

To: Australian Accounting Standards Board
Comment Letter: ITC 46

To whom it may concern

Thank you for the opportunity to offer comment on ITC 46 *AASB Agenda Consultation 2022-2026*.

We confine our comments to Question 2 “Potential Projects” and Question 3 “Research Projects”. In each case, we have taken the liberty to respond to the questions, while also adding some additional background information argument. We hope these comments are helpful.

If you require further information about this submission, please do not hesitate to contact us via the information below.

Yours sincerely,



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Question 2:

Do you agree that the AASB should add any of the proposed external reporting projects to the work program?

We strongly believe that the AASB add Sustainability Reporting to its work program and that this should be considered a high priority project. We acknowledge that there is presently considerable debate about whether this is the right time, and/or whether any Board decisions are best delayed in lieu of greater/clearer international consensus. On this point, if the Board were to wait for consensus, then progress would grind to a halt (Winston Churchill comes to mind here ... “Perfection is the enemy of progress...”). If we wait for consensus, we will miss an opportunity for action in the short term and an opportunity to provide input on the final form of international reporting requirements. There is increasing research evidence that users of company reports want information about a company’s sustainability footprint, which is true for Australia as well as internationally. Further, we have seen for many decades that consensus on major financial reporting issues is incredibly elusive.

Somewhat peripheral to the specific question posted in ITC 46 is the related issue of scoping. Key for the Board will be to carefully consider the scope of any reporting requirements. We entirely agree with the climate to be the first focus, while enabling scope for broader sustainability guidance over time. Further, it is crucial for the Board to clarify the location of climate disclosures it will focus on, such as in the financial statements versus in a separate sustainability report. There are many arguments about the relevance of sustainability reporting frameworks such as the GRI for external providers of capital. We agree with the broader relevance of these frameworks for a variety of stakeholders, but given its role, urge that the Board focus clearly on sustainability disclosures in financial statements. The broader the remit claimed by the AASB, the more difficult and slow progress will likely be. At the same time, there is an established standard setting approach and infrastructure (including a conceptual framework) in place for financial reporting, so carefully scoping the position of the Board in relation to a role in sustainability will set the foundation for the Board’s role and the utilisation of that mechanism in the medium to longer term.

Further, success of accounting standard setters such as the AASB to shape sustainability reporting is dependent on such efforts being viewed as entirely consistent with and a normal and obvious part of the standard setters’ core function. As such, sustainability reporting should normalise the disclosures as part of the periodic reporting function for the entity.

Related to this, with the exception of representational faithfulness, we agree that it is important to align qualitative requirements for any sustainability reporting guidance that might be offered with the qualitative characteristics of financial reporting. We acknowledge that the notion of representational faithfulness is embedded both in the conceptual frameworks and accounting standards by major accounting standard-setters globally. Despite this, the concept of representational faithfulness remains somewhat elusive in theory, practice, and research. As a result, it remains largely non aspirational. This becomes particularly problematic as we try to define appropriate characteristics of sustainability-related disclosures. As defined in accounting

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conceptual frameworks, representational faithfulness clearly de-emphasizes the existence of an independent truth and accuracy and does not require any empirical correspondence with the actual phenomenon being reported. Rather, what is important under the definitions is the ability of the report preparers to provide sufficient information to enable the user to understand the phenomenon being reported. Further, a faithful representation need not be accurate in all respects but more modestly, requires that no obvious errors have occurred in describing and reporting the transactions and events in question. By codifying non-aspirational definitions of key characteristics of financial information such as representational faithfulness, we naturally restrict our incentive and ability to strive for improvements in reporting practice. This is particularly fraught, given the pace at which climate science (measurement) continues to advance. As we begin our journey in shaping sustainability disclosures, we urge the AASB to be more aspirational in leading preparers of reports on a journey of continuous improvement in recognition and disclosure of sustainability information.

We also encourage the Board to consider carefully the assumption that the concept of materiality in financial reporting is consistent and known and will therefore map readily into sustainability reporting. We are well aware of the pervasiveness of the concept of materiality in financial reporting, but we also note that it is problematic due to vagueness of its content and fundamental flaws in its definition. These issues have led to significant and enduring variations in financial reporting practice. In light of this, applying the concept to sustainability reporting as currently defined will not significantly enhance the comparability of what is reported.

Question 3

Do you agree that the AASB should add any of the proposed research projects to the work program?

We strongly agree that Sustainability reporting should be added to the research program of the AASB. This is an established field of research internationally, and as such, many aspects of the literature could be useful in shaping the AASB activities in this area. We do however, offer two specific suggestions. First, there is a clear need for greater empirical evidence on current reporting practice in sustainability. There are many high-level and high-quality publications produced by many organisations that provide an overview of reporting over time. These publications, along with specific empirical analysis targeted to the Board's needs could be used to directly inform the Board on key decisions. This is consistent with the evidence-based approach adopted by the AASB. Second, while stakeholder consultation could be a useful part of any research conducted, this would need to be scoped, and targeted very carefully. The well documented limitations of these approaches include a lack of broader generalisability of the findings. Further, respondents typically advocate for more, broader information rather than information which is lower in volume or more narrow in scope. The broader the information advocated by respondents, the weaker is the argument for the AASB to play a prominent role in delivering on the information 'required'.

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