

27 January 2022

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

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](mailto:vicki.stylianou@publicaccountants.org.au) or on mobile 0419 942 733.

Yours sincerely

A handwritten signature in black ink, appearing to read 'V. Stylianou', with a stylized flourish at the end.

Vicki Stylianou  
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*<sup>1</sup>, 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.<sup>2</sup> 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.

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

<sup>2</sup> *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>