

# **Extended External Reporting**

Comments to the AASB by 28 January 2022



**Australian Government**

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**Australian Accounting  
Standards Board**

## **How to Comment on this AASB Invitation to Comment**

The AASB is seeking comment by 28 January 2022.

### **Formal Submissions**

Submissions should be lodged online via the “Current Projects – Open for Comment” page of the AASB website ([www.aasb.gov.au/current-projects/open-for-comment](http://www.aasb.gov.au/current-projects/open-for-comment)) as a PDF document and, if possible, a Word document (for internal use only).

### **Other Feedback**

Other feedback is welcomed and may be provided via the following methods:

E-mail: [standard@asb.gov.au](mailto:standard@asb.gov.au)  
Phone: (03) 9617 7600

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chair of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

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# AASB REQUEST FOR COMMENTS

## Purpose and Background

The purpose of this Invitation to Comment is to obtain feedback on the draft Position Statement proposed to be adopted by the Australian Accounting Standards Board (AASB) relating to Extended External Reporting (EER). This Position Statement is presented in Appendix A.

EER is the term that the AASB has adopted (along with the Auditing and Assurance Standards Board (AUASB)) to encompass non-financial reporting matters, such as sustainability reporting, that may be of relevance for external stakeholders. The EER label reflects a broader scope compared with, for example, narrower notions of sustainability reporting or climate reporting. It is also consistent with the term applied in New Zealand.<sup>1</sup>

The AASB has received feedback from many stakeholders identifying a demand for guidance<sup>2</sup> on EER. In many cases, the call is for immediate recommendations, although this call is not universal.

Consistent with Position Statement 1,<sup>3</sup> which is attached as Appendix B, the AASB will take responsibility for developing reporting requirements for non-financial information relating to EER. In light of the demand amongst stakeholders for immediate action, the draft Position Statement presented seeks to meet these immediate needs, while providing the opportunity for appropriate consultation to take place in order to arrive at a more permanent position. Given this immediacy and the minimal consultation that has taken place, the draft Position Statement is heavily qualified. Preparers that choose to follow the position set out in the draft Position Statement do so in full knowledge that the AASB's position may subsequently change.

One particularly important variable potentially influencing the AASB's ultimate position is developments internationally. At the time of writing, there is a significant amount of activity taking place internationally, most notably the formation of the International Sustainability Standards Board (ISSB)<sup>4</sup> and, just prior to the release of this Invitation to Comment, the release of the Climate-related Disclosures Prototype to be considered by the ISSB.<sup>5</sup> Not all of this activity is consistent and, consequently, there presently exists a degree of uncertainty. Hence, AASB staff are currently preparing a Staff Article documenting the international state of play, which is anticipated to be published on the AASB website before the end of 2021.

Feedback is sought from stakeholders on the proposed AASB position, namely that the AASB supports, as an initial step, the voluntary adoption of the recommendations put forward by the Taskforce on Climate-related Financial Disclosures (TCFD) for EER.<sup>6</sup> Attention is drawn to the following specific 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?

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1 See <https://www.xrb.govt.nz/extended-external-reporting/> (accessed 29 October 2021).

2 "Guidance" in this context is used in a non-technical sense and does not refer to any specific form of publication that the AASB produces.

3 Note that feedback is not sought on Position Statement 1. Position Statement 1 represents the institutional arrangements for developing EER standards in Australia, including assurance considerations.

4 <https://www.ifrs.org/groups/international-sustainability-standards-board/>.

5 <https://www.ifrs.org/content/dam/ifrs/groups/trwg/trwg-climate-related-disclosures-prototype.pdf>.

6 <https://www.fsb-tcfid.org/recommendations/>.

2. Assuming that an immediate position is adopted as contemplated by the proposal, should the position be applied on a voluntary or mandatory basis?
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 remainder of this Invitation to Comment sets out the reasoning behind the proposed position to inform the feedback sought on the specific questions identified above.

## Motivations for adopting a position

### Comparability

There are several frameworks available to address EER concerns.<sup>7</sup> This has led to a situation where comparability has been reduced due to perceived or actual inconsistencies between frameworks.

By identifying a single framework in the Position Statement, the AASB is seeking to minimise EER variability amongst Australia firms in the short term, thereby improving comparability of EER information.

### Legal liability

A significant stakeholder concern that has been raised is the prospect of litigation against corporate directors who do not adequately consider the risks encompassed in EER. Climate change risk, in particular, has been of concern since at least October 2016 when the Centre for Policy Development and the Future Business Council obtained a counsel opinion assessing director exposure to litigation risk, predominantly for a breach of the requirement for due diligence under s 180(1) of the *Corporations Act 2001*.<sup>8</sup> The conclusion drawn in that opinion is that climate change risk is a foreseeable risk to a company at that time (2016), with the consequence that directors who do not consider such risks to the company may potentially be in breach of their duty of due care and diligence. This conclusion was reinforced by the same counsel in subsequent opinions sought and made public in 2019<sup>9</sup> and 2021.<sup>10</sup>

Further, litigation against a major industry superannuation fund was recently settled (in November 2020) where the basis of complaint was a breach of the *Corporations Act* for failure to disclose climate change related risks.<sup>11</sup>

By providing a position on how entities may undertake EER, including reporting on climate change related risks, the AASB is seeking to provide a level of comfort to those entities, including (but not limited to) directors who may be concerned about potential exposure to legal liability for a breach of their legal obligations. Importantly, the draft Position Statement provides this guidance immediately for those entities seeking to take immediate action to reduce their exposure to legal liability.

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7 As well as the TCFD, broad frameworks include the Global Reporting Initiative (GRI) Standards and the Integrated Reporting (<IR>) Framework. Additionally, focused disclosures are required under other specific frameworks, such as the National Greenhouse and Energy Reporting (NGER) scheme in Australia.

8 <https://cpd.org.au/wp-content/uploads/2016/10/Legal-Opinion-on-Climate-Change-and-Directors-Duties.pdf>.

9 [https://www.cpd.org.au/wp-content/uploads/2019/03/Noel-Hutley-SC-and-Sebastian-Hartford-Davis-Opinion-2019-and-2016\\_pdf.pdf](https://www.cpd.org.au/wp-content/uploads/2019/03/Noel-Hutley-SC-and-Sebastian-Hartford-Davis-Opinion-2019-and-2016_pdf.pdf).

10 <https://cpd.org.au/wp-content/uploads/2021/04/Further-Supplementary-Opinion-2021-3.pdf>.

11 [https://climate-laws.org/geographies/australia/litigation\\_cases/mcveigh-v-retail-employees-superannuation-trust](https://climate-laws.org/geographies/australia/litigation_cases/mcveigh-v-retail-employees-superannuation-trust).

## Challenges in adopting a position on EER

As has been noted, EER, however labelled, is a fast developing area internationally, most notably with the IFRS Foundation's decision to establish the ISSB.<sup>12</sup> This raises the very real risk of eventual reporting requirements (whether voluntary or mandatory) developing in an unanticipated direction. The result of such unexpected action may be that the AASB's position on EER will subsequently change.

While such a change of position will not be retrospective, nor should any other body retrospectively apply such a change of position, entities that have followed the draft Position Statement may be required to incur additional future transition costs. As noted below, it is for this reason that the AASB is proposing that the guidance provided in the draft Position Statement is on a voluntary basis. Preparers concerned about the potential additional costs due to a possible future change of position are not required at this time to follow the Position Statement.

Further, as a result of EER being a continually developing area, significant questions as to the best means by which to measure the risks and the appropriate means by which to communicate those risks continue to exist. This includes identifying appropriate metrics to report, as well as identifying the most suitable venue for the reporting of these metrics (e.g., should they be reported within the annual report, or should a separate report be prepared). The AASB is not presently taking a position on any of those matters, recognising that a significant amount of work is still required to reach an international consensus on best practice.

A further challenge at present is the availability of sufficiently reliable data to assess and report the risks contemplated. The AASB makes no recommendations as to the source or form of data that should be used beyond that contemplated within the TCFD, being the framework recommended in the draft Position Statement.

There is also a view, expressed in other contexts,<sup>13</sup> that the AASB's legislative remit as set out in the *Corporations Act* does not extend to cover non-financial matters, which, by extension, includes EER. While acknowledging this view, the AASB does not accept this position. As set out in AASB Practice Statement 2, climate change risks (encompassed within EER) may have a material effect on the financial position of an entity. Consequently, to that extent, such risks are already contemplated by the existing suite of accounting standards. Further, the AASB is of the view that the present legislative scheme extends to cover such non-financial matters in appropriate circumstances.

On balance, the AASB is of the view that there is sufficient stakeholder demand for some form of guidance to be provided at the present time. Existing uncertainties and concerns surrounding EER are addressed by the guidance being provided on a voluntary basis.

### 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 international consensus has been identified?

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<sup>12</sup> Refer above notes 4 and 5.

<sup>13</sup> Such as through the AASB's consultation in relation to the International Accounting Standards Board's (IASB) Management Commentary project (most recently encompassed in ED/2021/6).

## **Voluntary or mandatory**

As has been noted, EER is an area of reporting undergoing significant current activity. Not least of these developments is the ISSB being established, with its membership still to be announced and sustainability standards being developed during the course of 2022. As such, significant uncertainty continues to exist as to the single best course of action that preparers should take.

However, despite the uncertainties inherent in this area, there is significant stakeholder demand for the AASB to provide some form of guidance for those preparers wanting to take immediate reporting action.

The AASB is seeking to address stakeholder demand while, at the same time, being mindful not to impose unjustifiable additional reporting costs. Preparers that do follow the draft Position Statement face the risk that further costs will be incurred in the future to meet any changed requirements. The AASB cannot guarantee that such changes will not occur and, further, the AASB reserves its position on EER until such time as a more settled position has been reached as to what EER reporting practices meet the needs of external stakeholders while also being cost-efficient.

A further concern is in relation to the degree to which the AASB is able to engage in stakeholder consultation in reaching its position. The consultation process normally adopted, most clearly expressed in the AASB's Due Process Framework,<sup>14</sup> is necessarily more time intensive and would not produce a position for some time. Consequently, by following the normal due process, the demand for immediate guidance would not be met. However, any AASB position that is to be applied on a mandatory basis needs to follow this due process as a matter of best practice, at least to ensure all stakeholder views have been sufficiently considered and to minimise the prospect of unintended consequences.

To this end, the AASB has included sustainability reporting as one of its potential projects through which it is seeking stakeholder submissions as part of its Agenda Consultation 2022-2026.<sup>15</sup> Stakeholders are encouraged to make a submission regarding the AASB's long term position on EER as part of this Agenda Consultation.

Balancing these competing concerns, the AASB is of the view that any current guidance provided to stakeholders should be voluntary. In this way, stakeholders have the ability to choose whether to immediately follow the AASB's position and incur the associated costs of compliance, while also recognising the risk of incurring further compliance costs due to a change in the AASB position in the future.

### **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?

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<sup>14</sup> [https://www.aasb.gov.au/admin/file/content102/c3/AASB\\_Due\\_Process\\_Framework\\_09-19.pdf](https://www.aasb.gov.au/admin/file/content102/c3/AASB_Due_Process_Framework_09-19.pdf).

<sup>15</sup> See Invitation to Comment ITC 46, Section 2.4 Table 3, available at [https://www.aasb.gov.au/admin/file/content105/c9/ITC46\\_10-21.pdf](https://www.aasb.gov.au/admin/file/content105/c9/ITC46_10-21.pdf).

## Selecting an appropriate framework

As noted, there are several EER frameworks adopted by preparers within Australia and worldwide. The TCFD is but one of these frameworks.

To provide the intended guidance, it is necessary for the AASB to select and recommend one of these frameworks in order to promote consistency and comparability of EER within Australia.

All stakeholder feedback that the AASB has received to date is that the TCFD is the most commonly applied framework for EER in Australia. Consequently, selecting the TCFD is expected to minimise the aggregate compliance costs amongst Australian preparers, as the majority currently undertaking some form of EER have implemented the TCFD.

The TCFD also has the explicit support of significant entities in Australia, including the Australian Prudential Regulatory Authority (APRA), the Australian Securities Exchange (ASX), CPA Australia, Chartered Accountants Australia & New Zealand.<sup>16</sup>

The TCFD has also been identified as the framework that the ISSB is likely to use as the initial basis on which future international sustainability standards,<sup>17</sup> which, in this eventuality, will also minimise any further transition costs associated with changes to Australian reporting standards as a result of seeking to align with future international practice.

Finally, this framework is the explicit basis on which New Zealand's External Reporting Board (XRB) is developing New Zealand's legislatively mandated climate standards.<sup>18</sup> Adopting the TCFD, therefore, contributes to aligning Australian reporting practice with that of New Zealand, which is consistent with the Closer Economic Relations policy.

### 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 that the recommendations of the TCFD is the appropriate framework for this position?

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<sup>16</sup> <https://www.fsb-tcfid.org/supporters/>.

<sup>17</sup> <https://www.ifrs.org/news-and-events/news/2021/03/trustees-announce-working-group/>.

<sup>18</sup> <https://www.xrb.govt.nz/extended-external-reporting/climate-related-disclosures/>.

## APPENDIX A

### **[Draft] Position Statement on Extended External Reporting Framework**

As a means of providing direction for our stakeholders prior to developing and adopting a framework for extended external reporting (EER), the Australian Accounting Standards Board (AASB) supports the **voluntary** adoption of the recommendations made by the **Taskforce on Climate Financial Disclosures** (TCFD).

The AASB emphasises that any reporting on EER matters is to be completely voluntary and nothing in this Position Statement is to be taken as mandating, encouraging or recommending that any EER be undertaken at this time.

The purpose behind this Position Statement is to provide direction for preparers seeking to take immediate action on EER.

As well as this direction, the AASB, in adopting this position, is seeking to promote consistency and comparability amongst entities undertaking EER.

Stakeholders must note that this position does not necessarily represent the final position that the AASB will adopt should a more permanent position be settled upon. Stakeholders following this Position Statement, therefore, must be aware of the potential for a significant shift in direction at an indeterminate future time. In particular, at the time of writing, the IFRS Foundation is in the process of establishing the proposed International Sustainability Standards Board (ISSB). Eventual ISSB standards may deviate from the TCFD's present requirements, which may then necessitate additional expenditure by stakeholders who have chosen to follow the AASB's position. However, this qualification also applies to any stakeholder choosing to undertake any form of EER at the present time.

The TCFD represents a suitable framework at the present time for the following reasons:

- It is the most commonly (although not universally) adopted framework in Australia amongst entities undertaking some form of EER;
- It is the framework supported by many significant bodies in financial reporting in Australia, including the Australian Securities Exchange (ASX), the Australian Prudential Regulation Authority (APRA), CPA Australia and Chartered Accountants Australia & New Zealand;
- It is the basis for (mandatory) EER standards presently being developed in New Zealand and, therefore, promotes alignment with New Zealand's reporting practices;
- It is the expected basis upon which the proposed ISSB will develop new international sustainability reporting standards.



## APPENDIX B

### Position Statement 1

#### FRC/AASB/AUASB Position Statement on Extended External Reporting and Assurance

The FRC, the AASB and the AUASB (“the Boards”) recognise the desire for authoritative guidance on Extended External Reporting in Australia. To this end, the Boards are taking active steps to ensure Australia adopts a reporting regime that meets the needs of users of financial and non-financial reporting information and supports Australia’s international competitiveness.

#### *Structure*

The Boards seek to adopt an Extended External Reporting regime within the current institutional framework in place for financial reporting. Specifically, the AASB intends to develop reporting requirements for non-financial information and the AUASB intends to simultaneously update relevant assurance standards, which are already capable of addressing current voluntary disclosures. The FRC will continue to provide strategic oversight of the Boards.

This approach is designed to take advantage of the significant experience, expertise and credibility, that the AASB and the AUASB have in standard setting. It will also help ensure appropriate links between the financial reporting framework and the Extended External Reporting framework, as well as addressing assurance requirements in a timely fashion.

Accordingly, the Boards do not support, at this time, establishing a new body that would specialise in developing sustainability reporting standards.

#### *Objectives*

Having undertaken preliminary stakeholder engagement, the Boards have identified the following objectives to guide the development of the reporting framework:

- To provide comparability in Extended External Reporting with an initial focus on sustainability reporting;
- To provide a basis for directors and auditors to meet stakeholder expectations and legislative requirements (subject to discussions with relevant regulators);
- Provide meaningful disclosures for users of Extended External Reporting information in the private, public and not-for-profit sectors;
- Establish and maintain appropriate links between the financial reporting framework and the Extended External Reporting framework; and
- To provide meaningful, relevant and timely guidance on assuring Extended External Reporting with an initial focus on sustainability reporting.



### *Developing the framework*

In developing an Extended External Reporting framework for Australia, the Boards will be taking the following measures:

- Maintain close links with the International Financial Reporting Standards (IFRS) Foundation in the development of the proposed International Sustainability Standards Board to ensure Australia's interests are appropriately represented;
- Liaise closely with counterparts in New Zealand to maintain consistency between jurisdictions as far as possible, consistent with the Closer Economic Relations policy;
- Maintain close links with other stakeholders and regulators in developing the framework for the private, public and not-for-profit sectors;
- Establish a Project Advisory Panel as a forum for open communication between the Boards and the stakeholder community so that the Boards are aware of stakeholder developments and thought leadership as they occur;
- Continue stakeholder liaison, including as part of the forthcoming AASB Agenda Consultation 2022–2026 Invitation to Comment; and
- Recruit additional in-house technical expertise and for the Boards as developments continue.