

21 February 2025

Treasury
Financial Reporting System Reform Unit
Market Conduct Division
Langton Cres
Parkes ACT 2600

Via email: FRSReform@treasury.gov.au

Dear Treasury,

Positioning Australia's financial reporting system for the future

Thank you for the opportunity to provide a submission to the Treasury consultation on the design of the proposed body that combines the Australian Accounting Standards Board (**AASB**), Auditing and Assurance Standards Board (**AUASB**), and Financial Reporting Council (**FRC**).

The Australian Institute of Company Directors' (**AICD**) mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of 53,000 reflects the diversity of Australia's director community, comprised of directors and leaders from across the not-for-profit (**NFP**), listed, private and government sectors.

Given one of directors' primary obligations is to approve the financial statements in compliance with the Corporations Act, the AICD has had longstanding engagement with the work of the AASB, AUASB and FRC.

- On audit quality, in September 2022 the AICD [partnered](#) with the AUASB to produce guidance to provide practical assistance to directors and Audit Committees undertaking a comprehensive periodic review of their auditor – [Periodic Comprehensive Review of the External Audit](#).
- On sustainability, the AICD along with other industry stakeholders have consistently [advocated](#) for the alignment of climate-related disclosures in Australia to the international standards set by the International Sustainability Standards Board (**ISSB**), which ASIC Chair Joe Longo has called 'the biggest change to corporate reporting in a generation.'¹

The AICD's submission focuses on aspects of the Consultation paper that are particularly relevant to AICD members, including ensuring a stable policy environment for the implementation of mandatory climate reporting, which began 1 January 2025 for Australia's largest companies. Our positions have been informed by consultation with members, including the AICD's Reporting Committee, as well as industry stakeholders. We also share [industry concerns](#) with the short 30-day consultation period and note the significant hiatus from when reform was first flagged by the Government in November 2023.²

¹ AICD (September 2024). A director's guide to mandatory climate reporting | Version 2. Foreword. Available [here](#).

² Treasurer media release (November 2023). Streamlining financial reporting architecture. Available [here](#).

1. Executive summary

- **Structure of the new body** – The AICD in principle supports the design of the new body and the initial establishment of three dedicated technical committees which will have delegated power to perform its standard settings functions – accounting, auditing and assurance, and sustainability reporting. The AICD recommends a post implementation review occur to ensure the new body and governance structure operates as intended. However, given we are still awaiting the Government's response to the recent Parliamentary Joint Committee on Corporations and Financial Services 2023 inquiry into the audit, assurance and consultancy industry (**PJC Report**), and Treasury's ongoing consideration of the regulation of accounting, auditing and consulting firms in Australia (**Treasury consultation**), we would ask that a holistic approach be taken.
- **Issuing standards** – The AICD strongly believes legislation should transparently define the roles and powers of the new Board and the standard setting committees to preserve market confidence and certainty. We support the technical committees retaining their distinctiveness and ability to freely and directly engage with international counterparts such as the AASB Chair co-chairing the International Forum of Accounting Standard Setters.
- **Transparency measures** – The AICD supports public accountability mechanisms such as publishing the Statement of Expectations and the Statements of Intent.
- **Board and committee appointment eligibility** – As highlighted in the AICD's submission to the Government's Public Sector Appointment Review, appointments to public sector boards should follow processes that are transparent, rigorous and driven by skills matrices.

2. Key points

1. Structure of the new body – Do you agree with the proposed structure for the new body? Are there any changes to the proposed structure that will better meet the design principles?

The AICD in principle supports the design of the new body and the consolidation of three bodies into one. As a stakeholder it has sometimes been difficult to discern the respective roles and mandates of the bodies leading to market confusion, unnecessary regulatory complexity, and creating potential gaps.

We support the initial establishment of three dedicated technical committees which will have delegated power to perform its standard settings functions - accounting standards, auditing and assurance standards, and sustainability reporting standards. Its effectiveness should however be considered by a review of the legislation post-implementation (i.e. after three years of operation).

As outlined in the Discussion Paper, one of the key goals of the transition to the new body is to minimise disruption to ongoing standard setting and the impact of change on stakeholders and the market. We are of the view that retaining as much of the existing structure in the new body would assist greatly especially with the implementation of mandatory climate reporting and the AUASB's recently approved timetable for the phasing in of limited and reasonable assurance for different group reporting entities between 2025 and 2033.³

³ AUASB (January 2025). Climate and Sustainability Assurance Requirements Approved. Available [here](#).

Regarding the oversight of audit quality, we note the interaction with the recent PJC Report and the Treasury consultation. It is difficult for stakeholders such as the AICD to form a definitive view on the structure of the new body without seeing how related reforms, which the Government chooses to adopt, proposed by either the PJC and/or Treasury, will mesh. We urge the Government to take a holistic approach to ensure cohesive policy making. We believe that providing detail on the sequencing of various initiatives and a transition pathway to the new body would assist stakeholders.

2. Issuing standards – Do you agree with the proposed model for issuing standards? Are there any alternative mechanisms that could be adopted that better meet the design principles?

The AICD strongly believes legislation should transparently define the roles and powers of the new Board and the standard setting committees to preserve market confidence and certainty. To meet the design principle of enhancing flexibility, the effectiveness of having roles and powers expressly legislated should be revisited during a post-implementation review.

We support the technical committees retaining their distinctiveness and ability to freely and directly engage with international counterparts and advocate for the views of Australian stakeholders. The AICD notes the AUASB's approach is to mostly be a "standards-taker" by using the international standards as a base for Australian standards which is appropriate given Australia's size and role in the global economy.⁴ We welcome the recent announcement that the Chair of the AASB will co-chair the International Forum of Accounting Standard Setters for a two- to three-year term.⁵

3. Transparency measures – Are the proposed transparency measures relating to the respective roles of the Board and committees adequate? If not, what additional measure would you suggest?

Transparency mechanisms provide participants with confidence on how the new body will operate and engage with stakeholders, especially if this will deviate from how it previously had operated. We support existing mechanisms such as publishing the Statement of Expectations and the Statements of Intent, as the AASB and AUASB already provide.⁶ We also support retaining the ability for the public to virtually attend FRC meetings but encourage the new body to consider other measures to improve public awareness of its work and their ability to engage with the new body outside of formal meetings.⁷

Whether in the legislation or a board charter, roles and responsibilities of the Board and committees should be published transparently. Relationships with key agencies in the Australian financial reporting landscape such as Treasury and ASIC should be outlined clearly, especially information sharing arrangements and memoranda of understanding (MOUs),⁸ as Treasury will no longer provide secretariat staff to support the FRC. Timely public reporting of technical committee updates, especially as standards are being finalised, should continue to operate as it does currently to enable organisations to prepare.

4. Board and committee appointment eligibility – Should requirements be imposed that candidates for membership of the new Board and/or its technical standard setting committees must demonstrate appropriate independence from industry (for example, not having worked in an accounting or auditing firm for a specified period or not having financial ties to a firm)? What should those particular requirements entail and how can those be balanced against the need for specialist expertise?

⁴ AUASB (March 2021). Policy and Process for International Conformance and Harmonisation of Standards. Available [here](#).

⁵ AASB (December 2024). Australia and Canada to Co-Chair IFASS. Available [here](#).

⁶ Treasury (February 2025). Statements of Expectations. Available [here](#).

⁷ FRC (December 2024). Note: Public may attend via Microsoft Teams but via registration only. Available [here](#).

⁸ FRC (February 2025). Rules of Operation. Memoranda of Understanding. Available [here](#).

5. Strengthening institutional governance – Do you agree with the proposed changes to strengthen the governance and oversight? Are there any other gaps or opportunities to strengthen the governance arrangements of the new body?

We refer to our previous submission to the Government's Public Sector Appointment Review led by Ms Lynelle Briggs AO where we highlighted the following points:⁹

- Appointments to public sector boards should follow processes that are transparent, rigorous and independent and driven by skills matrices, to the extent possible.
- Public sector governance frameworks should reflect the distinct nature of public sector organisations and the unique constraints, challenges and accountability mechanisms relevant to each public sector entity.
- Governance structures should ensure that public sector boards can provide independent leadership distinct from management and/or the relevant Minister, within well-defined mandates.

On board composition, the AICD considers the board should comprise directors who collectively have a broad range of skills, expertise and experience relevant to the scope and responsibilities of its role. As a general principle, the board skills matrix should be made public and be a key element in the recruitment processes for new directors or appointees.

We have also heard strong feedback from directors and industry on ensuring the members of the governance board and the technical committees have the requisite expertise first and foremost, akin to the recent governance reforms of the Reserve Bank of Australia.¹⁰

We encourage the board to have robust conflicts arrangements in place rather than adopting blunt instruments (e.g. preventing a potential board member from serving simply because they had recently worked at an auditing firm). We note that the risk of a conflict is likely to be higher where a potential board member maintains close financial ties to a firm (e.g. by receiving a post-retirement benefit) which may warrant their exclusion from serving on the new body.

Our overarching position is that an appropriately skilled board with a mixture of experience would help ensure that any members recently coming from industry did not exert undue influence over the body.

General comments on sustainability

The importance of maintaining a stable regulatory environment for a generational change in corporate reporting cannot be underestimated. In the UK, the Financial Reporting Council (FRC) recently cautioned that "that without an established regulatory framework, the UK sustainability assurance market may not produce consistent, high-quality sustainability information for decision-making."¹¹

As we previously noted,¹² with Australia being one of the first jurisdictions to introduce mandatory reasonable assurance over ISSB-aligned disclosures, there is significant work in ensuring that directors, report preparers, and auditors can comply with these new obligations, on top of the standard setters transitioning to a new body.

⁹ AICD submission (April 2023). Public Sector Appointment Review. Available [here](#).

¹⁰ AICD article (February 2025). Welcome back...to trade wars, policy uncertainty, new-look RBA. Available [here](#).

¹¹ UK FRC (October 2024). FRC publishes emerging findings from sustainability assurance market study. Access [here](#).

¹² AICD submission (November 2024). Proposed Australian Standard on Sustainability Assurance, ASSA 5010 (Timeline). Available [here](#).

We encourage the government, including standard setters and ASIC, to provide as much clear and consistent guidance as possible to support the implementation of the new mandatory climate reporting regime.

3. Next steps

We hope our submission will be of assistance. If you would like to discuss any aspects further, please contact Sean Dondas, Policy Adviser at sdondas@aicd.com.au or myself at cgergis@aicd.com.au.

A handwritten signature in black ink, appearing to be 'C. Gergis', written on a light blue background.

Christian Gergis GAICD

Head of Policy