



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 Statement¹ 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

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,

A handwritten signature in black ink, appearing to read 'M. Graham'.

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