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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.

[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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