

27 November 2025

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

Via online [Consultation Hub](#)

Dear Treasury,

Positioning Australia's financial reporting system for the future – draft legislation

Thank you for the opportunity to provide a submission to the Treasury consultation on draft legislation to combine the Australian Accounting Standards Board (**AASB**), Auditing and Assurance Standards Board (**AUASB**), and Financial Reporting Council (**FRC**) into a body called External Reporting Australia (**ERA**).

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.

The AICD's submission focuses on aspects of the draft legislation that are particularly relevant to AICD members, including the creation of a fit-for-purpose, internationally aligned, body that can oversee high quality corporate reporting including the development of standards. Our positions have been informed by consultation with members, including the AICD's Reporting Committee, as well as industry stakeholders and an in-person Treasury roundtable.

The AICD has just released [new research](#) outlining the scale and impact of federal regulation on Australian business and the economy, with the cost of complying with federal regulation amounting to \$160 billion or nearly 6 percent of GDP, up from \$65bn or 4.2 percent of GDP in 2013. As we enter a new era of standard setting, we make several policy recommendations, including implementing a more robust regulatory impact assessment process that truly reflects compliance costs and conducting mandatory post-implementation reviews of major regulation to ensure it is working as intended.¹

It must be recognised that the AASB and AUASB have significant standard making powers, which entities must comply with under relevant primary legislation. Accordingly, it is critical that future standards developed by the ERA, as a form of legislative instrument, are afforded appropriate scrutiny and post implementation review.

¹ AICD (24 November 2025). \$160bn and Counting: The Cost of Commonwealth Regulatory Complexity. Available [here](#).

1. Executive summary

- **Board size** – We recommend implementing a minimum number of between 6-8 members for each of the three initial standard-setting boards (i.e. accounting, auditing and assurance, and sustainability), which retains the flexibility to increase its membership depending on the future technical needs. We also recommend increasing the upper limit of the Governing Council to 12 members, to help achieve the design principle of allowing greater flexibility for the ERA to meet future governance needs.
- **Board composition** – We recommend drafting that clearly outlines that appointments to the Governing Council and standard-setting boards should follow processes that are transparent, rigorous and driven by skills matrices.
- **Appointments** – We encourage the government to take a considered approach that draws on any insights gained from the Briggs Review, rather than Treasury developing a model that may be misaligned with the findings of that process.
- **Functions and powers** – We recommend explicitly outlining international engagement and research as critical functions for the ERA to ensure the alignment of Australia's standards globally.
- **Cost/benefit analysis** – We recommend extending cost/benefit analysis to material auditing and assurance standards for completeness. We also recommend specifying that the ERA must conduct a periodic cost/benefit analysis of the collective stock of accounting, auditing and assurance, and sustainability standards to ensure the volume of regulatory burden on entities is necessary and proportionate, mindful of the desire to maintain international alignment where possible.
- **Broader reforms** – We recommend government clarification of how there will be broader system oversight of audit quality. We note the outstanding government response to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the audit, assurance and consultancy industry and last year's Treasury consultation on the regulation of accounting, auditing and consulting firms in Australia. This has led to a significant period of policy uncertainty on fundamental aspects of Australia's financial reporting system.
- **Transitional provisions** – We recommend establishing strong succession planning processes for key roles across the Governance Council and standard-setting boards, aided by an up-to-date board skills matrix.
- **Transparency measures** – We recommend including public accountability mechanisms such as ensuring the Minister issues a Statement of Expectations (SOE) and ERA publishes a refreshed Statement of Intent, as soon as practicable.
- **Post-implementation review** – We recommend mandating a post-implementation review of the ERA (i.e. powers, functions, composition) to ensure it is working as intended (for example after five years).

2. Key points

Governing Council and standard-setting boards

Board size

The proposed size of the Governing Council is set between 5 and 9 members, including the chair. As a matter of good practice, we observe that public sector boards tend to be between 6 to 12 members.²

As Australia rolls out mandatory climate reporting and phased assurance over the coming years, it is vital that the Governing Council has sufficient expertise and experience to provide oversight of the standard-setting boards including in less well-developed areas such as sustainability reporting. Whilst it provides flexibility to not prescribe a minimum or maximum size of standard-setting boards, it is critical that there be a minimum core membership to ensure certainty and retain technical expertise, especially over the first years of ERA's operation. We note the [AASB](#) currently has 13 board members and the [AUASB](#) has 11 board members.

We recommend implementing a minimum number of between 6-8 members for each of the three initial standard-setting boards (i.e. accounting, auditing and assurance, and sustainability), which retains the flexibility to increase its membership depending on the future technical needs. We also recommend increasing the potential upper limit of the Governing Council to 12 members, to help achieve the design principle of allowing greater flexibility for the ERA to meet future governance needs.³

Board composition

Our general position is that the Governing Council should have a well-balanced and broad mixture of skills and experience, including an appropriate level of independent members and members with industry expertise, including audit. Increasing the size of the Governance Council will help to provide the appropriate level of oversight and mix of skills at the board table.

We recommend drafting that clearly outlines that appointments to the Governing Council and standard-setting boards should follow processes that are transparent, rigorous and driven by skills matrices, as highlighted in the AICD's submission to the Government's Public Sector Appointment Review.⁴

Appointments

As noted in our earlier submission in February,⁵ the government is yet to respond to the Review of Public Sector Board Appointments Processes, conducted by Lynelle Briggs AO, which potentially has implications for the establishment of the ERA and future appointments. It was recently highlighted that the Government will release the Final Report before the end of this year.⁶

We encourage the government to take a considered approach that draws on any insights gained from the Briggs Review, rather than Treasury developing a model that may be misaligned with the findings of that process.

² AICD (1 July 2019). Board size. Director Tool. Available [here](#).

³ Treasury (January 2025). Positioning Australia's financial reporting system for the future. Consultation paper. Page 6. Design principle 1 - Flexibility – ensuring the institutional arrangements are positioned for the future. Available [here](#).

⁴ AICD (3 April 2023). Public Sector Appointment Review. Submission. Available [here](#).

⁵ AICD (25 February 2025). Positioning Australia's financial reporting system for the future. Submission. Available [here](#).

⁶ Parliament of Australia (5 November 2025). Letter to the President of the Senate (Senator Lines) from the Minister for Finance (Senator Gallagher) concerning the review of public sector board appointments processes. Available [here](#).

Functions and powers

We note AASB and AUASB board members participate in several international forums.⁷ Under proposed section 225A (e), ERA is empowered to “participate and contribute” to the development of a single set of standards across accounting, auditing and assurance, and sustainability, with regard to international developments. We recommend explicitly outlining international engagement and research as critical functions for the ERA to ensure the alignment of Australia’s standards globally.

Cost/benefit analysis

We support proposed section 232C (1) and (4), ERA “must carry out cost/benefit analysis of the impact of a proposed accounting or proposed sustainability standard.”. As a general principle, other than minor, technical amendments, we believe that cost/benefit analysis should also be extended to material auditing and assurance standards for completeness.

The cost/benefit analysis also does not capture the overall impact of the cumulative cost/benefit of the collective stock of standards, especially given compliance with them is required by primary legislation. We recommend specifying that the ERA must conduct a periodic cost/benefit analysis of the collective stock of accounting, auditing and assurance, and sustainability standards to ensure the volume of regulatory burden on entities is necessary and proportionate, mindful of the desire to maintain international alignment where possible.

Broader reforms

Whilst ASIC in practice already largely conducts the function on providing strategic advice on audit quality and will continue to do so,⁸ we recommend government clarification of how there will be broader system oversight of audit quality. It is critical to take a holistic approach and provide the overall picture of the regulatory approach, as ASIC has a broad range of regulatory priorities, which limits the amount of regulatory effort and resources that can be dedicated to audit quality oversight.

It is important for government to clarify ASIC's role given the potential interaction with recommendations from last year's final report of the Parliamentary Joint Committee on Corporations and Financial Services inquiry into the audit, assurance and consultancy industry (**PJC Report**) which the government is yet to formally respond to.

The government is also yet to share the outcomes of last year's Treasury consultation on the regulation of accounting, auditing and consulting firms in Australia (**Treasury consultation**), despite media reporting in July flagging that a public consultation on several reforms was imminent.⁹

Providing an overall picture of the pipeline of forthcoming reforms will provide market confidence in the financial reporting system landscape, given the impact on preparers and users.

Transitional provisions

The AICD welcomes the staged approach of the transition pathway of functions and staffing to ERA, including retaining existing FRC members as appointees for the transitional Governing Council and the automatic extension of appointments of the existing members of the AASB and AUASB.

⁷ AUASB and AASB (2025). 2025/26 Corporate Plan. Page 17. Available [here](#).

⁸ CPA Australia (5 November 2025). CPA Australia responds to draft legislation on oversight body merger. Available [here](#).

⁹ Australian Financial Review (2 July 2025). *Treasury prepares to crack down on audit firms, with or without ASIC*. Available [here](#).

As an ongoing consideration, we recommend establishing strong succession planning processes for key roles across the Governance Council and standard-setting boards, aided by an up-to-date board skills matrix.

Transparency measures

We recommend including public accountability mechanisms such as ensuring the Minister issues a Statement of Expectations (**SOE**) and ERA publishes a corresponding Statement of Intent, as soon as practicable.¹⁰ This is critical as the existing SOE was last issued in April 2014.

Post-implementation review

Given the importance in ensuring Australia's financial reporting system continues to remain fit-for-purpose, we again recommend the mandating of a post-implementation review of the legislation to ensure it is working as intended (for example, after five years). This should include a review of the powers, functions, and composition of the Governing Council and effectiveness of the standard-setting bodies.

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.



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¹⁰ Treasury (2025). Statements of Intent. Available [here](#). Note: Fourteen portfolio agencies were issued with Statements of Expectations, including the AASB and AUASB.