



Australian Government

**Australian Accounting
Standards Board**

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25 July 2018

Ms Elizabeth Johnstone
Chair
ASX Corporate Governance Council
c/o ASX Limited
PO Box H224
Australia Square NSW 1215

Attention: Mavis Tan (by email)

Dear Ms Johnstone,

Consultation Paper:

Review of the ASX Corporate Governance Council's Principles and Recommendations

The Australian Accounting Standards Board (AASB) is pleased to have the opportunity to comment on the Consultation Paper *Review of the ASX Corporate Governance Council's Principles and Recommendations* (May 2018).

The AASB supports the review of the principles and the inclusion of additional recommendations in order to enhance governance in listed entities, as this will contribute to stakeholder confidence in the Australian economy and external reporting. This is consistent with the vision of the AASB.

The AASB has not provided feedback on all the proposed changes recommended in the consultation paper. Instead, the AASB has provided comments on the proposed changes to the principles, recommendations and commentaries that are relevant to the work carried out by the AASB. The Appendix to this letter sets out the AASB's comments in relation to Principle 4 (Produce corporate reports of high quality and integrity), Principle 7 (Recognise and manage risk) and Principle 8 (Remunerate fairly and responsibly).

In particular, our recommendation regarding Principle 4 is to ensure that the overarching qualitative framework for corporate reporting and financial reporting are the same, or at least consistent, to avoid introducing new terms that may have different meanings.

Further, the details of related AASB projects are noted where relevant, since the outcomes of these projects may include materials useful to listed entities in addressing selected principles and recommendations set out in the consultation paper.

If you have any questions regarding this submission or would like further discussion, particularly in relation to our Principle 4 comments, please contact Shachini Dassanayake, Project Manager (sdassanayake@aab.gov.au) or Clark Anstis, Technical Principal (canstis@aab.gov.au).

Yours sincerely,

Kris Peach
Chair

APPENDIX

AASB response to selected principles, recommendations and commentaries that are relevant to the work carried out by the AASB

Principle 4 – Produce corporate reports of high quality and integrity

The AASB supports adding a new recommendation 4.4¹ in response to the comments made in relation to the third edition that recommendations 4.1, 4.2 and 4.3 currently only deal with financial reporting, whereas principle 4 refers to “corporate reporting” more broadly.

The AASB considers that, in order to meet the needs of users of financial information, the overarching qualitative framework for corporate reporting and financial reporting should be the same, or at least consistent. The AASB considers the qualitative characteristics of useful financial information that are set out in the AASB *Framework for the Preparation and Presentation of Financial Statements* (Conceptual Framework) and the corresponding IASB *Conceptual Framework for Financial Reporting* have demonstrably supported confidence in capital markets.

The AASB is of the view that including a set of qualitative characteristics for corporate reporting that is consistent with the Conceptual Framework in the *Principles and Recommendations* would enhance the quality of corporate reporting by listed entities. We note that this would also ensure rationalisation of requirements for both preparers and users and avoid introducing new terms with similar (but not the same) meanings to existing terms. The supporting materials for the ASXCGC proposals do not identify the source of the suggested terms. Therefore, we suggest that the source of the final terminology adopted in Principle 4 should be noted in the revised *Principles and Recommendations* to enable preparers and users to have a better understanding of what the terms are intended to represent.

The AASB’s view is consistent with the Financial Reporting Council’s view presented in its recent publication *FRC Position Statement on External Reporting* (July 2018). The FRC noted that the challenge is to ensure that financial and non-financial information is subject to appropriate and preferably similar (or the same) frameworks and overarching principles.

The following table contrasts the qualitative characteristics in the Conceptual Framework with references to the qualitative characteristics in the ASXCGC proposals.

Qualitative characteristics in the Conceptual Framework	Qualitative characteristics in <i>Principles and Recommendations</i>
Relevance	Appropriate (rec. 4.4)
Faithful representation:	
- Complete	
- Neutral	Balanced (rec 4.4; principle 5)
- Free from error	Accurate (rec 4.4)
Comparability	
Verifiability	

1 Recommendation 4.4 – A listed entity should have and disclose its process to validate that its annual directors’ report and any other corporate reports it releases to the market are accurate, balanced and understandable and provide investors with appropriate information to make informed investment decisions.

Qualitative characteristics in the Conceptual Framework	Qualitative characteristics in <i>Principles and Recommendations</i>
Timeliness	Timely (principle 5)
Understandability	Understandable (rec. 4.4)

The Conceptual Framework emphasises the fundamental qualitative characteristics of relevance and faithful representation. Relevant information is capable of making a difference in the decisions made by users. Proposed recommendation 4.4 refers to providing investors with “appropriate” information. This is less specific than “relevant”, which is already well understood by preparers and users of financial statements. Faithful representation encompasses the characteristics of completeness, neutrality, and freedom from error. The latter two characteristics correspond with “balanced” and “accurate” in the proposed recommendation 4.4. The Conceptual Framework also identifies comparability, verifiability, timeliness and understandability as qualitative characteristics that enhance the usefulness of information that is relevant and representationally faithful. Of that list, the proposed recommendation 4.4 would refer only to understandability. Principle 5² includes a notion of “timely and balanced disclosures” in relation to broader corporate reporting and continuing disclosure requirements, which would include financial reporting.

Accordingly, we suggest using “relevant” rather than “appropriate”, and including complete, comparable and verifiable in the criteria.

We also note for your information that the IASB is just starting a project to update IFRS Practice Statement 1 *Management Commentary*, issued in 2010. The project will consider how broader financial reporting could complement and support IFRS financial statements, to update the Practice Statement guidance to reflect new developments in integrated and sustainability reporting, and particularly the growing interest in long-term value creation. The IASB expects to publish an Exposure Draft in the first half of 2020.

The AASB will be addressing the project on Management Commentary contemporaneously with the IASB. Material developed under this project may be useful to listed entities in addressing principle 4.

Principle 7 – Recognise and manage risk

The AASB supports the changes proposed to recommendation 7.4³ and the commentary, which highlights climate change as one particular source of environmental risks.

The AASB and the Auditing and Assurance Standards Board (AUASB) are currently working together on a Climate-Related Disclosures project. The main objectives of this project are to identify:

- (a) what Australian publicly listed entities should consider including in their financial statements and annual report in relation to climate-related disclosures, e.g. impairment of assets and asset retirement obligations; and

2 Principle 5 – A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.
 3 Recommendation 7.4 – A listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

- (b) assurance considerations that the auditor needs to be aware of in respect of climate-related disclosures.

Climate-related disclosures will be relevant to the financial statements and also the management commentary section of the annual report. Thus documents developed through the AASB's Management Commentary project will also be useful to listed entities in addressing recommendation 7.4.

Principle 8 – Remunerate fairly and responsibly

An external project team is developing for the AASB a literature review relating to remuneration reporting which may include materials useful to listed entities in addressing principle 8 and related recommendations. The literature review is to include studies providing:

- (a) descriptive evidence about the current reporting requirements applying to entities in Australia;
- (b) the costs and benefits of the current reporting requirements;
- (c) the needs of information users in relation to remuneration reporting;
- (d) the incentives for entities to provide useful information in remuneration reports and the way regulation can facilitate these disclosures; and
- (e) the impact on preparers and users of changes in remuneration reporting.

The AASB aims to contribute to a review of remuneration reporting requirements, including those under the *Corporations Act 2001*, in conjunction with relevant regulators.