APPC
Australian Public Policy Committee

Promoting positive public policy outcomes in respect of audit, accounting and related services in Australia

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Australian Securities and Investments Commission
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Via email: sustainable.finance@asic.gov.au

17 December 2024

Dear Ms LaBouchardiere,

The Australian Public Policy Committee (APPC) welcomes the opportunity to respond to the Australian Securities and Investments Commission (ASIC)'s Consultation Paper 380 *Sustainability reporting* (CP380) dated November 2024.

The APPC comprises the six largest professional services firms in Australia being BDO, Deloitte, EY, Grant Thornton, KPMG and PwC as well as the professional accounting bodies; Chartered Accountants Australia and New Zealand and CPA Australia. Our objective is to promote positive public policy outcomes in respect of audit, accounting and related regulated services.

The APPC professional services firm members provide assurance services to over 95% of Australia's 200 largest ASX listed companies and are the largest employers of external auditors in Australia.

We would like to extend our appreciation to ASIC for the timely issuance of CP380 and the draft Regulatory Guide 000 on Sustainability Reporting (November 2024) (Regulatory Guide 000). Your efforts in addressing the growing need for clarity and consistency in this area are highly valued by the APPC.

Overall, we consider it to be critical that any guidance on sustainability reporting aligns (to the fullest extent where possible) with existing and well-established reporting principles in Australia. This alignment ensures coherence and clarity for reporting entities and consequently will promote better quality sustainability reporting in Australia. We have provided some examples of where this could be enhanced within our response below, and would also encourage ASIC to consider this alignment when developing further guidance on sustainability reporting in the future.

We have not responded to individual questions within CP380. Rather, there are four specific themes that our members felt important to raise with ASIC.

1. **Determining revenue, employees and assets for the purposes of applying the sustainability reporting thresholds (Section F of CP380)**

   We suggest ASIC provides further clarification and guidance on how ASIC will interpret the definition of specific terms used by entities to determine an entity's reporting obligations. These definitions are of significant importance as they will ultimately determine the course of action for entities and by doing so have cost, time and reporting implications. For example, it will determine the timelines for reporting (being in Group 2 versus Group 3), whether they are captured under the sustainability reporting obligations at all (Group 3 or not in scope), or whether certain relief is available (i.e. the relief under s296B of the *Corporations Act 2001* (the Corporations Act)).

   Specifically, preparers would benefit from clarification from ASIC on:

   - Revenue: whilst there is general consensus that revenue would include amounts determined in accordance with AASB 15 *Revenue from Contracts with Customers,* we are of the view that there is not necessarily a consensus in respect of the inclusion of other items, for example, fair value gains and losses on both financial assets and non-financial assets such as investment properties or share of profit of equity accounted investments. The guidance may need to provide examples of ASIC's considerations when determining revenue for different industry categories, some of which may have more complexity than others.
   - Employees: how various types of employees (for example contractors and casuals) should be included in the definition.

   Further we note inconsistencies in language in respect of the asset owners' threshold. S292A(6) of the Corporations Act specifically refers to the value of assets at the end of the financial year of the entity and the entities it controls (if any). We note that various places in the Explanatory Memorandum for the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 and the draft Regulatory Guide 000 appear to have substituted this term with the term 'Assets under management'. The term 'Assets under management' is not used in the legislation, nor is it a defined term in Australian Accounting Standards. Further, its generally accepted meaning, being assets managed for the purpose of earning fees, is not consistent with the legislation. We request ASIC clarify the use of the term 'Assets under management'.

2. **Preparation and lodgement of sustainability reports under Chapter 2M (Section E of CP380)**

   We suggest clarification from ASIC regarding the preparation and lodgement of sustainability reports under Chapter 2M of the Corporations Act and whether the current forms of relief (i.e. ASIC exemptions) that apply to the preparation and lodgement of financial reports also wholly extend to sustainability reporting in Australia.

   Specifically, we interpret Section 292A(1) of the Corporations Act to indicate that an entity is required to prepare a sustainability report only if it prepares a financial report under Chapter 2M (Section 292A(1)(a)). Based on this understanding, we assume that any relief from the preparation and lodgement of financial statements would automatically apply to the requirement to prepare and lodge a sustainability report. Similarly, entities not required to prepare financial reports in Australia in accordance with the Corporations Act would likewise be exempt from preparing sustainability reports in Australia.

   Furthermore, additional guidance would be helpful to preparers regarding the consolidation relief available in Section 292A(2) of the Corporations Act for different group structures, to ensure that entities have clear and precise directions as to how this operates. For example, confirming that where an entity is consolidated in a financial report and therefore also in the sustainability report of an entity required to prepare a sustainability report in Australia, each of the consolidated entities do not have an obligation to prepare their own individual sustainability reports under the Corporations Act.

3. Leveraging the revised IESBA Code for independence matters

On 5 December 2024, the International Ethics Standards Board for Accountants (IESBA) approved the International Ethics Standards for Sustainability Assurance (IESSA) and related revisions to the International Code of Ethics for Professional Accountants (including International Independence Standards). In light of this, we recommend that ASIC's Regulatory Guidance remain silent on independence matters, allowing assurance practitioners to refer directly to the IESBA Code of Ethics (or Australian equivalent) for guidance.

In particular, we recommend removal of the footnote attributable to section RG000.29, which states: *"Note. However, a reporting entity's auditor should not provide this advice. The auditor must be independent from the reporting entity it audits, see Div 3,4 and 5 of Pt 2M.4"*.

This approach will ensure alignment with existing international standards and practices.

4. Ongoing communication from ASIC

The APPC members are of the view that preparers, users and assurance providers would greatly benefit from ASIC's ongoing communication of feedback and observations following each annual reporting period of mandatory sustainability reporting in Australia. We encourage ASIC to develop further guidance periodically as practical experiences emerge. Our members consider this to be instrumental in refining sustainability reporting practices and ensuring they remain effective.

Thank you once again for your proactive approach in providing guidance on sustainability reporting in Australia.

We look forward to continued engagement and collaboration with ASIC as we collectively advance the quality and transparency of sustainability reporting in Australia.

Should you require further information or wish to discuss any aspects of this letter, please do not hesitate to contact us.

[redacted]

Ashley Wood

Chair of the APPC Working Group on ESG

[redacted]

Shaun Kendrigan

Chair of the APPC