29 February 2024

Via Electronic Form

Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007 Australia

Comments on Exposure Draft - ED SR1 Australian Sustainability Reporting Standards

Ladies and Gentlemen:

Thank you for the opportunity to comment on the AASB Sustainability Reporting Exposure Draft. This submission expresses strong overall support for the proposed Exposure Draft of AASB on Australian Sustainability Reporting Standards and the AASB's efforts in developing a robust framework that aims to enhance transparency, accountability, and sustainability practices within Australian entities. The initiative to standardize sustainability reporting marks a significant step forward in aligning Australian businesses with global sustainability goals and addressing stakeholders' growing demands for sustainable business practices.

Below, I list some of the AASB inquiries for the Exposure Draft in *italics*, followed by my comments.

Specific matters for comment: 20. *Do you agree with the AASB's proposal to require an entity to consider the applicability of those disclosures related to its financed emissions, as set out in [draft] ASRS 2 paragraphs AusB59.1, AusB61.1 and AusB63.1, instead of explicitly requiring an entity to disclose that information? Please provide reasons to support your view.*

Comments: I agree with the AASB's proposal for entities to consider the applicability of disclosures related to financed emissions rather than imposing a blanket requirement for explicit disclosure for the following two reasons.

First, the proposal rightly emphasizes the materiality principle in reporting. Requiring entities to assess the applicability of financed emissions disclosures to their operations ensures that the reported information is genuinely material to the stakeholders. This approach respects the diversity of entities and sectors, acknowledging that financed emissions may not be significant for some entities, while for others, they might represent a critical aspect of their environmental impact.

Second, allowing entities to consider the applicability of such disclosures offers flexibility, enabling them to focus on sustainability issues most relevant to their business model and stakeholder concerns. This flexibility is crucial for producing sustainability reports that are not only comprehensive but also pertinent and insightful. It avoids the burden of unnecessary reporting requirements that might not add value to all stakeholders, thereby enhancing the overall quality and relevance of sustainability reports.

Previous scholarly research presents varied findings regarding the impact of mandatory corporate disclosures. For instance, studies on corporate disclosure have identified "insignificant or even adverse changes in reporting properties following IFRS adoption" (Leuz and Wysocki 2016), lending credence to the AASB proposal that entities should assess the applicability of financed emission disclosures rather than adhering to a universal mandate.

General matters for comment: 35. *Unless already provided in response to specific matters for comment above, what are the costs and benefits of the proposals, whether quantitative (financial or non-financial) or qualitative? In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs of the proposals.*

Comments: Small Australian entities are likely to incur significant initial quantitative financial costs related to adopting the new sustainability reporting standards. These costs can include, but are not limited to, the development or enhancement of internal reporting systems, training for staff on sustainability reporting practices, and hiring of external consultants or auditors to ensure compliance. The nature of these initial implementation costs is varied, and while difficult to estimate uniformly across all small entities due to the diversity in their operational scales and sectors, it could depend on the specific needs and current capabilities of the entity.

Beyond initial setup and compliance, small entities may face ongoing costs associated with regular data collection, analysis, and report generation. These ongoing reporting costs include both direct financial expenditures and indirect costs related to time and resource allocation. For many small entities, these ongoing costs could represent a significant operational expense, potentially impacting their financial sustainability.

Consistent with the above comments on the quantitative financial costs of the ASRS proposals, the existing academic literature on disclosure costs has suggested that small firms are most subject to corporate disclosures because of "disproportionate amounts of regulatory costs relative to their size" (Dambra, Field, and Gustafson 2015).

Yours Sincerely,
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References

Leuz, C., and P. D. Wysocki. 2016. The Economics of Disclosure and Financial Reporting Regulation: Evidence and Suggestions for Future Research. *Journal of Accounting Research* 54 (2): 525-622.

Dambra, M., L. C. Field, and M. T. Gustafson. 2015. The JOBS Act and IPO Volume: Evidence that Disclosure Costs Affect the IPO Decision. *Journal of Financial Economics* 116 (1): 121-143.