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19 December 2024

Dear Claire

Submission by Deakin University Sustainable Business Centre

Congratulations on launching this very timely consultation and thank you for the opportunity for us as leaders of the Deakin University Sustainable Business Centre to make a submission. Following this letter are our responses and a summary of the evidence forming the basis of our responses for your consideration.

When RG 247 was issued by ASIC in 2013, an increasingly lower proportion of enterprise value was being captured on balance sheets prepared in accordance with IFRS Accounting Standards than had been the case in previous decades; regulatory guidance was lacking on how companies could meet their statutory disclosure obligations under section 299A(1) of the Corporations Act regarding business strategies, and prospects for future financial years; 'investor packs' had become popular as a solution for closing the enterprise value reporting gap but lacked consistency, depth and insight; and sustainability reporting was in its infancy and unregulated.

Operating and Financial Reviews (OFRs) have filled an important gap since this time, focusing on explaining a company's business performance. RG 247 was developed with reference to developments in better business reporting at that time, including integrated reporting which itself was in its infancy. The 2019 revision to RG 247 introduced discussion on environmental and social risks and opportunities material to a company's business, performance and prospects.

Things have changed. The IR Framework is now over ten years old; it is up to date and remains fit-for-purpose; it is now a resource of the world's peak reporting body, the IFRS Foundation; and it is widely used in many leading jurisdictions, with Japan being a standout adoption jurisdiction where integrated reports are celebrated by major investors. Integrated reports prepared in accordance with the IR Framework now cover all information needs of investors.

We recommend that ASIC replace RG 247 with a Regulatory Guide recommending that Sustainability Reports be prepared in accordance with the International Integrated Reporting Framework (IR Framework), as integrated reports are the ideal location for financially material sustainability disclosures for the following reasons:

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- An integrated report is the ideal location of financially material sustainability disclosures as the disclosures will be made in the context of a comprehensive description of the company's business. These will be Board's assessment of the financially material sustainability disclosures that investors need to understand. There will be strong consistency in such descriptions across all companies and internationally.

- Integrated reports will provide more consistent, financially relevant and concise disclosures for regulation of sustainability reporting by ASIC than RG 247, with ASIC being seen to have played a key role in reducing the volume, complexity and cost of reporting while increasing its utility for investors.

  The comprehensive description of a company's business in an integrated report will include a description of a number of key business processes that will be important for ASIC's regulation of sustainability reporting: governance, strategic management, risk management, materiality determination, stakeholder relationship management, reporting and information management. ASIC will be able to understand how the Board of Directors and management have gone about governing and managing the business.

  The Basis of Preparation and Presentation essential to an integrated report will provide ASIC with a clear view of a company's reporting strategy; the reporting frameworks and standards used; and the company's corporate reports portfolio which will be built on the sustainability (integrated) report as the flagship corporate report for investors.

  The Director Responsibility Statement will demonstrate the responsibility of the Board of Directors for all of the above including the processes used to ensure the integrity of the company's corporate reporting.

- An integrated reporting-based framework for sustainability reporting will be a tool for future-proofing Australia's reporting regime as new Australian Sustainability Reporting Standards are introduced.

  Australian Sustainability Reporting Standard S2 requires information on governance, strategy, risk management and metrics and targets in relation to climate-related financial risks and opportunities. Presumably similar requirements will be included in future topic-based sustainability reporting standards on biodiversity and human capital.

  The comprehensive description of the business in a sustainability report prepared in accordance with the IR Framework, particularly as to the business model, will be fit-for-purpose for reporting under all current and future sustainability reporting standards. Companies will not need to revisit their description of the business each time a new topic-based sustainability reporting standard is introduced.

- Integrated reporting is widely adopted in key jurisdictions around the world, remains fit-for-purpose and meets contemporary investor needs in a way that OFRs and sustainability reports prepared without the benefit of using the IR Framework do not and cannot. Australia has the opportunity to join global integrated reporting leaders in advancing the interests of investors. By adopting our recommendations ASIC can be a key driver of Australia becoming one these global leaders.

- If sustainability reports are prepared in accordance with the IR Framework, separate OFRs will not be necessary. Replacing OFRs with sustainability reports prepared in accordance with the IR Framework will reduce the volume, cost and complexity of corporate reporting and the number of reports in an annual report. Using cross-referencing possible under the sustainability reporting legislation and the conciseness guiding principle of integrated reporting, duplication and redundancy in and between reports will be reduced.

About the Deakin Sustainable Business Centre

The Deakin Sustainable Business Centre advocates for, teaches and researches sustainability legislation and disclosure in an integrated reporting environment. We focus on the IFRS Foundation's concept of sustainability – long term business resilience and sustainability which is derived from the fundamental concepts of the IR Framework.

Our team harnesses resources and relationships across the university and is at the leading edge of trends and developments which can help companies, investors and regulators safeguard current and future business practice.

The Deakin Sustainable Business Centre was previously known as the Deakin Integrated Reporting Centre. The name change emphasises that the Centre is focused on all aspects of sustainable business practice, including sustainability and integrated reporting. The Centre is in a good position to undertake research related to sustainability reporting. In addition, several submissions have been made by the Centre (Deakin Integrated Reporting Centre | Deakin). We were instrumental in developing several university units and modules on integrated reporting and provide executive education.

We are, therefore, in a good position if required, to support ASIC in developing and delivering education materials for its executives and staff, as well as to conduct relevant sustainability reporting research of importance to ASIC.

We understand that our response is detailed and strongly recommends an alternative solution. We think it would be valuable for senior members of the Deakin Sustainable Business Centre to take members of the ASIC team through our response in more detail, answer questions and provide further evidence to support the proposed approach. We strongly believe our recommendation will provide more relevant and robust corporate information for investors and ASIC in line with global best practice.

Following is our responses to ASIC's questions. Following the responses is a summary of the basis of our responses.

We hope that this submission will be of assistance.

Yours faithfully

[redacted]

John Stanhope AM
Chancellor, Deakin University and Chair, Deakin Sustainable Business Centre Advisory Board

[redacted]

Michael Bray
Executive Director, Deakin Sustainable Business Centre

[redacted]

Professor Roger Simnett AO
Director, Deakin Sustainable Business Centre

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Professor Peter Carey
Director, Deakin Sustainable Business Centre

Responses to ASIC's Questions

Preparing the Sustainability Report

B2Q1 Does our proposed guidance help you understand the sustainability records that must be kept?

Your proposed guidance helps us understand the sustainability records that must be kept. However, we recommend that the guidance be supplemented and complemented with integrated reporting content as explained in the covering letter and below, as this will take sustainability reports beyond OFRs without losing any OFR information in a way which benefits investors, other stakeholders and ASIC.

A good integrated report provides investors and other stakeholders with concise yet comprehensive, holistic and insightful information they need about the business, its performance and prospects. Integrated reporting-based sustainability reports will also provide ASIC with a framework to assess the quality of disclosures made in relation to section 299A(1), and where required, challenge companies particularly in relation to the following disclosures required by the Framework:

- the Basis of Preparation and Presentation;
- the Director Responsibility Statement;
- information about the performance of the following key business processes:
    - Board's governance process;
    - strategic management process;
    - materiality determination process;
    - reporting process;
    - risk management process, …

… which together with the other integrated report content have been proven to provide suitable criteria for assurance under international assurance standards[1].

Sustainability records in support of sustainability reports prepared under the IR Framework would include **documentation at a level which will meet independent external assurance evidence requirements** in relation to decisions made regarding the:

[1] Independently assured integrated reports can also provide sound evidence in support of disclosures made by Boards under ASX Corporate Governance Recommendation 4.3 (to become Recommendation 4.2 in the coming 5th Edition) as to the process in place to ensure the integrity of all unaudited periodic corporate reports.

- *Basis of Preparation and Presentation* required under paragraphs 4.42 and 4.48 of the IR Framework;
- *Director Responsibility Statement* required under paragraph 1.20 of the IR Framework, including acknowledgement of the *Board's responsibility* to ensure the integrity of the integrated reporting-based sustainability report and their opinion or conclusion about whether, or the extent to which, the sustainability report is presented in accordance with the IR Framework as well as the Corporations Act requirements;
- *design and operation of the following key business processes:*
    - *Board's governance process* – how the board governs the business and works with management in creating value for the organisation and its stakeholders over the short, medium and long term;
    - *materiality determination process* – how the company identifies relevant matters in terms of their known or potential impact on value creation, and evaluates and priorities these matters in deciding information to be disclosed;
    - *reporting process – reporting process disclosures* encouraged by paragraph 1.24 of the IR Framework and supplementing the statement of responsibility as this information will indicate measures taken by a company to ensure the integrity of the sustainability report;
    - *risk management process*. This will include how material sustainability risks as recorded in the company's risk register are assessed for materiality for business purposes.
    - *the remainder of the business model*. That guidance should cover processes, systems and controls relating to the description of all key business processes including strategy, stakeholder management and information, management processes.

Further comments and examples of good practice in some of these areas follow. We believe that it will be useful for companies if RG 000 refers to these component of the IR Framework and to the good practice examples either directly or by summarising the content from the examples in providing guidance to companies[2].

Basis of Preparation and Presentation

The Basis of Preparation and Presentation should include a summary of the:

[2] It is not surprising that these good practice examples are larely drawn from South Africa as it is the pioneer of integrated reporting (since 2010) through the King Code of Corporate Governance. Integrated reporting is mature and core business practice in South Africa.

- organisation's materiality determination process and key judgements. This summary may include a brief description of the process used to identify relevant matters, evaluate their importance and narrow them down to financially material matters.

  A link to a more detailed description of the process can be included. That detailed description can be guided by paragraphs 3.18 to 3.29 of the IR Framework.;

- significant frameworks and methods used to quantify or evaluate financially material matters included in the report (e.g. the applicable accounting and sustainability-related financial reporting standards used for compiling financial information, a company-defined formula for measuring customer satisfaction, or an industry-based framework for evaluating risks).

- a description of the reporting boundary and how it has been determined.

The 2023 CPA Australia integrated report provides a good example of a Basis of Preparation and Presentation ('About this report') on the inside front cover in a manner consistent with paragraph 4.48 of the IR Framework. The report demonstrates that an integrated report can provide suitable criteria for whole-of-report independent external assurance of sustainability reports expressed in terms of the report's adherence to the IR Framework.

The integrated report of Nedbank (link: 2023), a large listed South African bank, also provides a good example of a Basis of Preparation and Presentation in accordance with the IR Framework. Page 1 sets out Nedbank's reports portfolio ('Our reporting universe') and is part of the Basis of Preparation and Presentation.

Director Responsibility Statements

The integrated report of Nedbank provides a good example of a Director Responsibility Statement. Page 4 ('Approval by the Board') evidences the Board's sign off in a manner consistent with paragraph 1.20 of the IR Framework. The underlying governance process disclosure provides a good example of integrated thinking in relation to governance.

Governance Process

An integrated report provides insight about how matters such as the following are linked to the organisation's ability to create value:

- The organisation's leadership structure, including the skills and diversity (e.g. range of backgrounds, gender, competence and experience) of those charged with governance and whether regulatory requirements influence the design of the governance structure.

- Specific processes used to make strategic decisions and to establish and monitor the culture of the organisation, including its attitude to risk and mechanisms for addressing integrity and ethical issues.

- Particular actions those charged with governance have taken to influence and monitor the strategic direction of the organisation and its approach to risk management.
- How the organisation's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders.
- Whether the organisation is implementing governance practices that exceed legal requirements.
- The responsibility those charged with governance take for promoting and enabling innovation.
- How remuneration and incentives are linked to value creation in the short, medium and long term, including how they are linked to the organisation's use of and effects on its resources and relationships.

Governance more generally is covered in pages 17 to 35 of the 2023 Nedbank integrated report. Pages 22-25 provide an example of what we call 'active governance'. The report deals with what the Board did and how it performed in addition to the 'static information' which dominates much reporting on corporate governance today. It connects with 'ESG' (sustainability) reporting and the Top 10 risks and shows the use of the King Code of Corporate Governance.

Reporting Process

The integrated report of Nedbank also provides a good example of reporting process disclosures linked to a Director Responsibility Statement. Page 2 ('About our 2023 integrated report') links Nedbank's purpose to its integrated thinking and then to its integrated reporting process in a manner consistent with paragraph 1.24 of the IR Framework. Specifically, it details the Board's role and how it links to that of management. It also explains the materiality determination process. This is an illustration of integrated thinking (refer (IFRS - Integrated reporting) in relation to reporting.

Risk Management Process

Pages 51-54 of the 2023 Nedbank integrated report explain how it manages risk strategically in a manner consistent with paragraphs 4.24 to 4.27 of the IR Framework.

Other Comments

It should be noted that the IASB's original Management Commentary Practice Statement was not issued in Australia, largely because OFRs under ASIC's RG 247 provided much of the information required by that Practice Statement. We believe that it is unlikely that the revised Management Commentary Practice Statement currently being finalised by the IASB will meet the level of reporting achieved by the IR Framework. In particular, it is unlikely to deliver what the IR Framework delivers on governance disclosure in the context of the business's performance and prospects as we understand that 'management' will be defined by the IASB to include 'those charged with governance'.

B2Q3 Does our proposed guidance help you understand our expectations for directors in complying with their sustainability reporting requirements?

Your proposed guidance helps us understand the sustainability records that must be kept. However, we believe that the guidance can be strengthened with the integrated reporting content and examples set out in our response to B2Q1, as this will take sustainability reports beyond OFRs in a way of benefit to investors, other stakeholders and ASIC.

B2Q4 Are there any aspects of the sustainability reporting requirements where further ASIC guidance would be helpful for directors?

Refer our response to B2Q1.

In addition, the 'Integrated Reporting Assurance' series of publications from the International Federation of Accountants (IFAC)[3] may be helpful for directors (as well as auditors), particularly '"Executing the Board's Governance Responsibility for Integrated Reporting" which highlights the responsibility of the Board of Directors for the integrity of an integrated report and underlying reporting process, as well as the contribution of internal audit.

In addition to providing links to the abovementioned paper, the page on the IFAC website titled 'Latest Developments in Integrated Reporting Assurance – Momentum is Building' (link: Latest Developments in Integrated Reporting Assurance – Momentum is Building | IFAC) contains a narrative authored by Michael Bray from the Deakin University Sustainable Business Centre, Norie Takahashi of KPMG Japan and Stathis Gould of IFAC. This paper includes material that will be useful for directors.

It may be helpful for RG 000 to reference the IFAC website and these publications.

B2Q6 What further guidance should we provide about the modified liability settings?

The proposed guidance about the modified liability settings comprises mainly factual statements. We believe that directors would value guidance about what ASIC will expect them to do so as to not attract the modified liability provisions.

We also recommend that proposed RG 000.65 be extended to say that statements made voluntarily inside a sustainability report will attract the protection of the modified liability settings in the same way as mandatory statements made inside the sustainability report do, provided that they are specifically flagged as required by the Act. This will include the integrated reporting-related disclosures recommended in this submission.

3

The first instalment in this series, Accelerating Integrated Reporting Assurance in the Public Interest, explains the nature of integrated reporting assurance. IFAC regularly publishes benchmarking studies on sustainability reporting assurance generally (link: Latest Developments in Integrated Reporting Assurance – Momentum is Building | IFAC). These publications may be of interest to ASIC and companies, particularly directors.

C1Q1 Are there other issues relevant to reporting entities' assessment of whether there are no material financial risks or opportunities?

We believe that organisations which have been adopting integrated reporting will be well placed for the adoption of AASB S2, particularly in relation to the assessment of a reporting entity's financial risks and opportunities in relation to climate, including an assessment that there are no such risks or opportunities.

In particular, the entity will need to disclose its materiality determination process. The description of the materiality determination process can be connected to the stakeholder management, reporting process and risk management processes in the integrated report, which will evidence the Board's thinking that there are no such risks or opportunities.

Resulting process disclosures are part of the information covered by the Board's Director Responsibility Statement and will be part of the information which is assured where an organisation obtains independent assurance of its entire integrated report.

The 2023 Nedbank integrated report connects these process disclosures in this way on page 3 of the report. 'Integrated thinking' connects governance, strategic management, materiality determination, stakeholder management, risk management and reporting within Nedbank's business model.

Refer also to our response to B2Q1.

C3Q1 Do you agree with our proposed guidance?

We believe that organisations which have been adopting integrated reporting will be well placed in making forward-looking statements under AASB S2.

Resulting disclosures are part of the information covered by the Board's Director Responsibility Statement and will be part of the information which is assured where an organisation obtains independent assurance of its entire integrated report.

C3Q2 Should we issue more guidance about the facts or circumstances that are more likely to constitute reasonable grounds for forward-looking information in climate statements? If you consider that we should issue more guidance, please explain:

(a) what it should cover beyond the application guidance in Appendix D of AASB S2;

(b) how you consider that guidance would impact information disclosed under the sustainability standards in Australia, compared to information disclosed under the comparable international standards; and

We agree with proposed paragraphs RG 000.72 to .81.

The final versions of Australian Sustainability Reporting Standards S1 and S2 are aligned with IFRS Sustainability Disclosure Standards S1 and S2. Accordingly, further application guidance issued by the ISSB should be useful for the AASB to issue in Australia.

The IR Framework does not require the disclosure of financial forecasts and projections. Paragraphs 4.35 to 4.40 provide useful guidance on disclosures about the outlook, or forward-looking information, and may be useful for inclusion or referencing in RG 000.

Use of the guiding principles set out in paragraphs 3.2 to 3.57 of the Framework provide useful qualitative guidance in relation to forward looking information. Connectivity including between sustainability disclosures and financial reporting is an application of these guiding principles.

Disclosures under the IR Framework are largely forward-looking in nature. Again, we believe that the integrated reporting-related recommendations made in this submission will strengthen forward-looking statements in integrated reporting-based sustainability reports, particularly when the Sustainability Report has whole-of-report independent external assurance. The 2023 CPA Australia integrated report made voluntary disclosures under IFRS Sustainabiility Disclosure Standards (before Australian Sustainabiility Reporting Standards were issued) and was independently assured.

The Nedbank 2023 integrated report provides a good example of how forward-looking information can be integrated throughout a report. Page 4 contains a cautionary statement on forward-looking statements. It also contains the following statements:

- "Forward-looking statements made by Nedbank Group on 5 March 2024 at the time of releasing its 2023 results, were informed by the group's business plans and economic forecasts in February 2024".
- 'Strategy and targets - We provide insight into the group's strategy, as well as financial and non-financial targets for the short (1 year), medium (2 to 3 years) and long term (5 years +)'.

This approach is consistent with ASIC's proposed guidance.

The 2023 CPA Australia integrated report also blends forward-looking information throughout the report.

It may be useful for RG 000 to refer to these components of the IR Framework and these examples either directly or by summarising the content from the examples.

Refer also to our response to B2Q1.

C4Q1 Do you agree with our proposal? If not, why not?

We agree with ASIC's proposal.

C5Q3 If you currently prepare voluntary reports covering sustainability, are there other ways to achieve the outcomes our guidance seeks to achieve?

The Deakin Sustainable Business Centre does not prepare reports.

To re-iterate our key point, we recommend that ASIC replace RG 247 with a Regulatory Guide (RG 000) recommending that Sustainability Reports be prepared in accordance with the IR Framework, given that integrated reports are the ideal location for material sustainability disclosures.

Companies that locate sustainability disclosures in sustainability reports prepared under the IR Framework may decide that they no longer need to prepare often-costly 'glossy' separate sustainability reports. More detailed information may be included in hyper-linked online locations that are referenced in the sustainability report.

This technique was used by Nedbank in its 2023 integrated report ('Our reporting universe'). It is also used in 'data books' by companies such as BHP and AGL, although those companies do not claim to report in accordance with the IR Framework.

C6Q1 Do you agree with our proposed guidance? If not, why not?

We agree with your proposed guidance.

C7Q1 Do you agree with our proposed guidance? If not, why not?

We agree with your proposed guidance.

We recommend that your proposed guidance be supplemented with guidance about the importance of rigorous preparation of narrative disclosures in addition to sustainability records in relation to metrics and associated disclosures.

In particular, that guidance should cover processes, systems and controls relating to the description of governance, strategy and risk management in relation to climate-related financial risks and opportunities. This documentation should be sufficiently robust to meet the evidence requirements for independent external assurance. The documentation should include examples demonstrating what ASIC expects in these areas.

Refer also to our responses to B2Q1.

D1Q1 Do you agree with our proposed guidance? If not, why not?

We agree with your proposed guidance.

D2Q1 Do you agree with our interpretation of s299A(1)? If not, why not?

For reasons already discussed and as set out below, we disagree with your interpretation of section 299A(1) in the context of the evolution of integrated reporting since RG 247 was issued in 2013. The main reason for our disagreement is that we believe that developments in integrated reporting and integrated reporting assurance around the world (even since RG 247 was last revised in 2019), and the IR Framework now being a resource of the IFRS Foundation, mean that Australia is ready to move beyond the important stepping stone established through RG 247 with OFRs.

The IFRS Foundation has adopted a broader *long term resilience and sustainable business* concept of 'sustainability' than has traditionally been used in relation to the term, where a traditional narrower and more short interpretation of the term has underpinned sustainability / ESG reporting prior to the advent of IFRS Sustainability Disclosure Standards S1 and S2.

The acquisition of the IR Framework by the IFRS Foundation has enabled the ISSB to embed this broader concept of sustainability in the definition of 'sustainability-related financial' in S1 and S2. The concept is explained in S1 and S2 in terms of the three fundamental concepts of integrated reporting instead of directly using the term, 'enterprise value', which equates to the net present value of future cash flows.

The Vice-Chair of the ISSB, Sue Lloyd, explained this as follows at the October 2024 Integrated Thinking and Integrated Reporting Conference:

> "When we were working on the prototypes and exposure draft [of S1] we already had the backbone of the Integrated Reporting Framework. There are concepts in the Integrated Reporting Framework that are really important. We borrowed them [for S1 and S2]. The concepts of the capitals [resources and relationships'] and value creation are now front and centre in S1 when they weren't visible in the exposure draft.
>
> We doubled down on the Integrated Reporting Framework in the re-deliberations when we had the exposure draft out with the notion of enterprise value. People didn't understand what enterprise value is. They thought we were talking about share prices, about being market-focused. They were missing an understanding that [enterprise value] at the heart are the drivers of value creation.
>
> That's when we had an 'ah ha' moment about the Integrated Reporting Framework. So it was fundamental to say that integrated thinking and integrated reporting are right in the middle [of S1]."

Given this in-substance use of enterprise value, being the net present value of future cash flows, through the fundamental concepts of integrated reporting, with integrated reports being primarily for investors but of interest to all stakeholders, it is clear that S1-based sustainability reports have exactly the same purpose and audience as integrated reports. Accordingly, it is natural that sustainability reports prepared in accordance with the IR Framework will produce a highly valued outcome for investors, other stakeholders and ASIC.

On this basis we believe that integrated reports prepared in accordance with the IR Framework are a more up to date and holistic response to section 299A(1) than OFRs:

- The IR Framework remains up to date and is a highly valued resource of the IFRS Foundation.
- Integrated reporting has been widely adopted in important jurisdictions. For example, in Japan, more than 1,000 companies have issued integrated reports.
- Integrated reporting concepts are embedded in IFRS Sustainability Disclosure Standards S1 and S2, and therefore in Australian Sustainability Reporting Standards S1 and S2. The integrated report is an ideal location for financially material disclosures under S1 and S2 and future sustainability reporting standards.

- Integrated reports prepared in accordance with the IR Framework offer a broader and deeper account of an organisation's value creation story than OFRs prepared in accordance with RG 247.
- Widespread adoption of integrated reporting in Australia would allow Australia to join leading integrated reporting jurisdictions, which will be in the interests of pursuing the core objects set out in section 224 of the ASIC Act.

When ASIC published Regulatory Guide 247, 'Effective disclosure in an operating and financial review', in March 2013 (updated 2019):

- The IR Framework had not been published. It was published in December 2013.
- Sustainability reporting in Australia was not well developed and had not been mandated.
- The International Sustainability Standards Board had not been established (it was established in 2021) and the global baseline for sustainability reporting of IFRS Sustainability Disclosure Standards had not been developed (the first standards were issued in 2023).
- The IFRS Foundation had not explained its concept of 'sustainability' and defined 'sustainability-related financial' as the basis for standardising sustainability reporting.
- The ASX Corporate Governance Principles and Recommendations did not contain corporate reporting recommendations. The 2019 4th Edition contained Recommendations 4.3 (on processes to ensure the integrity of unaudited corporate reports such as OFRs) and 7.4 (on disclosure of environmental and social risks) which became effective after RG 247 was revised.

Since 2013, the IR Framework has achieved widespread use in a number of major jurisdictions around the world. It is now a resource of the IFRS Foundation, the world's peak corporate reporting body. It is up to date and remains fit-for-purpose. Integrated reports in accordance with the Framework have proven to provide suitable criteria for independent external assurance under international auditing standards. In Brazil, whole-of-report independent external assurance of integrated reports has been mandated on an 'opt in' basis since 2021.

<u>The Opportunity to Achieve More integration in Australian Corporate Reporting</u>

We recommend that ASIC withdraw RG 247 when RG 000 is issued with references to Integrated Reports.

Under section 299A(1), a listed entity's directors' report must contain information that investors would reasonably require to make an informed assessment of the entity's:

(a) operations (see section 299A(1)(a));

(b) financial position (see section 299A(1)(b)); and

(c) business strategies, and prospects for future financial years (see section 299A(1)(c)).

ASIC recommends certain disclosures to meet the requirements of section 299A(1). However, there is no legal requirement for a report labelled an OFR, although OFRs have been a useful repository for section 299A(1) disclosures while integrated reporting has matured. Accordingly, we specifically disagree with paragraphs RG 000.115 to RG 000.116:

> "RG 000.115 This reflects a legislative intention that the financial report, sustainability report and directors' report are provided to members together as part of a reporting entity's annual reporting.
>
> RG 000.116 For listed reporting entities that are required to prepare both a sustainability report and an OFR, we consider that the OFR requirements must be read in the context of the expanded suite of statutory materials that form part of the annual reporting to which the OFR relates."

We also do not understand the following paragraphs:

> "RG 000.118 Therefore, the OFR plays an important and expanded role in situating the specific climate-related strategies, climate-related risks and climate-related opportunities disclosed in a listed reporting entity's sustainability report within the broader context of the listed reporting entity's corporate strategy (including risks and opportunities) and prospects for future financial years.
>
> RG 000.119 For example, a listed reporting entity may disclose detailed information about climate-related strategies, material climate-related financial risks and opportunities in the sustainability report. However, while these matters may be material, they may not be the most critical factors relevant to the listed reporting entity's prospects, when balanced against other strategies, risks and opportunities for the listed reporting entity.
>
> RG 000.120 In these circumstances, the listed reporting entity should ensure that the OFR explains how significant these climate-related strategies, climate-related financial risks and opportunities are within the broader context of the listed reporting entity's corporate strategy and prospects.
>
> Note: This is particularly important information for users who are unaccustomed to reading financial reports and sustainability reports and may otherwise place disproportionate weight on the detailed risk or opportunity information in the sustainability report."

These paragraphs appear to be suggesting the duplication of at least some climate-related disclosures in sustainability reports and OFRs. That would be an unfortunate and, in our view, unnecessary duplication. We do not understand how matters which are financially material may not be the most critical factors relevant to an entity's prospects.

If the point being made is a recognition of the distinction between financial materiality under IFRS Sustainability Disclosure Standards / Australian Sustainability Reprting Standards, and impact materiality under GRI Standards and double materiality used in European Sustainability Reporting Standards, we believe these paragraphs would be better worded in these terms.

These paragraphs also go beyond the disclosures recommended in RG 247.

The Directors Report can refer to the Sustainability Report for information about business strategies and prospects for future financial years to avoid duplication.

F2Q1 Are there any other areas of concern or uncertainty about complying with the sustainability reporting requirements that you consider ASIC could address through regulatory guidance? If so, please provide details.

We re-iterate our comments in relation to integrated reporting.

F2Q2 Are there any other issues or additional information that you consider should be explained in draft RG 000 or future guidance? If so, please provide details.

We re-iterate our comments in relation to integrated reporting.

ASIC should avoid adding guidance when that guidance should be provided by the AASB as the standard setter. A simple rule of thumb could be that guidance in relation to the application of Australian Sustainability Reporting Standard S2 should be provided by the AASB, and guidance on the application of the Corporations Act should be provided by ASIC.

Summary of Basis of Evidence for Responses to ASIC's Questions

Integrated reporting is widely adopted and remains fit-for-purpose and contemporary for investor needs

Integrated reporting has moved considerably since 2013, and even since 2019. It is now widely adopted around the world. The world's peak corporate reporting body, the IFRS Foundation (IFRS - Home), is now the custodian of the IR Framework (IFRS - Integrated reporting) and Integrated Thinking Principles (IFRS - Integrated reporting). The Framework forms the basis for disclosures made under the TCFD Framework and IFRS Sustainability Disclosure Standards S1 and S2 - and therefore Australian Sustainability Reporting Standards 1 and 2. The IFRS Foundation continues to recommend that organisations adopt integrated reporting and is expected to say more on this shortly.

Integrated reports provide a holistic description of a company's business and value story. They provide insights into the business, its performance and prospects, specifically by describing the company's approach to governance and strategy, its business model, its risks and opportunities, and its use of financial and other resources and relationships in the context of the external business environment. Given this business context, integrated reports provide the best location for sustainability disclosures considered by the Board of Directors to be most material to the business, its performance and prospects. The Directors confirm this by signing the responsibility statement required by the IR Framework. Integrated reports also provide an ideal basis for corporate narratives in an annual report (eg in a commentary by the chair of the Board) and in other places.

Through an integrated report, companies can provide investors with information they need to make fully informed assessments of a company's enterprise value, performance and prospects.

Integrated reports also provide an excellent anchor point for investors to navigate to more detailed and / or non-financially material information (for example, data books) of interest to them and other stakeholders through the Basis of Preparation and Presentation (BoPP) required by IR Framework. The BoPP will explain the materiality determination process, the significant frameworks and methods used to quantify or evaluate material matters and a table of contents linking to other reports.

Integrated Reporting Adoption Around the World

Integrated reporting delivers benefits for investors as well as companies and will deliver benefits to ASIC by ensuring internationally consistent regulatory guidance. ASIC can look to what has been achieved in jurisdictions that have successfully achieved widespread integrated reporting adoption – Japan, France, the Netherlands, Italy, India, Brazil, Turkey, South Africa and Malaysia. Various drivers of adoption have been used in those jurisdictions, including strong regulatory encouragement (India), legislation (Brazil) and corporate governance guidance (Turkey).

South Africa was the pioneer of integrated reporting from 2010 through the King Code of Corporate Governance. Integrated reports are the corporate reporting norm.

The UK has achieved something similar to widespread integrated reporting adoption through its Strategic Report mandate in the Companies Act, as has the EU through its Corporate Sustainability Reporting Directive.

Taking Japan and Brazil as case studies:

- more than 1,000 companies in Japan have issued integrated reports. These companies make up of approximately 80% of the market capitalisation of the TSE Prime market[4]. The Government Pension Investment Fund of Japan which manages a US$2 trillion pension fund investment pool is a key advocate for integrated reporting. The Financial Services Agency of Japan as the corporate regulator had in earlier years not recognised integrated reporting. However the FSA s recently recognised that many Japanese companies provide integrated reports because they are of benefit to investors
- The Brazilian Securities Commission (CVM) published an integrated reporting resolution[5] based on guidance issued by the Brazilian Accounting Pronouncements Committee which makes it mandatory for publicly-held companies that decide to prepare an integrated report that the integrated report be prepared in accordance with the IR Framework and be subject to whole-of-report independent external assurance by an independent auditor. Of the 700-plus companies registered with the CVM in 2021, 64 had reported under the IR Framework by 2022 (the first adoption year) and more were expected to do so in the years to follow.

Examples of good integrated reports in some of these jurisdictions known to the signatories to this submission include Hitachi and Asahi (Japan), Tata Chemicals (India), ABN Amro (Netherlands), Itau Unibanco (Brazil), Intel (USA), United Utilities (UK), Nedbank (South Africa), ENI (Italy), Engie (France) and Garanti (Turkey). Hitachi and Asahi adopted integrated reporting and prepared integrated reports as a source of competitive advantage.

The chairs of the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB) have publicly encouraged the adoption of the Integrated Reporting (IR) Framework to "*drive high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures*" (cited in Dimes and de Villas 2024, *p2*):

> *"We are convinced that the Integrated Reporting Framework drives high-quality corporate reporting and connectivity between financial statements and sustainability-related financial disclosures which improves the quality of information provided to investors. Therefore, we strongly encourage continued*

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[4] 'Survey of Corporate Reports in Japan 2023', KPMG Sustainable Value Services, KPMG Japan – refer page 63. Link: [Survey of Corporate Reports in Japan 2023 - KPMG Japan]

[5] CVM Resolution No. 14 of 9 December 2020 from the Securities Commission of Brazil. Link: [Home — Planalto]

use of the Integrated Reporting Framework and the Integrated Thinking Principles underpinning it." *(*Andreas Barckow, Chair of the IASB, and Emmanuel Faber, Chair of the ISSB)

The IFRS Foundation published a statement explaining the key messages from the recent Integrated Thinking and Integrated Reporting Conference[6]. The messages included that the IR Framework is a powerful tool for aiding companies to adopt IFRS S1 and IFRS S2, and that using IFRS S1 and IFRS S2 has benefits for preparers who already publish integrated reports. These messages also noted that integrated thinking helps companies break down silos and strengthen governance; integrated reports provide a useful location for investor-focused information; and the IR Framework remains an important resource for the IASB and ISSB.

IOSCO supports integrated reporting. In June 2021 it said:

> "One of the important benefits of a solution under the IFRS Foundation is to bring financial and sustainability reporting closer together. An integrated conceptual framework to connect financial and sustainability reporting would help address many of the issues identified in our factfinding exercise. It could support investor demand for more coherence and internal consistency between sustainability-related financial disclosures and companies' financial statements."

Of importance to ASIC, IOSCO recognises integrated reporting as being crucial for conveying the interdependencies between financial performance and sustainability factors. By promoting comparable metrics and encouraging coordination among various reporting frameworks and standards, IOSCO supports a comprehensive corporate reporting system that meets the needs of investors and other stakeholders in today's market landscape.

Benefits of Integrated Reporting[7]

The benefits of integrated reporting include reduced complexity, volume and cost of corporate reporting and improved business productivity:

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[6] IFRS - Integrated Reporting and Thinking Conference 2024—key takeaways

[7] The following papers discuss the benefits of integrated reporting and integrated thinking:

- Baboukardos, D., Mangena, M. and Ishola, A. (2021), "*Integrated thinking and sustainability reporting assurance: international evidence*", Business Strategy and the Environment, Vol. 30 No. 4, pp. 1580-1597.
- Herath, R., Senaratne, S. and Gunarathne, N. (2021), "*Integrated thinking, orchestration of the six capitals and value creation*", Meditari Accountancy Research, Vol. 29 No. 4, pp. 873-907
- S. Zhou, R. Simnett, W. Green, Does integrated reporting matter to the capital market? Abacus, 53 (2017), pp. 94-132
- Barth, M.E., S.F. Cahan, L. Chen, and E.R. Venter. (2017). The economic consequences associated with integrated report quality: Capital market and real effects. *Accounting, Organizations and Society* 62: 43–64.
- Stanhope, J and Bray, M, Integrated Thinking, Integrated Reporting, Integrated Corporate Governance and Strategic Management – An Approach to Avoiding and Where Necessary Managing Crises. Available at https://www.deakin.edu.au/__data/assets/pdf_file/0004/2693056/Integrated-thinking-Integrated-reporting-Paper-Nov-2023.pdf.

- Through integrated thinking, integrated reporting offers business productivity improvement potential, both at the corporate and national level.
- Integrated reports drive greater investor confidence in capital markets, particularly when the integrated report has independent external assurance.
- Integrated reports enable broader stakeholder - employees, customers, suppliers, business partners, local communities, legislators, regulators and policy makers - understanding of and confidence in an organisation in relation to its corporate governance, strategy, business model, performance and prospects, and the societal impacts of an organisation's activities including in relation to climate.
- Enhanced ability to achieve compliance with the new mandatory Australian Sustainability Reporting Standards.

We believe that a significant body of evidence can be collated in relation to these benefits, notwithstanding that to date, there have not been a significant number of research papers published in today's widespread adoption environment, particularly on the benefits of more integrated thinking. Deakin offers to be commissioned by ASIC to carry out such research on its behalf.

The IFRS Foundation's Ongoing Commitment to Integrated Reporting

The IFRS Foundation confirmed its commitment to integrated reporting at the Integrated Thinking and Integrated Reporting Conference in Milan in October 2024. The Foundation published a summary of six key messages from the Conference:

1. The IR Framework is a powerful tool for aiding companies to adopt IFRS S1 and IFRS S2.
2. Integrated thinking helps companies break down silos and strengthen governance.
3. Using IFRS S1 and IFRS S2 has benefits for preparers who already publish integrated reports.
4. Integrated reports provide a useful location for investor-focused information.
5. The IR Framework remains an important resource for the IASB and ISSB.
6. The Integrated Reporting stakeholder community is wide and active — the Foundation wants market participant participation in its ongoing work.

A summary of the key takeaways can be found here: IFRS - Integrated Reporting and Thinking Conference 2024—key takeaways.

Driving adoption of integrated reporting in suatainability reports in Australia will allow Australia to emulate the experiences of the jurisdictions mentioned above which have achieved widespread adoption of integrated reporting, and to achieve a leadership role within the global corporate reporting system.

Operating & Financial Reviews – A Stepping Stone to Integrated Reporting

Integrated reports in accordance with the IR Framework go beyond the information set out in RG247 – refer to our response to Question B2Q1 above.

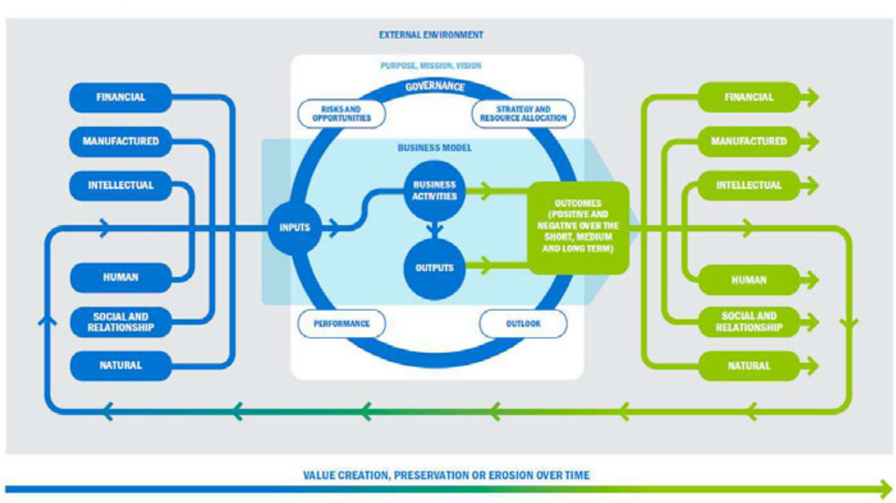
Integrated reports contain a holistic and connected description of the organisation's business story, given the foundation of integrated reporting on integrated thinking, and adhere to a set of guiding principles that enhance the ability of investors and other stakeholders to use the information contained therein. Through the integrated thinking foundation of integrated reporting, integrated reports provide a window into the quality of the organisation's business model, the engine room of value creation. Their preparation drives more integrated thinking.

In particular, integrated reports provide more comprehensive yet concise, connected and insightful information about an organisation's business model than what results from applying RG 247 (or Australian Sustainability Reporting Standards S1 and S2 and the TCFD Framework), which contains only the following about business models:

> "An informed understanding of an entity's operations should generally be presented in the context of the entity's business model, and this model should be clearly articulated. This includes explaining the key features of the business model—that is, how the entity makes money and generates income or capital growth for shareholders or otherwise achieves its objectives. Any key dependencies should be disclosed. These are factors relied on to make money or achieve the entity's objectives. An example would be a dependency on an important contract. The significance of particular operating segments to the business as a whole should also be made clear."

'Business model' is one of the content elements of the IR Framework. Extensive guidance is set out in paragraphs 4.10 to 4.23. Importantly, Figure 2 has become a benchmark for visually depicting the business model in integrated reports:

Figure 2. Process through which value is created, preserved or eroded



An adaptation of this diagram, appropriately tailored to the individual organisation, appears in all good integrated reports. Use of such diagrams has enabled a level of consistency in describing the business around the world.

The 2023 Nedbank integrated reporting has a compelling visual depiction of its business model on pages 11 to 13 of the report. The report links Nedbank's resources and relationships as inputs with attached KPIs ('Availability and quality of our 6 capital inputs') to the business model. Value is created through the company's key activities which deliver products and services and outcomes for the resources and relationships, delivering long-term value for stakeholders. KPIs for the outputs and outcomes are provided as are visual depictions on value delivered for stakeholders. Not all impacts on stakeholders were positive. Connections are made in the diagram to the material matters and Top 10 risks. The business model enables Nedbank to explain how it delivers on its strategy.

It may be useful for companies if RG 000 refers to this component of the IR Framework and to this good practice example.

<u>Integrated Reporting Concepts Embedded in Australian Sustainability Reporting Standards</u>

Sustainability reporting in Australia has now been mandated through the Treasury Laws (Financial Market Infrastructure and Other Measures) Act 2024 and implemented through Australian Sustainability Reporting Standards issued by the Australian Accounting Standards Board. These standards are aligned with the global baseline of IFRS Sustainability Disclosure Standards.

The fundamental concepts of integrated reporting have been embedded within IFRS Sustainability Disclosure Standards S1 and S2. In particular, S1 states:

> "2. Information about sustainability-related risks and opportunities is useful to primary users because an entity's ability to generate cash flows over the short, medium and long term[8] is inextricably linked to the interactions between the entity and its stakeholders, society, the economy and the natural environment[9] throughout the entity's *value chain*[10]. Together, the entity and the resources and relationships throughout its value chain form an interdependent system in which the entity operates. The entity's dependencies on those resources and relationships and its impacts on those resources and relationships give rise to sustainability-related risks and opportunities for the entity.
>
> 3. This Standard requires an entity to disclose information about all sustainability-related risks and opportunities that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. For the purposes of this Standard, these risks and

[8] Value creation
[9] The Capitals
[10] Value creation process

opportunities are collectively referred to as 'sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects'.

4. This Standard also prescribes how an entity prepares and reports its *sustainability-related financial disclosures*. It sets out general requirements for the content and presentation of those disclosures so that the information disclosed is useful to primary users in making decisions relating to providing resources to the entity."

ASIC's Integrated Reporting Opportunity

The Deakin Sustainable Business Centre has urged the IFRS Foundation to be more publicly visible in communicating these messages in its advocacy for widespread adoption of integrated reporting around the world. While its current emphasis is on adoption of IFRS Sustainability Disclosure Standards and the important role played by the IR Framework in developing these standards, its communications about integrated reporting have reached people who are already integrated reporting advocates. ASIC can assist Australian companies and investors enjoy the benefits of integrated reporting and integrated thinking by re-orienting its guidance on section 299A(1) of the Corporations Act.

On the basis of the above, integrated reports can provide what ASIC needs in terms of delivering internationally consistent regulatory guidance on meeting the requirements of section 299A(1) of the Corporations Act in the current environment and for the future. Such guidance can re-reinforce the Board of Directors' responsibility for the integrity of all corporate reports and sign off on what is financially material to the business.

Our recommendation is for ASIC to recognise that sustainability reports replace the OFR while building on it through use of the IR Framework. A good integrated report provides investors and other stakeholders with the business information they need and ASIC with a framework to assess the quality of the disclosures, and where required challenge them particularly given the following disclosures required by the Framework:

- the Basis of Preparation and Presentation;
- information about the performance of the following business processes:
    - Board's governance process;
    - materiality determination process;
    - risk management process
    - reporting process;
- the Director Responsibility Statement,

which together with the other report content have been proven to provide suitable criteria for assurance under international assurance standards.

An opportunity has been missed to achieve more integration in reporting rather than adding two new reports. This could have been achieved if the Government had legislated the more holistic integrated report which contained material climate and other sustainability, rather than adding more reports in the form of sustainability reports and climate statements.

ASIC now has the opportunity to reduce the complexity, volume and cost of corporate reporting. Given that a report titled an OFR is not required by law, we recommend that ASIC replace RG 247 with a Regulatory Guide recommending integrated reporting in accordance with the IR Framework and the inclusion of relevant material climate and other sustainability and climate disclosures be included within the Integrated Report.

This will reduce the complexity, volume and repetition in reporting. It will reduce the number of reports contained in annual reports from five (Directors Reports, Operating and Financial Reviews, Financial Reports, Sustainability Reports and Climate Statements) to four. In this way a holistic description of a company's governance process will be a feature of Sustainability Reports, supported by the Director Responsibility Statements required by the IR Framework. The Directors Report can refer to the Sustainability Report so as to comply with the sustainability reporting legislation.

We believe that if our recommendation is followed, ASIC will be driving more integration in reporting, providing opportunities for reduced complexity, volume and cost, and through the foundation of integrated reporting on integrated thinking, paving the way for better business practice. It will drive greater consistency and comparability in Australian corporate reporting and will allow Australia to join jurisdictions such as Japan in being global leaders in corporate reporting. These developments will make a positive contribution towards achieving the core objects of the Australian financial reporting system set out in section 224 of the ASIC Act.