclosures: Assessing financial statement materiality using AASB Practice Statement 2 (AASB, December 2019)

Powerpoint slide pack