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19 July 2023

The Officer Responsible for Climate-Related Financial Disclosure Consultation

Submission by Deakin University Integrated Reporting Centre

Congratulations on launching this very timely consultation and thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission.

Executive Summary

We are highly supportive of Treasury's June Consultation paper, particularly its strong policy commitment to international alignment with the global baseline provided by the International Sustainability Standards Board's IFRS Sustainability Disclosure Standards, evidenced in the Introduction to the paper and the 'internationally aligned' Reform Principle:

"New requirements should, as far as possible, be aligned with international reporting practices, to minimise compliance costs for Australian businesses that operate internationally, and to ensure Australia's regime is viewed with credibility by international markets."

We support the following comment about Reporting Content on page 10:

"Strong international alignment is important to minimise compliance costs for Australian entities that operate internationally, and to ensure Australia's regime is viewed with credibility by international capital markets."

This statement re-inforces the main objects for the Australian financial system contained in section 224 of the ASIC Act:

"The main objects of this Part are ... (b) to facilitate the Australian economy by: (i) reducing the cost of capital; and (ii) enabling Australian entities to compete effectively overseas; and (c) to maintain investor confidence in the Australian economy (including its capital markets)."

We understand that this consultation paper is devoted to climate-related financial disclosure and not broader sustainability matters. We recommend that Treasury's final documentation state that this reform principle applies to IFRS Sustainability Disclosure Standards in general. In this way, Australian Government institutions, such as the Financial Reporting Council, Australian Accounting Standards Board and Australian Auditing and Assurance Standards Board will have policy guidance in making decisions, setting standards, providing guidance and making submissions to international bodies.

Set out below are two recommendations for your consideration which we believe will strengthen perceived and actual Australian international alignment, and be of benefit to Australian entities who operate internationally with their access to international capital markets and in minimising their compliance costs.

Legal Requirement for an Operating and Financial Review

Page 19 suggests that Operating and Financial Reviews are legally required within Directors Reports of listed public companies:

“For listed entities, climate disclosures would be required in the operating and financial review (OFR), within the directors’ report. ASIC considers that the law currently requires an OFR to include a discussion of climate-related risk where it is a material risk that could affect the company’s achievement of its financial performance.”

This paragraph implies that the law requires an Operating and Financial Review to be prepared and included in the Directors Report for listed entities. Our understanding is that this is not the case – that there is no legal requirement for a report named an Operating and Financial Review (OFR)¹. Certain information is required by the Corporations Act to be contained in Directors Reports. ASIC has provided guidance in Regulatory Guide 247, ‘Effective disclosure in an operating and financial review’, that suggests that this information be contained in an OFR. Again, including OFRs in Directors Reports has become accepted and effective market practice.

This point is related to that on Annual Reports (refer Appendix), however is more important in terms of Australia’s international alignment and reputation. While many organisations around the world produce separate integrated reports, our preference is that OFRs be renamed ‘integrated reports’. Alternatively, if companies choose to continue to use the name Operating and Financial Review, we believe that it should be required that:

- they be prepared in accordance with the Integrated Reporting Framework² and the Australian equivalents of IFRS Sustainability Disclosure Standards S1 and S2 (when published); and
- this be stated in a Basis of Preparation and Presentation within the OFR as required by paragraph 4.41 of the Integrated Reporting Framework and amplified in paragraph 4.42.

We recommend that the final Treasury position paper reflect a requirement for OFRs to be renamed ‘integrated reports’; or alternatively for requiring that the OFR include a Basis of Preparation and Presentation in the OFR that states that the OFR has been prepared in accordance with the Integrated Reporting Framework. We prefer the former.

We make this recommendation in the context of:

- the significant global momentum for integrated reporting around the world;
- the Chairs of the IASB and ISSB in May 2022 recommending continued adoption of the Integrated Reporting Framework³;
- the IFRS Foundation becoming responsible for the Integrated Reporting Framework through the August 2022 consolidation of the Value Reporting Foundation into the IFRS Foundation⁴;
- the ISSB in May 2023 including a potential Integration in Reporting project scope in its 2024-25 work plan, which would likely include integrated reporting and management commentary within its scope⁵; and
- integrated reporting assurance being included within the scope of the IAASB’s Sustainability Reporting Project.

We expect that adoption of integrated reporting and assurance will become more widespread around the world in the years to come now that the Integrated Reporting Framework is a resource of the IFRS Foundation.

¹ Our understanding is that likewise, there is no legal requirement for a report named an Annual Report – refer Appendix

² [IFRS - Integrated Reporting Framework](#)

³ [IFRS - Integrated Reporting—articulating a future path](#)

⁴ [IFRS - IFRS Foundation completes consolidation with Value Reporting Foundation](#)

⁵ [IFRS - Request for Information and comment letters: Consultation on Agenda Priorities](#)

This will be an important step towards international alignment, Australia being recognised as being internationally aligned, and enhancing the international competitiveness of Australian companies in international capital markets, and so contribute to achieving the main objects of the Australian financial reporting system (section 224 of the ASIC Act).

Description of the business and assurance thereon

Treasury's consultation paper emphasises the disclosure of Governance arrangements in relation to climate-related risks and opportunities (for instance on page 12, and in Table 3 on page 26). The paper also notes that reasonable assurance will be required over the description of Governance in relation to climate matters from Day 1, while limited assurance will be required over climate-related metrics and associated disclosures, transitioning to reasonable assurance over time (page 26). We highly support these proposals.

However, we note that Governance is only one aspect of the business which will be disclosed in applying S1 and S2⁶, and in integrated reports. Disclosures must also be made as to Sustainability-Related Risks and Opportunities, Strategy and Decision-Making, Business Model and Risk Management in relation to climate and other sustainability-related financial disclosures. These descriptive disclosures provide investors and other stakeholders with important context for the climate and other sustainability-related financial metrics and associated disclosures.

Treasury's paper implicitly already requires these disclosures in relation to the proposed 'index table' which groups Governance, Strategy and Risk Management (page 19). However, Table 3 on page 26 limits reference to reasonable assurance to 'governance disclosures' and not disclosures as to sustainability-related risks and opportunities, strategy and decision-making, business model and risk management.

We recommend that the references to Governance in Table 3 be expanded to include Sustainability-Related Risks and Opportunities, Strategy and Decision-Making, Business Model and Risk Management such that these descriptive disclosures will also subject to the reasonable assurance requirement. Such a requirement will be important to the confidence of investors and other stakeholders as they analyse the integrity and credibility of the disclosures.

It should be noted that strong momentum for more integrated forms of independent external assurance has developed over the last few years:

- starting from the pioneering work of ABN Amro and its sustainability reporting assurance practitioner (EY, who assured ABN Amro's integrated report in terms of the Integrated Reporting Framework for the first time in relation to its 2017 Integrated Annual Review)⁷,
- through to the 'opt in' integrated report assurance and underlying integrated reporting mandate of the Brazilian securities regulator for the largest 717 listed entities with first application in 2022⁸.
- In the middle are the transpositions of the EU assurance mandate under the NFRD (soon to be the CSRD) in Spain and Italy and a similar mandate in France under French corporate law. The approaches in these countries are similar to that being contemplated by Treasury in relation to whole or partial descriptions of the business, except that those countries are starting with limited assurance and transitioning to reasonable assurance.

Longer Term Arrangements

The Introduction (page 3) states that longer term arrangements will be considered by Treasury at a later date⁹. In relation to longer term arrangements we refer to our submission to Treasury's November 2022

⁶ These aspects of S1 and S2 were derived from the TCFD Recommendations and Integrated Reporting Framework.

⁷ [All Financial Reports - ABN AMRO Bank](#)

⁸ The PRESIDENT OF THE BRAZILIAN SECURITIES COMMISSION (CVM) ... adopted the following Resolution (Resolution 14): Article 1 - Makes 'CPC Guideline 09 – Integrated Report', issued by the Accounting Pronouncements Committee - CPC, attached to this Resolution, mandatory for publicly-held companies that decide to prepare and disclose the Integrated Report. Article 2 - The Integrated Report shall (or must) be subject to limited assurance by an independent auditor registered with the CVM in accordance with the rules issued by the Federal Accounting Council (CFC).

⁹ "Feedback from consultation in relation to the governance and oversight arrangements in the financial reporting system was mixed, however the strongest focus was on the need for standards to be developed quickly. Legislation

discovery consultation of February 2023. We will re-iterate these recommendations when Treasury moves to consider longer-term arrangements, in particular:

- the need for a ‘third board’ (an Australian Sustainability Standards Board).

The existence of such a board would be a factor taken into account internationally by bodies such as the IFRS Foundation and ISSB in assessing Australia’s international alignment;

- enhancing the FRC in terms of resourcing; and
- providing the FRC with a specific mandate in relation to integrated reporting.

The Deakin University Integrated Reporting Centre

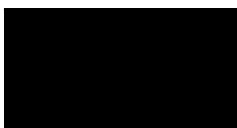
The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in integrated reporting: thought leadership and engagement, education and training, and research. It also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF).

The BRLF is a discussion forum. It is the IFRS Foundation’s designated Integrated Reporting Community for Australia and is a reporting stakeholder to the Financial Reporting Council (FRC). Accordingly, it has direct international connectivity and a strong local voice. Its mission is to drive better business reporting with a focus on integrated reporting and producing support research, thought leadership and education in integrated reporting.

This consultation is core to the missions of both the DIRC and BRLF given the importance of climate disclosure within a better business reporting context. We make this submission on behalf of the DIRC.

We hope that this submission will be of assistance and are available to discuss our recommendations with Treasury.

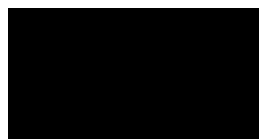
Yours faithfully




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Appendix Legal Requirement for an 'Annual Report'

Our understanding is that there is no legal requirement for companies to produce a report named an 'annual report'. The production of annual reports has become normal market practice as they are convenient place to locate reports and information (for example, Directors Reports, including Directors Reports containing Operating and Financial Reviews, and Remuneration Reports) that is required by law or ASX Listing Rules (for example, Corporate Governance Statements, ASX Corporate Governance Principles and Recommendations) and is useful to users.

There are a number of places in the Consultation Paper where this clarification could be made:

Location of climate disclosures

Page 19 says of the location for making climate disclosures:

"To maintain alignment with existing corporate reporting practices, climate disclosures would be required to be published in an entity's annual report. The annual report is a primary document through which entities communicate details of their activities, financial results, and strategies."

We recommend that the non-mandatory nature of an annual report be made clear by way of footnote when the term is first used in the final position paper.

Under Existing Annual Report Requirements, the paper states:

"Annual reports have associated pre-existing requirements, including:

- Directors must make a declaration that the financial statements comply with accounting standards, are true and fair, and that the company is solvent.
- Directors must exercise their duty of care and diligence (section 180 of the Corporations Act) when preparing annual reports.
- Companies, registered schemes and disclosing entities must have the financial report audited and obtain an auditors' report."

None of these bullet points state or suggest that there is a legal requirement for a report named an 'annual report'. On the other hand, correctly, these points name financial statements and audited financial reports as required reports under the Corporations Act and Australian Accounting Standards. Other reports that are required under the Corporations Act are Directors Reports and Remuneration Reports.

There are references in the paper which imply that an annual report is a legally required report:

"Some stakeholders have raised concerns that additional requirements in the annual report may lead to lengthy and impractical reports. ... Entities must include an index table within their annual report that displays climate disclosure requirements." (page 19)

"Climate-related information in the separate report would be subject to the same requirements as the annual report." (page 20)

"For listed entities, annual reports containing climate disclosures would need to be sent to members ..." (page 20)

"All covered entities would be required to make climate disclosures in the annual report available to the public." (page 21)

"This option may result in the duplication of disclosures, as entities are presently required to disclose material climate-related risks in its annual report." (page 22)

We recommend that either the Corporations Act be amended to require annual reports, or the wording in the position paper be tightened to recognise that annual reports are a location of convenience for mandated reports, which should include OFRs being re-named as integrated reports in the interests of maximum international alignment, or OFRs prepared in accordance with the Integrated Reporting Framework.

This point may become more important as technology develops further where users can through technology locate individual pieces of information located in any report or online repository.